

PROGRAMME OF RESEARCH AND ACTIONS ON THE DEVELOPMENT OF THE LABOUR MARKET

SMALL INDEPENDENT ENTREPRISES  
AND EMPLOYMENT CREATION

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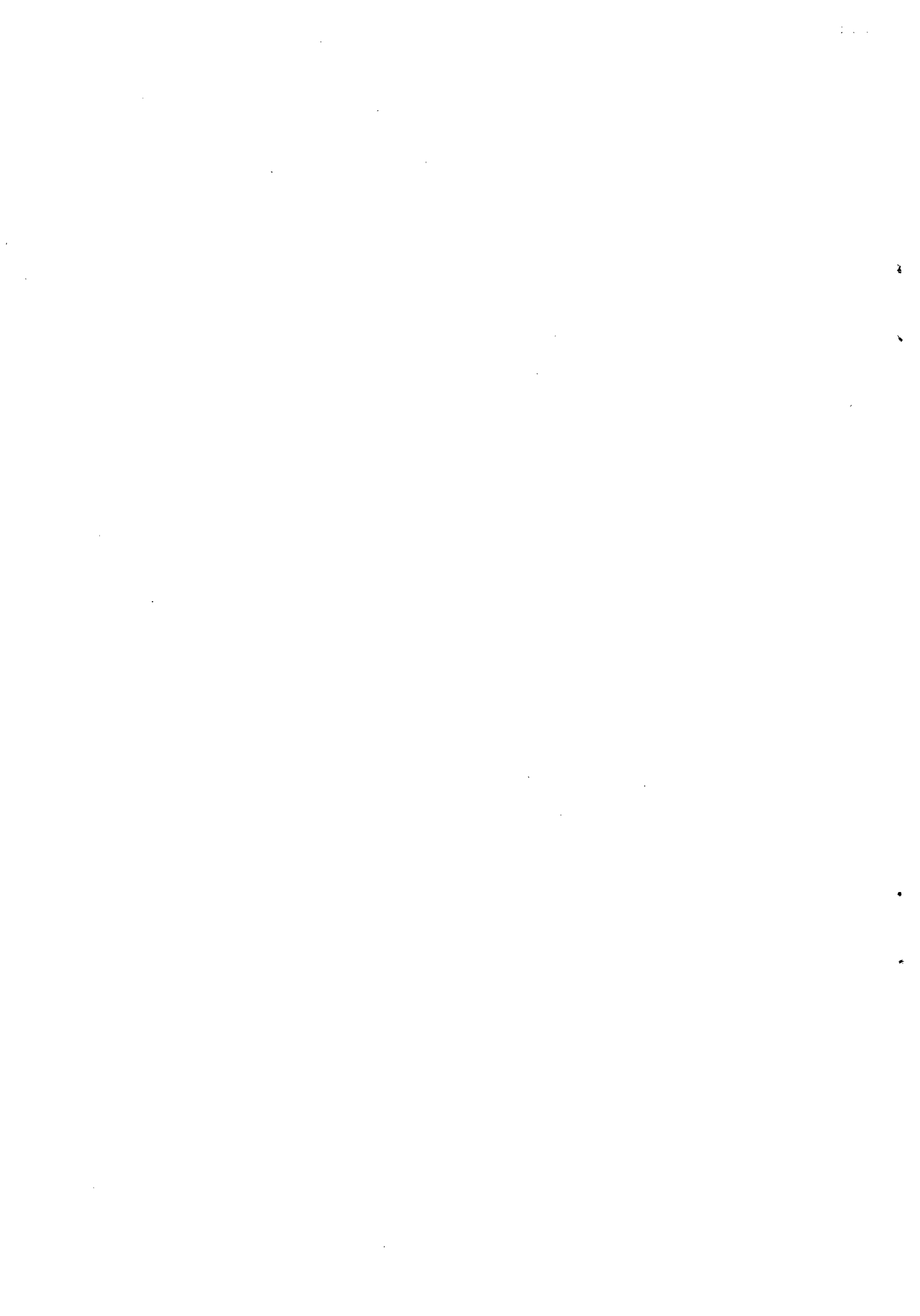
MAIN REPORT

(English summary included)

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(Résumé en français inclus)

By : Deirdre Hunt  
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For : Commission of the  
European Communities



## C O N T E N T S

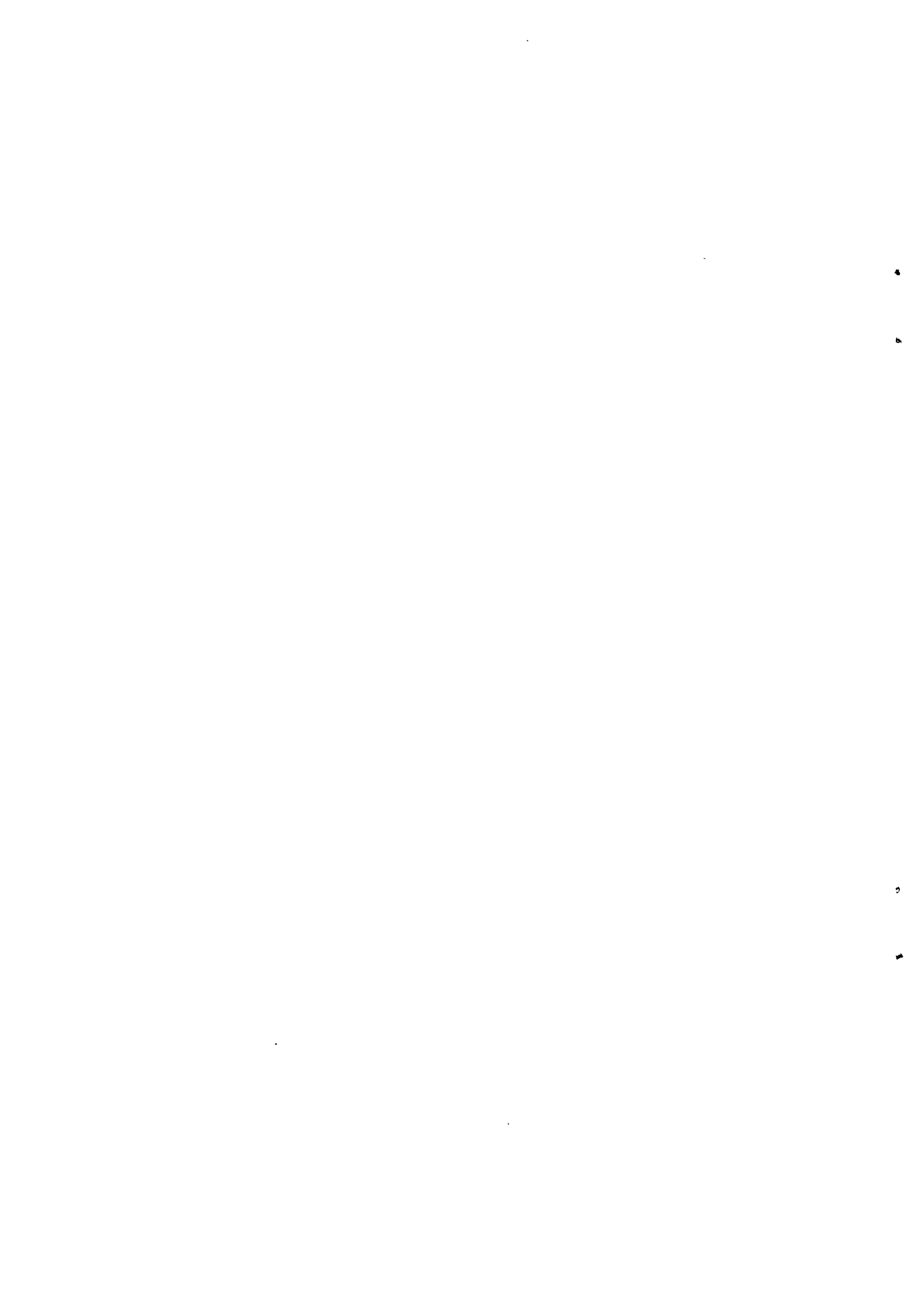
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PROGRAMME OF RESEARCH AND ACTIONS IN THE DEVELOPMENT OF  
THE LABOUR MARKET

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SMALL INDEPENDENT ENTERPRISES AND THEIR ENVIRONMENT:  
FACTORS AFFECTING THE MAINTENANCE AND GROWTH OF  
EMPLOYMENT AMONG SMALL INDEPENDENT ENTERPRISES

SUMMARY REPORT

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## Introduction

- 1.1 The conclusions that derive from a tripartite study of small businesses in the community member states France, United Kingdom (Scotland) and Ireland, highlight the possible range of strategies open to this sector. Much recent discussion of the small firm sector, has pointed to the potential employment and for the technologically innovative role played by small businesses. However, much of the research that has appeared on the small firm has treated the firm as a closed system and has disregarded context. This report, while detailing the internal situations of a sample of small firms in the Irish Republic, Scotland and France, has been equally concerned to ascertain the external realities which interact with the sample companies; Central and Local Government, financial institutions and helping agencies in both the private and public sectors. In this way the report attempts to provide more detailed information which may enable the drafting and implementation of more effective policies aimed at promoting the small firm sector and identifying its characteristics.
  - 1.2 Information derived from Community members shows that the small business sector continued to decline throughout the 60s and early 70s. This decline was faster than that of the industrial sector as a whole and remained most marked in the smaller firms, those which employed fewer than 100 people. As a result of recent and growing political consciousness and an increasingly effective lobby, a range of both national and commissioned programmes already exists aimed at small businesses. In addition the Commission is proposing to extend support by (1) providing more finance from banks, European Investment Bank and community funds to overcome the small firm's problem in gaining access to finance and equity markets (2) providing help for exporting and sub-contracting through the Business Co-operation Centre (3) offering management training (4) attempting to cut red tape, simplifying in particular VAT procedures and harmonising rates and (5) allowing tax concessions for self-investments.
  - 1.3 Following an overall analysis of the three national samples the findings and policy recommendations of this report will follow the headings specified by the Commission, namely Finance, Capital, Fiscal Policies, Markets and Training, before finally assessing the employment potential of the small firm sector.
- 2.1 Sample Characteristics

To minimise extraneous sampling error the three national samples were drawn from the engineering sector covering both manufacturing and servicing activity. Wherever possible small was defined as employing up to 50 with the exception of Aberdeen where 60 employees operationally became a more realistic cut-off point. Due to the extreme mobility of small firms in the research areas, growth, death rates, amalgamations, coupled with the time pressures experienced by the heavily pressurised management in the target firms, the aimed-for number of interviews, 60, was only reached within the tight interview time allotted in the Cork sample. The Scottish material is based on 47 interviews, the French on 46.
  - 2.2 The considerable problems experienced by the interviewers in contacting target firms and completing interviews has important implications for any legislative or agency activity aimed at small bus-

iness sectors. Whereas in France refusal rates coupled with the need to re-arrange broken appointments proved the main problem, in both Ireland and Scotland the absence of any accessible data base which readily identified such companies made contact both difficult and time-consuming. What this means is that within Scotland and the Irish Republic it is currently impossible to determine the extent of the contribution of small firms to the local economy, or the degree of local control, let alone develop and analyse further to compare for instance the relative performance of indigenous small firms with other sectors. Operationally it means that there is currently no way to accurately aim small firm programmes at the target population. Equally it means that much industrial legislation aimed at the small firm sector is derived from knowledge of large employers and may thus be inappropriate for the small.

2.3 Even allowing for the difficulties involved in the task, it would still appear important, we would suggest, to extend the existing industrial data base to cover this sector.

### 3.1 Foundation of Firms

One of the most striking contrasts between the different areas studied is shown in the dates of foundation of the sample firms. For Paris the majority of firms were founded just post World War II and interviewing therefore occurred at the end of the post-war generation of managers. As might be expected the Paris firms demonstrated those problems associated with succession crises, shifting technology, market and products. In marked contrast with over 70% of their sample firms in existence for less than 20 years, the Irish problems centred on start-up and entrance situations. Aberdeen with 45% post 1960, 28% post-1970 and 30% pre-1940 gave little evidence of the bunching apparent in the other two sample groups and in this way provided good comparative material.

### 4.1 Industrial Spread

Considerable differences were apparent between Paris, Aberdeen and Cork firms in terms of industrial spread. In the Paris study engineering activities were concentrated on heavy or precision engineering, one product or process firms. In contrast, though precision engineering companies were found in Aberdeen and Cork, here firms were more likely to be involved simultaneously in a wide range of servicing, supplying, manufacturing and agency work. The reasons for such differences are complex. For the Paris firms it partially reflects ready access to a large, immediate market, both Aberdeen and Cork can be best understood as the urban centres of geographically peripheral regions. But the Paris situation may also reflect an overall rigidity and non-investment in the future concomitant with ageing management.

4.2 Involvement in diversified activities is one of a number of strategies apparent in the sample firms aimed at reducing risk which reflects the position of the small firm at the furthest removed from the position of the monopolist. Two main strategies are discernible, product and activity differentiation. With product differentiation companies produce distinct products for distinct unconnected markets. The hope being here that downturns in one market will not coincide with downturns in others. A second strategy is to concentrate manufacturing on one often highly specialised activity whilst simultaneously sustaining servicing, assembly and agency work which might or

might not be related to the specialised product. In these ways Aberdonian and Cork firms sought to ensure a steady flow of work and therefore employment.

### 5.1 Geographical Locations

Interviews were concentrated in the cities of Aberdeen, Cork and part of Paris and its suburbs. These areas represented as far as possible contrasted regional economies; Aberdeen City having experienced unprecedented economic expansion triggered by the discovery of offshore oil in 1970; Cork City a steady state economy with new sources of employment compensating for a decline in traditional industries; the south-western suburbs of Paris suffering from a loss of sub-contracting and therefore employment opportunities with a re-location of car manufacturing outside the area. Such contrasting local economies would, it was hoped, highlight what was of the essence in small businesses, whilst simultaneously pointing to the range of different strategies utilised in different contexts.

### 6.1 Ownership Status

All the companies interviewed were independently owned. The situation of small subsidiaries was felt to be widely different and they were therefore excluded. All legal forms of small businesses were represented in the national samples from petites entreprises in France through limited companies, partnerships and sole traders in the UK and Ireland.

### 7.1 Ownership Typologies

Two ownership types were prominent, family firms, and break-away artisans, with two smaller but important groups, graduate entrepreneurs and return migrants. Family firms were defined as firms in which at least two generations were or had been involved. Such firms were most frequently found in Aberdeen, 29 out of 47. The prominence of such firms in the Scottish sample would appear to be the result of low death rates among certain industries, granite foundries, coupled with high birth rates, reflecting optimistic views as to the future. The contrast with Paris and Cork is quite marked. Though the Paris sample contained the oldest firms amongst the national studies, the number of family firms overall was fewer, 13 in all. Survival rates among the Paris companies appeared lower than in the other national samples, and with few exceptions the Paris companies were negative about the possibility of continuing family involvement. Several examples existed in the Paris study of directors actively discouraging their sons from entering the businesses or finding it impossible to persuade them to enter. Overall succession crises appeared far more acute in the Paris study than either in Cork or Aberdeen. Only 5 firms fitted the definition of family firms in the Cork study. This we would suggest reflects the late development of business activity in the Republic coupled with low survival rates in what has in large measure been a tiny stagnating, dependent economy until the last 20 years.

### 7.2 Skilled artisans who had broken away either individually or commonly with a partner to start up their own businesses, were a frequent feature of the three studies. Such firms formed the largest groups in both the Cork and Paris studies, 34 and 20, and at 23 were only marginally fewer than the family firm sector in Aberdeen. Artisan firms divided themselves further into those who had broken away from

their employers as an instance of need achievement and those who had set up as a creative response to crises. The latter must appear of particular interest in any discussion centred on the positive contribution of small firms to employment. Such craftsmen either solved a family firm succession crisis by buying out the owner or they sustained an activity on the withdrawal of a larger firm from their local area. In either instance the region retained a particular activity which met local demands and concomitantly retained local employment.

- 7.3 Graduate managing directors appeared in small numbers in all three of the samples. Written independently it is interesting to note that all three reports while pointing to the chicken and egg situation of what caused which, commented on the vigour and high level of expertise demonstrated by such companies. It may well be that such graduate firms, if studied longitudinally, would exhibit the rapidly growing employment profile first noted among similar firms in Chicago.
- 7.4 Migrant firms were a special and important feature of the Irish sample. These were made up of two distinct types, mobile international capital largely from the UK, attracted by Irish industrial development packages and return migrants. The latter appeared to have returned not only strongly committed to make a success in their re-adopted native land, but with sufficient educational, business and financial capital, mainly acquired in the USA, to make this a real possibility.
- 7.5 These differences were reflected in different orientations to the future of the firm. Many of the family firms and the older firms generally were committed to the long-term continuation of their firms. Indeed, continuation rather than expansion was the central preoccupation of such owner-directors, and as such they may be termed steady-state craftsmen. Such an orientation to the future contrasted sharply with another distinguishable group, asset realisers.
- 7.6 Asset realisers came from similar backgrounds to steady-state craftsmen, their attitudes to their companies were, however, more ambivalent. The strain of sustaining their activities was a feature which they felt was only tolerable if some tangible prize at the end of the exercise could be realised in the immediate future. The attachment of low-income groups to improvement through luck has often been commented upon. These owners displayed a variation of this theme. Running a business was to them the equivalent of gambling, and the risks involved were worth taking as the prize could give access to more capital, and a more exotic life-style than they ever could otherwise have hoped to have achieved in the range of alternative legitimate employment open to them.
- 7.7 Such sharp contrasts in recruitment, education and future orientation have implications for any policies aimed at the small business sector, suggesting the need for a multi-pronged approach geared to the different profiles identified in this sector if the disparate groups involved are to find any of their particular needs met.

#### 8.1 Accommodation

The typical image of small firm accommodation emphasises lack of adequate space, lighting, heat, storage and administrative facilities. Such types of accommodation were apparent in all of the three areas.

The problems seem particularly acute in the Paris region where firms long established attempted unsuccessfully to meet both contemporary expectations as to what was adequate work accommodation whilst at the same time fitting twentieth century technology within nineteenth century buildings. Parisian firms located within mixed housing employment areas could find no additional space within their geographical area in which to expand. With the majority of their clients located within their immediate neighbourhood movement to outer city industrial areas would at worst jeopardize vital client patron relationships and at best lead to greatly increased cost of transport. So severe were space limitations among the French sample that in many of the smaller firms there was insufficient room even for separate offices.

- 8.2 If the Paris sample was at one end of the scale, Aberdeen firms were at the other. Those firms who had been able to pick up spin-off work from increased local economic activity triggered by the discovery of offshore oil had translated their increased profits into improved buildings. Sixty-five per cent of the Scottish firms described their buildings as adequate (23.4%) or very adequate (40%) with only 10% describing them as very inadequate. In comparison 30% of the Cork firms were assessed as being very inadequately housed and only 12% as very adequately. The Cork figures become more telling when we consider that, though the majority of firms had been created in the last 10 years, 68% of them were operating out of premises that were more than 10 years old. The marginality of accommodation available to small businesses in Cork was further emphasised by their location in peripheral or rural areas surrounding the city; 27% were situated in rural areas, 40% in small communities or suburbs. This left only 33%, 14 firms, who were located in purpose-built industrial estates within the city. Such a profile of occupation of marginal industrial buildings would appear to have been true of the Aberdeen firms prior to the advent of oil. But upturns in the local economy post-1970 had allowed shifts of small firms into larger as well as purpose-built premises. The fact however that neither in Cork nor in Aberdeen had the small businesses interviewed been able to find small industrial units on the industrial estates suggest that industrial building provision by development and local authorities has been overly geared to large employers. The absence of small unit accommodation would appear a major block on employment expansion in the small firm sector.

### 9.1 Ownership

In the Scottish case a distinction must be made between ownership of the land and ownership of buildings. Having said this the majority of the sample firms either owned or were in the process of buying their own buildings, 65% in Ireland, 93% in Scotland. In addition, 5 of the Scottish firms while owning their buildings lease their land from other large land-owners. The overall ownership of premises by small businesses would appear to be one of their major capital assets. However, within the total sample a sharp distinction was apparent between manufacturing and service companies. Ineligible for many industrial grants the more vulnerable financial position of service companies was reflected in their lower overall ownership of buildings. Service companies were more likely to work out of inadequate buildings, showed a higher percentage of multiple ownership, were far more likely to be involved in sub-letting particularly as a device to offset the acquisition of new buildings and

in the more expansionary economy of Aberdeen showed a higher percentage of more recent ownership. This pattern, repeated in both the Irish and Scottish samples suggests that servicing companies will be significantly underhoused wherever fiscal support is overly focussed on a manufacturing sector. Comparatively it would appear that this sector would respond most positively to easier access to purpose-built accommodation if greater fiscal relief/support was available to them.

#### 10.1 Transport

In common with employment and plant acquisition firms attempted to minimise transport costs. The main strategies used ranged from all transport needs laid out, that is all raw materials, finished goods delivered and picked up by customers or suppliers to an interim position where employees were paid a petrol allowance and used their own transport or outright vehicle hire. Hiring transport both permanently and on an intermittent basis to supplement existing transport was a prominent feature. As the cost of purchase and maintenance of vehicles rises one can only see this trend accelerating. Hiring was, however, twice as common among manufacturing as among service companies. Among the service sector transport, which allows the firms to reach their markets, was the equivalent to plant in manufacturing companies. As such, service companies with their constant need to rely on transport assured this through ownership control. The major theme running through the use of transport in the sample firms was that of minimising the capital and maintenance costs of an increasingly expensive and rapidly depreciating asset. Given this fact the service companies with their necessary dependence on transport would appear to be the most vulnerable.

#### 11.1 Technology

In the majority of firms, technological investment was represented by the worker, as he either responded to changing demands, as in Scotland or Ireland, or acted as a quality checker on his own high standards of work, as in France.

11.2 Only in France with the concentration on single highly specialised products was there much evidence of work-specific machinery. In the Irish and Scottish samples, with a greater emphasis on jobbing activities equipment was generalised, its use determined by the skill level of the operatives, plus market demand. The Irish sample following Woodward's classification divided into 31% craft, 10% batch, 6% line and as such was typical of the Scottish and Irish experience.

11.3 Differing technology created different socio-economic systems, best exemplified in the Aberdeen study.

- 1 Fabrication in small batches. Plant, simple tools, arc welding, cutting folding equipment. Manpower - skilled men often owners/managers, supervising semi-/unskilled workers.
- 2 Customised one-off, highly specialised. Plant - as fabrication. Manpower - all skilled operatives.
- 3 Process production. In runs of uniform production. Plant - continually repetitive production plant bought in. Manpower - unskilled labour, small nucleus of skilled management as supervisors.

### 12.1 Plant Acquisition

Given the negative views as to their future, the French companies mostly had not acquired any new plant for several years. Partially, this was because existing plant was repaired on site, partially because what additional plant was required was bought second-hand. The overwhelming reason for non-investment in plant appeared to be the negative view that the French companies had as to their own future viability. In both Scotland and Ireland the acquisition of second-hand plant was a minority activity (13% in Aberdeen), together with inheritance or leasing. Outright purchase was the overwhelming method of plant acquisition. If investment in new plant, with its presumably greater efficiency could be defined as a rational activity, the policies governing what was acquired, when and how it was paid for, appeared chaotic. If one takes the Aberdeen situation there appeared here no overall rationale governing plant acquisition as part, for instance, of an overall development plan. New plant was acquired on the whim of the most senior manager whenever, 'we have extra cash'. Nor was there any evidence of thought being given as to how best to write-off plant already within the company against, for instance, tax demands. In many instances no depreciation policies were in operation at all, in others they were idiosyncratically partial covering only vehicles or pieces of equipment chosen apparently at random. The estimated plant life and therefore depreciation attached to it also varied apparently at whim, ranging from 'my lifetime' to anything from between 25 to 3 years. Having said all that, plant use, excepting firms in particular crises, appeared intensive. Information derived from the sample on plant acquisition and depreciation suggests that this is an area in which informed accountancy advice might well release capital to the small business which currently would appear to be unnecessarily locked up in plant.

### 13.1 Supplies

Raw materials are always of major concern to small enterprises presenting particular difficulties of access, storage and capital commitment. The high cost of borrowing, restricted storage space and short-order books were all factors which led firms to buy little and often rather than taking advantages of economies of bulk buying, extended credit and guarantees available to the larger purchaser.

13.2 Significant differences in locality of supplies were apparent among the sample firms. Whereas within the vast centralized Paris region supplies were readily available, the situation in the geographically peripheral regions of Aberdeen and Cork were not so clear-cut. Whereas 43% of the Cork firms received supplies locally, 22% were supplied from elsewhere within Ireland, 32% were supplied from abroad through the port of Cork. In contrast 52% of firms in Aberdeen could obtain supplies locally and only 10% imported supplies, these being firms concerned with two industries, mud and granite. To import supplies clearly requires longer delivery times and therefore more extended ordering than when buying locally. This was clearly reflected in the Aberdeen and Cork experience. Whereas in Aberdeen the situation was one of apparent ready availability, so that 64% of the firms merely got their supplies when needed, in Cork this was in the region of 43%, with 40% having weekly or monthly orders while 7 firms rec-

eived supplies on a more extended periodic basis. Many of the sample firms would have preferred to have kept greater amounts of stock in hand and 75% of the Cork firms felt that this was an inhibiting factor. The high cost however, of finance was given as the major factor preventing this.

13.3 The supply of raw materials is of course closely related to the indirect cost of the operation, such as transport. In practice for the majority of firms supplies were delivered, only 18% in Cork and 30% in Aberdeen collected supplies. The lower figure in Cork is no doubt linked to the extent to which imports dominate supplies in many cases and were channelled through shippers who provided delivery in conjunction with customer clearance services.

13.4 Whereas discussion about stimulating the small firm sector has tended to concentrate on the fiscal or physical provisions, study of problems associated with access to supplies in geographically remote areas, suggests that attention paid to improving supply networks which would reduce the need for capital to be tied up in stocks could well have a major beneficial effect on such small firms.

#### 14.1 Markets

Taking examples from the three study areas this section will examine location of markets, and market contact before going on to distinguish marketing strategies per se.

14.2 Specificity of product distinguished markets for the sample firms. Firms offering generalised packages, servicing companies and jobbing engineers had a local market. Specialised patented products, be they customised grave stones or powder sifters had direct access to their markets and were able to reach customers on a national or even international scale. Among the Cork and Aberdeen firms exclusive concentration on one product was, however, the exception. Sustaining a mixed activity programme for these firms meant that within the same company it was possible to find the firm operating in geographically distinct markets. Aberdeen and Cork were involved in national markets though the evidence suggests that this involvement was erratic and the firms' knowledge of national markets insufficient. Overall few sample firms were involved in exporting, only 10 in Aberdeen and 1 in Paris. The Irish study contained the highest percentage of firms involved in export markets but even this is small. Explanations for this are complicated ranging from the small size of the Irish domestic market to the previous international experience of return migrant managers. If the reason for export success needs further examination the reasons for not attempting to enter an export scene were clear. If operating within a domestic market already meant that the management felt overfaced with bureaucratic demands, exporting, it was argued, could only multiply and increase such pressures. Given specificity of product or service there would appear no reason why the small firm sector could not successfully enter export markets. To translate potential into actuality would, however, require the development of a supportive interpretative and educative relationship between potential small firm exporters and external agencies either in the public or private sector.



Among the sample, few firms were involved in other than a national, and indeed, largely local market. Attempts to expand markets further either in terms of numbers or geographical regions via marketing techniques were rudimentary. Brand names were few, business cards rarely existed, and little other than local advertising was undertaken. The majority of firms relied for business on personal recommendation as a major source of new clients. Lack of marketing as interpreted by a section of the sample, far from representing a significant underdevelopment of a major business function, was interpreted as a sign of a thriving business. As argued by the Scottish firms any attempt to 'drum up business' was only to be interpreted as a sign of instability if not of imminent collapse. Ambivalence, if not hostility to marketing meant that sales personnel were largely absent if one excludes the Managing Director/Owner who generally saw sales as his responsibility and prerogative. Graduate management firms were again the exception, formally marketing their firms and establishing marketing as a distinct function. Lack of marketing personnel and appraisals therefore meant that for the majority of the firms, companies were set up, products and services introduced, based on highly fragmented personalised impressions. Marketing both of products and skills would appear to be an area in which the small firm sector could well receive help on two levels, initial surveying and identification of required needs at local, national and international levels, which might be met by small firms. This need identification survey might well reduce the death rate in the initial start-up period among the small firm sector. The ability to convey information on the range of goods and services is lamentably lacking among many small firms. The development of such apparently elementary information as range of goods produced, range of skills employed, plant by capacity, would at the level of the individual firm greatly increase credibility. At a more general level particularly in the Irish/Scottish context the development of master lists of existing firms would enable helping agencies to market such firms outside their immediate areas as well as overseas.

- 14.4 Problems associated with marketing may be particularly acute within the engineering section itself, where the emphasis on skills is on manipulative tangible actions and not verbal abilities. It may well be unrealistic to expect men skilled in this tangible way to be able to conceptualise and translate their, and their firm's capacity visually and verbally. If this is so then this becomes an area in which we would suggest that with a minimal of external investment or training input, great advances in market presentation and therefore communication with potential clients could be made.
- 14.5 The majority of sample firms however, had no direct contact with the market and they were involved in a range of sub-contracting relationships with other large companies. Sub-contracting was of special importance among the Paris and Aberdeen firms. This suggests that there is some connection between the density of local firms' economic activity and the proportion of sub-contracting which in its turn engenders yet more through smaller firms being pulled in. Sub-contracting work fell into two main types, finishing off work and working from plans provided by others. The usual relationship, particularly common among the high precision French engineering companies, was for plans and materials to be supplied by the

large client who also provided transport and controlled the price set for the work.

- 14.6 Two strategies affected the number of clients, either the firm became involved with one or two major clients whose demands they could never entirely meet and who therefore could be relied upon to supply them with an unending and sufficient stream of work, or they worked for a mass of small clients. There were advantages and disadvantages to both systems. Reliance on one or two major clients simplified the market. There was no need to chase supplies, support a sales force or transport and regular work when a known outlet was assured. This type of client contact led to a relationship of dependency with all its attendant disadvantages. Putting-out customers controlled price, design and in the Scottish situation where materials were rarely supplied, materials, quality and delivery dates. Penalty clauses were written into contracts entered into which specified a wide range of quality and delivery requirements. Having met all the contractual requirements the large client firm further penalised the sub-contractor by paying long afterwards, 90 to 120 days was common practice though in one French example payment had been received a year in arrears. Unless sub-contracting work is laid out continuously delay in payment may well lead to severe cash flow problems for the small sub-contracting business.
- 14.7 If large customers were eschewed then, the clients comprised a myriad of small firms which in its turn engendered unpredictable short runs. Such clients as the French study noted, tended to be one time and highly volatile customers.
- 14.8 Sub-contracting whatever its source leads to bunched demands and lulls. 75% of the Aberdeen and 68% of the Cork firms reported extreme variability of orders. This was strongly reflected in the short term order books and in the Paris firms with an average span of 1-3 months work in-hand. With no sales force or market research to even out demand swings the sample firms, particularly in declining areas, lived in a state of total demand uncertainty, which could only affect their approach to other areas of business activity and capital investment in particular.
- 14.9 Discussion of marketing techniques generally centres on relationships between companies and the general public. As such the particular problems associated with marketing for firms involved in sub-contracting are rarely considered. It would appear to us that short-term training aimed at improving the presentation of self in such small companies would be of great value. This would enable the large sub-contractors to more accurately assess the degree of plant capacity and skills available in particular regions. The focus of marketing advice would also appear to us to have been too narrowly defined in terms of market, the concentration being almost exclusively on the sub-contractee. It may well be that the large sub-contractor could also benefit both themselves and the small firm sector if they learnt more about the latter in particular how to channel orders to them in a way which would allow the smaller firm the greatest benefit. A large sub-contracting order which serves to bankrupt the small firm is of no use either to the sub-contractor or the sub-contractee.

### 15.1 Employment

Only with the analysis of the operational realities of the samples complete is it possible to examine the employment strategies in the sample firms. Overall the firms employed between them 2,912 giving an average of 17.2 for the Cork firms, 18.6 for Paris and 21.8 for Aberdeen. Part-time employees were a feature particularly of the Aberdeen firms, though in terms of total numbers of part-time employees the numbers were not large, 42 in Aberdeen and 32 in Cork, with none at all in Paris. Part-timers were drawn predominantly from students employed during the holidays and married women. Though there were instances of women being employed as skilled engineering personnel these were the exceptions. Female employees represented 11% of the full-time labour force in Cork, 12.8% in Aberdeen and were employed as in the French firms predominantly as secretaries, cleaners and canteen workers.

- 15.2 Women employees formed a different age-profile in comparison to their male co-workers. Women were most likely to be employed in the 20-30 age group. Their under-representation in the 40+ age group was a reflection of the lack of training among women wishing to re-enter the workforce and therefore the inability of women to return either with marketable skills or to regain the same scale level which they had left when giving birth to their first child. It would appear that short-term training that was aimed at re-equipping women wishing to re-enter the market with currently marketable skills would ease labour shortages and enable the best use to be made of returning female workers whilst at the same time minimising unemployment among such groups.
- 15.3 The average employee in the sample firm was 30+, skilled and male. This was particularly true for the French sample which had no employees under 20, few in the 20-25 age group, concentrating on the already trained 25+ male group. Even in Aberdeen with a history of rapid expansion, 60% of workers were in the 30+ age group.
- 15.4 As might be expected from their concentration on specialised products, the French firms possessed the highest level of skilled workers overall. This was followed by Aberdeen 40% and Cork with the lowest percentage, 36%, of skilled employees. Despite the common equation of manufacturing with skill, service companies in Aberdeen employed a higher level of skilled employees than among the Aberdeen manufacturing firms. In Paris the employment profile was of skilled men engaged in self-monitoring of their own output, in Aberdeen a skilled nucleus directed and were aided by the semi-skilled and in Cork a skilled manager plus a small cohort of skilled aides directed and generated activities.
- 15.5 Combining age and skill profiles highlights marked differences in recruitment and training patterns evident among the sample firms studied. In contrast to Aberdeen and Cork, the Paris firms neither recruited nor were involved in the training of the under 25s. This situation as might be surmised led to a severe skilled labour shortage with instances of companies spending up to 7 months looking for a single replacement worker. The reasons for this employment crisis highlighted both the particular problems of the small firm sector and the lack of official sensitivity to these problems. Small firms producing highly specialised goods require immediately operational productive workers who can act

as quality checkers on their own output. Trainees with no inbuilt quality control ability may well jeopardise important clients attracted to the firm by its reputation for high quality output. Given that such workers are required the firm has two options: to set in motion recruitment activities for fully trained workers or become involved much more directly in a training scheme.

15.6 As with plant, accommodation and work so sub-contracting was a major device enabling firms to retain labour. Sub-contracting out of labour was least apparent among the French and most developed in the Aberdeen firms. Sub-contracting occurred at all employment levels. Two main profiles were discernible, firms sub-contracting out large numbers of men in successive shifts and companies employing under 25 sub-contracting out one or two of their highly skilled men to carry out highly specialised tasks either on their own as peripatetic journeymen, or as part of a diversely recruited skilled workforce. At its most extreme, companies themselves, were registered as employment agencies and were used as such by sub-contractors and potential employees. Sub-contracting was allied to short-term contracts and was particularly apparent among firms involved in seasonal markets, housing and offshore activities. Their men could be employed by a larger company for up to six months, starting in the Spring. These seasonal differences in employment led to large swings in the numbers employed, in one instance ranging from 50 in the winter to 128 in the summer.

#### 16.1 Recruitment

Recruitment confined to the local labour market was overwhelmingly through personal contact and recommendations in the sample firms. Taking on a new worker poses special problems for the small employer. The new worker must not only be technically sufficiently skilled, readily able to adapt to the changing demands inherent in the small firm market, but must be able to blend amicably with the existing group. As is well known from small group studies the introduction of new elements involves delicate negotiations before a new equilibrium is reached. By recruiting through existing employees or kin the small employer feels that he has already some idea of the personality he will be employing, can use the recommendee as guarantor and can be sure that the new recruit will already possess an accurate idea of the total employment environment in which he will be operating.

16.2 In both the French and Irish samples no use was made of the official sources of labour supply except for recruitment of unskilled workers. Indeed the companies were distrustful of those who came from outside the network of their firms. In both the French and Irish samples, despite the upgrading of labour exchanges to Manpower Offices in the latter, potential recruits from official agencies were seen as by definition, as lacking in initiative 'otherwise why would they be there?'. So strongly held was this view that employers recruited in preference from local newspaper advertisements. In contrast the Aberdeen firms made use of a wide spectrum of official labour agencies, youth employment agencies, training boards and Government Job Centres. The latter in particular had a high take-up and were seen in positive terms. Aberdeen firms judged

the service given as being cheaper than that of private agencies and highly efficient at providing them with the right type of employee. There was evidence that with repeated use firms came to rely more heavily on this service and curtailed alternative recruitment efforts. Female clerical workers were however not recruited from Job Centres but continued to be recruited from private agencies. Aberdeen also offered the sole example of trade union control of recruitment. In this instance confined to a declining industry, that of granite finishing, the local craft union held a list of unemployed skilled men. If new recruits were required in any of the local firms a new employee was put forward to the firm from the trade union list. This way the local union branch attempted to maximise employment among its members. A further group solution to recruitment was apparent among French firms, with an example of an employer association alerting its members to available skilled workers who were coming onto the labour market. Both these sources were seen as credible providing the right kind of worker who was authenticated from the source identifying them.

- 16.3 Up until now we have concentrated on 'legitimate ways of obtaining labour'. Over and beyond these were methods collectively described as 'poaching'. In Paris and Aberdeen where the market for skilled labour is particularly tight this was a major method of recruitment. As one Aberdeen director said 'the method of recruitment I use is known as poaching. My foreman worked previously for X and has very good contacts there. Whenever we need someone, he goes down to the pub and recruits them. I offer high wages. We put an advert in the papers to make it seem above-board, but that is just a formality'.
- 16.4 The failure of official employment agencies both private and public to be seen as credible by the sample firms, represents a major failure in provisions to this sector. Until one looks at the Aberdeen experience it might well have been argued that public sector provision was inevitably impossible. The extreme tightness of the labour market in Aberdeen coupled by positive expectations as to future growth may underline the success of the Aberdeen Job Centres, but this is surely not the entire story. Aberdeen 'patrons' appear quite as independent as their French and Irish contemporaries, the labour market quite as tight as in Paris. Following talks with local Job Centre officials in Aberdeen it would appear that special marketing aimed at small businesses together with an intent to treat all employers as equally important, has made the Job Centres appear receptive as well as credible to the small businesses in the area. Such an interpretation receives confirmation from the French sample. Labour supplied from Agences Nationales Pour L'Emploi (ANPE) was found to be ill-matched while ANPE staff were experienced as ambivalent to small employers by the sample firms. Private agencies supplying temporary workers were seen by the French firms as equally useless. It was argued that all these sources supplied marginal workers. This emphasis on the marginal may well reflect the employee in the small business and it may be that the search for the ideal flexible skilled worker is the search for an ideal rarely obtainable in actual life.

The provision of employment agencies to guarantee a good fit between labour and socio-economic requirements of the small firm is of paramount importance if they are ever to gain credibility in the small firm sector. This may well involve the training of contact staff so that they may become aware of the potential needs and style of approach likely to occur among small firms seeking employees.

- 16.5 If Aberdeen examples dominate this discussion on recruitment this is because these firms were involved in a higher level of recruitment than their Irish and French contemporaries. For the majority of French companies employment was static and recruitment restricted to an average level of one person per annum. In Ireland the increase in the labour force amounted to 66 persons in the past year.

#### 17.1 Recruitment via Training

If recruitment of skilled workers proved difficult on the open labour market an alternative was for the firm to recruit from either external training courses or to become involved in training themselves. In France initial training had been practically removed some years previously from companies and had been located in officially backed training establishments. Unfortunately, workers emerging from such courses were not regarded as skilled by the French firms who thus discounted them as potential employees. As the French companies were themselves disinclined to become involved in training schemes the upshot was an acute shortage of skilled workers and therefore a restriction on employment expansion among the firms under discussion.

- 17.2 In contrast in both Scotland and Ireland firms supported joint firm-state training programmes for new recruits. At its best such a mix allowed external subsidisation of technical skill training within the firm focussing on generalised skills and importantly work attitudes.

- 17.3 External training schemes were the target of much criticism. In terms of skill acquisition the highly specialised nature of work within the companies could mean that so small were the numbers requiring training that formal external courses were uneconomic. Such firms were therefore left without any external training support. A different problem was posed by the rapid upgrading of skills required within new technologies. Here the level of training offered on external courses was found to be increasingly irrelevant, or too simplistic to make the training of use.

- 17.4 In-house training, however, pre-supposes long-term confidence, a luxury that the French companies with their short-order books did not possess. Lack of in-house training was symptomatic in the French companies of their inability to plan ahead. With greater confidence in-house training was common in the other samples, predictably so in Aberdeen where only 13% of the companies employed no apprentices. But in these areas in-house training was part of an integrated external subsidised scheme.

- 17.5 In strong contrast to the other business functions we have examined training remained among the most important areas where firms attempted to retain control. Only by recognising a coll-

aborative arrangement between firms and external institutions would it appear that the government has any success in ensuring a steady flow of credibly trained workers. Entirely divorcing such skilled training from the consumer would appear to lead to problems such as those found in France. Here with technical education a separate entity, carried out within a variety of technical educational institutions, the sample firms rejected the output as possessing inadequate or irrelevant skills. It would appear that the gap in France between educational producers and industrial consumers has become so wide that public investment in technical training is failing to meet the urgent needs for skilled personnel in the small firm sector.

- 17.6 But though the Irish and Scottish firms accepted and made use of external training schemes these were not without their critics. Over and above the technical skills acquired the sample firms, particularly the Irish companies, were concerned about the work attitudes acquired in externally sponsored courses. Such attitudes were seen as essentially inimicable to the small firm being geared to mass production, large organisations, with all that implies in terms of work repetition, and worker management confrontation. A greater awareness of these wider implications of work training would, it would appear, make small firms far more enthusiastic supporters of external training. Discussion of employee training whether it was a reality or not, focussed almost exclusively on the training of young skilled recruits, little if any training was given to semi- or unskilled employees. Post-experience training occurred only marginally, relying in the main on special product updating or in the case of the few larger French firms group training in sales, finance, accounting and production techniques. The failure overall of training to focus on any but the skilled sector suggests a serious neglect of many sectors of the employed population in small businesses.

#### 18.1 Management Training

With the exception of the two graduate management teams, managers in the Scottish samples were either unaware of the need for any training of their jobs, or if aware defined management training as either experiential or technical. Any management training there had been had consisted of short courses aimed at specific legislation, held either in low-level public sector institutions or in the private sector by bodies such as the local branch of the Institute of Marketing. In a few instances new product-linked courses had also been attended. As one of the Scottish managers ruefully put it 'Well no, when I come to think about it, the only person who isn't trained for his job in the company is myself'. In sharp contrast among the French companies the patrons were the group most likely to have attended external courses. As with the Scottish firms the greatest take-up of management education among the French firms was of private sector courses focussed on accounting management and pricing. In what would be a departure for their Irish and Scottish equivalents such courses were run by banking groups which many of the firms already used for financial services.

- 18.2 In recent months a great deal of discussion in the Irish Republic and the UK has centred on the ways in which the banking system could become more sensitive to the small business sector. For

their part banks have pleaded ignorance of the world of small businesses. Development of short educational courses and programmes by the banks in Ireland and Scotland might well not only lend credibility in the eyes of businessmen to management training but create a vehicle within which beneficial reciprocal exchanges of views might take place. A more detailed examination of French banking practices in this respect might well prove useful to those in Ireland and Scotland intent on stimulating the small business sector. Though Irish management appears more aware of the need for training than their Scottish counterparts, they were scathing of the courses on offer in government agencies. Such courses were felt to be geared to large employers and as such were irrelevant to their needs. Having stressed the higher take-up of training among French patrons it is still true to say that in comparison to equivalent occupational groups in France the patrons showed a lower take-up of post-compulsory education than their peers. The exception in all the samples to low take-up and low acknowledgement of educational needs were graduate managers. Here management training was considered accepted practice and was recurrent. In a manner reminiscent of the skillful way in which costs were laid off for equipment and transport these companies had researched the educational market and took up subsidised training wherever possible.

- 18.3 The evidence we have found on the educational involvement of the small firm sector suggests the need to re-think the way in which educational training can be presented to small businesses so that they can take advantage of new developments.

#### 19.1 External Agencies

If one ignores local idiosyncracies already discussed in the national reports the findings in all three areas were remarkably similar. In an attempt to stimulate employment the three national governments concerned developed a host of helping agencies aimed at the business sector. To judge from the response the attempt had largely failed. In general companies complained of ignorance of the assistance available to them, delay in dispatch and inappropriateness of support offered and hostility of administrators to the special problems of small businesses. Such has been the spread and recent build-up of industrial legislation and business oriented schemes that small businesses if they know of them, do so in only the most general of terms. With a tiny management structure, any new scheme or new legislation is mainly experienced as putting more pressure on managers who already work long hours; in Paris 60 hours plus was quite common. The immediate response to new policy aimed at the business sector is to ignore it until it impinges. The main channel of information would appear to be television but this only provides very general information. There may well be an argument for attempting to use mass media channels to alert small businesses to programmes which will or may affect them indicating at the same time where back-up material can be obtained. Small business management particularly when it consists of technical rather than management people would equally appear to welcome assistance with legislation interpretation and actual form-filling. Here again the French banks appeared willing to offer such a service to banking clients seeking external financial assistance. This interpretative role found among the French banks would appear one which would well come to play a more prom-



inent role among Scottish and Irish banks, both in the private and public sector. It is worth noting however that one of the reasons for the success of the French banks arises from the fact that the majority are state banks able to 'speak the same language' as the officials in the various agencies and government departments with which they are dealing.

- 19.2 Comprehensive knowledge and competent presentation of requirements are irrelevant however if the time scale of suppliers and supplicants fail to match. The French sample in particular was able to supply numerous examples of 'undue delay' in the delivery of aid which vitiated the original requirement. Inordinate delays when not seen as inherent to large-scale bureaucracies, were ascribed to the ignorance if not the actual hostility of officials in helping agencies to small businesses. This was perceived as leading to two main problems - face-to-face contacts and the format of legislation. As the Irish study aptly comments, small businessmen felt a priori disadvantages when 'attempting to inter-act with helping bureaucracies'. Both legislation and organisational responses were felt by the sample firms to assume large mass production manufacturing units, well supported by managerial staffs as the appropriate 'client'.

#### 20.1 Fiscal Policy

Fiscal legislation had two main effects on companies. Firstly it could profoundly effect growth as in France, small sector profitability as in Ireland, and capital investment as in France and Scotland. In so far as fiscal policy defined certain industrial activities as more important than others, manufacturing as opposed to servicing and supply for example, it could also distort activities particularly in start-up situations. Examples occurred among Aberdeen firms of companies deliberately creating a manufacturing section in this way obtaining grants before concentrating on their central long-term activity of servicing. The actual implementation of legislation, given restricted management systems had severe manpower implications for small companies. Business-oriented legislation was seen as pushing ever more administration on to the small firm which was perceived as unproductive labour, 'working for the Revenue', here VAT, PAYE and export documentation figured largely. Two responses to this resentment to form-filling occurred, computerisation of standard form-filling and sub-contracting out such work to accountancy firms. In both instances the relief was palpable and management not only felt free to concentrate on 'the job in hand' but felt that any changes in future documentation were already anticipated by such an administrative system.

#### 21.1 Private Sector

The role of banks which straddle the private/public sector divide has already been discussed. For the majority of small firms the banks were the primary external contact. Even when divorced from the extensive educative and negotiating stance they adopted in France, banks were preferred to other sources of finance as access to them was simple and replies immediate. Negative factors were that particularly for non-manufacturing or newly established firms, banks taking manufacturing again as the norm, were reluctant to lend to these groups. Start-up firms also found banks unsympathetic to their needs for initial pump-priming finance.

## 22.1 Trade Associations

The French companies were the most likely to be members of local occupational or trade groups, Chambre  
 erce, but as with Aberdeen firms there was a low take-up of ser-  
 vices on offer. In Paris, such groups offering legal advice or  
 representation also offered information on skilled labour availab-  
 ility, in this way providing an embryonic self-help service founded,  
 run by and focussed on small businesses. Such organisations, taking  
 Aberdeen as an example, were often severely under-staffed and under-  
 financed. This being so, many small firm owners in Aberdeen  
 were suspicious of becoming involved with such groups such as the  
 Chamber of Commerce, in case this meant them being asked to spend  
 time as a member of one of the organisation's committees. In  
 Aberdeen, the reduction in the number of large independent firms  
 in the area, the entrance of multi-nationals with no interest in  
 local business associations, meant that such pressures could  
 only increase - with the burden involved in running such groups  
 resting cumulatively on the shoulders of an already over-worked  
 small group of 'patrons'. The rapport existing between local  
 businesses and Chambers of Commerce appears a valuable asset  
 which is often absent between this sector and 'other helping agencies'.  
There might well be a case for grant-aiding such local business  
 organisations if this was acceptable to the organisations them-  
 selves, in this way reducing administrative burdens through the  
 recruitment of full-time officials.

## 23.1 Public Sector

Small firms could also seek help from regional helping agencies.  
 Underlying the provision of much external agency support is the  
 assumption that if we exist people/companies will use us. Fail-  
 ure to do so may have little to do with the needs the agency seeks  
 to fill but a great deal to do with how the potential recipients  
 see the aid. In the Aberdeen sample the firms not untypically  
 divided neatly into two main opposing sections, those who had no  
 use for any external agencies, as part of their pride in their  
 independence and ability, 'Haven't needed to find them helpful,  
 we know the business better than them anyhow', and those who did.  
 The suspicion of outside contact that made interviewing difficult  
 was apparent here. The implication for helping agencies appear  
 two-fold. Firstly, and in their literature there appears little  
 awareness of this, they need to change the perceived equation  
 successful firms never use helping agencies, unsuccessful firms  
 are constant clients. 'We have no problem so see agencies as  
 soliciting for business by sending us their literature'. Secondly,  
 their staff must be specialists in business operations, marketing,  
 finance etc. and able to offer a broad based expertise. This last  
 statement was heavily reinforced by the requests companies made  
 to such agencies which could be divided into two main categories:  
 requests for interpretation, requests for contacts.

## 24.1 The Future

When asked to speculate on the future our respondents highlighted  
 many of the issues identified earlier in the report. Arguing the  
 case for the small firm, the interviewees repeatedly stressed the  
 same themes, efficiency, choice, competition, personal service and  
 employment.

- 24.2 Efficiency was defined in two ways. Small firms were efficient as they had low overall costs. This was due to low administrative costs, high usage of plant and materials, low wastage rates associated with close supervision coupled with the often uncoded high work load of the owner/director. Efficiency was also taken to mean specialisation. Many small firms existed only because they could realistically offer high standards of craftsmanship due to the close nature of supervision possible in a small firm. This argument also ties into the second theme that of competition and choice. As firms become larger, so the sample argued they become more remote from customer needs, and therefore less sensitive to them, whilst at the same time the driving logic of their bureaucratic system of organisation leads to an ever-decreasing decline in the range of goods and services on offer.
- 24.3 The existence of small firms ensures therefore not only increased competition thus reducing the costs inherent in monopoly and oligopoly situations, but also increased choice for the consumer. Parallel to this was the argument that specialisation in large companies leads to a decreasing ability to respond to change. Retaining all features of design through manufacturing to pricing, means that small firms remain internally more flexible and as such can respond more quickly to market changes.
- 24.4 Small firms it was also argued, contribute significantly to employment. However, as was repeatedly stressed, the enactment of the Employment Protection Act and similar legislation in Ireland was perceived by the firms as a major deterrent to small firms considering taking on new employees. The fluctuating nature of much of their work, the close-knit nature of the workforce, meant that their preferred method of hiring was for either short periods or for a longer probationary period than such legislation allowed for.
- 24.5 Above all, however, the firm stressed the high quality of personal service to the customer which they argued was only obtainable from the small firm sector. With few clients small firms were vulnerable to losing even one, so sought to retain them through high standards of workmanship and through personal service to the client. The small size of management also meant that accountability was readily assignable; 'the Buck stays here'.
- 24.6 It will be evident that since big business was the antithesis of all the virtues embodied in the small, so growth was regarded ambivalently. Here a distinction was made between 'fly-by nights' as opposed to 'well established small firms', though interestingly only by the well established the routinised entrepreneur. Among such well-established firms several interviewees had as a matter of policy deliberately decided not to expand either by not accepting more work or by not employing larger numbers. Only commitment to sustaining existing levels rather than expansion would, they argue, allow them to keep running their firm as they wished. In these statements the lack of interest in profit as the central motive comes strongly across as does the kind of work satisfaction which motivates the routinised entrepreneur.
- 24.7 The problems associated with small firms overshadowed the more positive features. Problems fell into four main categories ranging from government through finance to labour and management.

- 24.8 Governments were as seen as at best indifferent and at worst hostile, concentrating all their efforts on large and often foreign enterprises. Ever-increasing government legislation was perceived to have led to 'vast amounts of paper work which a small businessman doesn't have the time to cope with and lacks the information on how to complete'. What was seen as true for central government was also true for local government, with costs raised to unrealistic levels by central and local government taxation. High levels of taxation, it was argued, led to lack of capital investment and eventually to lack of motivation to expand.
- 24.9 Pressures on management were discussed under three headings, continuity, numbers and specialisation. The need to demonstrate management continuity was seen by the interviewees as an important factor when attracting and retaining customers, 'Who takes over if you drop dead?' Continuity and substitution of skills were stressed as selling features of these firms. The major problem however was not seen as continuity but numbers and specialisation. Lack of sufficient management personnel led, the interviewees argued, to 'constant overwork, fragmentation and erratic attention to not immediately pressing problems'. One example cited was erratic invoicing. One sample firm had suffered bitterly from this, only invoicing every six months. It had just lost its main customer due to such delays.
- 24.10 Stock control also suffered from lack of management specialisation. Lack of capital which prevented managers buying in professionals meant that they were forced to become 'Jacks of all trades, and master of none'. In contrast to existing provision the area in which they sought greatest help was on the marketing side. 'What I should like help in is long-term marketing'. In general the helping agencies did not involve themselves in marketing and distribution problems except in the case of exports.
- 24.11 Once over the problem of acquiring sufficient start-up capital, financial problems centred overwhelmingly on cash flow. Cash flow was particularly acute for small firms dependent on one major client. 'Small firms such as ours are bullied by large customers who pay late, but whom we dare not pressurise as we are dependent on them'. As shown earlier in the report this dependency had been deliberately avoided by some firms who had declined to tender for large companies actively seeking outlets in fragmented markets.
- 24.12 High wages, generally blamed on the bad precedents set by multinationals, were generally subsumed into problems of retaining labour especially once trained. Loss of labour to larger companies when the training costs had been carried by the firm was particularly resented but was seen as probably inevitable.
- 24.13 A parallel problem affecting school recruitment was the poor image attached to heavy manufacturing employment. Foundry companies for example, though overwhelmed with work, reported that they were unable to attract young labour due to young people's negative assessment of the work involved.
- 24.14 Whereas most mention of their size was positive one firm did complain that this proved a disadvantage when tendering for large contracts. These, they argued, were assigned on a basis of numbers employed in the firm rather than the quality of the work they produced.

- 24.15 Despite problems the majority of firms in the Aberdeen and Cork samples were positive about their future. In contrast the French firms were far more negative about their future; few thought about it and fewer still were involved in any significant investments which would enable their firms to continue.
- 24.16 As already noted the national samples did not consist of a homogeneous group. The different profiles of second career businessmen, steady state craftsmen, aged patrons incorporated different responses to the future beyond that dictated by the market. Whereas steady state craftsmen looked for little beyond continuing existence and had little interest in growth, asset realisers had no commitment to their firms' future once it had served as a vehicle for personal financial gain. The stage in the life cycle reached by the owner is also of great importance and it is of significance here that many owners in the French sample who overall saw the future in such negative terms, were reaching retirement. A typical description of such firms included the patron doing everything, with no time for marketing, no recurrent management education, no investment taking place, with great liquidity problems and no contact with outside agencies which they feel anyhow are hostile to them. In particular, given the identification of problems connected with success, there were some firms where there were also problems of succession. If the firm had been rejected as a career by kin the owner may have to sell it but could find no buyers and so that all that was left was the machinery. Such firms appeared trapped in a downward spiral from which it was difficult to perceive any possible recovery.

#### 25.1 Policy Alternatives and Conclusions

Any policies which attempted to stimulate the small firm sector clearly must distinguish between the differential growth potentials of small firms distinguished by such profiles. Perhaps one could envisage a role here for external agencies which might act as brokers between retiring patrons and those wishing to become owners or managers of small firms, before run-down has accelerated out of control. This could go some way to ease part of the inheritance problem where there is no relative able or willing to continue the family business and it would do much to make possible an earlier retirement for some of the owner-managers.

- 25.2 Currently the EEC proposes to base an action programme to encourage employment growth among small firms on a five-point scheme:
- 1 Providing more finance from banks, the European Investment Bank and Community funds.
  - 2 Providing help for exporting and sub-contracting through the business co-operation centre.
  - 3 Offering management training.
  - 4 Simplifying VAT procedures and harmonising rates.
  - 5 Allowing tax concessions for self-investment.

