

**SWP 55/91 "THE SMALL BUSINESS SECTOR IN
DEVELOPING ECONOMIES"**

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INTRODUCTION

In the last decade there has been a growing recognition in both the Third World and in the industrialised nations that entrepreneurs are an essential catalyst for growth, and that the small business sector plays a key role in balanced development. Consequently the promotion of the small business sector has become firmly established on the international development agenda.

Yet despite this recognition efforts to provide a universally acceptable definition of what is a small business have been fruitless, and there is considerable debate as to the role of small businesses in national development. This paper reviews the complex issue of defining what is a small business, and the appropriateness of such definitions; and secondly assesses the role played by the small business sector in promoting balanced development.

SMALL-SCALE ENTERPRISE: A DEFINITIONAL DILEMMA

Efforts to define small businesses have generated an unresolved debate which has led to a remarkable diversity of definition. Certainly anyone reviewing the current literature relevant to this field is struck by the diversity of terms used, and the range of definitions applied. Researchers, policy makers, and business advisers appear to use a range of terms interchangeably to describe the enterprises that make up the small business sector. These include microenterprise, the informal sector, small business, small firms, small enterprise, small-scale enterprise, small and medium sized enterprise, medium and small-scale industry, to name but a few. For the purposes of this paper the universally accepted term small-scale enterprise (SSE) has been adopted.

An oft-quoted report noted that even in the mid-1970s seventy-five different countries had over fifty different formal definitions of SSE.¹ There is a strong body of opinion supporting this view that such diversity of definition is necessary and should be encouraged, if only because for a definition to have any validity, it must be appropriate to the context to which it is applied. As Harper points out,

the scale of a business needs only to be defined for a specific purpose, and there is no point in attempting to produce a universally or even nationally accepted standard. Any discussion of definitions should be preceded by a

¹ K.E. Auciello, Employment Generation through Stimulation of Small Industries, an International Compilation of Small-Scale Industry Definitions, Atlanta, Georgia Institute of Technology, 1975.

very clear understanding of the purpose for which the definition is to be used.²

This point of view was further articulated at the 1988 World Conference on Microenterprises in Developing Countries, a major forum for those working in the field of SSE promotion, where participants reacted to attempts to achieve a common definition by calling for an end to prolonged discussion on this matter. The Conference accepted that, because definitions of SSE varied from country to country, there could be no clear global definition.³

Yet, despite the difficulties in reaching a common definition for SSE, it is recognized that there is still some value in undertaking a definitional exercise to achieve an agreed national definition. Such agreed national definitions are of value not only for research purposes, but also for reasons of consistency of legislation, and for focusing the discussions of policy makers as well as the work of banks and enterprise support agencies generally. There is also a role for agreed international definitions for small business to promote economic co-operation and communication on this issue between nations.⁴

As a result there have been numerous attempts to define SSE, and these are usually based on either quantitative or qualitative characteristics. It is noteworthy that developing countries are more likely to apply quantitative definitions, and industrialized nations to apply qualitative measures.⁵ In part this reflects the purpose for which such definitions are applied in developing countries, particularly their use in the development planning process. As Neck comments, "most definitions appear to be governed by the interests of the perceiver, the purpose of the definition, and the stage of development of the particular environment in which the definition is to be employed".⁶

Qualitative definitions

Qualitative definitions of SSE are inherently subjective, more broad-based, and often more flexible than quantitative definitions. Influential qualitative definitions include that of the Bolton Report which identified a small firm as one with a relatively small share of the market, which is managed by its owners in a personalized way and does not form part of a larger enterprise,⁷ or that introduced in the U.S Small Business Act which refers to a small

2 M.H. Harper, Small Business in the Third World, Chichester, Wiley, 1984, p.2.

3 J. Levitsky, Microenterprises in Developing Countries, London, ITP, 1989, p.xx.

4 L. Hertz, In Search of a Small Business Definition, Washington, University Press of America, 1982, p.20.

5 M.H. Harper, Small Business in the Third World, Chichester, 1984, p.2.

6 P. Neck, Small Enterprise Development: Policies and Programmes, Geneva, ILO, 1977, p.10.

7 J.E. Bolton, Report of the Committee of Inquiry on Small Firms, London, HMSO, 1971, p.1.

business being "independently owned and operated and which is not dominant in its field of operation".⁸

