INDUSTRIAL RESTRUCTURING AND ITS RELATIONSHIP TO SMALL BUSINESS IN NON-METROPOLITAN VICTORIA

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Introduction

Traditionally the engine of urban and regional development has been seen in terms of investment in large scale industrial or commercial facilities. Indeed when the opportunity presents itself this focus is still prevalent in government attempts to promote economic growth (Searle, 1981; Siemon, 1984). More recently, however, an alternative view has been put forward and eagerly, almost unquestioningly accepted by state and local planners. This view sees the fostering of small businesses as the key element in economic revitalization, particularly in the generation of new employment. In part this changed perspective derives from the apparent inability of private enterprise to ensure high levels of employment and to redress the economic and social hardship caused by the structural adjustments which the corporate sector finds necessary to remain profitable under crisis conditions (Miles and Preston, 1982). It also reflects the widespread opinion held by state and local economic planners that small firms, unlike their larger counterparts, are at least compatible with and therefore amenable to their own, scale of operations and limited resources (McLoughlin, 1984a).

Obviously, given the current worldwide economic malaise, an increased concern with economic development represents a perfectly reasonable and legitimate response on the part of government and planners alike. Moreover planning the development of state and local economies is generally regarded as an important break with the past (Bergman, 1983; Victoria, 1984). Equally important is the virtual infatuation with the small firm sector encompassed in many strategies for economic revival. Such strategies usually seek to reduce or eliminate the more obvious disadvantages of small firms without actually positively discriminating in favour of smallness per se. To do otherwise runs the very grave risk of formenting an environment which encourages firms to stay small irrespective of their potential, effectively creating further barriers to growth. Even so it is worth noting here that undue reliance on the regenerative qualities of small businesses is viewed with scepticism in certain quarters (Storey, 1982a; McLoughlin, 1984b).

Despite the plethora of research on small firms over the past decade or so (see for example Stanworth and Westrip, 1982) many aspects of small business dynamics are as yet poorly understood. If small firms are to form a substansive part of policies for economic development, as it seems they must, then we need to know much more about the way in which they establish, survive, expand and fail in different localities(Markusen and Teitz, 1983) and how they fare under varying economic conditions (Binks and Vale, 1984). In this context a largely neglected and crucial area for further investigation involves industrial restructuring in the small firm sector. In particular the relationship between the performance of small and large firms and how this relationship affects the ability of small businesses to adapt to change merits examination (Bureau of Industry Economics, 1979; Frank, et al., 1984).

The Relationship between Small and Large Manufacturing Firms

Storey (1982b) points out that the small firm sector is often erroneously assumed to operate independently of the rest of the economy. This is of course incorrect. The health of small manufacturing firms is critically reliant upon the performance of the corporate giants. In fact the idea that small businesses act as a complement to the operation of large-scale companies in modern industrial societies and that it is in this area that the specific competence of small firms lies is not new (Baumback et al., 1973). However the extent and nature of this complementarity is debatable (Lindmark, 1983). In Japan where small manufacturing firms exist essentially as subcontractors to larger firms, not competetors, the fortunes of the two sectors are fundamentally interconnected. In Australia other small firms operating in the same locality are the principal source of competition in the market place. Where large firms compete directly with smaller companies they do so mainly over resource allocation - labour, capital, premisses etc. (Johns et al., 1978).

The complementarity or relationship between small and large manufacturing firms is probably best illustrated by reference to the concept of dependency. For the purposes of this discussion independent small businesses are taken to be those without explicit subcontractual ties to larger firms. Much of the current policy interest in small firms concentrates on this independent grouping but stops at the point where it is assumed that the more that can be created the better for the economy (Cross, 1983). In this respect the recent upswing in the numbers of small manufacturing establishments in Australia (Johns, 1983) gives reason for optimism. Unfortunately the optimism could be ill-founded. The relative ascendancy of small firms has been linked with the prolonged depression in the world economy (Storey, 1982a). The sector certainly witnessed a downward trend throughout the post-war period until the early 1970s, that is, during a sustained period of economic growth. This fact alone indicates that there are dangers in supporting a sector which relies on declining economic conditions for recovery. Coupled with the additional fact that the bulk of the small firm renaissance is to be found in the declining sectors of the Australian economy (Bureau of Industry Economics, 1979) the dangers are much more evident.[1] Policies which favour increased foundation rates in the independent small firm sector may simply compound structural adjustment problems and do little to ensure local economic prosperity.

