The Sustainability of Small Businesses in Recessionary Times: Evidence from the strategies of urban and rural small businesses in New Zealand

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1. Introduction

The focus of this paper is on the strategic behaviour of rural SMEs compared to urban SMEs in difficult and turbulent economic conditions. We discuss empirical evidence from a national survey of SMEs in New Zealand from urban and rural locations on their strategic responses to recessionary economic conditions. This evidence is discussed in the light of theoretical issues which we establish as an underpinning foundation for the development of our research questions. Although there is an established literature on the interdependence of small firms in rural and urban areas, there is little in the way of systematic research that can contribute to an understanding of the strategies of rural SMEs compared to urban SMEs in difficult economic conditions. There has been very limited research and, hence, empirical evidence on SMEs in rural locations compared to SMEs in urban locations in New Zealand and elsewhere. The limited number of previous studies have been concerned with specific issues such as migrant labour (Ramasamy et al, 2008); off-farm income or farm diversification (Rhodes and Journeux, 1995) and ICT and broadband-related issues (Howell, 2001). This paper seeks to address this research gap by providing for the first time empirical evidence on rural SMEs, their characteristics and their distinctiveness, and on their strategies compared to urban SMEs in difficult economic conditions. The paper provides an original contribution to knowledge through the following:

- A primary focus on the comparison of urban and rural SMEs' strategic behaviour in challenging and turbulent economic conditions,
- Providing for the first time empirical evidence on the sustainability of rural SMEs in recessionary times compared to urban firms across three different locational settlement patterns; urban, independent urban and rural.

For this study, we are able to draw upon a data set of 1411 SMEs from an annual survey of New Zealand's SMEs. This is a national survey of SMEs, we have analysed the data to draw out distinctive differences with firms located in different urban or rural locations. There is some academic debate about what constitutes a rural enterprise, whether, for example, the rural SME can be identified as distinctive and we argue that a stark division that has normally between adopted between urban and rural localities to distinguish SMEs is inappropriate. First, however, it is necessary to review the relevant existing theories, literature and concepts relevant to rural SMEs and their strategic behaviours. We build from theory on the interdependence of urban and rural settlements. The theory is used to develop our research questions and to underpin subsequent discussion of the analysis of results and our conclusions. Having established the theoretical issues and foundation, we provide a definitions section, before explaining the methodological approach, which is placed in the context of the New Zealand economy. This section is followed by a presentation of data and results with analysis and discussion in the light of theory and the paper concludes with a summary of the key findings on the distinctiveness of SMEs across the three settlement patterns of urban, independent urban and rural, in terms of their characteristics, performance and strategic behaviour.

2. Theoretical Issues

2.1 Interdependence of Rural and Urban Settlements

There is a growing literature that has pointed to the significance of independent urban areas for local economic vitality and business performance. In New Zealand these settlements are equivalent to small market towns that are characteristic in other developed economies such as the UK and some European countries. In New Zealand the importance of such communities has been highlighted by the earlier work of Liepins (2000).

This paper contributes to this literature on the importance of small market towns and independent settlements as centres for servicing their hinterlands. This literature indicates that the influence of such independent settlements on the surrounding more rural area is often significant and it has been claimed that there is mutual dependence between surrounding small market towns and their rural hinterland area (Powe & Shaw, 2004). The extent of integration of such local market towns with their hinterland and with other urban areas is likely to influence their importance (Courtney & Errington, 2000). The importance of interdependence between urban and rural areas has been supported by the study of Kalantaridis (2010), who examined the role of migrants for entrepreneurial activity. However, the focus of the majority of this emerging literature has been on the linkages of households rather than entrepreneurs, SMEs and local rural businesses. For example, Powe and Shaw (2004)'s paper discusses evidence on the mutual dependence between a small market town in the North East of England (Alnwick) and the residents of its hinterland and the use by such residents of market town services. It is arguable that the role of rural SMEs in the emergence of the significance of independent settlements such as small towns has been neglected.

The attractions of a rural environment may also be exploited via marketing strategies of rural SMEs (McAulay, 2003). However, theoretically, the more limited diversity in terms of demographic profile will limit creativity and hence innovation (Florida, 2002). In New Zealand, the greatest demographic diversity lies in the main urban centres, especially in Auckland and Wellington, this provides limited scope for ethnic diversity to influence the range of goods and services produced in rural areas. Although ethnic minorities do exist, they may be some distance from specialised centres of support and assistance. On the demand side, local rural SME customers may be more loyal (Stokes, 2004) and it is arguable that closeness to customers may give local SMEs some advantages (Byrom et al., 2003), but local markets are more limited and may be more competitive in certain sectors (Paddison and Calderwood, 2007). It has been suggested that a lack of large firm competition in rural areas, may make rural SMEs less responsive to customer demands (Paddison and Calderwood, 2007),

2.2 Rural and Urban SMEs' Strategic Behaviour

It is arguable that there are a number of theoretical considerations, due to distance and environment, that will affect the expected characteristics, performance and strategic behaviour of SMEs across different settlement classifications. A resource-based view (Barney, 1991), for example, would contend that SMEs in rural areas can be expected to be 'resource poor' due to limited scarce resources and a restricted technological base in rural environments (OECD, 2008). Business networks are likely to be more dispersed than in urban areas. Although a resource-based view might see such dispersed networks as a limitation, ties may be strong (Granovetter, 1973), reflecting the embeddedness of rural entrepreneurs in local markets. For example, Atterton & Affleck's (2009) survey of businesses in the rural North East of England found a high degree of integration with their local environment, but also dependence on local markets as well. The informal nature of entrepreneurial activity, for example, through reliance on word of mouth as a source of information, in rural localities has been highlighted (Williams & Nadin).