- 25.3 Analysis of the three national samples which form the basis for this report suggests that such approaches are both too global in conception and too narrow in range.
- 25.4 The small business sector, as with the aged, cannot be regarded as a homogeneous universe. This being so it is clearly of great importance to distinguish the differing sub-groups which go to make up this heterogeneous sector. Having examined manufacturing, manufacturing-servicing, servicing, and supply companies it is clear that business function is not the most useful analytic tool which would enable programmes to be most precisely tailored to meet the needs of small businesses. Evidence from the survey suggests that typologies of owner/managers, family firms, steady state, careers, ageing patrons are of over-riding importance followed by stage in development, size, start-up, growth, succession crises. Programmes aimed at small businesses must, we would suggest, clearly distinguish which of the varying types of small businesses they are aimed at, if they are to be seen as credible and therefore influence such firms.

#### 26.1 Finance - Increasing Access

Access to finance appeared not to be the overwhelming problem for manufacturing companies that we had been led to believe at the beginning of our research. Overall there appeared to be a greater awareness and willingness to respond to small manufacturing firms by giving a whole range of preferential grants to this sector by government and other bodies. The problem however, was acute for service companies who gave ample evidence of restricted growth due to their exclusion from the range of financial support open to their manufacturing contemporaries. As employment growth in Western society moves away from manufacturing towards the tertiary sector this would appear as a self-defeating policy in any attempts to expand employment. As important as providing additional finance, was both publicising and simplifying access to such assistance. With small over-worked management, take-up of financial aid schemes will be low, unless assistance is available which will interpret eligibility and assist applications. In this instance, the role played by the French banks acting as such interpreters for grant applications, is of particular interest. It might well be that the community could suggest such an extension of banking practice to the banking systems throughout the community, where this was not already the case. The comments on extension of financial aid applies equally to taxation systems affecting small businesses. Any fiscal or legislative programmes which cover small businesses and involve them in greater administrative work will negatively affect this sector. This being the case, all legislation as it affects business activities must carefully consider how its implementation administratively will effect the small business sector. In this respect the application of appropriate computerised data handling systems to be of particular importance.

### 27.1 Exporting Help

The national studies both demonstrated that small firms are capable of exporting as well as suggesting that they have problems entering export markets. Barriers to exporting however, only echo a general inability to penetrate beyond immediate geographical markets. Failure to penetrate beyond local markets reflects in its turn restricted management teams with little development of marketing functions. Awareness of this lack among the sample firms coupled with an eagerness to acquire such skills suggests that this is an area in which considerable improvement in product access might be achieved if management training and advice were offered in this area, or more importantly, direct assistance given.

### 28.1 Management Training

A comparison of management education in the national samples highlights the drawbacks to the development of a global EEC directive on management training. The need for such training varied widely between national samples with the need appearing at its most acute in Scotland. Paradoxically with the highest take-up of management training in France it was in France that the skill training on offer appeared least acceptable to the sample firms. The very concentration on management and skill training in itself appeared too restrictive, concentrating resources largely on school entrants or senior managers. Evidence from the samples suggests the need for re-training of existing workers at all levels so far as possible on the job or in release situations that do not disrupt the operations of the business.

28.2 Having noted the heterogeneity of the target population and suggested modifications to the current EEC stance, one further point needs discussion. All the pilot studies highlighted the need to ensure correct packaging of programmes aimed at small businesses. Comments ranged from the need for the language used to be as concrete as possible, for television to be resorted to as an appropriate medium, for time scales and turnaround to be as fast as possible. Most importantly it was important that representatives of the helping agencies were sympathetic, knowledgeable and able to deliver directly.

### 29.1 Employment Potential

The small business sector is clearly an area of potential growth in which jobs can be created and development can take place. However, this will vary very much with the circumstances and characteristics of the individual firm. Growth may well not be perceived as desirable by many in this sector and is likely to have consequential effects which are structurally disruptive for the small enterprise. Policy needs to be directed almost as much to job retention as job creation in this sector and as the French study especially illustrates the senescence and mortality as well as the birth and development of small firms needs to be considered. The emphasis in job creation in many policy initiatives cuts across the necessary flexibility that many small patrons seek in relation to control of their enterprise and use of the labour market. Acceptance of aid for which job creation is a condition may involve too much limitation of act-

ion. In a number of instances, as we have seen especially in the Irish sample, fission may be preferred to growth and small firms might be encouraged to consider setting up a second or third small firm as a path of development which allows for the retention of the structural characteristics while permitting development and growth to take place.

### 30.1 Tax Procedures and Self-Investment Incentives

Two broad policy implications need to be noted in addition. On the one hand the emphasis in manufacturing tends to disadvantage firms which have mixed activity within servicing and manufacture or firms that are primarily engaged in servicing or agency work as distributors. On the other hand the emphasis on export support may disadvantage those firms whose products have little real market potential outside a local area in which their contribution may be principally related to sub-contracting and filling a service need for other industries rather than production of their own range of products. In general, tax harmonisation measures such as those related to Corporation Tax and VAT have disadvantaged firms that could not benefit from either export or manufacturing concessions. Here again there appear to be particular characteristics of the smaller firm which may need to be given attention in the application of policy guidelines so as to take account of this sector. This also applies to tax concessions in relation to capital and investment where some special assistance might be given to the small firm in offsetting interest and the attraction of venture capital especially in the start-up phase of development.

### 31.1 Conclusion

In sum then, on the basis of the empirical study of three national samples of small and very small businesses, we would plead for a policy itself small-scale, flexible and locally based. In relation to increasing the employment potential of such companies, it does not seem sufficient for attention to be paid only to the demand side within a national orientation. It is important for policy-makers to appreciate fully the constraints effectively operating on small businesses and to take care to deal with their heterogeneous situation. Doing this means also, as the French study especially pointed out, that the demand side must be supplemented by consideration of the attitudes and skills of young people who are potential candidates for jobs. Policy attention needs to be directed to devising a series of measures which effectively in any given local area, and in any particular industrial or commercial complex, brings together the needs of the one and the motivations and capacities of the other. Only in this way can the considerable potential of small businesses in the provision of increased employment opportunities per se but also in the provision of satisfactory employment opportunities, be fully realised to the advantage of all the parties concerned.



PROGRAMME DE RECHERCHE ET D'ACTION DANS LE DEVELOPPEMENT  
DU MARCHE DU TRAVAIL

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LES PETITES ENTREPRISES INDEPENDANTES ET LEUR ENVIRONNEMENT:  
FACTEURS DANS LE MAINTIEN ET L'AUGMENTATION DE L'EMPLOI  
DES PETITES ENTREPRISES INDEPENDANTES

RAPPORT SOMMAIRE

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## Introduction

- 1.1 Les conclusions tirées de cette étude des petites entreprises dans trois états membres de la C.E.E. - la France, le Royaume-Uni (Ecosse) et l'Irlande - semblent suggérer l'existence d'un éventail de stratégies possible vis-à-vis de l'augmentation de l'emploi dans ce secteur. De récents débats sur la question soulignent l'importance potentielle de ces entreprises dans le domaine de l'augmentation de l'offre d'emploi et aussi dans celui de l'innovation technologique. Cependant, une grande partie de la recherche entreprise à ce sujet ignore le contexte socio-économique, analysant les petites entreprises comme si elles formaient chacune un monde clos. Le présent rapport, tout en décrivant la situation interne d'un échantillon de petites entreprises dans les trois pays concernés, s'efforce aussi de prendre en considération les influences extérieures qui jouent un rôle dans les décisions prises par les firmes étudiées, les autorités centrales et locales, les institutions financières et les agences privées et publiques chargées d'aide aux petites entreprises. Ainsi, le rapport cherche à fournir ces informations plus précises, qui à leur tour, seront susceptibles de mieux informer le choix de politiques d'aide à ce secteur important de l'économie et de mieux identifier les contours du possible.
- 1.2 Il est clair que dans la majorité des pays membres, la proportion relative des petites entreprises dans l'économie continuait à décroître pendant les décennies 60 et 70. Leur diminution était plus rapide que celle du secteur industriel, particulièrement parmi les plus petites entreprises, c'est-à-dire celles d'un effectif de moins de 100. Une prise de conscience récente de cette situation et l'action d'un lobby de plus en plus important ont assuré le passage d'une série de programmes d'aides aux petites entreprises. La Commission de la C.E.E. se propose maintenant d'augmenter son soutien de plusieurs façons: (1) en allouant une aide financière accordée à travers les banques, la Banque Européenne d'Investissement et des fonds propres du Marché Commun afin de faciliter l'accès des petites entreprises au marché financier, (2) en fournissant une aide plus importante à l'exportation et à la sous-traitance par le Centre de Coopération des Entreprises, (3) en proposant une formation à la gestion d'entreprise, (4) en simplifiant les démarches bureaucratiques, surtout par rapport à la T.V.A., (5) en allégeant les obligations fiscales, surtout en matière d'investissement dans l'entreprise même.
- 1.3 Après une première analyse des trois échantillons, les résultats et les recommandations vis-à-vis des choix de politiques, le rapport ci-dessous sera organisé suivant les chapitres choisis par la Commission: Financement, Capitaux, Politiques Fiscales, Marchés, Formation. A la fin on trouvera l'analyse du potentiel des petites entreprises dans le domaine de l'emploi.

### 2.1 Caractéristiques des échantillons

Afin d'homogénéiser les études de façon comparative, les échantillons ont tous été tirés du secteur de travail sur métaux, que cela soit une activité manufacturière ou de service. Les entreprises employaient moins de 50 personnes, sauf à Aberdeen où certaines en comptaient jusqu'à 60. La très grande mobilité de ce genre d'entreprises dans les zones de l'étude, due à un processus de mouvement incessant fait de croissance, de faillites, de fusions, et les problèmes aigus de temps auxquels les chefs de petites entreprises doivent faire face, ont fait qu'il était impossible d'arriver à 60 entretiens dans la période de l'étude, sauf à Cork. L'étude est donc basée sur 47 entretiens en Ecosse, 48 en France et 60 en Irlande.

2.2 Les problèmes considérables rencontrés par les chercheurs au moment de contacter les entreprises et de réaliser ces entretiens ont d'importantes répercussions lorsqu'il s'agit d'organisations ou de législations touchant à l'activité des petites entreprises. Alors qu'en France le taux des refus, additionné des cas où il fallait fixer un nouveau rendez-vous représentait le problème numéro un, en Irlande et en Ecosse c'est l'absence d'informations accessibles quant à l'existence même de telles entreprises qui a rendu les contacts à la fois difficiles et longs à organiser. Cela signifie qu'en Ecosse et dans la République d'Irlande il est présentement impossible de déterminer à quel degré s'élève la contribution des petites entreprises à l'économie locale, ou le degré de contrôle local - pour ne rien dire de la difficulté de développer, d'analyser et de comparer les résultats quant à la réussite relative des petites entreprises locales avec d'autres secteurs par exemple. En fait, cela veut dire qu'actuellement les divers programmes destinés aux petites entreprises ne peuvent être adressés à celles-ci, pour lesquelles ils sont précisément conçus. De même, cela veut dire qu'une grande partie de la législation industrielle concernant les petites entreprises est issue de contacts avec les gros employeurs et risque donc d'être inappropriée à la situation des petits employeurs.

2.3 Tout en ayant conscience des inévitables difficultés d'une telle tâche, il apparaîtrait cependant très important d'étendre le champ d'informations disponibles afin de couvrir ce secteur.

### 3.1 La création des entreprises

L'un des contrastes les plus frappants entre les différents domaines étudiés s'est révélé dans les dates de création des entreprises de l'échantillon. A Paris, la majorité d'entre elles a été fondée juste après la 2<sup>me</sup> guerre mondiale, et en conséquence les dirigeants interrogés faisaient partie de la fin de la génération d'après-guerre. Comme on pouvait s'y attendre, les entreprises parisiennes illustrent les problèmes liés aux crises de succession, à la technologie changeante et aux produits, marchés et technologies en mouvement. Par contre, en Irlande, où 70% des entreprises comptent moins de 20 ans d'existence, les problèmes sont centrés sur le "démarrage". Aberdeen, avec 45% des entreprises fondées après 1960, 20% après 1970 et 30% avant 1940, offrait une bonne répartition - contrairement aux deux autres échantillons - et donc un bon matériel de base pour une étude comparative.

### 4.1 Le champ industriel

Des différences considérables se firent jour entre les entreprises de Paris, Aberdeen et Cork en ce qui concerne leur réparation industrielle. A Paris les activités de fabrication se regroupaient sur le secteur lourd ou de précision, un seul produit, ou entreprise de transformation. En revanche, ce même genre d'entreprises, à Cork et à Aberdeen, étaient plus susceptibles de toucher en même temps aux domaines du service, de l'approvisionnement et de commercialisation. Les raisons d'une telle diversité sont complexes. A Paris, une telle situation reflète en partie l'accès direct et immédiat à un vaste marché alors qu'Aberdeen et Cork sont plutôt des centres urbains au sein de régions géographiquement périphériques. Mais la situation de Paris reflète aussi peut-être une rigidité générale du système et le refus d'investissement dans le futur, concomitant avec un management en vieillissement.

4.2 L'une, parmi un certain nombre de stratégies apparentes conduites par les entreprises de l'échantillon ayant pour but de réduire les risques, est la diversification de leurs activités. Ceci place la petite entreprise à l'extrême d'une position de monopole. Deux stratégies principales peuvent être discernées : la différenciation du produit et la

différenciation de l'activité. La première consiste pour les entreprises à produire des produits distincts, pour des marchés distincts et sans liens les uns avec les autres, avec l'espoir qu'une chute dans un marché ne coïncidera pas avec une chute dans un autre. La deuxième stratégie consiste à concentrer la production sur une activité, souvent hautement spécialisée, tout en maintenant les tâches liées au service, à l'assemblage et la gestion, qui peuvent ou non être liées au produit spécialisé. C'est de cette façon que les entreprises d'Aberdeen et de Cork cherchèrent à assurer un approvisionnement régulier en travail et donc en emplois.

### 5.1 Localisation géographique

Les entretiens ont eu lieu principalement avec des chefs d'entreprises dans les villes d'Aberdeen, Cork et Paris et une partie de la proche banlieue parisienne. Les zones choisies représentent des économies régionales contrastées. La ville d'Aberdeen vit actuellement une forte période de forte expansion due à la découverte du pétrole en 1970 dans la Mer du Nord. A Cork, l'activité économique est à peu près constante -de nouvelles sources d'emploi sont venues compenser les pertes dans les industries traditionnelles. La banlieue parisienne considérée est en grande partie en perte de vitesse, ayant perdu une partie de ses marchés de sous-traitance. En choisissant d'analyser des économies différentes, nous avons espéré faire apparaître ce qui est commun aux petites entreprises et en même temps faire valoir l'éventail de stratégies utilisées dans des contextes différents.

### 6.1 Genre d'entreprise

Toutes les entreprises étudiées étaient indépendantes et l'on a exclu du champ de l'étude les filiales, même petites, car elles se trouvent dans des situations trop diverses. Toutes les formes juridiques de petites entreprises étaient représentées dans les échantillons, petites entreprises ou entreprises artisanales, sociétés à responsabilité limitée, "associations" (partnerships) et entrepreneurs individuels.

### 7.1 Typologies des entreprises

Deux types d'entreprises étaient prédominants - les entreprises familiales et celles d'artisans anciennement ouvriers de grandes entreprises. Deux autres groupes, plus restreints, étaient composés d'entrepreneurs diplômés de l'enseignement supérieur, et des migrants de retour au pays. Nous avons dénommé "entreprises familiales" celles où au moins deux générations travaillaient ou avaient travaillé. Elles étaient les plus nombreuses à Aberdeen, 29 sur 47. La prédominance de ce genre d'entreprises en Ecosse semble résulter des taux de "mortalité" très bas d'entreprises situées dans certaines industries, telles que celles travaillant le granit, et des taux de "naissance" dans d'autres qui étaient le reflet concret d'une orientation optimiste vers l'avenir. Le contraste est grand avec la situation à Paris et à Cork. Bien que l'échantillon parisien contenait les entreprises les plus anciennes de l'étude, le nombre d'entreprises familiales était moins élevé, seulement 13. Les taux de survie parmi les entreprises françaises semblent moins bon que dans les deux autres pays et, malgré quelques exceptions, les Parisiens étaient pessimistes devant la possibilité de voir leurs fils continuer dans l'entreprise. Il existait même, à Paris, des chefs d'entreprises qui déconseillaient à leur fils de reprendre l'affaire et beaucoup qui ne pouvaient pas persuader ces derniers d'y entrer. Les crises de succession étaient beaucoup plus aiguës à Paris qu'à Cork ou à Aberdeen. Il n'y avait que 5 entreprises familiales à Cork. Ceci semble résulter du développement tardif de l'activité économique en Irlande et aussi des taux bas de survie parmi les entreprises situées en ce qui était, jusqu'à il y a 20 ans, une économie stagnante et repliée sur elle-même, dépendante de l'économie d'autrui.

- 7.2 Des artisans, possesseurs d'un métier bien précis, qui avaient quitté, seuls ou avec un associé, leur ancienne entreprise afin de créer leur propre société, étaient bien représentés dans les 3 études. Les entreprises qu'ils avaient créées formaient les groupes les plus importants à Cork et à Paris (34 et 20) et se trouvaient juste après les entreprises familiales à Aberdeen (23). Les sociétés artisanales étaient elles-mêmes divisibles en 2 groupes: celles où les artisans avaient quitté leur ancienne entreprise car ils ressentaient un besoin d'indépendance et celles qui avaient été fondées comme réponse créatrice à des crises différentes. Ces dernières sont d'un intérêt tout particulier dans un débat centré sur le rôle positif à la création des emplois supplémentaires susceptible d'être joué par les petites entreprises. Certains des artisans contactés pendant l'étude avaient acheté l'affaire où ils travaillaient au moment d'une crise familiale de succession; d'autres se sont établis à leur compte pour continuer une production précédemment assurée par une grosse société qui avait quitté la localité. Dans les deux cas, la région garde ainsi une activité qui satisfait les besoins locaux et qui contribue au maintien de l'emploi.
- 7.3 L'étude n'a touché que peu de dirigeants d'entreprises qui possédaient un diplôme de l'enseignement supérieur. Mais il est très frappant que chaque rapport, écrit indépendamment, a souligné l'expertise, l'envergure et la vitalité des entreprises contrôlées par de tels dirigeants. Il se peut que ce soit de telles entreprises qui créeront rapidement le plus d'emplois supplémentaires, comme il semble être le cas à Chicago.
- 7.4 Des sociétés créées par les migrants de retour au pays tenaient une place particulière en Irlande. A côté d'entreprises créées avec des capitaux anglais, attirés par les subventions au développement promises en Irlande, il existait aussi plusieurs sociétés créées par des migrants de retour. Ces derniers sont rentrés en Irlande pourvus d'une grande détermination de réussir et armés de capitaux suffisants -que cela soit au niveau formation, finance ou connaissance des affaires, acquis aux Etats Unis- pour avoir des chances réelles de réussite.
- 7.5 Ces différences étaient reflétées dans des orientations divergentes par rapport à l'avenir. En général les entreprises familiales et celles établies depuis longtemps cherchaient la continuité à long-terme. Continuité plutôt qu'expansion était leur devise. Une telle orientation se distinguait de façon aigüe de celle d'un autre groupe d'entrepreneurs qui cherchait à réaliser le plus de bénéfice possible dans l'immédiat ou le court terme.
- 7.6 Bien qu'issus de milieux assez semblables, les deux groupes de dirigeants s'opposent dans leurs attitudes. Les stress créés par leur travail étaient tolérables pour le deuxième groupe seulement, s'ils pouvaient entrevoir une récompense tangible dans un avenir immédiat. L'attachement à la notion de "chance" dans l'amélioration de leur situation parmi les groupes les plus défavorisés de nos sociétés a souvent été remarqué par des observateurs. Ces dirigeants d'entreprises s'y attachaient de façon presque pareille. Diriger une entreprise était pour eux un peu comme une loterie; ils semblaient prendre des risques d'entreprendre essentiellement dans l'espoir d'accéder ainsi à des conditions de vie meilleures que celles possibles avec d'autres emplois qui leur seraient ouverts.



7.7 De tels contrastes en matière de recrutement, de formation et d'orientation envers le futur doivent être pris en compte dans la conception de politiques pour les petites et moyennes entreprises. Ils suggèrent la nécessité d'une approche à orientations multiples, capable de répondre aux besoins très différents relevés parmi les différentes variétés d'entreprises de ce secteur.

#### 8.1 Le cadre de travail

L'image typique des locaux occupés par une petite entreprise souligne le manque de place, de lumière, de chauffage, l'absence de possibilités de stockage et de facilités pour le travail administratif. Ces images reflètent la réalité telle qu'elle a été relevée dans beaucoup de cas par les trois études. Ces problèmes semblent particulièrement aigus dans la région parisienne où les firmes les plus anciennes tentaient vainement de remplir des conditions de travail reconnues actuellement comme désirables, en même temps qu'elles se trouvaient dans l'obligation d'utiliser une technologie du vingtième siècle dans des locaux du dix-neuvième. Les entreprises parisiennes souvent situées dans des zones mixtes, d'habitation et d'industrie, ne trouvaient pas d'espace supplémentaire dans leur environnement immédiat. Etant donné que la majorité de leurs clients se trouvaient dans ce même environnement local, un déménagement vers une banlieue plus lointaine aurait des résultats désastreux tant sur le plan de perte de clients que sur celui des coûts du transport. Ceci était doublement malheureux car les limitations d'espace étaient tellement importantes que les plus petites entreprises n'avaient souvent même pas de place pour des bureaux séparés.

8.2 Si l'échantillon parisien se trouvait à un bout de l'échelle dans ce domaine, les entreprises d'Aberdeen se trouvaient à l'autre. Là, les entreprises qui avaient pu augmenter leur commandes comme résultat d'une activité économique locale accrue grâce à la découverte du pétrole dans la mer du Nord, avaient utilisés leurs nouveaux bénéfices pour agrandir leurs locaux. Soixante-cinq pour cent des entreprises écossaises ont dit que leur locaux étaient adéquats (23.4%) ou même très satisfaisants (40%) et seulement 10% les trouvaient très mauvais. En comparaison, 30% des entreprises à Cork se trouvaient très mal logées et seulement 12% très bien. Ces chiffres deviennent plus significatifs quand on se souvient que, bien que créées pour la plupart pendant les dix dernières années, 68% des entreprises occupent des locaux nettement plus vieux. De plus, les entreprises de Cork sont situées de façon marginale aux alentours de la ville ; 27% se trouvent en zone rurale et 40% en grande banlieue. Il n'y avait que 33%, 14 entreprises, qui avaient pu trouver place dans des zones industrielles en ville. Il semblerait que les entreprises d'Aberdeen se trouvaient dans ce genre de locaux "marginiaux" avant la découverte du pétrole et que c'était la nouvelle prospérité des années 70 qui avait permis leur intégration en zone industrielles urbaines et leur installation en locaux plus grands. Dans les deux cas, à Cork et à Aberdeen, il s'est avéré très difficile pour les petites entreprises de trouver, même dans les nouvelles zones industrielles, les petites unités qui leurs étaient nécessaires. Il semblerait donc que les autorités locales et les promoteurs chargés de la mise en oeuvre des parcs industriels visent de façon excessive une clientèle de grosses entreprises. Le manque de locaux de taille appropriée semblerait un obstacle important à l'expansion de l'emploi dans les petites entreprises.

## 9.1 Mode de propriété

En Ecosse, il est nécessaire de distinguer entre la propriété du terrain et la propriété des immeubles. La majorité des entreprises contactées était en train d'acheter les immeubles qu'elles occupaient - 65% en Irlande, 93% en Ecosse. Cinq entreprises écossaises déjà propriétaires de leurs immeubles louaient leur terrain à des propriétaires terriens importants. La propriété de leurs immeubles constitue de façon générale une partie considérable de leurs atouts pour les petites entreprises. Il faut quand même distinguer entre les sociétés de manufacture et celles de service. N'ayant pas accès aux subventions spéciales accordées aux entreprises manufacturières, les sociétés de service se trouvaient souvent en position financière plus précaire et étaient moins souvent propriétaires des immeubles qu'elles occupaient. Les entreprises de service occupaient plus souvent des locaux inappropriés et en co-propriété et faisaient aussi le plus souvent des sous-locations comme moyen de financer l'acquisition de nouveaux locaux. C'était ces dernières aussi, qui dans le milieu plus prospère d'Aberdeen, détenaient la plus grande proportion d'accès récents à la propriété. La situation des sociétés de service, retrouvée également à Cork et à Aberdeen suggère que ces sociétés seront souvent mal logées quand le soutien financier public est donné de façon trop étroite au secteur manufacturier. Inversement, il semblerait que le secteur des services répondrait positivement à un accès plus facile à des locaux appropriés rendu possible grâce à un soutien financier public plus important.

## 10.1 Transport

Toutes les sociétés contactées, en même temps qu'elles cherchaient à restreindre au maximum les coûts de l'emploi et de l'acquisition de matériel, cherchaient aussi à réduire les coûts de transport. Certaines faisaient subir tous les frais de transport à leurs clients ou fournisseurs; d'autres payaient une allocation d'essence à leurs propres employés qui utilisaient leurs propres véhicules pour transporter les produits de la société, les denrées de base, etc. D'autres encore louaient de façon permanente ou intermittente leurs véhicules. Cette location se faisait deux fois plus souvent chez les sociétés de manufacture que chez celles de service. Parmi ces dernières, le transport permettant l'accès à leurs marchés équivalait au matériel de production chez les sociétés manufacturières. Etant donné leur besoin constant de moyens de transport, les sociétés de service en étaient plus souvent propriétaires. Chacune des entreprises contactées était très consciente du besoin de minimiser les capitaux investis et les frais d'entretien sans cesse en augmentation des moyens de transport. Etant donné leur dépendance plus grande en ce domaine, les sociétés de service se trouvent ici les plus vulnérables aux hausses venant de l'extérieur.

## 11.1 Technologie

Dans la majorité des sociétés, l'investissement technologique était représenté par l'ouvrier quand il répondait à l'évolution de la demande, comme en Ecosse ou en Irlande, ou quand il surveillait la qualité de sa propre production comme en France.

11.2 C'était seulement en France, avec la concentration sur des produits très spécialisés que l'enquête a trouvé un matériel de production très spécifique. En Irlande et en Ecosse, l'équipement était moins spécifique car la production était elle-même moins spécialisée. L'utilisation des machines était plutôt une fonction à la fois au niveau de formation des ouvriers, et au niveau de la demande de la part des clients. Suivant la classification de Woodward, les entreprises irlandaises se divisaient pour 31% en "craft" (production unique), 10% en "batch" (petites séries) et 6% en "line" (grandes séries), et ceci était également le cas en Ecosse.

11.3 Une technologie différente créa des systèmes socio-économiques de production également différents. Ainsi en Ecosse, on trouvait:

- 1 fabrication en petites séries; matériel: outils simples, soudure à l'arc, matériel de coupe et de pliage; main d'oeuvre: qualifiée, souvent propriétaire-dirigeant supervisant une équipe d'ouvriers moins qualifiés ou spécialisés;
- 2 fabrication à la demande du client; très spécialisée; matériel: très spécialisé; main d'oeuvre: ouvriers spécialisés;
- 3 fabrication: production en séries uniformes; matériel: machines adaptées aux séries, achetées par l'entreprise; main d'oeuvre: ouvriers spécialisés avec quelques agents de maîtrise ou cadres qui dirigent le travail;

#### 12.1 Acquisition de matériel

Suivant leurs vues pessimistes sur leur avenir, la plupart des entreprises françaises n'avaient pas acheté de matériel neuf depuis plusieurs années. Au lieu d'acheter du neuf ils réparaient sur place leur matériel et au besoin achetaient de l'occasion. En Ecosse et en Irlande, il n'y avait qu'une minorité des entreprises qui achetait du matériel d'occasion (13%) à Aberdeen, la même que celle qui héritait ou louait. La majorité achetait, et du neuf. Si l'investissement dans ce matériel neuf, plus efficace, se justifiait, et semblait raisonnable, d'autres décisions, concernant l'achat (quand, quoi, comment financier), semblaient par contre incohérentes. A Aberdeen, par exemple, il ne semblait pas exister un plan d'acquisition qui s'insérerait dans un plan de développement. On achetait du matériel lorsque le dirigeant en décidait, lorsqu'"on avait assez d'argent". Il ne semblait pas plus exister un plan de dépréciation du matériel déjà possédé, en le comptant contre les bénéfices imposables par exemple. Il y avait très rarement des politiques de dépréciation et lorsqu'il en existait elles étaient très partielles et incohérentes. Les estimations de la durée de vie du matériel étaient aussi très incohérentes et variables - "ma vie", "3 ans", "25 ans". L'utilisation du matériel était intensive: les renseignements tirés de cette étude suggèrent que les conseils d'un comptable bien au courant permettraient aux petites entreprises de retrouver des capitaux à présents renfermés dans le matériel.

#### 13.1 Approvisionnement

Les fournitures de base présentent toujours des problèmes aux petites entreprises dans les domaines de l'accès, du stockage et de la liquidité. Le coût élevé des emprunts, les possibilités limitées de stockage et les carnets de commande à très court terme sont tous des facteurs qui conduisent les petites entreprises à acheter peu et souvent, pratique qui les empêche de profiter des économies d'achat en gros, du crédit à long terme et des garanties dont bénéficient les plus gros acheteurs.

- 13.2 Des différences importantes dans la localisation des fournitures de base étaient évidentes dans l'étude. Dans la région parisienne, pôle de toutes sortes d'activités, il n'y avait pas de problèmes de fourniture, mais dans les régions plus marginales d'Aberdeen et de Cork un problème se posait. Bien que 43% des entreprises à Cork avaient des fournisseurs locaux, 22% des fournitures de base devaient être trouvées ailleurs en Irlande, 32% à l'étranger, arrivant par le port de Cork. A Aberdeen, 52% des entreprises s'approvisionnaient dans la localité et 10% devaient procéder à des importations. Ces 10% travaillaient dans les industries associées avec le granit et la boue. Importer ses fournitures implique un temps de commande et de livraison plus long. A Aberdeen, 64% des entreprises achetaient localement, au besoin ou au jour le jour. A Cork seulement 43% avaient cette possibilité et 40% devaient commander à la semaine ou au mois - sept entreprises devaient commander avec une échéance encore plus longue. Une grande partie des entreprises étudiées aurait préféré pouvoir stocker davantage et 75% des entreprises à Cork trouvaient que l'impossibilité de stockage nuisait à leur activité. Le coût élevé du crédit était donné comme le facteur essentiel qui les empêchait de stocker plus.
- 13.3 L'approvisionnement en denrées de base est très lié aux coûts indirects de l'activité productive, tels que le transport. La majorité des entreprises se faisaient livrer; seulement 18% à Cork et 30% à Aberdeen allaient chercher leurs commandes en fournitures. A Cork, le chiffre plus bas est surtout dû au recours plus élevé à l'importation car les importateurs assurent la livraison après dédouanement.
- 13.4 Les discussions concernant les moyens de stimuler l'activité des petites entreprises ont souvent été centrées sur les côtés fiscal ou physique; l'étude des difficultés d'approvisionnement dans les régions des périphéries semble suggérer que l'attention devrait se porter plus sur les possibilités d'amélioration des réseaux de fourniture afin de réduire la quantité de capitaux enfermés dans les stocks et ainsi d'améliorer la situation liquide de ces entreprises.

#### 14.1 Marchés

S'appuyant sur les trois échantillons, cette partie du rapport examinera la localisation des marchés et le degré de contact avec les marchés avant de distinguer des stratégies de vente en tant que telles.

- 14.2 Une spécificité de produit distingue les marchés des entreprises étudiées. Les entreprises qui proposaient un amalgame de produits, les sociétés de service et les petites sociétés de la métallurgie, avaient des marchés locaux. Des produits très spécialisés et bénéficiant d'un label contrôlé, qu'il s'agisse de pierres tombales ou de tamis à poudre, avaient un accès direct à leurs marchés et se vendaient à l'échelon national ou même international. Cependant, à Cork et à Aberdeen la concentration exclusive sur un seul produit était exceptionnelle. Puisqu'elles fabriquaient plusieurs articles (ou services) différents, à l'intérieur d'une même entreprise on trouvait des marchés géographiquement distincts. A Aberdeen, et à Cork, plusieurs entreprises avaient des marchés à l'échelon national mais ne s'en servaient pas toujours également et elles semblaient manquer d'informations. Très peu, parmi les sociétés contactées exportaient; 10 à Aberdeen et une seule à Paris; davantage, mais quand même peu à Cork. La supériorité de Cork en ce domaine peut s'expliquer par les deux faits suivants: un marché intérieur

plus restreint et les connaissances internationales plus développées des migrants de retour en Irlande. Les raisons pour lesquelles la majorité de firmes ne faisait pas de l'export sont claires. Les dirigeants contactés disaient presque tous que produire pour le marché intérieur leur causait déjà beaucoup de problèmes bureaucratiques; exporter leur en créerait bien davantage. Par leurs produits spécialisés, les petites entreprises ne devraient pas rencontrer de difficultés à exporter. Exploiter ce potentiel impliquerait le développement d'un réseau de contacts et de formation entre les petites entreprises potentiellement exportatrices et les agences extérieures qui s'en occupent, que ce soit dans le secteur public ou privé.

- 14.3 Dans l'échantillon, il existait peu d'entreprises opérant sur un marché autre que local, même seulement national. Les tentatives d'accroître l'envergure des marchés, en quantités ou géographiquement, en utilisant les techniques du marketing étaient peu développées. Il y avait peu de noms de marque, peu de cartes d'affaires, et très peu de publicité. La majorité des sociétés utilisaient les recommandations personnelles comme source principale de nouveaux clients. Le fait de ne pas avoir recours à la publicité était interprété par la majorité des entreprises non point comme un signe de sous-développement commercial, mais au contraire comme un signe de réussite. Comme le disaient les entreprises écossaises, une tentative de "chercher des clients" serait interprétée comme une indication d'instabilité, sinon de faillite imminente. L'ambivalence, voire l'hostilité, rencontrées envers le marketing avait pour résultat l'absence de cadres de vente, à part le dirigeant/propriétaire qui voyait ici son domaine privilégié. Ici aussi, les entreprises dirigées par des personnes diplômées de l'enseignement supérieur se distinguaient. Celles-ci utilisaient la publicité et avaient souvent une force de vente. En l'absence d'un effort particulier dans le domaine du marketing, les décisions concernant la création d'entreprises, l'introduction de nouveaux services, se prenaient sur la base de renseignements très fragmentés et personnels. Le domaine du marketing, à la fois des talents spécialistes et des produits, semble être un secteur où les petites entreprises pourraient se faire aider sur deux niveaux. Le premier se situe dans l'identification des besoins aux niveaux local, national et international auxquels pourraient répondre les petites entreprises, et ceci serait susceptible de diminuer le taux de faillite parmi les entreprises nouvellement créées. La capacité de présenter des informations sur leurs produits est très réduite parmi les petites sociétés; son développement et celui de renseignements sur les talents spécialisés et les produits possible, augmenterait de beaucoup la crédibilité de ces entreprises sur le marché. A un niveau plus général, surtout dans le contexte écossais et irlandais, la création de listes des sociétés existantes dans tel ou tel domaine aiderait les agences spécialisées à vendre ces entreprises en dehors de leurs localités immédiates et même à l'étranger.
- 14.4 Les problèmes de marketing rencontrés par les petites entreprises sont peut-être plus sévères dans le secteur de la métallurgie. Là, le climat dominant privilégie les talents concrets de manipulation des choses et non pas des mots. Il est peut-être difficile pour des hommes spécialistes en la manipulation de la matière de pouvoir conceptualiser de façon verbale ou visuelle les capacités de leur entreprise. Dans ce cas, il nous semble qu'un investissement dans une formation spécialisée permettrait une grande amélioration dans la présentation de la société sur le marché et donc dans la qualité de la communication avec des clients potentiels.

- 14.5 La majorité de nos entreprises n'avait pas de contact direct avec leur marché. Ceci est dû au fait que beaucoup parmi elles faisaient de la sous-traitance. C'était surtout le cas à Paris et à Aberdeen. Il y a peut-être un rapport entre la densité d'activité parmi les entreprises locales et la proportion de sous-traitance, car cette dernière engendre encore des liens lorsque chaque entreprise sous-traitante à son tour sous-traite à d'autres, soit de façon habituelle, soit en période de pointe. La sous-traitance était de deux types: finition, et production à partir de plans fournis par d'autres. Le plus courant, surtout parmi les entreprises de mécanique de précision en France, était la fourniture de plans et de matériaux par le gros client qui aussi s'occupait du transport et décidait du prix à payer.
- 14.6 Dans la sous-traitance aussi il y avait deux stratégies possible. Soit l'entreprise sous-traitante travaillait essentiellement pour une ou deux grosses entreprises qui fournissaient une demande constante (en quantité telle qu'elle forçait le sous-traitteur à sous-traiter à son tour), soit elle travaillait pour une masse de petits clients. Il y avait des avantages et des inconvénients aux deux systèmes. Le recours à un ou deux gros clients simplifiait la situation. Il n'était pas nécessaire de s'occuper des fournisseurs, payer une force de vente ou des frais de transport et on avait un carnet de commande régulièrement rempli. Inversement, ce type de contrat créait des rapports de dépendance avec des inconvénients. Les clients contrôlent le prix, le dessin, les matériaux (même dans le cas de l'Ecosse), la qualité et les dates de livraison. Des pénalités sont prévues aussi. Une fois les contrats remplis, les sociétés sous-traitantes sont souvent encore pénalisées car les clients paient le travail fourni souvent 90 ou 120 jours plus tard et même après un an dans un cas français. A moins d'avoir des contrats sans interruption la sous-traitance peut créer des problèmes graves de cash-flow dans les petites entreprises.
- 14.7 Dans le cas où les sous-traitants ont comme clients une masse de petites entreprises, leur situation peut être difficile à cause des toutes petites séries commandées. De tels clients tendent, comme l'a noté l'étude française, à être très volatiles et à ne pas revenir après la première commande.
- 14.8 La sous-traitance des deux sortes conduit à des commandes très irrégulières, avec des pointes et des trous. Parmi les entreprises, 75% à Aberdeen et 68% à Cork se plaignaient de la très grande instabilité de leurs commandes. Les carnets de commande ne sont remplis qu'à très court terme à Paris par exemple, entre 1 et 3 mois. Sans force de vente ou d'études de marchés, les entreprises, surtout celles des zones en perte d'activité, vivent dans un état d'incertitude totale vis-à-vis de la demande. Il est impossible que cette incertitude n'affecte pas leur approche à d'autres aspects de la vie de leur affaire et surtout en ce qui concerne les questions d'investissement de capitaux.
- 14.9 Les discussions des techniques de marketing se concentrent souvent sur les rapports existants entre la société et le public. Il est rare que l'on prenne en compte les problèmes particuliers rencontrés dans ce domaine par des entreprises de sous-traitance. Il nous semble qu'une courte formation visant à améliorer la présentation de soi dans ces petites firmes serait d'une grande utilité. Ceci permettrait aux grandes entreprises d'apprécier plus exactement les capacités

en matériel et en main d'oeuvre disponibles dans leur région. Les conseils du marketing devraient s'occuper davantage des deux côtés de la sous-traitance. Les grosses entreprises profiteraient à elles-mêmes et aux petites si elles connaissaient mieux ces dernières et surtout si elles pouvaient trouver le meilleur moyen de distribuer leurs commandes dans la région. Une commande trop importante par exemple, qui peut même amener à la faillite de la petite entreprise, ne profite ni à l'une, ni à l'autre.

#### 15.1 L'emploi

Ayant présenté les résultats de l'étude du côté opérationnel des petites entreprises, nous pouvons maintenant examiner l'emploi. En tout, les entreprises étudiées employaient 2.912 personnes, en moyenne 17,2 à Cork, 18,6 à Paris, 21,8 à Aberdeen. Du personnel à temps partiel se trouvait, en particulier à Aberdeen, mais il n'y en avait pas beaucoup - 42 à Aberdeen, 32 à Cork, aucun à Paris. Les travailleurs à temps partiel étaient essentiellement des étudiants recrutés pendant les vacances ou des femmes mariées. Il existait des cas où des femmes travaillaient comme personnes techniques dans le secteur mécanique, mais c'était exceptionnel. Les travailleuses représentaient 11% du personnel à temps plein à Cork et 12,8% à Aberdeen. En France, elles travaillaient essentiellement comme secrétaires, aux tâches de ménage et à la cantine;

15.2 Le personnel féminin avait un profil d'âge différent de leurs homologues masculins. Les femmes se concentraient surtout dans le groupe des 20 à 30 ans. Leur sous représentation dans le groupe d'âge des 40 ans et plus était fonction en partie du manque de formation parmi les femmes à la recherche d'un emploi, et donc l'impossibilité pour elles de disposer d'une spécialité vendable, et également de se réintégrer au niveau qu'elles avaient atteint au moment de quitter leur emploi, à la naissance de leur premier enfant. Il nous semble qu'une formation courte pour les femmes qui cherchent à se réintégrer serait utile; elle assurerait une main d'oeuvre qualifiée et permettrait la meilleure utilisation des femmes en même temps qu'elle minimiserait les risques de chômage courus par ce groupe.

15.3 L'employé moyen de nos échantillons avait trente ans ou plus, était qualifié professionnellement et était masculin. Ceci était particulièrement le cas en France où on ne trouvait guère de personnes employées au dessous de 20 ans, peu entre 20 et 25 ans, avec une concentration dans le groupe de 25 ans et plus et de sexe masculin. Même à Aberdeen, localité en pleine expansion, 60% des personnes employées avaient 30 ans ou plus.

15.4 Compte tenu de leur concentration sur des produits spécialisés, les entreprises françaises employaient le plus de personnel qualifié. Elles étaient suivies par celles d'Aberdeen avec 40%, et Cork avec 36%. Bien que l'on ait souvent tendance à penser que le niveau de qualification demandé par les sociétés manufacturières est plus élevé, à Aberdeen les sociétés de service avaient le plus de personnel qualifié. A Paris, les ouvriers qualifiés surveillaient eux-mêmes la qualité de leur production, à Aberdeen un petit groupe qualifié la contrôlait et se faisait aider par des personnes moins qualifiées. A Cork, un cadre qualifié, avec quelques aides qualifiés eux aussi, dirigeaient et organisaient le travail.

15.5 Ensemble, les profils d'âge et de qualification soulignent des différences dans les pratiques de recrutement et de formation courantes dans nos échantillons. A Paris, en contraste avec Aberdeen et Cork, les entreprises recrutait et formaient très peu de jeunes de moins de 25 ans. Les entreprises éprouvaient parfois de grandes difficultés à trouver un personnel suffisamment qualifié et à l'occasion passait jusqu'à 7 mois à la recherche d'un remplaçant approprié. Les raisons derrière cette crise de l'emploi, démontrent non seulement les problèmes du secteur des petites entreprises, mais aussi le manque de sensibilité envers ces problèmes du côté des autorités publiques. Les petites entreprises qui fabriquent des produits très spécialisés ont besoin de personnel immédiatement rentable et qui est à même de contrôler la qualité de sa propre production. Des jeunes ou des apprentis sans cette abilité peuvent faire perdre à l'employeur d'importants clients qui étaient initialement attirés vers cette entreprise à cause de sa réputation de fabriquer des produits de haute qualité. Devant cette nécessité, les entreprises peuvent soit chercher à recruter un personnel déjà très qualifié ou bien créer un programme de formation adapté.

15.6 Comme elles le font avec le matériel, les locaux et le travail, les entreprises peuvent utiliser la sous-traitance comme une manière de "louer" leur personnel. La sous-traitance de personnel était la moins réponde à Paris, la plus à Aberdeen où on la trouvait à chaque niveau de l'emploi. Il y avait deux situations principales : dans l'une, les entreprises "louent" une proportion importante de leur personnel en rotation, à d'autres entreprises ; dans l'autre, par exemple dans les sociétés de moins de 25 personnes, les entreprises "louent" un ou deux ouvrier très qualifiés à une entreprise dans laquelle ils assurent des tâches particulières, soit pour leur compte personnel, soit en tant que membre d'une équipe recrutée de façon diverse. A l'extrême, des compagnies entières étaient inscrite au registre comme des agences d'emploi et étaient utilisées en tant que telles par les sociétés destinataires et le personnel potentiel lui-même. La pratique de location de personnel était surtout alliée à celle des contrats à court terme et se trouvait parmi des entreprises ayant des activités saisonnières ou travaillant dans la construction ou "offshore". Ces hommes pouvaient être employés par une grosse société pour une période maximale de six mois à partir du printemps. Ces différences saisonnières étaient la raison de grands changements dans le nombre de personnes employées, dans un cas allant de 50 l'hiver à 128 l'été.

#### 16.1 Le recrutement

Les entreprises des échantillons français et irlandais n'avaient guère recours aux agences officielles de l'emploi sauf en cas de recrutement de personne non-qualifiée. D'ailleurs, les entreprises se méfiaient des personnes qui n'étaient pas de leur raseau de contacts. En France et en Irlande, malgré la transformation des agences de l'emploi en Manpower Offices en Irlande, les personnes envoyées par les agences officielles étaient définies comme manquant d'initiative "sinon elles n'en seraient pas là". Tellement forte était cette opinion que les employeurs recrutait de préférence par des petites annonces dans les journaux. Inversement, à Aberdeen, les entreprises utilisaient un grand éventail d'agences officielles de l'emploi, pour jeunes et moins jeunes, des centres de formation des "Government Job Centres". Ces derniers surtout, jouissaient d'une très bonne réputation et voyaient souvent le personnel proposé accepté. Les entreprises à Aberdeen jugeaient leurs



services moins coûteux que celui des agences privées et les trouvaient très aptes à fournir le genre de personnel recherché. Après une utilisation répétée de ces services, maintes entreprises réduisaient l'utilisation de leurs autres moyens de recrutement. Cependant, le personnel féminin, employé de bureaux, n'était recruté que par l'intermédiaire des agences privées. A Aberdeen aussi, nous avons trouvé le seul exemple de recrutement contrôlé par un syndicat ouvrier. Dans l'industrie de finition du granit, en perte de vitesse, le syndicat de métier tenait une liste de spécialistes au chômage et proposait aux employeurs des noms de cette liste, maximisant ainsi l'emploi de ses adhérents. Une autre solution de groupe aux problèmes de l'embauche était trouvée par des entreprises françaises où, par le biais d'une association patronale, les entreprises adhérentes étaient avisées de toute personne qualifiée en la branche disponible à l'embauche. Ces deux sources étaient crédibles car les personnes concernées étaient authentifiées par l'association qui les parrainait.

- 16.3 Jusqu'ici nous avons parlé uniquement de méthodes légitimes de recruter. Il existe aussi des moyens connus sous le nom de "braconnage". A Paris et à Aberdeen, où il existe un manque de personnel qualifié, ces méthodes n'étaient pas rares. Un dirigeant à Aberdeen a confié qu'il s'en servait et que "chaque fois que nous avons besoin de quelqu'un, mon agent de maîtrise, qui travaillait chez X avant et qui a encore de très bons contacts, va faire un tour au bistrot et recrute. Je propose un bon salaire. Nous mettons une annonce dans le journal, pour faire bien, mais c'est une formalité".
- 16.4 Le fait que les agences de l'emploi officielles et privées n'aient pas su se rendre crédibles aux yeux des employeurs potentiels marque un échec important dans les services rendus aux entreprises. S'il n'y avait pas le cas d'Aberdeen on pourrait penser que la réussite dans ce domaine était impossible. Le succès rencontré à Aberdeen par les "Job Centres" est en partie dû à l'existence d'une demande de personnel très élevée et en partie aux vues optimistes sur l'avenir économique tenues par les employeurs. Mais il y a d'autres éléments aussi. Les "patrons" d'Aberdeen ou de Cork sont tout aussi indépendants que leurs homologues Français et le marché du travail aussi serré à Paris. Nos conversations avec des dirigeants des "Job Centres" à Aberdeen, nous ont fait croire qu'une campagne de marketing qui vise surtout les petites entreprises, plus une ferme intention de traiter chaque employeur comme d'une importance égale, ont suffi à convaincre les employeurs potentiels que les "Job Centres" sont à la fois à l'écoute de leurs besoins et crédibles, et sérieux. Une telle interprétation semble être confirmée par l'échantillon français. Là, le personnel envoyé par les Agences Nationales pour l'Emploi (ANPE) ne correspondait pas aux besoins exprimés par les entreprises et le personnel de l'ANPE lui-même était perçu comme très ambivalent envers les petits employeurs. Les agences privées étaient tout aussi mal vues. On disait que les personnes s'y adressant étaient bonnes seulement pour des emplois marginaux. Par contre, il est possible que les employés des petites entreprises soient réellement marginaux et que la recherche de l'ouvrier idéal, flexible et très qualifié soit la recherche d'un idéal rarement trouvé en réalité. La création d'agences de l'emploi aptes à assurer à la fois une solution aux besoins de l'entreprise et à ceux des employés est urgent. Cette création semblerait nécessiter une période de formation pour le personnel en contact avec le public, afin de les sensibiliser aux besoins potentiels et au style d'approche le plus susceptible de réussir chez les petits employeurs.

16.5 Si l'exemple d'Aberdeen domine la discussion ici c'est parce que les entreprises à Aberdeen recrutait davantage qu'ailleurs. Le niveau d'emploi chez les Français était constant et le recrutement y était limité à une personne par an en moyenne. En Irlande, 66 personnes sont venues augmenter le nombre de personnes employées dans nos entreprises en 1979.

#### 17.1 Le Recrutement par le biais de la Formation

Si le recrutement de personnel qualifié s'avérait difficile, les entreprises pouvaient en principe recruter à partir de stages de formation organisés à l'extérieur ou bien former elle-même. En France, la formation initiale se fait depuis quelques années de moins en moins dans les entreprises, et de plus en plus dans des établissements spécialisés dans la formation. Malheureusement, il semble que les personnes ainsi diplômées ne soient pas considérées par les entreprises comme vraiment formées et qui en conséquence ne les prenaient pas en compte quand elles recrutait. Etant donné que les entreprises elles-mêmes hésitaient à former leur personnel, il en résultait un manque de personnes qualifiées sur le marché, et ce manque constituait sans doute un frein à l'expansion des sociétés étudiées.

17.2 Par contre, en Ecosse et en Irlande, les entreprises utilisaient des programmes de formation mixte (entreprise-état) pour recruter. Cette collaboration semblait permettre la subvention par l'Etat d'une formation technique à l'intérieur de l'entreprise, formation qui assurait à la fois l'inculcation de connaissances précises et des attitudes appropriées au travail.

17.3 Les stages de formation organisés à l'extérieur de l'entreprise étaient souvent vivement critiqués. Les connaissances acquises n'étaient pas, dans de nombreux cas, appropriées aux besoins très précis des entreprises, ou bien le nombre de personnes, dans chaque entreprise, ayant besoin d'une telle formation était tellement réduit que les stages n'étaient pas rentables. De telles entreprises ne savaient donc pas où chercher une formation pour leurs employés. Un autre problème était posé par le besoin de remettre à jour les connaissances suivant les changements technologiques rapides. Dans ce domaine, les stages extérieurs n'étaient pas à la hauteur ou tout simplement pas à jour eux-mêmes.

17.4 La formation assurée par une entreprise elle-même suppose que l'entreprise ait confiance en l'avenir. Cette confiance était un luxe que les entreprises françaises, avec leurs carnets de commandes à très court terme, ne pouvaient pas se permettre. L'impossibilité de former leur personnel elles-mêmes était un symptôme parmi d'autres, de l'impossibilité totale de planification qu'elles ressentaient. Là où une confiance accrue existait, comme à Aberdeen, il existait maints exemples d'entreprises formatrices de leur propre personnel. A Aberdeen seulement 13% des compagnies n'avaient pas d'apprentis. Mais, encore à Aberdeen, cette formation "in-house" faisait partie aussi d'un programme extérieur de formation plus général et subventionné par les autorités publiques.

17.5 Contrastant ainsi avec les autres fonctions décrites ci-dessus, la formation constituait partout un domaine que les entreprises cherchaient à contrôler elles-mêmes. C'est seulement en organisant une collaboration étroite entre entreprises et institutions extérieures qu'il sera possible, semble-t-il, pour le gouvernement d'assurer une force de travail formée à la satisfaction des employeurs. Le divorce

entre la formation et le consommateur (l'employeur), conduit aux problèmes rencontrés en France. Dans ce pays, où l'enseignement technique est séparé, assuré dans des établissements scolaires, les entreprises refusaient les diplômés, les trouvant mal préparés et sans connaissances adéquates. Il semble que le fossé entre les productions d'enseignement technique et les consommateurs industriels soit devenu si large en France que l'investissement public dans cet enseignement est très loin de combler les besoins les plus urgents en personnel qualifié ressentis par les petites entreprises.

- 17.6 Cependant, bien que les entreprises écossaises et irlandaises utilisaient les cours de formation à l'extérieur, ces derniers n'étaient pas sans être critiqués. En plus des connaissances techniques proprement dites acquises au cours de ces stages, les entreprises de l'échantillon, surtout en Irlande, se plaignaient des attitudes envers le travail acquises en même temps. Ces attitudes leur semblaient hostiles à la petite entreprise dans la mesure où elles étaient orientées vers les besoins de la production en grande série, faite dans les grandes entreprises, avec une organisation basée sur la répétition des tâches répercutée dans les domaines de la vente, de la finance, de la comptabilité et de la production. L'absence de formation, exceptée à des postes qualifiés, semble indiquer que les besoins de formation d'une partie importante de la population employée par les petites entreprises ne sont actuellement pas pris en considération.

#### 18.1 La formation à la gestion

En Ecosse, à l'exception de deux entreprises dirigées par des diplômés de l'enseignement tertiaire, les dirigeants d'entreprises ne semblaient pas ressentir le besoin d'une formation particulière. Ceux qui ressentait ce besoin définissaient néanmoins la formation à la gestion comme étant "technique" ou expérimentelle. Les cours de gestion suivis étaient limités à ceux qui expliquaient une nouvelle législation, et étaient organisés dans le secteur public par des institutions peu prestigieuses ou dans le secteur privé par des organismes tels que la branche locale de l'Institut de Marketing. Plus rarement, on assistait à des cours liés à une nouvelle production. Comme l'a exprimé un des dirigeants écossais: "Hé bien non, en fait la seule personne ici qui n'a pas été formée à sa tâche, c'est moi". La situation en France contraste nettement avec les deux autres. En France, c'était surtout les patrons qui suivaient des cours ou des stages à l'extérieur de l'entreprise. Comme en Ecosse, les cours les plus fréquentés dans le secteur privé traitaient des problèmes de la comptabilité et de la vente. En France, ces cours étaient souvent organisés par les banques qui s'occupaient aussi des besoins financiers des petites entreprises. En Ecosse et en Irlande ce n'était pas le cas.

- 18.2 Dans ces deux derniers pays, un débat est ouvert sur les moyens de sensibiliser davantage le secteur bancaire aux besoins des petites entreprises. Les banques elles-mêmes disent mal connaître ce genre d'entreprise. La création de cours ou de stages de perfectionnement par les banques pourraient offrir un lieu de rencontre entre celles-ci et les petites entreprises en même temps qu'elle rendrait plus accessible, et surtout plus crédible, la formation à la gestion aux yeux des entrepreneurs. Les dirigeants irlandais sont actuellement plus conscients de leurs besoins de formation que leurs homologues écossais, mais les deux

se rejoignent dans la condamnation des cours qui leur sont proposés par les institutions publiques, perçus comme beaucoup trop orientés vers les besoins des grandes entreprises. En France, bien que profitant davantage des possibilités de formation permanente, les patrons, en comparaison à leurs homologues dans d'autres branches d'activité en France, faisaient preuve d'un moindre intérêt pour une post-formation. Une sensibilité plus grande à ce genre de problèmes ferait beaucoup pour encourager les petites entreprises à utiliser les stages de formation organisés par des organismes extérieurs. Les discussions de la formation pendant l'étude se sont concentrées essentiellement sur la formation des jeunes, et aux jeunes susceptibles d'occuper des postes qualifiés. On ne proposait pour ainsi dire pas de formation aux ouvriers spécialisés ou aux manoeuvres. La formation de perfectionnement ou de recyclage était aussi très rare. En Ecosse et en Irlande elle consistait seulement dans la mise à jour des connaissances nécessaires à la fabrication d'un nouveau produit. En France, la formation permanente concernait essentiellement, bien souvent, un diplôme de l'enseignement supérieur à leurs "équivalents" dans d'autres branches de l'économie. Dans tous les échantillons on trouvait quelques exceptions, quelques diplômés. Dans les équipes dirigées par ces derniers, la formation à la gestion était fréquente. D'une manière semblable à celle qu'ils avaient utilisée pour maximiser la rentabilité de leurs investissements en équipement et en transport ces dirigeants avaient bien fait le tri des cours disponibles et choisissaient très souvent les cours subventionnés par les autorités publiques.

18.3 Les témoignages recueillis sur l'utilisation des possibilités de formation offertes suggèrent qu'il est grand temps de repenser de fond en comble l'organisation et la présentation des cours pour les petites entreprises afin qu'elles puissent vraiment en profiter.

#### 19.1 Les agences d'aide extérieures

Dans ce domaine, mis à part quelques différences locales minimes, la situation dans les trois pays étudiés est très semblable. Dans le but de stimuler l'emploi, les trois gouvernements ont tous créé une série d'organisations pour aider les entreprises. Nos études indiquent l'échec de ces tentatives. De façon générale, les entreprises se plaignaient de ce qu'elles n'arrivaient pas à bien connaître ce qui leur était proposé, que les délais nécessaires pour la réalisation de l'aide étaient trop longs et que l'aide, une fois apportée se révélait inappropriée. De plus, elles trouvaient que le personnel de ces organisations connaissait mal ou était hostile aux problèmes particuliers des petites entreprises. Il existe maintenant une telle quantité et une telle variété de programmes spéciaux et de législations spéciales dans ce domaine, que les entreprises ne peuvent plus suivre et connaissent très mal, ou de manière fragmentaire, les possibilités qui leur sont offertes. Etant donné l'absence quasi-totale de cadres spécialisés dans ces entreprises, chaque nouveau programme ou législation est perçu comme un fardeau de plus sur le dos des dirigeants qui ont des journées de travail déjà très longues (à Paris une semaine de 60 heures est courante). La réponse immédiate est donc de feindre ignorer la chose jusqu'au jour où cela crée des problèmes. Il semblerait très utile, dans cette situation, d'utiliser au maximum les moyens de communication de masse pour alerter les petites entreprises aux programmes qui les concernent et pour indiquer en même temps exactement où et comment se renseigner davantage.