In a recession new small businesses may enjoy the cost advantages of cheaper capital (usually second-hand plant and machinery obtained from the demise of other firms) plus a more comprehensive range of potentially less expensive labour skills available amongst the unemployed. The existence of underpriced capital and labour enables newer small firms to pursue effective price competitive strategies without necessarily being more efficient in an economic sense. In addition policy initiatives which aim to increase business formation through subsidisation (rent and rate free holidays etc.) actually allow the product prices of new firms to be artificially lowered, giving a further competitive edge over existing small businesses (Binks and Vale, 1984). When summed, these conditions produce what Lloyd (1984) refers to as the "crowded platform" effect.

Since smaller firms are much more dependent on the level of local demand in their immediate vicinity than are larger firms, then measures to increase their numbers and competitiveness without any attendant increase in the overall level of demand in the local market will almost inevitably lead to the displacement of older established small companies. Hence policies which concentrate on start-ups in the independent small firm sector merely serve to produce new generations of small businesses which maintain some form of cost advantage that restricts the expansion of pre-existing small firms. Likewise the pursuit of increased numbers of small firms is inappropriate as far as furthering the process of industrial restructuring is concerned (though it may permit an unsought and undesirable form of structural adjustment by larger firms - see page 7).

Given that the independent small firm sector operates closer to the margin of the market than other sectors of industry and presents many difficulties for meaningful policy formulation (Binks and Vale, 1984), this leaves the dependent sector to be discussed. Dependent small firms are regarded here as those which have some form of subcontractual relationship with larger firms. By and large these dependent businesses form a smaller proportion of the total populatiion of small manufacturing firms, though in some cases this proportion may be as much as forty percent (Bannock, 1981). Nevertheless their contribution to the national economy is probably far greater than this figure suggests, as the experience elsewhjere indicates.

Overseas research points to the improved flexibilty and dynamism in economies which exhibit a pervasive and well organised relationship between the large and small firm sectors, especially in manufacturing industry (Anthony, 1983; Lindmark, 1983). Cross also notes the versatility of production is facilitated by and more easily accommodated in a number of smaller units and implies that large-scale industrial organizations are engaging in disintegration for precisely this reason.,. Furthermore,

> This move also fits in with the new economic philosophy that economies or production are only part of the answer to successful production. Often, it is possible to compete in price, quality and time of delivery from a small unit as it is from a large one especially during a period of deeply depressed demand when the large units still have to bear all of the manufacturing service costs associated with any large unit. (Cross, 1983, p. 94)

In other countries, notably Sweden and Japan, this form of vertical dis-integration by large firms has been extended to include small, independent manufacturing firm sector. Interestingly the outcome of this process in both countries is basically very different for the small firms concerned. Swedish subcontractors are seen to benefit disproportionately from their relationship with larger enterprises. Even during recessions the small subcontracting firms do not suffer from a withdrawal of demand, are shown to be as efficient and dynamic as the independent small firm sector and, as a group, tend to be in an equal or better financial position than most of the independent brethren. In short

> These results indicate that the role of sub-contractor has not been chosen in the absence of alternative activities (Lindmark, 1983, p.196).

The situation in Japan is the exact opposite. There the extent of subcontracting is endemic compared with most other Liberal Capitalist Economies and entails numerous layers of subcontractual activity which

> presents a situation where the potential for exploitation of the small by the larger is great and is frequently exercised (Anthony, 1983, p.67).

This exploitation takes many forms, focusses on the very smallest Japanese manufacturing firms and has escalated after the 1973 oil crisis. Indeed it seems that the growth of the small firm subcontracting sector post 1973 is a direct reflection of rationalization programmes undertaken by larger firms seeking to externalize the less profitable parts of their production process. What is more, small firms willingly enter this dependent relationship because "by surrendering an element of control over their own production the small firm can become at least partially protected from the rigours of the open market" (Scott and RAinnie, 1982, p.169). Thus the attendant increase in capacity utilization which tends to be low amongst single independent establishments and is more fully used where a subcontractual relationship exists is deemed worth the loss of some production control. Yet the protection is not as secure as it appears owing to the sheer number of small firms which are actively seeking subcontracting work in Japan. Effectively what this means is that the larger firms are able to pick a small business, unilaterally and often without written agreements fix the terms on which work is to be carried out and subsequently (when another perhaps more maleable small firm emerges) drop and replace the said business at leisure (Anthony, 1983).