In principle, technological advances, especially ICT and internet trading, offer rural firms the possibility of overcoming disadvantages of location. However, Roberts (2002) has emphasised the more limited access for rural SMEs to communications networks and technology. Other writers have identified that there is an on-going and perpetual 'technology gap' that exists between urban and rural locations. For example, with access to the latest broadband speeds (Talbot, 2008). It is probably inappropriate to label rural firms as slow adopters of ICT and e-business trading; in practice the picture is likely to be more complex. For example, Mitchell and Clark (1999) distinguish between businesses that are locally and globally orientated. They have argued that global orientation is the best predictor of rural firms' growth. However, even within firms that are globally orientated, a lack of integration of web-based technologies with marketing strategies was still found by one survey of rural SMEs (Sparkes and Thomas, 2001). Recent work has found that internet portals enable rural firms to maintain a balance of local competitive advantages with external more global marketing (Galloway, et al. 2011).

In terms of opportunity recognition and exploitation theory (Shane, 2000), there will be limited opportunities constrained by the limited local markets in rural localities. Thus it is arguable that the opportunity discovery process will be more bounded and limited. For example, Anderson, Ossiechuck & Illingworth (2010) argue that rural small firms operate in more constrained environments. Similarly innovation may be limited by both a resources and an opportunity theoretical perspective (Smallbone et al., 2002). Consequently writers such as Vaessen & Keeble (1995) and Smallbone et al (2002) have suggested that SMEs in rural locations compared to SMEs in urban locations will be: smaller in size, slow to innovate, have limited networks with higher rates of self-employment and family labour (Cosh & Hughes, 2000).

These are demand and supply-side theoretical perspectives on issues that will affect SMEs strategic behaviour in rural and small settlement environments. On the resource side, it is arguable that demographic and environmental considerations compound the issues faced by SMEs in rural locations. For example, in-migrants are likely to be older than out-migrants. However, this issue is likely to be more complex than simple generalisations might imply. For example, there is increasing entrepreneurial activity of people in the 'third age' (Telford, 2006) and it is suggested that rural areas may attract increasing numbers of entrepreneurs seeking a higher quality of life (Countryside Agency, 2003). Atterton & Affleck (2009) support the hypothesis that in-migrants to such areas will also be more entrepreneurial than the resident population. This has been confirmed by Kalantaridis (2010) in a study on in-migrants to East Cleveland in the North East of England, although their impact is cumulative and of most impact where the opportunities are strongest.

2.3 Rural and Urban SMEs Strategies and Resilience

In the face of turbulent economic trading conditions such as the recent global recession during 2008-10, it is arguable that rural SMEs may be less affected by economic downturns, particularly if important sectors are primary producers or within supply chains related to primary products. However, where SMEs in rural localities are more dependent on tourism, such SMEs may be more vulnerable to global recession trends and to swings in exchange rates associated with changing economic conditions overseas.

A Schumpeterian view of recessions would see them as periods of 'creative destruction' in which old technologies, products and industries go into terminal decline while new ones emerge (Schumpeter, 1934; Anderson & Tushman, 1991). Such periods offer new entrepreneurial opportunities which may be more limited in rural areas than urban areas (Anderson, et al, 2010; Kitching, et al. 2011).

However, the greater embeddedness of rural SMEs in their environments may mean that they have greater resilience in economic downturns. For example, Raley & Moxey‘s (2000) survey of micro-businesses in the North East of England, suggested that rural SMEs have a high resilience. Anderson et al (2010) through their survey of rural and urban small firms found that rural firms were performing marginally better than urban firms, even though they expected the impact of the economic recession on rural firms to be greater due to a more constrained environment in rural areas.

In analysing small firm resilience, studies demonstrate the importance of retrenchment activity (Churchill & Lewis, 1984; Michael & Robbins, 1998; DeDee & Vorhies, 1998), whilst others emphasise revenue-generation (Shama, 1993; Latham, 2009) by small firms during downturns. Recessions may stimulate activity in particular sectors, or types of business. Where customers switch to cheaper products to restrict expenditure, for example, this may boost suppliers of such goods and weaken the position of higher-priced providers. Some businesses might be willing to undertake risky investment, innovation or diversification because they perceive performance levels cannot be sustained with current practices.

Previous research with rural firms in New Zealand has been limited, but does indicate that there are issues that rural SMEs face which are suggested by theoretical considerations. For example, Shiblag & Fielden (2008) suggest that rural areas in New Zealand are characterised by inferior communication provisions, higher costs of ICT and a workforce that is less technically adept to deal with ICT applications. Howell (2001) has also suggested that infrastructure problems are a disadvantage to rural firms in New Zealand. The nature of the migrant and temporary labour force has been an issue, as SMEs in horticulture and viticulture or food manufacturers and producers face seasonal labour shortages (Ramasamy et al., 2008).

Theoretically, business networks, such as chambers of commerce, are likely to be thinly dispersed. The number of business-related events may be limited, although this does not mean that other opportunities may exist through specialised events such as rural craft fairs and farmers’ markets. These can, in rural areas, provide testing grounds for new business ideas and new products without the risk of larger nationwide launches (Cameron, 2005). In addition, once a business network is established, it will be able to generate profile for local businesses in rural areas. This may be achieved by on-line business networks (Galloway et al., 2004; Galloway, et al. 2011). It is arguable that such local networks may be more responsive to their business members' needs.

The discussion of the theoretical and empirical work, in relation to SMEs across different locational settlement patterns, has highlighted a gap in our understanding of the strategic behaviour of rural SMEs compared to urban SMEs in difficult economic conditions. This paper focuses on addressing this research gap by providing, for the first time, empirical evidence on the sustainability of rural SMEs in recessionary times compared to urban firms. More specifically, the study aims to answer the following research questions:

- What are the defining characteristics of firms and their respective owner-managers across different types of settlements?
- How does the performance of firms vary across different types of settlements during recessionary conditions?
- How does the strategic response to challenging economic times vary between firms in different types of settlements?