Les dirigeants de petites entreprises accueilleraient très favorablement également une aide efficace à la fois avec l'interprétation de la législation et avec la formulation des demandes. En France, encore une fois, c'est le secteur bancaire qui rend ce service, par exemple à leurs clients qui cherchent des subventions de la part des autorités publiques. Ce rôle d'intermédiaire joué par les banques en France, serait très utile aussi en Ecosse et en Irlande. Il est possible que la réussite dans ce rôle des banques françaises vienne, en partie au moins, du fait qu'elles sont souvent des banques du secteur public et donc que leurs employés "parlent le même langage" que les fonctionnaires chargés des programmes d'aide.

- 19.2 De bonnes connaissances et une présentation compétente des conditions ne suffisent pas si les délais nécessaires à débloquer l'aide (subventions etc.) ne coïncident pas avec les besoins des bénéficiaires. En France surtout, ceci est un problème et nous avons entendu beaucoup de cas où les délais n'étaient pas "raisonnables", dans la mesure où ils étaient tellement longs que l'allocation arrivait trop tard. Ces délais n'étaient pas perçus comme inhérents aux grandes organisations bureaucratiques, mais comme étant dûs à la méconnaissance, voire l'hostilité des agents, par rapport aux problèmes des petites entreprises. Les difficultés rencontrées par les dirigeants des petites entreprises dans leurs rapports avec les agences "d'aide" semblent provenir des difficultés qu'elles éprouvent à bien s'exprimer dans les contacts directs avec les agences et aussi au format de la législation. Comme le remarque l'étude irlandaise, les petits entrepreneurs se sentent désavantagés quand ils doivent présenter leurs problèmes de façon directe. Les réponses à leur situation, développées à la fois sur le plan légal et sur celui de l'organisation pratique, semblent aux bénéficiaires potentiels être encore une fois conçues par rapport aux grandes entreprises manufacturières, bien dotées en cadres.

## 20.1 Politique fiscale

La législation fiscale a deux effets majeurs sur les sociétés. D'une part elle peut influencer profondément la croissance des entreprises, comme en France, et la rentabilité du secteur, comme en Irlande et d'autre part, elle influe beaucoup sur les décisions d'investissement prises, comme en France et en Ecosse. Dans la mesure où la politique fiscale définit certaines activités comme plus importantes que d'autres, par exemple les industries de production, plutôt que celles de service ou de fourniture, elle peut déformer la situation, surtout au moment de la création de l'entreprise. Par exemple, à Aberdeen, il existe des cas de compagnies qui se créaient en tant qu'entreprises manufacturières mais qui petit à petit, retournaient à leur "vraie" activité, le service. La mise en oeuvre en elle-même de la législation, étant donné les systèmes réduits du management, avait de sévères conséquences pour les petites compagnies. Les lois concernant le monde des affaires étaient perçues comme un fardeau administratif supplémentaire sur la petite entreprise, comme une tâche inproductive, "un travail pour la perception des impôts", et de citer la T.V.A., la fiscalité et les documents destinés aux services des douanes. Deux réponses à ce ressentiment vis-à-vis des formulaires administratifs ont émergés : la mise en ordinateurs des formulaires standards à remplir et la sous-traitance de ce genre de travail par les bureaux de comptabilité. Dans les deux cas le soulagement était réel et la direction non seulement se sentit en mesure de se concentrer "sur le travail en train", mais aussi de faire face à toute nouvelle charge administrative éventuelle, en raison du système déjà mis en place.

### 21.1 Secteur privé

Le rôle des banques qui écartèle les secteurs privé/public a déjà été discuté. Pour la majorité des petites entreprises les banques représentent le premier contact extérieur. Même lorsque leur rôle est très éloigné de celui qu'elles adoptent en France - éducation et négociation - les banques demeurent la source de financement favorite en raison de la facilité d'accès et des réponses immédiates qu'elles offrent. Un facteur négatif cependant est le fait que pour une entreprise non-manufacturière ou récemment établie les banques étaient peu enclines à consentir des prêts, leurs politiques s'adressant aux entreprises de manufacture. Les entreprises nouvellement nées se heurtèrent à la même attitude de la part des banques, c'est-à-dire une attitude peu sympathique vis-à-vis de leurs besoins du financement nécessaire au 'démarrage'.

### 22.1 Association de métiers

Les entreprises françaises étaient celles que l'on trouvait le plus souvent membres des associations de métiers locales, telles que les Chambres de Métiers et de Commerce, alors qu'à Aberdeen de telles possibilités n'étaient pas exploitées par les entreprises. A Paris, de tels groupes, offrant des conseils légaux et permettant aux entreprises d'être représentées, offraient également des informations sur la main d'oeuvre qualifiée disponible, fournissant ainsi par la même occasion un embryon de "self-service" de l'aide, fondé et géré par les petites entreprises, et orienté vers leurs besoins. De telles organisations, à Aberdeen par exemple, souffraient souvent d'un manque de personnel et de capitaux. En conséquence, de nombreux propriétaires de petites entreprises à Aberdeen, redoutaient de faire partie d'associations telles que les Chambres de Commerce au cas où ils devraient sacrifier de leur précieux temps à leurs fonctions au sein de comités du groupe. A Aberdeen, la diminution en nombre des grandes entreprises indépendantes dans la région et la venue des multinationales qui ne s'intéressent pas aux associations de métiers locales, avaient pour résultat que de telles pressions ne pouvaient que s'accentuer - avec les tâches impliquées par la gestion des associations reposant toutes entières sur les épaules d'un petit groupe de "patrons" déjà écrasés par leur travail. Les rapports existants entre les entreprises locales et les Chambres de Commerce représentent un atout précieux qui est souvent absent entre ce secteur et les autres agences d'aides extérieures. Il y aurait sans doute lieu d'accorder une aide à de telles associations, si elles étaient prêtes à l'accepter, réduisant de la sorte le fardeau administratif grâce au recrutement de fonctionnaires à plein temps.

### 23.1 Le secteur public

Les petites entreprises pourraient aussi demander de l'aide aux agences régionales. Ces agences assument que leur existence même est suffisante pour que leurs services soient utilisés. L'échec qu'elles rencontrent a sans doute peu à voir avec les besoins qu'elles cherchent à satisfaire, mais beaucoup avec la façon dont les bénéficiaires potentiels voient et considèrent l'aide en elle-même. Dans l'exemple d'Aberdeen les entreprises se partageaient de façon classique en 2 groupes extrêmes: ceux qui disaient "non" à l'utilisation d'agences extérieures, en raison de leur fierté en leur indépendance et leurs aptitudes ("Nous n'avons pas eu besoin d'éprouver leur aide, nous connaissons notre aff-

aire mieux qu'elles de toutes façons"); et ceux qui s'adressaient à elles. Dans ce domaine la méfiance vis-à-vis des contacts avec l'extérieur a rendu les entretiens difficiles. Les conséquences pour les agences d'aide apparaissent doubles. D'abord, et si l'on juge le matériel d'information qu'elles utilisent, elles ne semblent pas être conscientes du problème, elles doivent changer la façon dont elles sont perçues et considérées, c'est-à-dire changer la formule: les entreprises qui connaissent le succès n'utilisent jamais les services d'agences d'aide - les entreprises qui rencontrent l'échec en sont des clients assidus. "Les agences essaient de nous vendre leurs services en nous envoyant leur littérature; c'est évident!" Deuxièmement, leur personnel doit être spécialisé dans les affaires, le marketing, le financement etc. et être capable d'offrir des conseils d'experts sur une large échelle. Cette dernière déclaration se trouvait largement appuyée par le genre de demandes adressées à ces agences par les entreprises, demandes qui se divisent en 2 catégories principales: explications et contacts.

#### 24.1 L'avenir

Lorsqu'il fut demandé à nos interlocuteurs de spéculer sur le futur, ceux-ci accentuèrent les points définis précédemment. Prenant partie pour la petite entreprise les personnes interrogées répètent et soulignent les mêmes thèmes: rentabilité, choix, concurrence, service personnel et emploi.

24.1 La rentabilité était définie de 2 façons. Les petites entreprises étaient rentables en raison des coûts bas. Ceci était dû aux coûts administratifs peu élevés, à l'utilisation intensive des équipements et matériaux de base, au taux de gaspillage très bas, le tout associé à un contrôle strict et accompagné du rendement élevé - non chiffré - fourni par le propriétaire/directeur. Beaucoup de petites entreprises n'existaient uniquement qu'en raison du haut niveau artisanal rendu possible par un contrôle sérieux que seule une petite entreprise permet. Cet argument amène le second thème abordé, celui de la concurrence et du choix. Avec des entreprises plus grandes, l'échantillon déclara qu'elles s'éloignaient de plus en plus des besoins des clients, étaient moins sensibles à ces besoins, tandis que la logique de leur système bureaucratique d'organisation amène à un déclin toujours plus grand dans la variété des biens et services qu'elles offrent.

24.3 L'existence des petites entreprises assure dès lors non seulement une concurrence accrue, réduisant ainsi les coûts inhérents à une situation de monopole et de "oligopoly", mais aussi un choix accru pour le consommateur. En parallèle, on trouvait l'argument selon lequel la spécialisation, au sein des grandes entreprises, conduit à une diminution de la possibilité de répondre à un changement. Depuis la création sur papier, en passant par la fabrication et la fixation du prix, les petites entreprises sont de façon interne plus flexibles et en tant que telles peuvent répondre plus rapidement aux changements de marché.

24.4 Autre argument, les petites entreprises contribuent de façon sensible à l'emploi. Cependant, fût-il répété et souligné, la mise en oeuvre de la Loi de Protection de l'Emploi et autres législations en Irlande, fût perçue par les entreprises comme extrêmement décourageante en ce qui concerne l'ouverture de nouveaux emplois. La nature fluctuante d'une grande partie de leurs travaux, les relations très étroites au

sein de la main d'oeuvre, tout cela signifiait que leur méthode favorite de recrutement de personnel était pour de courtes périodes ou pour une période d'essai bien plus longue que celle prévue par une telle législation.

- 24.5 Cependant, et surtout, l'entreprise souligna la haute qualité du service personnel dont seul le client d'une petite entreprise bénéficie. Ayant peu de clients les petites entreprises ne pouvaient se permettre d'en perdre seulement un et donc cherchaient à les retenir par un haut degré de qualité de leur travail et un service personnel adapté à chaque client. Le nombre réduit du personnel de direction signifie également, pour les clients, que la responsabilité - le blâme - est immédiatement imputable; "le responsable reste ici".
- 24.6 Il est évident que la grosse entreprise était l'antithèse de toutes les qualités représentées par la petite; la croissance était donc considérée de façon ambivalente. Ici, on faisait la distinction entre les entreprises d'un jour, par opposition aux petites entreprises bien établies; distinction seulement faite, il est intéressant de constater, par l'entrepreneur bien établi. Parmi ce dernier genre d'entrepreneurs, plusieurs d'entre eux, par choix délibéré, avaient décidé de ne pas s'agrandir, soit en refusant davantage de travail, soit en maintenant le nombre de leurs employés à un certain niveau. Selon eux, la seule façon de continuer à diriger leur entreprise comme ils le souhaitaient consistait à maintenir les niveaux existants plutôt que de rechercher l'expansion. Dans ces déclarations le manque d'intérêt dans le profit pur et simple comme facteur majeur est très marqué; de la même façon que la satisfaction dans le travail bien fait caractérise ce type d'entrepreneur.
- 24.7 Les problèmes associés aux petites entreprises en masquaient les aspects plus positifs. Ces problèmes pouvaient se diviser en 4 catégories principales, depuis l'attitude du gouvernement en passant par le financement, la main d'oeuvre et la direction/gestion.
- 24.8 Au mieux, les gouvernements étaient considérés comme indifférents et au pire comme hostiles, orientant tous leurs efforts vers les grosses entreprises ou même souvent vers les entreprises étrangères. La législation gouvernementale sans cesse croissante était perçue comme responsable "d'une vaste montagne de paperasserie à laquelle un homme d'affaires modeste ne peut, faute de temps, faire face, et que faute de connaissances, il ne peut traiter". Le gouvernement, au niveau local ou central, était jugé de la même façon: des coûts élevés à un niveau peu réalistes en raison de la fiscalité locale et centrale. Le haut niveau des impôts, fût-il souligné, a conduit à un manque d'investissement de capitaux et finalement à un manque de motivation vis-à-vis de l'expansion.
- 24.9 Les pressions pesant sur la direction étaient de 3 sortes: continuité, importance en nombre et spécialisation. Le besoin de faire preuve de continuité à la direction était considéré par les personnes interrogées comme un facteur important pour attirer et conserver les clients: "qui vous remplacera si vous disparaissiez?" La continuité et l'inter-changeabilité des talents étaient soulignées en tant que facteurs de vente pour ces entreprises. Le problème majeur cependant n'était pas celui de la continuité, mais celui du nombre et de la



specialisation. Le manque de personnel de direction en nombre suffisant conduisait, selon les interviews à "un surmenage constant, une attention fragmentaire et erratique accordée aux problèmes non immédiats". L'un des exemples cité concernait la facturation. L'une des entreprises de l'échantillon souffrait cruellement d'un problème à ce niveau, ne facturant que tous les 6 mois. Elle venait juste de perdre son client principal en raison de tels délais.

- 24.10 Le contrôle des stocks souffrait également d'un manque de spécialisation du personnel de direction. Un manque de capitaux qui empêchait les directeurs/gestionnaires d'acheter de façon professionnelle les obligeait à devenir "touche à tout, touche à rien". En opposition aux facilités existantes le domaine dans lequel ils cherchaient le plus de l'aide était celui du marketing. "Je voudrais que l'on m'aide dans le domaine du marketing à long-terme". En général les agences dispensant leur aide ne se préoccupaient pas de marketing et des problèmes de distribution, excepte lorsqu'il s'agissait d'exportations.
- 24.11 Encore une fois le problème de l'acquisition de capitaux suffisants et les problèmes financiers tournaient toujours autour du "cash flow", en particulier pour les petites entreprises dépendant d'un seul gros client. "Des petites entreprises comme la nôtre sont à la merci des gros clients qui paient en retard, mais nous ne pouvons protester car notre existence en dépend". Comme il est montré précédemment dans ce rapport cette dépendance a été évitée délibérément par certaines entreprises qui ont renoncé à s'occuper de larges compagnies, recherchant activement des débouchés sur des marchés fragmentés.
- 24.12 De hauts salaires, en général décriés comme le résultat de précédents établis par les multinationales, amenaient au problème suivant: garder le personnel, en particulier le personnel déjà formé. La perte de main d'oeuvre au profit de grosses entreprises et alors que les frais de formation avaient déjà été faits par les petites entreprises, était particulièrement mal ressentie mais considérée comme probablement inévitable.
- 24.13 Un problème parallèle, touchant au recrutement à la sortie de l'école, était dû à la pauvre réputation liée à l'emploi dans l'industrie lourde. Les fondrières par exemple, bien que débordant de travail, déclaraient qu'elles n'arrivaient pas à attirer la jeune main d'oeuvre en raison de l'attitude négative de ces jeunes vis-à-vis du travail en question.
- 24.14 Alors que la plupart du temps leur petite taille était considérée comme un facteur positif, l'une des petites entreprises se plaignait cependant du fait que c'était un désavantage lorsqu'elles répondaient à un appel d'offres pour de gros contrats. Ces derniers, fût-il déclaré, étaient conclus par rapport au nombre de personnes employées dans l'entreprise plutôt que par rapport à la qualité du travail qu'elles fournissaient.
- 24.15 En dépit de divers problèmes, la majorité des entreprises de l'échantillon de Cork et d'Aberdeen était positive à l'égard de leur futur. Par contre, les entreprises françaises étaient bien plus négatives à ce sujet, peu à penser et encore moins se préoccupaient d'investir de façon sensible afin d'assurer leur avenir.

24.16 Comme on l'a déjà noté, les échantillons nationaux ne constituaient pas un groupe homogène. Des réponses diverses aux problèmes du futur, au-delà de celles dictées par le marché, différencient l'homme d'affaires de carrière, de l'artisan bien établi, du patron âgé. Alors que les artisans ne se préoccupaient guère de ce qui se passerait après eux et montraient un intérêt très limité à la croissance, les hommes d'affaires de carrière ne s'inquiétaient pas du tout du futur de leurs entreprises une fois que celles-ci leur avait apporté d'importants bénéfices personnels. L'âge du propriétaire était aussi très important et il est intéressant de constater que la plupart des propriétaires français, si pessimistes dans leurs vues, atteignaient l'âge de la retraite. Une description classique de telles entreprises comprend le patron, qui fait tout et qui n'a pas le temps de s'occuper de marketing; l'absence d'une post-formation de la Direction; l'absence d'investissements; de gros problèmes de liquidité financière, et l'absence de contact avec les agences extérieures, ressenties hostiles. Au niveau de l'identification de problèmes liés au succès, quelques unes des entreprises connaissaient des problèmes de succession. Si un parent refusait de "prendre la relève" le propriétaire souvent devait vendre, mais faute d'acheteurs, la seule chose en sa possession restait le matériel et machines. De telles entreprises apparaissaient piégées dans une spirale les entraînant toujours plus bas et contre laquelle il était difficile de trouver le remède.

#### 25.1 Options de politiques

Toute politique visant à stimuler le secteur des petites entreprises doit faire la différence entre les potentiels de croissance distingués les uns des autres selon le type de propriétaire/dirigeant. Peut-être est-il possible d'envisager ici le rôle que pourraient jouer les agences extérieures qui agiraient comme intermédiaires entre les patrons prenant leur retraite et ceux souhaitant acquérir ou diriger une petite entreprise; tout ceci avant que détérioration et chute finale ne soient inéluctables.

25.2 A l'heure actuelle la CEE propose d'axer un programme d'action, visant à encourager le volume de l'emploi au sein des petites entreprises, sur les 5 points suivants:

- 1 Fournir un financement plus grand à travers les banques, la Banque Européenne d'Investissement et les fonds communautaires.
- 2 Aider l'exportation et la sous-traitance grâce au centre de coopération des affaires.
- 3 Offrir une formation du personnel de direction/gestion.
- 4 Simplifier le système de TVA et en harmoniser les taux.
- 5 Permettre des concessions fiscales pour l'auto-investissement.

25.3 L'analyse des 3 exemples nationaux qui forme la base de ce rapport suggère qu'une telle approche est à la fois trop globale dans sa conception et trop étroite dans sa gamme.

25.4 La domaine des petites entreprises ne peut être considéré comme un univers homogène. Il est donc très important de différencier les divers sous-groupes le composant. Ayant étudié la fabrication, la production service, le service, et les entreprises de fourniture, il est clair

que la fonction "commerce" en elle-même n'est pas l'outil d'analyse qui permettrait aux programmes d'être le plus adaptés possible aux besoins de petites entreprises. Il est évident d'après l'enquête que les typologies des propriétaires/dirigeants, des entreprises familiales, des entreprises solides et bien établies, des hommes d'affaires de carrière, des patrons âgés, sont d'une importance capitale, suivies par les caractéristiques suivantes: le stade de développement atteint, la taille, le démarrage, la croissance, les crises de succession. Il nous semble que les programmes d'action destinés aux petites entreprises devraient se différencier, de façon très nette, selon le type de petites entreprises qu'ils visent si l'on veut qu'ils soient crédibles et donc aient une quelconque influence sur celles-ci.

#### 26.1 Finance - Faciliter l'accès

Il semblerait que le problème d'accès au financement ne soit pas aussi important qu'il le semblait, au début de cette enquête, pour les entreprises de fabrication. En règle générale, il apparaîtrait que le gouvernement et autres organismes soient bien disposés à répondre aux besoins de ce secteur en mettant tout un ensemble de prêts préférentiels à la disposition des petites entreprises manufacturières. Le problème se posait cependant de façon aiguë pour les entreprises de service qui nous fournissent maints exemples de croissance restreinte due au barrage qu'elles rencontrent lorsqu'elles veulent profiter des soutiens financiers apportés à leurs consoeurs. Etant donné que la croissance de l'emploi dans la société occidentale se déplace de la fabrication vers le secteur tertiaire, cette attitude apparaît comme une politique vouée à l'échec, de par elle-même, dans toute tentative d'augmentation de l'emploi. Tout aussi important que l'accord de fonds financiers, se trouvait à la fois la publicité de l'accès à ces fonds et sa simplification. Un management surmené et de taille réduite ne profitera pas des facilités d'aide financière, à moins qu'on ne l'assiste et lui explique les conditions à remplir pour en bénéficier et au'on soutienne sa candidature. Dans ce cas précis, on notera que le rôle des banques françaises, en agissant en tant qu'"interprètes" au moment des candidatures à l'aide financière est d'un intérêt particulier. Une telle expansion des pratiques bancaires pourrait être suggérée au sein de toute la Communauté, lorsque ce n'est pas déjà le cas. Les commentaires relatifs à l'expansion des aides financières s'appliquent aux systèmes fiscaux affectant les petites entreprises. Tout programme fiscal ou législatif concernant les petites entreprises et résultant en une charge administrative supplémentaire les affectera de façon négative. Pour cette raison, la mise en oeuvre de telle législations doit être étudiée de près, ainsi que ses répercussions. A cet égard l'utilisation d'ordinateurs appropriés à la manipulation de ces informations est d'une importance toute particulière.

#### 27.1 Aide à l'exportation

Les études nationales démontrèrent à la fois que les petites entreprises sont capables d'exporter, et qu'elles ont des problèmes d'accès aux marchés d'exportation. Les barrières à l'exportation ne reflétaient cependant qu'une incapacité générale de dépasser les marchés géographiques immédiats. Réciproquement, cet échec se reflétait dans des équipes de direction limitées dans leurs fonctions de marketing. Le fait que des entreprises de l'échantillon soient conscientes de ce manque et impatientes de le compter suggère qu'une amélioration considérable pourrait être apportée dans ce domaine si conseils et formation

à la direction étaient offerts ou même, plus important, si une assistance directe était apportée.

### 28.1 Formation à la gestion

Une comparaison des niveaux de formation du personnel de direction/gestion entre les différents exemples nationaux illustre les défauts du développement d'une directive globale communautaire dans ce domaine. Les besoins d'une telle formation étaient très différents d'un pays à l'autre et apparaissaient le plus sévères en Ecosse. En France, où la formation de personnel de direction/gestion est la plus populaire, on constatait, de façon paradoxale, que c'était là où elle était le moins satisfaisante aux yeux des entreprises de l'échantillon. L'accent mis sur la gestion et formation des aptitudes apparaissait en lui-même trop restrictif, limitant les bénéfices de la formation aux jeunes stagiaires ou aux directeurs ayant un haut degré d'ancienneté. D'après les échantillons, il est évident qu'il existe un besoin de re-formation des travailleurs actuels à tous les niveaux, sur place autant que possible ou bien hors du cadre de travail, mais sans par cela perturber la marche de l'entreprise.

28.2 Ayant noté l'hétérogénéité de la population visée et suggéré des modifications à l'attitude actuelle de la CEE, un point supplémentaire doit être discuté. Toutes les études pilotes illustrent le besoin d'une présentation, adéquate des programmes destinés aux petites entreprises. Plusieurs commentaires ont été notés: la nécessité d'utiliser un langage aussi concret que possible, d'avoir recours à la télévision, d'organiser ces programmes de façon: ce qu'ils soient aussi vivants et actifs que possible. Plus important, il était indispensable que les représentants des agences d'aide soient compréhensifs, capables d'être directs et précis, étaient de très bonnes connaissances.

### 29.1 Potentiel d'augmentation de l'emploi

Le secteur des petites entreprises est, il est clair, un domaine de croissance potentielle dans lequel des emplois peuvent être créés, et laissant place au développement. Ceci varie beaucoup cependant avec les circonstances et caractéristiques inhérentes à chaque entreprise. La croissance n'est pas toujours souhaitée par beaucoup de petites entreprises où ses conséquences pourraient être perturbatrices. Les différentes politiques dans ce secteur doivent s'orienter presque autant vers la protection des emplois existants que vers leur création et comme l'étude française l'illustre, le déclin et la mortalité autant que la naissance et le développement des petites entreprises doivent être près en considération. L'accent mis sur la création d'emplois, dans maintes politiques, supprime la souplesse nécessaire que tant de petits patrons recherchent dans leur liberté d'action concernant le contrôle de leur entreprise et l'utilisation du marché de l'emploi. Accepter l'aide dont l'allocation est soumise à la création d'emploi limite de façon trop étroite la liberté d'action. Dans un certain nombre de cas, en Irlande par exemple, la fission est parfois préférée à la croissance et de petites entreprises peuvent être encouragées à envisager la création d'une seconde ou troisième petite entreprise; cette façon de se développer permet de retenir les caractéristiques structurelles tout en rendant possible le développement et la croissance.

### 30.1 Fiscalité et incitation à l'investissement

Deux conséquences importantes des politiques conduites doivent être notées. D'une part, l'importance placée dans la fabrication tend à désavantager les entreprises ayant une activité mixte service/manufacture où celles engagées de façon principale dans l'activité de service, ou activité commerciale en tant que distributrices. D'autre part, l'accent placé sur le soutien à l'exportation peut désavantager les entreprises dont les produits ont un potentiel limité une fois à l'extérieur du marché local, marché auquel elles contribuent principalement de 2 façons: sous-traitance et services rendues aux autres industries locales (plutôt que par la fabrication de leur propre gamme de produits). En général, les mesures liées à l'harmonisation fiscale, telles que celles relatives à l'impôt local ou la TVA, a désavantagé les entreprises qui ne pouvaient bénéficier des concessions et facilités ni d'exportation, ni de manufacture. Encore une fois, il semble que certaines caractéristiques inhérentes aux petites entreprises demandent une attention particulière au moment de la mise en oeuvre de lignes directrices des politiques définies afin que leur cas soit pris en considération. Ceci s'applique aussi aux concessions fiscales relatives au capital et à l'investissement où une assistance spéciale pourrait être apportée à la petite entreprise - sous forme de bas taux d'intérêt et de prêt de capitaux - en particulier lorsque'elle est dans sa phase initiale de développement.

### 31.1 Conclusion

En résumé, sur la base d'une étude empirique de 3 échantillons nationaux de petites et très petites entreprises, nous plaignons pour une politique à petite échelle, souple et sur une base locale. En ce qui concerne l'augmentation du potentiel d'emploi de telles entreprises, il ne semble pas suffisant de se consacrer seulement au côté "demande" au sein d'une orientation nationale. Il est important que ceux qui déterminent les politiques apprécient pleinement les contraintes réelles aux quelles sont soumises les petites entreprises et qu'ils s'appliquent à tenir compte de leurs situations hétérogènes. De la sorte, comme l'étude française le démontre en particulier, cela signifie que l'examen des attitudes et aptitudes des jeunes, candidates potentiels aux emplois, doit s'ajouter à l'étude de la demande. Les politiques doivent être orientées vers la définition d'une série de mesures qui, efficacement, dans n'importe quelle zone locale, et dans n'importe quel complexe commercial ou industriel, font se rencontrer les besoins des uns et les motivations et aptitudes des autres. De cette façon seulement, le potentiel considérable que possèdent les petites entreprises d'augmenter les possibilités d'emploi - et d'emplois satisfaisants - (non pour le principe) pourra réellement prendre forme, au bénéfice de toutes les parties concernées.



PROGRAMME OF RESEARCH AND ACTIONS IN THE DEVELOPMENT OF  
THE LABOUR MARKET

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SMALL INDEPENDENT ENTERPRISES AND THEIR ENVIRONMENT:  
FACTORS AFFECTING THE MAINTENANCE AND GROWTH OF  
EMPLOYMENT AMONG SMALL INDEPENDENT ENTERPRISES

MAIN REPORT: FRANCE

Pilot Study in the Industrial Suburbs of Southern and Western Paris

By:  
Dr. Jane Marceau  
INSEAD  
November 1979 .

For:  
Commission of the European  
Communities.

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## PART I

Introduction

The following report constitutes the contribution of the French study to the joint three-country research project. While it makes reference to problems encountered or data gathered in the other two countries, this is tangential to the major thrust of the report which is to describe and analyse the data gathered on the ground in France.

The research carried out with a small sample of firms in some of Paris's south-western suburbs, mainly old established industrial areas, is in essence a pilot study. It seeks, by reporting on and highlighting the characteristics of such firms, their employment policies and market and productive situation, to indicate to policy makers a number of areas of possible 'helping' action and, conversely, a number of difficulties with present policies aimed at increasing the employment potential of such companies. Empirical research in small firms is difficult. It is, however, necessary, particularly at the present time because the existing data base in the area is in many cases inadequate and in others outdated. Few scholars have spent time analysing in detail the situation of small companies, considered by many for a long time as destined to disappear with the 'modernisation' process thought to be general to all western advanced industrial economies. Only in very recent years, has the stability of the number of small companies overall (as opposed to the instability of many individual small firms) within the economy become evident and taken on increasing importance in the eyes of national policy-makers, justifiably seeking areas of potential employment expansion. For a long time, the disappearance of small firms being considered inevitable, attention was diverted from examining the role that national industrial and more general economic planning policies played in the increasing (in terms of employment weight and contribution to the growth of GNP) predominance of large and giant companies (cf. Vernon; Big Business and the State, Macmillan 1974). During the boom years of the 1960's, French planning policy was explicitly to encourage the development of "champions" (giant firms) in each of the major advanced industrial sectors, to encourage capital concentration and the development of high technology to the detriment of other sectors and size of company (Michalet, in Vernon op.cit.). In the education sector, the prestigious business schools increasingly turned their attention to developing the managerial potential of large companies, to training middle and high-level managers to run 'bureaucratically', hierarchically and functionally organized firms with multi-million franc resources for marketing, plant investment and financial planning, often involving mergers and the take-over of their smaller competitors. Although such schools sometimes ran courses on "small business" they were essentially optional and marginal and aimed at the eventual entrepreneurship of their graduates, thought later in their careers to become tired of the management of super companies. The courses held otherwise paid no attention to the problems of small firms and only recently have specialist observers begun to seek a more general understanding of small and medium sized enterprises (cf. Gervais, "Pour une theorie de l'organisation PME", Revue Française de Gestion, No 15, 1978. pp. 37-47). It is perhaps ironic that this interest has coincided with a period of economic crisis in which small enterprises have been subject to particular pressure increasing enormously their likelihood to closure or absorption (Thollon - Pomerol,

"Quatre mécanismes de disparition des entreprises", Economie et Statistique, No. 95, déc. 1977, pp. 23-31. See also Albert and Vialet in the same number, pp. 33-41).

This increasing interest has been manifest in changing government policies in an effort to diminish unemployment, notably among young people, and to revitalise urban areas where other planning policies have tended towards creating too radical a separation between home and work. At the same time, educational and research institutions have devoted increasing attention to the problems and possibilities of new and existing small enterprises, especially in the United States of America but also in London and other British industrial cities and most recently in France with, for instance, a colloquium organized in November in Lille by the journal Autrement. Much, however, remains to be done on the level of empirical analysis of real firms currently existing on the ground and working in different sectors of production and service activities. The data base is still poor. The present study must be seen as a contribution to the improvement of that base and to assisting the policy-maker in terms both of indicating priority areas for policy action and of indicating areas of improvement of existing policies as seen from the perspective of small employers themselves, as well as from the perspective of the analyst.

The following report is, therefore, divided into three parts. The first presents the characteristics of the sample, its distribution over geographical area, productive sector and number of employees. This, given in some detail, is essential to the understanding of the data gathered.

The second part, on the conditions of operations of the firms and divided into six chapters, presents in greater detail the characteristics of the firms and the data gathered in the study. This is organised for analytical reasons into the headings of production and technical situation; markets, clients and order books; personnel and recruitment policies, training activities; and relations with outside agencies. Included in these headings are explicit studies of the use of formal employment agencies and especially problems with and potential for the employment of young people, and problems of finance and relationships with banks. A final chapter indicates the future orientations of the firms in the sample and a division of the firms into three types which may provide a basis for policy divisions and distinctions, seen in the study as necessary to any realistic and effective 'helping' policy action.

The third part sets out more specifically a number of suggestions for action in the policy arena, notably in relation to training and youth employment; the importance of the improvement of delivery systems; and "collective" solutions for individual problems.

## CHAPTER I

### The Sample chosen for Empirical Study

- 1.1.1. The study, as set out in the research proposal, suggested the desirability of empirical investigation. To contrast as far as possible with the sites chosen in the areas of Aberdeen and Cork, it was decided in the French study to concentrate attention on the traditional activities of the older industrial areas of the capital city's immediate suburbs. (1) These suburbs run along the left bank of the Seine. They are:-  
Montrouge, Malakoff, Vanves, Issy-les-Moulineaux, Boulogne-Billancourt, Nanterre, Courbevoie-Colombes, Asnières. To supplement this sample, a very few firms (three) from within Paris itself were chosen and three, one each, from Villejuif, Gentilly and Rueil-Malmaison.
- 1.1.2. The six major suburbs (the first six mentioned above) where the firms studied were located were all established areas during the nineteenth century and during the latter part of that century already included small 'industrial' and 'artisan' workshops and housed both workers and the small patrons of the workshops, interspersed with farms and fields. Around the turn of the century and beyond, considerable impetus to the concentration of workshops and to the predominance within them of the mechanical trades was given by the development of the automobile industry, represented by Renault in Boulogne-Billancourt and Issy-les-Moulineaux in particular and Citroen just across the City boundary in the fifteenth arrondissement. Such companies demand a variety of products, of greater or lesser technical sophistication, for they have never produced themselves the complex set of components needed to manufacture motor cars. Indeed, as production lines lengthened inside the companies and cars became increasingly a major consumption good, it seems that the artisans and small enterprises clustered around them for long prospered too.
- 1.1.3. The areas chosen for the study reflect this situation. In 1906, Census figures showed that for France as a whole, half the industrial workforce worked in establishments employing fewer than five people. Small enterprises continued to proliferate. In 1906, of the industrial workforce, 44% were workers and 42% owners, patrons. Nearly three million persons worked 'alone' or with their families and only one million employed one or more workers. As the French historian, Dupeux has pointed out, 'On the eve of the first world war the predominant form of enterprise in France was that of the individual or family employing no labour' (1964: 75). Detailed archival evidence would be needed, and is unfortunately lacking, to see the way in which the exact industrial production structure in the areas studied developed over the twentieth century but in the late 1970's it was still true that they contained large numbers of small and micro - or artisanal enterprises. Nationally, recent

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(1) The first idea, of taking the 15<sup>e</sup> arrondissement of Paris as the site, was found impractical in view of the too large-scale destruction (urban 'renewal') of the traditional activities of the area.

figures show that while a very few very large firms employ nearly half the population in industry, around 40% of the industrial labour force continue to work in firms employing fewer than 200 people. Indeed, in 1968, of 350,000 registered industrial enterprises, 345,000 employed fewer than 200 people and 300,000 fewer than 10 people. The petty bourgeoisie, in the traditional sense of small owners, could thus be seen to be still very much in existence in the later decades of the twentieth century.

- 1.1.4. As employers, therefore, small enterprises continue to hold national importance and locally, in the older industrial areas of the Paris suburbs too. Recruiting their labour predominantly extremely locally (see below), and operating in areas which also offer cheap housing, these enterprises contribute considerably to maintaining an urban structure with jobs and housing much inter-mixed. The stability of the skilled labour force who work in them is striking and it could well be that the firms' place in this mixed work and living environment contributes greatly to that stability.
- 1.1.5. Nationally and locally, then, small and medium enterprises continue to be important employers. In policy terms, considering the employment potential of these enterprises, it is important to make further divisions. In France, small and medium enterprises do not have any legal definition as such (see preliminary report, pp. 13-14 for details on this). Habitually the category contains firms employing fewer than 200 people. Only at the level of fewer than ten does a new legal definition intervene, that of the status of artisan. It is however, possible to be an enterprise (S.A. or S.A.R.L.) with fewer than ten employees and at this level there are advantages and disadvantages to be gained from each status from the point of view of the patrons concerned. It seemed to the investigators in this piece of research that there would be important economic and sociological differences in the characteristics and capacities of firms of 200 and much smaller ones. In terms of absolute numbers, especially in particular areas, the very small firms, fewer than 50 and fewer than 20 especially, predominate by far. If national policies aim at job creation in the private sector or at increasing the employment chances of young people in that sector, it is thus a myriad of very small patrons who will each have to be persuaded to make the appropriate decisions. Sometimes these decisions will be purely employment choices in the sense that they have to choose between employing a young person (and even here the 'young person' in question is in need of further policy definition) or an older one; others involve more basic considerations about the progress of the enterprise and policy decisions involving clients, markets, production systems and investment in equipment. In many cases, understanding the pure 'employment' decisions of the entrepreneur involves understanding the situation of the enterprise on a number of levels. It is clear, for example, that purely 'fiscal' measures so that an extra young person 'costs' less in financial terms are unlikely to be accepted, or indeed even considered where there are hidden 'costs' in terms of faulty goods likely to lose the firm a client. It seemed sensible, therefore, in this study to set the employment question with a series of wider-ranging questions on the firms themselves. Secondly, it seemed appropriate to concentrate on firms within the range of 5 to 50 employees. Some of these in the sample chosen are artisans but most have the status of enterprise.

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(1) Societ e   responsabilit e limit e.

The sample and methodology of the study

- 1.1.6. Interviews were carried out with people running 49 <sup>(1)</sup> different companies. The persons interviewed were usually the owners of the firm, occasionally a partner or manager for the owner and once the company's secretary. The sample was chosen on the basis of the INSEE classifications from among firms listed for the areas in question in a privately published directory. This directory lists the size of the firm (turnover and number of employees), sector of activity, name of the owner or managing director and address and telephone number of the company. From this directory, 110 companies were chosen. A letter was sent to each, followed by a telephone call a week or so later. By this means, thirty-five interviews were arranged (sometimes several telephone calls were necessary). The 110 companies contacted exhausted the number of enterprises in the areas working generally within the engineering sector - that chosen as of major interest to the study - but did not furnish enough interviews. The number, rising finally to 48, was increased through personal recommendations and by diversifying a little the sectors of activity considered. It is for this reason that the following tables show some firms in printing and publishing, in chemicals, in electricity and electronics and a small 'miscellaneous' group including plastics and "light shows" for discothèques etc. In this way, although the study moved out from the original concentration on mechanical and engineering studies, richness was added to the sample for the other sectors often provided a contrast, both in problems and their solutions and in 'mentalities' and the socio-economic characteristics of the entrepreneurs concerned. Frequently the non-engineering sector experience highlighted particular aspects of the first sector and notably indicated the importance for all policy decisions relating to such companies to analyse adequately what is general to small and micro-firms and what is specific to any given sector of productive activity.
- 1.1.7. One third of possible firms in the mechanical engineering sectors were thus interviewed. It seems, from comparing the information in the directory consulted, that the range of size and activity of the companies contacted reflects fairly well the possible range and that what became effectively a one third sample is not biased at least in terms of such 'objective' criteria, although there is no way of knowing whether the persons agreeing to be interviewed differ in substantial ways from those who refused. Experience here and elsewhere suggests that the major reason for refusal is the tremendous lack of time and the long hours of work put in by the patrons of such small companies, coupled to an even stronger lack of confidence in anything that smacks of the 'administration' or disguised paperwork. These factors, felt even by those interviewed, do not seem to be linked to other factors relevant to the research and so it is felt that, even in terms of mentality and socio-economic characteristics, the sample interviewed is not substantially biased in any particular direction.

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(1) 46 of these were complete enough to be used.

- 1.1.8. The low response does, however, indicate a general problem, met also both in Ireland and Scotland, of interviewing in such small companies. With a workforce of 5 to 10 people, the patron in his daily routine is effectively on the shop floor most of the time and has no time available for what must inevitably appear to be 'fringe' activities of no immediate benefit. Working frequently a 12 hour day or even more, such small patrons consider they have no time even for important activities such as maintaining client contacts, keeping themselves up-to-date on the technical, legal or administrative side or even going to the meetings of their professional association. Moreover, it became clear to all three researchers in this study, that the small patronat, being great believers in 'independent enterprise' resent interference with their activities even where that 'interference' is intended to help. Being interviewed by people announcing themselves as conducting the study on behalf of the European Economic Community clearly comes into the latter category. We will return to this repeatedly in the following analysis.
- 1.1.9. Interviews, then, were finally conducted with 49 companies. The interviews normally lasted one hour or so but a number were shorter having to take place at top speed and in a rather schematic way with people clearly doing the interviewer a favour rather than feeling that the enquiry might be of potential utility to them, even if it resulted in policy changes of direction or modification. The belief in their interest lying in minimum contact with the public authorities was reflected even among those who agreed to be interviewed and not just among the refusals. The terrain of small businesses, especially in the traditional area of engineering, is clearly a difficult one to research adequately by interview and a fortiori by questionnaire techniques. It may be that, even though far more time and resource consuming, some form of participant observation in a small sample of carefully selected crucial firms is more appropriate.
- 1.1.10. The methodological problems with the research reported here have to be borne in mind when assessing the results of the enquiry. The brief as agreed at the beginning of the contract was that the research should cover three groups of questions. The first and last were:
- the dynamic contribution of small firms as employers; their innovativeness, flexibility in response to market changes and the effects of this on conditions and training of their employees.
- 1.1.11. The remaining one concerned more explicitly the role of labour market institutions, both public and private, in supporting and helping such firms; how well they respond to their needs and where improvements could be made.
- 1.1.12. The following report will attempt to answer these and other questions but it must be appreciated by the reader that the conditions of the research in this sector as described above are such as to render some of the data collected fragmentary or incomplete in some cases. The lack and inadequacy (incomplete or outdated) of other background material in this field means that it is not possible



to supplement the empirical data collected by that drawn from other relevant empirical studies.

The characteristics of the firms contacted

- 1.1.13. Rather more than half the sample was composed of companies working in the engineering industries. These were almost equally divided between the two principal sub-sectors of 'general (mechanical) engineering' and 'precision (or high precision) engineering'. Together these accounted for 20 of the 49 firms where interviews took place. Added to these, were three companies working in sheet metal and four in trades associated with metal work, polishing, painting or making springs. Engineering and its associated industries thus cover 27 of the 49 firms contacted.
- 1.1.14. Two sectors of activity were next in importance; electricity (6) and electronics (1) and printing and publishing (7). Finally, three firms were in the chemical industry and four in miscellaneous products and services.
- 1.1.15. Almost all of the companies were in manufacturing of some kind. In contrast to the situation in the other two countries, there was relatively little mixed activity. Only one company (in chemicals) was a distributor only (and they had their goods made to order elsewhere); only in electricity (4) and associated metal activities (3) was there much evidence of a mix of agency, service and productive activities. The engineering companies were almost always production only, with only a very occasional service activity.

Table 1. Distribution of sample by sector of activity and geographical location

Sector	Area							
	A	B	C	D	E	F	G	H
Precision Engin.		4					6	
General Engin.		1	7	1	1	1	1	
Sheet metal			1		1			
Misc. metal.				1	2		1	
Electricity	1	3		1	1			
Electronics				1				
Chemicals			1					1
Printing/pub.			1	1	1		1	2
Misc.	1		1	1	1		1	
Totals	2	10	11	6	7	1	10	2

A - Vanves, B - Issy, C - Malakoff, D - Montrouge, E - Boulogne-Billancourt, F - Nanterre, G - other 92 département, H - Paris.

Table 2. Distribution of firms by size and sector of activities

Sector of activity	Number of employees (size)							TOTAL
	1-5	6-10	11-15	16-20	21-30	31-49	50 & more	
Precision Engin.	1	4	2	1		2		10
General Engin.	1	2	3	2	2			10
Sheet Metal	1			2				3
Misc. Metall.	1						3	4
Electricity	4	2						6
Electronics							1	1
Chemicals		2	1					3
Printing/pub	1	1	1		3		1	7
Misc.	1				1	2		4
TOTALS	10	11	7	5	6	4	5	48

++ To each total should be added one, the owner/manager, to get the total size of personnel.

Table 3. Grouped distributions of firms by size

Firm Size	No. firms in group
1-10	21
11-20	12
21-30	6
31-49	4
50 or more	5
Total	48

Table 4

Activities of the firms in detail

1. Precision engineering - 10 companies, all engaged in fabrication of tools and/or complete machines or their parts for industry.
2. General engineering - 10 companies, of which 1 is in electro-engineering. In the rest production is highly varied, from small machine tools to gantries for nuclear power stations. 1 makes weaving machines for the textile industry.
3. Sheet-metal work - 3 companies. Production is varied in terms of size and destination of pieces made.
4. Misc. Metallurgy - 4 companies. Two specialize in polishing and one paints metals. Of these, three are essentially service. 1 makes springs.
5. Electricity - 6 companies. 4 of these mix agency, service and production i.e. they repair motors, make small parts and do agency work as well. 2 produce electric wiring and are also agents. 1 is largely assembly.
6. Electronics - 1 company, makes telecommunications systems, airport control systems and small items such as burglar alarms. Very high technology.
7. Chemicals - 3 companies. 1 is distribution only but they have the goods they sell to order by another company and before selling them they finish them. The other two make chemical products for industry.
8. Printing and Publishing - 7 companies, of which 2 publish what they print (e.g. calendars) and 1 does agency work as well. Another 4 do only printing; 2 of these specialize in publicity materials. The last one does photo engraving.
9. Miscellaneous - 4 companies. 1 is a technical design bureau, 1 makes small plastic objects, 1 installs sewerage plants, 1 installs /designs luminous decorations for discotheques etc. i.e. 3 are service.

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1.1.16 Before beginning Part II of this report and discussing the different aspects of the operations of the companies concerned, it may be appropriate to look a little more closely at the two major sections of the sample, precision and general engineering. Each of these forms a sector large enough for patterns to emerge.

a) Precision-engineering

1.1.17. The following tables give some of the principal characteristics of the firms and their owners.

Table 5 Size of firm and education of owner

<u>Sample No.</u>	<u>No. of employees</u>	<u>Education of Owner</u>
10.	30	Probably advanced technical
13.	30	Higher (?)
18.	17	Probably higher
20.	15	CAP at most
22.	13	Technical (?)
30.	9	Technical - CAP (?)
32.	8	Technical possibly
34.	7 (now 8)	? Technical
37.	6	Technical possibly
42.	5	Higher

Table 6 Foundation of Firms

<u>Sample No.</u>	<u>Date, means of foundation, present owner</u>
10.	50 years ago, by fathers of cousins who now own firm.
13.	20 years ago, by present owner. Daughter will take over.
20.	Founded 1948. Present owner bought 1957. Was a worker at Citroen. Due to retire soon.
22.	4 years ago but owner/founder previously had a similar company with two partners from whom separated 1975.
30.	5 years ago. Owners were previously artisans in Bagneux. Changed location and status but continued similar production.
32.	25 years ago. Founded 1954, by present owner, an ex-worker. Son is also in the business.
34.	5 years ago (1974) with a colleague from ex-company.
37.	Date unknown. Present owner bought lease 8 years ago. for previous 7 years had had a partner in another firm. Before that had been a worker.
42.	30-40 years ago, by a woman well introduced in the circles of the leaders of big business.
- We lack information on the foundation of one firm in the sample.	

b) General mechanical engineering

- 1.1.18. The range of size of firms in this sector is very similar to that of the precision engineering group. On the whole, the firms are rather older than the precision-engineering ones, reflecting perhaps a lower level of technology. They are far more clearly family firms as opposed to companies belonging to individual entrepreneurs or two partners. The majority of the present owners inherited the firms from their fathers who in turn had sometimes taken over from their own fathers. In contrast, in the precision sector, only one firm (one of the two biggest in terms of personnel) had been inherited by the present owners while three had been founded by ex-workers in other companies and a further one by two people from another company. In both groups, however, the present owners are frequently approaching retiring age and for a number of them the question of who will continue is an important one. In the general sector, in only two cases is there a clear family 'heir', a son, one educated in an école de commerce and the other entering the business after his bac. In many cases the sons are not interested (even though in one case there are four of them) or the fathers have followed a deliberate policy of advising them to follow other careers. In one other case, the sons took over only 8 years ago and are still relatively young.

Table 7. Size of firm and education of owner

<u>Sample no.</u>	<u>No of employees</u>	<u>Probable education of owner</u>
7.	40	Probably higher level.
12.	30	Higher - <u>licence de lettres</u>
16.	18	<u>Ecole de commerce</u> (son who runs)
17.	18	<u>Bac</u> or end secondary ed.
23.	13	<u>Bac</u>
24.	13	Both sons who run left school early.
25.	12	Probably very low.
31.	8	CAP?
33.	7	Secondary, poss, technical.
40.	5	Minor engineering college.

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- 1.1.19. Information was not collected systematically on owners' education as it had not originally been envisaged. The information was, however, volunteered in a number of cases, notably at the higher end of the scale. The rest is inferred from a number of factors. It is, however, known that nationally the petit patronat have been amongst the lowest users of secondary and higher education until recent years (cf. Bourdieu and Passeron, 1964; Prost: 1968). In the present sample, those known to have the higher education qualifications are almost all those who are relatively young. They are also noticeably concentrated in the larger firms and the smaller ones which are working well (see below). In future studies, closer attention should be paid to this factor.

Table 8                      Foundation of firms

<u>Sample no.</u>	<u>Date, means of foundation, present owner.</u>
7.	114 years ago (1865) by another family, taken over by father of present owner.
12.	30 years ago by present owner.
16.	1944 by previous owner. Bought by present owner 1960.
17.	70 years ago by grandfather of present owner.
23.	Founded by father (? 20 years ago) who had previously been an artisan.
24.	1947. Founded by father, taken over by 2 sons 8 years ago when father died. Have also a second associated firm, run by 2 cousins.
25.	80 years ago approx. by grandfather. Father took over and then the son who is himself due to retire soon.
31.	Date of foundation unknown. Was taken over 8 years ago by husband and wife who had previously worked in the firm.
33.	30 years ago approx. by present owner, now almost retired.
40.	5 years ago by present owner when he left a large firm, where he had been <u>chef d'atelier</u> .

c) The other companies in metal work

- 1.1.20. The three in sheet metal work were in rather a depressed state and had been losing employées, e.g. by not replacing any that left. The education of the owner is not known but unlikely to be post secondary. Of one firm, we have no information on its foundation. The other two are as follows:

- No. 19 Has 17 employees. Was founded in 1918. The founder's brother took over in 1936. At present have two brothers and two nephews of the founder in the firm and the nephews may take over. The Managing director, however, is a woman and not in the family.
- No. 44 Has 3 employees. Founded by father 'many' years ago. Taken over by his brother and sister. The brother is now 55 years old and the sister 45 years. There are no heirs and the business is depressed.

1.1.21 In associated metal trade companies, three of the four were larger companies, among the largest in the sample and 2 are expanding fast.

- No. 2 50 employees. Founded 1924 by grandfather of present owner who is now 30 years old. He does not want his son to enter the business.
- No. 3. 60 employees. Founded 50 years ago and now owned by a majority shareholder who does not run the business. Expanding fast.
- No. 5. 48 employees. Founded 1950 by the Spanish present owner when he came to France. Recently expanding fast.
- No. 47. 4. Founded 30 years ago by present owner who is now 70 years old. He was helped to create it by a big firm (for whom previously worked?). Business now very depressed.

1.1.22 The sector is thus very varied, although perhaps several-generation families are common there.

d) Other companies in the sample

1.1.23. As may be expected from the diverse sectors of activity in which the remaining firms are engaged, their age, size and situation vary enormously. The majority, however, with some exceptions, are second generation family concerns or concerns in which there will be a second generation.

i) Electricity and electronics

1.1.24 The electric companies, as might be expected, are considerably older than the electronics firm.

- No. 28 9 employees. Founded 1950 by present owner whose son works in the business and will take over.
- No 35. 7 employees. Created by present owner several years ago (probably 10) and son will take over.
- No. 34 5 employees (were 15 two years ago). Founded 1945 by present owner to exploit his patents. In difficulty

-14-

- No 41. 5 employees (were 15 two years ago). Founded 1950 by husband and wife. Husband died 5 years ago. Wife let to a young engineer who went bankrupt and she has now taken over again.
- No. 43 4 employees. Founded by father 1932; present owner, now 30 years old, started in business at 15 years, does not run. Run by manager, now 63 years old.
- No 46. 1 employee. Founded by father of present owner in 1923. Present owner is 49 years old. Disillusioned although business is good. Children will not take over.
- No. 2. (Electronics). 53 employees. Founded by present owner 10 years ago. Is very dynamic.

ii) Chemicals.

- No. 21. 14 employees. Very recent, founded 1978 by two young men (ex-colleagues from chemical company).
- No. 27. 10 employees. Founded and owned by refugee 30 years ago to use his patents. Has no family or partner.
- No. 6. 6 employees. Founded 25 years ago by present owner, a chemical engineer 'fed up' with working for others, and his son. Owner and son are both chemical engineers.

iii) Printing/publishing

- No. 1. 50 employees. Created 1975 by present owner. Expanding.
- No. 26. 13 employees. Founded 1945 by father of present owner and a partner. The son, present owner, joined 10 years ago after working in advertising.
- No. 29. 9 employees. Founded 8 years ago by two young people.
- No. 48. 25 employees. Owned by 4 partners. Founded?
- No. 49. 29 employees. Founded by father of present owner.
- No. 9. 25-30 employees (oscillates). Is an S.A.R.L. run by the owner-manager.

iv) Miscellaneous

- No. 14. 22 employees. Founded by present owner now 55 years old. Has 30 year old partner who will take over.
- No. 38. 5 employees. Founded 1973 by present owner 'fed up' with working for others'. Expanding.
- No. 50 40 employees. Started by present owner and a friend now left to run a newspaper. Is a subsidiary now.
- No. 8. 35 employees. Founded 1968 by young couple who still own. Expanding.



- 1.1.24 The sample is of course very small and the sectors of activity varied. Perhaps one common thread is that the newer companies are usually still expanding, even though many of them are already among the biggest employers in the sample. Among these firms are to be found the electronics company, two firms in chemicals, several in printing (broadly defined) and other in luxury consumer products such as the lighting for discothèques. These firms are in what might be termed their 'first phase' in that they were created to exploit a particular market, requiring a particular technology and technical organisation and they are still doing that. So far they have not had to contend with changing markets, with important technological changes, with the need to retrain employees. The machinery is still new and they have been able to start with satisfactory premises, which have remained suitable in spite of their rapid expansion. Their owners are usually young, have very often created the business themselves and do not have to cope with inherited traditions, ways of organising and attitudes.
- 1.1.25. One may, therefore, make a preliminary division between the 'family' firms, relatively long established and these new 'entrepreneurial' activities. Length of existence is important for many companies, particularly those in the metalwork areas, because they have frequently had to find new clients or new products, invest in new machinery and use workers whose principal characteristic is their high skill levels and their long-term stability. Inheriting from father or even grandfather implies a weight of established organisation in a number of fields.

PART IITHE CONDITIONS OF OPERATION OF THE FIRMS STUDIED

- 2.1. The following section will be divided into a number of chapters. Each chapter will treat more particularly one aspect of the operations of the firms studied. It should be made clear here, however, that each of the operations clearly interlock in practice and problems encountered in one sphere affect many or even all the others. Each, too, within any individual firm, interrelates with the others to give a total picture. That picture is best expressed, especially within the confines of such a small pilot sample, by the presentation of a series of 'vignettes', of particular examples. In this way, the general elements, common to most of the firms studied can be brought out but particular situations also given due importance.

Chapter 1PRODUCTION AND TECHNICAL SITUATION

- 2.1.1. As seen from the earlier description of the sample studied, the production activities and technical situation of the firms varied enormously. In all sectors, with the possible exception of electricity, the overwhelming majority were engaged in production. They made a product. Very few were engaged in service activities only and a few more had a mixed activity, either production and agency, or production and service, such as repairs, and a few were involved in all of these. The sample was, then, essentially made up of manufacturing companies. Some of these were very 'light' and simple products such as plastic book covers or calendars but most were 'heavy' and complex engineering products, whose manufacture demanded a high level of manual skill.
- 2.1.2 It will be convenient to divide the sample first into those involved in engineering and those in other activities.
- i) Production
- 2.1.3. In both the general and precision parts of the engineering industry there were a number of production similarities. In each, as mentioned above, a high level of skill was required from almost all employees. These companies are far too small to have production lines where relatively unskilled workers assemble ready made pieces. In only very rare cases, did the machines do most of the work (case no. 13). In these firms, most of the workers must be able to read plans and transpose them onto the raw metal, either making a whole piece of equipment or machining an article begun elsewhere. In both sectors, precision of work is of the essence and the work changes continually, demanding varied skills

in interpretation and execution. Most of the companies produced or completed machine tools or tools for industrial use - often complex, occasionally as large as gantries for the aerospace industry. One firm made complete machines for industrial production, embroidery machines for textile companies, and two small retail or office tools, one of these being perforators for offices and the other machines for heat-welding the plastic bags used by dry-cleaners.

