

ENTREPRENEURS AND SMALL BUSINESS OWNER-MANAGERS

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Small business is nowadays very much in the public eye. But from the Industrial Revolution until the 1970s big business appeared to dominate in most Western countries (although small businesses existed and were important to the economy and the community). Prior to the Industrial Revolution small business was the only form of business. Although we need to be interested in the external economic and social factors that have led to changes in the size and importance of the small business sector over time, we also need to study the people who start and manage the businesses and they are the topic of this overview. They range from the dynamic entrepreneur who catches our imagination to the owner-manager of the average small business who largely goes unnoticed.

After completing this overview you will:

- appreciate the economic role of entrepreneurs;
- understand the search for the personality characteristics of entrepreneurs;
- appreciate the behaviour of entrepreneurs and be able to define the word entrepreneurship;
- be able to distinguish between traditional small businesses and entrepreneurial ventures;
- have a broad overview of the key characteristics of small business owner-managers and their businesses in Australia.

ENTREPRENEURSHIP AND ENTREPRENEURS

During the sixteenth century people who organised and managed military and exploration expeditions in France were called “entreprendre”. The word entrepreneur is derived from this French word and basically means “to undertake”.

We have all read about and possibly met persons that we might call entrepreneurial. They tend to be the “high fliers” and the high achievers who are visionary, dynamic and creative people who “get things done” and “make things happen”. But the words “entrepreneurship” and “entrepreneur” are elusive ones when we have to define them and when we start to ask questions such as:

- What is the role of the entrepreneur in the economy ?
- Do entrepreneurs have special personalities ?
- What do entrepreneurs do ?
- Are entrepreneurs born or made ?
- Are small business owner-managers also entrepreneurs ?

There have been many articles, books and research studies completed regarding entrepreneurship and entrepreneurs. We cannot give full justice to this literature but we will examine the key aspects and the reader is then encouraged to read further. We start with the views of three economists regarding the role of the entrepreneur in the economy.

VIEWS OF ECONOMISTS

Economists have always been concerned with the three factors of production - land, labour and capital - which need to be combined to lead to production, but they often fail to consider who actually carries out the combination. The French economist J. Say in 1803 however said that the entrepreneur was the fourth

factor or agent of production (Koolman 1971). Coordination was the key role of this driver of the production of goods and services, although other roles included decisionmaking and riskbearing.

The American economist F. H. Knight (1921) is famous for distinguishing between risk and uncertainty. He defined risk as a random event about which managers could estimate the probability of occurrence. On the other hand, uncertainty regarding an event meant that it was completely random and no estimates could reasonably be made of its occurrence. He stated that the important role of the entrepreneur in combining factors of production was to act as the risk taker, to be responsible for decisions under uncertainty and to be rewarded by profits for the decisions made. If a manager or any person assumed such responsibility for uncertain outcomes then they were performing an entrepreneurial function.

The father of entrepreneurship in relation to economics is the German economist Joseph Schumpeter (1934). He developed an important theory of economic development which depended upon a process of “creative destruction”. This was caused by innovative producers of “new combinations” who led to the growth of the economy over time from the destruction of old industries and the development of new ones. He saw the entrepreneur as being the innovator or the creator of “new combinations” which led to the development of:

1. New products and services.
2. New methods of production.
3. New markets.
4. New sources of supply.
5. New forms of organisation.

Very few people have the ability to be innovative and creative, so that this role demands exceptional people according to Schumpeter.

PERSONALITY OF ENTREPRENEURS

Because it is believed that entrepreneurs are special people, numerous academic and non-academic writers and researchers have hunted for their personal characteristics. Schumpeter (1947) for example believed that entrepreneurs needed ‘a drive to overcome obstacles, a joy in creating, and satisfaction in exercising one’s ingenuity’. We have many lists of the possible personality traits and a shorter list of possible key psychological attributes of entrepreneurs.

Personality Traits

Below are three lists of the suggested traits exhibited by entrepreneurs. List 1 resulted from a specific US study of individuals who created a business from scratch to achieve sales of more than \$1m p.a. The businesses had continued for at least five years with promise of future growth (Welsh and White 1983). List 2 was completed from 50 research studies of successful entrepreneurs (Timmons 1985), and list 3 was compiled by Australian writers based largely on overseas studies (Reynolds, Savage and Williams 1994).

LIST 1

basic need to control and direct	self-confidence
never ending sense of urgency	low need for status
objective approach to interpersonal relationships	comprehensive awareness
superior conceptual ability	attraction to challenges
realistic	

LIST 2

total commitment, determination and perseverance
 taking initiative and personal responsibility
 calculated risk-taking and risk-seeking
 realism and sense of humour
 opportunity and goal orientation
 seeking and using feedback

drive to achieve and grow
 persistent problem solving
 internal locus of control
 integrity and reliability
 low need for status and power

LIST 3

preference for broad direction rather than detail
 tolerance of uncertainty and ambiguity
 motivation by money as a measure of success
 work orientation rather than people orientation
 readiness to take moderate risks
 drive for status improvement
 high level of realistic optimism
 practicality and action orientation
 preference for challenging work
 internal driving force
 determination and persistence
 openness to feedback
 dislike of interruptions

energy and drive
 ambition and future orientation
 innovativeness
 confident assertiveness
 search for excellence
 alertness to change and opportunity
 strong competitive spirit
 self-reliance and independence
 reasonableness and shrewdness
 withstand stress
 dislike of wasted time
 personal responsibility

Although the lists overlap in a number of cases, how many aspects in each are required for a person to qualify as an entrepreneur? The best that we can say from lists such as these is that entrepreneurial characteristics are complex, and that perhaps the person with more of the traits is more likely to be an entrepreneur. However some of the traits may be more essential than others, and if other non-personality factors (such as education or family background) make an entrepreneur as well, these may outweigh a low number of positive personality traits. So the listing approach may not be very helpful. Certainly, of the many researchers who have tried, none have been able to provide the “correct” list which could predict whether or not a person is an entrepreneur.