Before discussing our methodology and results, it is necessary to cover the definitions of the geography of rural and urban areas in New Zealand.

3. Defining Settlements in New Zealand and their Industry Characteristics

3.1. Definitions of Rurality

Statistics New Zealand (2004) developed a classification of urban and rural New Zealand that is not only based on population size, but on proximity to, and dependence upon, main urban areas. This dependence was measured by comparing an individual's usual address with their work place address using Census data.

The classification acknowledges the increasing diversity in communities i.e. those that are geographically rural and rely predominantly on primary production compared to those that are geographically rural, but rely on employment in nearby urban areas. As a result, a seven point graduation from main urban areas to highly rural areas was developed (Statistics New Zealand, 2004).

Table 1: Description of Urban-Rural Classification (Statistics New Zealand, 2010)

Area	Description
Main urban	The most urbanised areas in New Zealand with a minimum population of 30,000.
Satellite urban	Located close to main urban areas with strong economic ties through employment of 20 percent or more of the resident population working in a main urban area.
Independent urban	No significant dependence on main urban areas and less than 20 percent of resident population working in main urban area.
Rural with high urban influence Rural with moderate urban influence	Using employment location as defining variable rural areas are split into four categories depending on the

Rural with low urban influence Highly rural/remote	degree of urban influence.

The location and distribution of these categories of urban and rural settlements is shown in the map in the appendix.

Primary sector commodities account for two thirds of national exports, but although New Zealand's economic dependence on land-based production is high, people and enterprise are heavily concentrated in urban areas. Since the 1970s, including those rural areas within an urban catchment, the total share of New Zealand's population residing in rural areas has remained at around 14 percent (Ministry of Agriculture and Forestry, 2009). Official population projections anticipate that this share will decline for rural areas beyond the urban fringe. The importance of the primary sector is reflected in the occupational structure of the workforce: at around 8 percent of national employment, agriculture, fishing and forestry are more important sources of employment than is typical of other developed economies. This workforce is concentrated within rural areas. The independent urban areas have a different economic profile with comparatively low rates of labour force participation and low rates of participation in self-employment and business (table 2). A comparatively aged population and low incomes further underlines the weakness of many independent urban areas (Statistics New Zealand, 2004). Within highly rural areas around half of those in employment are engaged in agricultural and fishery occupations, although this has fallen slightly in recent years. Across rural areas, the continuing importance of primary production in the national economy is felt in at least four ways.

Table 2: Profile of Settlement Types in New Zealand 2001 and 2006

	Share of total population (%)		Labour force participation rate (%)		Share of labour force with income from self employment or business (%)		Agricultural and fishery workers as share of all employed (%)	
Areas	2001	2006	2001	2006	2001	2006	2001	2006
Main urban	71.0	71.8	66.4	68.2	17.0	16.6	2.8	2.2
Satellite urban	3.2	3.2	62.1	65.2	17.4	16.7	7.6	6.1
Independent urban	11.6	11.0	61.6	63.9	17.9	17.4	7.8	6.6
Rural with high urban influence	2.9	3.1	74.5	76.0	29.7	28.4	15.7	11.9
Rural with moderate urban influence	3.8	3.9	72.6	74.6	31.3	29.6	27.2	21.9
Rural areas with low urban influence	5.7	5.5	73.0	74.7	37.3	34.4	39.0	34.5
Highly rural areas	1.7	1.6	73.4	74.3	38.8	36.5	46.1	45.4
New Zealand	-	-	66.7	68.5	19.8	19.0	7.9	6.5

Source: Statistics New Zealand (2004); Statistics New Zealand (2010)

First, geographical regions vary in their agricultural specialisations, levels of prosperity and consequent opportunities for local business services.

Second, the extent to which primary sector specialisations generate clusters of supporting activity varies. Much of the output of the land-based economy is processed by a small number of large scale exporters which limits opportunities for non-farm enterprise in the rural sector. This pattern has been changing, but processing continues to be highly concentrated among a few large organisations in the dairy, meat and wood processing sectors. Dairy and meat processing have experienced an increase in new entrants, although in the case of dairying this tends to involve investment from established companies or investment consortia rather than entrepreneurial start ups.

Third, there is a longstanding tendency for family-owned farms to establish additional, stand alone ventures beyond the farming activity itself (Taylor & McCrostie-Little, 1997). Around three quarters of New Zealand farms have either off-farm work or off-farm investment or both (Ministry of Agriculture and Forestry, 2004). This gives rise to a wide range of enterprises in areas such as tourism, craft businesses, business consultancy and food processing.

Fourth, New Zealand has seen a considerable growth in lifestyle-driven smallholdings both around urban settlements and in rural areas (Moran, 1997; Cook & Fairweather, 2005). In New Zealand, a land holding of up to 35 hectares is potentially classified as a smallholding with one estimate being that the number of small holdings has grown to around 140,000 (Sanson et al., 2004). Around two thirds of smallholders engage in agricultural production, but rarely does such production support the household (Ministry of Agriculture and Forestry, 2004). There is a high reliance on income from other sources with smallholders contributing to a boom in farmers' markets and artisan enterprise (Guthrie et al., 2006).