Although such definitions are of limited use in identifying eligibility for preferential treatment or for fiscal purposes, their value is that they offer conceptual flexibility and breadth of purpose. They commonly refer to operating styles, the degree of specialisation, overall aims and objectives, or the relationship with the local community and the wider commercial environment; for example in Tanzania small enterprises are those "within the reach of the people".⁹ Increasingly such qualitative definitions, with their implicit societal connotations are gaining prominence, as exemplified by the comments of Professor Mohammad Yunus of the Grameen Bank in Bangladesh and a leading authority on SSE, who saw little point in discussing the character of microenterprise, its size, its nature, or its characteristics, but preferred rather to focus on its prime objectives which are to help reduce poverty and generate income by creating employment.¹⁰

Such a perspective draws heavily on the concept of the "informal sector" which has gained credence since the mid-1970s when it was first expounded in a Report of the ILO Kenya Mission. It is a particularly appropriate concept in this context because the bulk of SSEs in most developing countries are found in the "informal sector". These small businesses are characterised by "ease of entry, reliance on indigenous resources, family ownership, small-scale operations, labour intensive and adapted technology, skills acquired mainly outside the formal system of education and training, and unregulated and competitive markets".¹¹ Informal sector enterprise is seen therefore to make a significant contribution in reducing poverty by creating new jobs and redistributing opportunity throughout the community.¹²

Quantitative definitions

Quantitative definitions of SSE rely on clearly defined parameters, or combinations of parameters, which include one or more of the following: the number of employees, sales turnover, assets, capital, net worth, or even specific industry-wide measures (e.g number of

8 Government of the United States of America, The Small Business Act, 1953, Section 3.

9 M.H. Harper, op cit., p.5.

10 Quoted in J. Levitsky, op cit., p.xix.

11 Employment, Income and Equality: A Strategy for Increasing Productive Employment in Kenya, Geneva, ILO, 1976, p.6.

12 It should be noted that although great emphasis has been placed on the value of the "informal sector" as an aid to our understanding of the SSE environment, its value as an analytical tool has been questioned. For example, Ian Little notes that "discussion of how it should be defined, and of its role, has filled thousands of pages. However I have not found the informal sector to be a concept that is either of analytical or operational value." I.M.D. Little, "Small Manufacturing Enterprises in Developing Countries", The World Bank Economic Review, Vol 1(2), 1988, p.205.

fare paying passengers, number of hotel rooms, amount of energy consumed). In general quantitative measures are applied where it is necessary to clearly identify a specific target group and to exclude larger enterprises from preferential treatment. But quantitative definitions are marked by their range and diversity, and accordingly are of little use for purposes of international comparison.

The extent of the disparity between quantitative definitions is most clearly seen in the attempts to define a SSE by the size of its workforce. National definitions of SSE range from ventures which actually employ fewer than 10 employees (Western Samoa) to those employing fewer than 300 (Japan). But it is amongst those researching in this field that one can find the greatest disparity of definition. Thus d'Amboise and Muldowney can report that "for a growing number of researchers and reporting organizations, the small business is generally considered to employ no more than 500 persons and to have sales less than US\$20 million"¹³; whilst at the other end of the spectrum the 1988 World Conference on Microenterprise generally agreed that their target group comprised very small units possibly employing only one person or merely members of a family.¹⁴

Because of such definitional diversity, and the inherent constraints in both quantitative and qualitative approaches, there has been increasing acceptance of the limitations of definitions per se; particularly so when they are applied for reasons of international comparability. As a consequence, when definitions are used there is a tendency to merge quantitative measures with qualitative precepts. Such definitions often include operational characteristics, market share, turnover and number of employees.¹⁵ Thus, for example, a definition appropriate for small businesses operating in rural communities might be:

"an independently owned and operated business that has a small share of the market and is personally managed by its owner, who employs five or fewer regularly paid employees".

THE ROLE OF SMALL-SCALE ENTERPRISE IN DEVELOPMENT

The growth of SSE is inextricably linked with the development process, if only because the very high proportion of SSE found in developing economies. For example in Indonesia, 99.55% of the manufacturing establishments are either small or handicraft industries,

13 G. d'Amboise & M. Muldowney, "Management Theory for Small Business", *Academy of Management Review*, 13(2), 1988, p.226.