In the light of the conflicting evidence revealed by the Swedish and Japanese case studies outlined above a similar investigation of the relationship between large and small firms in the Australian context seems appropriate. As Anthony succinctly puts it

> We should seek lessons from such things as the relationship between large and small firms and the way in which the totality of the production process is divided between the two. This points inter alia to a closer examination of the subcontracting system (in Japan), which admittedly has problematical aspects for small firms, but which is also the reason for the survival of so many of them. It is, in addition, a source of strength and flexibility for so many large firms, particularly in the important manufacturing export sector (Anthony, 1983, p.81. Present author's brackets).

It is the purpose of the remainder of this paper to examine just how the large/small firm relationships of Victorian manufacturing firms operate in non-metropolitan areas, with particular reference to industrial restructuring in the dependent sector.

Industrial Restructuring and the Nature of Large/Small Manufacturing Firm Relationships

The pressures for structural change are generally acknowledged as the major elements currently operating in the Australian economy (Parry, 1982). Manufacturing industry in particular faces acute difficulties in adjusting and nowhere are the pressures for restructuring greater or the likely outcomes possibly more severe than in the non-metropolitan areas (Crawford, 1979). Moreover, because the need to change structurally exists precisely a the time when it is most difficult to achieve (in political and social terms due to the prevailing high levels of enemployment), it is likely that large-scale industry will look for the most effective means of adjusting. This could very well entail restructuring using the small manufacturing firm sector somewhat along the lines of the Japanese experience.

It is undeniably odd that few policy-makers bother to ask why the small business sector is presently rejuvenating, at least numerically, in most Liberal Capitalist Economies. Usually the innate qualities of small firms and their owners, the verve, dynamism and innovative capacity, are assumed responsible. Some overseas commentators have even suggested and to a certain extent verified that small firms are using their relationship with larger companies to externalize particular aspects of their production process, such as market research and product design (Lewis and Williams, 1984).

This latter point serves to illustrate that the relationship between small and large manufacturing firms is reciprocal. However the strength and direction of this reciprocity it is argued is far more likely to favour the larger firms in any relationship. To reiterate an earlier observation, the importance of firm size in adapting to and accommodating structural change is poorly understood. Admittedly larger companies are probably better equipped to respond to such pressure and it is the nature of this response and the way it impinges upon the small firm sector which now requires examination.

Just as the mechanics of the small firm revival are left largely unquestioned so too the motives behind the recent upswing in the interest of larger corporations in the promotion of small businesses through local enterprise initiatives remain unaddressed (Sargent, 1980). This it is felt ignores a variety of economic strategies which large firms may presently employ in their dealings with the small manufacturing firm sector. In essence these strategies involve restructuring by forcing small, dependent firms to accept credit restrictions and (after Shutt and Whttington, 1984), demand risk, the onus of labour regulation and the hazards of product innovation in the following manner:-

1. Credit Restrictions. Throughout the 1960s and until the early 1970s the role of the large firm as net providers of trade credit was a crucial source of finance for small businesses (Frank et al., 1984). With the onset of a major credit squeeze in 1973/74 subsequently accompanied by varying degrees of recessionary and inflationary conditions, the basic imbalance in the bargaining strength of smaller versus larger firms has emerged (Johns et al., 1976). Under recessionary conditions large firms may attempt to pass on a considerable pproportion of their costs to smaller subcontractors (though the independent small firms sector can be similarly affected). This can be successfully achieved in two ways. Firstly, by raising the costs of materials supplied to subcontractors and demanding immediate payment. Secondly, by reducing cash transactions through the use of trading bills whilst simultaneously extending the period of repayment for goods (Anthony, 1983). (As a result small firms, especially those with a dependent relationship, can easily become the net trade creditors in the economy.

   The importance of this suggestion is that small dependent firms face the danger of bewing permanently confined to the marginal sectors of the economy with limited prospects for growth and excellent propsects of failure (Marceau, 1983). At the same time the larger companies are able to exploit this dependence to the maximum, reducing their own cash flow problems whilst reserving capital accumulation and the ability to restructure for themselves,.