After agricultural commodities, tourism is New Zealand's second largest earner of overseas income and this is also reflected in the sector's importance in rural areas. New Zealand's tourist attractions are principally wilderness and rural landscapes and this has provided increasing opportunities for rural-based tourism enterprises (Hall & Kearsley, 2002; Keen, 2004). The tourism industry as a whole in New Zealand is dominated by small firms and especially so in rural areas (Page et al., 1999). Various investigations of rural tourism ventures in New Zealand concur that economic considerations are a minor consideration in the reasons for their establishment. Partly through attachment to a pre-existing business, and frequently providing relatively little income, social benefits are frequently identified as the motivation for establishing rural tourist ventures (Keen, 2004). This is consistent with home-hosting through farm stays and bed and breakfast being the most numerous forms of tourism enterprise. Restaurants, cafes, specialist shops, museums and guided tours are the other mainstays of the rural tourist sector. Many of these operators see themselves as having a role in enhancing their local district partly by encouraging people to spend time in places that otherwise lack visitor amenities. In this context, it has been argued that the rural tourism is a form of social entrepreneurship in the sense that it both requires the ability to identify aspects of a local community that can become part of a tourist experience and that others in the community can influence the success of individual ventures (Keen, 2004).

4. Methodology and Context

4.1 The Survey and Categorisations

For the purpose of this study we have collapsed the above seven types of settlement (tables 1 and 2) into three categories: Main urban, including satellite urban; independent urban and rural including the four rural categories used by Statistics New Zealand. This classification still acknowledges the diversity within the urban-rural continuum by including independent urban as a distinctive category, but considers the small numbers of resident population (and businesses) in some of the other categories and the sampling problems that arise from it.

The current study is part of the 2009 BusinesSMEasure survey of SMEs in New Zealand conducted by the New Zealand Centre for SME Research. BusinesSMEasure is an annual survey of SMEs in New Zealand which started in 2007. The study defines SMEs as follows: micro firms with up to five employees; small firms with 6 to 49 employees; and medium-size firms with 50 to 99 employees (Cameron & Massey, 1999).

As of 2008, there were 466,323 SMEs in New Zealand (MED, 2009). The sample for this study was purchased from Datamarket, a commercial provider of business-to-business information in New Zealand. The 2009 survey involved 4,165 firms. There were 1,447 usable responses equalling a response rate of 35 percent, which is well above the average response rate of 27 percent involving studies of small firms (Barttholomew & Smith, 2006).

The study followed Dillman's (2000) Total Design Method (TDM) in choosing the sample, developing, designing and pilot testing the questionnaire. The actual survey was carried out over four mailouts. The first mailout included a cover letter, the questionnaire and a prepaid envelope. The second, third and last mailouts consisted of a reminder/post card, a letter, and another reminder/postcard respectively. The unit of analysis of this study was at the individual level; hence, all mailouts were addressed to the owners and/or managers of firms being the respondents of the survey.

In order to check for non-response bias, Armstrong & Overton's approach (1977) was followed using four demographic profile variables: gender, ethnicity, legal form of firm and family firm. The insignificant differences suggested that non-response bias was non-existent or too small for detection.

To account for common method bias, given that the study used a single instrument to measure all the variables of the study, Harman's single-factor test was performed on selected items (Podsakoff et al., 2003). The un-rotated factor solution reported seven underlying factors with eigenvalues greater than one. These seven factors accounted for variances ranging from 3.9 percent to 24.4 percent and no factor accounted for more than 50 percent of the total variance. Whilst this approach of common method bias detection is rather weak, the results offered some evidence that the common method bias per se, could not explain the variations in the responses to the questions.

As indicated earlier we have collapsed Statistics New Zealand seven categories to three in an attempt to acknowledge the diversity within the urban-rural continuum, but to handle the problem of small sample numbers in some of the rural categories. Using a concordance file of meshblock[1] data and postcode, we coded each firm into either urban, independent urban and rural. Thirty-six firms could not be categorised due to missing location data. As a result they were excluded from analysis, decreasing the actual sample size for this study to 1411 firms. As table 3 shows, rural firms were underrepresented in our survey. Weighting was applied to adjust differences between the sample and the actual population. Sample size

[1] A meshblock is the smallest geographic unit for which statisitcal data is collected by Statistics New Zealand.

weighting is a standard technique of approximisation to make the date more representative of the population.

Table 3: Location of firms

	Business Population		Actual sample		Weighted sample	
Location	*N*	%	*N*	%	*N*	%
Main urban (including satellite urban)	331,635	66.4	1043	73.9	934	66.4
Independent urban	51,563	10.3	304	21.5	145	10.3
Rural	116,060	23.2	64	4.5	332	23.2
Totals	499,258	100.0	1411	100	1411	100.0

4.2 The Economic Context: Features of New Zealand's Economy

New Zealand may be distinguished by the combination of attributes that potentially impede economic activity. It is a small economy with a population of around 4.36 million (http://www.statistics.govt.nz). However, it is not only the small population, but as well their spatial distribution that is interesting. There are only three cities with a population of more than 300,000 – Auckland with about 1.3 million and Wellington and Christchurch with about 386,000 each. Together these three locations account for about half of New Zealand's population (Statistics New Zealand, 2010). The population has steadily increased in the last decade, due in part to net inward migration which has been positive and increasing since 2001 (figure 1). In Europe, small economies are among the most prosperous, but New Zealand has the further challenge of geographical remoteness. For example, while Ireland is on the periphery of Europe and has a similar population to New Zealand, a 1200 kilometre radius from Dublin covers a market of close to 175 million compared with 4.5 million people for a similar distance around Wellington (Rowe, 2005: 3). New Zealand's catchment remains largely unchanged when the radius is expanded to 2200 kilometres; for Dublin it grows to over 300 million.

New Zealand has proportionately a high business population per capita with over 457,000 registered businesses (MED, 2009). By comparison, Scotland, with a population of just under 5.2 million, recorded less than 291,838 registered businesses in 2009 (http://www.scotland.gov.uk) (0.11 compared to 0.06 registered businesses per head of the population respectively). However, with 98 percent of firms employing fewer than 50 employees, 89 percent employing 5 or fewer and 68 percent having no employees, the number of small firms in New Zealand is broadly comparable internationally.