14 J. Levitsky, *op cit.*, p.xx.

15 This is well exemplified by the definition finally applied in the 1988 World Conference on Microenterprise. J. Levitsky, *op cit.*, p.xx.

while even in a rapidly developing economy like Singapore, 97% of all businesses are SSE.¹⁶

The variety of different, but often essential, services that the small business sector provides also underlines its integral role in the economy of most developing countries. The extent of its contribution can be best assessed by identifying the range of services provided by SSEs; these include amongst others: bicycle repair, baking, blacksmithing, brickmaking, carpentry, carving, computer services, dry cleaning, electronics, furniture making, knitting, motor repairs, photography, pottery, retailing, shoe making, tailoring, transport and welding. It is obviously difficult to quantify accurately the impact of such a diversity of enterprise, especially as they are often best described in qualitative, ideological, or even emotive terms; but the evidence suggests that the small business sector does play a major role in the local economy.

The contribution of the small business sector to national development can also be assessed in terms of a range of inter-related economic, social and political issues. The economic contributions include employment creation, wealth creation, increased output, mobilization of local resources and adaptation of technologies. The social benefits include a reduction in poverty, balanced development, provision of goods and services appropriate to local needs, a seed bed for new initiatives, redistribution of both income and opportunity in the community in general, and a greater degree of personal involvement and commitment. The political benefits result from the redistribution of wealth, opportunity, and therefore power within the community. Thus, for the purposes of this paper, the role of SSE will be judged in a framework that reviews its contribution in terms of employment, income, output, innovation, resource mobilization, balanced development and wider personal considerations.

Employment Creation

With rapid population growth there is increasing demand for appropriate employment that not only absorb surplus labour, but also generate local income. By their very nature SSEs generally employ more labour per unit of capital or output than larger businesses, and they are seen by policy makers as a low-cost way of creating new jobs.

¹⁶ T.T. Soon, "South East Asia", in D.J. Storey, (ed.), *The Small Firm: An International Survey*, London, Croom Helm, 1983, pp.218-247. This can be compared to the trend in the industrialized nations, particularly in the United Kingdom, for the concentration of manufacturing base into a few major firms. S.J. Prais, *The Evolution of Giant Firms in Britain*, Cambridge, Cambridge University Press, 1981.

Throughout the world SSEs, being small, local and labour intensive, have proven to be well suited to absorb local labour. For example World Bank data suggests that in developing countries up to 85% of total employment in the manufacturing sector is created by SSEs.¹⁷ In the U.S between 1981 and 1985 research by David Birch suggests that "companies with fewer than twenty employees created 88% of net new jobs", at a time when employment in the large companies that make up the Fortune 500 fell by 1.5 millions.¹⁸

In general most analysts recognize that the small business sector plays a valuable role in employment creation; but despite this widely held belief there is some evidence that questions whether small businesses are really that efficient in creating employment. Ian Little, for example, argues there is no consistent relationship between the size of firm, labour intensity, and capital productivity; and he points to three inter-related issues. First, in countries that have enjoyed rapid growth rates in recent years (Eg Korea), SSE produce a proportionately smaller percentage of manufacturing output as a consequence of the industrialisation process and government policy. Second, on his evidence SSE are less efficient users of capital and labour. Third, it is questionable that SSE can reduce poverty and inequality by merely absorbing more labour if there is not a commensurate increase in output.¹⁹

Little's perceptions have provoked much useful debate and re-analysis of some basic assumptions about the role of SSE. But further analysis has suggested that many of the benefits attributed to SSEs are still valid; and that what Little is saying is that size is irrelevant, and that technology and type of industry determine what size is most efficient. Little's conclusions have also been questioned because his evidence was only drawn from a limited sample of manufacturing ventures that employed less than fifty employees (hardly small) in Columbia and India. He was also only concerned with economic measures of efficiency, and did not concern himself with other indicators (for example the appropriateness of the goods or services offered).²⁰

It is also worth bearing in mind that the data quoted in such studies relies on official statistics, and so the employment figures used in Little's analysis only reflect the numbers employed in the formal small business sector. Government statistics are often only available for those businesses formally registered, and experience suggests that this is only the tip of the iceberg in that most of those employed by the microenterprises of the

17 D. Anderson, Small Industry in Developing Countries, Washington, World Bank Staff Working Paper 518, 1982, p.5.

18 The Economist, March 5, 1988, p.76.

19 I.M.D. Little, op cit., pp.203-235.

20 I.M.D. Little, ibid., p.205. Little himself admitted that this was an issue of some significance for the poor.

informal sector are never recorded statistically. Evidence also suggests that many civil servants or farmers have a secondary role running small businesses (shops, taxis etc.) which are rarely recorded in the official statistics.