Key Psychological Attributes

A number of writers have suggested that entrepreneurs possess some key psychological attributes or characteristics, and that these in turn produce specific personality traits.

D. McClelland (1961) argued that from a psychological perspective people are ‘driven by three motives: the need for achievement (accomplishing things); for affiliation (being with others); and for power (controlling others)’. Of these, his research showed that the **need for achievement (nAch)** was the most relevant for understanding the entrepreneur.

Most of us would tend to agree that the entrepreneurial person has a high need to achieve, that is a strong desire to be successful. According to McClelland and his supporters, people with a high nAch can be identified by four traits.

1. They prefer to be personally responsible for their decisions and for solving problems. They cannot achieve success for something for which they have not been fully responsible.
2. They require feedback from the results of their decisions, because they cannot otherwise know whether success has resulted or not. The measure of their accomplishment can be money or profits, not for their own sake but because they act as success indicators.
3. They are moderate risk-takers. In undertaking projects and in making decisions with low risk levels success may be relatively easy to obtain, so where is the achievement? Very high risk levels however can depend on luck or chance, so that success may not really be due to the decision-maker’s efforts. Moderate degrees of risk imply that skill and foresight rather than luck can sway final results, leading to that self-satisfaction that such people desire.

4. They prefer working with experts rather than friends because they can contribute more to successful outcomes which lead to achievement (French 1956).

McClelland believed that high achievers were not necessarily born that way. Rather, they developed as young children because of parents (especially mothers) who set moderately high achievement goals for them in an encouraging, nonauthoritarian way. This leads to the possibility that people can be taught to develop a nAch, although it seems that the person's environment in which they live would need to be a supportive one.

Locus of control theory has had a central position in personality research since the 1960s. According to J. B. Rotter (1966) a person perceives the outcome of an event either within or beyond their personal control. People with an external locus of control believe that their destiny is controlled by people, events, luck or chance over which they have no influence. They may be reluctant to start a business venture because they feel inadequate in handling all the risks involved. We say that they lack the confidence to "bite the bullet".

On the other hand, a number of research studies support the belief that entrepreneurs tend to have an **internal locus of control** (Hornaday and Aboud 1971, Shapero 1975, Jennings and Zeitghaml 1983). They perform best when they are personally responsible for results because they are internally rather than externally controlled. Without, or even despite, external influences they can bring about a desired outcome. Rotter believed that because internally controlled people would be more likely to seek achievement, nAch was related to the internal locus of control. A number of personality traits are consistent with the attribute of an internal locus of control. Inner directed people will tend to be positive, self-confident and self-reliant. They tend to neglect interpersonal relations, rise to challenges, do well in creative problem solving situations, react better under stress and tend to be innovative (Jennings and Zeithaml 1983). Also, there is strong evidence that individual locuses of control can be deliberately altered towards greater internality. As with nAch, this has important implications for the training and development of entrepreneurs.

Although entrepreneurs seem to be exceptional people, the many different lists of personality traits that have been provided by various writers do not appear to be very helpful because we have no way of deciding whose list is correct. An examination of the psychological attributes of nAch and internal locus of control seems more fruitful and these in turn provide a rationale for some specific personality traits. Undoubtedly some exceptional people are born with these characteristics, but there is evidence that they can also be taught (Timmons 1985).

BEHAVIOUR OF ENTREPRENEURS

Even if certain personality factors are necessary for an entrepreneur they are not sufficient because entrepreneurs as creators of new combinations (Schumpeter) need more than certain personal attributes: *Given the particular industry and economic climate The entrepreneurial profile is not sufficient in itself to ensure growth What is also needed is the development of a set of business and managerial competencies which range from sound financial control to people management and communication skills.* (Chell and Haworth 1992).

Entrepreneurs need to develop skills and abilities and will be subject to restraints as well as impetuses as they learn to create. In other words, it may be more useful to view entrepreneurship as behaviour rather than the result of personalities (Drucker 1986).

P. R. Liles (1974) wrote an important article "Who Are the Entrepreneurs ?" in which he argued that if an individual has a degree of ambition and ability, it is certain kinds of experience and situations which are the major determinants of whether or not they become an entrepreneur.