Figure 1: Net permanent and long-term migration to New Zealand

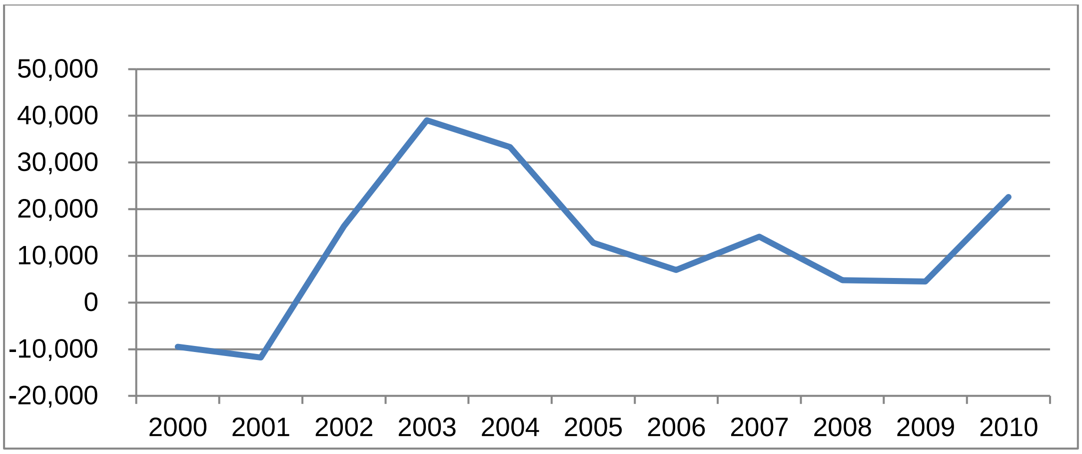
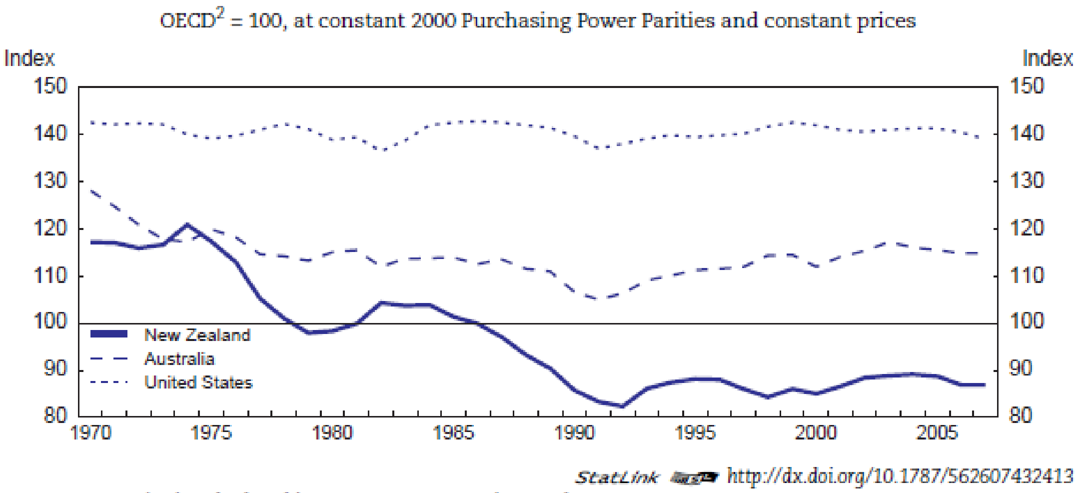


Figure 2: Real GDP per person



1. GDP per capita is calculated in USD at constant prices and constant PPPs.
2. 26 countries, Czech Republic, Hungary, Poland and Slovak Republic excluded.

Source: OECD, *National Accounts Database*.