2. Demand Risk. It is well known that larger ccorporations prefer a relatively stable economic environment owing to the long term nature of investment decisions. With the increased periodicity and severity of cyclical downturns in the world economy over the past and into the present decade (Bergman and Goldstein, 1983) economic planning horizons have shortened dramatically. Consequently larger, previously stable firms have been pushed into the search for strategies to cope with enhanced economic undertainty. One way of dealing with more frequent changes in market fluctuations is to avert risk by redirecting demand onto the small firm sector through subcontractual arrangements. In this way large firms are either able to bypass/forestall their own internal production reorganization (Friedmann, 1977) or can temporarily off-load susceptible production lines until a cyclical upswing enables 'taking production home' as it were.

   An obvious facet of this form of industrial restructuring is that it does not represent any increase in the overall level of economic activity even if the total number of small dependent firms actually increases. Concurrently when the subcontracting relationship displays extreme dependence in terms of a high proportion of output being sold to one or two larger customers, the possibility that small firms will concentrate on keeping the costs of production down increases. At the same time the majority of small firms with this type of relationship are unlikely to make any significant additions to their product range (Johns, 1983). This serves to reinforce the notion of no growth accompanying demand risk avoidance strategies, plus supports an expanding supply of small firms prepared to undermine each other's businesses through cost cutting competition. Given these circumstances the main if not only beneficiaries are, once again, the larger restructuring firms.

   Finally, and perhaps less obvious, the process of averting demand risk as outlined allows large manufacturers to restructure their operations in situ. For the non-metropolitan regions of Victoria this implies a further reductioin of firms which might otherwise have decentralized to achieve their restructuring ends.

3. Labour Regulation and Control. As moves towards greater decentralization of decision-making continue within the corporate manufacturing sector then the skills required to run a successful small business become steadily more vital to an efficient organizational breakdown. This, it is claimed, explains why large firms are happy to sponsor the training and business courses in local economic packages designed to improve the quality fo small business management - it suits their own managerial

requirements (Cross, 1983). At face value this sounds fine but probably provides only a partial and largely superficial explanation.

In an earlier case study Beesley and Wilson point out that the actions of large British firms in providing assistance to smaller firms

> are only one step removed from hiving-off certain production tasks into subcontract work, where executives and/or skilled workers might take severence or redundancy pay and start up a new enterprise supplying their former employers with the necessary administrative, managerial and other assistance provided by the parent company (Beesley and Wilson, 1982, p.193)

Clearly this interpretation fits nicely with the process of demand risk aversion and also accords with some Australian evidence. For example, Marceau (1983) findds that small businesses in the metals sector created by ex-employees are invariably tied subcontractually to the spawning large firm. The large firm then cements this dependent connection by becoming the principal client for the smaller created companies. Regrettably *this process may equally represent the foundations for a far less innocuous development* in small/large firm sector relations.

Patently the intra-national dependency relationship between small and large firms has been significantly altered by the emergent international division of labour . Small subcontracting manufacturerers face the very real threat of losing orders to foreign competitors if their workforce is not increasingly productive and acquiescent (Scott and Rainnie, 1982). Large companies which feel the need to counter trade union power as a precondition for the next round of economic growth, but which are hampered by organized labour within their own ranks, are likely to devolve the responsibility for labour regulation, wage restraint, retrenchments and so on if at all possible. Naturally small dependent firms are likely to become prime candidates for this type of restructuring, even to the extent of being willing accomplices. Autocratic managerial styles and hostility towards unionization are hallmarks of the small business proprietor which suggests their cooperation in any attempts to curtail labour power (Herson, 1983).

One last consideration as far as labour regulation and control is concerned relates to the potential part non-metropolitan firms may play in this process. The recent proposal to remove payroll tax rebates over the next four years (Cathie, 1984) increases the probability that Victorian non-metropolitan firms, especially in localities where strong large/small firm interrelationships prevail, will partake in labour intensification and rationalization strategies as a means of restructuring (McLoughlin, 1984b). Once again the main benefits of this process will accrue to the larger manufacturing firms.

4. The Transfer of Innovation Uncertainty. The search for enormous or super profits is a characteristic of large-scale capital at most times. During economic crises this search becomes a critical part of strategies for survival and continued long term existence because super profits provide the basis for future investment rounds (Mandel, 1975). Since the best way of obtaining huge profits derives from monopolistic conditions, most large firms, and especially the global corporations, have research and development (R & D) programmes designed to create an innovative edge and therefore initial monopoly in some area of production. Although this represents common practice amongst larger firms, it is nevertheless true to say that small businesses are more cost effective when they actually undertake R & D (Rothwell and Zegveld, 1982). This and the other advantages that a small scale of production brings to the innovation process have in fact been recognized by large firms for some time (Roberts, 1977; Von Hippel, 1977). In particular the possibilities of transferring the risks of technological development onto smaller businesses whilst reaping the gains through takeovers or mergers are blatantly clear (Economist, 1983).