In conclusion, despite questions as to its economic efficiency and the reliability of the data used, it is generally accepted that the small business sector does play a major role in creating wealth and employment in developing countries.

Income Generation and Poverty Relief

As a major source of employment, the SSE sector is recognized as being capable of generating income for a large section of the population, particularly the less educated and unskilled, and as such SSE is often seen to be in the front line in reducing poverty. Associated with this is the recognition that an expanding SSE sector plays a role in reducing many of the symptoms associated with poverty including poor dietary and health conditions, high birth rate and rural-urban drift.

Thus, for example, an expansion of opportunities in the small business sector can alleviate some of the pressures arising from rapid population growth. Evidence suggests that population growth can in fact be checked, because women, whatever their marital status, have a greater incentive to adopt birth control measures if they find the sort of gainful employment provided by SSEs.²¹ The income generated from such employment can help provide the resources to improve the general health of the population, and at the same time remove some of the obvious consequences of poverty, including poor sanitary conditions, inadequate water supplies and poor diets.

The ability of the SSE sector to create new job opportunities and provide local employment, particularly in rural areas, may encourage the local population to reconsider migrating to urban centres in search of perceived (but often non-existent) job opportunities. Any diminution of such migration not only reduces the demands on urban services and housing resources, but also minimises the impact of the social dislocation involved and may in fact have a long-term multiplier effect on the local economy.

Advocates of SSE will always be open to accusations that they are merely "petit-bourgeois theorists" who favour capitalist accumulation and labour exploitation. But as Bromley notes such accusations have a decidedly hollow ring in most Third World countries, where

21 P.D. Lynch, Craftswomen in Kerdassa, Household Production and Reproduction, Geneva, ILO Women, Work and Development Series No.7, 1984, p.50.

the choice is not so much "small enterprises or accelerated capitalist industrialization", but "small enterprises or increased unemployment and poverty". He continues by arguing that an even more irresponsible and obnoxious accusation is the suggestion that because SSE alleviates the suffering of the poor it should not be supported as it further delays the "otherwise inevitable revolution".²² In conclusion, any attempt to promote the SSE sector as an alternative source of income and employment must be seen as a legitimate goal, if only because the wealth it generates helps alleviate poverty and suffering.

Balanced Development and the Redistribution of Opportunities

A viable small business sector can also promote political stability and national cohesiveness by creating new jobs and distributing economic opportunities throughout the community. Evidence suggests that collectively SSEs employ a higher proportion of indigenous peoples than do larger firms, and being more resilient to economic downturns can act as a buffer against rapid shifts in employment. In a similar vein it is clear that SSEs do create jobs for those who normally might be excluded from the mainstream of the economy for reasons of race, sex or bigotry. Thus the small business sector provides employment, income, and productive outlets for many of the disadvantaged, marginal, or economically discriminated sections of the community such as women, urban youths, tribal or ethnic minorities, refugees, the handicapped or the disabled.²³

One of the products of these opportunities is that a skilled work force is created, which in turn can transfer its skills and expertise to others. Similarly SSEs, which are relatively easy to start with a minimum of cost both to the individual and nation as a whole, are a valuable learning ground for management skills and gaining exposure to the realities of business life. These are skills and experiences that cannot be learnt in the classroom or lecture theatre, and it is arguable that the small business sector is a cost-effective mechanism of skills transfer in many developing countries. This pool of expertise and experience is a resource that can be tapped locally, and is a potential source of new and appropriate products to satisfy local needs and so foster regional development.

22 R. Bromley, "Small may be beautiful", in R. Bromley, (ed.), Planning for Small Enterprises in Third World Cities, Oxford, Pergamon, 1985, p.332.

