1

Introduction

D. J. Storey

A number of different responses have been made by governments to the recession which has gripped the economies of many of the world's leading industrialised countries since the mid-1970s. Faced with both a declining total market and increased competition from LDCs most governments have offered financial and non-financial incentives for manufacturing industry to become more price competitive. Government policies have also stressed the importance of both moving into technologically more sophisticated products and of using more efficient production methods ('automate or liquidate'). The increased use of robots in manufacturing and the relatively slow rates of increase in labour productivity within the service sector have encouraged the belief that an increasing proportion of new employment will be created in services, based upon high incomes but low manning levels in manufacturing.¹

Nowadays, at the forefront of any discussion of new employment initiatives and new productive developments is the small firm. Evidence presented by Birch (1979) and by Birch and MacCracken (1983) suggests that the large corporation cannot be regarded as the major source of new jobs, even though multi-national corporations as a group are significantly more important in influencing both the volume and nature of world trade than any single national government, or perhaps any collection of governments. Yet if large firms are viewed as playing a major role in economic development it is in conjunction with smaller enterprises.

Over the last twenty years major changes have taken place in the attitude of governments towards small firms. No longer is the large firm regarded as the motor for growth and no longer is the emphasis upon scale economies at the plant level. Instead public policy is
increasingly directed towards the smaller enterprise. Several European
governments have, over the past five years, initiated for the first time
programmes of assistance to small business,\(^2\) whilst the United States,
which has a much longer history of encouraging small business, is
planning an increased emphasis on the sector in its efforts to increase
economic growth and employment.\(^3\) Several groups, from different
perspectives, are, however, starting to challenge this cosy consensus.
One group has challenged the statistical and methodological basis of the
view that small firms have been, and are likely to be in the future, a
major source of new jobs (Armington and Odle (1982); Harris (1984);
Fothergill and Gudgin (1979)). In particular the work of Birch and his
colleagues has been challenged on the grounds that Birch has seriously
overestimated the contribution of small business to employment
creation. A second challenge comes from those who find public
assistance to small business unacceptable on political grounds. Such
individuals argue that since small firms provide low-paid, non-
unionised jobs in poor working conditions they do not merit support.
Indeed it is socially unacceptable for public monies or support to be
provided to a group of capitalists which prides itself on virtues such as
self-reliance and independence and whose avowed motives are to
reduce public sector spending and business taxes (Rainnie (1985); GLC
(1983)). Finally, and most relevantly in the context of these chapters, a
third group has questioned the extent to which national policies have
different impacts over space. For example it has been argued that the
prime impact of small business policies is in prosperous, rather than less
prosperous, areas (Storey (1982)) because of spatial differences in
industrial structure, location of markets and differences in the socio-
economic composition of the population.

In the following collection of papers the contribution of small
businesses to economic development will be assessed in a number of
localities. Three of the articles are concerned exclusively with the
United Kingdom (Storey, Gould and Keeble, Lloyd and Mason), one
with Ireland (O'Farrell and Crouchley), two with the United States
(Shaffer and Pulver, Markusen and Teitz) whilst the article by Oakey
compares locations in Britain and the USA. As well as national
differences there are variations according to the level of economic
prosperity of the areas investigated. For example Lloyd and Mason
compare relatively prosperous South Hampshire with the far from
prosperous Merseyside/Manchester area. Storey examines the impact
of new firms on the economy of Northern England which has experi-
enced amongst the highest unemployment levels in England for nearly
half a century. In contrast Gould and Keeble quantify the contribution of new businesses in the ‘‘amenity-rich’, university-focused areas of Southern England’. In the paper by Shaffer and Pulver the distinction between rural and urban areas in Wisconsin is stressed. There are also considerable variations in per capita income within Ireland.