- 2.1.4. Production in these firms usually consists of making single pieces or small batches. The single pieces may indeed be almost literally one-off jobs, such as parts for prototype cars, or be pieces that companies need only one at a time but regularly. The series are of a maximum of 100 but far more frequently are much smaller, usually varying between 5 and 18 or 20. The pieces are made by one or more people, each working on a drill or lathe. The basic raw material is steel, sometimes of a special high quality kind that has to be imported, notably from Sweden, but sometimes wood as well, for example in wooden mould-making (case no. 10). Often the companies are also involved in the basic design of the pieces to be made (and one at least of the larger ones had its own small technical drawing department).
- 2.1.5. The degree of precision involved in this kind of production demands constant care and attention and a good deal of systematic checking. Such small companies, unlike their larger counterparts, do not have any systems of overall quality control. The pieces go straight to the client after they are finished. This, as well as the high level of skill for the job itself, has consequences for the kind of workers that can be employed. They have to be fully-trained and able to produce goods of a constant, very high quality.
- 2.1.6. The particular productive activities of the engineering sector are enormously varied within the general category of machine tools for industry. One company makes moulds, from plans, as one-off jobs, working closely with clients' design teams. Other make small parts for car companies, especially when new models are being designed. Others do small pieces for a variety of clients, being essentially concerned with truing and finishing cruder work done elsewhere. Some companies, notably one especially successful one, made flying equipment for Mirage jets and ground air control towers, high precision pieces for Hispano Suiza, artificial limbs for specialized medical services, springs for Herckelbout-Dawson, and maintenance tools for laboratories amongst other jobs. One makes gantries, another springs and yet other body work for lorries and diverse boiler-making activities. One specialises in metal polishing and at the time of interview had just completed 15 tons of snail dishes, having ceased his previous production of roller skates.
- 2.1.7. In the other sectors, activities were also much varied. Notably the electricity related activities were usually a mixture of production, service and agency. They varied from producing electric generators to assembling motors from parts produced elsewhere to producing burglar alarms and repairing car electric circuits and re-selling equipment. One especially successful chemicals firm made products used in the maintenance of electrical circuits and another the colourings for sunglasses. Others were printers and specialised in publicity-related items. Some were hard to classify; one made and installed sewage purification systems

while another designed and made night-club illuminations.

ii) Product stability, equipment and location decisions

- 2.1.8. The engineering companies, in spite of usually being quite long-established, have largely been engaged in the same kind of production for a number of years. Only one had actually changed radically its production, while another sometimes added new products and one was considering changing - towards finding a product to be used in a sector where the mechanical parts were only a small element in the total so as to achieve more flexibility in price and hence better profit margins. Much of the reason for this constancy of product amongst the great majority of firms may be linked to the firms' possibilities of investment in machinery. A large number (nearly half those in engineering) were no longer investing in machinery at all and had not been for a number of years. Some had what could only be described as very old equipment and some had only ever had secondhand machines - although in contrast, two had computer controlled machines. While those who were not investing claimed to be taking care to maintain their equipment properly, and while it would seem in principle possible with the different kinds of drills, lathes and truing apparatuses to make a variety of products, it may nevertheless be that the expense of new machinery and the need to amortize thoroughly the old are very important elements in decisions about product ranges in such small enterprises. The need for highly skilled and often highly specialised personnel allied to these machines may be expected to constitute another constraint on production choices, a constraint exacerbated by the stability of the labour force over many years. We will return to this below.
- 2.1.9. A second element limiting production possibilities is formed by the physical surroundings of the company. Most of the firms were implanted in older urban industrial areas, densely populated both with productive activities and housing. Very few were in special industrial zones, and indeed several specifically said they would not move for fear of losing clients (see below). In some cases, the workshop and storage spaces available were old, cramped and generally unsatisfactory. In others, although the workshops were modern and well appointed there were often severe limitations on space - to such an extent that there were seldom even separate offices in the smaller firms. Very few, however, wished to move far away (one who did had never got to the end of his administrative problems) and the possibilities of expanding within the same area are limited. This reluctance to move is linked both to the type of production undertaken and the type of clientele served. For most of the firms, and especially those in the engineering sector, working as they do on one off or small series jobs for clients who are used to them and are mostly in the area, moving far out of Paris would involve both a considerable increase in costs and a possible loss of clients. At present, although many of the firms have vans, they do not usually have specialist drivers and many of the client firms, especially those whom the smaller are sub-contracting, transport the pieces themselves. Greater distance would make this impossible for smaller clients and encourage the larger ones to change their suppliers. Increasing the distance to such an extent as to have to rely on publicly organised transport such as the railways would add to the delivery time and also may lead to loss of clients. One company in the sample, a printer in Boulogne, had considered moving out to an

industrial zone but had abandoned the idea because his clients would not follow. In this case, the market was considered to be so local that clients, used to going in after work, would not even go as far as Issy. Engineering companies probably have a less localised market but are subject to another constraint. Placed where they are, their scarce and valuable skilled workers are able and willing to live in the immediate area of the workshop; moving to an outlying suburb would probably break up the labour force.

## Chapter 2

### MARKETS, CLIENTS AND ORDER BOOKS

Given the diversity of the firms' production, the great diversity of clients for their products is not surprising. There are, however, common traits too.

- 2.2.1. Two of these common traits are particularly salient. The first is the prevalence of sub-contracting work. Sub-contracting may be of two kinds; one involves a relationship between companies such that one company provides, usually on a regular basis, the second with the raw materials or, more usually, partly finished jobs which the second company uses to produce a specified object or completes. The second involves a looser arrangement whereby the first company provides plans and the objects needed are made to order by the second firm. At its simplest, therefore, the sub-contracting relationship involves a company in a relationship whereby it produces exclusively to order. This relationship, extremely prevalent in the engineering sector, both in the mechanical and the precision areas, means frequently that these small companies have no 'autonomous' production which they sell on an 'open' market. In practice, they are usually linked through the sub-contracting relationship to a few clients, in most cases large and often very large companies. These companies dictate not only the precise details of the pieces to be made but also provide the materials and the transport and, most important, control the piece of the product.
- 2.2.2. Sub-contracting, thus, involves the establishment of dependency relationships. A large company, typically an automobile manufacturer in the Paris region, has a whole series of small client companies which make particular parts for its product. The central company has thus a ring of satellites. This ring is sometimes not extended because in turn some of the first set of satellites have themselves a set of satellites, companies smaller in size and of course fewer in number. Sometimes any given firm may be in both 'rings', both sub-contracted to and subcontractor. Many always sub-contract the larger and heavier parts of the orders given to them often to firms considerably larger than themselves and who possess the large equipment necessary for the job. Thus, small and medium size sub-contractors frequently deal with excessive demand by themselves sub-contracting to even smaller firms especially artisans. The network of dependency in relation to specific major clients can thus spread out considerably in any given area or any given sector of production. The last companies in this network are, of course, the least powerful in relation to pricing, regulation of order books etc.

2.2.3. Sub-contracting, then, is a characteristic notably of the engineering sector. Almost all the general mechanical engineering companies used it as their principal client relationship as did half of those in precision work. The majority of these companies had a few, fixed, large-company clients. They were notably automobile manufacturers (Renault, Citroën, Matra, Chrysler, Saviem, Hispano Suiza, Volvo (1)) and aviation companies (Dassault, SNECMA, SNIAS). To these are sometimes added electronics firms and companies producing household equipment such as washing machines - IBM, Thomson or CGR for instance. The chemical firms in the sample worked for St. Gobain, BSN, and L'Oréal. Some firms are so tied in with specific sub-contracting that only two companies account for 90% of their business as do Renault and Citroen in case no. 20. In others a few big client firms account for 70% of their production and 30% comes from a mass of smaller companies.

Most sub-contracting is done for firms in the private or nationalized industrial sectors but sometimes it is mainly the public sector (SNECMA, Saclay, Laboratoire des Ponts-et-Chaussees, the Travaux Publics, the PTT) who constitute the clients. The relationships are, however, essentially the same, with the same advantages and disadvantages.

2.2.4. The main advantages are seen in terms of the simplification of the market. Any firm who acts as a sub-contractor for another is saved the problem of finding adequate suppliers (who often want immediate cash payment) and avoids transport problems and, especially the need for sales outlets and a sales force, and is usually assured of at least fairly regular work and of the sale of its product. A final advantage is also seen as substantial and this applied more generally to having clients who are big companies, whether they are sub-contracting or not; this advantage is that such clients are sure to pay their debts. The main disadvantage is the reverse side of this coin; the sub-contractor firms cannot control their prices and the client firms usually pay on a 90-120 day basis, which creates liquidity problems (see below). One further disadvantage is the degree to which the small are at the mercy of production falls and changes of policy of the large firms (one firm had great problems when Matra abandoned Formula 1 racing cars). One small firm in the sample was nearly bankrupted itself by the bankruptcy of one of its major clients.

2.2.5. The smaller clients who represent the bulk of the clients of most of the non-subcontracting companies are very diverse (there tends to be a polarity, especially among the smaller firms studied; either they work for a very few, very large companies or a mass of very small ones). They range from transport firms, through building contractors, garages, box-makers, tool sellers and even individuals. Many were the faithful clients of the firms in the sample but many were highly volatile. Especially where larger items of investment and equipment are concerned, small firms may well be only one time clients or at most only want small quantities or place orders only once every few years.

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(1) Interestingly, it was not only the engineering companies that had the car firms as clients. The latter were also major clients for an electrical firm and two printing firms in the sample.

- 2.2.6. The second major trait linking together almost all the firms in the sample, with a few notable exceptions, is the problem of regular orders. Especially for the sub-contractors, dependent on specific client demand, it is rare for companies to be able to rely on regular orders. They nearly always have periods of heavy demand and then periods with very little work. For example, the engineering companies working essentially for car firms are overwhelmed with work when a new model is planned or produced and then many have almost no work for quite long periods of time. With no autonomous production or independent sales outlets, they would have to spend more time seeking new clients or diversifying their markets. This, however, is difficult in many cases because such clients take time to find and in busy periods all company hands are involved in production and in slack periods it is too late each time. It is indeed perhaps the third characteristic of the firms in the sample that they do little client prospection and with very rare exceptions have no specialised sales force. This is linked both to the extremely small size of the work force and to the locality of the clients so that usually new clients come by word of mouth. Only one engineering company was principally involved in exporting - and there was a considerable sales drive - with one or two others marginally involved. Not only did few firms have foreign clients but almost equally few had clients outside the Paris region. Citroën did not move so far away that it could not keep its existing network of sub-contractors; were it, or a similar large company, to move far into the provinces, however, that move would probably mean ruin for very many small firms in the local Paris suburbs.
- 2.2.7. The third, and an extremely important, characteristic of the firms studied, was their extremely short-term order books. While for many, orders as a whole were not a particular problem, although even there they were often irregular, almost all worked with very short term order books. A lucky few, principally with aviation company clients, had order books of six months or even more, but the great majority had between one month and three, with more at one month. Some companies worked on eight day order books and as one patron said, 'lived in a state of total uncertainty'.
- 2.2.8. The length and regularity of order books are both important elements in a number of decisions these small firms have to take. They affect investment decisions in new equipment; they affect location decisions. Above all, however, in relation to this study, they affect employment decisions. Many companies, in a general climate of uncertainty, feel that they are unable to take on extra workers to cope with peak demand because, given the legal protection of employed persons, they fear to be unable to afford to keep them on but at the same time be unable to terminate their employment. Short-term order books imply an almost week-by-week and frequently month-by-month outlook; they do not encourage hard-to-reverse investments, either in machines or men. In this situation, many firms, as suggested above, prefer to sub-contract out extra work. As one said, 'in the old days in slack times men could be employed at painting and small repair jobs; now skilled men are too expensive to use like that, they have to be producing'.

- 2.2.9. The advantages of short order books should, however, also be brought out here. Chief among these is that they increase the ability of small firms to compete because they can offer very short production times. It is this that makes them attractive sub-contractors for special jobs, for example. Frequently large firms, who have their own engineering departments, are not able to be sufficiently flexible in terms of time to fulfil their own needs. The 'light' nature of their equipment and their short production delays as they make only small series also make small firms attractive as sub-contractors to such industries as telecommunications (e.g. Systelec). Some firms have overcome the problem of irregular orders by beginning to produce goods of their own which they market through resale agents.

### Chapter 3

#### PERSONNEL AND RECRUITMENT PRACTICES

- 2.3.1 As we saw in the first part of this report, the number of employees per firm varied considerably and this within each sector of activity.

##### i) Personnel

- 2.3.2. Two major characteristics of the labour force of the firms studied stand out. The first is the extremely high degree of skill of the labour force in almost all the sectors. In almost all, the majority of the workers were of the grade P3, with a few P2 and very few unskilled workers or labourers.

- 2.3.3. The second is the stability of the labour force. Few of the firms employed foreign labour and very few employed women (although one firm employed only women), except for the occasional secretary or accounts clerk. Few of the firms employed young people under the age of 25. These factors, together with the degree of skill and specialisation of the workers, form the picture of the labour force. Many had been in the companies 15-20 years or more and a number in several companies were mentioned as due to retire after 40 or more years in the firm. Many were over 35 years of age and a good number already in the 50's. The stability of the work force in the French companies perhaps contrasts especially with the Scottish and Irish firms. There had been usually little change in the size of the workforce over the last three to five years, although in some, notably in the engineering trades, workers who left had not been replaced meaning a diminution over the same period of 1-3 people. This was particularly true of the smaller firms.

- 2.3.4. In sharp contrast to these smaller firms, a few firms stand out as in full expansion in terms of personnel. These had usually reached 30 to 50 people at the time of interview and had been created to exploit a particular product or market. Only one still small was expanding fast. The expansionary firms were essentially in electronics, chemicals, printing and publishing and the 'miscellaneous' category. We return to these below.



- 2.3.5. A third characteristic of the firms is the light management structure existing. Only the larger companies, as might be expected, had any real division of labour which involved the creation of management posts as such, and even there it seems likely in practice that the management tasks were rather given to particular individuals to assume in addition to their tasks of production than to assume full-time. This would be especially the case with chefs d'atelier and foremen. A few of the larger firms, 30 employees or more, had one or two specialist management posts but these two were usually functionally oriented staff rather than line posts. For example, one firm had a sales manager (cadre - it should be noted that the word 'manager' may suggest a grade higher than cadre). Below 10 employees, and depending on the sector, even a chef d'atelier is rare. In these cases, especially in the engineering trades, the patron himself takes on all the supervisory and managerial duties.
- 2.3.6. Not only are there usually few specialist managerial roles, but there are few specialised roles of any kind. In the very small companies, there is most frequently no permanent secretary and usually only a part-time accounts clerk. The necessary paperwork is usually done by the patron himself, or, most often, by his wife. Sometimes, where there is more or less full-time secretary, that task is undertaken by the wife. The division of labour usually follows sex lines; the workshop is staffed by men (in one company, ironically owned and run by a woman, the foreman refused to have any women on the shop floor) and the white collar jobs filled by women.
- 2.3.7. Working hours are long and small firms must contribute much towards maintaining the long industrial working week in France. None of the firms worked on a forty hour week; a few worked 42 or 42½ hours but most worked 44 or 45 hours and one or two 46.
- 2.3.8. Many firms prefer their workers to work long hours on overtime pay rather than take on extra labour because of the savings made on social security contributions. The patrons themselves usually worked much longer hours still, many claiming that they did 60 hours or more. Living as many of them do above or next door to the 'shop', it is in many instances difficult to say precisely where the working week ends, especially where paper work is done in the house in the evenings and at weekends.
- 2.3.9. Work is the essence of the ideology of the independent patrons. They do not consider seeing clients, and still less prospecting for them, dealing with administrations or following courses to be real work. Only their productive activities strictly defined are included; everything else is considered a 'waste of time'.
- 2.3.10. It was hard to elicit any specific salary information in most cases but given the level of skill of most of the employees, their age and length of experience in the company, the figure of 4800 Fr. per month net given by one firm as its average wage would have fairly wide currency. Given the shortage of skilled labour in these fields and the national or corporate collective agreements on salaries for specific skill-levels, the skilled men are probably not badly paid on the whole. In contrast, young people learning the trade may, while being paid the legal minimum, earn relatively very little. The patrons, as they said repeatedly, cannot afford to have poor labour and offer relatively few semi or unskilled jobs. Reluctant to consider young people

'fully trained' for many years, there seems to be a long time when such 'trainees' are ill-rewarded and for this reason likely to leave, adding 'instability' to their 'incompetence' in the patrons' eyes. It seems likely that highly skilled professional staff such as engineers are frequently badly paid and many are said to leave for bigger companies after a few years.

- 2.3.11. Absenteeism is a problem in a number of companies - some claiming 15-20% absent each day - especially those with more than 20 employees but affecting a number of the smaller ones too. Attempts to remedy this vary. One company had outside specialists control absentees and another decided to make special 'assiduity' payments at the end of each month rather than once a year. Both seem to have the desired effect.

ii) Recruitment practices

- 2.3.12. Many of the firms interviewed are not recruiting at present at all and have not taken anyone on in some cases for several years past. Many others take on only one person a year or so. A few are expanding fast. Across all these different circumstances, however, again some common practices can be seen.
- 2.3.13. The first is what might be termed a 'negative' practice. This is the general avoidance where possible of the services offered by the national labour exchanges, the Agences Nationales Pour l'Emploi (ANPE). ANPE have the reputation of being 'null' (useless) in almost every case. There was a generally felt penury of skilled labour in almost every sector but unanimity that no-one would seek skilled labour through ANPE. At the most, people addressed themselves there for unskilled workers and general labourers.
- 2.3.14. There were a number of reasons, both spoken and underlying for this rejection of the State's employment agencies. The most commonly expressed reason was that ANPE never sent anyone who corresponded to the job description for the person required where skilled jobs were concerned. There was also a certain feeling that the desire to serve employers was only very moderate on the part of ANPE staff. As one patron said, putting these two objections together, 'ANPE sends with reluctance for simple, low-level posts people who are unsuitable'. Most of the firms claim to have tried ANPE, usually several times, in the past and a few still try ANPE first but no-one claimed any satisfaction except for unskilled workers, and even then 'you have to see 10 people to find 1 suitable'. The people sent by ANPE are believed to be unstable, to be unlikely to stay long and generally to be the kind that 'prefers to stay on 90% unemployment pay than to find another job'. They claim that ANPE people come to get a stamp on their card and are then never seen again.
- 2.3.15. Temporary labour, supplied by specialist agences du travail in - t rimaire, is also felt to be unsuitable. Many of the same criticisms are expressed, for instance that the people sent are insufficiently skilled; that it takes too long to train them for particular jobs and that they waste the supervisor's or patron's time. There is also another reason; temporary labour is paid higher hourly rates and this is said to create discontent on the shop floor.

- 2.3.16 Underlying the expressed objections to both sources of labour would seem to be unvoiced ones. The most important of these is the belief that people worth their while would not need to find work by State agencies and would not be satisfied with the kind of work provided by temporary-work companies. Almost by definition, people coming through these channels are felt to have something wrong with them', to be somehow 'not what they seem', not as they are presented. In the area concerned there may well indeed be some truth in this for there is there a chronic shortage of skilled workers, especially in engineering and certain printing trades. Many employers know that there is a considerable turnover of small firms in the region and that good skilled men will find jobs by word of mouth. Some employers interviewed have indeed made specific attempts to recruit direct from such firms, especially the larger ones where they contact the personnel officer. They claim, however, that even there the workers prefer the 90% unemployment pay and 'refuse to allow their employers to disclose their names and addresses'.
- 2.3.17. As we will see below, the attitudes of small firms in the sample towards labour recruited from institutionalised sources are very similar to their attitudes to young people in general, especially those who are not 'known' before they come and who are obtained through school placement services. The independent employers, believing in the necessity and the virtue of hard work, reject people they believe do not share those values and whom they classify as 'unstable', 'lazy' or in some vague and unspecified way 'dishonest' (e.g. 'spongers off the State'). They much resent their impression that youth do not want to be workers' which in some way is a blow to their personal pride.
- 2.3.18 A number of the firms did, however, recruit through advertisements in local or national newspapers or specialist journals and through notices in the local Mairies but even these they did not find usually very satisfactory.
- 2.3.19. In contrast to these 'impersonal' sources of labour, the patrons much preferred to recruit through word of mouth, through their relations, their network of contacts. Some of them belong to Local associations of employers in their speciality or region and get to know of possible workers through these. The Groupement d'Industriels de la Banlieue Sud-Ouest (GIBSO) is, for instance, a source of some. For some firms, very direct contacts are used, as in one where the son of a neighbour had just been taken on.
- 2.3.20. In such very small firms taking on a new worker is a very serious matter. For some it represents perhaps twenty per cent or even more of the existing labour force. Even where the percentage represented by one person is not so high the decision is still a grave one. This is the case both where it is a question of replacing someone who has left and, even more so, when it is a question of increasing the staff. In the second case financial viability considerations are added but in both cases in micro- and small firms it is of great importance to the smooth functioning of the operation that two criteria be fulfilled by potential employees. The first in most cases is that the skill level must be very high and the person concerned experienced in the particular sector of activity and preferably in very closely similar activities. Two to three years' experience was specified

as desirable by one company.

- 2.3.21. The second, and in very small companies certainly no less important criterion, is that the newcomer must be able to be integrated and accepted rapidly into the existing team. In such small workforces there is no room for friction and discord between people on the shopfloor who must operate in often very restricted conditions, with dangerous machinery and who must cooperate actively in many tasks. A general willingness to be flexible and ability to 'fit in' is needed and recruitment through word of mouth and personal connections permit this as no institutional labour market agencies ever can. In these companies the 'right' person is composed of a number of technical and personality attributes and finding the 'right' team member here is at least as important as so many observers have alleged it to be in senior management echelons of large companies. Indeed here it may be expected to be of even greater importance given the relative weight of one new person both on production and financial schedules.

iii) The employment of young people

- 2.3.22. One striking contrast between the Scottish and Irish and the French situations is immediately evident. None of the French companies studied were training any apprentices at all. Of the very small companies almost none employed any young people at all under the age of twenty years and only very few any between 20 and 25. They particularly preferred people to be 28 years or older, reckoned more 'stable'. Given the shortage of skilled labour in both the area and the sector and given the fact that the companies are not training apprentices and do not believe that schools do that job adequately, the problems of recruiting appropriate personnel are likely to become increasingly more severe. Already several companies said that they had to spend several months searching and one had been seeking to recruit three people for the last month prior to the study (printing industry). Especially hard to find seem to be specialists in 'truing' for engineering, 'grinders' for the same industry and photo-engraving workers for the printing industry. No schools train for some of the trades required and apprenticeship or subsequent training is the only source of skilled workers.
- 2.3.23. In spite of these perceived shortages and often very real problems of recruiting suitable people, very few of the firms contacted expressed willingness to employ young people and especially few were willing to train them. Many claimed to have 'tried' young people several times but always the experience had been unsatisfactory. For every firm interviewed with one or more young people (under 20-22 years of age) three had none and did not seem prepared to take any on.
- 2.3.24 There are a number of reasons for this, some of them practical and some of them 'ideological' or 'psychological' and pertaining more to incompatible sets of attitudes than to repeated objective experience.
- 2.3.25 The first is eminently important and pertains to the size of the firm and the skilled nature of most of the work involved. As was mentioned earlier, very few small firms of the kind studied here can have any kind of systematic quality control. Their products once

finished go directly out to the client. If a young person, insufficiently skilled and insufficiently careful makes mistakes and spoils a batch, the firm is very likely to lose a client. The problem is exacerbated by the tight production schedules frequently imposed in subcontracting arrangements.

- 2.3.26 Even where the batch can be saved, young people are believed to waste precious time and materials. They waste not only their own time but that of the supervisor who must watch what they do and hence frequently of the patron himself, there being no intermediary level. Training on the job in these circumstances can only be sporadic and the young person must of necessity do much of the work alone. Some firms complained that they spoiled even simple pieces which then had to be thrown away. There is simply no time for the necessary control by skilled and experienced workers. Particularly in the precision engineering sector it was felt that the work was simply too difficult for the inexperienced and the young people interested in the sector should begin first in mechanical engineering and gain experience and basic skills there.
- 2.3.27 The second obstacle to the employment of young people in these firms, and linked to the first, is the widely expressed need for new workers to be immediately operational. If a firm is recruiting a new worker or, a fortiori, if it is replacing a worker, it is because there are pressing production needs. It is a luxury in such firms to be able to think ahead far in terms of labour needs and there exists no long-term 'personnel planning'. Even less is it normally possible to maintain a small 'pool' of labour to be used as needed as is the practice in some much bigger companies. Only one company which saw that some of its workers were approaching retirement age, though still in fact several years away, specifically was looking around for young people to train. Far more frequently there is an urgent need for the person taken on to work at full pace and with only a minimum induction period. This theme was raised again and again; 'we have no time to train', 'we hesitate to take on young people because no-one is available to train them adequately', 'we will not take young people straight from school because they must be immediately operational - we prefer to refuse orders'; 'we have tried twice to use young people straight from school (age 16 or 17) but we have to throw away the pieces they make and we cannot afford that'. Pressing production reasons are thus often given for not taking on young people.
- 2.3.28 Less strictly practical reasons are also often advanced. These range from problems of young people's 'mentality' to their 'instability'. Many claimed that they had taken on several young people over the years but they had never stayed long. They were seen to 'prefer larger companies with a works canteen, a 'thirteenth month' and other advantages'. They claim much absenteeism amongst the young and there appears effectively to be an important difference of perspective between the patrons whose work is their lives, and who are frequently rather disillusioned by the many problems they face, and young people straight from school who refuse the discipline and the fast rhythm of work demanded; coupled to the long hours and low pay offered this may well be a major cause of disaffection for such work by young people who have come to try it. A patron summed up his perception of the problem as follows; 'there's always

a risk when one employs someone young that he or she will leave when only just properly trained. That means a considerable waste of time for the company that did the training. This happened to us twice - one youth left after six months and the other did not return after his military service. We now prefer to take on only already skilled and trained workers'. (No. 24 - general engineering). Others recounted similar experiences. Only one firm said they preferred youth straight from school (out of all young people that is) because they preferred to train them themselves. (No. 12, general engineering).

- 2.3.29 The perceived insufficiency of school vocational courses (and the total lack of them for some trades), together with the problems of 'mentality' and 'instability' associated with young persons constitute, in the particular circumstances of these small firms, formidable obstacles to increasing the chances of youth being employed there.
- 2.3.30 Many firms regret the passing of the old-style apprenticeship conditions and an early start to working life. One, for instance, remarked that in the old days a firm took on young people at the age of 14 years and trained them. By the age of 20 they were properly trained and could be well paid. Nowadays, firms take them in at 18 years and, taking account of the time lost through military service, they are not trained until they are 27 or 28. All that time they remain on low salaries and this is one of the factors that makes them leave. Expressed in this case by an engineering company, the feeling was reiterated by others, for instance in printing.
- 2.3.31 Very few, only five firms, took advantage of any official programmes aimed at encouraging the employment of young people. As these in France are essentially aimed at job creation rather than at replacement employment of young people, firms have to be in an expansionary phase before the measures begin to affect them. The most widely used measure is the one by which half the employer's social security contributions for the extra person taken on are waived. Some firms took advantage of this but only when they would have recruited an extra person anyway. It did not seem that that financial inducement weighed very heavily in the balance when the extra employment decision was made; rather it was a bonus and the decision was made on other grounds.
- 2.3.32 It also seemed that the young people taken on in this way were taken on for the less skilled jobs or, in one or two cases, were girls taken on as an 'extra' secretary or accounts clerk. Of the five using the special measures, two were among the larger companies (30 and 35 employees) and a third which had 14 employees had only been created nine months, was expanding fast and clearly soon to be at the larger end of the scale. The other two firms also are untypical of the sample. One, with 13 employees, is an extremely successful family firm in the general engineering sector. Run by two brothers, they have two sets of activity, their own autonomous products and subcontracting work. One brother takes care of production, the other of marketing. Their own product sells so well that they have had to create a sales firm of which a cousin is in charge. The firm is hence especially 'entrepreneurial' in its activities and a model of inventiveness and good management. The other is a service firm essentially with an unusually large administrative side. Having taken on their young person, they claim they have never received the financial benefits promised.

- 2.3.33. The other small firms studied do not use the special measures, although some do take on young people without asking for special aid. The reasons for this are diverse. Some relate to the production situations described above and many companies are not eligible because they are not expanding. Some relate to the specific 'dislike' of youth also mentioned above, to which one should add in some cases the perceived high cost of youth, 'You have to pay them the SMIC even though they're barely trained and still ruining a lot of jobs'. Many were not recruiting at all, some even though the company was doing well. Three firms in particular in the latter case specifically did not want to increase their workforce so as not to go over the limits of 10, 30 and 50. In the first and last cases the reasons for administrative, financial and legal (after 10 extra taxes etc. become payable, after 50 a firm must have a comité d'entreprise). In the middle case it was essentially problems of good management that were evoked. To this, too, should be added in some cases ignorance of possible aids.
- 2.3.34. To these must be added two other reasons. The first is the extra administrative burden that is imposed on the patron of the very small firms when he or she attempts to use any of the special measures. Time and again the people interviewed claimed that too much paper work was involved; that they did not have time to spend half days in different offices getting registered (e.g. as a maître d'apprentissage); that when they had tried, months after the person left they were still receiving forms to fill in etc. that the measures in general were 'far more trouble than they were worth'. It has to be appreciated that in the tiny firms, as was said earlier, there are frequently no secretarial or accounts staff and that the patron does everything. With a workforce of five or so, half a day 'lost' in administrative matters is of great importance. Frequently, for one young person several visits are necessary to different offices. The second reason concerns the perception by the independent industrialists of their position and especially of their position in relation to public authorities. They do not like dealing with 'bureaucracies', seen as constituting a hostile interlocutor. At the same time, they believe strongly that they should be able to manage by themselves. One interviewee, asked why he took on young people but did not take advantage of the special measures proposed (and of which he was aware), replied that he believed that 'a firm should be sufficient unto itself'.

## Chapter 4

### TRAINING ACTIVITIES

- 2.4.1. Much of the data gathered on training activities of small firms has been described above, particularly as it concerns young people. Much as they prefer to take on skilled workers, many of the firms interviewed do nevertheless train young people, although except in the very smallest firms where by definition one is a larger fraction, those that need training constitute only a very small fraction of the labour force.

- 2.4.2. Recurrent education is, however, quite another matter. In only one company had even one worker, below the supervisory level, been on a recurrent education course (stage) and the firm itself remarked that that case was exceptional. Indeed, in very few companies does anyone go on such courses. The reaction of most of the patrons interviewed was that it was not necessary; that the workers could go if they wished but, and this is important in many companies, they could not go during the week. As they themselves were thought not to want to go to Saturdays, this effectively meant that they received no such training.
- 2.4.3. In a few cases, usually by definition the largest firms, cadres had sometimes followed short courses, in sales or in financial or production matters. In a few cases, too, shop floor supervisory staff had been sent on specific courses on occasion.
- 2.4.4. Rather more frequently the patrons themselves had followed a few stages, notably those organised by the BICS bank which many of them use. One for instance, had followed several of that bank's courses - in accounting, management (gestion) of the workshop and pricing policy. He had found them useful. This firm, too, however, distinguishes itself from many in its sector (general engineering) by being a family firm, effectively run by the son who took it over after taking his baccalauréat, and in being highly successful. They do very high quality work with special steel imported from Sweden, both repairing and fabricating machine tools from plans and in small batches. They also invest regularly in machines. The firm's dynamism and all-round success make it hard to see whether that success has been made easier by following management courses or whether following the courses is part of a more general attitude and set of decisions which are rather the key to the success than the courses themselves. Although one or two other owners had followed the occasional course, the more prevalent attitude was that they had 'never felt the need for themselves', although they might sometimes send a staff member. The BICS courses were the most popular and one patron's wife had been on an accounting course there. One person only had been on a course organised by his professional federation.

## Chapter 5

### RELATIONS WITH OUTSIDE AGENCIES

- 2.5.1. Discussion of the firms' relations with outside agencies will be divided into two parts. The first will concern their contacts with their banks, frequently the intermediary for participating in the special financial and credit measures destined for small enterprises. The second will describe their contact with other special agencies, whether governmental or 'professional'.



i) Financing and relations with banks

- 2.5.2. Finance, it has to be said at once, is one of these companies' greatest headaches. Before talking specifically about banks it will be useful to note the financial problems.
- 2.5.3. Taxation and social security contributions are a major source of complaint. Both are seen as unfairly discriminatory against small employers, especially because they are nearly all labour intensive and their salary bills are around 80-90% of their costs. A large part of that bill is composed of the compulsory contributions as employers towards their employees' social security coverage. These contributions together account for around 40% of the salary bill and are therefore bound to figure large in the employers' consciousness and to be seen as 'wasted' expenditure.
- 2.5.4. Allied to this is the problem of taxation. Most consider the system weighted unfairly against them and particularly complain that the company tax is a flat rate and the same whatever the size of the company. Secondly, they feel that the taxation system discourages from making investments in machinery; if they do so, their taxe professionnelle increases.
- 2.5.5. One further tax is particularly objected to. All small companies of more than 10 employees must pay the taxe d'apprentissage, a tax for recurrent education and a tax to the CETIM while they rarely gain any benefit from the training courses so paid for.
- 2.5.6. Beyond the payments to be made to the State or other public institutions and which constitute a drain on their cash resources small enterprises often suffer severe liquidity problems due to poor payment policies by the large companies who constitute their major clients. Many of the companies studied had problems of liquid resources because most big companies operate 90 to 120 day payment periods. Some are even worse; one notable car company had just paid in April 1979 work done in February 1978. This is especially serious where such companies control the prices asked by their sub-contractors and where profit margins are already very low and because the suppliers to the small firms often require cash payments because they are thought to be unstable. In many cases the liquidity problem is so acute that the small enterprises are obliged to borrow from the banks even though they have many sales assets outstanding.
- 2.5.7. The problem when they have to borrow is that they see the rate of interest as too high. Paying high rates of interest when they have to borrow through no 'fault' of their own seems unfair and in practice adds even further to their overall liquidity problems. Several said that the 'cost of credit' is too high in France and one quoted Germany as a country where the credit situation was more satisfactory.
- 2.5.8. Attitudes to the banks are thus ambivalent. On the one hand, they are needed to fill in holes in the budget and on the other seen as threatening because too expensive.
- 2.5.9. The banks are, however, used not just as 'bouche-trous' but are the major source of loans for investment in new machinery. A few

firms use the leasing or locabail formula but most find this too expensive and prefer to use ordinary banks loans, paying 30% down and the T.V.A. and repaying the rest over 5 years. Seen from this angle, the companies were largely pleased with the banks and had mostly been accorded the loans they needed without severe problems although one had been refused. Those who had public sector clients also used the Caisse Nationale de Marchés de l'Etat as a source of investment finance and they were especially content with that. Others use the Chambre des Métiers as a source of credit for investment in equipment and that seems satisfactory too. Many of the companies use the BICS banks, the UBP, while the others bank where their clients are, for instance the Crédit du Nord. Only one firm, but perhaps a significant instance, had had major problems with its bank. This was a company founded 11 years earlier by a young couple with very little capital. They make luminous decorations for night clubs and other clients. They found a good market and continued to prosper and expand and have now a whole range of new products and a specialised laboratory to design them. They export 25% of their production. They have grown to a total of 35 employees. They grew so fast that in one year they went from 0 to 100,000 Fr. in turnover and in the following consolidation period ran into liquidity problems. In dealing with these they did not find the banks, the ordinary money market, helpful and they complain that the banks do not follow cases like theirs, they are not interested and do not support them. In spite of the fact that they export a good deal they also complained that they received very little help from the Centre Français du Commerce Extérieur.

2.5.10. Through the banks, and on the recommendation of those banks, however, a very few companies had been able to take advantage of the special public loans for the Petite et Moyenne Industrie. The banks had done all the necessary paperwork and presented their case and the firms concerned were very satisfied. It seemed, however, that the procedure was extremely complex and very few of the firms studied had been able, or probably even, tried to get these special loans.

ii) Public and 'professional' helping agencies.

2.5.11. There emerged clearly from the study important differences in contact with and attitudes to the public helping agencies set up to help small and medium firms by the State and to the semi-public or private associations of independent businessmen or of people engaged in particular professional areas of activity.

2.5.12. Almost all the firms contacted belonged to either the Chambre des Métiers or the Chambre de Commerce as appropriate and a few of them used the particular services offered by these semi-public bodies. In the engineering and electrical sector, some belonged to the Groupement d'Industriels de la Métallurgie (GIM) which although it does not have an information service will supply such people as lawyers when needed. In each sector of activity some of the firms belonged to the local association of industrialists, the Groupement d'Industriels de la Banlieue Sud-Ouest (GIBSO) which they used for information and as a source of recruitment for

skilled labour. A number, but by no means all, also belonged to their professional associations such as the Chambre Syndicale de l'Imprimerie or the Chambre Syndicale de la Construction Electrique. Some claimed to belong as a means of getting regular and up-to-date information but others confessed that it was mainly for the dinners and that such bodies were 'totally useless'. Some also belong to the 'unions' involved in the cross-industry movement of the Syndicat National de Petites et Moyennes Entreprises or to its breakaway section, the Syndicat National de Petites et Moyennes Industries. One of the patrons was Treasurer of his local PMI branch.

- 2.5.13 Belonging to such organisations, however, and even playing an active role within them, does not seem to guarantee wide-spread and accurate information about public measures to aid small and medium enterprises. Even the treasurer of the PMI branch claimed not to know that there existed a Délégué aux PMI within the Ministère de l'Industrie; although this may have been an exaggeration he has certainly never had any contact with them. The President of the Chambre Syndicale des Electriciens et Specialistes Automobiles also himself claimed to have no contact with helping agencies so it seems unlikely that many with fewer public functions have much more contact. In contrast, some do receive the 'Dossiers PMI' put out by the Delegation and find them useful.
- 2.5.14. The lack of contact between small firms and youth employment schemes run by public agencies has already been documented and discussed above. So also has the use of PMI loans (limited). Some companies specifically stated that they did not think information on PMI measures was sufficiently widely diffused and complained that when they heard announced on TV or in the press that new special loans were available, it was never clear where one had to go to get them. Another complained that the promised aid was not supplied in practice and that when a new tax was introduced it was announced that small companies in difficulty could have extra time for payments but when he went to the Tax Inspector he was told he had to pay. Another claimed that he had never been reimbursed the 50% of the social contributions as promised in the contrats emploi-formation. This was particularly disturbing when the companies were in difficulties and did not receive any effective aid, as in the following three cases. One was unable to obtain a loan to increase the size of its workshop. One was in financial difficulty because of the bankruptcy of a major client but was unable to obtain delayed payment of the flat-rate company tax. The third had been in difficulty some time and its owner went to see the person in the Chambre de Commerce specialised in helping firms with problems but was disappointed when the only advice given was to associate himself with others in difficulty.
- 2.5.15. Exporters, too, have particular problems. They claim that the CFCE is not very helpful and that the banks are not helpful in getting their small amounts brought rapidly into the country while transport companies are not interested in taking their small quantities of goods out. The extra paperwork involved is also often overwhelming. Finally, they feel it unjust that they must bear all the costs of prospecting for clients abroad while small English firms get subsidies; one was refused any financial help for a sales trip to Japan.

- 2.5.16. It seems then, that in general a greater effort at reaching these small companies with accurate information and at speeding up the provision of the promised benefits are both extremely important if aid measures are to be effective. Incidents such as those quoted above are particularly unfortunate for information about them circulates quickly and serves to reinforce the attitude described above where small firms feel that the less they have to do with any aspect of the public administration the better. They also reinforce the oft-expressed belief that nothing substantial is done for very small firms; even where special measures for small and medium firms are passed, it is the larger firms who benefit from them.
- 2.5.17. Finally, an example to illustrate the problems which they may be faced when an existing small firm wishes to increase in size, to improve its production facilities and physical plant and to move to a special industrial zone. The firm concerned, a company of 50 employees, specialised in metal surface protection, wished three years before to decentralise and move out of Paris. The Préfect of the département concerned agreed but two changes of préfect occurred before the firm could move and each had a different policy on pollution control. The company was summoned to appear before a hygiene tribunal. In the face of these difficulties the firm decided to move elsewhere, found a site on the Industrial Zone in a Paris suburb and asked for the special authorisation for existing enterprises (l'autorisation des entreprises classées) which is a shorter procedure. It nevertheless took one year to obtain this even though his file posed no problems. Each of the organisms to which he had to apply were late giving their response. It took 5 months to get the building permit as the Town Hall had lost it. He asked for a subsidy from the Energy Conservation Agency; that took a long time and finally was only 20% which he thought very little. Then there were loan problems. He asked for a loan from the CCHCI. He presented his dossier himself (short-circuiting the 'agents' who often do that) on 5th February and he was to appear before a Commission on March 7th. On March 6th he was asked for further information and his appearance put back to the 21st March and then, because of a mistake, to the 4th April. This obliged him in turn to put back the acquisition of the buildings.

## Chapter 6

### FUTURE ORIENTATIONS AND TYPE OF ENTERPRISE

- 2.6.1 Few of the companies contacted seemed to have thought much about the long term future. Many, as we saw, have not been investing in new machinery for a number of years and seem to have drawn in their heads to wait for better times. The real problems will occur when the existing equipment becomes seriously hard to maintain and productivity suffers. At that point, when some labour is likely to have already left and not been replaced the firms might go into a kind of downward spiral from which it is extremely hard to make a comeback. One or two, especially in the engineering sector, were already in or perilously close to that position. It was sometimes hard to see any way out, notably, for instance, in the case of several firms where the owners were aging but unable to sell the firm because its only value was the machines.

- 2.6.2. Many others, however, seem to be able to maintain a steady state reasonably comfortably. Making a little investment in the machines as necessary and perhaps seeking to diversify both products and clients, they do not seem to be in immediate danger. They are not, however, either likely to constitute an immediately available source of new employment opportunities, and notably not for young people.
- 2.6.3. There were also, at the other end of the spectrum to the first ones, some firms who in spite of the generally difficult economic circumstances, were in full expansion, taking on staff, diversifying products and both seeking out and attracting new clients.
- 2.6.4. There seem, in a general way, to emerge from the study three principal kinds of enterprise in the sectors and region examined.
- 2.6.5. The first is the small artisan or very small company in a traditional sector. Frequently these are the people who are in considerable difficulties. The patrons work enormously hard, are obliged to do everything themselves but are unable to, or are uninterested in, spending any of that time in prospection of markets and search for new products or clients. Still less are they likely to spend time following recurrent education courses or to encourage any of their workers to follow such courses. They are no longer investing in new machinery and have considerable liquidity problems. They have very little contact with outside agencies and generally feel that the future is not rosy, that the 'State' is doing little to help and is generally uninterested in their problems. They also often have problems of succession; who will take over the firm? Will it be saleable? These factors decrease their propensity to invest; increases their propensity to continue with the same production methods.
- 2.6.6. The following may be considered a case typical of this group of companies. Ironically the patron is depressed because although business is potentially good he is unable to organise the resources of time, labour, bank loans etc. sufficiently to expand as necessary and invest in new machines. This is now a micro-company; it used to be a little larger but has never really got beyond the artisan status it had in the father's time.

TYPE ACase No. 1

- 2.6.7. This is a tiny firm, with two people working in it, operating in the field of the placing of electrical circuitry in a motor or machine (bobinage) and in the transformation of existing circuits. They also do some agency work and some repairs. The firm was founded by the present owner's father in 1923 and the present owner, now 49 years old, is very disillusioned about the future. He complains that although his business is good and he really needs 5 workers, each time he has wanted to expand he has come up against so many difficulties that he has abandoned the idea. On an organisational level it is difficult; being such a small enterprise, he would need to take on one worker to replace himself while he went out prospecting for new clients but he says he cannot do that. Taking on a worker is a momentous decision (it would mean increasing the

labour force and costs by 50%). He thinks many small firms like him would take on extra people but the process is too complicated, too costly and leads to too many obligations in an uncertain market and economic situation. He says that his major difficulties in relating to taking on personnel are the cost of salaries but especially the charges sociales, and the lois sociales that protect employment contracts and make it hard to sack an employee if times become bad or the worker turns out to be unsuitable. He also complains about the cost of taxation and especially the flat-rate company tax.

- 2.6.8. The equipment the company uses is insufficient, much of it 15 years old, and he often has to sub-contract work out because of that. He only has one lathe. His clients are mainly in the public sector - the PTT, DBA and diverse industries. He complains that his efforts to get new clients, and to keep his existing ones, are damaged by the unsatisfactory way in which his telephone works. He has of course no telex and no secretary. His order book is only 8 days. He realises that in order to remain viable, let alone expand, he should make complete new electric motors or at least sell those made by others but feels unable to do this. His workshop, which is very old and dirty, may be expropriated and perhaps the move elsewhere may improve his prospects. At present he has no resources for improving the workshop. He has liquidity problems because of poor client payment practices and says even bills of 70 Fr. are paid at the end of 90 days. During that time he usually has an expensive overdraft at the bank, not least because his suppliers usually require cash payments before they will deliver.
- 2.6.9. The owner did his own training in an école d'électricité and he has a skilled bobineur working for him. He has no apprentices. He would have liked to have had one a few years ago but it was too complicated. He hates paperwork of all kinds. In the more distant past he had one or two apprentices but they stayed a maximum of a month because they found the work too dirty and preferred the advantages offered by a large firm. He has not recruited any other workers for many years. The last to leave retired in 1974 and the last in arrived in 1960 and is now between 40 and 50 years of age.
- 2.6.10 He pays a professional tax of 5000 FF and 3000 FF company tax. His biggest monthly costs are salaries and employer social security contributions. He does not have artisan status and belongs to the Chambre de Commerce. He also belongs to the Sydicat de la Construction Electrique but claims it does nothing useful. He also belongs to the GIM who provide lawyers etc. as necessary.
- 2.6.11. He sees no future for him in the present system and believes that nothing is done to help small firms of his kind. He claims that to manage in the present system, 'one has to cheat, to do work without bills etc.'. His own two sons have had a good education and have left the field. His daughter is not interested. Nobody will continue the firm after him, although he thinks he might envisage a partnership later.
- 2.6.12. The second kind of firm, in complete contrast, is especially dynamic, even though in some cases very small. These firms have a particular

product with an excellent market, often either linked to a high level of technology or scientific knowledge or to a luxury consumer product. The owner usually has a higher level of education. It may be appropriate to give two examples here.

TYPE BCase No. 1

- 2.6.13 This is a printing and publishing firm, located in the 7th arrondissement of Paris. It was created in 1975 by the present owner whose name it bears. The firm produces posters, calendars and other fantaisie, luxury or fashion goods. They market their goods through representatives who do a good deal of dynamic prospecting and through direct contacts. They export a lot. Starting with 2 people, they employ currently 60 people, 50 in the provinces and ten in Paris. Few of these are highly paid. The Paris staff are half commercial and half stock-room people. They are an S.A.R.L. with one gérant, the owner. They recruit staff through advertisements and on occasion use temporary agencies. Most of the staff are young, between 18 and 30 years but have 2-3 years' experience when they are taken on. They once had a 16 year old but did not keep him on. They work with an accountancy firm but otherwise do not address themselves to outside agencies. They are very optimistic about the future. They are working in a sector that is flourishing and the manager feels they know well how to best use the capacities of each employee.

TYPE BCase No. 2

- 2.6.14 Founded ten years ago by the present owner, this firm is in an area using advanced technology. It is an electronics company, making and installing diverse telecommunications systems, systems for aircontrol towers, burglar alarms etc. They work to order which they feel gives them an advantage over large companies in cases where clients need small quantities of very special equipment for instance. They work on appels d'offre, usually for public administrations, e.g. the RATP, in France and abroad (Columbia, Portugal). They have offices in Montrouge, a laboratory and workshop in Malakoff. They plan to regroup soon and move a little further out to Palaiseau.
- 2.6.15. They employ a total of 53 people, 23 in the offices and 30 in the workshops. They have two supervisory staff (chefs d'atelier) and a technical director. They often try to recruit staff through ANPE but as that is usually negative they resort to advertisements. They also recruit young engineers direct from engineering schools but after 2 or 3 years they usually leave for bigger companies. The firm regularly increases the number of employees by 1 or 2 a year. They have used on contrat emploi-formation for a girl in the technical drawing department and have had two young people on stages pratiques d'entreprise. But these have all led to a great deal of paperwork and the company does not feel like taking any more. They use recurrent education provisions when they are entitled to.

- 2.6.16. Their main problem is finance. When they get an order they usually have work for a year but they need to keep the firm running all that time and that can mean liquidity problems. Also they are never certain that one day they will not have orders although they are optimistic. They feel that the only effective helping agencies are banks. Their bank helped them get a special PME loan.
- 2.6.17. The third type of firm is that working in a traditional sector such as engineering but run in a modern and dynamic way. Usually these firms owe much to the personality of the person running them. These people are usually in early middle age and quite well-educated. Some of them have created their own companies but many have inherited them from their families.

TYPE CCase No. 1

- 2.6.18. This company, in the general engineering industry, but also doing some precision work, was founded 30 years ago by the present owner. The founder had a higher but not a technical education; he had in fact a licence de lettres. It has grown a good deal (from 14 in 1964) and now has 30 employees. This firm constitutes an example of product diversification, of thinking of the future and a dynamic outlook.
- 2.6.19. The company makes a diverse range of engineering goods for a range of clients. The firm sub-contracts to big companies and has an order book of three to six months, depending on the product. The owner thinks that engineering firms smaller than his have problems because they are unable to supply such big companies as he can. For his work he needs very complex equipment, of very high quality and a very highly skilled labour force. The clients are very varied. He makes flying equipment for Mirage jets and ground control equipment too. They make small machines and do precision work for Hispano Suiza, and make machine tools for almost all the major French car companies and even some foreign ones. They make laboratory maintenance tools and also artificial limbs for medical services. The longest order books are provided by the aviation industry. The other regular clients supply three month order books. The firm itself sub-contracts certain activities such as those relating to sheet metal work, cold metal work (emboutissage) and boiler making. The equipment in the firm is very modern and they have just invested in a machine à commande numérique. The workshop is in an excellent state; the firm has been there (Nanterre) since 1965 when it was expropriated from La Défense.
- 2.6.20. There are 30 employees, mostly highly skilled, P3 workers. Twenty two of them are in the workshop. The firm has a general labourer, a driver, a secretary and an accounts clerk. The working week is 45 hours, with more hours worked on Monday through Thursday. Recruitment is conducted through word of mouth information because the owner thinks that personality is very important and he likes to know personally the people he takes on. The labour force is very stable, especially the people aged around 28 years. The average age is 45 years but some youth are taken on as well. They currently have two, one of which is preparing his CAP. They have no apprentices. The owner prefers youth straight from school that he trains himself. He has never used special youth employment



schemes. The major problems in the company are fourfold; the cost of credit because clients are bad payers; the cost of the small equipment and raw material that needs to be bought every day; the cost of employer social security contributions; absenteeism, which was a major problem two years ago but he had controls done by a special firm and the problem has since decreased.

- 2.6.21. The owner is Treasurer of the local PMI organisation but claims no contact with other helping agencies.

TYPE C

Case No. 2.

- 2.6.22. This company located in Neuilly, works in the precision-engineering field and makes springs of all kinds to order. The owner, Spanish by origin, founded the business 27 years ago. For a while it grew slowly but for the last 4 years it has been growing fast. Over the last 10 years, the number of employees grew from 18 to 48. The owner explains his success by the fact that in his field there is less competition than in many engineering activities. He sub-contracts usually to clients of all kinds and sizes. His markets are everywhere but principally Paris and sales have been helped over the last two years by a little publicity. He could do with another workshop but is reluctant to move because he feels he is well-placed, between Paris and the suburbs and near many of his clients. He invests in new machinery every year and spends around 60-300,000 FF on it. He has his own lorry for transport.
- 2.6.23 He now has 48 employees, only (and this is highly unusual amongst the firms studied) about 10% of whom are skilled. He has, again unusually, 5 cadres but only 1 secretary. He also employs 5 women who work at home. He recruits through word of mouth information and uses ANPE on occasion for unskilled labour. The labour force is very stable; many have been there 10 years or more. He occasionally takes on temporary workers but usually prefers to sub-contract when he has too many orders. He especially does not want to increase to more than 50 employees because he does not want a comité d'Entreprise. He employs a few young people but uses no special youth employment aid. He has followed some stages, as have some of his cadres.
- 2.6.24. For finance he borrows on normal terms on the money market although through his bank he did get a special PMI loan to buy a new machine. He belongs to his professional body but has just left the GGPME which did not back him when he had a problem.
- 2.6.25. He is optimistic about the future. He has two daughters and expects the husband of one of them to take over the company from him.

PART IIIPOLICY CONCLUSIONS

3.1. Assessing the employment potential of small and very small or micro-companies involves the consideration of a number of different aspects of their activity and of the attitudes held by their dirigeants. A distinction has to be made, too, as to whether the question concerns essentially the employment of young people or all kinds of labour, whether it is extra employment that is to be created or whether it is the maintenance of existing employment rates that is sought and whether the policies of encouragement to such businesses are set in the context of overall economic development plans for the local areas concerned or whether the firms are to be singled out in policy terms from the socio-economic and geographical environment in which they are embedded. Different policies may also be necessary where it is a change in certain attitudes on the part of the patronat concerned that is required and where it is an improvement in objective practices or in the operational environment of the firms that is attempted. In both cases, it may be appropriate to try to act on both the educational and the organisational components of the activities of the companies concerned.

i) Attitudes to and education for youth

3.2. We saw above that there were 'objective' reasons for the hesitancy on the part of very small firms to employ young people but there is also the question of attitudes, of subjective or 'intuitive' feelings that young people constitute some kind of threat to the efficient and, above all, 'comfortable' running of such small enterprises. Young people seemed to many patrons to be in some ways vaguely menacing. Their ways of doing things, their sets of values, and especially the relative value accorded by them to work and non-work activities, their 'instability' and absenteeism are all aspects of young people and the behaviour that the entrepreneurial owners of small firms, even if they inherited rather than founded their companies, find especially hard to deal with. We saw above that they tend to define all their activities within the overall framework of the value of working 'hard', which involves both the quantitative component of effective use of the hours worked; above all time must not be 'wasted' or frittered away, it must be used 'productively', there is no room for thought, for reflection on the finality of the production (appropriateness of the product) or the organisational means by which that production is achieved. Where there is to be any thought on such matters, usually strictly confined to non 'working' hours then there is frequently a belief in the strict division of labour between the patron who thinks and the workforce who execute in spite of the fact that in practice in very small companies the need for thought about the production processes and the flexibility to deal with the unexpected problems has to be met frequently by the supervisory staff or long established and hence 'senior' workers. For the patron, the business is his life and the object to which he has devoted his life. Many senior workers share his attitude. Frequently, where the patron was himself once a worker in another

company, there is little difference in background between him and the older skilled workers and many senior workers in such firms must feel that working for a peer who has made the step to the entrepreneurial side is the next best thing to having made that step themselves. They are able to identify with the attitudes and practices pertaining in the company without undue difficulty.

- 3.3. That is not the case with many young people, however. Remaining in the school until the age of 16 or even 18 years of age, they have largely been formed within the confines of a value system founded on very different premisses. While, as many observers have pointed out, the school system contributes substantially towards the maintenance of the established division of labour, notably between manual and non-manual activities (e.g. Baudelot and Establet, 1972), it remains true that the people who dominate the school's activities know little of the demands or values of industry and a fortiori of small industry. Teachers frequently (and for very good reasons) adhere to ideas that denigrate the contribution that industry makes to the surrounding society and suggest the need for overturning the established productive order. Youth, too, in their turn, in many cases unhappy in the school system where they resent the disciplinary attempts of many teachers, find in each other's company an encouragement to the rejection of school seen as oppressive but also of all constraining systems. Frequently pushed by the criteria of educational selection systems into particular filières (and notably the technical streams in France, leading out into industry) rather than entering them through their own choice, one may hypothesise that many young persons develop already within the school system extremely ambivalent attitudes to the trade they are preparing and that they are unlikely to accept in abstracto the 'need' to 'do a job well'.
- 3.4. Secondly, learning a trade within the education system involves learning specific techniques abstracted from the constraints and pressures of practising it in an atelier. Young people learn only the 'trade' as such and not the administrative problems, the need to keep difficult clients, the need to placate fiscal and financial institutions as well as to ensure regular supplies that surround that trade in a small business. They know nothing of low profit margins, of risk capital, of the need to weigh present benefits against future gains, of the anxieties engendered by short order books, in short of the complex web of constraints that lie behind supervisor and boss's imperious requests to 'do the job properly and do it by tomorrow'.
- 3.5. Without in any way suggesting that the inherently positive 'contestataire' attitude of young people should as such be diminished, policy-makers in educational circles have become increasingly aware of the need to make young people more aware of the real constraints on productive activity. Sometimes this awareness has been translated into action in the form of 'work experience' courses and, more generally, of the promulgation of measures destined to 'ease the transition from school to work'. While many of these measures have considerable value, they may not be sufficient where it is necessary for young people to understand the particular circumstances involved in the management and in working in small and very small businesses.

It seems everywhere to be the case, for instance, that no efforts are made in schools to establish the importance of working in teams, of being able to work in collaboration with others, of being flexible.

3.6. It would seem, then, that this extra element may be added to school courses where it is hoped to train young people to work in small enterprises. Even more important, it would be useful for schools of all kinds to experiment with different kinds of 'entrepreneurial' education. These may involve at the least a revision of the curriculum such that young people are taught about entrepreneurial business activity. It may, however, be more effective to reorganise the whole way that technical skills of different kinds are taught and to follow an example coming from the United States of America, whereby technical school teachers become in effect 'entrepreneurs' and teach technical skills while producing real goods sold to the outside community by 'school enterprises'. While such activities need to be considered very carefully with a view to maintaining both the independent values of the school and to avoiding conflict with established local businesses and trade union organisations, it may nevertheless be an innovation well worth considering in serious attempts to improve both the employment chances of young people in small businesses and the chances of success indeed of the businesses themselves.