Source: OECD (2009) OECD Economic Surveys New Zealand Volume 2009/4, Paris: OECD

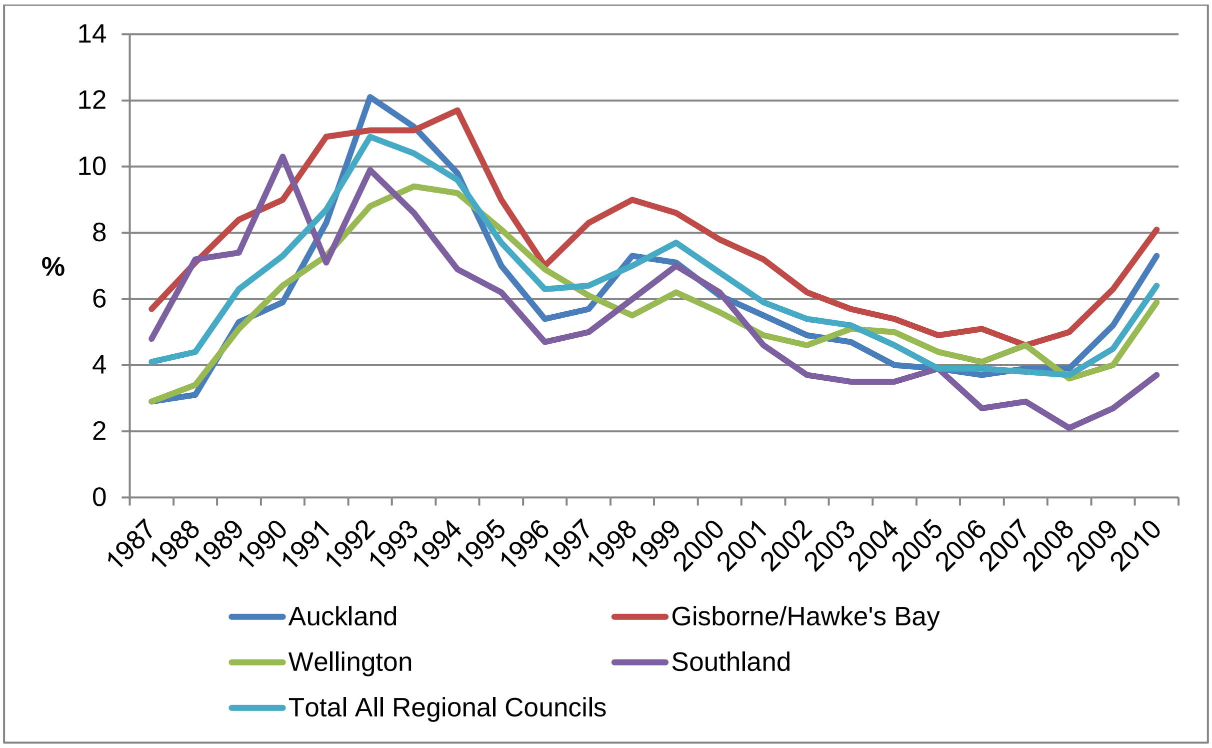
There is a tendency to believe that New Zealand's isolation and smallness constrains economic development (Skilling, 2001; Simmons, 2004). This perspective holds that the small domestic market combined with the high costs of entry into export markets prevents enterprises achieving a minimum efficient scale of production. According to this view, disadvantage is accentuated by the isolation from competitors, suppliers and markets and the competitive pressure. Enterprises seeking growth need to diversify to a greater degree and sooner than they might need to if located in a large, centrally located economy. These arguments are substantiated by evidence that New Zealand has a firm distribution heavily skewed toward small firms, including an unusually large share of manufacturing firms with fewer than 20 employees (Simmons, 2004: 128). New Zealand's economic wealth is predominantly based on its comparative advantage in natural resources reflected in its strong primary sector production such as dairy and meat. The OECD has commented that; "New Zealand's economic structure differs markedly from that of other OECD countries" (OECD, 2007, p 63). It has maintained a strong primary sector of the economy (9.2%, compared to an OECD average of 2.0%). This ‘weight’ of the land-based sector is reinforced by manufacturing industry that contains an important food manufacturing sub sector. The concentration of New Zealand exports in a small number of large organisations would also seem to testify to the challenges facing small enterprises. Small firms account for a large share of the organisations engaged in exporting, but their share of total exports is low compared with Australia (Simmons 2004: 134). It is not clear why this difference may exist, but it may reflect the additional costs of seeking to trade overseas from New Zealand, although an open economy; distance may discourage the search for opportunities overseas and encourage a focus on domestic markets.

4.3. New Zealand’s Experience of Recession 2008-2010

The economic crisis in New Zealand

During 2008/9, the world economy experienced its severest recession and financial crisis since the 1930s (World Bank, 2009). New Zealand has experienced a fall in GDP from December 2007 to March 2009, a cumulative decline of 3.3 per cent (New Zealand Treasury, 2010). New Zealand was the first country to be hit by the current recession in the first quarter 2008, although this was a consequence of domestic factors rather than global impacts. The start of the recession resulted from domestic monetary tightening, decreasing housing market activity and temporary drought conditions (OECD, 2009). Businesses were affected by decreasing household demand and unemployment rose from 3 percent to 6.5 percent by the third quarter 2009 (figure 3). Thus, although recession in New Zealand started early, it appears to be one of the shallowest because of a relatively sound financial system. New Zealand’s major banks are Australian owned and were not exposed to “toxic” assets to the same extent that banks in countries such as the US or UK were, which meant they were in less need of large-scale government intervention. In addition, New Zealand’s commodity exports were not as badly hit by the global crisis as other sectors, partly because of the continued growth of China, which is New Zealand’s main trading partner for dairy products, one of New Zealand’s main commodity exports.

Figure 3: Unemployment rate by region 1987-2010



In the four years to 2008, New Zealand recorded an annual average rise of 3.5 percent in real GDP in one of its most sustained periods of economic growth (OECD, 2009). As well as booming commodity prices, at least for some key exports, this performance was assisted by favourable economic conditions in Australia, New Zealand's single most important overseas market, a housing sector boom and record immigration. New Zealand's shift in economic fortune began prior to the world financial crisis in response to heavy pressure on production capacity through wage demands and skill shortages, currency appreciation and a tightening of monetary policy designed to curb inflation (OECD, 2009). The economy has nonetheless avoided some aspects of the international financial crisis that unfolded during 2008 as a consequence of the low level of public debt and the comparatively strong position of the Australian banks that dominate the financial sector in New Zealand. The Australian banking sector has avoided the need for the nationalisations and capital injections that have occurred in Europe and North America. In 2009 the current account deficit amounted to 10 percent of GDP and, while this is expected to increase, it allowed the government to inject a large 'fiscal stimulus' into the economy during 2009. A cumulative GDP decline of 3.3 percent was experienced from December 2007 to early 2009 (Treasury, 2010). Unemployment increased from 3 percent to 6.5 percent by the third quarter 2009, peaked in early 2010 and has since fallen to slightly over 6 percent. Another immediate and partly short-lived impact of the financial crisis was a sudden drop in net migration and short term visitor arrivals (figure 1).

Nonetheless the recession continues to result in considerably more subdued economic conditions than experienced in the decade prior to 2007. According to the OECD, the global crisis is affecting New Zealand through both demand and finance channels, it anticipates that overall New Zealand is likely to be only marginally less affected by the economic slowdown than the OECD average (OECD, 2009). Slower world growth is dampening export volumes with negative impacts for rural sector cash flow and incomes. As well, because New

Zealand is either directly or indirectly reliant on offshore capital to fund much of its investment, the global credit contraction has tightened borrowing terms and reduced the availability of investment finance and bank credit. In addition there has been a contraction in the number and activity of secondary financial institutions that in the past have been important sources of business funding.