He was not concerned with people who start or purchase the vast majority of small businesses which he called **marginal firms**. These are the traditional small enterprises such as corner stores, hairdressers and florists. These firms may provide a bare income for the own-account worker or an employer and one or two employees, and are often established to replace a job or to provide an independent lifestyle. Liles discussed entrepreneurs who are interested in the “gazelles”, the fast growing firms which can provide a high degree of satisfaction and achievement to the owners. He categorised these entrepreneurial ventures into **attractive small companies** and **high potential ventures** which are highly competitive because they are innovative, flexible and efficient. (1) The high potential venture is started with the intention of becoming a major company such as Kodak or Microsoft. The entrepreneur who starts the attractive small company has more moderate ambitions, and develops a company which can provide a high income and fringe benefits, and a high lifestyle. Service firms and specialised manufacturers could fall into this category.

Success, rather than failure, is the rule among high potential ventures and attractive small companies. They are driven by talented and experienced founders pursuing attractive opportunities who are able to attract both the right people and the necessary financial and other resources to make the venture work.
(Timmons 1990)

To start and to continue to operate an entrepreneurial venture requires people with a tremendous amount of determination, effort and commitment; more than is needed for a conventional career. Therefore they require a high nAch to start with, accompanied by the general self-confidence (inner locus of control) needed to try something new and uncertain. Many people however with such characteristics do not start a business because they never feel ready to do so, and/or distractions and obligations hold them back. Other people with similar characteristics have certain periods in their life cycle when a window of opportunity opens to start a business, because they perceive that their capacity (readiness) to start exceeds any restraints operating against them.

Readiness factors

A person's readiness to institute a business venture requires general self-confidence in themselves, but also specific self-confidence. This represents a feeling of mastery over the kinds of tasks and problems expected to be encountered in starting and successfully managing a company. It takes time for such mastery to be accumulated from a variety of business and related experiences which provide experience, exposure, special skills and industry knowledge. Early in their work and careers people learn more and learn more rapidly. As they grow older their relative rate of learning may diminish, although there is an accumulation of increased mastery and competence.

Restraints

According to Liles, in 1974 the strongest restraint on starting a business was satisfaction with a present occupation or career. If things are going well, why change? Over time, individuals develop seniority, higher salaries, prestige, confidence and loyalty. It becomes financially and psychologically expensive to leave. In 1999 however, fewer employees can depend upon a long-term position in the one firm because of the increase in volatility of the business environment and the downsizing of large firms and government bodies.

As Liles discusses men only, he argues that over a life cycle, financial obligations increase for men between ages 25 and 40 years. A house mortgage, expenses of raising and educating a family and planning for retirement provide financial reasons for maintaining the status quo in current employment. Also, the effort and time needed for commitments to marriage and family reduce the freedom and flexibility needed to start and continue a business. As men become older, career interests become less vital and their changing values are reflected in spending more time with the family, together with leisure and personal interests coinciding with a slowing down in physical and emotional energy.

Window of opportunity

Between the ages of about 25 and 35 years an individual may have a window of opportunity when they feel that they have the effective capacity to start a business venture. Their capacity increases between about 25 and 30 years when they learn rapidly from early experiences and situations. As they grow older the capacity reduces because marginal learning experiences become less and may reverse, and career commitments and financial and family obligations become greater. Liles calls this a free choice period in which a person feels able to act; after this, restraints are likely to outweigh capacity.

Precipating events

There are many people who reach the window of opportunity, but do not start a business because they need a precipitating event such as job disruption, identification of a new venture opportunity, or encouragement, to take the leap.

A significant number of businesses are formed due to job disruption or dissatisfaction. Large companies can 'put entrepreneurs into business' by blocking their path towards realising a personal vision (J. J. Kao 1991). Promotions or salary increases may not be granted, a person may not want to be reallocated, or family changes may necessitate a move to another town or state. Until recent years in Australia, job disruption simply led to a new job in another firm. Nowadays, due to the volatility of job security and high unemployment, we have seen more people turn to starting or buying a business, although not necessarily establishing an entrepreneurial venture.

Contrary to popular belief, opportunities for most entrepreneurial ventures do not suddenly appear from nowhere. They develop over time, usually from the industry experience or professional background of the entrepreneur. For example, after dealing with a product over a lengthy period, an individual may identify a better way to produce, market and distribute the product. The recognition of such an opportunity may provide the precipitating event leading to a new business.

Encouragement and support may be essential to the start of a new venture. This may come from a role model such as a previous employer or teacher/instructor who provides a supportive and mentoring role (Hisrich and Peters 1989). A moral support system of spouse, family and friends may be an essential stimulus. The reaction of a spouse is particularly critical because eventually they will be affected by the new venture; their financial situation and life style will be changed. Another source of support may be available from people to whom the would-be entrepreneur goes for assistance such as potential suppliers and customers, accountants, bankers and government assistance agencies.

Risk

When an individual in a free choice period reaches the stage of seriously considering a new venture, the perceived risks can influence the decision. Liles postulates four types of risk.

1. Financial risk. The entrepreneur has to usually place most of their financial resources in a new venture and risks early loss if the venture fails. Also, as the venture develops, external finance may only become available on the personal guarantee of the entrepreneur, who therefore faces personal bankruptcy in the event of failure.
2. Career risk. How will a prospective employer look upon a failed entrepreneur? It may be easier to move from large firm to large firm as an employee, than from failed entrepreneur to employee.
3. Family risk. An entrepreneurial venture is very demanding in terms of the time, energy and emotions of the entrepreneur and therefore the spouse and children may suffer adversely. This may especially be the case if the family is not directly involved in the firm and regard it as competing for the attention and affections of the entrepreneur.