3.7. There may thus be educational policies which it is important for policy-makers concerned with employment and small businesses to consider.

ii) Education for patrons

3.8. So far we have discussed such educational policies in relation to youth. It may, however, be appropriate to consider, too, educational courses aimed at the managing patrons. Such courses may need, of course, to contain technical elements and be directed at particular points of weakness identified in such firms, notably marketing and prospecting for clients, pricing and administration. Imagination needs to be shown amongst policy-makers in seeking new ways to package the courses, and modify their content, so as to make them seem of more pressing urgency to the busy small businessmen who, though he may well find his life simplified once he has absorbed the course content, may reject them because he is obliged to make choices in an extremely limited timetable. Particular efforts need to be made to make the courses appropriate to the conditions of small and micro businesses; as has been increasingly pointed out (cf. e.g. Gervais, M.; 'Pour une théorie de l'organisation PME', Revue Française de Gestion, No.15, pp. 37-47.1978) business school management courses do not cater for these.

iii) Improving delivery systems

3.9. It is clear from the present study that there are in effect 'working class' and 'upper' or 'middle' class small businessmen. Each kind has specific socio-economic characteristics and a very different educational level. It may be wise for the policy-maker seeking to encourage small business activity to distinguish clearly between the two types and direct both the content of policies and their delivery systems according to the type of target clientele

envisaged. Courses and other helping measures aimed at the second kind may be perceived as totally inappropriate by the first who nevertheless especially in the small-scale engineering sectors, whether 'general' or precision, probably predominate, in existing businesses at least. Understanding clearly, if not adopting, the framework and perspective of the policy's client population would seem a major step still necessary in many cases.

- 3.10. Taking this step involves, for example, the policy-makers comprehending that they are dealing with a population who differ fundamentally from themselves. Independent, frequently ill-educated and often well into middle age, small businessmen reject what they conceive of as 'bureaucratic' solutions to what to them seem to be essentially non-bureaucratic problems but more to be problems of ambience, of mentality and of general policy outlook on the part of the rulers of the society. Recourse to 'bureaucratic' solutions is often seen as a pis-aller, as a failure to live up to the values of independent enterprise, unless such recourse can be presented as getting round 'the rules' and circumventing other action by hostile political and governmental powers. Increasing the 'interference' powers of the public administration, even though with benevolent intent, may not, therefore, be an appropriate solution in this case. In contrast, particular attention should be given by the competent powers to improving the delivery on the ground of the services already provided by the State and lightening by mitigating where possible the unavoidable constraints imposed by state taxation and fiscal systems (charges sociales etc.). Effective delivery of what is already available, and this means perceptibly more effective delivery, on the ground would go a long way towards warming the feelings of the independent patron towards the public sector and increase the likelihood of given measures finding a receptive audience.

iv) The legal framework

- 3.11.1 The empirical study quoted above showed that for a number of patrons the legal framework of their activities weighed heavy in the balance about employment decisions and especially where job creation was concerned. Two particular points stand out and deserve attention.
- 3.11.2. a) one may concern the need to reduce the consequences in terms of organisational obligations and financial outlays (taxes etc.) linked to the number of employees. Many firms hesitate to go beyond nine employees because of the added obligations and the change of legal status involved where they have ten or more. This is notably the case for artisans. Attention should be given to the real need for this cut-off point and to whether it might not be possible to bring in changes progressively such that any given additional employee does not at the margins look like an 'all or nothing' decision.
- 3.11.3. Fifty employees is currently also an important watershed figure because of the obligation on firms with more than that number to institute a Comité d'Entreprise, a step many small patrons, with their 'familial', rather paternalistic outlook fear. Their fear of 'management' problems at 50 or more employees is often essentially

a fear of the consequences of a Comité d'Entreprise. While recognising the reasons for the institution of these Comités and also that policies directed at the encouragement of small businesses should not infringe on hard-won rights by workers, it may be appropriate to consider means by which a modification of the law could be made here in the interests of all parties.

3.11.4. The question of the number of staff and its implications also needs to be considered in relation to part-time workers. At present many small firms hesitate to take on workers part time, although frequently that is a solution that would suit their productive needs very well, as can be imagined from the empirical study, because each part-time worker counts as a whole one for calculations about the size of the firm with sometimes far-reaching implications on a number of points. Attention might be given to ways of reducing these consequences in the case of part-time workers.

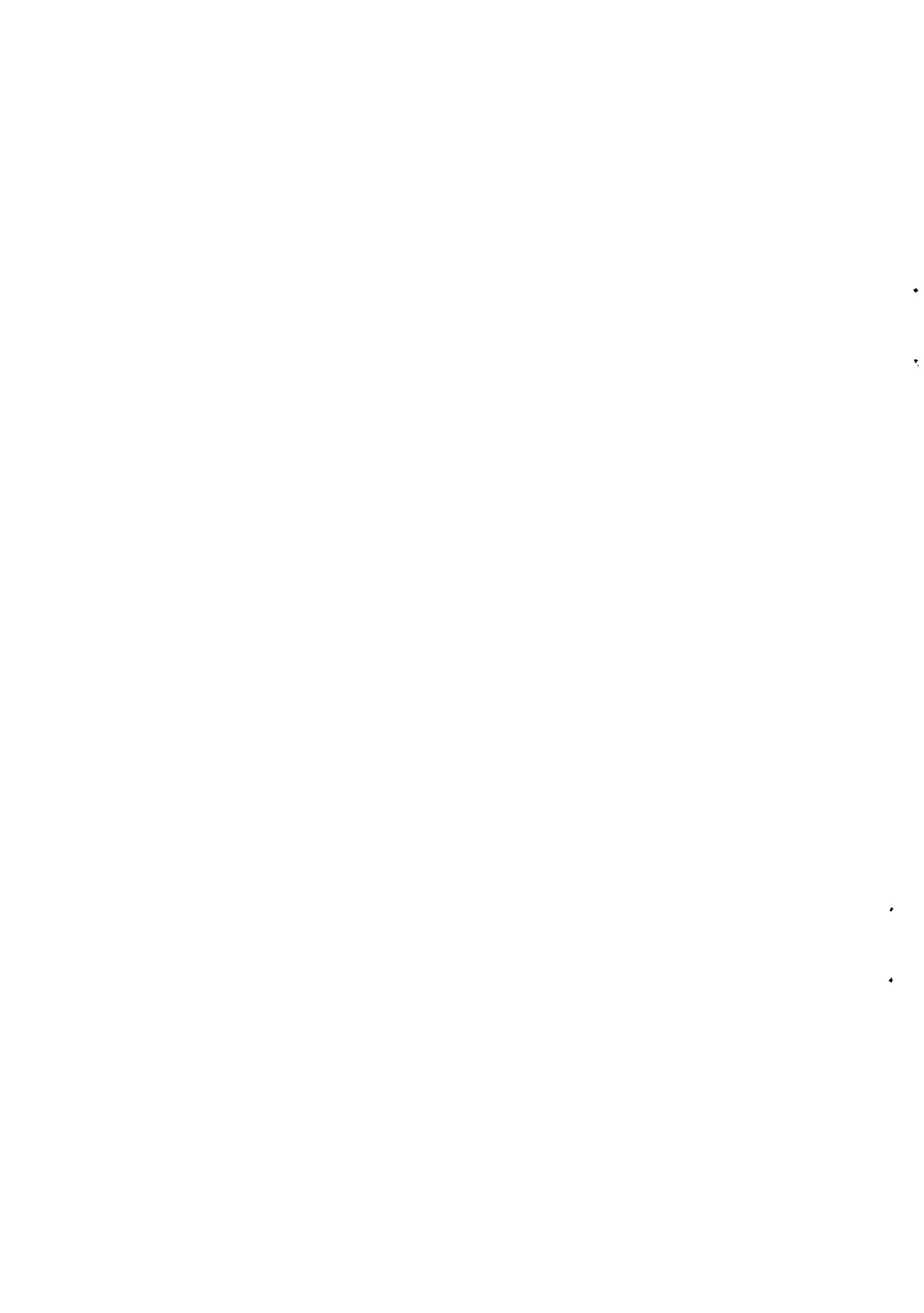
3.11.5. b) The second concerns the taxation liabilities of small companies and the possibilities of adapting the taxation required to the frequently rapidly changing fortunes - for better or for worse - of small and very small companies.

v) 'Collective' solutions to individual problems

3.12. Recognising the sociological and psycho-sociological characteristics of and differences between different kinds of small businesses may involve the policy-maker in developing policies that cover a broad front. In particular and in addition to some of the measures suggested above, it may suggest an approach which attempts to overcome the 'individualism' of such small firms where that characteristic is a disadvantage to their successful activity. This may be particularly appropriate in the case of the kinds of firms which we termed earlier 'working class' firms where the owners lack good general and a fortiori commercial education and find it hard to come to grips with the need for specialist courses, for technological innovation, with complex administrative steps, with the possibilities of client prospectation and where, above all, the patron is unable to take time to deal with these matters or where they have a low priority in terms of the use of valuable time.

3.13. One solution to labour problems, which is aimed at overcoming both the demands for high skill standards and the problems of high and low points of client demands, is the establishment between firms of a 'labour exchange' between themselves. This system, whereby a group of local employers within the same industry 'loan' each other labour for the cost of wages alone has been found to exist in the West of France (see an unpublished study by F. Dupuy et al.) It was not found at all in the Paris suburbs studied but would clearly have been of considerable help to a number of companies. While the system of itself does not mean increased employment opportunities, its existence could create a cushioning effect; sure to be able to employ their workforce productively even at times of scarce

- orders in their own firms, participating employers might well be more prepared to take on an extra person or replace one who left than where they have to bear all the risks of employing extra personnel themselves. It might seem useful for national policy-makers but also for professional associations and syndicats to find ways of encouraging this system of 'labour pools'. They are administratively fairly simple and preserve workers' security, two other criteria important here.
- 3.14. It may also be possible to envisage skilled workers organising themselves into their own companies which hire out labour on a more or less permanent basis. 'Labour pools' essentially involve employers 'loaning' workers to other employers but it may also be possible for workers to create their own pools, with the conditions of work and employment that they wish for as they would be their own employing organisation. The principle would be closer to the present 'interim' system but involve societies of skilled workers running their own 'agencies', possibly on a cooperative basis. This sort of organisation could be a possible counterweight to policy measures which seek to encourage small businesses by acting on the improvement of conditions for the patronat alone, some of which may be to the detriment of established workers' rights.
- 3.15. Finally, it might also be useful to envisage the more effective provision of collective solutions to other problems, such as client search or marketing more generally, such as the investment in and maintenance of technologically more advanced equipment. Much machine-sharing has been operated successfully in agricultural machine cooperatives; there seems no a priori reason why such solutions should not be applied in at least certain sections of industry and would be especially suited to the needs of small and very small firms notably in areas of concentration in particular industries as in the other industrial suburbs of Paris. Small steps in the direction of the provision of collective services are being taken in a number of countries but usually are restricted to the provision of space and office equipment and services. Learning from the successes and failures of these innovative strategies, it may be possible to extend them to cover other areas of operational activity in a variety of kinds of small enterprises.
- 3.16. It is not clear, however, how far it is possible to link all kinds of businessmen in such ways, not only in terms of different productive needs, but also bearing in mind the attitudes and characteristics of many of the small businessmen contacted in this study. Here, too, it may be well to keep in mind the necessity of trying a variety of solutions, with a variety of small business "clients" in mind. Indeed, one of the most important policy lessons to be drawn from an empirical study of this kind is the need to move far more towards adopting a series of flexible, small scale, measures, adapted and adaptable to the variety of needs and circumstances revealed, and to move very firmly away from overall policy solutions which, while they may seem to have a desirable symmetry of treatment by their very symmetry, risk passing by the real needs of their constituents.





PROGRAMME OF RESEARCH AND ACTIONS IN THE DEVELOPMENT OF  
THE LABOUR MARKET

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SMALL INDEPENDENT ENTERPRISES AND THEIR ENVIRONMENT:  
FACTORS AFFECTING THE MAINTENANCE AND GROWTH OF  
EMPLOYMENT AMONG SMALL INDEPENDENT ENTERPRISES

MAIN REPORT: IRELAND

Pilot Study in the City of Cork

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For:  
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## PART I

### Introduction

This report forms the Irish contribution to a tripartite research project involving pilot studies in three localities in France, Ireland and Scotland. Each of the empirical studies is necessarily 'local' but since they are examined against the context of small business operation in the different countries they clearly have wider reference than the localities of Cork, Aberdeen and south-west Paris which they describe. In addition this report, like the others, draws on some of the findings in the other areas to illustrate points and highlight aspects that are common to the smaller enterprise in each area or are particularly characteristic of the Irish experience.

The Irish study is based on data derived from interviews with sixty independent firms engaged in engineering and associated production, assembly and servicing in Cork city and environs. The research was designed to give an impression of the practical problems of operation of enterprises with fewer than 50 employees and to assess the experience of these enterprises with regard to planning and policy initiatives designed to support or monitor industrial development. Thus both the internal structure and the external environment within which the small firm operates were given prominence in designing the study. Although the small firm has been the subject of considerable discussion in recent years in Ireland and elsewhere it has tended to receive little direct attention in comparison with the larger units of production. In general government policy, management training and research activity have focussed on the large corporate enterprise and the small business has been left to get on by itself. In Ireland the major thrust of economic policy in the 1960s was the encouragement, through a variety of incentives, of investment by large multinational companies. This was in line with the general evidence of the long-term decline in the significance of the small firm in the Irish economy. Since 1967 however, the Industrial Development Authority initiated a small industries programme and since that date government policy has tended to reassert the importance of the contribution of the small firm to industrial output and job creation (cf. Small Industries Programme; Annual Report 1977 and Review 1967-77, Industrial Development Authority, 1978). In consequence specific efforts have been made to reach small firms, especially in the manufacturing sector, to stimulate employment, training and development.

It is, however, remarkably difficult to 'scale-down' programmes designed in terms of large, efficiently managed enterprises to the needs of many of the small businessmen who are virtually engaged in a one-man operation. Undoubtedly the structure of the large bureaucratic agencies designed to implement national policies rarely provides for the unique, once-off requirements of many small businessmen. Equally such agencies may be unable to take decisions or implement policies in the necessarily high risk climate which characterises many of the small business initiatives. Again many businessmen value the independence of action that is made possible in the very small firm. Consequently, they may be impatient of the requirements of the helping agencies, impatient of procedural rules and intolerant of delay.

Not surprisingly empirical study of the small enterprise faces somewhat similar difficulties. It is difficult to discover how many firms exist let alone details about them since published sources either exclude the very small enterprise or tend to be very much out of date. Meetings with owners and managers may equally be difficult to arrange where they may have little time for anything but the day-to-day necessities of the 'shop'. It is hardly sur-

prising that one British study should conclude that a large number of firms, especially with 1-10 employees, could go through their entire existence without ever entering the government's statistical net (cf. Firm and Swales, Regional Studies, 1978, Vol. 12, no. 1).

In Ireland, as elsewhere, the context within which the small firm operates has many negative features. To a large extent these relate to differences in scale which create practical difficulties in financing capital investment and cash-flow, purchasing and stockholding and marketing. In general terms the smaller the unit the greater the cost and this tends to apply to all aspects of the small firm's activity. What may be broadly defined as 'the paperwork' may make disproportionate demands on the resources of the small enterprise and in general this has become increasingly evident with the growth of PAYE, VAT and harmonization measures introduced under EEC agreements. In addition they may be dependent to a much greater degree on the unique characteristics of the founder and his staying power. A number of recent studies (cf. Boswell, The Rise and Decline of Small Firms, Allen and Unwin, 1973 and Bannock and Doran, Small Firms in Cities, The Economists Advisory Group, 1978) have recalled Alfred Marshall's statement that:

Nature still pressed on the private business by limiting the length of life of its original founders, and by limiting even more narrowly that part of their lives in which their faculties retain full vigour, and so, after a while, the guidance of the business falls into the hands of people with less energy and less creative genius, if not with less active interest in its prosperity.

(Principal of Economics, Macmillan, 1890)

The present report describes the conditions of operation of a set of very varied small industries in a particular structural setting. As with the associated studies the main contribution of this report is to provide an account of the situation of the small firm from the viewpoint and perspective of the small employer so far as the analyst can interpret that perspective. As a perspective it will of course be flawed and partial, and based on particular experiences and encounters. It is to be hoped that an increasing number of studies will build up our knowledge of the small enterprise and its management in Ireland and supplement the information gathered from this pilot study.

This report is divided into four parts. The first describes the sample and analyses the characteristics of the firms studied and makes comparisons, especially with the Aberdeen sample, on the basis of the responses to the questionnaire data. The second analyses in some detail the firms on the basis of three size categories particularly in relation to the type of production, origins, personnel, recruitment and training, markets and supplies, and expectations for expansion and job-creation. The third part of the report considers relations with outside agencies including the banks and the Concluding section suggests possible initiatives or adaptations to present strategies for the small enterprise.

## CHAPTER I

### Sample Selection and Fieldwork

- 1.1.1 The small firm is the characteristic manufacturing unit in Irish society which with late industrialisation shows a diversified and distributed industrial pattern compared to other European societies. The small firm sector accounts for an estimated 87.7% of establishments and 13.6% of output and 21% of employment in the Irish Republic. These figures assume that we define the small firm sector as under 50 employees and rely on statistical data that is only fully reliable up until 1968. These figures also exclude establishments with 3 or fewer employees.
- 1.1.2 Even within the under-fifty employees definition the tendency is for small firms to be mostly found at the lower end of the scale. Two-thirds of small firms in Ireland have less than 10 employees. Small firms are distributed fairly equally as a proportion of manufacturing industry, but there is considerable variation between the dominant Eastern sector which contains 40% of all manufacturing industry and other regions.
- 1.1.3 The location of the empirical part of this study that was decided on was Cork City and its immediate hinterland. This was suggested for both external and internal reasons. Externally it suggested a number of significant aspects for comparison with the study of Aberdeen. Most notably is the extent to which it was divorced from the main area of industrial growth and had recently experienced the stimulus of offshore oil and gas exploration. The South West region had more-over the larger percentage of firms with less than 50 employees with a strong concentration in the engineering sector.
- 1.1.4 Cork City and its environs represents the focal point of a demographic shift for a wide hinterland. Continuing decline in agricultural employment together with a high rate of natural increase have tended towards population growth in the city area. This has been matched by a total increase in employment in the period immediately leading up to the last full census in 1971. This is indicated in Table 1 below.
- 1.1.5 The structure of employment in Cork City has also altered with regard to sectors of production. The emphasis in the past, generated in part by the heavy emphasis on agriculture in the economy of the hinterland, was on foodstuffs, textiles and engineering. There has been a considerable decline in animal foodstuffs and textiles, the latter particularly experiencing a sharp decline with the closure of cotton, fabric and carpet factories in the area. There has also been a decline of manufacture generally in the central city area and a consequent dispersal of new firms outside the city or down the river approach where land was cheaper and the availability of water and access to the port were attractive features. This has been particularly the case for chemical plants and for export-based firms.
- 1.1.6 On the basis of an agreement reached with co-researchers directing the comparison projects in Aberdeen and Paris the sample quota was set at 60 independent enterprises with less than 50 employees engaged in activities in a broadly defined engineering sector. The fieldwork in each study was conducted during the spring of 1979 and broad comparability was achieved with regard to the general structure of

Table 1.1

Cork City, Environs and Harbour Area<sup>1</sup> Net Change in Employment 1966-71

<u>No. of Persons Employed</u>			
<b>agriculture</b>	<b>manufacturing</b>	<b>services</b>	<b>total</b>
-585	+606	+1533	+1554

<sup>1</sup>This area compared closely to the survey area. Adapted from Cork County Development Plan (September 1978), Table 2.

the interviews while making allowance for local conditions and emphasis. Thus each pilot study was considered to be autonomous within its own national territory but there was a strong expectation that the data from each study would permit comparison. Unfortunately, agreement on details at the later stages of design were prevented by the postal strike in Ireland referred to elsewhere.

- 1.1.7 The area for the study was defined as the Cork City telephone district. This (021) dialling area covers the whole of the city and its immediate environs and includes all of the downriver areas together with Kinsale to the west and Midleton to the east. The boundaries of this roughly form a zone with a 15-mile radius from the city centre.
- 1.1.8 The firms included in the sample were to be independent in the sense that they had their head offices in the survey area, were not subsidiaries of other firms or part of a large group of linked firms. They were to be involved in the manufacture, assembly or servicing of those sections of the engineering industry that were concerned with metal, electronics, chemicals, plastics and marine work. It was recognized that these definitions were not initially exclusive and a number of firms would be involved in assembly and servicing as well as manufacture or would be using more than one of the specified raw materials. The following categories were specifically excluded from the sample: firms engaged solely in buying and selling; consultancy firms; tradesmen such as plumbers and electricians, car mechanics or garages; firms working in clothing, fabrics, food, transport and communication, or firms where the raw materials were predominantly wood, fabrics, stone or leather. In practice local conditions led to a departure from these categories so as to exclude electronics in Aberdeen and to include stone-work and to include some woodworking in Cork.
- 1.1.9 The limitation on size was again somewhat arbitrary. The firms included were to have no more than 50 employees and there was no lower limit so that one-man enterprises that satisfied the other criteria could be included in the sample.
- 1.1.10 The satisfaction of criteria such as these depends on the adequacy of the information available at the sampling stage of the research. No comprehensive lists were available which characterised enterprises in terms of the criteria relevant to the study. Consequently



a sampling frame had to be built up using lists that were available such as the Irish Engineering Directory (Institute of Industrial Research and Standards, 1977); The Undertakings Register (Administrative Research Bureau, Trinity College, Dublin, 1978); Offshore Services to the Oil Industry (Institute of Industrial Research and Standards, 1979); The Small Industries Programme Annual Report (Industrial Development Authority, 1977); Thoms Commercial Directory for Cork (1975). In addition to these sources, considerable assistance was provided by Dun and Bradstreet, the Institute of Industrial Research and Standards, the Cork County Development Office, the Cork Chamber of Commerce, and the Industrial Development Authority in eliminating from the list firms which did not meet our criteria, had ceased to trade, or which had become larger than the designated size since the available information was collected.

- 1.1.11 The final list contained 91 firms and a positive response to contact was obtained from 49 of them. In order to make up to the quota of 60 an attempt was made to discover further relevant firms. Significantly 8 out of the 11 additional interviews were obtained by approaching firms which were noted while carrying out the first phase of the interviews and which were not listed anywhere, a further three arose from following up suggestions from one interview and use of the telephone directory. The fact that chance observation could readily produce a number of appropriate firms suggests that such lists which exist, already somewhat dated, do in fact under-represent the real economic activity of this sector. This supposition is supported by the fact that 8 of the final 11 were relatively new firms founded during the 1970s. There is also a fairly high probability that in many cases publicity and formal recognition may not be sought. In the very small firm which is not registered for VAT or PAYE and is not a limited company, there is less likelihood that it will be included in any official listing. If it has not applied for aid from any of the major agencies it is unlikely to be on their records. Additionally, as in the case of one firm in the sample, publicity may not be sought because orders and markets are already secure and adequate. One firm was not listed in the telephone book for this reason.
- 1.1.12 Our experience will not, of course, be particularly surprising to anyone who has worked with the very small enterprise. Clearly a sample based only on official records or published lists will be biased in favour of size and length of existence. While some bias may have resulted from the exclusion of a number of very small firms in this study it is unlikely to have had any serious effects. Clearly it was beyond the resources of this particular project to overcome this sampling problem by a comprehensive investigation locating and listing all the undertakings in the area. Even if it had been possible it is doubtful, for the reasons already noted, if it would have fully solved the problem. Clearly the small enterprise by definition involves a dynamic population of firms in the process of creation or dissolution, includes some that retain a stable population and others which grow rapidly beyond the size limits that we set. Investigation in this area must take these characteristics into account.

- 1.1.13 The fieldwork was to be carried out in the period between March 1 and May 31 1979. Each interview was based on a questionnaire which covered the main items agreed as common to the three pilot studies. In addition it was agreed that the interviewer would supplement the responses to questions with additional comments on the respondent, the firm, the premises and any other points that seemed worth recording. In practice the pre-testing and final design of the questionnaire took longer than estimated so that interviewing in fact began on March 20 and was completed by May 24 1979.
- 1.1.14 This period coincided with the nationwide postal strike so that it proved impossible to contact respondents initially by letter. In all instances, therefore, the first contact was by telephone but this proved a satisfactory method and there was no undue difficulty at the contact stage. Indeed, there was obviously some advantage where any initial reticence could in most cases be set aside by immediate explanation regarding the purpose of the study. In contrast to the Paris study the response was extremely good and there were only 8 refusals. Telephone contact had additional advantages also in that it gave greater flexibility in making appointments and arrangements of interviews which had to be filled in between the other constant commitments of small businessmen with little time to spare for anything that they might consider inessential. Many of the smaller firms that we visited depended on the 'owner' participating fully on the shop floor and in the smallest firms management functions such as accounts etc. were often achieved in spare time after a long working day. Nevertheless, in most cases it often took a number of calls by telephone before an interview was obtained.
- 1.1.15 All of the interviews were undertaken by Dr. Joe Boyle, a sociologist with a background in computing and physics who is a resident of Belfast. Although most of the success of the survey must be attributed to his skill and experience as an interviewer, it is also believed that his background gave him a particular advantage as an outsider to Cork but equally not from the capital city, Dublin.
- 1.1.16 Each interview lasted between 1½ to 2 hours which was considerably longer than anticipated and partly was attributable to the progressive relaxation of the respondent as the interview progressed and the pleasure which many of them evidently felt in talking to a sympathetic listener about the small firm with which they were involved.
- 1.1.17 The questionnaire included a final item asking whether the respondent wished to receive a copy of the final report when it was published. It is some indication of the success of the fieldwork that all of those who completed the interview replied affirmatively to this question.

## CHAPTER II

Conditions of Operation of Firms Studied

- 1.2.1 As will be clear from the previous section describing the sample, the productive activities of the firms studied varied widely even though in a broad sense manufacturing and assembly in the engineering sector remained the focus of the study. Many small firms are mixed-activity operations, either because they are essentially 'jobbing' and adapting to the needs of particular contracts or they embody a large degree of servicing or agency work as well as manufacture. The level of technology tends to vary in relation to the needs of the product but in general the pattern is one of predominantly hand-operated machinery manufacture under the control of a single operative. Automatic processes are relatively few and there still remains a significant amount of work based on hand-tools in firms in this size-range. Table 2 below shows this distribution clearly.

Table 2.2

Distribution of Full-Time Employees by Size of Firm and Sector (Percentages)

<b>No. of Employees</b>	<b>Manufacture</b>	<b>Services</b>	<b>Other</b>	
1 - 9	36.0	48.0	16.0	41.7
10 - 19	20.0	46.7	33.3	25.0
20 - 29	37.5	25.0	37.5	13.3
30	<u>41.7</u>	<u>33.3</u>	<u>25.0</u>	<u>20.0</u>
	33.3	41.7	25.0	100.0

N = 60

- 1.2.2 These findings should not be considered in any way surprising. Not only does the size of operation limit the possibility for large-scale automation in terms of capital outlay and the space required, in most manufacturing processes of the kind we are considering it would be inappropriate and inefficient. Only in certain of the processing areas, such as film developing, or chemical manufacture, is there likely to be a developed automatic process of production where the small size and high unit output give a reason to make the initial capital outlay.
- 1.2.3 If we follow Joan Woodward's distinction we can describe 31 of the firms in our study as craft production, 10 as batch production and 6 as line production. The remaining 16 use a mixture of productive processes and cannot be readily categorised. Again this relates somewhat to the product or products and to the agency and licence work in which the firm is engaged.
- 1.2.4 These divisions were further analysed with regard to the nature of the technology involved and sector. Line production does not exclusively depend on high technology and of the 10 firms described as having a highly technical operation only one fell into the line category and half of them were in fact craft operations. More than half of the firms, however, are categorised as untechnical - with a relatively unsophisticated production process, again usually implying craft or batch production, though even here three firms operated a line operation.

- 1.2.5 With such a small sample it would be labouring the point to break the analysis down in much greater detail. There is evident variety in both production process and level of technology and the two variables are not substantially related. A much clearer indication of the relevance of technology is apparent in relation to the nature of the industrial plant. In general we found that a surprisingly high proportion of the firms that we studied had purchased new machinery and only 13% had machinery that was secondhand. Of the eight firms with secondhand machinery 5 of them were at the non-technical end of the spectrum and only one was in the high technology sector.

Table 2.3

Level of Technology by Size of Firm (Percentages)

No. of Employees	Hand-Tools	Hand-Operated Machinery	Automatic Machinery	Total
1 - 9	20.0	76.0	4.0	41.7
10 - 19	6.7	93.3	0.0	25.0
20 - 29	0.0	100.0	0.0	13.3
30	16.7	58.3	25.0	20.0
total	13.3	80.0	6.7	100.0

N = 60

- 1.2.6 Perhaps more directly relevant was a question in the survey regarding the extent to which the machinery was product-specific, e.g. capable of only one type of function and therefore incapable of adaptation to changing needs. Somewhat surprisingly we found that only in 6 areas of which four were in the manufacturing group was this the case. The large majority, including 80% of the manufacturing firms have machinery that is adaptable and flexible in response to changing demand and changing needs.
- 1.2.7 Half the firms in the sample were engaged in manufacture of some kind, a little over 40% were engaged in fabrication of metal and a further 8.5% were involved in other forms of fabrication of products. These taken together constitute the 'productive' sector in the sample as distinct from the service, agency and selling activities of the firms that were studied. In this section the conditions of manufacture are considered, the type of product and those aspects of production in the small firm setting.
- 1.2.8 As indicated in the previous section, 61.7% of the firms in the sample were concerned directly or indirectly with metal. Nine were unambiguously manufacturing, 16 were engaged principally in the service sector to the engineering industry and a further 12 were involved in a mixture of assembly and other activities. For a small number of firms the dominant raw material was not metal; for three it was GRP, for 5 plastic, for 4 chemicals, for 3 electrical components and for 3, wood.
- 1.2.9 The supply of raw materials is always of major concern to a manufacturing enterprise and for the small firm it tends to present particular difficulties with regard to storage and capital commitment. Most small firms have limited space and cannot conveniently provide storage

space and conditions for raw materials. In consequence they are forced into a purchase situation of 'little and often' with the consequent result that they tend to lose those benefits of favourable price, extended credit, and guarantees of supply available to the large manufacturer. It also tends to make the small firm, except where specialist materials are concerned, very dependent on local stockholders and other middlemen. For our sample as a whole 43% of the firms received their supplies from local sources while thirteen firms (22%) depended on suppliers elsewhere in Ireland; significantly though the port facilities available in Cork meant that a further 19 firms brought in supplies and raw materials from abroad. This last finding may, of course, reflect the degree to which dependency relations of Irish industry within the world economy tends in any case to encourage the growth of assembly and 'agency' production in peripheral areas. As will be noted these figures contrast quite markedly with the situation in Aberdeen in which only five firms (11%) receive supplies from abroad.

- 1.2.10 The locality of suppliers in Cork is in fact more strongly emphasised in the service rather than the manufacturing part of the sample, and whereas 50% of the 20 predominantly manufacturing firms in the sample rely on overseas imports of raw materials, this is true of only 20% of the 25 firms in the servicing group.
- 1.2.11 The supply of raw materials and supplies is of course, closely related to indirect costs of the operation such as transport. We report elsewhere on the transport vehicles used by the firms which, clearly influences their capacity to be independent of uncertainties of delivery. In practice only eleven (18%) of the firms in the sample collected their own supplies and the remainder relied on delivery but this is no doubt linked to the extent to which imports dominated in many cases and were channelled through shippers who provided delivery in conjunction with customs clearance services.
- 1.2.12 The need to rely on an extended delivery time in relation to overseas imports is also indicated with reference to the results to a question on the timing of orders. Here, whereas the situation in Aberdeen is one of apparent ready availability so that 64% of the firms merely get their supplies 'when needed' in Cork this is only true of 43% and 24 firms (40%) had regular weekly or monthly orders while a further 7 firms received supplies on a more extended periodical basis.
- 1.2.13 Available space is also a factor where the distribution rather than the collection side is concerned. Therefore, the extent to which space is taken up in the storing of manufactured stock, its maintenance and insurance is particularly an important variable for the very small firm. Seventy five per cent of the Irish sample keep stocks and, as might be expected, this rises to 85% of the manufacturing section of the sample. Seventy per cent of the firms in the Cork sample claim to insure their stocks, a figure significantly higher than the 47% who claim to insure stocks in Aberdeen. It is quite clear that if it was possible to keep more stocks on hand these firms would do so. In the case of 75% of the Cork firms this is felt to be an inhibiting factor often the result of the financial effects of tying up too much of the operating capital in stock, which both reduces the ability to keep the stock itself and also increases reliance on a steady outlet. It is interesting to note that 58% of the firms claimed that lack of finance was the primary reason.

- 1.2.14 In spite of all these difficulties in fact 38% of the firms considered claim to keep large stocks and this is borne out by the valuation of stocks and work in progress which both affect the cost of insurance and represent capital tied up. There was great variation between the various firms on this item but it is worth noting that even in these small firms quite significant amounts of money are involved in these two items:

Table 2.4  
Valuation of Raw Materials and Stock

	<b>Under £2,000</b>	<b>£2,000 - £20,000</b>	<b>Over £20,000</b>	<b>No Information</b>
Raw Materials	20	17	22	4
Work in Progress	18	18	12	13
Completed Work	35	11	6	8

Obviously these figures are compiled from estimates made by the interviewee and can only be taken as a very general indication of the dimension of this aspect in the financial arrangements of the small firm.

- 1.2.15 Another aspect that greatly affects financial liability is the cost of wages. Information made available is again based on the interviewee's estimates:

Table 2.5  
Cost of Wages

	<b>Under £1,000</b>	<b>£1,000- £2,500</b>	<b>£2,500- £8,000</b>	<b>Above £8,000</b>
Manufacturing	4	5	2	9
Service	5	8	6	6
Other	1	1	11	2
Total No.	10	14	19	17
Total %	16.7	23.3	31.7	28.3

We will return to consider this matter when looking at the overall operating costs of the small firm. At present our interest is related primarily to the utilisation of space and plant and the production facilities available.

- 1.2.16 A number of questions were directed at the matter of the adequacy of the premises and in addition to the responses from the interviewee the interviewer was asked to make an assessment. Of the sixty firms in the sample only 6 were considered very modern and most (62%) were thought to be 'standard' or adequate. Fifteen of the firms clearly had very poor premises some of which were in a run-down condition. In spite of the fact that the large majority of firms in the sample have been created in the last twenty years 68% of them have premises that are more than ten years old. This is perhaps of more significance when it is noted that the greatest part of the sample were operating in premises located outside the city centre and urban area

of Cork. Indeed 27% of the sample were in fact located in rural areas and the remaining 40% were either in small communities or in the suburbs. Only 14 firms were located in a purpose-built industrial estate.

- 1.2.17 Working and storage space will in any case bear relation to the production process involved and the extent to which the firm is a large or small employer. Ten of the firms in the sample had less than 1,000 square feet of working space and only 13 firms had more than 8,000 square feet. The table below indicates the range of working and storage space in the Cork firms.

Table 2.6  
Available Space

	<b>Under 1,000</b>	<b>1,000- 3,000</b>	<b>3,000- 8,000</b>	<b>Over 8,000</b> sq. ft.
Working Space	10	14	23	13
Storage Space	30	18	12	0

Office space did not exist at all in 7 of the firms studied. In any case the commitment of space to this purpose is low. Twenty firms or a third of the sample make do with 150 square feet or less, a further 24 have between 150 and 1,000 and the remaining firms have varying amounts of space up to the 3,000 square feet available in the case of one firm.

- 1.2.18 These objective indications regarding space can be set against the opinions of the respondents regarding the adequacy of the space available to them. Twenty nine firms (48%) felt that their working space was inadequate in the Cork study. This is somewhat greater than the situation found in Aberdeen where 36% gave a similarly negative answer to this question. Again, in Scotland 40% of the sample considered their working space 'very adequate' whereas this was true of only 12% of the Irish sample.
- 1.2.19 The commitment to premises is, of course, also related to the question of availability. Is it possible to rent accommodation for a small business or must it be purchased or built? The role of the Industrial Development Authority in developing forward site and factory development has been significant as part of its overall programme of attracting industry since it removes one of the major difficulties from those seeking to set up in business and the same is true to the purpose-built industrial estate. These however are predominantly aimed at the needs of larger industry and there may be much less directly available for the smaller end of the market. This may explain the fact that 65% of the firms in the sample owned their premises. In general this was more true of the manufacturing part of the sample (75% compared with 52%) and the majority of the tenancies were to be found in the servicing area. Of those firms that had purchased their premises in Cork, 79% acquired the premises in the last decade when land prices were already very high. The oldest ownership dated from 1936.

- 1.2.20 As we have indicated earlier, many of the small firms in our sample are located in relatively rural areas outside the City Centre. Both for the acquisition of raw materials and the shipping of finished products they rely heavily on the provision of transport services. The more remote their location the greater the probability that they must use their own transport and maintain it at the cost of the firm. In certain situations this may be a factor also in assembling a labour force where public transport does not serve the area and collection must be arranged. We asked each respondent to indicate the number of cars, small vans and large vans in use by his firm in order to give some indication of the dimensions of this aspect and these details are given in the table below:

Table 2.7  
Transport Ownership

	None	One	One-Four	Five or More	Total Vehicles
Cars	12	14	25	9	157
Small Vans	28	23	8	1	46
Large Vans	45	13	1	1	22

Almost half of the sample hire transport either occasionally or on a leasing basis and 35% also hire drivers. This obviously represents an important aspect of subcontracting when the need is relatively occasional to transport stock or raw materials and is not continuous as it might be in larger undertakings.

- 1.2.21 As has already been noticed in the case of transportation the small specialist firm may sub-contract other firms to undertake some of its work or part of its production process. Twenty-six firms or 43.3% of the Cork sample were responsible for an estimated annual £643,000 worth of sub-contracting which represents a significant indirect contribution of the small firm to employment. This position should be contrasted with that in Aberdeen where only 25% of the firms in the sample sub-contract work out of the firm, and is more akin to the extensive sub-contracting found in the Paris sample.

### CHAPTER III

#### Employment Characteristics

- 1.3.1 The total full-time employees accounted for by the sixty small firms in the study is 1,033 or an average of 17.2. This is contrasted with 1,023 or an average of 21.8 in the Aberdeen study which clearly has a greater number of firms at the top end of the size limit. In fact, as the table below indicates, 42% of the Cork sample have only ten or less employees whereas this is true of only 34% of the Scottish study. Similarly there are nine firms in the Scottish sample (19%) as against the 7% in the Irish sample with more than 40 full-time employees. So far as the Irish data indicates there is no great degree of differentiation between those firms engaged in manufacture and those in servicing so far as the distribution of employment is concerned.



Table 3.8  
Number of Employees: Cork and Aberdeen Samples

	<b>Ten</b>	<b>Twenty</b>	<b>Thirty</b>	<b>Forty</b>	<b>Fifty</b>
Cork	25 42%	15 25%	8 13%	7 12%	4 7%
Aberdeen	16 34%	9 19%	9 19%	4 9%	9 19%

- 1.3.2 Only 30% of the firms in Cork have part-time employees and they account for a further 32 workers among the 18 firms that are involved. Forty-five per cent of the Aberdeen firms have part-time employees accounting for 44 additional workers in all.
- 1.3.3 Twenty one of the firms in the Cork sample have no female employees and in 40% there is only one female employed full-time. Although there are instances within the sample of 20 or 25 employees in a plant being women the engineering sector does not in general attract large numbers of females and this is borne out in the data for both Aberdeen and Cork. Female full-time employees represent 11% of the full-time labour force in the Cork firms in contrast with 12.8% in Aberdeen.
- 1.3.4 The level of employment varies a good deal between firms but consistent with the general pattern of operations in the small firm there is little commitment to the management level outside the direct management of the proprietor or his family. There are 31 firms (52%) in the Cork sample who have no salaried employee and 13 (22%) with no employee at a skilled worker level. There is quite an interesting contrast here with the Aberdeen results which show only 30% of the firms without salaried employees but surprisingly a far larger proportion (42.6%) who are not skilled.
- 1.3.5 The total numbers in each sub-category for the Cork sample are as follows, contrasted with the Aberdeen sample. The differences are striking.

Table 3.9  
Level of Employment: Cork and Aberdeen Samples

	<b>Cork</b>	<b>Aberdeen</b>
Salaried	125 (12%)	232 (22.7%)
Skilled	369 (36%)	476 (46.5%)
Semi-Skilled	147 (14%)	217 (21.2%)
Unskilled	392 (38%)	98 (9.6%)
	<u>1,033</u>	<u>1,023</u>

- 1.3.6 Clearly the Scottish firms are employing almost twice as much management personnel and a quarter the number of unskilled workers as the Cork firms. This may of course be explicable in terms of the differences in production technology or in the industrial characteristics

of the two regions. For the reasons already referred to, the number of personnel engaged in management functions in these firms is necessarily small; indeed in 50% of them the role is subsumed in that of owner and managing director. In one of the firms there are 6 managerial level staff and in 5 firms there are five but the number is nowhere great and altogether the managerial staff number 119.

- 1.3.7 Family members working in these small firms are found rather less frequently than might have been expected. In 35% of them there is no member of the owner's family; in 19 firms (32%) there is one member, very often a wife or a brother, and in 30% there are two. There is one instance each of 3 and 4 family members in the Cork firms. This indicates a far stronger commitment to the family linkages however than is apparent in the Aberdeen sample where apart from one case of a single family member there is a complete absence of this category. Certainly in Aberdeen the small firm does not seem to be the family firm in the traditional sense and it appears to be much more the typical pattern for office and accounts staff to be employed from outside whereas in the Irish sample we came across a large number of cases where the office work was handled by the wife of the proprietor.
- 1.3.8 It is noticeable that there is much more use made of apprentices also in the Scottish than in the Irish sample. Whereas in the Irish sample 28 firms (47%) employed no apprentices there were only 6 firms (13%) in the Aberdeen sample without an apprentice. The total number of apprentices in the Irish sample was 118. As noted elsewhere, there were no apprentices at all in the French firms studied.
- 1.3.9 Apart from what may be described as the regular labour force the firms examined also were asked if they made any use of workers on a seasonal basis. This was true of 16 (27%) of the sample and was most apparent in the servicing end. Of all the firms that employed seasonal workers, 9 were in the service sub-sample.
- 1.3.10 The theme which runs through all of the responses is that small firms recruit their workers **locally** and usually by word of mouth. Not only do they not use, or appear to need to use, local Manpower offices (which have replaced Labour Exchanges), but in general they are somewhat distrustful of those who come from outside the network of the firm. Even in those cases where firms advertise the tendency is for this to be confined to local newspapers and there is no attempt to go beyond a local labour market.
- 1.3.11 In general the pattern of recruiting young people as apprentices or as trainees within the firm is characteristic, partly because of availability and partly no doubt, because of a saving in cost. However apprenticeship schemes tend to have disadvantages: 'apprentices cost too much and their productivity is far lower'. Even with subsidisation the time required for release is seen as particularly disruptive in the small firm situation and with few exceptions a very low opinion was held of the training courses run by AnCO (The Industrial Training Authority). So sustained was this criticism that it is worth fuller comment in a later section. At this stage it is perhaps sufficient to note two contributory factors. One was a sense that the specific training required could not be provided and the other that the time away from the firm was disruptive and likely to lead to trouble. As one respondent put it: 'They get a 'holiday camp' environment at AnCO which bears little resemblance to a work environment. Metal work is a dirty job calling for frequent

improvisation whereas AnCO handed apprentices a silver spoon'.

- 1.3.12 In short, most of the small firms tend to prefer to do their own training of recruits. The length of such training may vary from 3 weeks to 5 years. Some of the disparagement of AnCO training schemes for craftsmen was also reflected in terms of management training and although there were exceptions, considerable criticism was expressed of management training both at the Irish Management Institute and AnCO.
- 1.3.13 Given the values of independence and autonomy of action that underly much small manufacturing enterprise, it is hardly surprising to find a negative attitude to these schemes. Nevertheless, there must be clear disadvantage in the degree to which 'going it alone' leads to a general lowering of training standards and the limitation of training to the specific technologies of an often very narrow industrial process. Nevertheless, given the extent to which the small firm characterises a significant part of the employment potential, the failure of the manpower 'helping agencies' to effectively reach and harness the goodwill of these small firms suggests a serious weakness. Admittedly it would be difficult if not impossible to provide precise tailor-made training to suit the circumstances of an individual small firm but the perspective of the training agency involved in day-release schemes may not readily equate with that of the employer of a limited labour force where there is, in general, little slack or spare capacity. This criticism extends also to some of the courses at Vocational Schools. One respondent for instance finds AnCO 'a waste of time' precisely because there is no shipwright training as such. Others simply argue that there is no course relevant to the firm and believe that in these circumstances they should not be required to pay the industrial training levy.
- 1.3.14 It is also clear that there is a considerable diversity in the length and type of training provided. Some firms are geared to craft industry and accept the standard expectations of craftsmen and apprenticeship agreements with appropriate in-house training extending for as much as five years. Others quite clearly see training in terms of basic operational skills for the performance of clearly defined process tasks - in these cases 2-3 weeks is much more likely to be the norm. As one respondent puts it, they are trained by 'look, learn and ask questions'.

## PART II

## CHAPTER I

The Structure of Small Firms

2.1.1 Size As we have seen, the majority of firms in our sample are small and recently developed. Some may grow while others have already reached the optimum size for their particular operation. In this section it is proposed to consider some of the characteristics of firms in three size categories illustrating each with a detailed profile of one or two particular firms.

2.1.2 Group A: 30-50 employees. There are 12 firms in this group.

<u>Schedule No.</u>	<u>Size</u>	<u>Starting Date</u>	<u>Product</u>
2	32	1973	Steel Buckles, Straps
3	42	1959	Perforated Metal Sheets
6	33	1974	Boat Building
7	40	1931	Shipbreaking, scrap, plant hire
9	38	1923	Photographic developing
10	34	1973	Aluminium window assembly
11	36	1959	Boat building
15	45	1976	Piping and structural steel installation
18	48	1970	Polythene pipe and sheet extrusion
32	38	1966	Tanks and pressure vessels
38	38	1969	Plastic and general extrusion
43	38	1969	Farm equipment: grain handling, milking systems etc.

2.1.3 Group B: In the second group of firms with between 10 and 30 employees there are 24 firms:

<u>Schedule No.</u>	<u>Size</u>	<u>Starting Date</u>	<u>Product</u>
1	22	1968	Fitted kitchen furniture
16	24	1969	Conveyors etc.
20	22	1969	Steel fabrication
21	20	1967	GRP Boats and Mouldings
28	29	1960	Electronic communication
30	25	1961	General engineering
31	20	1968	Conveyor and Genl. Engineering
40	26	1956	Tubular steel furniture
41	21	1964	Rubber boot manufacturers
46	25	1969	Grain handling equipment
5	10	1973	Shop and office furniture
8	12	1972	Blister packing and polythene
12	12	1939	Precision engineering
13	18	1969	Air conditioning and light engineering
14	14	1964	Grain handling equipment
29	19	1969	Aluminium window and door manufacture and installation
37	11	1974	Builders equipment
42	11	1967	Fire escape and general engineering

47	14	1974	Farm machinery
50	14	1962	Stainless steel vessels, general rolling, engineering
51	19	1972	Electronic control systems
52	17	1949	Plant hire
53	16	1936	Generators
58	16	1970	Control systems

2.1.4 Group C: The final group are those firms with fewer than 10 employees. The total of 24 is distributed as follows:

<u>Schedule No.</u>	<u>Size</u>	<u>Starting Date</u>	<u>Product</u>
4	5	1968	GRP & Wood Boats and Kits
17	9	1971	Trailer Manufacture
19	8	1967	GRP Boats and products
22	1	1969	Panel beating
23	6	1973	Pipe systems, inspection
24	5	1967	Industrial engraving
25	3	1945	Animal feed systems
26	2	1974	Sheet metal work
27	8	1962	Farm detergents
33	5	1965	Manhole covers etc.
34	4	1957	Sheet metal and general
35	4	1966	Manhole covers etc.
36	1	1965	Metal fabrication
39	9	1974	Aluminium windows and doors
44	1	1976	General engineering
45	3	1976	Tank & boiler fabrication
48	3	1967	Steel fabrication
49	5	1970	Machine shop work
54	8	1973	Pipework and other fabrication
55	2	1974	Compressor Agency
56	7	1973	Steel fabrication & erection
57	1	1975	Detergents for dairy industry
59	8	1974	Iron gates, cattle grids etc.
60	6	1963	Pressure cleaning systems

## CHAPTER II

### Group A: Firms with 30 to 50 Employed

#### 2.2.1 Production

Although the cohort that makes up this group spans two decades of numbers it still represents the smaller category. It is notable also that these 12 firms fall predominantly at the lower end of the spectrum; only 5 out of the total have more than 40 employees. In terms of our sample, of course, these relatively larger firms contrast sharply with those of 5 or 6 employees but they share many of the characteristics of these firms since for the most part they are not much more than ten years old and still have a very slightly developed management structure.

2.2.2 The firms in this group cover a wide spectrum of activities but all of them are at least partly production enterprises though there is

considerable variation in the emphasis placed on production or assembly in the creation of a new product. It is also notable that many of the activities of these firms are replicated by comparison in smaller firms and in general none of the products as such define the larger employment unit but rather this appears to be determined by the market share of the firm and its capacity to develop toward a larger work force and more stable enterprise.

- 2.2.3 Three firms are related more or less directly to the maritime activities of the port (6, 7, 11) and (43) is one of a considerable number that principally serves the agricultural hinterland of Cork City.
- 2.2.4 The engineering firms engaged primarily in metal (3, 6, 10, 15, 32, 43) are in no case making a standard product although a certain degree of standardisation may be present in the assembly of aluminium doors and windows (10). More often production in these firms consists of a single order or a batch of orders to meet a client's particular circumstances and needs. Even where the basic product is fairly standard as in grain handling equipment (43) each job may involve adaptation with regard to installation in a particular site.
- 2.2.5 Origins  
The origins of these twelve firms also vary. In only two cases (2, 3) can it be said that the decision to set up in Ireland was primarily due to inducements offered by industrial incentive schemes and similar attempts to attract industry. But in these two instances this clearly was the case. Both came from England and subsequently had become domiciled here. In the case of Firm No. 2 the owner had a patent for manufacturing buckles which he was anxious to exploit and this had been done together with expansion into related work with harness, straps and belts etc. Significantly this firm and No. 3 which perforates sheets on a batch basis export most of their products; 90% and 70% respectively. In the first case the destinations of these exports are in Europe and the USA and in the second, the UK.
- 2.2.6 Two of the firms in this group (7 and 9) are family firms in that the firms were started by ancestors of the present managing directors. Firm No. 7 was started by the father of the present managing director and his mother is still Chairman of the Board of Directors and firm No. 9 has involved three generations beginning with the chemist's shop started in 1923 by the grandfather of the two directors who, with their father, own the present film processing business while retaining a wholesale and retail photography shop in association with it.
- 2.2.7 One of the firms (11) is run by a salaried General Manager while the actual business is owned by an Englishman who is the third owner since the firm was started in 1959. It was started by an Englishman who sold it to an Irishman and now it has been sold again to an Englishman. These changes do not appear to have greatly altered the operation of the boat building business carried on by the firm.
- 2.2.8 The great majority in this group, however, are made up of firms started by people who decided to start a business of their own

after a period spent working for another employer, often engaged in the same or a similar line of production. Six of the firms in this group (6, 10, 15, 18, 32 and 43) started in this way and the initiators came from various levels of previous employment; three of the directors who initiated one firm were on the boards of similar companies, three were managers, one a draughtsman and one a foreman.

#### 2.2.9 Personnel

The organizational structure of the firms varies but by virtue of their greater size all of these firms tend to have a more complex organisational division of labour which corresponds in part with the high level of adaptability and the variety of skills required in fulfilling orders for clients. Equally although all these firms use skilled workers to a considerable degree they vary between those in which the skills required are relatively specific and standardised and those which call for generalised 'craft' skills. One stage in the de-skilling process described by Braverman is, of course, the transition from the broad band of discretionary applications of skill in the craft situation to the specific application under controlled conditions in the industrial process. In this group it tends to be the firms using a standardised process that employ the greatest number of unskilled or semi-skilled workers. A good example is Firm No. 2 which employs 32 people - seven men and 23 women of whom 14 are home workers assembling buckles on a piece-work basis. A similar case is found in Firm No. 3 which employs 42 people of whom only 8 are skilled workers and a further 27 are unskilled. These are in clear contrast to firms such as Nos. 6, 11, 15 and 32 which have a workforce made up of skilled workers and apprentices, in industries such as boat building and steel structures or tank manufacture which requires the application of precise skills to specific and unique but very variable situations. The relationship of management to production also varies widely among these firms.

#### 2.2.10 Recruitment and Training

Although in these relatively large firms it might have been expected that more use would be made of the formal agencies of Manpower and AnCO, in fact there is still a heavy reliance on contacts through workers in the firm and direct training. Altogether 108 full-time and 4 part-time workers were recruited during the year and 74 left employment - a net gain of 36 jobs in this group.

2.2.11 Only one firm (43) claimed that they could not recruit locally and put this down to competition provided by multi-nationals paying higher rates. One other firm (11) claimed that they could not recruit as fully as they wished. Significantly every one of these firms suggested that they generally recruited by word-of mouth through workers in the firm, or local advertising. Only two firms (3 and 18) considered AnCO courses to be excellent but significantly they had

between them recruited only 2 workers in the last year and had lost 11 due, in the first case, to 'labour disputes'.

2.2.12 The training needs of the firms obviously vary considerably. Some of these who have offered posts to apprentices in the past no longer do so because they find the cost prohibitive. One respondent claimed that his firm (15) decided to cut out apprentices altogether since they cost nearly as much for a much lower productivity. Others claimed that AnCO is 'only 60% effective', or they only provide what 'nobody else wants' and another (43) argued that those on AnCO block release courses 'don't want to come back to do dirty work'.

2.2.13 Overall AnCO courses appear to be neither relevant, nor effective to many in this sector but this has to be interpreted against the very varied needs of these firms, which have in some cases lengthy apprenticeship schemes of their own and others where a week or two 'on the job' is sufficient for an employee to get the hang of it. Another critic of AnCO echoes a general complaint regarding the levy charged to industries in that he believes it 'costs too much for what it provides' though he admits that he does not make use of it himself. The bigger difficulty though is lack of relevance. In several cases, e.g. 6 and 9, AnCO had no course relevant to the firm's requirements - photographic processing, shipwright.

2.2.14 Clearly there is a good deal of ambiguity in these responses but the rather general dissatisfaction expressed by these firms which are both large enough and more likely than smaller firms to make use of the resources that AnCO can provide suggests a difficulty which appears to be fairly general in the small firm sector.

2.2.15 Markets and Supplies

As the products vary so of course do the markets and supplies. However a number of these firms are export-oriented and depend on imports for their raw materials. The firms in this category are shown in Column A below while the firms in Column B depend on imports for supplies but find their markets locally. The last group rely on the local area for both supplies and markets.

(a) Import/Export	(b) Import/Local	(c) Local/Local
2	6	15
3	9	18
7	10	32
	11	
	38	
	43	

These definitions are not rigid but merely indicate the prevailing linkages. What is notable is the high degree of reliance on the import of raw materials for manufacture, assembly and processing generally in Ireland and in our sample, even for the local markets, and the relatively low proportion of export oriented production.

2.2.16 Expansion and Job Creation

Most of the respondents in this group of firms would like to expand and in many cases fully intend to do so. This was particularly the case for firms Nos. 3, 9, 11, 18, 32, 43 although obviously this may be conditional on such factors as the availability of labour



and the acquisition of suitable premises. A further two firms (7, 10) expect to diversify without necessarily expanding and the remaining two (6, 15) expect to remain much the same size. The first with 33 employed is considered by the managing director to be sufficient in size and scope and indeed to be large within its particular sphere of boat building; the second believes that expansion beyond the present workforce of 45 would cause problems. He believed that 40 was about the right size and to go beyond this would leave the firm open to pilfering and would demand much tighter management control than they could readily provide. In fact the firm had grown by 10 employees over the past 12 months and they were expecting to move to new premises.

- 2.2.17 These indications suggest that the potential for job creation among this group of larger small firms is somewhat limited. In most cases they are operating at an optimum with regard to the resources available to them. Growth would introduce new problems, which the small firm with little commitment to management functions and staff is ill-prepared to contemplate. If there is growth it is much more likely to be gradual rather than dramatic and to be achieved over a longish time span.
- 2.2.18 One factor which also appears to be relevant is the attitude of the small employer towards trade unions. One respondent in an export-oriented firm expressed this eloquently when he remarked that he could be forced to leave Ireland due to the economic and political situation and he feels that 'trade unions and bad government are the biggest problems facing the small firm'. His own firm is not unionised.

### CHAPTER III

#### Group B: Firms with 10 to 30 Employed

- 2.3.1 Production  
The second group of firms with between ten and thirty employees does not differ markedly from the group of larger enterprises. Their mean size of 18.9 indicates that they tend to be smaller rather than larger within their group as was the case in Group A. where the mean size was 38.4 in a spread between 30-50. The mean starting year was 1964 as against 1962 for Group A.
- 2.3.2 The spread of activity is similarly diversified and as in the previous group this diversification reflects a considerable flexibility in relation to the adaptation of their production to the needs of the customer. As in Group A there is no case in which the size is clearly determined by the type of production though certain numerical conditions must be met in some of the specific technologies used.
- 2.3.3 Of the ten firms which form this group only one firm is involved in marine activity, three are engaged in the production and servic-

2.3.3 ing of equipment used in agriculture (14, 46, 47) and three are involved in electronic communications and control systems (28, 51, 58).