5. Data Results and Analysis

5.1. Sample Profile

Overall, the sample consisted of 61.2 percent micro firms employing five staff or fewer, 37.1 percent small firms employing six to 49 staff and 1.7 percent medium-sized firms employing 50 to 99 staff. As shown in table 4, firm size varies significantly between the three locations, with micro firms being more likely to be located in rural areas and small firms being more likely to be located in urban areas. Concerning firm size, independent urban areas are a distinctive category in between urban and rural areas, with more micro and less smaller firms than urban areas, but not to the same extent as in rural areas. This is a similar pattern found in other studies that included independent settlements (Raley & Moxey, 2000; Atterton & Affleck, 2010).

With regard to sector, the sample consisted of 4.8 percent firms in primary production, 20.5 percent manufacturers, 13.5 percent construction, 24.2 percent wholesale/retail, 11.9 percent business, property and finance services and 25.1 percent other service sector firms. Sector composition varied significantly between the three locations with rural firms being less likely to be in manufacturing, construction and business, property and finance services, but more likely to be in primary production, wholesale/retail and other services sector matching the national pattern and reflecting the previously indicated importance of the primary sector in New Zealand.. The sector profile of firms located in independent urban areas is generally closer to that of urban firms. Only with regard to business, property and finance services were independent urban firms similar to rural firms i.e. having significantly less firms in this sector than in urban areas.

Overall, 60.6 percent of firms described themselves as family firms, with a significantly higher proportion of family firms in rural areas compared to urban areas. With regard to family involvement in management and/or ownership, firms in independent urban areas were similar to rural firms i.e. showing higher family involvement than firms in urban areas.

The greater share of family firms is reflected in the average (mean) firm age, which is 37.6 years significantly higher in rural locations compared to 24.9 years in urban locations. Despite the similar number of family firms in independent urban and rural areas the average firm age of 24.9 years in independent urban areas is comparable to urban firms rather than rural firms. It can be argued that rural firms are more established and traditional, whereas independent urban firms reflect the changes in the development of urban and rural communities and the approximation and increasing diversity in the urban-rural profile of New Zealand. Although in all areas, firms are long established.

Table 4: Firm Size and Sector by Urban and Rural Location

	Urban		Independent Urban		Rural	
	N	%	N	%	N	%
*Firm size****						
Micro	535	57.7	91	62.8	234	70.5
Small	376	40.5	52	35.9	93	28.0
Medium	17	1.8	2	1.4	5	1.5
*Sector****						
Primary Production	27	2.9	8	5.6	33	9.9
Manufacturing	216	23.2	29	20.1	44	13.2
Construction	145	15.6	23	16.0	22	6.6
Wholesale/Retail	205	22.0	38	26.4	98	29.4
Business, Property and Finance Services	134	14.4	11	7.6	22	6.6
Other Services	205	22.0	35	24.3	114	34.2
*Family Firm****						
Yes	517	57.4	93	65.5	212	67.3
No	383	42.6	49	34.5	103	32.7
	Mean		Mean		Mean	
Firm age (years)***	24.9		23.9		37.6	
Turnover (NZ$	2,084,101		2,626,978		2,079,926	

Notes: ***p<.01; **p<.05; *p<.10
X^2 (firm size)=17.271; X^2(sector)=87.867; X^2(family firm)=11.100
Post-hoc analysis of standardized residuals
ANOVA, F (firm age)=33.572

With regard to the characteristics of the owner-managers, we found 21.2 percent female owner-managers in our sample. A higher proportion of female owner-managers were found in independent urban areas.

Educational qualification patterns of owner-managers were significantly different between urban, independent urban and rural areas. While rural areas had a higher amount of owner-managers with a national certificate, trade certificate or equivalent urban areas had a higher amount of owner-managers with a degree level or higher. The educational qualification pattern of owner-managers in independent urban areas was closer to the ones in urban areas.

Table 5: Owner characteristics of rural and urban firms

	Urban		Independent Urban		Rural	
	N	%	N	%	N	%
*Gender**						
Male	737	80.4	102	71.8	245	77.5
Female	180	19.6	40	28.2	71	22.5
*Highest completed qualification level****						
No or secondary school qualification	274	32.1	47	35.6	120	37.3
Certificate level	209	24.5	37	28.0	125	38.8
Diploma level	133	15.6	21	15.9	44	13.7
Degree level or higher	237	27.8	27	20.5	33	10.2
	Median		Median		Median	
Owner age (years)***	54.8		53.9		56.8	
Owner age at firm entry (years)	37.6		37.9		38.2	

Notes: ***p<.01; **p<.05; *p<.10
X^2 (gender)=5.793; X^2(qualification)=51.469
Post-hoc analysis of standardized residuals
ANOVA F (owner age)=7.770

Similarly we found statistically significant differences with regard to the age structure of the owner-managers across the three locations with owner-managers in rural areas being older compared to owner-managers in independent urban areas and urban areas. However, there were no differences with regard to the owner-manager's age at firm entry.

5.2. Comparative Business Performance during the Recession

Respondents were asked to compare their firm's performance i.e. turnover and profitability to 12 months ago and to indicate on a five-point Likert scale whether their performance had increased, stayed the same or decreased. The results indicated that the recession did not affect all firms equally, but that there is a range of performance outcomes. Overall, more firms reported decreased, rather than increased, performance with regard to turnover and profitability. Some firms, however, actually reported increased performance during the last 12 months: 27 percent of firms reported increased turnover and 21.5 percent of firms increased profitability. A slightly smaller number of firms - 16.4 percent - reported growth i.e. increased turnover and profitability.