4. Psychic risk. There is a sense in which the business and the owner are one. Because of the efforts needed by the entrepreneur in the firm, it has priority over everything else in life. Therefore if it fails, the experience can be shattering; the entrepreneur will regard themselves as a cause of the failure.

Liles has shown that the entrepreneur is a special type of person, but that in many cases they start out like many other ambitious individuals. They become people apart due to external factors of readiness and restraint as summarised by Liles (1974):

We have examined the entrepreneur who is involved in substantial ventures and have considered what we have found in light of traditional thinking that he is a special type of individual - somehow an unusual and uncommon man - a man apart. It probably is true that very successful entrepreneurs become men apart. But, at the beginning, when they make the decision to start an entrepreneurial career, they are in most respects very much like many other ambitious, striving individuals. It appears, moreover, that the entrepreneurial interests for those who elect that path are more a function of external differences than internal ones - more the result of practical readiness and cost/income constraints than of individual psychology or personality. This is not to suggest that starting a successful company is a game that anyone can play. It is, however, a statement that far more people could become entrepreneurs than ever do, and that the inclination of people to move in this direction could be increased by an increased awareness and recognition of this as a career alternative.

SOME DEFINITIONS

Nobody has been able to satisfactorily define the words entrepreneurship or entrepreneur in terms of personality. Although there is considerable agreement that entrepreneurs are characterised by nAch and an internal locus of control, attempts to develop a profile based upon personal traits have not been successful in identifying those who might become entrepreneurs. Moreover the trait approach has generally failed to distinguish between successful managers and successful entrepreneurs (Brochhaus 1980; Stevenson et. al 1989; J J Kao 1991; Jennings 1994). Researchers continue to hunt for the entrepreneurial personality (Hart, Stevenson and Dial 1995; Miner 1996), but other researchers believe that this is really a cul de sac (Liles 1974; Deakins 1996) because personality alone does not determine if a person is an entrepreneur.

Let us now consider three definitions of entrepreneurship which emphasise the process of creating value:

Entrepreneurship is creating and building something of value from practically nothing. That is, entrepreneurship is the process of creating or seizing an opportunity and pursuing it regardless of the resources controlled. Entrepreneurship involves the definition, creation, and distribution of value and benefits to individuals, groups, organisations and society.

(J. A. Timmons 1990)

Entrepreneurship is the process of doing something new (creative) and something different (innovative) for the purpose of creating wealth for the individual and adding value to society.

(R. W. Y. Kao 1995)

Entrepreneurship is the creative application of change. The entrepreneur's objective cannot usually be achieved with the resources currently controlled by him or her; sometimes the resources don't exist at all and must be created as part of the process of creating a new enterprise. The act of entrepreneurship leads to an innovation, a new product, process, or organisation that changes the balance of market or social forces.

(Legge and Hindle 1997)

These definitions highlight the behaviour of the entrepreneur and imply the following dimensions (Stevenson 1991):

1. Entrepreneurship does not just happen. It is a process and therefore requires management and organisation.
2. Resources need to be committed and controlled, but need not necessarily be already owned.
3. Risks will be involved and therefore need to be assumed. This does not mean that the entrepreneur is a speculator, but rather a calculated risk taker.

4. Entrepreneurs actively pursue opportunities by creativity and innovation. They are not just creative or innovative thinkers.
5. Wealth and rewards are the result for the entrepreneur and also other parties and society.

The definitions can apply to all professions (law, architecture, education, medicine, social work, engineering) and to all entities (business, government, religious, non profit). Also, entrepreneurship need not be confined to new ventures; entrepreneurial ventures can be existing businesses, universities or public service institutions which practice innovative and entrepreneurial management to achieve creation of value and benefits. An entrepreneurial business may be started by the entrepreneur-CEO, but when they leave the scene it is possible for the business to continue as an entrepreneurial organisation if systematic and purposeful entrepreneurial strategies are continued (Drucker 1985).

Despite these wide definitions of entrepreneurship, the media and many writers and researchers tend to confine entrepreneurship and entrepreneurs to the business world. At one extreme, particularly in the US, entrepreneur is used as a synonym for small business owner-manager. The US Academy of Management emphasises new businesses and defines entrepreneurship as:

The creation and management of new businesses, small businesses and family businesses, and the characteristics and special problems of entrepreneurs. (Shane 1997)

This practice is not very helpful because it raises the issue of why have the two terms. At least two writers believe that it may be preferable to drop the word “entrepreneur” completely from small business research (Hornaday 1990; Moran 1998). The emphasis could simply be on small business owner-managers. For those desiring a further label, a subset of the small business owner-manager population could be labelled on the basis of selected criteria as “entrepreneurs”.

As implied by Liles, not every new business is an entrepreneurial business. In fact the large majority of new businesses are traditional small businesses i.e. marginal and non-growth firms. The entrepreneurial business on the other hand is small only when it is new, because it has the inherent potential to grow and become larger. The entrepreneur establishes an entrepreneurial business and the small business owner-manager establishes a traditional small business. The entrepreneur is interested in expanding the business and creates significant and often rapid increases in size, but the small business owner-manager may be content with low growth or nil growth and may prefer this (Timmons 1990; Petty and Bygrave 1993; McMahon et al 1993; Still 1993).