2.3.4 Origins

The origins of these firms vary much less than the previous group. Three distinct categories are apparent. Firstly two returned emigrants who came back to Ireland from the USA (42, 58). In the first case a firm was started by a man who had been working in a similar business in the USA. This firm started in 1967 employs 11 people principally engaged in the manufacture of fire escapes together with general and precision engineering. In the second case the firm was set up in 1970 by a man who had worked in the USA for 23 years. He decided to start his own business in Ireland and carried out a market survey before deciding on the location. The firm specialises in control systems for process industries and imports from 11 companies overseas to provide the products that it assembles and services.

2.3.5 A second category consists of a few entrepreneurs who have moved from self-employment to employing others in a small firm situation. This was the case in firms Nos. 1, 5, 13, 37. In the case of No. 5, which manufactures shop, office and laboratory furniture, two self-employed workers in this area joined forces because they each had more work than they could cope with. They now have ten people in the firm in which they are partners. In the other cases the firm grew from a back garden situation and gradually were developed to a point when large premises and further labour was required.

2.3.6 Fourteen firms in the group all arose from the jobs in which people were engaged, either directly through redundancy or indirectly through the application to the management of a particular skill and expertise learned elsewhere. These 'second career' businessmen provide a most interesting contrast both in their diversity of background and their range of resources brought into the business. Their main characteristics are set out in the chart below:

<u>No. of Firm</u>		<u>Former Career</u>	<u>Qualifications</u>
8		Selling and Accountancy	
14		Engineering	
16		Engineering	Training
20	Partners	(Accountancy Motor Mechanic)	B.Comm.
21		Dockyard Worker	
28		Electronics	'Natural aptitude'
29	Redundant	Sales Manager	
31	Redundant	Fitter Turner	
40		Accountant	Qualified
46	Redundant, partners		Chartered Accountant
50	Partnership	Welding	
51		Electronic Engineer	B.Sc.Eng.
52	Partnership	-	-
53		Foreman in motor winding shop	

- 2.3.7 Five other firms deserve a brief individual comment. No. 30 is a small engineering jobbing shop which is prepared to tackle any kind of metal work. They manufacture machines to given specification for customers e.g. conveyors, pipe work, drying equipment. They will also undertake complete engine overhauls and installation work for boilers etc. This firm was started in 1961 by two partners who were then in their early 40s. They were working for a firm which did not want to take on small jobs and when they started up they had this work sent on to them. No. 41 was a deliberate creation in 1964 of a firm by a group of people with experience in different aspects of business. Although none of them are involved with the day-to-day activities of the firm, one controls the financial affairs, a Director who lives in Amsterdam oversees technical aspects, and one is a salesman who was formerly working with the main competitor. No. 12 is a firm that was purchased in 1939 to provide a maintenance service for the owners' other concerns. It has since expanded in precision engineering. No. 47 represents a form of sponsored initiative since it was set up in 1974 by the owner of a firm in Ireland selling farm machinery and the owner of a firm manufacturing agricultural machinery in England.
- 2.3.8 Few of the firms in this group are family firms although those that are have a very close involvement of members of the family on the management side. One example is that of firm No. 40 which manufactures tubular furniture and is owned by a father and son, with an uncle of the respondent acting as production manager. Firms Nos. 15 and 18 involve two brothers in the direction and management and there are quite a considerable number of firms in which the wife is a Director and may take an active part in the business when they are 'under pressure'. Clearly this practice varies but in this group of firms, unlike the smaller ones where the wife of the owners of the enterprise is often likely to be very fully involved, there tends to be an office staff, and at least a basic management structure.
- 2.3.9 Personnel
- As indicated above these middle-sized small firms tend to employ the basic management personnel although often they are doubling up in a number of different functions. At the bottom end of this group is Firm No. 29 which manufactures aluminium windows and doors. Of a workforce of 19 there is the managing director and his wife who acts as a part-time secretary and is also a director; there is a technical director, one general foreman, one installation supervisor, 9 factory operatives of whom two are skilled and 7 are trainees, 4 installers and two chargehands. A smaller firm, No. 42 with eleven employees is concerned with general and precision engineering. It is owned and managed by the managing director and his wife who also does the accounts and they employ a supervisor, a chargehand and eight fitter/welders, of whom two are apprentices.
- 2.3.10 Recruitment and Training
- In fact most of the firms in this group had either apprentices or trainees depending on the level of skill required by the production process. In general the training was carried out in the firm with very little use being made of outside agencies. AnCO was again criticised from two points of view already apparent in the replies from Group A that they could not offer the specific skills required and participation in training encouraged undesirable attitudes among

the workers. This comment took the form in one instance in this group of a specific comment relating to encouragement to strike. But not all the comment was negative; No. 58 involved with automatic control systems considered that the 6-week course run by AnCO in Instrumentation was 'tremendous' and highly relevant even though he was much less enthusiastic about their apprenticeship scheme. He commented that he would like to see a much closer liaison between the practical emphasis in the AnCO courses and the theoretical courses of the Regional Technical College. One other (13) who thought highly of AnCO pointed out that this was only since 'they had tightened up their discipline'. Before this he suggested the apprentices from AnCO were not adequately prepared for 'the higher work-rate required on the shop floor'. Another firm (47) also commented on the fact that AnCO had responded to criticism in the last twelve months and noted the particular value of its short three-month courses.

2.3.11 In most of the remaining firms there was a neutral or negative attitude to the training available from AnCO. Either the firms had decided that they could do the job better themselves and were doing so or in some instances trainees were sent to other companies (28). Some of the criticism aimed at the AnCO programmes suggested that they were in any case aimed at the needs of the multi-nationals or the bigger firms. Apart from this the main difficulty referred to by a number of respondents was the disruptive effects of the block-release system and the artificiality of the training situation.

2.3.12 It is of course highly relevant that the context of these remarks on training is in terms of a predominantly local labour market. In general terms almost all recruitment depends on local contacts, word of mouth or local advertising. In the case of one firm (50) which advertises it was felt that it had a good name locally for high pay and a profit-sharing scheme. More generally local contacts or even people enquiring for work provide replacements although three firms in the general engineering sector recruit directly through the technical schools. Not all firms are satisfied that they are able to get all the labour that they require and in some instances it is felt that the 'multi-nationals are absorbing workers in jobs that require less versatility'. One other employer criticised other firms who were prepared to take on 'unofficial' workers who were on unemployment benefit and not paying tax. Altogether 97 recruits joined the firms in this group during the year before the survey and 76 left giving a net increase of 21.

2.3.13 Markets and Supplies

As with the firms discussed in the first group there is considerable variation in these firms and in general they appear to have relatively little export orientation. A similar table to that on page 18 shows the pattern in terms of the predominant source of raw materials and the predominant market for each of the firms:

<u>A: Import/Export</u>	<u>B: Import/Local</u>	<u>C: Local/local</u>
28, 51	1, 8, 11, 12, 16, 21, 29, 58	5, 13, 14, 20, 30, 31, 37, 40, 42, 46, 47, 50, 52, 53

Although these are not rigid categories and do not represent various mixed strategies they show a much greater tendency for firms in this intermediate size-range to rely on the local area for both

supplies of raw materials and sales of manufactured goods and services. Only two firms in this group, both involved in electronics and set up specifically in relation to export opportunities, operate independently of local markets in terms of supply and demand.

#### 2.3.14 Expansion and Job Creation

There is considerable optimism among this group of businesses. In almost every case they expect to expand and grow although in certain cases this may depend on finding a suitable business partner, or finding suitable premises or on finding capital. However, although the mood is expansionist there are very clear expressions of view about overall size. A number of firms make it clear that they are thinking of a modest growth which will not let them become too large. One firm quite specifically intends to expand in units of ten in order to avoid labour problems and several others emphasise diversification rather than expansion as a mechanism to avoid problems including strikes and labour trouble. Another makes the point that if expansion did take place it would be at a pace which they themselves defined rather than 'as the market dictated'. In elaborating reasons which would inhibit expansion one managing director listed the following reasons why he would limit expansion even though there was plenty of business for his firm

- a) problem of control over labour in large firms;
- b) difficulty of getting a suitable manager because of the wide range of technical and managerial skills required. He would see difficulties and risks if he offered inducements such as a share in the business;
- c) the technical nature of the work meant that new people could only be absorbed at a relatively slow rate;
- d) large firms become impersonal;
- e) expansion would cause a greater strain on the Managing Director himself.

### CHAPTER IV

#### Group C: Firms with Fewer than 10 Employed

##### 2.4.1 Production

The very small firms in our sample are equally diversified in their activity and tend to form a microcosm of those already considered. Here again though the tendency is for the typical firm to be smaller rather than larger. The mean size is 4.75 and four in this group are one-man entities.

2.4.2 Though two firms are involved in boat-building and related products (5, 8) and three (25, 27, 59) rely for their markets on the agricultural hinterland the large majority in this group are engaged in general engineering although the product may be more specific and there may be a much greater emphasis on service than was the case in Group A or B.

2.4.3 Origins

Again in this group there are four returned emigrants who started firms on returning to Ireland after experience abroad. Significantly though, in two of these cases the founder was the father of the present Managing Director who had returned during the late 1950s and whose son was now running the firm.

2.4.4 A second category moved from self-employment to employing others, though one or two of them are still effectively on their own. This was the case for firm Nos. 19, 44 and 59.

2.4.5 The majority of firms in this group arose from a decision to branch out from being an employee in order to become independent. The one case of redundancy was a German firm which wanted to close down its operation in Ireland but where the respondent decided to carry it on himself. There was also a case of a man who had been sacked from his previous job because of a dispute and started out on his own. Otherwise the demonstration of an initiative was the most common circumstance. As in Group B these rather varied circumstances can be briefly indicated as below:

<u>No. of Firm</u>	<u>Former Career</u>	<u>Qualifications</u>
4	Commercial and Salesmanship	Commercial Training
19	Partnership - Husband and Wife	
22	Employed as panel beater	Craftsman: Panel Beating
24		Jewellery engraver
26	Teacher (Drawing & Metalwork)	
27	He and his partner bought out the firm which employed them	Both science graduates
35		Metalworker apprenticeship
39	Fitter	
40	Foreman at a foundry	
54	Working in similar firm	
55	Working in similar firm	Wanted independence, money, respect
57	Moved from dairy business	B.Sc. in Dairying
59	Wholesale Representative for 40 years	

2.4.6 Two other firms need brief comment. In the case of one firm (49) carrying out general machine work and repair this had been a family firm from 1970-1979 but was then taken over by three Dublin men who now own it but are not actively involved with it. Consequently it is being run on a day-to-day basis by the foreman. In another case (44) one sees a hobby gradually taking over as a full-time activity. In another case (35) an ex-metal worker started a foundry in his back garden which now employs four people. The husband and wife partnership (No. 19) is also of interest because it is associated with another firm in which they are both involved which acts as the agent for the supply of the raw materials concerned,

2.4.7 Personnel

By definition these are very small firms and there is necessarily only very little differentiation in task and in some cases the same person or people must be responsible for all of them. On the other

hand the basic model for this scale of enterprise of a 'patron' and his workers characterises much of the organisation that is found with variations to take account of partnerships and skilled and unskilled workers. A typical structure is indicated by No. 27 which produces general industrial detergents where the two owner-directors, both of whom are graduates, employ a foreman, a lorry driver, a secretary and 3 semi-skilled production workers. In contrast to this pattern is the family firm No. 4 engaged in sheet metal work, employing four people all of whom are in the family. Father and mother are Directors and the father is the Managing Director, the son is foreman and the other is a fabricator and an aunt of the two sons acts as secretary.

2.4.8 As we have already noted there are one or two cases of firms in which the ownership is external and the foreman may act as a manager as in the case of No. 49.

2.4.9 A number of the firms get over the difficulties arising from their small size by using part-time labour or student labour to meet special occasions. However, in most cases they are severely restricted by lack of space as well as lack of resources and manpower.

2.4.10 Recruitment and Training

In spite of these difficulties there is evidence of growth in numbers in this group as well as the others over the 12-month period preceding the survey. There were 31 recruits and 23 losses leaving a growth of 8 jobs overall. However, it is important to note that 5 of these were attributable to one firm. In general where there was a simple turnover situation where firms simply replaced those who left and in half of the group (12 firms) there were no changes in personnel at all.

2.4.11 In addition to those growing (39, 59, 60, 17) and those staying the same size there was one firm that had been allowed to decline into what might be called a 'tickover state'. This firm (25) was founded in 1945 by a man now aged seventy-five. At one time it had employed 40 people, designing, making and installing animal feed mills, etc. Now there were two skilled fitters left apart from the Managing Director himself. He claimed that he had cut the firm down deliberately because his family and his own son were not interested in continuing it. Consequently he now only does the jobs that interest him although he claims that the business could be built up again if someone with initiative wanted to do it. Certainly the working area and the range of machinery were very adequate for a much larger firm.

2.4.12 In broad terms all of these firms recruit from a local labour market but they may well be quite specific about the source of new labour because they so seldom need it. One owner recruited only from his old school, and some recruit from within their own family. The local office of the National Manpower service and AnCO are used by some firms and a few use the technical college. The basis of recruitment based on local contacts, word of mouth rather than advertising is reinforced by one respondent who emphasised that you should only recruit people you know - 'background is important',

2.4.13 In general training is done on the job by the Managing Director himself who in some cases had taken a management and commercial course since the firm has started. In one case the local evening commercial course was found useful but the IMI course attended by a man employing 8 people was considered 'too theoretical' and a 'waste of money and time'. Another managing director of a similar sized firm had been on three IMI courses but considered them 'bad, pathetic and childish'. However, not all the reports were negative and others reported finding these courses particularly useful for problems such as handling cash flow.

2.4.14 Only two firms in this group made use of the AnCO training programme and both were fully satisfied. One firm requires training in general and pipe welding and another requires mechanical drawing. Lack of training courses in specific areas means that one or two firms might use these courses if they were available (e.g. aluminium assembly). However, clearly the numbers involved in firms this small would scarcely support an extension of the training programme.

2.4.15 Some of the criticisms already noted are found in this group also. One of the firms that does use AnCO suggests that 'they don't want to work when they come back' and another which sent one employee to a course in Dublin believes that AnCO 'put strange ideas into his head', since when he came back he decided to leave and go and drive a lorry in spite of the fact that he had nearly completed his apprenticeship.

#### 2.4.16 Markets and Supplies

Only two firms in this group are significantly involved with overseas markets for raw materials and sales. The characteristic pattern for the very small firm is a local market for a product made up from locally available raw materials. Even those firms that do export (4, 19, 60) do not do so exclusively and equally they tend to get part of their supplies locally as well as from overseas. Firm 19 claims that 50% of its product is exported, mainly to England and this is based on local supplies, particularly of timber. The final exporting firm which assembles high pressure cleaning systems imports all the parts from America, Japan, Germany and the UK and exports about half of its product.

2.4.17 A number of firms in this group clearly have cash-flow problems arising from delays in payment of orders and lack of credit facilities which affect their ability to purchase equipment and raw materials as and when they require. In some instances this, combined with inadequate space, for storage, clearly forces them into a pattern of stop/go combined with a high degree of dependence on local suppliers.

#### 2.4.18 Expansion and Job Creation

Some of the difficulties already noted with regard to space and cash-flow would suggest that most of these firms see little prospect of rapid expansion. However, there are clearly exceptions. Firm No. 4 engaged in boat-building, expects to diversify and open a small factory in the Dingle area of Co. Kerry hoping to make use of a 100% training grant to train local labour. He also expects to bring in another manager who would be a shareholder since he himself has no sons. For most of the remainder the situation is one of cautious



optimism with no very clear plans for expansion. However, one or two firms show both a sophisticated degree of planning over the next five years and a well-worked out intention to diversify into additional lines. One striking example involves a plan to amalgamate with a firm producing and selling a complementary product and to produce a third firm which would manufacture one of the products presently being imported. This would allow each firm to maintain its separate identity while combining facilities and overheads, especially at a managerial level.

PART III

CHAPTER I

The Context in Which Small Firms Operate

- 3.1.1 It is impossible in a brief report to do more than sketch the infrastructure and to highlight the major components of the business environment so far as it affects the small firm in Ireland today. Consequently, this section of the report indicates the general provisions of legislative controls and initiatives; financial provision and the programmes of the major agencies set up to give assistance to industry and business enterprise. Further information is available in detail from the agencies in question and should be sought in order to supplement the summary statements included here.
- 3.1.2 In general terms small firms suffer some disadvantage by virtue of their size. The small firm, since its requirements are modest, often is not eligible for favourable rates offered by suppliers or the banks for large accounts and clearly this applies both to rate of interest, forward buying and credit arrangements. Particularly those firms which are involved in exporting or the manufacturing or assembly of products based on imported materials may have difficulties that arise from their small scale of need in the money markets for foreign exchange requirements. Consequently, size together with under-capitalisation adds up to a net disadvantage with regard to larger and more established firms.
- 3.1.3 Limited resources and limited scale similarly restrict the extent to which advantages can be taken of bulk buying of raw supplies and use of containerised shipping and transport. Obviously the same difficulties apply to other sectors of small firms' activities such as Research and Development, Marketing and Advertising, where economies of scale cannot be used to off-set development costs.
- 3.1.4 Although these points are obvious enough they need to be constantly reiterated in relation to policies that only are rarely able to adapt to the specific situations of the smaller unit and consequently include a structural bias in favour of the larger enterprise.
- 3.1.5 The Economic Context  
Ireland is a small economy within the European context. It has a population of some three million and 24% of those employed are still working in agriculture, with a slightly smaller proportion - 19.8% - working in manufacturing industry. These factors of scale and size are particularly relevant to Irish industry where 70% of all firms and 19% of all employment is in units of fewer than 50 employees.
- 3.1.6 Ireland has shared the cyclical economic effects experienced by the rest of Europe during the last decade. In terms of economic output, the trough was reached around the middle of 1975 since when there has been a strong recovery with a growth in Gross Domestic Product from over 3% in 1976 to 6% in 1978. This represents a more rapid recovery than the average for the EEC over the same period as has been the deceleration of the inflation rate during 1977 and 1978. This general improvement in the economy has not been reflected in any significant decrease in the level of unemployment, partly because of demographic factors causing a rapid expansion in the young-

est age groups. This small effect on unemployment may also be related to slack labour demand partly as a result of the growth of capital intensive production as a factor in increased production. It is notable that new industries established during the period have been predominantly concentrated in chemicals, metals and manufacturing. The growth in these sectors has largely been compensated by declines in traditional industries such as clothing, footwear, furniture and paper and printing.

- 3.1.7 The small firm has in general shown a long-term decline in significance within the Irish economy. Variations in definition make direct comparison difficult but the change over the decade 1958-1968 gives some indication. In the period between these years the proportion of firms with less than 50 employees decreased from 80% to 74% of the total. It is significant that particular attention has been drawn to the need to stimulate growth in the smaller firm in the period since 1968. This is reflected in the Industrial Development Authority's Small Industries Programme which commenced in that year and is still emphasised in the recent (June 1978) Government Green Paper which states that 'The scope for increased industrial output and employment rests to a considerable extent on increasing the number of small firms'. (Paragraph 4.7)
- 3.1.8 However much small may be seen as beautiful in terms of national policy the context within which the small firm operates in Ireland has many negative features. To a large extent these relate to differences in scale which, as we have indicated, create practical difficulties in financing capital investment and cash-flow, purchasing, stockholding and marketing. In general terms the smaller the unit the greater the cost and this tends to apply to all aspects of the small firm's activity. A particular example is the disproportionate effect of official controls on scarce management time and skill in the smaller unit. The Small Firms Association, representing the interests of the smaller enterprise, claims that the administrative and legislative structure within which they operate is disadvantageous to their situation and tends to produce disincentives to growth, expansion and job-creation. They express particular concern over the effects of legislative protection for the employee with regard to redundancy, unfair dismissal and product quality, which place disproportionately heavy burdens on the small enterprise.
- 3.1.9 Finance  
In general the small firm in Ireland suffers from a financial environment that militates against it and often causes problems of cash-flow to be of paramount concern. In part this is a general matter of scale in that the larger an enterprise the greater its resources, assets and capacity to command preferential interest rates in the money market. Like the small consumer the small firm suffers from having to buy in small quantities in an often unfavourable market. Cash-flow problems arise because the cost of management, particularly in relation to exports, fall disproportionately heavily on the limited resources of smaller units of production.
- 3.1.10 The broad policy of the banks is to loan against assets which are often heavily committed in the early days of a business and it becomes difficult to provide initiating costs.

3.1.11 Similar disadvantages apply in relation to taxation, research and development, and transport and communications and the provision of basic information required by the state agencies. The position is broadly one where the cost of these aspects is borne disproportionately by the smaller enterprise.

3.1.12 Corporate Taxation

The standard rate of corporate taxation in Ireland is 45% of profits but there is a reduced rate of 35% for companies with profits under IR£25,000 and an adjusted rate between 35-40% for companies with profits up to IR£35,000. Two kinds of exemption have also been given from taxation. The first relieves all manufacturing companies from income and corporation tax on all profits derived from exports for the first fifteen years and then for a further five years a progressive diminution of relief is provided. The second is a much more limited relief given to manufacturing companies selling on the home market. For these the standard rate is reduced to 25% so long as certain criteria are fulfilled. These include meeting a 3% per annum increase in employment (job creation) and a limitation that at least 95% of income be derived from the sale of Irish goods.

3.1.13 Co-ordination measures developed by the European Commission provide for the reduction of the special incentives to exporters after 1981 and their total removal by 1990. As a step towards this the January 1978 Budget has introduced a general 10% Corporation Tax to apply to all manufacturing industry in the Irish Republic. This rate will apply, where it is more favourable, from January 1 1981. In addition, dividends which arose from export profits will now be chargeable for tax against the individual shareholder less a 5% tax credit.

3.1.14 Depreciation

In general very liberal rights of depreciation of stock have been allowed to Irish manufacturing industry. In many cases this has meant that 100% write-off has been possible for plant or machinery and in certain designated areas an additional investment allowance is granted on the capital investment not covered by state grants. Under the 1979 Budget provisions these additional allowances disappeared, but an incentive is still given for investment whereby write-offs against profits encourage new project development.

3.1.15 Income Tax

Corporation or Company Tax only affects companies registered under the 1963 Companies Act, and some of the special exemptions such as export sales relief referred to above apply only to companies. In partnership or individual proprietorships each partner or individual is assessed on the basis of his individual share of the business profits and allowable costs.

3.1.16 Agencies

A number of agencies have been established by the Irish government to assist the development of industry. These form an important part of the context within which small enterprises operate and must be considered in addition to the private sector bodies such as banks, insurance companies, finance and credit houses which define the context of business activity. The most important of the public agencies so far as the firms in this study are concerned are:

The Industrial Development Authority (IDA);  
The Industrial Credit Company (ICC);  
The Industrial Training Authority (AnCO);  
The Institute for Industrial Research and Standards (IIRS).

Other bodies such as the Irish Productivity Centre (IPC) and the Irish Export Board (Coras Trachtála) concerned with the development, marketing and promotion of Irish business and Irish products overseas tended to have little direct contact with the small firms that we studied or established contact as part of a 'package' co-ordinated by other agencies such as the Industrial Development Authority.

### 3.1.17 The Industrial Development Authority (IDA)

This is the largest of the state-sponsored bodies with which small business is likely to be involved. It was founded originally in 1949 as an agency of the Department of Industry and Commerce and became an autonomous state-sponsored body in 1970 when it absorbed the functions of the former body responsible for industrial grants, An Foras Tionscal. The Authority has wide responsibility for the promotion of industrial investment and development, the creation of industrial estates and locations, and the stimulus of existing manufacturing industry. It has nine regional offices in Ireland and fourteen overseas offices which promote Ireland as an industrial development location. Of all the agencies that relate to small business in Ireland it has the largest budget and most developed organization.

3.1.18 In 1968 the IDA set up a Small Industries Division specifically geared to manufacturing enterprises with fewer than 50 employees and assets of up to IR£300,000 (initially 30 employees and IR£60,000). These limits in practice bring in to the scheme three quarters of all the manufacturing enterprises in the country. In conjunction with the major overseas IDA programmes the Small Industries Division is involved in the provision of land, factory space and industrial cluster units, grants for industrial development and improvement and stimulating new projects. In conjunction with this last objective the Industrial Development Act, 1977, provides for further grants for working capital for new entrepreneurs.

3.1.19 The main conditions surrounding these initiatives relate to a limitation to manufacturing and to job creation. Thus the reports prepared by the Authority, including a comprehensive Review of the Small Industries Programme, define the targets of the programme in terms of potential jobs created by the grants promised by the Authority to various applicants' firms. Of the IR£6.4m approved for small industry grants in 1977, for instance, an anticipated 3,529 jobs will be created. This gives an overall cost per job in IDA grant terms of IR£1,608 or in the terms of an overall fixed asset investment of IR£3,912. It should be noted that there is some discrepancy between domestic and overseas job costs and between new and old projects. The majority (over 50%) of the new small industry projects approved were in the engineering sector and an increasing trend indicates a rising rate of capital intensive investment in this sector.

3.1.20 It is difficult to assess the results of this programme in terms of actual jobs created since this depends on two key variables. The first is the number of approved grants that are actually taken up by the individual firms and the second is the actual number of jobs that are created as a result of this investment and how this job creation is related to job loss.

3.1.21 From the point of view of the small business the IDA offers both a source of grants and co-ordination with other agencies. This is enhanced by its regional offices in Cork, Galway, Waterford, Sligo, Lifford, Dundalk and Athlone as well as Dublin. In addition to these regional offices there is close liaison with County Development Teams and in the mid-west region with the Shannon Free Airport Development Company acting as an agent for the IDA.

3.1.22 The IDA Industrial Plan for 1977-1980 emphasises two aspects in its definition of targets for the creation of nearly 50 thousand new grant-aided jobs. The first is an expectation that over half the new jobs will come from private and public sector sources within Ireland and the second is a continued emphasis on regional and sectoral priorities. It is anticipated by the plan that some 18 thousand of the new job commitments planned from Irish sources will be drawn from small-scale industries.

3.1.23 The Industrial Credit Company (ICC)

The ICC is a state-owned development bank. It was established in 1933 and until 1958 was largely concerned in assisting Irish companies raise funds on the Irish Stock Market. In the 10 years between 1958 and 1968 it took a more direct role in providing funds to industry drawing on state finance directly and national and international sources of finance. In the last ten years this role has been expanded both to diversify the services offered, particularly in the direction of hire-purchase and leasing for industrial plant and machinery, and a variety of loan schemes and in the sources of its capital where the European Investment Bank Scheme has proved to be of growing significance. In 1978 the ICC gave assistance to approximately 1,200 projects with an average loan of somewhat less than IR£25,000. Small firms (here defined as under 100 employees) accounted for 90% of the projects.

3.1.24 The Industrial Training Authority (AnCO)

This agency undertakes a wide programme of direct training and support for training in a wide variety of skills and crafts. Training programmes are run in a wide variety of locations in conjunction with apprenticeship schemes both on a full-time and short-term and day-release basis. Grants are also made available for the support of apprenticeships. In addition, the Authority runs a number of specific schemes to foster youth employment in conjunction with the IDA. Special provision is also made for re-training and re-entry into the workforce of married women.

3.1.25 The Institute for Industrial Research and Standards (IIRS)

This agency is the primary body responsible for standards, testing and research and development. It provides for industry a range of facilities and technical advice with regard to production needs, plant construction and product development. Again the main focus is on manufacturing and assembly but a wide range of specific problems are handled on a consultancy basis. This may have particular relevance to small firms such as those studied in our sample which lacked any capacity to undertake R&D on their own premises or with limited resources.

## CHAPTER II

### Relations with Outside Agencies

- 3.2.1 The context of the small firm's operation is very much determined by the perception that the small firm and the agency have of each other. From the point of view of the small firm the assessment of the work of the agency is specifically related to its actual or potential involvement with its interests. The small firm is unlikely to fully appreciate the wide and complex brief that the agency may hold that may necessitate apparent contradictions in policy. Thus one finds a considerable amount of criticism of the policy of the Industrial Development Authority directed at the attention paid by the IDA to the large multi-national and overseas firms which it attracts to Ireland. The publicity involved in the development of a new, large factory clouds the steady work that may go on in the small firm sector. Similarly, the agencies operate in a context which may have particular consequences at a local level in the development of national and regional policy. The organizational structure of the agency itself, especially with regard to the balance between regional offices and headquarters in the capital, may serve to enhance a sense of neglect or relative deprivation in the provinces in favour of the capital.
- 3.2.2 The approach adopted in this chapter relies heavily on some of the comments from respondents in the sample with regard to their experience with or attitude toward the major agencies. Although these comments are related as far as possible to the statutory provisions or stated policy objectives of the bodies in question, no attempt has been made at an exhaustive elaboration of the policy or practice of the various agencies. In any case we have had to be selective of the bodies chosen for examination which most obviously highlight the contextual situation of the small firms we studied and their sense of their environment.
- 3.2.3 Finance  
Many of the respondents in our sample express concern over the difficulties of raising capital to start business, the constraints imposed on borrowing by grant-making bodies, and the difficulties of cash flow in a small enterprise particularly when this is enhanced by delays in payments by customers. The bodies principally concerned here are the banks, the Industrial Development Authority and the Irish Credit Corporation.
- 3.2.4 Banks  
In general the firms in the sample relied heavily on the banks both to initiate and run their businesses. Forty-nine of the sixty firms in the sample had used the banks to supplement capital for development. In more than half the sample the small firms had no involvement with any other financial institution and therefore were dependent on successful negotiation with a bank manager.
- 3.2.5 There was a very general feeling that although there was often less form-filling required by the banks it was difficult to persuade them to back small firms. A demonstrable 'track record' or the availability of substantial capital were too often seen as pre-requisites for a bank loan and the opinion was expressed by a number of respon-

dents that greater flexibility should exist to give people a start. In general the banks' insistence on security inhibits activity and prevents people starting; on the other hand as one respondent put it, 'once you have made a success of it, they encourage you to borrow money'.

- 3.2.6 In a situation of prevailing high interest rates it is clear that the facilities offered by the Associated or non-Associated banks operate against the interest of the smaller firm. The requirements of the small firm are generally too modest to allow it to take advantage of the preferential rates given to larger companies and as with purchases of stock and raw materials its requirements tend to be short-term and small and so cost more than they would to a larger business. Equally the small firm does not have the personnel or management capability to provide full attention to money management so that even where advantages might be taken in the money market, such as forward purchase of spot currency this tends not to be done.
- 3.2.7 The recent initiatives by the banks to stimulate business in this sector suggests a consciousness of these problems on the part of the banks and an awareness of reticence to authorise risk investment on the part of their managers which it may be difficult to modify. Certainly a change of attitude that moves away from the traditional security-minded policy to underwrite the bank's interest would assist the small enterprise which may have substantial turnover but slight capital. In addition the banks might, as clearly they do in France, take a broader management aid role in relation to their customer's accounts, especially in relation to grants. Of all the agencies with which the small businessman is concerned, the relation with the bank is necessarily the most intimate and is likely to remain so.
- 3.2.8 The Industrial Development Authority  
The Industrial Development Authority acts both as the main arm of promotion for the job creation policy and the main co-ordinating body for the various aspects of the policy carried out by other agencies. Thus, in addition to the provision of non-repayable cash grants toward the cost of site and site development, buildings, reconstruction, plant and equipment up to 45% or 60% in certain designated areas, there is a scheme of training grants operated in conjunction with the Industrial Training Authority (AnCO) and loans and long-term finance as well as working capital are provided through the Associated Banks by the IDA up to a limit of IR£25,000 for approved small industries. Similar grants are made available for research and development of new products and processes of manufacture.
- 3.2.9 One of our respondents commented that the 'IDA was for foreigners, not for the native Irish'. This remark typifies an attitude that is somewhat common in the popular perspective of this major agency in Ireland. Although the attraction of foreign industry to Ireland has been a major and most visible aspect of the Authority's activity since its formation, it has had since 1967 a small industries division which has received increasing prominence over the past two years with the publication of a review for the period 1967-77 of the activities in this area and a subsequent Annual Report for 1978.
- 3.2.10 This latter report makes it clear that considerable efforts have been made by the Authority since 1979 to 'simplify and speed-up the decision-making process for grant approvals, including the elimination of



lengthy form-filling by promoters' - a matter consistently alluded to in the comments made by our respondents.

- 3.2.11 Forty-three (71.6%) of the firms in our sample reported that they had at some stage had contact with the IDA but only 16 of these had a positive opinion of the agency while 21 (36%) had a negative opinion and 7 (12%) of those who had been in contact made no comment. As indicated above this generally negative assessment is reflected to some degree in the comments received during the survey. Such comments and opinions are naturally based on experience gained at various points over a period of years and may well not reflect changes in policy which have in large measure addressed the problems to which our respondents drew attention.
- 3.2.12 In general terms the criticisms of the IDA were based on three elements: (1) it was too bureaucratic and therefore not flexible enough; (2) it was too slow; (3) it involved too much form-filling. These could be summarised as a single problem arising from the organisational characteristics of the participants. Small businessmen felt acutely the lack of managerial skills or staff adequate to deal with the demands of large organisations and felt themselves disadvantaged in this situation.
- 3.2.13 These issues can be given greater specificity by reference to examples in our sample. One firm which had received a sizeable grant from the IDA were nonetheless very critical on four counts:
- a) Time: by the time they finally produced the grants the firm had got beyond the point where it needed them;
  - b) Management: substantial time and effort was required to get the grants. He showed a file several inches thick full of documents produced for the IDA. This was a heavy strain on a firm with 2 managers and 7 workers.
  - c) Product: the IDA had argued that what they were doing required a larger enterprise whereas they had shown that it could be carried out effectively by a small firm.
  - d) Rules: the IDA had used a strict interpretation of the rules to delay payments under the grant, e.g. waiting for finalisation of planning permission etc.
- According to this respondent what the small business required was to have its hand held at the beginning and this required less form-filling and fewer bureaucratic rules.
- 3.2.14 A second example relates to the failure of a firm to gain a grant and claimed that support for a foreign firm in the same product-area had in fact frustrated their own development. Here again the main problem was one of effective communication and apparent contradiction between policy measures aimed at the recruitment of foreign firm sand the encouragement of import substitution among native ones.
- 3.2.15 Although these two examples labour the point somewhat they show how misunderstanding can arise with regard to both the inherent contradictions in policy objectives of the helping agencies, and the aims and possibilities of the small business. The set of proposals set out under the modified Small Industries Programme (Small Industries Annual Report, 1978, October 1979), should go some way to meet these difficulties and overall they clearly provide a very comprehensive package of support.

3.2.16 The Industrial Credit Company

Only 28 firms in our sample had had any contact with the ICC and to some extent this may have been in any case related to funding arranged through the IDA in the first instance. Of these 28, ten had a very high opinion of the ICC, the same number had a somewhat negative opinion and 2 made no comment.

3.2.17 Many of the difficulties experienced by small firms with this agency may be comparable with those already identified in relation to the banks. The ICC as a State Development Bank offers: large-term loans, medium-term loans at variable interest rates, hire-purchase, leasing direct share subscription, venture capital, quasi-equity loans and corporate advisory work. It claims that 90% of the projects it funded were for small firms of under 100 employees (1978).

3.2.18 However, here again the application procedures appear to some small firms needlessly complex and tending to require too much collateral. There is also a considerable problem of delay which arises from the legal requirements whereby the collateral, which is often land and property, can be checked for title etc. by the ICC's solicitors, before the loan can be approved.

3.2.19 Nevertheless it is appreciated that in principle the scheme is attractive and generous but many smaller businesses feel that they can get no benefit from it either because they have insufficient collateral or cannot go through the process necessary to secure the funds. They would rather rely on the more immediate eye or nay of their local bank manager. Many of them take the view that in general you can only get finance if you do not need it.

3.2.20 The second group of agencies with which these small firms become chiefly involved is concerned with industrial training and research and development assistance. In Ireland these interests are principally represented by AnCO - the Industrial Training Authority, and the Institute of Industrial Research and Standards.

3.2.21 AnCO

Some reference has been made in an earlier section to the criticism made by some of the firms in the sample to this agency. In general the small firm wants a highly specialised skill which may be unique in their particular production process and consequently finds this training cannot be given. Alternatively it wants to employ those with a more general skill but would prefer that the training was provided in a small firm ethos. In either case it would seem impossible to satisfy these requirements.

3.2.22 An added resentment arises in the case of AnCO however because of the levy which is charged to employers whether or not they make use of the AnCO scheme. Many feel that they should get more help and not be charged by the agency providing training. The cut-off point for payment of this levy is defined on the basis of an overall gross wage bill (excluding employers' contribution to social welfare) of IR£42,000 per annum. Clearly with an average industrial wage estimated at some IR£114 per week even firms of less than ten employees are more than likely to be included especially since directors' fees etc. are included in the gross wage calculation. Such a levy, even at 1.25%, may appear excessive for a service that is not used. (The cut-off point varies between different industries. The above figures are for the engineering sector).

- 3.2.23 Again it may be useful to isolate some of the comments in relation to a particular firm - in this case a machine-jobbing shop with 25 employees in the centre of Cork. The comments of the respondent in this case were as follows:
- a) training provided by AnCO is inadequate in breadth and depth, as compared to that obtained working in a jobbing shop, such as their own, which does every type of job. In any case four years is not long enough to create a skilled craftsman. In general AnCO apprentices lack workshop experience.
  - b) people acquire bad habits, e.g. strikes, industrial agitation etc. In his opinion many of the apprentices sent to AnCO by the multi-nationals only do occasional maintenance jobs and can doss around whereas this is not possible in a jobbing shop.
  - c) instead of being charged a levy, firms should be subsidised for the amount of untrained labour that they are carrying.
- 3.2.24 These comments encapsulate a number of strands of opinion that was reflected widely in the survey. The general impression of the small firm remains that they believe that they themselves can do a better job both in providing skills and experience while socialising their personnel into a pattern appropriate for the context of the small firm. It is clear however that this agency is not meeting the subjectively felt needs of the small employer. Of the sixty firms in our sample, 28 (47%) made use of AnCO but only 6 firms had a positive opinion of the agency and 25 (42%) had a distinctly negative view of the agency.
- 3.2.25 The Institute for Industrial Research and Standards (IIRS)
- A somewhat similar problem exists in relation to the Institute of Industrial Research and Standards. This body which like the others mentioned has a regional office in Cork is the object of a rather conflicting set of opinions. Again there is inconsistency since some users are clearly highly satisfied while others feel that their particular needs are not catered for, and in so far as their own particular technology is concerned they themselves are more competent than the staff of the agency.
- 3.2.26 Twenty-nine of the firms in the sample had some contact with the IIRS and of these, 17 expressed themselves satisfied. More significantly perhaps is the fact that more than half of the sample claimed that they had no contact with the IIRS. Of those who did, a few criticised the agency for slowness and thoroughness in one case, an underestimation of the capacity of a small producer which had lost him a contract, lack of knowledge of a specialist area and so on.
- 3.2.27 In large measure some of the points already made in relation to other agencies apply here. It is often difficult for the small firm to specify its wants adequately or to have them satisfied quickly enough. If, as with the IIRS and AnCO, the service has to be paid for the advantages of the services offered may not appear sufficiently attractive to outweigh inertia.
- 3.2.28 This account of comments from those interviewed about the main agencies do not attempt to elaborate the overall programme of the agencies concerned. Rather it is intended to illustrate problems common to all of them in dealing with the small enterprise. Both in the relatively small proportion of those firms that have contact with and experience

of the various agencies and in some of the difficulties perceived, there would appear to be a considerable gap in communication and confidence between the agencies and their prospective and past clients.

PART IV

Conclusion

- 4.1.1 The proposals for this study outlined three themes that would be appropriate for framing the analysis of small firms. The first involved the perception of and problems of emergence and continuity in small independent enterprises. Obviously this was largely a descriptive exercise to discover the conditions under which the small firms in the sample operate and their general structure, organisation and origins. Among other matters under this theme was the consideration of the particular situation of family firms and the transitional problems of succession and re-organisation. The second concerned the relationship between these small firms and the various helping agencies, particularly the extent of knowledge about them and the attitudes toward them held by individual owners and managers of firms. The third theme examined the capacity of these firms to develop and adapt to changing needs and situations and to examine in association with this their capacity to contribute to the growth of employment.
- 4.1.2 The firms examined in Cork appeared to be generally vigorous and optimistic about their future and only in one or two cases were there evident signs of decay and demoralisation. Unlike the Paris and Aberdeen samples these firms were mostly little more than ten years old and consequently suffered to a much smaller degree the difficulties of handover and transfer from the original founders or the problems of re-organisation that so often characterise the older enterprise. Buoyant as they generally seemed to be they nevertheless exhibited a set of characteristics which confirm the impression that the small enterprise cannot be treated simply as a microcosm of the large. Consequently it cannot be readily absorbed into programmes designed for large and medium sized firms. Both management and employment structures together with specific attitudes to organisation and development define the ambience of the small firm and would seem to amply justify the specific attention paid to the small firm sector in recent years by policy-makers and agencies such as the banks, the IDA and the ICC.
- 4.1.3 In relation to job creation programmes it is clearly important to examine the potential of the small firm sector and to establish both a measure of capacity for growth and capacity for the retention of existing labour. The sixty firms examined in Cork were on the whole contributing significantly to employment growth in response to their changing needs and circumstances. But only in rare cases was this the result of a dramatic development; normally it was related to an inner dynamic which carefully weighed a variety of factors before commitments to new workers were made.

4.2.1 Attitudes to Growth

It was clear that growth is not necessarily seen as a desirable objective in its own right by the firms in our sample. For many of them the early stage of small business development with close face-to-face workshop relations and direct involvement of the 'patron' in the production process or service activity remains the ideal situation. Growth beyond the stage of direct control by the owner-manager introduces organisational and structural changes which may for a number of owners frustrate their objectives in running their own business. Particularly for those who left employment elsewhere to set up on their own or those who have become habituated to a balanced and stable situation growth must be seen as filled with uncertainty and

offering no apparent and immediate advantage. Clearly the situation is different for those that have been described in the Scottish study as 'asset realisers' whose entry into the small business field is more explicitly related to making a fairly quick profit but who lack the same commitment to the structure and social implications of the small firm.

4.2.2 If small firms are to be given encouragement therefore this should not necessarily imply growth as the only desirable outcome. Retention of labour and efficiency of production should both be treated as factors in the assessment of projects in addition to the expectation of newly created jobs. Given that labour costs are an important component of total costs it was constantly made clear to us that the small firm could not afford to carry any slack and with the high costs of redundancy settlements they were understandably reluctant to commit themselves further than necessary. Attention might be given to schemes to share labour and extend sub-contracting in order to facilitate small firms.

#### 4.3.1 Recruitment and Training

Obviously the ideal situation that the small firm owner seeks is to have complete control over the labour market. With strongly ascriptive relations with the workforce, which in some cases is a direct extension of family relations, they expect the habituated loyalty and dedication to the interests of the firm to which they own life is devoted and around which their livelihood revolves. It is not surprising therefore that the preferred method of recruitment is by recommendation from someone already in the firm or somebody known to them. If it is impossible to establish such a link of symbolic kinship then localism becomes the next best thing and a local advertisement allows recruitment to be handled in a similar context. For such employers Manpower offices and employment exchanges may not be resorted to because they threaten this kind of relationship and serve, symbolically at least, to distance the employer from those to whom he gives employment.

4.3.2 One further difficulty relates to the conception of tasks to be performed. The division of labour in the small enterprise often requires that even the most highly skilled employees are prepared to act as generalists and to be competent in a number of different fields and applications. This is consistent with the craft nature of much production based on task or batch rather than assembly line. In addition because management structures are slight senior craftsmen may well have to stand in for the boss in his absence or lend a hand in the completion of an order by another craftsman. For these reasons workers in the small firm have far more direct contact with customers and with aspects of management than would be the case in a larger enterprise. Although skill is highly valued by the small manufacturing and servicing firm there is a resistance to too great a demarcation which would frustrate and inhibit the flexibility of application. The negative and generally hostile attitude found in the sample firms towards trade unions is in part attributable to the awareness of the extent to which the organisation of their business depends on flexibility, trust and personal commitment from their employees.

4.3.3 Attitudes to training outside the firm similarly reflect the same conception of a holistic involvement in the interests of the firm which can, it is claimed, only be achieved in the firm itself. Learning

from those already working there means that a whole context of relationships can be transmitted together with specific skills. As the French study expresses it with regard to those trained outside the firm itself in schools or under a training scheme: 'they only learn the 'trade' as such and they know nothing of the complex web of constraints that lie behind imperious requests by the 'patron' to do the job properly and do it by tomorrow'.

4.3.4 From the point of view of the owner of a small firm of between one and fifty employees these constraints are necessarily his paramount consideration. For the reasons we have already noted his is a high risk operation working with inadequate or at least uncomfortably narrow margins. The small businessman cannot afford to make a mistake because he has too much to lose if his decision is faulty. His own livelihood and that of his workforce depends on continued success and the employees share the interests of their employer to a great extent. It is consequently rare for them to wish to negotiate outside the context of their particular relationship with the firm and their employer or to see particular need or advantage in joining a trade union. Many of their employers are, after all, craftsmen like themselves who have made a break into entrepreneurship but are not necessarily seen as totally alienated from those who now work for them.

4.3.5 Training for the small business therefore should perhaps be giving more emphasis to the contextual realities of small business, the necessary flexibility, the team-work and involvement in the enterprise at many levels that is required by the small employer. Schemes for the support of apprentices already exist as well as day-release procedures which do not lead to too great disruption. Further attention might be given to support for on-the-job and in-service training for semi-skilled and unskilled workers as well as for management within the small firm setting.

4.3.6 In general it is rather unfashionable to extol the virtues of the small businessman and 'petty capitalist' but it is clear from this study that it would be equally foolish in framing policy to ignore those values which make it worthwhile for them. Growth is important and so is making money but it would appear to be very clear that independence, autonomy of action and control are essential ingredients in the recipe.

4.4.1 Improving Delivery Systems

In spite of the rather negative picture painted by many of the respondents in our study the structure of support for the small business sector available in Ireland is both generous and comprehensive. The main clients in numerical terms at least must remain the small firms of under 50 employees, and it is clear that the County Development Officers, the IDA and other bodies are very actively and effectively engaged in this area. But their activity remains very much at the level of reaction to initiative and assumes that the solution to a problem or the provision of a grant will be in response to a request that sets out with some clarity the requirements. It would appear that one of the reasons that small firms may not seek as much help as they might is that they are not equipped to frame the question for which the agency can provide the answer. In part this is because of lack of management skills and staff but also it may be because the relevance of the information required may not have been made clear. Again, the perspective of the small employer is particularistic and

he is generally little concerned with matters that do not impinge on him too directly. The agencies may need to explore more actively the involvement of field staff in a directly consultative role with management based on delegated decision-making capacity at the point of impact. Obviously such a procedure would raise difficulties but given the willingness of our respondents to discuss with us their difficulties there would not necessarily be resistance to a more positive role by the agencies to seek business.

#### 4.5.1 Size

All the above remarks are related to issues of size. In general the decision that we took to look at firms up to 50 employees was arbitrary and some of the findings in this study would equally apply to larger firms depending on context and organisational structure. In the Cork study we made a further division based on size as a basis for classification and analysis. What is clear is that there are in broad terms certain size constraints which determine important transition points in the growth and development of the enterprise. Although there is considerable variation in the different enterprises that we examined there is a point, usually once a size of 6 or 7 is reached, when it is necessary for regular management functions to be organised on a structured basis. This may initially be achieved by a wife doing the books at home but this cannot be sustained over a certain size. Similarly there would seem to be a point falling between 20 and 30 employees where a developed management structure of at least three people becomes essential and in some firms it may be at this point that they have to look outside immediate family members to provide it. As we have indicated earlier, growth has important structural implications for firms of this size and greater attention may need to be given to this in the framing of future policy. The fact that in one of two instances firms preferred sub-division to growth suggests that size may have tangible effects related to issues of control and direct involvement by the owner/manager.

#### 4.6.1 Support Programmes

Ireland has developed an impressive number of initiatives to help small industries nationally under the small industries programme of the Industrial Development Authority, under the pilot development programme in the mid-west region (SFADCO) and in other programmes already referred to in the body of the report. The development of industrial clusters in urban areas and the promotion of integrated programmes of aid to this sector which have been particularly apparent since 1978 go a long way to provide a supportive infrastructure within which the small enterprise can effectively operate. However, it would still appear to be the case that the emphasis of these programmes is too heavily weighted toward manufacture, exports and import substitution and fails to take sufficient account of the extent to which the service sector forms part of a matrix of linkage and interdependence. Servicing can provide a buffer within many small industries to the uncertainties of single product dependence or linkages of supplies and markets that inhibit diversification except in servicing and agency activity. It might well be advantageous to explore ways of providing support to the growing and increasingly important service sector so far as it represents and interlocks with small industries such as those that we have studied.



PROGRAMME OF RESEARCH AND ACTIONS IN THE DEVELOPMENT OF  
THE LABOUR MARKET

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SMALL INDEPENDENT ENTERPRISES AND THEIR ENVIRONMENT:

FACTORS AFFECTING THE MAINTENANCE AND GROWTH OF

EMPLOYMENT AMONG SMALL INDEPENDENT ENTERPRISES

MAIN REPORT: SCOTLAND

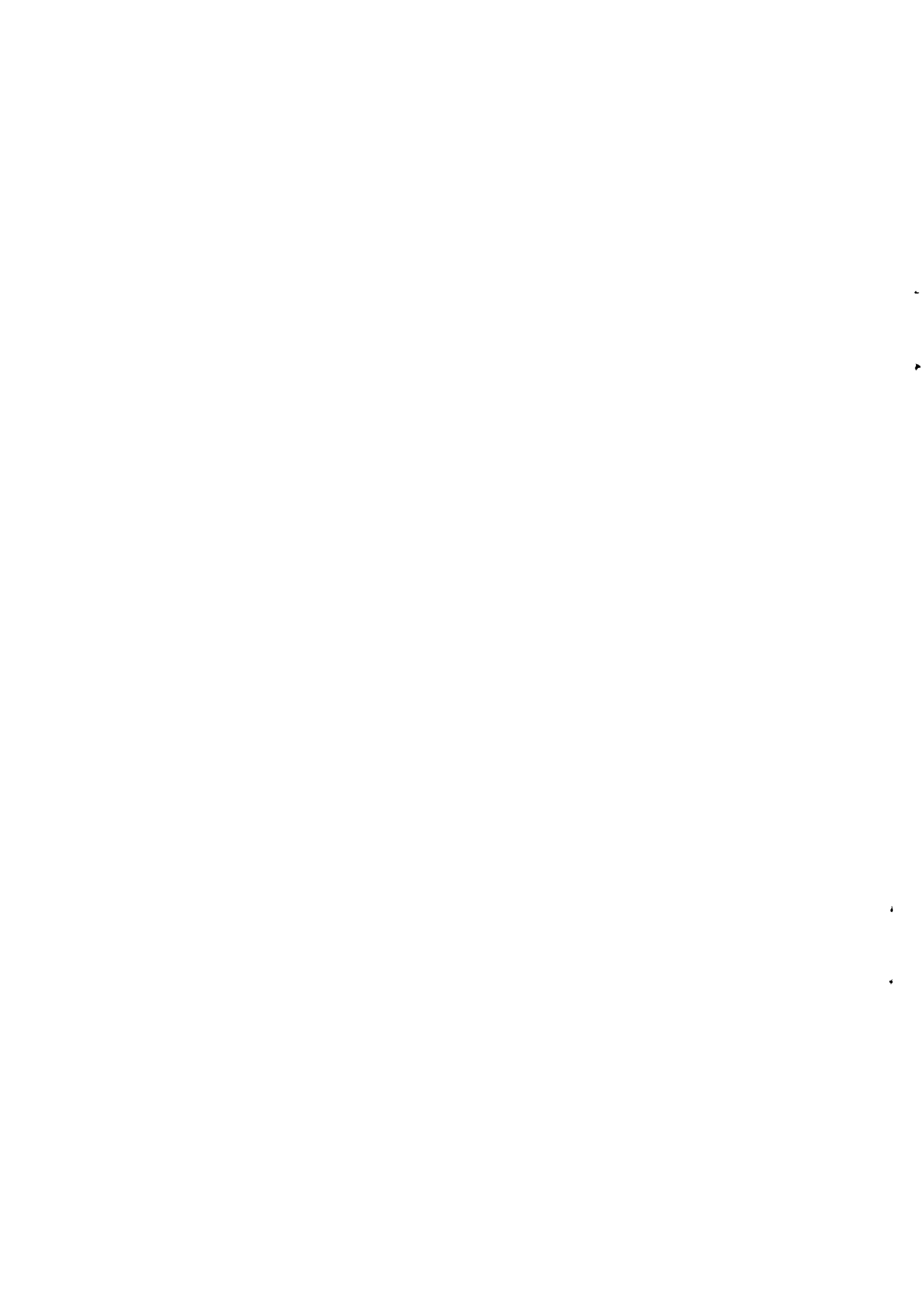
Pilot Study in the City of Aberdeen

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For:

Commission of the European  
Communities.



## CHAPTER I

The Sample Chosen for Empirical  
Study

1.1. In the original research proposal it was suggested that, though of great interest, little was known empirically of the current environment of small companies. This section of our overall appraisal is based on interviews with such companies carried out within the City of Aberdeen between March and August, 1979.

1.2. To contrast as far as possible with the static and declining sites chosen elsewhere; the City of Cork and the older industrial areas of Paris' immediate suburbs; the Scottish interviews were concentrated on the City of Aberdeen. Following the rapid development of oil related activities, Aberdeen has during the past ten years experienced unprecedented growth, concentrated in particular in the engineering and construction sectors (1). Such contrasts in local background would we hoped highlight what was of the essence in small companies, whilst simultaneously pointing to the range of different strategies possible in differing contexts.

Geographical location of interviews

1.3. The companies interviewed were spread throughout the City with three distinct patterns of location - inner city areas adjacent to the harbour and cattle market, Tullos the oldest of the industrial estates, and post oil industrial estates.

1.4. It is important to stress that despite the scatter of companies throughout the City the overall physical geographical distance this represents, is in fact small. The City of Aberdeen boundary to boundary measures only five miles across. Even including those companies on the satellite industrial estates, eight miles was the furthest distance separating the sample companies.

1.5. The City of Aberdeen exists remote from other substantial centres of population, the nearest being Inverness 104 miles to the north, Dundee 60 miles south. These distances were until recently exacerbated by poor communications. This isolation led to the city acting as the administrative, marketing, legal, educational and servicing centre for the North East of Scotland and the eastern islands of Orkney and Shetland.

Employment 1945-1969

1.6. Employment when not generated by the professions was centred on the primary industries of fishing, agriculture and granite with their associated servicing and manufacturing, infrastructures, agricultural engineering, boat building, marine engineering, flour milling, fish processing. Paper and textile manufacturing also existed, as traditional industries (18th century) largely retained in the region due to the low level of wages coupled with the high "quality" and stability of local labour (2).

1.7. In 1971 manufacturing employment in the city accounted for only 23% of total employment; 11% lower than the Scottish average. Such manufacturing activity as did exist was widely spread through the SIC divisions with only in five instances the employment totals exceeding 20% of the total employment within the City. In comparison with Scotland as a whole, fewer people were employed in metal manufacturing, mechanical and electrical engineering (3).

In contrast 66% of the labour force was employed in the service sector of the economy. It was growth in this sector above all which was largely responsible for sustaining employment in the City during the decade before oil. Two other indications of slow economic growth prior to oil existed, low activity rates, in particular the male activity rate fell by 3% between 1966 and 1971, and low wage rates, only 90% of the Scottish average which was itself well below the UK figure. (4).

- 1.8. The economic stagnation reflected in low wage levels was also apparent in the high level of outward migration, particularly among the young and highly educated (5), the low level of local and national investment in both plant and industrial infrastructures and the fragmented and locally controlled nature of employment. The average size of industrial units was also small, employing in 1968 under fifteen. This scenario had little in it to attract outside investment, so much so that the employment mix within the North East by the late 1960's appeared to have changed little since the late 19th century. (6).
- 1.9. This assessment of the North East of Scotland was confirmed by a Scottish Office appraisal in 1966 which in effect denied the area any economic future, arguing that no further government investment should be made in its industrial infrastructures, roads, airports, harbours, all monies to be concentrated on the central belt and Dundee (7).
- 1.10. Until the development of offshore oil and gas with their associated demands, small locally owned companies, able to recruit from a wide pool, servicing predominantly a local market generally focussed on the primary industries of agriculture, fishing or granite were the norm.
- Oil related impact 1970
- 1.11. In 1968 the first oil related companies, Shell and BP, opened small offices in the City but it was only in 1970, following the discovery of the Forties Field by BP, that such companies, and with them oil related employment, showed any significant growth. From 1970 onwards, however, the City experienced a massive increase of such companies, which growth has with minor downturns been sustained throughout the decade. By 1977 within the engineering sector alone, 374 oil related companies existed in the City, forming 23% of all engineering manufacturing enterprises, 11% servicing, and 66% supply units. Such a massive sustained growth in oil related companies was also reflected in employment trends. (8).
- 1.12. With no interim 1976 census, oil related employment figures based on global figures, are not obtainable for the City. Instead one is forced to rely on restricted, recurrent samples carried out by the Scottish Office statistical unit. This shows that the Grampian Region, within which Aberdeen is situated, has experienced a steady upward trend in oil related employment since 1971. Between 1974 and 1977 oil related employment increased by 4,000, a percentage increase of 47%. Such oil related employment in mid-1976, making up 7.3% of total employment in the region, gave Grampian the highest percentage with the exception of the Highlands, Western Isles and Orkney and Shetland, of oil related employment in Scotland. This was (ignoring the Highland region), also the highest percentage increase in oil related employment between 1974 and 1976 in Scotland (9), which trends have continued.
- 1.13. By 1980 the North East of Scotland Joint Planning Advisory Committee (NESJPAC) (10) estimated that oil related employment would reach

14,000. These estimates are, judging from a detailed census of oil related employment carried on within the City in 1977 too conservative (11). In 1977 oil related employment within the City excluding production companies stood at 13,000. The production companies of which there were 16 employed a further 3,600. In addition 67 companies employed 3,500 offshore. Overall, by 1977 over 20,000 were employed in oil related activities by firms operating within the City. Such employment has continued to grow and can only be expected to accelerate rapidly in 1980 with the upturn in offshore drilling. Concentrated as it is on servicing, such employment is not subject to the swings associated with offshore structure manufacturing activities which dominate oil related employment in the other Scottish regions. Oil related employment within the region represents therefore a long term activity. Unlike previous employment such activity has swung ownership and decision making control decisively away from local control (12).