By encouraging small firms to pursue R & D large manufacturers can reduce the costs and undertainties associated with the early stages of prototype modelling and eradicate commercial failures at one blow. This is simply achieved by offering at first finance and marketing expertise to small businesses in which a succesful innovation emerges and later by purchasing the expanding enterprise. This is a well documented pattern in the USA (see for example Coyle & Hawley, 1982) and to some extent is evident here in Australia with the take over of indigenous high technology enterprises by exogenous interests (Johns, 1983). Of course this does not represent truly direct dependency of small on large firms (it may even be considered a reverse function) but if the practice becomes popular, the role of small firms in product innovation will be temporary and confined to the risk-laden stages of development - an ultimately dependent relationship.

These speculations will now be examined with respect to the preliminary results of a survey of industrial restructuring and the small business sector in non-metropolitan Victoria.

Small Business Survival Strategies and Industrial Restructuring in Non-Metropolitan Victoria: Preliminary Findings

The following comments are based on a questionnaire and interview survey of small non-metropolitan manufacturing firms in Victoria (less than 100 employees) undertaken during the winter and spring of 1984. The sample population of 123 firms spans most industrial categories (with an accent of fabricated metal products, ASIC 29 and other machinery and equipment, ASIC 33), contains a variety of legal structures (sole traders, partnerships, cooperatives, proprietary companies) and ages (the majority of enterprises were established less than ten years ago [86] with an emphasis on recent foundations of less than five years [59]). As a result the sample can be regarded as faily representative of the small manufacturing firm sector in non-metropilatan Victoria given the limitations of the sample size (7.1% of the total population).

The analysis uses a variety of descriptive statistical techniques i.e. crosstabulations, cluster and factor analyses, but at this stage in the investigation should be regarded with caution. To reiterate, the following observations are preliminary findings which are to some extent anecdotal.

1. Cluster Analysis: shows how the sample breaks down into three highly significant groupings based on employment characteristics and size.

Class I (n=76)	Mean	Standard Deviation	Log Likelihood Ratio
Male employment	1.0082	0.3000	137.6 sig 0.01%
Female employment	0.1490	0.3577	64.6 sig 0.01%
Total employment	1.003	0.3000	157.2 sig 0.01%
Class II (n=20)			
Male employment	1.6427	0.5928	1.8
Female employment	1.2059	0.9460	8.9 sig 0.1%
Total employment	2.1663	0.4884	14.8 sig 0.1%
Class III (n=27)			
Male employment	2.9978	0.3000	114.4 sig 0.01%
Female employment	1.0776	0.9042	2.9
Total employment	3.000	0.3000	102.1 sig 0.01%

An examination of the individual cases in each class reveals that Class I comprises very small firms (less than five employees) in which male employment predominates and female employment is significantly absent. Class II is made up from slightly larger firms (6-20 employees) displaying a tendency towards increased female employment, whilst Class III includes the larges small firms (21-100 employees) which are again predominantly male employers but also employ substantial numbers of females.

As an initial result these findings confirm existing knowledge - small firm manufacturing employmnent tends to be overwhelmingly male. However the employment breakdown for the three Classes, and Class I in particular, provides an interesting contrast with some recent small firms research conducted in the metropolitan areas of Melbourne and Sydney. Marceau (1983) shows that female employment (albeit unskilled or members of the family) figures most prominently amongst the smallest manufacturing businesses and thereafter deaclines proportionately. With respect to small firms policies aimed at the creation of more establishments this contrast suggests that there may be an inherent unequal opportunities bias similar to resource based development policies (Vipond, 1978) compounding female unemployment problems in non-metropolitan areas.[2]

Apart from identifying the three employment classes the cluster analysis derives very little else of any significance. No strategic attributes are distributed between the classes. Still, indireactly this negative result does serve to illustrate a general characteristic attributed to the small business sector, namely heterogeneity. Quite simply small firms vary a great deal in their selection of business survival strategies - a recognition of entrepreneurial diversity and the multiple roles small firms play in the local economy.