Therefore the following definitions have been suggested to distinguish between traditional and entrepreneurial small businesses (Carland et al 1984; McMahon et al 1993; Legge and Hindle 1997): (2)

An entrepreneurial business is one that engages in one or more of the following categories of behaviour;

1. *Introduction of new goods or services,*
2. *Introduction of new methods of production, or usage of new sources of materials or components,*
3. *Opening of new markets,*
4. *Establishment of a new industry structure or exploitation of a new style of regulatory environment*

that is, the principal goals of an entrepreneurial business are profitability and growth and the business is characterised by innovative strategic practices.

An entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth. The entrepreneur is characterised principally by innovative behaviour and will employ strategic management practices in the business.

A traditional small business is any business that is independently owned and operated, not dominant in its field, and does not engage in any new marketing or innovative practices.

A small business owner-manager is an individual who establishes and manages a business for the principal purpose of furthering personal goals. The business must be the primary source of income and will

consume the majority of one's time and resources. The owner perceives the business as an extension of their personality, intricately bound with family needs and desires.

It is suggested that the entrepreneurial business, whether big or small, is chiefly distinguished by its strategic and innovative practices resulting in a new combination as suggested by Schumpeter. The critical difference between entrepreneurs and small business owner-managers is innovation. If we plan to study small businesses, we to distinguish wherever possible between the traditional small business (small business owner-manager) and the entrepreneurial business (entrepreneur).

It is time now to examine and contrast entrepreneurs and small business owner-managers in Australia.

AUSTRALIAN ENTREPRENEURS

The Australian Stock Exchange has commissioned an extensive and interesting research study of Australian entrepreneurs from 1788-1990 (Hartwell and Lane 1991). The entrepreneurs range from prisoners, pioneers and pastoralists to brokers and builders. Any academic study of current outstanding business entrepreneurs in Australia would include people such as the following. (3)

Peter Abeles, a penniless Hungarian migrant, arrived in Australia after World War 2. He started Alltrans, a small transport business, which developed into the transport giant Thomas National Transport (Hooper May 26 1997).

Frank Bannigan began making power boards from his garage in 1970. This led to a small company with a substantial cash flow which he used to develop a small production facility. Kambrook was born; a household name in Australia for innovative electrical products, the company has developed an annual turnover exceeding \$100m, employs more than 500 people and exports to 26 countries:

Kambrook's success is based on innovation and commitment to quality as well as production flexibility. Although the company boasts its own research unit, many of the ideas still emanate from Bannigan, who is constantly travelling to keep abreast of the latest fashions, designs and trends (Hartwell and Lane 1991).

Gerry Harvey, former door-to-door salesman and real estate agent, founded Harvey Norman Holdings in 1982. Its 1995 sales exceeded \$1b. He created a unique retailing business by opening new stores and adding new product categories. The various sections in each store, such as furniture, computers and electrical appliances, are run by more than 150 franchisees (Shoebridge October 30 1995).

Richard Pratt is the cardboard king. In 1969 he inherited a small box-making firm. With innovative strategies including making paper from recycled waste his Visy Industries had a 1996 turnover of \$917m. (Hooper May 26 1997).

Vera Randall was the fashion entrepreneur who founded Knitwit in Australia. Whilst on holiday in Canada she attended a class which taught a quick and easy new method of sewing. With a \$4,000 bank loan but no business experience, she opened her first Knitwit outlet and began to teach the new method of sewing clothes. For 2 years she taught classes, trained staff, created catalogues and managed all aspects of the operation. By 1988 there were 67 franchised stores in Australia and 53 in several other countries. By 1990 Knitwit was represented in 10 countries around the world (Hartwell and Lane 1991).

Imelda Roche's first ventures were in manufacturing TV lamps and then door-to-door selling of women's clothes. In 1968 she and her husband became the Australian licensees for Nutri-metrics, a US cosmetics company based on direct selling. Her energy and innovation led to her purchase of the worldwide firm in 1991, which grew to 300,000 consultants in 21 countries (Hooper May 26 1997).

Dick Smith, known as aviation safety reformer and adventurer as well as entrepreneur, made a personal return of \$25m. in the early 1980s with the sale of his retail chain Dick Smith Electronics, established by him as a unique type of business in 1968. He made a second fortune in 1995 from the sale of the *Australian Geographic* magazine and its chain of shops which he had developed (Cromie June 2 1997).

Most of Australia's entrepreneurs are not household names, although an increasing number of media surveys and articles are highlighting these people and their ventures. Each year *Business Review Weekly* (<http://www.brw.com.au/>) provides a survey of Australia's 100 fastest growing private firms. In the list for 1996 (Gomez March 17 1997) were 37 small businesses with less than 100 employees (manufacturing) or less than 20 employees (non-manufacturing). To be included in the survey, businesses were required to have had a turnover of more than \$250,000 in 1992 and a 1996 turnover in excess of their 1995 turnover. The 100 companies were ranked according to their five year growth in turnover to 1996 - these ranged from 1,701% to 168%.

The small businesses in this group included 12 manufacturing and building/construction firms, 4 wholesalers, and the remaining 21 service firms included 3 recruitment agencies, a florist relay service and a tour operator. The creative and innovative strategies of the small business entrepreneurs are typified by Stella Alexander (ranked no. 2, 18 staff, 1,489% growth) and Wayne Portelli (ranked no. 8, 17 staff, 916% growth).