23 Increasingly international interest (particularly under the auspices of the ILO and the UNHCR) is being focused on how to promote the participation of such special needs groups in SSE as a way of making them economically active and enabling them to become self-sufficient; see, for example M. Harper & W. Momm, Self-Employment for Disabled People, Geneva, ILO, 1989. In the case of women much emphasis has been given to the evidence that an increasing proportion of businesses are being started by women (for example, in 1985 in the U.S over 60 percent of business start ups were undertaken by women). G. Manuh & R. Brown, Resources for the Development of Entrepreneurs, London, Commonwealth Secretariat, 1987, pp.69-78.

SSEs, being small and adaptable, can operate in communities where large firms could not survive, and are well suited to supplying goods and services appropriate to local needs. For this reason, many small ventures distributed widely throughout the country not only provide new economic opportunities, but are also capable of promoting balanced development. Both development planners and politicians recognize that such a balance of economic opportunities needs to be available in the outer islands and rural communities and not just in the growing urban centres.

Support for the SSE sector is also perceived as being fully compatible with a desire to achieve a more egalitarian society which is marked by more democratic socio-economic and political structures. A flourishing SSE sector helps redistribute wealth and opportunity throughout a community, and accordingly promotes the development of a more egalitarian stable society. Whereas, if wealth and opportunities are concentrated in the hands of a few, the resulting tensions may lead to widespread instability and uneven development. A strong small business lobby can also help neutralize some of the inherent biases in government policy, which all too often favour larger businesses at the expense of smaller ones; and as a consequence may contain some of the political backlash from that majority of the population which does not benefit from large ventures.

A growing small business sector fosters political stability because it can redistribute economic opportunity, and spread ownership of the means of production throughout the community as a whole. Linked with this is the argument that because a successful small business community encourages social mobility and implicitly a degree of redistribution of wealth, it is in a position to redress the existing balance of power. This is said to lead in the long run to a more stable social system and to a greater degree of national cohesiveness.²⁴

This argument is commonly applied as an alternative to violence in countries where a section of the community is obviously disadvantaged both politically and economically (as in South Africa or Israel). The rationale being that such communities could gain sufficient economic clout through their control of the small business sector that in time they would gain the necessary political power to control their own political destiny. Because of this the political establishment in many developing countries feels sufficiently threatened by the growth of the small business community to actively discriminate against it and restrict SSE through regulatory controls.

²⁴ R. Bromley, *op cit.*, pp.330-332.

But it should also be noted that in many developing countries government support for SSE can be assessed from a very different political perspective. It has been hypothesized that where governments actively support the small business community, the new bourgeoisie, it is in fact an attempt to promote the right-wing values inherent in traditional capitalism, and in so doing create a new constituency of indebted business owners loyal to the existing regime. Thus Bromley has noted that "right wing romanticism towards small enterprises is sometimes guided by genuine goodwill, but at least as often it represents a cunning economic and political ploy to reinforce private-sector and state capitalism".²⁵ One must therefore conclude, that although the SSE sector appears to have an integral role to play in balanced development, any analysis of this role is subject to differing political interpretation.

Mobilization of Resources and Competition

In general SSEs mobilize and use local resources more effectively than do larger firms. They are more likely to make use of local raw materials, scrap, or agricultural production; and are flexible enough to use them in such a way as to meet the specific needs of the local market.

Because of their local contacts SSEs are in a better position to mobilize local savings and tap into local informal sources of finance, as well as being able to mobilize local labour. Generally the owners of small firms have a higher propensity to save and re-invest profits than do the owners of larger operations. Moreover, research suggests that they appear to use their capital more productively, with higher ratios of value added to fixed assets being found in SSEs than large firms.²⁶

Such small ventures can avoid the economic inefficiencies and structural inflexibility of larger entities - whether they be government monopolies, cooperatives, or major corporations. As a result, these small entrepreneurial ventures can compete successfully with entrenched business interests. Despite the cost advantages enjoyed by large operations with their economies of scale, financial resources, and monopolistic market power; large firms pay a price through their inability to react to market dynamics or adapt to new opportunities. Moreover they suffer from inbuilt structural inefficiencies, excessive administrative costs, organizational complacency and intuitive avoidance of risk.