In undertaking research on small business a variety of approaches can be used. It is possible, using statistical measures of aggregate economic activity such as output, employment, capital expenditure, etc., to identify the major trends in these variables according to the size of the enterprise.4 This approach is favoured by economists interested in the competitive process, and the contribution to that process made by large enterprises. On the other hand Case Studies and interviews with firms are appropriate for highlighting some of the subtler developments and processes which can be ‘lost’ in aggregate studies.5

Each approach has its advantages and disadvantages. The aggregate approach can become mechanistic and is crucially dependent upon the availability of data suitable for the purpose, whereas interviews with firms can be misleading because the firms knowingly or unknowingly may mislead the interviewer, or the respondent may be ignorant of the factors in question. Furthermore some researchers are insufficiently careful to ensure that the sample of firms interviewed are representative of the population as a whole.6

The papers presented in this volume reflect these differences in approach. For example the papers by O’Farrell and Crouchley and Storey use aggregate data to examine the impact of new firms in Ireland and Northern England. These papers are essentially a statistical examination of the numbers of new firms, their sectoral and spatial distribution, with an attempt to link patterns to factors such as the size mix of establishments. Both papers also relate the employment created to the wider employment changes which were taking place in these economies.

The papers by Oakey, Markusen and Teitz, Shaffer and Pulver and Lloyd and Mason are based on interviews with small firms. All these authors point to the diversity of the small firm population and argue, implicitly or explicitly, that interviews are a particularly effective vehicle for obtaining views on the impact of issues such as financial constraints, labour availability, etc. The paper by Gould and Keeble perhaps straddles these two approaches since interviews were undertaken by the authors and these inevitably coloured the results presented, although the paper restricts itself primarily to aggregate analysis.

Given both the diverse methodological approaches and the different
areas under study it is to be expected the contributions of small firms to local economic development would vary. Such variations could also be magnified by differences in the definitions used of a ‘small’ firm. For example, in the UK alone, Cross (1983) shows that government employs more than forty different definitions relating either to eligibility for assistance or the completion of statistical forms. At an international scale the definitional problems are particularly troublesome (Storey (1983)). It is for this reason that each contributor distinguishes carefully between the small firm and the new firm. Furthermore since the majority of studies in this volume are of manufacturing business the conventional definition of a small firm is an enterprise having less than 200 workers. Where the contributors use either a wider or a narrower definition this is identified in the text.

Whilst it is important to ensure broadly similar definitions of the term ‘small firm’, it would be wrong to impose definitions which arbitrarily exclude endemic sources of variation. If public policy towards small business, or towards groups of small firms, is to be formulated then a major pre-requisite is the recognition that policy will induce a variety of very different responses from this collection of ‘strange bedfellows’. It is in the context of better informing that debate that the Regional Studies Association has agreed to reproduce in this volume the four papers which appeared in vol. 18 no. 3 of Regional Studies (Gould and Keeble, Lloyd and Mason, O’Farrell and Crouchley and Oakey), together with the three new papers by Storey, Markusen and Teitz and by Shaffer and Pulver.

NOTES

1 For a review of these trends see Gudgin (1983) or Robertson et al. (1982).
2 The most comprehensive review is contained in Economist Intelligence Unit (1983).
4 Examples of this type of work are Utton (1979), Prais (1979), Hay and Morris (1984).
5 It should be noted that the approaches are not mutually exclusive. Hay and Morris, for example, conduct interviews with directors of small unquoted companies and conduct statistical analysis to compare the performance of quoted and unquoted companies.
6 The problems of defining ‘new’ firms for the purposes of survey analysis are clearly set out in Mason (1983). The problems of identifying a population from which to sample new firms are outlined in Smith and Storey (1985).
Introduction

REFERENCES

Prais, S. J. (1979), The Evolution of Giant Firms in Britain, Cambridge University Press.
2

Manufacturing employment change in Northern England 1965–78: the role of small businesses

D. J. STOREY

1. INTRODUCTION

This paper examines the contribution to manufacturing employment change of small and medium sized enterprises (SMEs) in Northern England – an area which has experienced persistently high rates of unemployment for more than fifty years. The region has also been a recipient of almost every initiative introduced by national government to create employment, and whilst there have been periods of modest success the relative position of the Region has remained virtually unchanged during this half century.

In this paper a small business is defined as having less than 200 employees, although it is recognised that the problems and priorities for a well established business with 180 employees will differ markedly from those of the two-man business. Yet this heterogeneity is characteristic of the small firm sector and the main distinction to be made in these pages will be on the basis of age, i.e. between the new and the well established small business.