Stella Alexander (Direct Personnel, South Australia)

Stella Alexander attributes her company's constant strong growth to its taking an unorthodox view of what a placement agency is and how it should operate. Direct Personnel's turnover rose from \$511,000 five years ago to more than \$8 million last year. Her approach meant turning industry methods on their head. Alexander works from the angle that there are two sets of equally important clients: the staff she places and the people who use their services. She also says quality employees are worth paying for.

"From the start (in 1982 when, at the age of 24, she bought her agency for \$17,000), I didn't accept that the usual high turnover of agency staff was the way to go. Logically, how can you keep one group of clients consistently happy if you don't treat the others well, and so end up with a constant stream of new people on your books? When that happens, you cannot guarantee employers the best available skills. To me it seems a senseless way to operate."

Alexander started by offering highly skilled staff \$500 a week whether they were working or not. This tactic, never seen in the industry before, engendered great loyalty, even though staff were rarely doing nothing. "The word spread. Our staff feel valued. For that reason, we have many of the staff we started with and a very low turnover." She also offers training programs to increase efficiency and diversify skills.

Having created a settled and highly skilled workforce, Alexander then refused to get into a price-cutting war. That strategy worked too. She found that large corporations and government departments were willing to pay well when she could guarantee service. "We visit our people in the field regularly to double-check everything is working as it should - for both clients, not only the employer." Her methods have snared a wide range of top Adelaide clients, including government departments, Galaxy Television, the Electricity Trust, Bank SA, EDS, Bankers Trust and British Aerospace.

Wayne Portelli (Drypac, Victoria)

Wayne Portelli, an engineer, sick of chicken legs breaking through the plastic wrapping and soaking through the tray in supermarkets, had an idea. He designed a two-piece tray separated by an absorbent mat. That solved the moisture problem. Then he designed a rolled-edge tray that was recyclable and strong, and allowed plastic film to be wrapped around the chicken without the film being torn or altering the shape of the packed chicken.

The remaining problem was that the machines that produced rolled edges did so only on cups. So Portelli designed the machine to produce rolled-edge trays. "We made three lemons before we got it right," he says. It took \$600,000 to produce a rectangular and triangular tray with a rolled edge. Portelli, as he was designing the tray, worked closely with the Australian poultry supplier Steggle. "I have always tried to build strategic alliances with the end customer," he says. He now provides 60% of the trays used in the Australian poultry market.

Drypac, at Warragul, east of Melbourne, has about 60 products and turns over about \$5 million. Portelli is now working on long-life trays for red meat.

AUSTRALIAN SMALL BUSINESS OWNER-MANAGERS

Research surveys into the characteristics of small businesses and their owners in Australia have not generally distinguished between traditional small businesses (small business owner-managers) and

entrepreneurial ventures (entrepreneurs). Because we know that the number of traditional small businesses overwhelms the number of entrepreneurial ventures, aggregate results of surveys will be so heavily influenced by the former that they will tend to present the traditional small business picture; however a 1994 survey found that only 8% of businesses with less than 20 employees were seeking significant growth - they tended to have 5 or more staff and an annual turnover of at least \$500,000 (*Yellow Pages Australia Small Business Index* February 1995).

The earliest academic study of small businesses recorded in Australia was carried out by Dr. Lisa A. Brodribb (1967) from the University of Melbourne, and unlike subsequent studies she was able to separate the characteristics of growth oriented operators from 'those groups of men who have decided that they do not want their firms to grow further'. Rather than statistics, Brodribb provided a portrait study of the owner-managers under five headings. (4)

1. Social and economic background

- Middle-aged men whose business had been in existence for an appreciable period.
- Few had completed university or technical college degrees.
- The majority of their fathers had been self-employed.
- They generally had achieved a high standard of living but with a marked lack of ostentation and display.
- Their firms had grown considerably under their management.

2. Motivations in choosing their careers.

- A strong wish for independence often accompanied by frustration in employment.
- Desire to make a reasonably good living, but not to make a fortune.

3. Present objectives.

- Saw himself and his job in terms of achievement, independence and total control of the firm, and enjoyed being boss and focal point of his enterprise.
- Very strongly influenced by family feeling.
- The main aim for the firm was moderate growth with family succession in management and the retention of freedom of decision by the owner.

4. Management practices

- 'Not at all in line with what may be regarded as "good management practice"'
- Survival and growth is due to 'drive, incessant activity and alertness'.
- Characterised by '..... vitality, the constant busyness and the fact that these men are often harassed by detail of which they have been unable to disentangle themselves in spite of their good resolutions'.

Under her fifth heading of growth orientation there were two groups of operators - those who had decided that they did not want their firms to grow further, and those who were strongly growth-oriented and whose firms had grown more than the average. The second group differed from the first group as follows:

- In the previous 5 years the employment in their business had grown by 90%, in contrast to 30% in other businesses.
- Their drive had not reduced with age.
- They wanted continuity of the firm beyond their lifetime.
- They would consider using external funds if needed for growth.
- Their average working week was 56 1/2 hours, in contrast to 44 hours of non-growth operators.
- They were much more concerned with staff activity and with people generally, and with planning for the future.
- They had a strong profit orientation and were not prepared to delegate financial control, planning or major decisions.