²⁵ ibid., p.325.

²⁶ K. Marsden, "Creating the right environment for small firms", Economic Development and the Private Sector, Washington, World Bank, 1981, p.14. Although according to Little's data the level of productivity and efficiency varies between countries, and from industry to industry. I. Little, op cit., pp. 203-235.

Large firms can also be the object of political intrigue and a target for trade union activity, whereas the non-threatening scale of most SSEs minimises such interest. But from a politician's point of view there is more political mileage and publicity to be gained from opening one high-profile factory than the unrecorded start-up of a number of small firms. The output of such SSEs and the money invested are not easily measured, and so are rarely recorded in authoritative statistics that can be quoted by politicians and planners for their own purposes.²⁷

Thus for reasons of scale and because they can provide goods and services appropriate to the local consumer, SSEs can succeed in markets where large firms could not survive profitably. This is a capability of particular importance in small dispersed markets. As a consequence of these and many other advantages, SSEs can offer effective competition to larger, monopolistic operations; and it can be argued that the resulting competition is in the national interest since it leads to more efficient and effective use of scarce national resources, and may even reduce the dependence on overseas imports. Also the very fact a number of SSEs compete for local custom in relatively small markets, not only widens consumer choice, but means they provide a more efficient and responsive service to the local consumer.

Output and Growth

The SSE sector accounts for a major, often unrecorded, proportion of national output, producing primarily for the local market; although evidence suggests that small businesses are increasingly making a small but significant contribution to export earnings. Moreover, they appear to be able to maintain healthy growth rates in times of economic difficulties, apparently because of their inherent flexibility and adaptability and their close links with the local market.

There is a contrary perspective that suggests that SSEs, rather than contributing to real growth, merely generate unwanted surplus capacity, and any investment in the SSE sector is therefore a misuse of resources. This argument is supported by concern at the number of small business failures, and the perception that investment should be directed instead to less risky large-scale operations that can contribute more effectively to national growth rates. Consequently there have been misgivings at the amount of what is seen as emotive,

²⁷ Although empirical evidence based on aggregate social benefit-cost ratios does suggest that SSEs are more efficient than their large-scale counterparts and the output of SSEs can have a positive effect on the total national output of a small nation in particular. C. Leidholm and D. Mead, Small-Scale Industries in Developing Countries, East Lansing, Michigan S.U., 1987, p.74.

and apparently ill-conceived, support for small industry development, because if such support is

confused by sentimentalism and approached emotionally with little regard for costs and benefits involved, small industry development can easily become a missionary movement which accomplishes little but which diverts scarce resources of development funds and people away from other activities which, in most situations, could produce more industrial growth.²⁸

But the evidence does not support this contention. For example in Latin America and the Caribbean between 1980 and 1985 growth rates in the large and medium firms of the formal sector averaged 2 percent per annum, whereas growth rates in the SSE of the informal sector averaged 6.8 percent per annum.²⁹ And in the U.S between 1975 and 1985 firms employing less than 250 employees were the fastest growing sector of the manufacturing industry, and account for the majority of new jobs created and nearly 50 percent of the manufacturing workforce in general.³⁰

Furthermore, one of the reasons why SSEs are seen as a mechanism for growth is that they are an ideal vehicle for the entrepreneurial individual, and their performance reflects the drive and dynamism of such entrepreneurs. Small businesses by the nature of their size mirror the character of their founder, and if one accepts the Schumpeterian vision of the entrepreneur as a growth orientated innovator intent on expansion, then a successful SSE will reflect this expansionist growth profile.

Innovation

Development is about change and innovative thinking, and as such SSE is an integral part of the development process, for any SSE can be a valuable seed bed for exploring the commercial viability of new ideas, new products and new market opportunities. Entrepreneurs are agents for change, providing drive, energy and foresight. They are integral to the small business sector, and are also seen as an essential part of the development process. Entrepreneurs start many new businesses each year, a high proportion of which fail within two years, but from those that survive come new initiatives, new opportunities, and new goods or services appropriate to the needs of the local community.