The first section of this paper documents the importance of SMEs in the Regions of the United Kingdom, but it then concentrates upon changes in employment in the three counties of Durham, Cleveland and Tyne & Wear which in 1978 contributed 78% of manufacturing jobs in Northern England. Having outlined the data sources to be used, the remainder of the paper is devoted to a detailed study of employment change, with particular emphasis upon the performance of SMEs.

2. SMALL BUSINESSES IN THE NORTHERN REGION

The Northern Region of England, defined as the administrative counties of Tyne & Wear, Cleveland, Durham, Northumberland and
Manufacturing employment change in Northern England 1965–78

Cumbria, has traditionally been regarded as an area at best unsympathetic to the concepts of small scale enterprise and self-employment. The Northern Region Strategy Team (1977) regarded the low rate of new firm formation as a major explanation of the North’s poor economic performance, illustrated by its persistently high rates of unemployment. The Region has been shown to have a smaller stock of small and medium sized enterprises (SMEs) than other areas of the UK, and a lower birth rate of SMEs. These points are illustrated in Table 2.1.

This table constructs, from a number of data sources, indices to illustrate Regional variations in both the existing stock of small firms and of changes in that stock. According to virtually all indices, the North of England not only has fewer small businesses than the remainder of the UK, but in 1980 had the lowest birth rate (except for Northern Ireland and Wales), the highest death rate (except for the South East of England) and the highest net reduction in stock of business.

Table 2.1 distinguishes manufacturing from all small enterprises. It shows that in the North 90.1% of manufacturing units employ less than 200 workers. This is the lowest of any UK Region except for Northern Ireland and markedly lower than the prosperous South East where 96.2% of manufacturing units employ less than 200 workers. Table 2.1 also normalises the number of manufacturing SMEs according to the number of males employed in manufacturing, since this group is most likely to form wholly new SMEs. According to this index the North has 12.4 SMEs per thousand male manufacturing employees, substantially less than any other UK Region including Northern Ireland. It is approximately half that of the UK as a whole, which is dominated by the South East where there are 29.5 SMEs per thousand male manufacturing employees.

The emphasis upon manufacturing SMEs may lead to a biased picture since only about 10% of all SMEs are in the manufacturing sector. There are major variations between UK regions in the relative importance of manufacturing so the remainder of Table 2.1 examines data on all small employment units. It shows, in the final column, that the North had virtually the fewest SMEs per head of population of any Region in the UK in 1978, being approximately 20% below that of the South East Region.

These Regional differences would be unimportant if they were transitory. However, data on deaths and births, according to Value Added Tax (VAT) Registrations, suggests this is unlikely since, as
<table>
<thead>
<tr>
<th>Standard region</th>
<th>Number of SMEs in 1978</th>
<th>SMEs per '000 male employees manufacturing units 1978</th>
<th>Small units per '000 pop. 1978</th>
<th>Deaths of units liable for VAT 1980</th>
<th>Births of units liable for VAT 1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yorkshire &amp; Humberside</td>
<td>3,845</td>
<td>90.1</td>
<td></td>
<td>9.1</td>
<td>7.1</td>
</tr>
<tr>
<td>East Midlands</td>
<td>8,505</td>
<td>93.5</td>
<td></td>
<td>17.2</td>
<td>17.2</td>
</tr>
<tr>
<td>East Anglia</td>
<td>3,078</td>
<td>91.4</td>
<td></td>
<td>19.3</td>
<td>19.3</td>
</tr>
<tr>
<td>South East</td>
<td>38,888</td>
<td>96.2</td>
<td></td>
<td>18.8</td>
<td>18.8</td>
</tr>
<tr>
<td>South West</td>
<td>12,898</td>
<td>93.2</td>
<td></td>
<td>21.4</td>
<td>21.4</td>
</tr>
<tr>
<td>North West</td>
<td>14,247</td>
<td>93.3</td>
<td></td>
<td>21.4</td>
<td>21.4</td>
</tr>
<tr>
<td>Wales</td>
<td>4,361</td>
<td>91.6</td>
<td></td>
<td>18.8</td>
<td>18.8</td>
</tr>
<tr>
<td>Scotland</td>
<td>9,163</td>
<td>94.1</td>
<td></td>
<td>18.7</td>
<td>18.7</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>1,348</td>
<td>90.0</td>
<td></td>
<td>14.8</td>
<td>14.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>112,747</strong></td>
<td><strong>91.4</strong></td>
<td></td>
<td><strong>18.4</strong></td>
<td><strong>18.4</strong></td>
</tr>
</tbody>
</table>