Between 1973 and 1975 the Small Firm Research Group of the University of Newcastle used postal surveys (5,258 usable responses) and interviews (137 firms) to study manufacturing firms with less than 100 employees and non-manufacturing firms with less than 30 employees. Although the focus of the study was upon taxation and finance issues the researchers developed the following 'pattern of a typical small Australian firm' :

The firm was probably started by a man who values an independent way of life, is willing to work hard for a fairly modest monetary reward and to bear the risk of failure. He may have been born outside Australia (although the proportion is declining) and intends the business to involve his family and to be carried on by the family after his death or retirement. He usually has technical training but few skills in marketing, finance or general management. As a consequence, the probability that the firm will survive for more than ten years may be less than 50% and it is likely to remain very small indeed - with less than 20 employees in manufacturing and less than 10 in non-manufacturing.

(Johns, Dunlop and Sheehan 1978)

More recently, 3 surveys have provided details of small business owner-managers and their firms. The *Yellow Pages Australia Small Business Index* is a regular survey of businesses with less than 20 employees. 1,000 randomly selected operators within the metropolitan and non-metropolitan regions of each State are interviewed by telephone on a three-monthly basis. Interviews conducted in November 1993 provided a general small business portrait. The ABS (Cat. 8127.0 1998) conducted an extensive household survey (*Characteristics of Small Business, Australia, 1997*) of businesses with less than 20 employees, in February 1997. Also, a survey of nearly 1,000 employing businesses was carried out in 1995 called the "Portrait" (Industry Commission et. al 1997) - to provide comparison to the other two surveys, we will only use the results for businesses with less than 20 employees. Key information from the surveys are summarised below under four headings (YP = *Yellow Pages Australia Small Business Index*; ABS = 1997 ABS survey; P = Portrait; SBOM = small business owner-manager; SB = small business).

1. Profile of the small business owner-manager

About a third of SBOMs are female, and they are more likely to manage the smaller and the more recently formed businesses. The average age of the SBOM is 42 years, with 10% less than 30 years, 64% aged between 30 and 50 years, and 26% older than 50 years. About 31% of SBOMs are part-time.

69% of SBOMs were previously employees (32% in a big business, 21% in another SB, 9% in government, and 7% in the SB itself). 18% were previous SB owners, 3% had been students, 9% had other backgrounds and only 1% were previously unemployed. About 70% of SBOMs were born in Australia (YP 76%), which is consistent with the general population.

On the whole, SBOMs are better educated than the general population. About 37% received no formal education after secondary school, but 36% had a basic or skilled vocational qualification in contrast to 14% of the population. 27% had a tertiary degree or diploma compared to 13% of the population.

2. Profile of the small business

Overall about 55% of SBs operate from home and 64% of these have no employees (ABS). Of firms with 1-4 employees, 45% are companies, 38% are sole proprietorships or partnerships, and 17% have other legal structures. As the number of employees increase beyond four so does the proportion of company structures.

According to the ABS, about 44% of SBs are less than 5 years old, 23% are between 5 and 9 years, and 33% are 10 years or older. The latter older firms tend to be the larger SBs due to the process of firm growth and higher exit rates by smaller firms (P).

The majority of SBs are managed by the founder - only 25% have been purchased or have second or third generation owner-managers. 22% of businesses needed less than \$1,000 to start, and 75% of all starters used personal funds.

3. Business operations

72% of SBOMs work with at least one other member of the family, normally their spouse, and a much smaller proportion work with 2 or more family members (YP). The proportion of part-time employees used in a SB tends to increase with its size - 17% of employees are part-time in firms with 1 - 4 employees, and about 30% in firms with 5 - 19 employees (P). Only 13% of employing firms planned to send their staff to training courses within the next six months (ABS).

In the year prior to the ABS survey about three quarters of firms consulted some form of external advisory service including accountants (65%), bankers (43%), solicitors (23%), Australian Taxation Office (23%) and government SB agencies (6%), but only 5% of firms participated in government programs (P).

The use of documented business plans tended to increase with the size of the SB, but was generally low (11% of firms with 1 - 4 employees, 16% of firms with 5 - 9 employees, and 24% of firms with 10 - 19 employees).

4. Perceptions of the small business owner-manager

Respondents were asked 'What do you see as the main benefits or advantages - to you - of being a small business proprietor?' (YP) - see Table 1

TABLE 1

BENEFITS OF RUNNING A SMALL BUSINESS (SPONTANEOUS RESPONSES)

Source: *Yellow Pages Australia Small Business Index* (November 1993)

	%
Being my own boss	46
Control over destiny	34
Flexible time	21
Financial gain	14
Personal satisfaction	9
An achievement	7
Job security	6
Not on fixed income	6

Being independent ("my own boss") and having control of their own destinies are seen as the primary benefits, and financial gains are well down the list. This has been a general finding of researchers. For example, South Australian SBOMs were asked in 1994-95 'What is your major reason for owning and operating your own enterprise?' and Table 2 shows independence as the major reason. (5) As suggested earlier, the benefits or advantages appreciated by entrepreneurs (in contrast to traditional proprietors) are not effectively disclosed in such surveys. That is, there is no evidence of aspects such as maximisation of income or growth, or high satisfaction from innovation or creativity.