- 1.14. The contrasts described in this brief resume of the City and its surrounding area were reflected in the firms interviewed.
- 1.15. Until recently attempts to stimulate the Scottish economy have relied on a combination of regional, fiscal and marketing exercises, the latter aimed predominantly at attracting the manufacturing subsidiaries of large multinationals to Scotland. Sustained since the 1930's this marketing exercise has been so numerically successful that currently  $\frac{1}{4}$  Scots are employed in such manufacturing units. (13)
- 1.16. In the more recent past (14) queries have been raised as to how far such a strategy has led to the development of a branch economy with all its attendant evils; no local executive decision making, no research and development, no complete career ladders leaving little or no indigenous control of innovation. Work in Aberdeen (15) has confirmed this supposition insofar as it related to Scottish based oil related companies. It is against this negative appraisal that currently greater attention is being paid to the activities of indigenous, frequently small employment units. Despite their fiscal and marketing neglect, such companies, it can be shown, exist in substantial numbers in the economy (16) and appear to have on balance expanded their employment over the last decade. (17) Any group which demonstrates employment expansion must be of interest to policy makers.
- 1.17. However, beyond the fact of their existence, and their employment expansion, and apart from a listing of problems experienced by small companies (18) little is known about small companies in Scotland. Attempts to formulate policies focussed on such enterprises are currently forced to rely on the restricted SDA survey or on information derived from the large national or multinational company which may be totally inappropriate. This study by focussing on companies employing between 2 and 50 has sought to fill many gaps in our current knowledge about their operation. Such an employment range covers not only companies which have been in existence for some time, highlighting strategies conducive for survival, problems associated with succession and adaptation to changing technologies and labour markets but also those features associated with start up situations and fledgling entrepreneurs.
- 1.18. Currently there is widespread interest in how entrepreneurship might be encouraged. Our sample helps to highlight both the motivations and the experience of these first time entrepreneurs. In all instances employment in the small firm is seen within the total context of the firm. No small part of this, is the range of helping agencies and government

policies which purport to aid such companies. The study researches the experience of such help besides giving

- (a) a detailed picture of small firms within a Scottish as opposed to a UK or English/Welsh/Northern Ireland context;
- (b) analyses the existence of small firms within a specific region in this instance a peripheral region;
- (c) provides information as to the responses of small companies to rapid expansion in a local economy;
- (d) gives an initial comparative assessment of the effectiveness of policies aimed at the small firm at various stages of development;
- (e) when combined with the Irish and French studies it provides an initial statement about the small firm within the Community environment.

## CHAPTER II

### The sample and methodology employed

2.1. Interviews were carried out with individuals running 47 companies. The interviews were either with the owners, including partners, or senior operational managers. The sample was chosen from a census of engineering and construction companies carried out within the City of Aberdeen in 1977 (19). This listing gave details of name, activities engaged in: manufacturing, servicing, supplying agencies, professional activities, goods produced or handled, ownership and numbers employed by sex. Taking only companies which satisfied the criteria mutually agreed upon by the three research directors: operating within the engineering sector (international SIC classification) engaged in either manufacturing or servicing, independently owned, located within the City of Aberdeen, employing under 50, a list of 70 companies was drawn up and schedules prepared for interviewing. Contact, initiated by letter and if necessary 'phone, early established that the very dynamic nature of the economy within the City had in the intervening two years severely depleted the original listings reducing the relevant companies to 43. In only two instances had listed firms been entirely dissolved; more commonly employment had expanded above 50(7), companies had been taken over (9), companies had been amalgamated with larger existing groups (4), had changed activities away from their previous activities of manufacturing or servicing (6), or in one instance had moved out of the area. The researchers were then forced to move to alternative listings to obtain target companies. None of the listings in existence for the area (North East of Scotland Development Agency, Scottish Council Development of Industry, Kompass, Noroil) covered the range of information required to enable the researchers to decide whether a particular firm was indeed relevant. In particular none of the published sources referred to listed ownership, and few employment size.

2.2. The lack of minimal data covering companies in the area, a sharp contrast with the situation in Paris, is of interest in itself. What it means is that within the City of Aberdeen it is currently impossible to determine the extent of the contribution of small firms to the local economy, the degree of local control, let alone develop analysis further to compare for instance the relative performance of Scottish, U.K., multinational and independent companies. Lack of a sufficiently detailed sample frame forced the research team to construct one by amalgamating information from as many published listings as possible, combining this with newspaper

scanning and use of Company House records in Edinburgh. Even so, and this includes Company House, these information sources proved out of date and therefore misleading.

- 2.3. The final figure of 47 interviews completed is partially a reflection of the inadequacies of the existing sources of information and partially a reflection of the time constraints built into the project itself.
- 2.4. A refusal rate of 15% further increased the difficulties of achieving our initial target of 50 interviews. Outright refusal was only the end of a spectrum with immediate enthusiastic co-operation at the other end. Overall, response fell in the more negative range. If outright refusal was considerably lower than the French experience, the need for considerable expenditure of time; several telephone calls, appointments changed or missed; persuading individuals to become involved in the project was common. This was not a reflection of a negative assessment of the EEC. Indeed, the EEC was seen in general by the companies interviewed in positive terms and many were considerably flattered that though small, they were still considered sufficiently important to warrant EEC attention. As a Public Relations exercise on behalf of the Community the interviews were worth doing in themselves. Above all fear of wasting time, which might otherwise be more profitably spent on generative income, "I am in the business of making my living", governed the decision on whether or not the contact agreed to be interviewed. Though there was some stress on confidentiality, suspicion of parting with "confidential material" which was most apparent in the area of finance, it was the amount of time that was going to be taken which above all preoccupied the contact. This highlighted a major feature which will be examined in some detail in a later section, the extremetime pressures experienced by owner/managers in small companies.
- 2.5. Paradoxically, if the interviewer was found to be credible the problem became one of limiting the time the interviewees demanded. The opportunity especially in one man businesses to really explain the *raison d'etre* of the entrepreneur's life, bounce ideas of a sympathetic and knowledgeable listener proved irresistible. In such instances interviewers were frequently pressed to return.
- 2.6. This description of the moves surrounding contact and later reception of interviewers has implications for any legislative programme, which attempts to reach small businesses. What it suggests is that the presentation and delivery of the programme is quite as important as the content itself. This is an idea to which I shall return when discussing the role of helping agencies and small businesses. The fact that interviewers when the invitation to contribute had finally been accepted were often greeted warmly, does not imply that the interviews were carried out under ideal conditions. Inadequate lighting, high levels of noise, constant employees/customers interruptions and operational crises led to the interviews frequently being carried on in short bursts. All these difficulties must be borne in mind when assessing the subsequent report.

#### The Refusal Rate

- 2.7. The refusal rate experienced fell within acceptable statistical limits. The refusals appeared to be random and I have no reason to believe that the firms included in this current study differ in any major way from those refusing fuller contact. The reasons for refusal, time constraints, suspicion about divulging sensitive material, all these features were encountered in the firms interviewed.

Characteristics of the Scottish sample

- 2.8. In distinction to the French study, firms in the Scottish sample which were primarily involved in servicing made up a substantial sector, 46.8% of the sample, whilst manufacturing accounted for 38.3% and fabrication a closely allied activity 4.3%. Sales as a primary activity associated with manufacturing or servicing accounted for 6.4%. (20)
- 2.9. Partially this reflects the position of servicing as a ladder activity through which directors acquire those skills and knowledge of markets which they will subsequently develop into full blown manufacturing. (24) Partially the expansion of servicing was a function of the remoteness of the area from other industrial conurbations so that the local man was used in preference to sending equipment back to source. Seeking out such local servicing has in some instances now become official company policy (see Shell Development of a small business strategy).
- 2.10. All the companies interviewed were classified as engineering enterprises. Of these 66% were involved in metal related engineering, 13% in metal machining, 10% in metal fabrication, 11% in other metal work and 32% in predominantly metal related engineering servicing. 10% were involved in non-metal manufacturing and 23% in non-metal servicing and sales. The above figures are clarified if we analyse the materials used. 46.8% were in metal, 2.1% in plastic, 2.1% in chemicals, 12.8% in electronic components, 6.4% in wood. The remaining 31% were in granite.
- 2.11. In addition 36.2% of the sample were involved in selling activities both as a major and subsidiary activity. Income attached to agency tenure was in all but two firms of minor importance. Twelve companies held agencies but in only two instances did they hold more than four. Agencies held were most frequently complementary to the main activity and sales from agencies in only two instances made up over 10% of sales.
- 2.12. In the following section to allow ease of comparison with the French sample the Scottish firms will be analysed according to SIC international engineering sectors.
- 2.13. In distinction to the French study, Precision Engineering, as defined in that study: "fabrication of tools and as components, machines of their parts for industry as a sole activity"; made a smaller contribution to the Scottish sample. Only five such firms existed in this manufacturing sector; hydraulic machinery and equipment, ramps, pumps and compressors, power rollers, guillotines, welding gear and three foundry/servicing blacksmiths.
- 2.14. The largest group (12 companies) was General Engineering. Here production, as with the Irish sample, was highly varied and variable, manufacturing a wide range of products to meet customer requirements from customised vehicle bodies through to skips, containers and pipe fabrication. Firms also took on a wide range of engineering repairs and modifications, which work falls uneasily on the arbitrary division between manufacturing and servicing. In several instances the interviewees described themselves with some pride as jobbing engineers. "You tell me what you mean by a six inch hole and I'll make it for you."



- 2.15. Twelve companies were involved in some type of Power Related Engineering. The huge increase in building in the area in the recent past coupled with rising incomes/expectations and a harsh northern climate has led to an expansion in heating and construction related electrical engineering. Such firms classified as servicing engineers cover a range of clients from local authorities to public corporations to domestic consumers.
- 2.16. Five companies were involved in Non-metal Product Specific Manufacturing ranging from manufacturers of injection moulded thermoplastic components, pneumatic hose, plastic/wooden fish boxes, rubber work and synthetic net making.
- 2.17. Three companies were involved in Stone Specific Manufacturing, two manufacturing a range of products from granite, the third grinding imported rock to provide a major constituent of the "mud" required for off-shore drilling.
- 2.18. The group termed miscellaneous in the French study we have here titled Miscellaneous Servicing. These seven companies covered a wide range of servicing related activities from offshore oilfield finger printing through designing and erecting exhibition displays, servicing office equipment to servicing farm equipment.
- 2.19. Before beginning Part II of the report and discussing more general findings it may prove useful to examine these sectors in greater detail, highlighting in particular size and ownership patterns.

#### General Engineering

Sample Number	Number Employees	Market
9	27	to meet oil market
3	25	to meet oil market
8	35	general engineering
17	26	containers
36	6	processing scrap
42	12	containers oil/oil market/small metal products
44	42	oil market/oil metal containers
5	7	containers oil/small metal products
31	2	metal fabrication
34	12	general fabrication and welding
28	15	pipe fabrication oil market
15	35	offshore fabrication market
18	2	general engineering
21	20	customised vehicle bodies
30	50	power roller fabrication

#### Precision Engineering

Sample Number	Number Employed	Market
35	3	blacksmith - one off general
37	23	foundry - general
24	4	general blacksmith - general
23	26	hydraulic machines, agricultural, whisky

General Engineering

Sample Number	Date and means foundation firms present owner
9	1973 - set up by present owner
3	1976 - set up by present sole owner
8	1965 - set up by current MD
36	1928 - owned continuously by the same family
17	1967 - run by original owner
34	1974 - 12 year continuous set up by current MD
42	1970 - set up by current MD
44	1936 - father set up firm two sons MD's
5	1940 - acquired by current owners
31	1974 - set up by current sole owner
28	1976 - set up by craftsman now MD
15	1974 - set up by current MD
18	1964 - set up by current MD
21	1948 - family firm
30	1978 - set up by current owner

Precision Engineering

Sample Number	Date and means foundation firms present owner(s)
37	set up by grandfather of current owner
35	1942 - set up by current owner's father and uncle
24	1936 - set up by father of present owner
23	1946 - set up by current owner's father

General and Precision Engineering

2.20. In contrast to the Paris firms, companies classified as precision engineering in Aberdeen tended to be longer established, the current owner inheriting from his father or, in one case, grandfather. There were no examples in this sector of an individual entrepreneur recently entering this sphere. Precision engineering companies contrasted sharply with general engineering in which over 50% of companies had been set up post-1970. The market foci were equally distinctive. Whereas eight out of the 13 general engineering companies were centrally involved with offshore oil, seven having been set up for this purpose, there were no such examples in the precision engineering sector.

2.21. If one combines insights derived from Smith's study in Michigan (23) with Maaris's (24) study of emergent entrepreneurs in Nigeria during post-colonial adjustment, it is possible to put forward a theoretical perspective to explain such differences. Prior to oil related development the engineering industry in Aberdeen consisted of a series of predominantly small jobbing engineering workshops frequently tied to a particular primary industry, agriculture, fishing, distilling (25) together with a small number of precision engineering companies. With the advent of oil, existing craftsmen discovered an enormous demand but for their existing skills rather than their manufacturing plant. American firms used American technology but sought routine servicing or modification to it here. With existing jobbing engineering companies overwhelmed with work, craftsmen within these companies set up their own companies on the basis of their existing ties with particular clients which ties they brought with them. In this way responding creatively to change they sustained or even enhanced their status within their own communities. Loss of skilled workers for long established

precision engineering firms had the opposite effect, threatening their existing markets and reducing their ability to move into new oil related work.

- 2.22. The non-metal manufacturing consisted of four companies covering plastic injection moulding, net manufacturing, general rubber work and pallet/box manufacturers. A sub-group, stone processors, were also distinguished, the rump of the previously dominant 19th century stone industry.

Sample Number	Number Employed	Market
7	35	agriculture/fish pallet boxes
13	45	fish/bobbins
22	7	fish/nets
1	43	plastic extrusion
16	11	granite merchants
38	50	granite manufacturers

Sample Number	Date and means foundation firms present owner(s)
7	1878 - family firm set up by great grandfather
13	1949 - family firm
22	1964 - family firm set up by current owner
1	1869 - family firm
16	1890 - set up by grandfather of MD
38	1906 - set up by grandfather of MD

- 2.23. These companies were all long established family firms predominantly involved in ancilliary manufacturing activities supporting the primary industries, fish in particular, but also soft fruit, vegetables and granite. As with the precision engineering companies whom they resembled, date of foundation, family ownership, support of primary industries, these companies produced a range of items to meet local customer requirements. In terms of markets these firms had been little affected by oil. The effects on labour and premises will be discussed later in the study.

#### Servicing Sector

- 2.24. The servicing sector was divided into two main groups, companies involved in power related servicing, gas, electricity, fuel oil and general industrially related servicing. The market opportunities open to these groups had been greatly enlarged due to the development of oil related activities.

#### Power Related Servicing

- 2.25. Twelve firms existed in this group

Sample Number	Number Employed	Market
19	60	servicing fuel appliances
39	36	refrigeration engineers
27	60	servicing solid fuel appliances
20	13	oil/fuel domestic/industrial
25	1	electrical contracting

Sample Number	Number Employed	market
33	8	electrical engineering domestic/industrial
11	32	Regional/District Council electrical contracting
12	7	Regional Council oil/gas installations
45	19	light assembly electrical
46	10	electrical contracting
10	35	electrical installation plumbing
2	60	electrical system servicing

Sample Number	Date Founded	Set up by
19	1879	great grandfather
39	1956	current partners
27	1860	great grandfather
20	1968	current owner
25	1975	owner
33	1969	2 partners
11	1972	2 partners
12	1973	2 partners
45	1973	current owner
46	1962	2 partners
10	1932	2 partners
2	1898	grandfather current owner

2.26. These companies existed as specialist subcontractors in the construction industry hired either by private building contractors or employed directly by local authority building departments. The sustained and large scale expansion in oil related building both in the housing, commercial and industrial sectors has led to a marked expansion in their local markets. The markets served appeared specialised not only in terms of skills offered, gas, solid fuel systems, electrical wiring, but also in terms of customers.

2.27. Partnerships form a significant ownership type in this sector reflecting the low capital barrier to entry. Where this was not the configuration, family firms dominated.

#### General Servicing

2.28. Eight companies were found in this sector. The range of activities in the engineering service sector was widely scattered from oilfield finger printing, assembly of industrial hoses, erection of exhibition stands, typewriter servicing, adaption of harbours, servicing of agricultural equipment and car bodies, to grinding of "mud" constituent.

Sample Number	Number Employed	Market
40	10	oil
6	25	oil
32	22	general and oil
4	60	general
43	14	marine
14	60	agriculture
41	11	cars
29	5	oil

Sample Number	Date Founded	Present Owner(s)
40	1975	all shareholders
6	1976	2 partners
32	1964	family
4	1946	family
43	1919	partners
14	1970	owner
41	1960	owner
29	1972	owner

50% of these companies were involved in oil related work and with two exceptions these companies were of recent origin.

2.29. Having analysed companies according to technological criteria, it is apparent that the development of a new rapidly expanding industry, offshore retrieval at depth has affected a wide range of companies within the City both changing the operations of existing companies and stimulating the creation of new.

2.30. From one perspective the study of small firms in Aberdeen can be viewed as a study of the way in which small companies respond to a new industry developing within the immediate geographical region. Such companies show in the Aberdeen study certain characteristics which distinguished them from other local non-oil related companies. In some instances the distinction was difficult to make - for example typewriter servicing, had expanded the markets of apparently non-oil related companies. For the purpose of this sector however the analysis will centre on those companies who were centrally focussed on oil.

Sample Number	General Classification	Number Employed	Date Founded	Ownership
40	gen servicing	10	1975	all shareholders all professional chemists/ engineers
6	gen servicing	25	1976	2 partners
29	gen servicing	5	1972	current owner
9	gen engineering	27	1973	current owner
3	gen engineering	25	1976	current owner
44	gen engineering	42	1970	current owner
28	gen engineering	15	1976	current owner
15	gen engineering	35	1974	current owner
34	gen engineering	12	1974	current MD
30	precision engineering	50	1978	current MD

These firms were characterised by their dependence on a single market, their recent creation and the continuity and close personal involvement of their original owners. They as yet had not faced problems of succession or the need for large scale re-equipment. Fluctuations in offshore activities have meant that these firms represent the survivors. That the death/absorption rate among such companies is high became evident when attempting to contact such firms for the current study from the 1977 listing.

Family InvolvementCreation, involvement, continuity

- 2.31. Typologies of management within the UK based on the assumption of increasing bureaucracy organisation had until the late 1960's assumed even if only implicitly that recruitment to management was a "rational" activity unaligned to irrational family connection (26). Giddens has demonstrated that within large industrial corporations within the UK this assumption cannot be sustained (27) and Bolton has underwritten the importance of the family owner in the small firm sector (28). We know little however about wider family recruitment and involvement in either sector. Nor does anything like the French fiscal preference for family involvement exist in Scotland which would draw attention to or encourage this; in spite of this family recruitment to and involvement in both ownership and management appeared a major feature of the Aberdeen firms.

Sample  
Number

- |                     |   |
|---------------------|---|
| 22                  | Family firm. Ego + partner + partner's son + 2 wives<br>Management = ego + partner's ownership = ego + partner + 2<br>wives. Son works as weekly employee. Total employees =<br>total management. |
| 13<br>Non-<br>metal | 6 members of immediate family = total management work out of<br>60 employees. Management 2 joint MD cousins, 2 further<br>directors also cousins.   |
| 38<br>Granite       | MD family + 3 non-family directors 3 members family + MD<br>shareholders.   |
| 16                  | Only 1 manager MD family director's MD + wife only director.<br>She is unpaid.  |
| 24                  | Total staff 4 of which 2 family, father + son.  |
| 37                  | Grandfather, father, son all managers. Only salaried personnel<br>MD, father director, son salaried only 1 non-family manager.  |
| 35                  | 2 partners + wives, wife does books, son (16) helps.  |
| 23                  | 2 directors father + son's wife + daughter shareholders.  |
| 22                  | Father MD 1 son committed following on.   |
| 13                  | Inherited firm from father dubious about son entering. Sees<br>firm ripe for being bought out.  |
| 7                   | Interviewee "grew into firm". Sons to inherit.  |
| 38<br>Granite       | Entered on brother's request on death of father, trained as<br>farmer. Young son no idea whether he will enter.   |

Sample  
Number

- 16 Established by interviewee's grandfather. Only entered because of family pressure. 3 sons have no wish to enter.
- 24 Founded father present MD. Son already involved. Sees firm as continuing as a family firm.
- 37 Always family firm. 19th century. MD his total life, son just started.
- 35 Started 1935 by interviewee's father and uncle. Interviewee entered on death of father. Son unsure whether he will enter.
- 23 Started by senior MD. Son already involved.
- 32 Out of 22 employed 5 are members of interviewee's family. All paid. 2 managers ego + his son.
- 4 95% share issue capital held by family.
- 14 1 manager family shareholders
- 41 Out of staff of 11, 3 members family, ego + son + ego's wife work as self-employed. They + partners only managers.
- 19 1 grandnephew employed as director. Survived takeover.
- 39 MD + son + wife. Son MD similar firm in England. All directors members of family + original partner + 2 non-family managers.
- 29 MD father, mother, son, daughter each run different outlets.
- 20 Ego + son = owners partners. 1 other manager (supervision level).
- 25 Ego + wife does books. Not paid.
- 12 Ego + wife both paid. He the only manager.
- 45 Ego + son family directors. 2 directors nominated by large shareholders + 2 daughters + son-in-law.
- 34 3 members family said make up all the managers.
- 9 Ego as MD in conjunction with invest shareholding group + 6 managers.
- 21 Ego = sole manager.
- 2 Ego + 2 employees + shareholders + 1 shareholder with small outlay. 4 family managers out of 9 employees.
- 18 Ego + wife does book-keeping.

Sample  
Number

15 2 partners + 2 family members all paid. All managers family.

28 4 members family 2 partners + 2 sons.

10 Ego + wife.

46 2 partners + 1 son

5 2 partners + 1 son. No other managers.

42 Clerk + wife part-time.

36 Of 6 employees 4 members of family.

8 2 directors family. 2 other non-family managers.

3 Ego + wife paid self-employed, 4 managers.

44 Ego + brother + son. Two self-employed partners + non-family manager.

28 Started by craftsman. Hopes for takeover.

10 Bought shares of company he worked for which was in decline. Would respond to takeover.

46 Originally trained as electricians, one had firm but went bankrupt. 2nd partner had worked in this firm. Took bankrupt in as partner. Cannot think in long term.

5 Family director. Will go on for ever, etc.

42 Working in engineering firm with fellow directors. Hopes his son will continue but thinks daughter has greater engineering ability.

36 MD hoping to sell out as legislation making things more difficult.

8 Used to work for Unilever subsidiary. Made redundant. Set up company with nucleus from that subsidiary with expanding trade - wants to continue.

3 Ego founder - expanding into the USA in a joint venture.

44 Father ego started business in 1932 - it has continued to expand. Son and grandson trained marine engineer has just joined. Sees firm declining.

Family staffing at both ownership and management levels was a central feature of the sample firms. In 36/47 instances, family members were involved in running the company. The most frequent involvement was the senior male inheritor and his son, or senior male together with his wife. Wives were without exception involved in doing the books, often on unpaid basis. Non-family managers were rare and where they did occur were frequently



described as supervisors. From this one surmises that a management position was used to reward and fix the most able of their employees who were already acting as unrecognised foremen with all that that implies in terms of labour contact and work assignment within the company.

- 2.32. Management within these firms can further be divided into three main types. Entrepreneurs who may be further divided into "steady state" craftsmen and asset disposers (big bang!) and routinized entrepreneurial heirs. Of these steady state craftsmen made up the largest group.

"Steady State Craftsmen"

- 2.33. These owners had responded creatively to an earlier crisis in their working situation. The company they were working for had closed down, a subsidiary, was in danger of bankruptcy or was losing trade. In these circumstances the craftsman, retaining existing customers had started up his new firm bringing with him a nucleus of workers from the old. An organisational variation involved buying up the shares of the family firm which then continued "under new management". This group (16 companies) on balance still enthusiastic about their move, formed embryonic family dynasties, with sons either just entering or committed to entering the company. Unlike the longer established family firms there were few heirs who apparently rejected entrance. Occurring during the heir's lifetime, the father's move had brought with it higher social status and on balance income. These were heirs who knew the alternative world of wage labour.

Asset Realisers (big bang!)

- 2.34. Asset realisers came from similar backgrounds to the steady state craftsmen. Their attitudes to their work was however more ambivalent. The strain of sustaining their activities was a feature which they felt was only tolerable if some tangible prize at the end of the exercise could be realised. The attachment of low income groups to improvement through luck had often been commented on (29). These owners displayed a variation of this theme. Running a business was a gamble and the risks involved were worth taking as the prize could give you access to more capital - exotic life style than you could ever hope to achieve through the range of legitimate employment otherwise open to you.
- 2.35. An example of this was an interviewee previously employed as a mud engineer by Haliburtons who realised that the need for organising the supply and grinding of "mud" constituents in the North East could be met by a small company. Once it had demonstrated that such a need existed the company would become viable and as such an attractive "investment". From the beginning it had been developed to be taken over. This involved constant publicity and minimum capital investment, running machinery to over capacity. At the time of the interview the preliminary negotiations were taking place and by late summer the company no longer existed as an independently owned entity, having been bought out.

Routinized Entrepreneurial Heirs

- 2.36. Routinized entrepreneurial heirs had been groomed to enter the firm from early birth. Induced to enter the firm by a mixture of bribes,

high income, early executive control and threats centred on letting down the family and work people, the firm was their whole life.

### CHAPTER III

#### Employment

- 3.1. The dominant staffing of management roles by family members has been highlighted earlier in this report. In this sector the focus will be on management deployment, non-family employees, methods of recruitment, remuneration, expansion, deployment and loss.
- 3.2. As management was scarcely distinguishable from ownership there will be no distinction made neither will there be any discussion of board, as opposed to management strategies.

#### Management

- 3.4. In all instances management was a distinctive function within the sample firms. The degree to which the function was divided into further specialisations, marketing, finance, production, etc., was dependent on both the degree of specialisation involved in the company product as well as the numbers employed. The higher the degree of specialisation the larger the number employed, the greater the degree of management specialisation.
- 3.5. Management responsibilities were divided at approximately the 25 employee range with separation of financial control the earliest to develop. In the SDA report on small businesses marketing was found to be a much neglected area (30). This was reflected in the current study. After financial and general management, industrial relations and sales were the next most frequently separated activity followed by production and lastly stock control. Marketing as an activity was only mentioned by one company in the under 25 range as was design. Overall the picture is of diffused management responsibility with after 25 increasing role definition particularly of financial responsibilities. The proportion of managers to employees was very high in the under 25 group.

#### Employment Status: Managers

- 3.6. Family managers the largest group were predominantly self-employed. Where they were not so this denotes younger members of the family who were not yet owners. Among the sample firms it is therefore possible to identify a range of management/owner profiles which are not coterminous. The profiles distinguished ranged from all managers; one owner/director; either partners or family members; to managers not directors but family members, to non-family managers who were also not directors or partners. Career profiles also differed between family and non-family employees the former going almost inevitably from shop floor to junior management to director to managing director; for non-family managers the best they could hope for was from the shop floor to foreman to junior manager.

#### Employment among shop floor workers - numbers employed

- 3.7. The sample firms as employers were felt by managers to be a declining group. Five firms were able to give actual figures showing decline during the previous years, three more described a steady loss to oil

related jobs in the previous five years particularly of skilled men. Higher wages in this new sector which the firms were unable to match were given as the main reasons for such loss. But this evidence was more complex than it at first appeared. Certainly many firms operating during the early build up of oil related activities during the 1970-1974 period had lost labour to the oil industry. This loss, particularly of recently trained employees still continued. But when examined more closely more firms reported more labour expansion during the past year than decline (11 as opposed to 9). A feasible explanation of this discrepancy between a feeling of loss and the actual situation of static or expanding employment (22 companies) may lie rather in the disparity between a desire to recruit and the inability to do this in a tight labour market. Further evidence that firms were not in fact losing young employees following training came from employee age profiles. If, as reported, employee loss was particularly acute following completion of apprenticeship training then one would expect a drop in the numbers in the 20 - 40 age groups. But this in fact was not the case with a higher proportion of employees in the 20-30 and 30-40 age groups than in the 16-20. The decrease is rather in the 40+ group. The explanations for this are varied. Smaller markets in previous years, loss in the early 1970's of existing personnel; the reason for this 40+ decrease remains obscure.

#### Employment Profile

- 3.8. Excluding management 993 workers were employed full time by the sample firms, and an additional 48 part time. Employees were overwhelmingly male, with only 131 female employees.
- 3.9. Age distribution also differed between the sexes. Women were most likely to be employed in the 20-30 age group. Their under-representation in the 40+ age group reflects multiple causes; the recent take up of paid employment by married women, the inability of women returning to the labour market to regain the same skill level they had last held, the preference for employing women as initial, decorative contact points.

<u>Table</u>	<u>Age distribution of employees</u>		<u>Females as % of males by age</u>
	<u>Male</u>	<u>Female</u>	<u>%</u>
16-20	14.14	17.2	13.0
20-30	25.5	40.0	8.4
30-40	28.0	27.0	2.3
40-50	17.8	7.5	3.6
50-60	14.0	8.6	6.3

At all age groups women were a minority group in the Aberdeen firms. Only as part time workers, 40 out of 48, did women dominate. These were predominantly cleaning jobs held down by older unskilled female workers.

- 3.10. Overall the sample firms therefore offered no skilled production opportunities for women. With the exception of two semi-skilled production line assembly jobs women were employed exclusively as aides, whether clerical or cleaning. This role allocation was sustained at management level where no woman appeared as a manager per se, but as assistants generally unpaid, who "did the books".

#### Skill profile

- 3.11. Skilled employees made up 39% of total employees. Semi-skilled

32% and unskilled 29%. No female workers were found among the skilled sector. Skill concentration was at its highest among the service sector and lowest in assembly type production.

#### Status of employees

- 3.12. Whilst shop floor workers were employed as wage earners on a weekly basis, clerical workers, all women, were more likely to be employed as salary earners working part time or on a flexitime basis. These workers and their working situation reflects an adjustment to accommodate their responsibilities as mothers.

#### Employment strategies - subcontracting

- 3.13. As will be found with production, firms minimised costs by subcontracting their labour. At its most extreme the company itself (Case 7) was registered as an employment agency and used as such by both clients and potential employees. Eight firms were involved in subcontracting labour, six of these to oil related offshore work. Subcontracting occurred in all employment ranges. Two main profiles were identifiable, companies sending large numbers of men offshore on successive shifts of two weeks to small companies - employing under 25, sending either two-man teams to carry out specialised jobs offshore or two men to make up a diverse skill group to work on behalf of yet another subcontractor. Subcontracted employment was also allied to short term contracts. This was policy among firms involved in seasonal markets, housing, offshore activities. Here men were subcontracted to a larger company in the spring for six months and laid off again in the early autumn.
- 3.14. Such workers were not exclusively resident in the local area but came from areas of high unemployment in other regions of the UK. This means that there were wide seasonal variations in the number of men employed by the sample companies, in one instance ranging from 50 in the winter, regarded as the core, to 128 in the summer.

#### Methods of Recruitment

- 3.15. Firms defined as successful by potential workers had no need to recruit. Success had two definitions, high wages on offer in an expanding market or a high quality of training offered to school entrants, in skills which were generally in high demand in the area. An oil related welding company stated that they never made any attempt to recruit officially, "Men ring us up continually. We keep a list with details of their skill and work experience, and if we need to recruit to meet a new contract we recruit from them". Typical of a pre-oil attitude to the good job was the comment from a long established electrical manufacturing company. "We never advertise as we are constantly approached by people seeking employment particularly school leavers. We run an apprenticeship training scheme which is constantly heavily oversubscribed".
- 3.16. Word of mouth, contact with new employees via friends, were all common sources of recruitment as were newspaper adverts. On a more formal level, for young employees entering the job market for the first time, there was widespread contact with careers advisers in schools though few managers were so particular as the one who interviewed all potential recruits himself insisting that this was an activity which could not be delegated, "I must know them all myself" (Case 5). Use was also made of several government agencies, Youth Employment Services, Industrial Training Boards and in one instance the Job Creation Scheme (this was judged a disastrous contact with

the "employees" incapable). The overwhelming contact however had been with Job Centres. These were judged by all the companies who had used them, eleven in all, as being cheaper than private agencies and highly efficient at providing the right type of employees. There was evidence that with repeated use firms relied more heavily on this service diminishing alternative recruitment efforts. There was one category of worker however which was not sought for in Job Centres. Whilst the Centres were used almost exclusively for shop floor workers, female clerical workers continued to be recruited exclusively from private agencies.

- 3.17. Apart from the firm itself, government and private agencies were not the only bodies involved in recruitment; Trade Unions were also employment sources and in one instance (Case 16) where a closed shop existed, the Trade Union acted as the sole employment agency for skilled employees. "All recruitment of skilled labour is done through the union UCATT as the company operates a closed shop. The union holds lists of skilled granite workers who are unemployed. If/when new labour is required the company contacts the union. Other sources of recruitment via friends are excluded by this form of recruitment".
- 3.18. This unusual arrangement reflected the decline in employment in the granite industry in the last ten years in Aberdeen with the union monopolising access to whatever jobs occurred.
- 3.19. Differences in recruitment strategies dependent on the skill level being sought appear through the survey as does the repeated reference to the loss of skilled men. With their very existence dependent on retraining skilled men it is scarcely surprising that firms extended recruitment beyond legitimate methods to methods collectively described as poaching, even if these were carried out with some reservations. However, in some instances this was the major approach. "The method of recruitment I use is known as poaching. My foreman worked previously for X and has very good contacts there. Whenever we need someone, he goes down to the pub and recruits them. I offer high wages. We put an advert in the papers to make it seem above board, but that is just a formality."

#### Training

- 3.20. The importance of skilled labour for the sample firm has already been stressed in an earlier sector. In the buoyant economy of the North East, small firms can only guarantee skilled labour if they train it themselves. This was done in four main ways: through formal apprenticeship schemes, use of government training both external and inhouse, take up of product linked training and use of industrial training boards. Twentyfive companies offered apprentice training to young employees. Within this general heading there were wide variations in the length of apprentice training, varying from 3-5 years and the degree of formality and external recognition.
- 3.21. The difficulties associated with the transition from school to work were recognised not only by close school/firm liaison when recruiting and by school industrial visits, but in one instance by an actual merging of the two institutions. Here (Case 5) final year pupils accepted as apprentices by the firm began working part time in the company. Their second year in the company represented their first as adult workers. This second year involved day release to Aberdeen Technical College. This scheme was judged a success by the company who stated that it considerably reduced the trauma associated with the move to full time paid employment. For the majority of apprentices the change was less cushioned. Accepted by the company they joined a small group of fellow apprentices, the average being three with a range from one to nine. Under the supervision of either the owner or the

foreman, the apprentices learned by look and see methods intermingled with either more formal government underwritten inhouse training (Engineering Industry Training Board (Case 39), Rubber and Plastic Industry Training Board), or had day release to one of several approved technical training institutions; Aberdeen Technical College. If classified as craft training a year's block released publicly subsidised was possible. Company No. 8 released apprentices for one year to Aberdeen District Engineering Training Centre as did Company 14 to Clinterty Agricultural College.

3.22. The Training Schemes used also varied according to the level of skill. Training was however almost exclusively focussed on skilled employees, only one instance occurred of semi- and unskilled employees receiving any form of formal training.

3.23. Firms with apprentices who did not support external training were in the minority. In four instances this was not due to negative attitudes in principle to such assistance, but rather that

- (1) Training courses for their particular skills no longer existed, the example here being the declining granite industry which was only recruiting new labour intermittently.
- (2) The skill requirement in one instance for Grade A coded welders had outstripped the skill capability of existing courses.

3.24. Despite the use made of them there was also evidence of increasing dissatisfaction with Industrial Training Boards. The levy required was frequently referred to as a waste of time and one firm had withdrawn from their scheme.

3.25. Product related courses (Ford Tractor servicing, Aga cookers) were used but as part of initial training schemes as well as to update existing workers.

3.26. The training of mature employees was a far more patchy affair relying in the end on special product updating or inhouse courses offered by the Scottish Development Agency. The range of such training discussed in Appendix 'A' of this study was used both to upgrade existing skilled men in their existing skill areas, as well as to enable them to obtain parallel skills. The firms which used these courses rated them highly, but even here there were problems. The skill demand triggered by offshore developments has over the last ten years lead to a marked rise in skill levels in the area. These were now so high that in specialist areas the courses offered, both local authority and government training agencies such as the SDA, had themselves been outstripped.

#### Manager Training

3.27. In sharp distinction to the French findings; little or no employee training, recurrent management training courses, few managers in the Scottish sample had received any training per se. By examining their responses to the question, "What management training have you followed?", it is possible to show that many managers appeared unaware of the need for any vocational training. Those who fell into the unaware category defined management training as either purely experiential (9 respondents) or technical (12). In the Scottish firms this meant that a little under 50% of the sample managers appeared unaware of the need for training for their job. With two exceptions any additional "training" had been of short duration aimed at specific legislation e.g., Health and Safety Act and held in

- (1) low level educational institutions or
- (2) Local branches of private management bodies, such as the Institute of Marketing .

An additional variation was, as with skilled workers, short product linked courses run by large manufacturers such as Shell, with whom they were closely involved.

- 3.28. Two companies differed sharply. In both instances they were run by graduate directors, four in all. Two of these had business degrees and two degrees in Economics. These directors had chosen their degrees with the intention of entering business. In these companies training from induction courses onwards was geared to individually programmed development, covered all grades of workers including managers. Here management training was considered accepted practice and was recurrent. In a manner remunerant of the skillful way in which costs were lain off for equipment and transport these companies had researched the educational market and took up subsidised training wherever possible. The vigour of these companies is reminiscent of two similar in the French sample who also showed above average management training. The difficulties of apportioning causation remains also similar, was due to skill derived from appropriate training or vice versa.

#### CHAPTER IV Physical Environment

##### Space - manufacturing companies

- 4.1. As with products the range of work places varied ranging from premises which both owner and interviewer agreed were totally inadequate to large purpose built manufacturing sheds with a separate office block and large storage yard.
- 4.2. Firm 5 gives a typical description of the space problems which can be found in small firms. A firm of jobbing engineers workshop was best described as "little more than a large garage". The work space was further restricted by the large quantities of scrap left in the yard and workshop. Loading, unloading and general access was difficult as work seemed to spread out into the access lane. In contrast, a description of firm 37 states that "the work space covers 15,000 square feet. The various stages of manufacture are completed in physically separated sections of the building. Overall lighting is very good, there are three separate well equipped offices". Inadequate premises however were the exception with only 5 company premises classified as such.
- 4.3. Reflecting the generally buoyant nature of their local markets the majority of firms interviewed had substantially improved their working conditions during the last five years. This had been achieved in three main ways, ploughing back profit into buying new buildings (Case 30), leasing new premises (Case 6), or building new purpose build premises (Case 8). Eight companies were then interviewed intending to look for new large premises or expand their existing buildings. Five companies operated from buildings designed for their operations. Despite widely publicized reports of expansion being restricted by the spiralling cost of premises in Aberdeen, only one firm complained of this and a further one had been forced to delay expansion plans. Further evidence that high land prices were little deterrent came from evidence on subleasing. Only six firms were involved in subletting their work/storage space to other companies as a way of reducing costs. At its most extreme subletting land became more profitable than manufacturing. In one instance in a declining firm ten men had been laid off and the area had been rented out more profitably. More often, subletting was generally only used as a temporary measure to offset the costs involved in moving into new premises.

Ownership

- 4.4. Here a distinction must be made between ownership of the site and ownership of the buildings. In five instances firms owned the building but leased the site. All but six owned their buildings outright. In addition three companies were in the process of buying their buildings on mortgages from the Regional Council. There was evidence among older established companies of a progression from rented through to ownership of the workshop to ownership of the site.

Sites

- 4.5. Sites were leased from a variety of landlords. Aberdeen Council, the Harbour Board, British Rail. The terms of the leases were equally varied. Time spans ranged from one year renewable leases to 99 years. The most common span was five years.

Space - servicing companies

- 4.6. Ownership of premises was on average of a shorter duration than among manufacturers. Of those who owned their own premises two worked out of their own domestic garages.

Firms which were in newer "adequate" premises were also the only firms involved in multiple usership on a subletting basis. As with the manufacturing companies subletting appeared a device for reducing the cost of upgrading premises. The greater level of subletting also reflects the greater difficulties involved for servicing companies when attempting to raise finance on the money market.

- 4.7. It follows from the terms of grant legislation that ineligible for capital grants these firms were more dependent on other sectors of the money market. The low level of such contact, one bank loan, and that to a servicing company involved in inhouse activities, one building society savings account, suggests a bias against an ignorance of servicing groups needs even among these sectors of the money market.

Transport

- 4.8. Transport as defined by the sample covered not only motor vehicles but fork lift trucks and cranes. There was evidence that transport was more important for service than for manufacturing companies. With work on shifting sites transport played for service companies a role equivalent to plant for manufacturing companies, allowing the contract to be completed, meeting the requirements of the client, attracting the client to the company. These companies also had more Heavy Good Vehicles qualified drivers and hired less often than manufacturers. Having said this, the use made of transport in these small firms is most readily grasped by presenting a variety of strategies apparent in the sample.

- 4.9. Zero transport use was reported by one company specialising in customised car bodies. These were driven to the premises and collected. Sea transport only with incoming heavy material landed at a harbour site was a different minimal scenario. Customers here could "be mainly seen through the window", and collected the finished product themselves. Next came companies who relied on petrol allowances for named drivers using their own personal cars. Vehicle hire was the final strategy whereby firms sought to minimise transport costs. Hiring as a total transport strategy was almost twice as common among manufacturing as servicing companies.



- 4.10. For companies owning vehicles, ownership ranged from one pick-up van (an enclosed cab with flat sided open rear section), to a mixed fleet of heavy lorries, trucks, pick-up vans and cars. Vehicle size was smaller among service companies. Heavy lorries, trucks, together with a designated Heavy Goods Vehicle driver, were a feature of manufacturing firms. For example, firm (Case 6) had one 13 cwt. truck, one 35 cwt. lorry and 7 cars.
- 4.11. Access to vehicles also differed widely and appeared closely tied to specificity of company role. There were two examples of this, skilled servicing engineers each having their own vans, specialised drivers with Heavy Goods Vehicle licences being designated a sole driver of large vehicles.
- 4.12. Twenty three companies possessed their own transport but also hired additional vehicles generally with drivers. In this way sudden upsurges in transport demands were met at minimal costs. So frequent was the use of hired transport in one instance that this was done on a contract basis at reduced rates.
- 4.13. The major theme running through the use of transport is that of minimising the capital cost and maintenance cost of an increasingly expensive and rapidly depreciating asset.

#### Production and Technical Situation

- 4.14. The following section will concentrate initially on companies involved in manufacturing before analysing service firms.

#### Spread of work activities

- 4.15. Unlike the French sample small manufacturing businesses in Aberdeen were rarely involved in only one activity; manufacturing servicing, supplying, agency work. Rather the overwhelming impression as among the oil firms was of a highly varied use of resources sustaining simultaneously a range of activities. Small companies such as those found in the current study lie at the high risk end of the business spectrum; far removed from the monopolist they can only attempt organisationally to minimise risks to their continuing existence. Two such risk reducing organisational strategies were apparent among Aberdeen manufacturing companies, product and activity differentiation. Among general engineering, companies offered a range of products geared to unconnected markets. The hope was here that a downturn in one market would not signal a downturn in the others. No agency work was found in this group. One such firm (Case 5) was involved in manufacturing different products for oil, general industry, agriculture and the commercial sector. In contrast one main product companies tended to spread risks by sustaining simultaneously several activities. One such company (Case 18) manufactured on a sub-contract basis, assembled another product and held two agencies which involved supplying and servicing. This suggests that the agency work is of greatest importance for main product companies.

#### Technical level of work

- 4.16. The sample firms were too small to sustain production lines where relatively unskilled workers are involved in conveyor assembly work. The work in the sample fell into three main categories:-
1. Fabrication in small batch runs of simple objects; containers of all types, pallets. This form of production found in fabrication, one main product and general engineering companies required only simple engineering tools; welding machinery, guillotines, metal folding machinery. Given the low level of technology involved skill requirements were also low with a nucleus of skilled men in many instances the owner/manager himself supervising semi or unskilled labour. Sheet metal was the basic raw material used.

2. Customised engineering. This sector closely resembled the French sample. These were firms which produced highly specialised "one off" products to meet specific customers requirements. Plant lists reflected this market being if not inherently more complex than the plant in the fabricating firms, more varied. In essence however as with fabricating companies the typical equipment was an aid to human skill in this instance its usage being determined by the time served operative.
3. Process engineering. Among the main product sections were six companies involved either totally or to a major extent in process production. Here plant was in constant use and generally the level of labour required was unskilled apart from maintenance.

4.17. Overall the skill component of the Aberdeen firms appears less pronounced than in the French equivalent. In Aberdeen the typical skill configuration for both fabricating main product and processing engineering companies was a minority central core of skilled workers/managers controlling the activities of the semi-skilled majority. Loss of skilled labour in such a situation is critical to the continuing existence of such companies far more so than in the high skilled customised engineering sector where skills are duplicated and therefore substitutions can occur with minimum disruptions to production flow.

#### Financial Reporting and Control

4.18. Financial statements were obtained from 40 out of the 47 firms interviewed. The basis on which such information was collected by the firms varied so widely that detailed comparisons are impossible. Such financial reporting with two exceptions appear to reflect striking differences in the ability of sample firms to identify their financial situation.

#### Plant acquisition

4.19. Three methods of plant acquisition occurred, inheritance, hire purchase of leasing and outright purchase. Of these, outright purchase was the norm. The exceptions were 16 companies who bought via HP, two leased, the two included one company leasing a computer to cover accounts. One company had bought second hand machinery and three companies (Cases 16,7 and 14) had inherited their entire plant.

4.20. If there was general uniformity in plant acquisition there was wide diversity in strategies governing new plant acquisition, depreciation and expected life. In five instances where machinery was bought as and when needed, the companies had no depreciation policy. The remainder varied in sophistication of approach. At one extreme were companies (Cases 8,29) which operated differing depreciation rates on vehicles, plant and buildings. In contrast, one company admitted to no depreciation policy whilst another had none but claimed for depreciation via his tax returns. The level of depreciation also varied from 10 - 33%. Expected life also varied widely. This was true even when similar plant was being written off. At one extreme was the firm who had inherited plant (Case 45) from an uncle's estate. With equipment reaching back to 1926 the owner nevertheless expected such equipment to last his working lifetime as did a one man business with the owner maintaining plant which had been bought second hand. These firms were however the only such examples. Average plant life ranged from 25 - 3 years with a mean of 12.

4.21. There appeared no differences between fabricating, general engineering and manufacturing product companies with overall plant acquisition appearing as an ad-hoc activity.

4.22. Depreciation policy was highly fragmented. Allowance would be made for plant but not for buildings or vehicles, or any combination of these three. The link between monies allowed for depreciation and actual monies held on reserve for plant appeared often little more than an accounting device.

Plant Usage

- 4.23. This was a sensitive area to explore as low overall usage was an indication of a failing business. A low response rate reflected this. Out of the 22 firms which did give such details 10 workers to 100% plant capacity, 3 50%+ and only 3 below 50%, one of these working to only 10%. There was no instance where at least one piece of equipment was not considered vital. In the majority of firms the picture was one of intensive plant use. This may well reflect the response rate of successful firms rather than the group overall.

Production and Technical situation - servicing sector

- 4.24. In the servicing sector with few exceptions, the emphasis was on skilled labour rather than plant. Contracts were completed by time served men working for the main away from their premises with the aid of hand tools. Thirteen companies in this sector relied exclusively on this combination. Tools were in constant use. Though dependent on this equipment for their very existence, there was no policy governing tool purchase. This was described as ad hoc. One firm put aside money in a building society, apart from this no depreciation policies existed. Indeed the questions on this score were dismissed as either irrelevant or obviously aimed at manufacturing companies.
- 4.25. Six servicing companies presented a different profile. In all cases the majority if not all the firms activities were carried on at the companies premises. In range, welding equipment, cutting machinery, generators, the plant used by these companies was indistinguishable from that used by firms in the manufacturing engineering sector. The exception was testing equipment of which they possessed a far greater range. For example (Case 6) a company specialising in electrical rewinding possessed a welding plant, stoving oven, and an overhead crane, whilst a firm involved in maintenance of oil, gas and coal fired heating plant possessed CO2 combustion kits, welding plant, kango hammer and electric drills in addition to hand tools. Unlike the manufacturing sector leasing of at least some, generally the bigger pieces of equipment was common practice. This also removed maintenance costs outwith the firm. Where plant was owned, outright maintenance was carried out by the firm themselves. All these companies with a higher proportion of capital than the "on site" servicing companies and invested in plant, knew the length of plant working life which varied from 15 - 3 years. With one exception they also all had a depreciation policy, but one tied exclusively to plant. Though here again as with the manufacturing companies this bore little resemblance to an actual plant budgeting approach and appeared a taxation strategy. Outright plant purchase occurred on an ad hoc basis, the decision being made as "on the whim" of the managing director. Funding was found out of general funds or purchase followed particularly profitable contacts.

## CHAPTER V

Relationship with outside agencies

- 5.1. Discussion of knowledge held and contact made with outside agencies will be divided into three main sections. The first will focus on companies knowledge of general government legislation both fiscal and legal moving on to their appraisals and use of banking services, a frequent financial touchstone, to finally local and Scottish agencies offering a range of services to the sample group.
- 5.2. Central government was felt to establish both the legislative framework and ambience within which the small company operated. But it was not government per se but rather the attitude of the government towards small businesses which was seen as critical. Interviewed just before and after a general election, the firm identified overall with a Conservative administration. The hope for such a government was for greater attention. Up until then governments of either political complexion were seen as having

been insensitive to small firms, their preoccupation being with the large corporation. As evidence the interviewees cited schemes for financially bailing out large companies, British Leyland being the prime example. Coupled with this was government reluctance to invest in successful small companies which therefore it was alleged never or only very slowly achieved potential growth .

- 5.3. "Apathy" towards small firms meant that government was seen as being indifferent to the higher risks inherent in small businesses. If, for instance, government was really interested in using small firms to employ more people it should consider ways in which it could indemnify small companies if at the end of a fixed period new labour had proved unproductive.
- 5.4. The size of management as we have already seen led to "management" being responsible for all external contact. The very volume of government legislation affecting among others small businesses has greatly increased legislative pressure on such companies. Just keeping up with legislation was felt by many managers to be a major problem, whilst interpreting legislation was even more difficult. Symptomatic of this was that during this section of the enquiry the interview was frequently temporarily abandoned as the interviewee sought the advice of the perceived expert, the interviewer, on a range of recent government legislation. Many of the companies felt that they would welcome simplified guides to such developments. In so far as they understood it over and above its sheer volume, recent legislation had made the position of small companies more difficult.
- 5.5. In this respect the Employer's Protection Act and Capital Transfer Tax were particularly cited. The implication of the Employer's Protection Act will be discussed at some length in another sector of this report. Capital Transfer Tax was reported as affecting continuing family interest impeding mergers; and blocking early retirement. In these ways it could, be argued that this tax had as an unintended consequence the confirmation of ageing tired reluctant management in the small firm sector.
- 5.6. Other companies complained in general terms that fiscal policy led to lack of investment incentives and therefore acted as an important block on entrepreneurial motivation.
- 5.7. The actual implementation of fiscal policy which was seen as pushing evermore administration into the small firm was experienced by the majority of the sample as unproductive labour, "working for the revenue" Here VAT, PAYE and export documentation figured largely. Two variations to this resentful form filling occurred, computerising standard forms filling and subcontracting out (Cases 2, 45, 29, 1), to accountancy firms. In both instances the relief was palpable and management not only felt freed to concentrate on "the job in hand", but felt that any changes in fiscal documentation was already anticipated with such systems.
- 5.8. If central government was seen as focussing upon the large they were also seen as gearing local and regional grants and with them local agencies towards manufacturing. As shown in the current Scottish sample, servicing activities not only form important blocks in their own right in the small business sector but are frequently present among manufacturing companies. This perception had two main effects, servicing companies felt entirely outside all grants and therefore failed to apply for what was available whilst also making no approaches towards helping agencies counting themselves outside their remit. This was judged as unjust and a further example of the lack of interest in the small firm sector.
- 5.9. Occasionally firms went along with the system. During their initial start up period of existence when firms reported severe cash flow problems, companies which were later to become service companies set up small manufacturing operations for the sole purpose of qualifying for grants. One such company who had obtained grants for plant in this way was now,

having used the grant, dispersing its assembly work to concentrate as it had originally intended on servicing.

- 5.10. An unnecessary stunting or distortion of service activities would appear to be the end result of the current concentration of grants on the manufacturing sector. This grant focus also runs counter to informed opinions which argues that the service sector is one of the main hopes for employment growth in the UK within the next decade.

#### Local agencies

- 5.11. The sample divided neatly into two main opposing sections, those who had no use for any external agencies, as part of their pride in independence and ability, "Haven't needed to find them helpful, one knows one's business better than them anyhow". The same suspicions of outside contact that made interviewing difficult was apparent here. The implication for helping agencies appear two-fold. Firstly and in their literature there appears little awareness of this, they need to change the perceived equation; successful firms never use helping agencies, unsuccessful firms are constant clients. "We have no problem so see agencies as soliciting for business by sending us their literature". Secondly, their staff must be specialists in business operations, marketing finance, etc.
- 5.12. This second statement was heavily reinforced by the requests companies made to such agencies. These could be divided into two main categories requests for interpretation, requests for contacts. Companies sought advice on form filling, on documentation and eligibility for grants. They would have liked local agencies to have given more interpretation on legislation but at the time of the interviews this was not being supplied locally. Subsequently the Chamber of Commerce and a new local company began offering such a service. NESDA (the North East of Scotland Development Authority), the most frequent contact was most generally used to find new premises, their industrial register being seen as fulfilling a real need. NESDA had also found firm customers and suppliers, and had helped with publicity through directories of local companies. This was seen as particularly useful in the initial stage of trading. This theme of tangible services recurred among those firms who had had contacts with agencies. Subsequently to interviewing NESDA developed a series of seminars aimed at small business sector offering advice on exporting and financial grants.
- 5.13. The Scottish Development Agency had been used not only for "initial contacts" but also as the particular business expanded for on site instruction for operatives both at apprentice and skilled levels.
- 5.14. The Offshore Supply Office had proved equally useful not only for initial contact by including firms on buyer's lists had ensured that contacts had gone to small UK companies rather than better known non UK firms.
- 5.15. ACAS had been used successfully by several companies when seeking advice on personnel.
- 5.16. It was perhaps as overall lack of definition of aim coupled with apparent understaffing and declining involvement in the Chamber of Commerce which led to an overall negative assessment of the local Chamber of Commerce. The incidents recalled were all of requests for specific information not being met overall. It was clear that there was no contact with other than locally based agencies.

## CHAPTER VI

Markets - location

- 6.1. Specificity of product distinguished markets for the Aberdeen firms. Firms offering generalised packages: servicing companies, jobbing engineers had a local market. The definition of local varied widely from the centre of Aberdeen to the Highlands and Islands to the North Sea. This latter was categorised as local even though huge distances were involved, presumably discounted due to the ease of helicopter access to North Sea platforms.
- 6.2. Specialised patented products be it customized grave stones or powder shifters reached national and overseas markets. But as has been stressed earlier few companies relied entirely on one product, instead engaging simultaneously in a range of manufacturing, servicing and supporting activities. Within the same firm it was therefore possible to find the company serving geographically distinct markets distinguished only by product.
- 6.3. Though product companies reached national markets, exporting was an exceptional activity involving only 5 companies. Partially this stemmed from difficulties involved in sustaining full firm capacity within the national market which, coupled with their no investment in growth, gave no impetus to seek export markets. Partially this stemmed from abhorrence of "yet more paper work", contact with yet more bureaucracies. meant that the impressive range of UK agencies offering resources nationally were not reaching this sector. Partially lack of export activity reflected embryonic marketing strategies, a point which will be developed later.

Market location

- 6.4. Was closely tied to market domination. Access to national markets appeared only marginally easier than exporting. Nine companies had national sales. Of these, only one company was able to even estimate their percentage share of the market which suggests a rudimentary knowledge of the market they were attempting to operate within. There appeared little distinction here between UK and Scottish coverage. Firms without exception which sought UK markets also covered Scotland. The majority of sample companies concentrated solely on local markets. In a third of the firms the percentage share was high, reflecting yet again the highly specialised job specific nature of much of their work, both products and services.
- 6.5. The majority of companies were however removed from direct market contact involved in a wide range of subcontracting, manufacturing and servicing activities. The range of such outlets reflected both the needs of long term local industries, agriculture, fishing, whisky, as well as the the newly established offshore industry. In all cases such subcontracting work could be divided into two sections, either of specialised manufacturing, fabricating or installation or discontinuous short run batch work.