28 M.D. Bryce, Policies and Methods for Industrial Development, New York, McGraw-Hill, 1965, p.77.

29 J. Levitsky, op cit., p.xiii.

30 The Economist, March 5, 1988, p.75.

Experience also shows that SSEs are better prepared to adapt intermediate technologies or second-hand equipment to local needs, and are therefore not dependent on inappropriate capital intensive technologies. But it should be noted that this does not prevent SSE from supplying goods and services to large capital intensive firms. Many multinationals who have invested in developing countries have found it cost effective to develop sub-contracting relations with local suppliers in the small business sector.³¹

In general it appears that SSEs are receptive to new ideas: not only are they well suited to creating new products and new markets, but they are also prepared to introduce new work practices, alternative management styles, and to experiment with different approaches that will increase productivity. Such innovation and flexibility assists in the process of transition from traditional to industrial life-styles experienced in many developing countries

Social and Personal Considerations

A number of qualitative arguments have been put forward in support of the SSE sector that are primarily associated with the quality of the working life in smaller operations as compared to those found in larger ventures. Rarely in SSE do employees face the dehumanising work practices common to large-scale, mass production operations. And despite the generally lower wages, poorer standards of safety, and fewer fringe benefits researchers suggest that people working in SSE get greater job satisfaction and are generally happier than those working in large firms.³²

Not only is work organized on a human scale with closer personal relationships between staff and the entrepreneur-owner, but, because of the scale involved, employees are invariably given greater responsibility for the work in hand. This degree of delegation not only allows the individual greater degree of self-fulfilment, but often means that the employee has direct contact with customers. Similarly, despite the hard work and risks involved, the degree of independence and personal control enjoyed by the entrepreneur-owner can be seen as both a spring-board to new opportunities and a source of self-esteem and motivation, for as the proverb suggests "it maybe better to rule in hell, than serve in heaven".

In such a working environment the quality of work may improve, a climate of trust can prevail, and innovative approaches to problem-solving may be applied. Not only is

31 D. Wright, "Multinationals and small enterprises in developing countries", Business in the Community, Summer 1988, pp.2-3.

32 M.H. Harper, *op cit.*, p.13.

productivity increased and customer service improved, but there is less worker alienation and little confrontation in the work place.

Research suggests that the working environment found in most indigenously-owned enterprises was well adapted to the needs of local employees because such businesses are normally run with a management style adapted to the character and dynamics of the island way of life. Thus for example island businesses drew heavily on family help and ties within the community. This both helps reinforce family ties and provides a working environment appropriate to local conditions. Malakai Tawake has argued that the imaginative adaptation of traditional work practices and decision making procedures is far more effective in the long run than merely imposing inappropriate, eurocentric management techniques.³³

The local SSE sector, by providing a range of goods and services appropriate to the local market, also offers convenience and choice to local customers. The highly personalized nature of such localized operations, the provision of credit and the availability of follow-up facilities provide a better overall service to local customers. Furthermore, government departments are increasingly turning to the local small business sector to provide services appropriate to rural or marginal communities which in the past were seen to be the responsibility of the public sector - schools, clinics, transport, even latrines.

CONCLUSION

In conclusion, the small business sector needs to be seen as an essential part of every day life in most communities, particularly as it has a major social, political and economic role to play in local development. SSEs provide new opportunities for both the individual and the community in general, and as Schumacher concluded "in small-scale enterprise, private ownership is natural, fruitful and just".³⁴ The multiplier effects from the SSE sector is unquantifiable; but because of the employment created, the technologies applied, the markets opened and the products supplied, it is apparent that a healthy, viable small business sector is essential for equitable growth and balanced development.

This paper has reviewed the difficulties of defining small-scale enterprise, and highlighted the role of small-scale enterprises in the development process. A viable small business

33 M. Tawake, "Pacific Enterprises and Management Styles", in J.M. Hailey, *op cit.*, 1986, p.46.

34 E.F. Schumacher, *Small is Beautiful*, London, Abacus, 1974, p.223. Schumacher went on to suggest that large-scale enterprises, in which ownership was separate from control, were fundamentally unjust because they allowed functionless owners to live parasitically off the labour of others.

sector is an effective tool in creating employment, reducing poverty, generating economic growth, introducing innovation, and by redistributing wealth and opportunity providing a degree of personal independence. It is against this background that efforts to promote Small and Medium Sized Enterprises (SME) should be judged, and policies in support of SME must be assessed.