2. Cross tabulations: reveal opting for a limited range of specialized products or diversifying into new products as the most common small business strategy for survival across all three employment classes. The extent of product specialization or diversification tends however to be relatively modest, largely passive or incremental and constrained by existing production techniques and managerial expertise. For the most part it is not expansion orientated.

   Fewer firms mentioned attempts to restructure their activities through technological change and those which did are mainly concerned with rationalizing existing production methods. This involved either process innovation in conjunction with and as a reflection of internal reorganization, or limited programmes of capital investment (largely second-hand equipment). These rationalization measures are more likely to be followed by Class III firms, the larger small businesses, and also to be linked with a propensity to lobby for increased government aid as an additional survival strategy by a minority of the same.

   In contrast Class I firms, the smallest businesses, demonstrate a marked preference for labour intensification strategies to deal with current market conditions. Productivity gains are sought through extending working hours, usually those of the individual entrepreneur, supported to a degree by retrenchments elsewhere. Reorganizing shift work to redistribute the above imbalance appears to be a less preferred option.

   Overall the cross tabulation results display small, independint, non-metropolitan manufacturing firms as essentially passive or reactive survivors (62%). Very few expansion strategies are evident though some of the sample firms pursued branching in different localities to overcome the growth limits imposed by spatially saturated markets (6.5%). Notably, export activity is practically non-existent. This is probably a reflection of risk aversion attitude common amongst many small manufacturers who are consciously choosing to remain small under current economic conditions. Indeed a tiny proportion of the sample had no survival strategy whatsoever (4%), preferring to continue as they are in the belief that an eventual cyclical upturn would restore prosperity.

Despite this basically unfavourable attitude towards growth nearly one third of the respondent firms did seek to expand by entering into closer working relationships with larger companies either as subcontractors, franchisees or licensees (31.5%). The results of these liaisons are examined next.

3. Factor Analysis: produced two rather intriguing factors which, though between them they only explain a limited amount of variance in the sample (23.3%), nevertheless to provide substance for speculation.

Factor I links a subcontractual relationship with pressures to increase labour productivity. To a lesser extent gains in labour productivity through extended working hours plus credit restrictions are also included in this factor. On closer inspection the firms which form this association fall into Class I, the smallest manufacturers. Evidently small businesses which attempt to expand their operations by subcontracting to larger companies may find their potential curtailed on the one hand by financial difficulties (delayed payment for products) whilst on the other hand face continued pressure to increase their output through labour intensification. In fact it seems that the small business proprietor him/herself is the main victim of intensification in this case, judging by the response to personally extend working hours.

The second factor reflects firms under pressure to innovate and produce new products which is in turn associated with subcontractual agreements arranged by the small firms themselves i.e. small businesses which sub-contract parts of their existing production to other smaller firms. Not surprisingly it is the Class III, larger small firms which account for Factor II. What is perhaps surprising is that the pressure to innovate appears to operate independently of any subcontractual, licensing or franchising relationship with larger companies. This may well reflect the contribution of another but less implortant element in Factor II - the rapidly changing demand for products experienced in the non-metropolitan economy.

Whatever the reason(s) behind the push to innovate displayed by Class III firms, it is clear that small businesses do not always have to have a dependent relationship with the large firm sector to encounter such pressure. It is also clear that small firms are equally capable of transferring pressure to increase their labour productivity onto separate smaller businesses through a subcontractual relationship should the occasion arise.

Conclusions

On the basis of the preceding discussion it would be unwise to offer any firm conclusions. The results and their interpretation can only be regarded as tentative until these data have undergone more rigorous analysis. Even so the following few restrained comments are felt woth making.

Any attempt to estimate the import of a relationship from one side of the equation is likely to understate the impact. In this study only the restructuring experiences of small manufacturing firms have been examined and it may be that the same activities of larger companies require equal consideration. This, coupled with the fact that the majority of large manufacturing establishments (though not necessarily enterprises) are narrowly concentrated into five main regional centres (64% - unpublished A.B.S. statistics), whereas the sample survey is widely spread throughout non-metropolitan Victoria, may well account for the poor representation of large/small firm relationships in the present study. Of course it could also be that subcontracting is not generally practised in the country areas of Victoria. This possibility and its implications will be discussed shortly.