Estimated Market Share Table - Aberdeen Sample

	Local	Scottish	UK	Abroad
	%	%	%	%
13			40.0	10.0
17	27.5			
38	30.0			
10				
42	75.0			
18				
2				
3	80.0			
44	75.0			
30	60.0			
31	100.0			
22				
11	60.0			
23				
33				
8				
9				
5				
45	75.0			
24	40.0			
7	50.0	50.0		
21	45.0			
15				
19				
12	12.0			
41	5.0			
20				
46				
43				
14				
40				
39				
36	40.0	60.0		
32		100.0	60.0	
4				
29	30.0			
34	5.0			
16				16.00
28				
27	100.0			
26				
25				
35				

MarketsSubcontracting

- 6.6. In these instances subcontracting placed the cost of such activities on the subcontractees. Such contracts can only become viable if costs can be underwritten by sustaining high levels of continuous activity. Two strategies with this as goal were evident in the Aberdeen firms. Either the company attempted to gain numerous customers from distinctive industries whose cycles of demand were discontinuous (Cases 17, 44) or they tied themselves firmly to one large customer whose demands they could not fully satisfy, indeed, whose demand they never intended, via, for example expansion (Case 30), to be able to satisfy.
- 6.7. A variation of this latter strategy was to specialise in one industry - farming, fishing, (Cases 27, 22). Only one example occurred in the current study of "piggy back" riding, though other such instances involving similar firms were found in an earlier report. (Case 31). Such an arrangement involves a larger generally client company marketing the product of a smaller company as a distinct entity. In this instance a locally based internationally prestigious Marine Research Laboratory had evolved marine research equipment which was manufactured by one of the sample firms the Research group then recommended this to other research groups world wide.
- 6.8. With such small companies "a large number of customers" might be more accurately described as "over ten" customers, involved in repeat customized orders. Many of the companies both in the service and manufacturing sectors took great pride in the extent to which their high standard of work meant that customers returned to them year in and year out. In these instances customer relationships became personalised repeat contacts. Such contacts could tolerate difficulties and respond to sudden requests based on long established relationships of trust. One such company (Case 5) a jobbing engineer boasted "all our customers come to us via personal recommendations which stressed our ability to carry out any kind of work quickly and to any specification".
- 6.9. Agencies in some instances were the initial contract point with customers. Here the need for marketing was removed from the local company and firmly assigned to the manufacturer. Where agency related work made up the majority of the local firm's activity, this meant that the firm was exempt from almost the entire cost of marketing. Marketing support offered by the manufacturing suppliers could be wide ranging and long term. Such companies offered training for local personnel both shop floor and management ranging from maintenance, stock control to marketing. National product companies were supplemented by advertising at a local level and customers were recommended via the media to local outlets.
- 6.10. It had been thought that marketing support might be true only for exclusive agencies, one large agency held by a company who would then sell and service the product locally (Case 14). But this proved not to be the case. In several instances companies held several agencies yet still received a full range of market support activities. The loss of agencies could obviously prove a devastating blow to small companies but the exact effect of this remained unexplored in the current study
- 6.11. Customers, as the name suggests through seeking customised service or product, exercised control over the product they had "commissioned". The areas they sought to control ranged from initial design (Case 23) to particular materials used, (Cases 45, 11, 25, 17, 12), quality of workmanship (Cases 28, 12), to price. The most elaborate system of customer control appeared to be operated by local authorities or nationalised industries such as the British Steel Corporation and British Petroleum. Such parameteres were built into contracts which also contained penalty clauses for poor workmanship.



- 6.12. Company 12, a service company specialising in installing heating systems for local authorities reported, "The Regional Council dictates the price, writes in penalty clauses for quality of workmanship and specifies which raw materials are to be used."

#### Market Research

- 6.13. If strategies to minimise costs to the sample firm constantly re-occur those to gain markets or find alternative supplies were rudimentary.
- 6.14. Marketing can be seen as action directed to attracting customers, coupled with research to identify new and shifting needs in company markets. Only two examples existed of market research activity being carried out by the sample firm; one of these consisting of predominantly information carried by the managing director over business lunches. This leaves only one company which undertook in any systematic way market research into size of markets or use of products. No firm apparently had ever commissioned a market appraisal.
- 6.15. Only eleven companies, three with branded products advertised. Of these, only one company listed a sales force as part of the company operation. Sales were in all except this company the exclusive responsibility of one of the directors, if not the managing director. The "market research" methods used were variously named but could generally be covered by the phrase "nosing around". The reasons for this underdevelopment of a major company activity are complex, but one reason centres on sustaining the firm's reputation. Reputation here equals solidity, this company unlike other small companies is not going to disappear. As interpreted by the sample the best possible market situation is one where overwhelmed with work they "don't have to bother" to attract custom. No marketing according to this interpretation is a sign of a thriving business. Any attempt to "drum up business" was in this view a sign of instability if not threatened collapse. Lack of a sales force with management dominance of marketing reflects yet again not only cost but also their self image by experts. How could you designate selling your company to some one who understands the business less well than yourself. The graduate management firm were yet again the exception, marketing their firms and seeing marketing as a distinct function.
- 6.16. Lack of marketing personnel, and appraisals therefore meant that for the majority of the sample firms, companies were set up, products and services introduced based on highly fragmented personalised impressions.

#### Supplies

- 6.17. Supplies if one includes buying steel from BSC's main outlet in Glasgow was overwhelmingly locally based. The exception was companies engaged in chemically derived products and rock. Here raw materials were located on a world basis and imported into the North East. The location of skill in the case of the granite industry and for mud the offshore market being the full factors. (31)
- 6.18. But with cash flow problems and the high cost of money few firms wished to tie up capital in stocks. Where firms didn't buy as and when they required, stocks generally represented a few weeks demand, or known replacement time. In contrast to restricted depreciation policies stocks were nearly always insured even though there were no examples of perishable stocks.
- 6.19. Acquisition of stocks was not however a simple exercise but rather one in which the company sought to minimise costs to themselves. A large number of strategies which addressed themselves to this goal were evident. End of season sales, remnant buying particularly of steel were examples of such strategies. But off season price reductions were the exception and appeared to affect only steel.

- 6.20. Bulk buying did afford savings but brought with it the negative effects of tying up capital and storage space. By using Trade Associations or factoring, services for independent traders, the problems associated with bulk buying could be minimised. In these situations greater amounts with concomitant greater reduction in costs were shared among the members. Examples existed at both national, the Refrigeration Trade Association, and local, the Aberdeen Granite Supply Association, levels. At their most complex these associations handled import documentation, freight handling and quality control. Examples (Case 35) also occurred of customers paying the raw material costs as soon as this was delivered to the firm to make up their particular order.
- 6.21. Only one example occurred of vertical integration; a forward buying policy in which standing timber from local sources was acquired prior to use.

## CHAPTER VII

### The Future

- 7.1. Speculation in the future of the small firm, in general and their own, in particular highlighted many of the issues identified earlier in the report. This sector will initially examine the opinions put forward overall before highlighting the differing perspectives of service and manufacturing companies.
- 7.2. Arguing the case for the small firm, the interviewees repeatedly stressed the same themes, efficiency, choice, competition, personal service and employment.
- 7.3. Efficiency was defined in two ways. Small firms were efficient as they had low overall costs. This was due to low administrative costs, high usage of plant and materials, low wastage rates associated with close supervision coupled with the often uncostered high work load of the owner/director. Efficiency was also taken to mean specialisation. Many small firms existed only because they could realistically offer high standards of craftsmanship which standards were only sustained due to, and here the argument went back on itself, the close nature of supervision possible in a small firm. This argument also ties into the second theme that of competition and choice. As firms become larger, so the sample argued they become more remote from customer needs, and therefore less sensitive to them, whilst at the same time the driving logic of their bureaucratic system of organisation leads to an ever decreasing decline in the range of goods and services on offer.
- 7.4. The existence of small firms ensures therefore not only increased competition therefore reducing the costs inherent in monopoly and oligopoly situation but also increases choice to the consumer. Parallel to this was the argument that specialisation in large companies leads to a decreasing ability to respond to change. Retaining all features of, for instance in manufacturing, design through manufacturing to pricing, meant that small firms remain internally more flexible and as such can respond more quickly to market changes.
- 7.5. Small firms it was also argued, contribute significantly to employment. However, as was repeatedly stressed, the enactment of the Employment Protection Act was a major deterrent to small firms considering taking on new employees. The fluctuating nature of much of their work, the close knit nature of the work force meant that their preferred method of hiring was for either short periods or for a longer term probationary period than the Act allowed for.
- 7.6. Above all, however, the firm stressed the high quality of personal service to the customer which they argue was only obtainable from the small firm sector. With few clients small firms were vulnerable to losing even one, so sought not only through high standards of workmanship, but also through personal service to the client to retain them. The small size of management also meant that

accountability was readily assignable, "the Buck stays here".

- 7.7. As will be evident, if big business was the antithesis of all the virtues embodied in the small, so growth was regarded ambivalently. Here a distinction was made between "fly by nights" as opposed to "well established small firms, though interestingly only by the well established, the routinized entrepreneur". Among such well established firms several interviewees had as a matter of policy deliberately decided not to expand either by accepting more work or by employing larger numbers. Only commitment to sustaining existing levels rather than expansion would, they argue, allow them to keep running their firm as they wished. In these statements the lack of interest in profit as the central motive comes strongly across as does the kind of work satisfaction which motivate the routinized entrepreneur.
- 7.8. The problems associated with small firms overshadowed the more positive features. Problems fell into four main categories ranging from government through finance to labour and management. This section will discuss problems initially in general terms before highlighting differences between the manufacturing and service sectors.
- 7.9. The majority of the pressures identified by the sample firm have already been examined earlier in this report. This section may therefore also be seen as an analysis of how far the firms themselves appear aware of problems that external observers have identified. The points at which such agreements occur has important implications for policies aimed at the small firm sector, a point which will be developed fuller in the section on policy.
- 7.10. Interviewing took place during a change in government. The incoming administration had as part of its election platform a commitment to the small business sector. This had been taken up by the interviewees who, though welcoming this, waited with some scepticism to see how it would be implemented. Up until then governments of any particular hue were seen as having been at the best indifferent to the small business sector, concerned rather with the large employer. Such a perspective if not actively hostile to small companies had negative spin-off effects. Much government legislation in the previous decade for example, though enacted with the large company in mind, had also encompassed inappropriately the small.
- 7.11. The Employment Protection Act, as we have already shown, was repeatedly cited as a prime example. Increased government legislation had also led to "vast amounts of paper work which a small businessman doesn't have the time to cope with and lacks the information on how to complete". What was seen as true for central government was also seen as being true for local government, with cost level raised to unrealistic levels by central and local government taxation. High levels of taxation led to lack of capital investment and eventually to lack of motivation to expand.
- 7.12. Pressure on management were discussed under three headings, continuity, numbers and specialisation.
- 7.13. The need to demonstrate management continuity was seen by the interviewees as an important factor when attracting and retaining customers, "Who takes over if you drop dead?". Partners and ego plus relative management teams stressed both continuity as succession and continuity as substitution of skills as selling features of their firms. The major problem however was not seen as continuity the investment in immortality was too high, but numbers and specialisation. Lack of sufficient management personnel led, the interviewees argued, to "constant overwork, fragmentation and erratic attention to not immediately pressing problems". One example cited was erratic invoicing. One sample firm had suffered bitterly from this, only invoicing once every six months. It had just lost its main customer due to these delays. Another area suffering from lack of management

specialisation was stock control. Lack of capital which prevented managers buying in professionals meant that they were forced to become, "Jack of all trades, and master of none". In contrast to existing provision the area in which they sought greatest help was on the marketing side. "What I should like help in is long term marketing. Some kind of agency also providing small firms with design and distribution. This would be more useful than currently available technical advice".

- 7.14. Financial problems once over, the problem of acquiring sufficient start-up capital, centres overwhelmingly on cash flow. Cash flow problems were particularly acute for small firms dependent on one major client. "Small firms such as ours are bullied by large customers who pay late, but whom we dare not pressurise as we are dependent on them". As shown earlier in the report this dependency had been deliberately avoided by some firms who had declined to tender for large companies actively seeking outlets in fragmented markets.
- 7.15. High wages, generally blamed on the bad precedents set by incomers were generally subsumed into problems of retaining labour especially once trained. Loss of labour to larger companies when the training costs had been carried by the firm was particularly resented but was seen as inevitable.
- 7.16. A parallel problem affecting school recruitment was seen as the poor image attached to heavy manufacturing employment. Foundry companies for example, though overwhelmed with work reported that they were unable to attract young labour due to young people's negative assessment of the work involved.
- 7.17. Whereas most mention of their size was positive one firm did complain that this proved a disadvantage when tendering for large contracts. These, they argued, were assigned on a basis of numbers employed in the firm rather than rather than the quality of the work they produced.

#### Problems

##### Servicing

- 7.18. Servicing companies experienced additional problems which appeared peculiar to themselves.
- 7.19. Among oil related servicing companies the complaint was of ever increasing vertical integration of servicing activities by the majors, which by definition narrowed the opportunities open to them. Predictability of servicing needs was the key, they argued, once this had been achieved the activity was incorporated into the large company. In a very real way uncertainty of demand with all this means in terms of the inability to develop long term plans was of the essence in this type of servicing company.
- 7.20. The chief complaint companies put forward was of lack of access to the money market.
- 7.21. Increasingly contracts were won not because of standards of workmanship offered but because of the insurance/credit facilities presented as part of a joint installation/servicing/insurance/credit package. This tie up of national capital between large manufacturers, insurance companies and banks was not available to the small man. The exclusion of service companies from industrial grants, a theme repeatedly stressed and negatively commented on, put evidence here that they were also penalised financially when tendering.

##### Future - the individual

- 7.22. Despite the emphasis on problems the majority of those interviewed were adamant that they would hold on to their firms whatever. These respondents, 30 in all, could not envisage the circumstances which would cause them to give up. An extension of this theme was found among older participants whose goal was to sustain the firm so that their heirs could take over.

- 7.23. Those who could envisage change in ownership fell into two distinct groups, 'big bang' entrepreneurs who had set up their firms with the idea of selling out and those who could imagine being bought out. The phrases selling out and being bought out accurately reflect the imagined involvements of the actors. The sellers as already discussed (big bang) had deliberately set up their firms to sell them out. Unlike the routinized entrepreneurs or the embryonic family firm their time perspectives were short term; "in three years time we will be ready to sell out", and they depicted themselves as being rationally rather than emotionally involved, totally in control of everything they planned to do.
- 7.24. Those who saw themselves as being forcibly bought out had however no intention of passively acquiescing to this. In some instances the money acquired would be used to move into a new field but whatever the particular adjustment all intended to start up again independently even if offered a directorship in the new set up. As one interviewee put it, "If I was taken over I would sell out. I just wouldn't have it. You're just a miscellaneous item to me from Edinburgh or London. I've seen it happen to others." The stress on being yourself, the impossibility of working for others, were variations on this theme. For with these interviewed leisure activities, retiring abroad, though considered not real alternatives, several interviewees described themselves as workaholics who regarded leisure with distaste.

## CHAPTER VIII

### Conclusions

- 8.1. Information derived from this study suggests a considerable mismatch between attempts to stimulate the small firm sector and its reality.

### Contact with small firms

- 8.2. The very stress on independence and self sufficiency means that this sector is innately suspicious of external agencies of all kinds and difficult to reach. Presentation of help offered is of the essence. Given the highly personalised world of the small firm this is probably best done initially through the development of peripatetic contacts who can act as resource contacts with other agencies. The apparent time wasting repeat visiting involved is of the essence in the development of trust between the small firm and external groups. In this way it may prove possible to unscramble their perceived equation, successful firms never use helping agencies, unsuccessful firms are constant clients. Yet nowhere in the literature of helping agencies did there appear any such awareness of this. It is possible to envisage a case study advertising campaign which could most effectively counteract this currently widely held view.

### Financial support

- 8.3. Financial aid currently within the UK is overwhelmingly focussed on manufacturing. The reason for this to judge from the small firm sector appears obscure especially when one becomes aware of the tiny divide existing between inhouse servicing and manufacturing companies. Servicing companies in the current sample train and employ a higher proportion of skilled men than the manufacturing companies and show the largest growth rates in the last decade. If the theme is the deindustrialisation of British industry it is this sector which must sustain hopes for economic growth and employment.

- 8.4. The manufacturing focus has two main effects - servicing companies see, incorrectly, aid as being not applicable to them, and helping agencies as being totally preoccupied with the manufacturing sector. The end effect is one of considerable alienation. (32) If contact had been made between the firm and external groups the issue then became the need to reject or develop grants for sake of credibility. "We haven't needed to find them helpful, we know the business better than them anyhow". This equation needs breaking if grants are to be more eagerly sought.

### Training

- 8.5. As has already been commented, training uptake shows sharp distinction in the Aberdeen small firms with a high level of take up among shop floor workers and almost total boycott among managers.
- 8.6. For shop floor skills firms used both post experience peripatetic as well as locally based initial training courses. The main area of neglect appeared to be among female clerical workers who were employed as trained workers and received no further training. Perhaps this is part of the same gestalt which led to them, often unless prompted, being not reported as employees.
- 8.7. Product tied and other non local post experience courses for skilled workers also appear to assume totally male uptake. It would be difficult to imagine that many married women would find it easy to leave family responsibilities to undergo post experience training outside their local area, which in the case of Aberdeen often involves Glasgow.
- 8.8. The main enigma however centres on the lack of uptake of management training. That is until one begins to equate what is on offer with the career history of the managers interviewed. As has been shown in earlier sections of this report, the majority of firms in the sample were started up by time served men or inherited by time served men. The one area in which managers feel competent therefore is technical. Yet the overwhelming impression from contact with agencies is that what is on offer is technical and orientated to production methods.
- 8.9. Sample firms did not entirely reject the need for technical advice but saw it in a limited way, a one day seminar on new methods. The stress on short term, compressed courses reflected the extreme time pressures the managers of these firms perceived themselves as suffering from, whether they did so becomes more problematic if one remembers that time perceived as extremely brief was reported as a major characteristic of the samples in McClelland's achieving personality package. (33) The need to package information into short time spans is obviously of great importance filling as it does the time scale small firm owners.
- 8.10. Marketing in all its aspects was the area, above all,, in which the firms recognised need, and were most prepared to accept help.
- 8.11. Here the policy implications appear clear. Successful access at management level will only occur if agencies focussed on the small firm, shift their emphasis away from technical and particularly production information and make their first priority marketing followed by financial control.
- 8.12. As has been shown earlier in the study there appeared a positive connection between those managers who were graduates and those who held comprehensive views on financial, training, production, marketing of these companies. The fragmented approach to all these business functions apparent in the current sample, with the focus on the tangible job in hand, reflects the educational experience of the majority which has given no exposure to other business functions.

Recruitment

- 8.13. The informal local nature of recruitment from the labour market, no firm recruiting outside the area, comes across finally in the study. But in distinction to both the Cork and Paris study, Job Centres are seen as positive aids to recruitment. This may well reflect the pressures inherent in a locally tight labour market. It certainly suggests, however, that there is no inherent incompatibility between Job Centres and small firms.

Central Government

- 8.14. Central government was most closely experienced through legislation which affected the small firm. Legislation rather than pledges of concern were taken as what really mattered. Most legislation had been enacted, it was felt, with little concern for the small firm. The effects generally had been disastrous. The Employment Protection Act was cited in particular as being inappropriate to the constant need for flexibility in the small firm. The degree of flexibility demonstrated by the sample firms ranging from not only employment but use of premises and transport was considerable and certainly the antithesis of the bureaucratic model of organisation which underlies much legislation which addresses itself to the firm. As implemented, the Employment Act had not only led to a decline in employment among the sample firms but to greater use of outworkers. The effect of Capital Transfer Tax was equally negative leading to elderly managers apparently reluctantly remaining in charge of their firm in order to reduce transfer taxation.
- 8.15. Over and above the particular effects of particular legislation the firm's ignorance of much recent legislation raised interesting speculation as to the possibility of fit between the small enterprise and official regulations, "the view from above". These having divided the economy into two sections modern formal, as opposed to the traditional informal approach, to have concentrated their attention on the former. With its predictable visible and well articulated presentation of self and its needs the formal sector is obviously far easier both to comprehend and contact than the informal sector which appears often best understood in Heracleian terms. But there is a further point, small firms operate at the high risk end of the market often in strong competition from other small firms at low profit margins.
- 8.16. Ignorance of legislation which would increase costs in the small firm sector may well reflect the real impossibility of their continued existence, if such legislation is fully implemented. Unlike the large employer, small firms are conspicuously absent from official listings. This means that there is again no comprehensive data base which would provide the basis from which official inspection and therefore reinforcement of regulations could take place. Unions presence as has been demonstrated is also largely absent and at best tolerated. Such unions are unlikely to provide a source of legislative enforcement. As was admitted by several of the current sample ignorance of the law was felt to be essential to their continuing existence.
- 8.17. The continuing existence of such firms may well be seen as part of the continuing development of the "logic of disorder" (34) as individuals within our societies seek to sustain employment in a situation of economic depression. If the main goal of government is mass employment rather than enforcing a high quality of life for minority sections of the population, they may be hard put to enforce employment legislation in the small firm sector.

Additional Conclusions

- 8.18. Beyond this, the need to ensure that presentation and delivery of programme for the gestalt of the small business as demonstrated in the Scottish study is of great importance. As with the aged, small businesses are not a uniform group as such attempts to successfully interact must pay careful attention to differences particularly of ownership as we have highlighted in this report. Only having admitted the complexity of motivation and therefore styles of operation existing in the small business sector over and above the purely economic may any programme hope to meet some of the expectations some of the time.



## FOOTNOTES

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- (5) Ilsley, Finlayson and Thompson, The Motivations and Characteristics of Internal Migrants: a Social Medical Study of Young Migrants in Scotland. Millbank Memorial Fund XLI, No.3 p 217-249, July 1963.
- (6) L.J. Saunders, Scottish Democracy 1815-1840, Oliver and Boyd 1950.
- (7) The Future of Scottish Industry HMSO 1966
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- (9) Scottish Economic Bulletin No.11 Winter 1977.
- (10) Grampian Regional Council Physical Planning Report 1971-76.
- (11) Ibid. Hunt and Aitken
- (12) Ibid. Hunt and Aitken
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- (15) Ibid. Hunt and Aitken
- (16) Small Manufacturing Firms in Scotland, a Survey of their Problems and Needs. Scottish Development Agency, Small Business Division 1978.
- (17) Ibid. Scottish Economic Bulletin.
- (18) Ibid. SDA 1978
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- (20) In the Hunt/Aitken study servicing represented from 1970-77 the major growth area.
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- (27) Stanworth, P. and Giddens, A., and Power in British Society,  
Cambridge University Press, 1974.
- (28) Bolton Enquiry into Small Businesses, HMSO 1971.
- (29) Bernstein B Class Codes and Control  
Routledge 1977
- (30) Ibid, Small Manufacturing Firms in Scotland
- (31) Ibid, Hunt and Aitken
- (32) Unlike the engineering companies in the 1977 study which covered the full range of employment from 1 - 1,000 + there was little evidence of switching demand from on geographical source against another as prices changes. Ibid Hunt and Aitken.
- (33) McClelland The Achieving Personality, Van Notram, 1966.
- (34) For a discussion of the topic see Social Anthropology, the Informal Economy and Local Labour Markets: The case for lateral thinking, B. Roberts Mahchester February 1980, unpublished paper.

## APPENDIX I

Economic Context and Helping Agencies

1. The aim is to indicate the context within which firms in the Scottish study operate. A general account of the situation of the small enterprise in Scotland will be given together with the various state, semi-state and more important private agencies which have particular reference to small business activity in Scotland. Finally, a brief account will be given of the survey area within which fieldwork for the study was being conducted.

The Economic Context

2. Not a political entity in itself, discussion of Scotland's economy is often frustrated by lack of national statistics. Nevertheless, from those available it is possible to point to a variety of economic indices which both distinguish Scottish economic life from the rest of the UK and are pertinent to the experience of the small firm. Scotland, with a population of approximately five million has since the late nineteenth century evidenced all those features of economic decline associated with pioneers in the industrial revolution - low capital investment, high levels of unemployment, persistent outmigration and a low per capita gross domestic product. Throughout the twenty years before World War II unemployment averaged 17%, never fell below 12%, and in certain areas peaked and remained for many years at 60%. Post World War II unemployment, though lower overall remained persistently higher than the UK average, with rises in unemployment in England being multiplied by a factor of 2 in Scotland.
  - 2.1. The spinoff associated with North Sea oil superimposed upon increasing government financial support at the regional level has led to a reversal of this trend, with unemployment running below the UK average, a reversal of outward migration, and a steady rise in the gross domestic product.
  - 2.2. During this period in addition to oil-related employment, substantial increases occurred in electronics, insurance, banking and finance, and professional and scientific services, together with a continuing decline in primary industries including fishing. The extent to which these changes militated against small enterprises remains unclear, though the capital intensive nature of much offshore and electronic activity would appear to form a considerable barrier.

TABLE 1Unemployment % Rate: Scotland Relative to GB

<u>Year</u>	<u>Rate</u>
1963	2.0
1964	2.3
1965	2.1
1966	1.9
1967	1.7
1968	1.5
1969	1.5
1970	1.7
1971	1.7
1972	1.7
1973	1.8
1974	1.6

Source: Department of Employment Gazette, December 1974

TABLE 2Estimated Net Migration Scotland

<u>Year</u>	<u>Rate</u>
1960-61	-34.6
1961-62	-29.0
1962-63	-33.9
1963-64	-39.1
1964-65	-39.1
1965-66	-43.2
1966-67	-43.1
1967-68	-32.0
1968-69	-23.9
1969-70	-20.1
1970-71	-21.7
1971-72	-27.6
1972-73	-10.6
1973-74	+7.8

Source: Scottish Economic  
Bulletin No.7  
Scottish Abstract  
Statistics No.3

TABLE 3Scottish Gross Domestic Product Per Capita as % of UK Figure

<u>Year</u>	<u>%</u>
1963	87.6
1964	87.5
1965	88.4
1966	89.2
1967	89.6
1968	90.2
1969	90.5
1970	91.3
1971	91.4
1972	91.9
1973	93.6

Source: Department of Employment

### 3. REGIONAL POLICY

During the 1960's attempts by the United Kingdom government to solve recurrent economic crises centered on planned economies and the virtues of the largescale industrial unit. Nowhere was this more obvious than in Scotland. Here, faced with persistent high levels of unemployment, central, Scottish and regional governments all sought through a variety of devices to attract largescale manufacturers, particularly Americans, to the area. So successful was this policy that by the early 1970's Firm could report that 26.7 % Scottish manufacturing units, employing 58.8 % of the Scottish employed population were made up of units with headquarters outside Scotland.

- 3.1 Such incoming units in comparison to non-incomers<sup>(1)</sup> in the period 1950-74
- (a) created more new jobs in percentage terms - this holding true even after excluding the initial expansion in the years after a unit opens to make allowance for the fact that more of the incoming units are in their building up peak;
  - (b) achieved more sustained growth.
- 3.2 But more recently attention has turned to the small firm. This revival of interest partially stems from awareness of the significant role such units play in successful industrial economies such as West Germany, Japan and the States, all of which have a higher percentage of thriving small units than the United Kingdom.

TABLE 4

Comparative percentage small units

Italy	67%
Holland	62%
West Germany	40%
United Kingdom	32%

- 3.3 Within Scotland, such reappraisal has been heightened by repeated experience of retrenchment during the 1974 and current downturns in large subsidiary and branch plant enterprises.

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(1) An incomer is (a) any manufacturing unit opening in Scotland since 1 January 1945, having its origin outside Scotland; or (b) any manufacturing unit opening in Scotland having as its origin an incomer.

A non-incomer is any manufacturing unit present in Scotland at some time since 1945, which is not an incomer. Non-incomer does not, therefore, necessarily mean indigenous.

(See Scottish Economic Bulletin, April 1978)

4. Within the EEC as a whole, excluding employment in government and agriculture, two-thirds of the EEC population is employed in small units, that is, those employing under 100. Within the UK, however, not only is a smaller percentage of the population employed in small units than in other successful expanding economies, but in addition this percentage is constantly declining. Whereas in 1924, those employing up to 200 made up 44% of employment units and contributed to 42% of the national output, by 1968 these figures had fallen to 29% of units and 25% of output. There is no reason to believe this trend has been reversed at either UK or Scottish level.
- 4.1 In relation to Scotland, the only rather tangential evidence we possess shows that between 1945-74 there has been an overall decline in the number of 'non-incoming' units in Scotland, which group tends toward the small. At the same time, these 'non-incoming units' had on average expanded their employment.
- 4.2 Currently, units employing less than 200 people account for one-third of full time employment in Scotland, and one-quarter of industrial output. Excluding the Highlands and Islands 8,350 small manufacturing units existed in Scotland in 1977, making up 93% of all manufacturing units.
- 4.3 Such interest as exists in Scotland in the small unit has, therefore, multiple aims: not only to sustain/expand employment among existing units, but also devise strategies which will halt the continuing decline whilst at the same time enabling new units to come into being particularly in new growth sectors. Firm's work in Strathclyde which shows that within that region native entrepreneurs are most likely to set up in declining industrial sectors makes an interesting comment here.
5. Up to this point though a series of studies have been carried out into the small firm within the UK: the Bolton Committee 1971; the Lever reports 1977 and 1978, there has until the recent Scottish Development Authority study been no investigation into small manufacturing units in Scotland per se. The recent study, besides in itself being symptomatic of increased interest in small units provides a framework against which the more in depth approach of the current study will be placed. In this preliminary statement one will merely indicate the general findings of the SDA study as they illuminate the operation of a certain overlapping section, namely, engineering units employing under 100 currently operating in Scotland.
- 5.1 In their investigation the SDA sought to determine which were the main areas of difficulties as expressed under predetermined headings (finance, administration, industrial relations, purchasing, marketing, future prospects) as experienced by small manufacturing units. summarised the findings as they relate to small (-99 employees) engineering units : state
- (1). Few units expressed any need for help in the area of finance or administration. This runs so counter to the researchers' expectations that they speculated in the text as to what the reason for this may be, ignorance being the final choice.

- (2) As units grew, there was a rising demand for advice on industrial relations.
- (3) Advice on purchasing was particularly high in the category 11 - 19 employees and especially so among units in the electronics field.
- (4) Advice on production problems rose with size.
- (5) Marketing showed the highest demand:
  - (a) per se, 45% of units requesting advice in this area;
  - (b) below 20 there was little advice sought on exporting, above 20 the demand rose sharply;
  - (c) for those already involved in overseas markets the advice sought focused on (i) form filling (ii) guides to sources of marketing information; help was also sought in obtaining (iii) sub contracts.
- (6) The main recurrent problem was seen as cash flow, 16%, often stemming from slow payment (25% experienced this).
- (7) Perception of the future.

5.2 Though overall small Scottish units assessed their future optimistically, there were substantial differences as between industries and sizes of unit. The least optimistic group fell into the category 1 - 10 employees, whilst overall 92% chemical and 88% electrical engineering expected to expand. The 1 - 10 group also contained the largest group who expected solely to maintain their position, whilst overall in the -99 4% forecasted decline.

5.3 Decline was primarily associated with lack of skilled men, whilst static growth often related to company policy not to grow beyond a certain level. Framed as a preliminary statement sharply focused on the perception of small entrepreneurs, in this way reminiscent of the Bolton report, the SDA study necessarily does not concern itself with context. Indeed, investigation of the role of helping agencies by the SDA itself could be seen as raising many problems, not least of which would be investigating 'biasing'.

6. If the SDA study highlights areas in which small enterprises experience difficulty our investigation to date has unearthed a plethora of helping agencies primed to offer 'help' to such firms:

The Scottish Development Agency, including its Small Business Division.  
 Scottish Economic Planning Department.

The Department of Industry.

National Engineering Laboratory.

The National Physical Laboratory.

Warren Spring Laboratory.

National Maritime Institute.

Computer Aided Design Centre.



North-East of Scotland Development Authority.  
Grampian Regional Council Small Business Enterprise Scheme.  
Manpower Services Commission.  
Scottish Co-operative Development Committee.  
Scottish Council Development and Industry.  
The Design Council.  
Institute of Patentees and Inventors.  
The Scottish Clearing Banks.  
The Industrial and Commercial Finance Corporation Ltd. (ICFC).  
The University of Aberdeen.  
Robert Gordon's Institute of Technology.  
Aberdeen Chamber of Commerce.  
Industrial Research Associations.

7. THE SCOTTISH DEVELOPMENT AGENCY

The Scottish Development Agency was established in 1975 to channel central government initiatives to strengthen and diversify Scottish industry in particular, and to promote regeneration of the Scottish economy as a whole.

7.1 It defines its industrial aims as focusing on:

- (1) Companies in Scotland planning to expand their operations.
- (2) Companies interested in investing in or moving to Scotland for the first time.
- (3) Companies assessed as having good long-term prospects though faced with temporary financial problems.
- (4) Companies with projects showing a time scale for expenditure and return too long for the companies' own resources to bear or to be attractive to normal commercial investors.
- (5) Companies or individuals planning to enter new fields, markets or to develop new technologies.
- (6) Companies proposing rationalisation or re-equipment to consolidate and to maintain employment in the longer term.

7.2 Parallel to such general aims, recognising the special problems and importance of small businesses in Scotland, the SDA has established a small business division which incorporates the already existing Scottish Council for Rural Industries.

7.3 Though acknowledging its responsibility to small industry, the SDA nowhere in its literature appears to have defined what it means by small, unless one takes the definition used in the SDA's recently sponsored study 'Small Manufacturing Firms in Scotland, a Survey of their Problems and Needs'. Here the small business sector is taken to relate to manufacturing units employing less than 200. Unlike the Irish IDA criteria, there appears to be no mention of size being equated with assets.

## 8. SDA - The Small Business Division

This division provides the following range of services:

1. Technical. Qualified staff offer advice on production, work control, equipment and general factory planning.
2. Trade instruction. Instructors visit firms to give on-site training and instruction using equipment on site.
3. Business and finance. Advice is given on a whole range of financial functions required to run a business. Advisory accountants visit firms to give instruction in book-keeping and financial management.
4. Marketing. Marketing officers help firms to plan their general marketing policy, assist with specific aspects of selling both at home and abroad by organising trade missions and participation in suitable exhibitions.
5. Financial. The division can offer financial help to small businesses by way of loans, shares or a combination of both. Loans are available for building projects, purchase of equipment and working capital.
6. Sub-contracting. The SDA offers a free liaison service for sub-contractors and suppliers. Currently it recommends 500 companies in Scotland which it considers capable of sustained high-quality production and service. The range of sub-contracting covers:
  - (i) Casting forgings
  - (ii) Fabrication
  - (iii) Plastic mouldings
  - (iv) Gear cutting
  - (v) Component manufacturing
  - (vi) Gig-tool making
  - (vii) Prototype assembly work
  - (viii) Press work
  - (ix) Finishing
  - (x) Electrical and mechanical assembly work
  - (xi) Manufacturing under licence
  - (xii) Printed circuit boards

The agency offers matching from drawings and specifications, will assist with negotiations and will supervise sub-contract work in its initial stages. With its sub-contracting literature in French, German and Dutch, the current overseas markets attempting to be reached would appear to be mainly European.

7. Provision of factories. The SDA is Scotland's largest industrial landlord with some 25 million square feet of factory space in all parts of Scotland. Agency factories are nominally let at current

market values or may be acquired on a long premium lease (normally 99 years). Their rents and prices are generally competitive, in certain circumstances a rent-free period of up to two years, exceptionally five, may be given. Emphasis, particularly in the central urban areas of Scotland, has been placed on the provision of small business units at low rents.

8. Business advisory service aimed at smaller businesses. Implemented through a building officer the agency offers advice on:
  - (i) Suitability of sites
  - (ii) Design of workshops
  - (iii) Design of buildings
  - (iv) Construction methods
  - (v) Local authority building regulations and application forms
  - (vi) Factors affecting tenders for building contractors
  - (vii) UK building regulations
  - (viii) Building surveys
  - (ix) Modification permits
9. Craft based industries. In addition to the usual specialised advisory services offered to all small industries, craft based industries receive additional support.
10. Apprenticeship schemes. Grants are available covering the total costs of the first two years. In addition, awards, grants and bursaries are available to entering and existing craftsmen. (a) Bursaries to attend special courses to extend existing techniques. (b) To assist new craftsmen to set up. Grants currently standing at £750 per individual are available to graduates from colleges of Arts who propose to live entirely by craft working. (c) Craftsman's grants - Up to £500 are available to help raise standards of production and increase output. A register of craftsmen is kept in addition to a directory of crafts and a subsidised contact journal, The Craftwork Magazine, which appears regularly.
- 8.1 Services 1 - 10 are offered at a nominal charge with no fee being demanded for general advice or initial surveys of work required.
- 8.2 The main goals surrounding aids to smaller industries by the SDA are:
  1. The sustaining or expanding of employment opportunities.
  2. Upgrading of plant buildings.
  3. Upgrading of skills.
  4. Expansion of markets.
9. By 1978 the agency had committed capital investments of 1.4 millions to 278 small firms. From such investment the agency reported an increase of 44% in employment by the firm involved, i.e. 281 new jobs. From the uptake of the agency's other service management, marketing, technical, trade training and promotional activities it estimates that in addition 714 jobs would be created in the small business sector. Several new agency investments totalling £872,000 were made in or committed to small

businesses in 1978. All but two of these were by way of medium or long term loans for development, almost half being for the provision or improvement of factories and workshops. A quarter of the loans was for new equipment and the balance met the working capital needs for small businesses. Support for craft ventures 28 grants totalling £15,000 for new craftsmen establishing businesses for the first time, and 13 capital grants totalling £5,165 for equipment requirements occurred. No figures are available for employment expansion following on such expenditure apart from first entrance. Taking this into consideration one arrives at an overall cost per job in SDA grant terms of 280 jobs = 1.4 million, i.e. each industrial job to create cost £4,861. If one adds on the craft jobs then the equation runs - 228 industrial jobs plus 28 craft jobs = 1.4 million plus 15,000, and therefore the cost per job = £4,478. No further breakdown on job costs, either by type of job created or industrial sector or geographical area is available from the SDA published sources.

#### 10. Operational Structure - Small Business Sector

Currently the small business sector has its headquarters in Edinburgh with a new divisional office in Glasgow and a currently expanding sub-office in Aberdeen, the Aberdeen office having a further sub-office in Elgin, a town in the Aberdeen hinterland.

#### 11. Scottish Economic Planning Department

Within its general economic planning remit the SEPD sustains a small firm's information centre, essentially a data contact and retrieval system. This has three main goals:

- (1) Advice and guidance to individuals setting up in business for the first time.
- (2) Expert advice on a wide spectrum of problems affecting industry.
- (3) A government listening post relaying back to central government anxieties and problems besetting the small firm sector.

11.1 Located in Glasgow, the centre offers (a) a freephone contact service, (b) interviewing facilities in Glasgow, (c) small group meeting facilities. As currently organised the category of small firm is not defined by size, turnover or business sector. In its literature it expressly includes both manufacturing and service sectors 'the service is there for use both by manufacturing and service sectors of the business community, including the motor trade, retailing, wholesaling, road transport, construction, hotels, catering, professional services, etc.' Rather it appears to define the small business sector in terms of ownership, 'the centre will help anyone who is in business, i.e. the principals and staff of smaller firms which are managed in a personal way by their owners'.

## 12. SEPD plus the Department of Industry

Investment Assistance: All of Scotland is designated as an assisted area. Companies of whatever size operating there may qualify for investment incentives under the Industry Act of 1972. The gearing of such grants would appear to have certain implications in terms of availability and appropriateness, however, for small businesses. Assisted areas are divided into intermediate areas, development areas and special development areas with the financial assistance varying accordingly. The research area Aberdeen City has recently been re-designated as an intermediate area from a development area.

## 13. Regional Development Grants

Regional development grants are available at a rate of 20% of the approved capital expenditure incurred or defrayed towards providing new buildings or works and adaptations of existing buildings, or premises used wholly or mainly for carrying on qualifying activities, i.e. standard industrial classifications orders 3 - 9. i.e. transport and communications xxii, distributive trades xxiii, insurance, banking, finance and business services xxiv, professional and scientific services xxv, miscellaneous services xxvi, and public, administrative and defence activities xxvii. All these areas excluding xvii are ones in which small enterprises are particularly in evidence. In addition certain repair activities are named: the processing of scrap and waste materials, scientific research relating to any other qualifying activity and the training of staff for work in such activities

- 13.1 Eligible costs: These include site preparation but exclude the cost of the site but no building grants are available on individual building schemes costing less than £1000, a bias which must proportionately affect the smaller firms more than the large.
- 13.2 Regional selective assistance to the service sector: What assistance is available to the service sector is far more restricted being confined to projects which are (a) mobile with a genuine choice of location between assisted areas on the one hand and the rest of Great Britain on the other. (b) Will provide 10 or more new jobs as a result of the move to the assisted areas or 25 or more new jobs as a result of the establishment of a new project or the expansion of an existing project in the area. Projects servicing primarily local needs, e.g. regional shops or similar local services do not qualify. The assistance available includes in intermediate areas the transfer grant of £1,500 for each employee moved to a non-assisted area up to a limit of 50% of the additional jobs being created to a grant to cover the whole of the approved rent of the premises for a period of up to three years in the intermediate area, depending on employment benefits. Equivalent help is given when premises are purchased. Projects may also qualify for loans or interest relief grants towards capital expenditure other than accommodation but this remains obscure. In terms of the size of the enterprises under consideration in this study under 50 even the minimal employment increase of 10 would seem very large and we would therefore posit that such small firms would be unlikely to benefit from such assistance.

13.3 Regional selective assistance: Under Section 7 of the Industry Act 1972, selective financial assistance may be made available to industry in the assisted areas. Factors determining grant assistance are:

- (1) The degree of employment creation or expansion promised by the project require applicants to ensure that the greater part of the cost involved are provided by the private sector. Finance from the Regional selective scheme is not available as part of a grant cocktail. The one exception to this is focused on manufacturing projects. Such projects' borrowers under a new scheme developed with the European Investment Bank can raise mixed currency loans from the bank assured against losses due to exchange changes. Loans up to 50% of the fixed capital costs are available at a low rate of interest plus a parallel exchange risk cover.

#### 14. Forms of Assistance Available

Loans on preferential terms: Medium term loans covering normal capital needs including working capital. Interest is below commercial rates and may be interest free for up to two years for companies within intermediate areas but adequate security, often a scarce commodity in the small enterprise sector is required, and what this means remains undefined.

- 14.1 Interest relief grants: In cases where a loan would have been appropriate but finance has been raised elsewhere as an interest relief grant based on the amount that the government would have been prepared to lend may be offered. But the normal rate of grant is 3% per year up to four years and where it would have been appropriate to allow an interest free period loan a grant may be at a rate corresponding to the broadly commercial rate for up to two years and 3% per year for up to a further four years. Here again, though, what is considered adequate security poses a problem for the small enterprise.
- 14.2 Removal grants: Enterprises moving from any part of the U.K. outside assisted areas qualify for a grant of up to 80% of the reasonable costs of the following:
  - (1) Removal of plant and machinery
  - (2) Removal of necessary stocks and materials
  - (3) Employer net statutory redundancy payments.
- 14.3 Projects maintaining or safeguarding employment may also be assisted in the same way. A priori it would appear that small enterprises are relatively immobile and so would form the group less likely to be eligible for a removal grant. A further problem affecting availability to small enterprises is that regional selected assistance grants as such are focused on manufacturing, mining or construction, i.e. the service industries a growth sector from small enterprises are not covered.

### 15. Public Sector Aid for Research and Development

Many of the government schemes available stipulate a minimum cost per project which in itself will appear to be a deterrent to the development of R and D activities in small enterprises. For example the Product and Process Development Scheme. This stipulates a qualifying project cost of between £25000 and 1 million with a subsequent pre-production order cost of £25000 to 1 million. Similarly, the Micro-processors' Application Scheme which provides monies towards:

- (1) Consultancy advice
- (2) Projects involving the use of micro processes in end products or in manufacture
- (3) Training of personnel

demands £10,000 minimum cost per qualifying project which, depending on which optional grants are being sought, will either take the form of a straight grant or a shared cost contract. In certain instances, central government has introduced schemes of limited duration under Section 8 of the Industry Act 1972 to stimulate investment in certain key sectors of industry. Current examples are the instrumentation and automation industry and drop forging industry. In these instances not only are high minimal project costs set in terms of the small enterprise with the lowest standing at £50,000 but the time scale in which the project must be completed, generally one year, is so short a time limit within which a large - in terms of small enterprises - project must be completed, that we would argue that this must take up of such monies by such small enterprises doubly difficult.

### 16. Requirements Boards

Requirement boards were established in 1972 and are composed of industrialists, academics and government officials. Their aim as stated is to 'further practical application of technology against the background of national industrial strategy'. Currently such boards will consider all new research projects from any sector of civil manufacturing industry except aero-space. It may well be that small enterprises are involved with such boards but the form of organisational arrangements set out to further such activity would appear to assume a large establishment capable of sustaining not only the actual research itself but also the liaison required when working in collaboration with departments of industry, research establishments or industrial research associations. Department of Industry research establishment, National Engineering Laboratory, (NEL). The NEL undertake to design research and development and testing in many spheres of engineering, particularly in fluids, hydraulic powers, machine tool control, engineering materials and structures, heat transfer, off-shore engineering and off-shore engineering technology. Advice and services are available for testing feasibility, design studies or special consultancy. Initial enquiries are free though subsequent fees are described as 'not cheap'. However, if the small firm is not debarred through cost the NEL describes itself as being available to any size of business.

17. Manpower Services Commission

Among general employment services aimed at the individual, the Manpower Services Commission operates a series of schemes which are either relevant to or aimed specifically at small enterprises.

18. Trading Services Division

These services are available free to all firms in assisted areas, Aberdeen being one such area. They consist of (a) sponsored training. Places are available at skill centres for training employees designated by their firm to fit the firm's requirements by upgrading conversion training in additional skills. (b) Mobile instructor services. Instructors are available to provide in-plant training on specific projects. (c) Instructor training services. Short courses in instruction or technique are available in Glasgow or can be run on company premises. (d) Supervisory training both in-house and elsewhere is provided. (e) International trade procedure courses. These are run according to demand in any urban centre to enable firms to improve their exporting skills.

19. Temporary Employment Subsidy

This scheme offers £20 a week subsidy regardless of age or sex to each full time worker whose redundancy is deferred; £10 per week for part-timers. A subsidy runs for up to 12 months. The scheme applies to companies which prepared it for impending redundancies affecting 10 or more workers at one establishment.

19.1 Small Firms' Employment Subsidy: The Department of Employment administers this scheme, the provisions of which are:

- (1) A subsidy of £20 per week up to 26 weeks, for each additional full-time job provided and £10 per week for each additional part-time job. The firm must meet the following conditions:
  - (i) it must be a manufacturing business within the private sector;
  - (ii) it must have a work place in Scotland;
  - (iii) it must employ 200 workers or less as on 15th March 1978;
  - (iv) it must be an independent business, or part of a group which itself employs 200 or less at the base date.

20. Scottish Co-operative Development Committee

In June 1977 the SCEC was recognised by the government as an official body under the Industrial Common Ownership Act from which it receives funding. As a committee it encourages workers' co-operatives which may or may not be small enterprises by:

- (i) Publicising the concept of co-operatives and encouraging those interested in setting up new co-operatives.
- (ii) Interesting those already running conventional firms and converting them to co-operatives.



- (iii) Compiling a register of skilled people interested in starting up in a business with people with complementary skills.
- (iv) Providing a back-up panel of specialist resource people sympathetic to co-operative ideas.
- (v) Acting as a link with other agencies such as Banks, Trade Unions and Central Government agencies.
- (vi) Providing training courses and workshop sessions about various aspects of co-operative working.
- (vii) Providing a link between projects considered viable and financial lending agencies.

20.1 Discussion of the complementary agencies, the Co-operative Bank and the industrial common ownership fund will be held over until the interim report.

## 21. Local Authority Assistance

- (a) To industry in general. Industrial sites. Not untypically, Aberdeen City Council owns fully serviced industrial estates within the city boundary which are available on long-term leasing bases.
  - 21.1 Industrial building projects. Local authorities can for 'sound business projects' make loans for the erection of industrial buildings not exceeding 75% of the valuation or the cost of the property whichever is the lowest. These loans are repayable over 20 years at a fixed interest which is set only marginally above the rate at which the LA themselves can borrow with the property as security for the loan.
  - 21.2 Industrial de-rating: Certain qualifying manufacturing activities are allowed reductions of 50% in local authority taxation.
  - 21.3 Factory units - advanced: Advanced factory units are available from local authorities on a rental basis. Local authorities are required to build industrial buildings to meet a firm's specifications.

## 22. Local Authority Efforts Specific to the North East of Scotland

The North-East of Scotland Development Authority (Industrial Development of Grampian Regional Council) developing out of a local committee covering the whole spectrum of industrial interests, NESDA acts as a:

- (i) marketing agency on behalf of the region attempting to attract new companies to the area as well as through the organisation of Trade Fairs, admissions and literature, as an agency for local companies.
- (ii) A source of information on the range of financial and practical assistance available to firms in the area.

- (iii) A register for vacant industrial sites and buildings in the region.
- (iv) A promoter of conferences and seminars on topics seen as relevant to employment in the region.

## 23. Local Authority Aid to Small Businesses in the North-East of Scotland

### 24.1 Small Business Enterprise Scheme

First put forward by NESDA the Small Business Enterprise Scheme has only been in operation for two years. The criteria 'small' used is based on employment, i.e. firms employing under 30. Though manufacturing and specialist service firms both qualify, preference the scheme states, will be given to manufacturers as well as to:

- (i) projects from persons or firms within the region,
- (ii) those located in rural areas,
- (iii) those which will involve planned training for employees,
- (iv) those which will involve 'the phased provision of additional permanent employment'.

Under this scheme the following aid is available:-

### 24.2 Plant and Machinery

Loans for plant, machinery and equipment of up to £5,000 interest free for a period of up to five years for the estimated life of the plant, machinery or equipment, are available. Loans for plant, machinery or equipment exceeding £5,000 are secured on the value of the rateable property for a period not exceeding five years at interest at the public work's Loan Board plus  $\frac{1}{4}\%$ .

### 24.3 Grants

These do not normally exceed £1,000 per applicant and are available for the following purposes:

- (i) towards personnel training costs;
- (ii) towards the cost of removing plant, equipment and materials from old to new premises;
- (iii) towards the cost of product and process;
- (iv) towards the fees of consultancy studies, e.g. marketing production methods, training, finance, general management, co-operative training;
- (v) scholarships or awards for business study or travel on subjects beneficial to the aims of the scheme;
- (vi) towards the cost of joint participation in exhibitions, business overseas, trade missions or similar marketing exercises;
- (vii) for any other matters the Council considers appropriate, excluding non-specific working capital.

25. ~~At this preliminary stage in the research~~ official presentation of helping strategies to industry both at central and local government level would appear to be geared towards the large and manufacturing enterprise. The material strongly suggests that the small, and more so, the small enterprise in the service sector, is largely considered ineligible, particularly for financial support from public sector agencies. The extent to which this is true operationally we would hope to clarify as a result of our fieldwork.

26. Private Sector Agencies:

The Scottish Council (Development and Industry)

The Scottish Council was formed in 1946 through the merger of the Scottish Development Council and the Scottish Council on Industry. It is financed voluntarily by local authorities, companies, banks, chambers of commerce and private individuals, all of whom are represented on the executive committee. Able to attract as committee members the leading figures in financial, commercial and industrial life in Scotland, the Scottish Council has played a significant role in Scottish economic affairs. The Council defines its goals as the promotion of the industrial and social development in Scotland. As such it acts predominantly as a pressure group on central government and as an educational and promotional catalyst in Scotland. Contact with small enterprises is made predominantly through its advisory staff situated in offices in the Highlands, the north-east of Scotland and the west. In particular the Council staff focus on promoting sub-contracting and facilitating export activities. In Edinburgh the Council holds a data bank on manufacturing capacity and joint venture proposals. The Council also undertakes confidential appraisals of new products and may actually involve themselves in marketing.

27. The Design Council

Through a field force of 20 advisory officials, 12 specialised in engineering design and 8 in industrial design, the Design Council, three of whom are based in Glasgow, attempts to:

- (i) diagnose design problems,
- (ii) match problems with problem-solving experts,
- (iii) sustain a design register, an extensive reference source to design help available to industry whether from research organisations, specialist companies, Universities, Polytechnics, design consultants or in other individuals. But the engineering field officers work apparently exclusively with manufacturing engineering companies, in this way excluding the service sector.

28. Institute of Patentees and Inventors

An independent body, the Institute provides information on procedures for patent applications.

- (i) The procedures for patent applications
- (ii) Assessments of commercial viability of an invention
- (iii) Personal introduction to potential licensees
- (iv) Links inventors and industry through its new Patents Bulletin.

29. Private Finance Sources

Scottish Clearing Banks: A discussion of the role of the Scottish Clearing Banks per se will be contained in the following interim report.

30. The Industrial Commercial and Finance Corporation Ltd. (ICFC)

ICFC is the most important source of long-term finance for medium (undefined) and small companies (undefined). Sourced by the English and Scottish clearing banks with a minority stake held by the Bank of England, the ICFC offers:

- (i) Term loan of £5,000 to £2.5 million for 5 - 20 years.
- (ii) Equity finance. Purchase of minority shares in companies without boardroom participation.

31. Technical Development Capital (TDC)

TDC is a wholly owned subsidiary of ICFC, specialising in finance for innovation. Venture capital is available for new or existing businesses in such fields as electronics, engineering, the petrochemicals.

32. Local Educational Institutions

As elsewhere within the UK the North-East of Scotland boasts a wide variety of educational institutions, all of which offer advice to businesses, these being Aberdeen University, Robert Gordon's Institute of Technology, North of Scotland Agricultural College. All of these institutions have appointed full-time industrial liaison officers to develop contact work between themselves and local industry.

33. Aberdeen Chamber of Commerce

Established in the 19th century to promote and protect the business interests of its members, the interest of Chamber participants covers the spectrum of industrial interests in the area. In terms of small businesses, the Chamber not only serves as a local meeting point but also a source of information on tariffs, licensing procedures, patents and trade marks. A group telex service is available at a nominal charge. With membership tax-deductable, Chamber membership provides a costless source of information for the small enterprise in the area.

34. Industrial Research Associations

In addition to and available through government research establishments, governments also fund programmes at the Industrial Research Associations. Over 20 Research Associations are supported by the Department of Industry and others have developed as independent contact research organisations. The Associations vary considerably but all are owned and controlled by their industrial members and provide industry specific information. The Associations usually serve industry with medium/low technology and in some instances may be the only technical institution of any kind which exists for such industries. For small firms who cannot do their own

research or identify problems in technical terms the Associations may be the only organisations who can offer ready assistance.

## APPENDIX III

### LEGAL INFRASTRUCTURE

The small business enterprises in Scotland are organized in three ways:

1. as private limited companies;
2. as partnerships, and
3. as sole proprietorships.

#### 1. Private Limited Companies

A Private Limited Company is formed by preparing a Memorandum of Association and Articles of Association and registering these with the Registrar of Companies under the Companies Acts 1948 to 1967. The Memorandum of Association must contain clauses stating:

1. 1 the name of the company;
1. 2 the country of the United Kingdom in which the registered office is to be situated;
1. 3 the objects of the company;
1. 4 that the liability of the members is limited; and
1. 5 the authorized capital of the company, or an undertaking to contribute a stated sum in the event of winding up.

The Articles of Association must:

- (a) restrict the rights of members to transfer their shares;
- (b) limit the number of members to fifty (excluding present employees and past employees continuing to hold shares after the termination of their employment, and counting joint shareholders as one) and
- (c) prohibit any invitation to the public to subscribe to the shares or debentures of the Company.

Each company must keep books of account sufficient to give a true and fair view of the company's affairs, and prepare a balance sheet, profit and loss account, a directors' report, and an auditor's report. The reports for each year must be presented to the shareholders at a general meeting and an annual return must be made to the Registrar of Companies.

#### 2. Partnerships

There are two types of partnerships recognized by Scottish law. The general or ordinary partnership operates under principles laid down in the Partnership Act 1890. There must be at least two partners and not more than twenty. A partnership may be formed by express contract, oral or written, or its existence may be inferred from the conduct and relations of the parties. It is generally the case that the operating name of the partnership must be registered under the Registration of Business Names Act, 1916.

The liability of a general or ordinary partnership on its obligations is unlimited and in no respect limited to the capital employed in the partnership business. The liability of the partners is also unlimited, though secondary to the liability of the partnership. There are no statutory requirements with regard to audit or books and records.

In terms of the Limited Partnerships Act, 1907 it is permissible to create a partnership of one or more general partners, liable for all the debts and obligations of the partnership, and one or more limited partners. The general law and the 1890 Act apply, save in so far as the 1907 Act makes special provisions.

3. Sole Proprietorships

A sole proprietorship is the simplest form of business structure and very few formal regulations are applicable. A sole proprietorship may be defined as an unincorporated entity owned by one person who receives all the profits and who is personally liable for all the debts and obligations of the business. If the sole proprietor uses a business name other than his own he must register the name under the Registration of Business Names Act, 1916.





PROGRAMME OF RESEARCH AND ACTIONS IN THE DEVELOPMENT OF  
THE LABOUR MARKET

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SMALL INDEPENDENT ENTERPRISES AND THEIR ENVIRONMENT:  
FACTORS AFFECTING THE MAINTENANCE AND GROWTH OF  
EMPLOYMENT AMONG SMALL INDEPENDENT ENTERPRISES

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SECTION K - ORGANISATIONS

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