TABLE 2

MAJOR REASON FOR RUNNING A SMALL BUSINESS

Source: R. Peacock, *Small Business in South Australia: A Snapshot*, Small Enterprise Series no. 32 (Adelaide: University of South Australia, March 1997)

	%
Independence	35
Financial reward	13

Job satisfaction	12
Challenge	10
Employment	10
Other	20
	100%

More light is thrown upon the perceptions of SBOMs from a series of prompted attitudinal statements in Table 3. More than half the operators felt that they could earn more money as employees (statement 7) and 39% believed that they were not well rewarded (statement 6). These views were widely held and not confined to those operating the smaller businesses. The majority felt the responsibility of the wellbeing of their staff and only 35% enjoyed this. Apparently, non-financial rewards (statements 1 and 2) exceeded the downsides because 70% preferred self employment to being an employee.

TABLE 3

BENEFITS OF RUNNING A SMALL BUSINESS (PROMPTED RESPONSES)

Source: *Yellow Pages Australia Small Business Index* (November 1993)

	<u>Agree strongly</u>	<u>Agree somewhat</u>	<u>Neutral/disagree</u>	
	%	%	%	%
1. I experience a real sense of achievement in running my business	65	30	5	
2. I really enjoy what I do	59	34	7	
3. I much prefer being self employed rather than an employee	70	22	8	
4. I feel that I have a lot of responsibility to look after the well being of my staff		65	26	9
5. I enjoy the responsibility of looking after my staff	35		42	23
6. I believe that I am well rewarded for the time and effort I put into running the business	Agree 56	Neutral 5	Disagree 39	
7. I could probably earn more money if I worked for someone else rather than running a small business	Agree 51	Neutral 6	Disagree 43	

Since psychic rewards are so important to SBOMs, traditional accounting and financial indicators of business success are not very helpful in measuring success in the SB sector. The personal views of SBOMs need to be sought and this was done by the ABS; operators were asked to '..... rate the success of the business over the past twelve months as highly successful, moderately successful, unsuccessful or unsure'. The majority (69%) considered themselves moderately successful. 20% were highly successful, 7% were unsure and 4% were unsuccessful. The highly successful operators attributed their success largely to a quality product or service, followed by good management and prior experience.

SBOMs were asked to describe the personal costs of operating their businesses. As shown in Table 4 the hours of work were by far the primary drawback. Nearly one half mentioned long hours and a further 8% complained of lack of holidays or too little respite time away from the business. 12% of men and 5% of women were concerned about the effect of the business on their health.

TABLE 4

PERSONAL COSTS OF RUNNING A SMALL BUSINESS (SPONTANEOUS RESPONSES)

Source: *Yellow Pages Australia Small Business Index*, November 1993

	%
Too many hours	48

Many worries	16	
Health problems/stress		10
Lack of security	10	
No holidays/time away	8	
Too much is expected		6
Government red tape	5	
Work too hard	5	
Not knowing weekly income	4	
On call 24 hours	4	

Four prompted statements (Table 5) indicate concerns that the business interferes with leisure time, reduces time for the family, and creates a succession problem.

TABLE 5

PERSONAL COSTS OF RUNNING A SMALL BUSINESS (PROMPTED RESPONSES)

Source: *Yellow Pages Australia Small Business Index* (November 1993)

	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
	%	%	%
1. I tend to be fairly pre-occupied with the business even in my leisure time	77	5	18
2. I feel that I have too little leisure time because of running the business		68	5 27
3. Running my small business prevents me spending enough time with my family	56	7	37
4. I am concerned about the future of my business if I retire or can no longer operate it	55	11	34

It appears that many of the key features of the small business owner-manager and the traditional small business have not altered very much since Brodribb's study of 1967. Objectives of independence, control of the business, life style, moderate growth and a satisfactory income seem to be achieved by the majority. The role of the family is important and owners are concerned about their succession. 'Constant busyness' leads to long hours of work which interfere with time for leisure and family. Most firms were founded by the current operator within the previous five years. Changes in more recent time have seen an increase in the standard of education of operators, more female operators, many more part-time operators, and a big increase in the number of home-based enterprises.

SUMMARY

The economic role of entrepreneurs has been explored and Liles has demonstrated that, given a certain degree of ambition, people with adequate life and work experiences can become entrepreneurs. Most business ventures start in a small way and develop to become traditional small businesses. Their key characteristics and those of their operators have been summarised in this chapter. A small minority of new ventures become growth businesses created by entrepreneurs like Stella Alexander and Wayne Portelli. Both types of small businesses are important in Australia, but the entrepreneurial ventures are the chief contributors to economic growth.

NOTES

1. In her study of 25 self employed women, L. Still (1990) used the same small business classification.
2. According to Hornaday (1990) the trouble with this approach is that it is useful only for ex post analysis. The behaviour of a firm over a fairly long period of time must be observed before it can be declared an "entrepreneurial venture".
3. Information was gathered from the *Business Review Weekly* October 30 1995, May 2 1997 and June 2 1997.
4. She defined small businesses as being independently owned and operated by one individual who contributed a substantial share of funds invested in the firm. Many such firms had less than 150 employees.
5. Results were similar to those found in 1985 and 1987 by the author.

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