- All units for 'Births' and 'Deaths' data include all groups except those not liable for payment of VAT, viz.: land, insurance, postal services, betting, gaming and lotteries, finance, education, health, burial and cremation, trade unions and professional bodies. For the column headed 'Small units per 1000 population 1978' only agriculture and domestic services are excluded. No data are available for 'Deaths' data for Northern Ireland.
- The estimate for Northern Ireland is based on live VAT units in 1978.
- Data on population are obtained from Regional Trends 1980 and 1990. A comparison of census and other statistics is given in O'Dowd, 1990.
Manufacturing employment change in Northern England 1965–78

noted earlier, Table 2.1 shows that in 1980 the North had virtually the highest death rate and virtually the lowest birth rate of any UK region. This form of Regional imbalance shows no sign of diminishing.

The Northern Region of England, according to these indices, has a lower than average stock of new businesses and appears to be showing few signs of reversing this trend. Although the indices generally point in the same direction, data on births and deaths of all establishments do not exist as a time series, so 1980 may or may not be typical of long term trends. There are also anomalies in using a register based upon VAT payments, partly because of the number of excluded sectors and partly because very small businesses do not pay VAT. It may also be difficult to distinguish changes of name from changes of business.3 Nevertheless the uniformity of the results suggests the small business sector of Northern England is less developed than in most other UK Regions and shows little sign of catching up.4

3. The Area of Study

The remainder of the paper will concentrate upon a proportion of the Northern Region. It will examine manufacturing employment change in the Counties of Cleveland, Durham and Tyne & Wear where, in 1978, 78% of manufacturing jobs in the Region were located. Table 2.2 shows the distribution of manufacturing employment in the five Counties which comprise the Region, sub-divided according to size of establishment. In the Region as a whole 41.3% of manufacturing employment, in 1978, was in establishments with more than 1,000 workers, whilst in Cleveland, Durham and Tyne & Wear the proportion was 41.9%

The Northern Region, and the three Counties under study, are therefore significantly less dependent upon small business than other Regions of the UK. The three Counties are more dependent upon metal manufacture, heavy engineering and shipbuilding than either the Region or the UK as a whole, so that contractions in the demand for labour by these industries will have a considerable impact upon total employment.

It is against this background that a review is made of the role of SMEs in creating employment during the period 1965–78. In the following two sections, the job accounting framework used is described together with the sources of data employed.
### Table 2.2 Total manufacturing employment in Counties of the Northern Region in 1978, by size of establishment

<table>
<thead>
<tr>
<th>Establishment size</th>
<th>Cleveland</th>
<th>Durham</th>
<th>Tyne &amp; Wear</th>
<th>Northern</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>11-19</td>
<td>1,641</td>
<td>1.8</td>
<td>3,388</td>
<td>3.7</td>
<td>3,027</td>
</tr>
<tr>
<td>20-49</td>
<td>1,629</td>
<td>2.3</td>
<td>3,791</td>
<td>5.2</td>
<td>6,026</td>
</tr>
<tr>
<td>50-99</td>
<td>1,599</td>
<td>2.3</td>
<td>3,560</td>
<td>6.3</td>
<td>3,131</td>
</tr>
<tr>
<td>100-199</td>
<td>1,572</td>
<td>2.6</td>
<td>1,572</td>
<td>1.2</td>
<td>1,403</td>
</tr>
<tr>
<td>200-499</td>
<td>1,559</td>
<td>2.3</td>
<td>1,559</td>
<td>1.2</td>
<td>1,403</td>
</tr>
<tr>
<td>500-999</td>
<td>1,536</td>
<td>2.2</td>
<td>1,536</td>
<td>2.2</td>
<td>1,536</td>
</tr>
<tr>
<td>1,000+</td>
<td>1,513</td>
<td>1.8</td>
<td>1,513</td>
<td>1.8</td>
<td>1,513</td>
</tr>
<tr>
<td>Total</td>
<td>91,369</td>
<td>100.0</td>
<td>70,369</td>
<td>100.0</td>
<td>70,369</td>
</tr>
</tbody>
</table>