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**THE ROLE OF SMALL BUSINESS IN EMPLOYMENT GENERATION:  
A MANAWATU STUDY**

**A research paper presented in partial fulfilment of the requirements  
for the degree of**

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## ABSTRACT

Unemployment rates in NZ have increased steadily throughout the recessionary period dating back to the early 1970s. This study, using both quantitative and qualitative analysis, examines what role small businesses can play in both regional and national economic revival. In the literature review it is demonstrated both internationally and regionally, that small businesses contribute significantly to employment opportunities during recessionary periods - far more than large firms. This was supported in a Manawatu study of 56 small businesses. Quantitatively small firms in the region are, albeit slowly, expanding their workforces despite the economic climate. The chances of setting up a small firm are still not too difficult. Qualitatively these small businesses are found to be positive and dynamic environments. Nearly all respondents had little difficulty in retaining workers and all stated that the working environment was based on 'friendship and trust'. Thus small firms not only contribute to the quantitative expansion of employment but also significantly improve the qualitative nature of the workplace. Finally, while government assistance in the form of direct financial assistance, has not been significant in these findings, it is argued that the role of government policy is critical in the role and success of small enterprises in the economy.

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# **THE ROLE OF SMALL BUSINESS IN EMPLOYMENT GENERATION: A MANAWATU STUDY**

## **CHAPTER ONE**

### **INTRODUCTION**

Unemployment rates in New Zealand have increased continuously since 1967 and rapidly over the past decade. Registered unemployment has risen from 41,415 in 1981 to 172,233 in 1991 (Labour Market Statistics 1991). As a percentage of the labour force, the unemployment rate has risen from 'only' 2.6% in 1981 (census year) to 6% in December 1988 and 10.1% in June 1991 (New Zealand Official Year Book 1991, 1992 : Based on quarterly Household Labour Force Survey). The severity of this problem can be measured both in terms of tangible national economic stagnation and household income decline, and through the intangible effects in regard to the unemployed and their families. The effects of unemployment can be compared to throwing a stone into clear water. The impacts of declining wealth reflect and expand from one sector to other sectors. In regard to the current economic recession, small businesses have been supported as one solution in various countries. The objectives of this study, therefore, are firstly to study and examine New Zealand's period of economic decline and rising unemployment. Then to investigate whether the role of small businesses can be significant in relation to the unemployment problem. From this comprehension of unemployment factors and related effects, government policy is considered as a major variable to be considered. Therefore after the literature review in chapter two, government policy with regard to the New Zealand unemployment situation has been discussed in chapter three. The survey on small firms and their employment strength and extent was conducted by mail survey in the Manawatu region between September 9 and October 6, 1992. The period of

interest of the survey in regard to the relationships of employment and the small business sector was over the period 1990-1992. Data collection methods are discussed in chapter four. Finally, the findings are then discussed in regard to both their quantitative and qualitative aspects.

The results of this study established that small businesses are still a critical source of employment and that even during the current recessionary trends they have maintained a general level of expansion. The relationship of employers and employees in small firms is notably positive if using definitions of 'friendship and trust'. The chance of becoming self-employed or starting a small firm is still not too difficult. Finally, it is argued with support from government policy small firms could contribute positively to both the quantitative and qualitative recovery of the region and of the country.