Where a subcontractual relationship between large and small manufacturers actually exists it should be noted that thid does not always operate to the disadvantage of the smaller partner. Elsewhere subcontracting has been shown to be an important avenue for the establishment of small businesses in the first place (Gudgin, 1978) and the absence of evidence pointing to the transfer of demand and technological risk onto small firms in the present study is a case in point. Nevertheless the potential for abuse is also apparent amongst the smallest manufacturers and suggests caution over present (see page 10) and prospective policies designed to augment the number of subcontractors in the Victorian economy (see for example "A New Liberal Policy for Small Business", Victorian Parliamentary Liberal Party, 1984, p.12). Moreover the pressures to increase labour productivity and credit restrictions experienced by some of the smaller subcontractors herein are probably understressed. Small businessmen are often prepared to admonish the regulatory activities of government and the monopolistic influence of unions in the labour market but are loathe to complain about the unfair practices of large firms especially where there is a working relationship. This is true even when legislation to prohibit exploitation exists (Anthony, 1983).

Taken as a whole though there is restricted evidence to indicate that small non-metropolitan firms are being integrated into the production strategies of larger enterprises as vulnerable low cost dependents. This is an encouraging finding for proponents of the small firm's path to economic revovery and suggests real scope for progressive policies in the independent small business sector. But "there is a particular need to ensure government actions do not inadvertently stunt the growh and development of the small firm sector" (Johns, 1983, p.150). This point should be kept firmly in mind when considering the final concluding remarks.

Plainly the survival strategies evinced by the independent small businesses - product diversification, product differentiation/ specialization and product rationalization - all represent genuine attempts to restructure their operations. The lack of more conventional approaches such as increased price competitiveness (Campbell and Strahan, 1984) are surprising in this respect. Yet these positive attempts to restructure are often purely marginal since the small firms concerned are generally limited by financial managerial constraints. Thus it appears that Victorian industry and regional policies which currently provide counselling, training, loans and guarantees to aid small non-metropolitan firms restructure are on the right tract (Cathie, 1984). However the promotion of industrial restructuring in small businesses without a better understanding of their underlying strenghts and weaknesses could be disastrous. Enhancing the competitive element increases the efficiency and dynamism of small independent firms but this may be more destructive than constructive if displacement in the non-metropolitan economy is the net result (see pages 3 and 4). Furthermore it may also make independent businesses more attractive propositions as far as restructuring by proxy in the large firm sector is concerned!

The message is clear. A good deal more research is required on the role of small firms in non-metropolitan economies. Otherwise the present lack of knowledge on the effectiveness of interviewing in the small firm sector there will continue, with potentially damaging consequences for both industry and society as a whole.

SURVIVAL STRATEGIES: VICTORIAN NON-METROPOLITAN SMALL MANUFACTURERS

STRATEGIES	EMPLOYMENT SIZE BAND CLASS I 1-5 (n=76)	CLASS II 6-20 (n=20)	CLASS III 21-100 (n=27)	CHI SQUARED. 2 DEGREES OF FREEDOM
Specialized limited product range	31	5	10	1.69 insig
Diversifying into new products	25	10	11	2.14 insig
Branching	3	2	3	2.16 insig
Rationalizing production by:				
internal reorganization	20	9	13	5.47 p. 0.06
process innovation	12	6	10	5.83 p. 0.05
capital investment	13	5	12	8.08 p. 0.01
Gains in labour productivity by:				
reorganizing shift	3	2	3	2.16 insig
extending hours	19	2	2	5.24 p. 07
retrenchments	12	6	8	3.41 p. 18
Lobbying for increased aid	3	1	7	12.27 p. 002
Pricing policy	6	1	4	1.63 insig
Closer relationship with larger firms as:				
subcontractor	19	4	6	0.25 insig
licensee	1	1	2	2.58 insig
franchisee	5	2	2	0.27 insig

NOTES:

1. Admittedly small firms may be expanding in the declining industrial sectors because they are relatively more successful than larger firms in coping with contracting markets. However Marceau (1983) points to a more likely explanation. A group of small firms in her survey of Melbourne and Sydney noted that the overall market for their products was shrinking, but felt that as the bigger companies in the same field were transferring their operations into more lucrative activities (see Bureau of Industry Economics, 1979) then the scope for smaller manufacturing firms increased accordingly.
2. In passing it also suggests that there is a great deal of scope for research on the female entrepreneur and her potential in small firm economic development (see for example Hisrich and O'Brien, 1981).

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