Table 6: Comparative Business Performance in Q4, 2009 compared to Q4, 2008

	Urban		Independent Urban		Rural	
	N	%	N	%	N	%
*Turnover compared to 12 months ago***						
Significantly increased	30	3.3	3	2.1	5	1.5
Increased	194	21.2	33	23.4	109	32.9
About the same	266	29.1	37	26.2	87	26.3
Decreased	340	37.2	57	40.4	103	31.1
Significantly decreased	84	9.2	11	7.8	27	8.2
Profitability compared to 12 months ago						
Significantly increased	26	2.9	1	0.7	0	0.0
Increased	177	19.4	26	18.6	65	19.9
About the same	288	31.6	45	32.1	136	41.7
Decreased	333	36.6	58	41.4	98	30.1
Significantly decreased	87	9.5	10	7.1	27	8.3
Growth in turnover and profitability						
Yes	145	16.0	21	14.9	60	18.3
No	764	84.0	120	85.1	267	81.7

Notes: ***p<.01; **p<.05; *p<.10
ANOVA F (turnover)=3.394

While we found a statistically significant difference in turnover across the three locations, no such difference could be found for profitability and growth. Rural firms were more likely to report increased turnover – 32.9 percent compared to 23.4 percent of firms in independent urban areas and 21.2 percent of firms in urban areas.

Further, respondents were asked to indicate the month and year that they first felt the effects of the recession in their firm. Responses range from as early as January 2007 through to December 2009. The first distinct increase was in March 2008, with a second spike in October and November 2008 and numbers remaining high throughout the first half of 2009. Overall, only a small number of firms i.e. 3.9 percent felt the recession in 2007, with the majority of firms feeling the effects during 2008 (44.8 percent) and during 2009 (51.3 percent).

The timing of the recession, however, was felt differently across the three locations. Table 7 shows that urban and rural firms showed quite similar patterns during 2008 and 2009. 45.3

percent of urban firms and 48.5 percent of rural firms first felt the recession during 2008 and 49.7 percent of urban firms and 51.5 percent of rural firms first felt the recession during 2009. For independent urban firms, however, there seemed to be a delayed effect of the recession. With only 35.1 percent of independent urban firms having felt the recession for the first time during 2008, they were significantly underrepresented, suggesting that such firms may be more resilient in difficult economic conditions. However, during 2009, there was a strong increase of independent urban firms that first felt the recession (61.9 percent). In this year, independent urban firms were significantly overrepresented in having first felt the recession compared to urban and rural firms.

Overall, 30.8 percent of firms reported that they have not felt the recession at all. Table 7 indicates that 25.4 percent of urban firms and 28.7 percent of independent urban firms reported not to have been affected by the recession. In comparison, 46.5 percent of rural firms reported not to have been affected. Rural firms were therefore significantly over-represented in not having been affected by the recession.

In summary, independent urban firms felt the effects of the recession later than urban firms. Overall, however, a similar number of firms have been affected. Rural firms, however, were affected by the recession by a far smaller extent than urban firms, although the timing of the recession followed similar patterns to urban areas.

Table 7: Impact of Recession on Firms

	Urban		Independent Urban		Rural	
	N	%	N	%	N	%
*Recession affected****						
Yes	657	74.6	97	71.3	147	53.5
No	224	25.4	39	28.7	169	46.5
*Year recession was first felt****						
During 2007	33	5.0	3	3.1	0	0.0
During 2008	296	45.3	34	35.1	82	48.5
During 2009	325	49.7	60	61.9	87	51.5

Notes: ***p<.01; **p<.05; *p<.10
X^2 (recession)=48.897; X^2(year)=13.973
Post-hoc analysis of standardized residuals

Further, respondents were asked to indicate what their main source of competitive advantage was during the economically challenging times. While the firms across the three locations agreed in principle what the main three sources were (i.e. established customer relationships, quality of product/service and uniqueness of product/services) we found some distinctive differences as well. Although location didn't rank very high as a competitive advantage, independent urban and rural firms (6.2 percent and 8.1 percent respectively) were significantly more likely to agree compared to urban firms. Further, rural firms were less likely to see price and the quality of product/services as a competitive advantage compared to urban and independent urban firms.

Table 8: Main source of competitive advantage during recession

	Urban		Independent Urban		Rural	
	N	%	N	%	N	%
Established customer relationships	274	29.3	41	28.5	82	24.7
Quality of product/service**	202	21.6	32	22.1	49	14.8
Unique product/service offered	130	13.9	18	12.4	60	18.1
Price**	67	7.2	10	6.9	11	3.3
Location***	16	1.7	9	6.2	27	8.1
Speed of response	22	2.4	3	2.1	11	3.3

Notes: ***p<.01; **p<.05; *p<.10
X^2 (quality)=7.615; X^2 (price)=6.373; X^2 (location)=31.332
Post-hoc analysis of standardized residuals

5.3. Strategic Responses to Difficult Economic Conditions

Those respondents that indicated that they were affected by the recession were asked which actions they undertook since the start of 2008 to increase or maintain their firm's performance. A prompt list was used with 38 specific actions. We found a significant difference for 11 of the 38 actions that are shown in table 9 indicating that firms that have been affected by the recession used different actions depending on their location.

Generally, firms took a combination of actions targeted at revenue generation and investment as well as cost-cutting measures. With regard to actions that are associated with revenue generation, urban and independent urban firms were more likely to have taken these compared to rural firms. Urban firms were more likely to have introduced new products/services, sold in new geographic areas, sold to more existing customers and sold to new types of customers. Independent urban areas showed a similar behavioural response pattern as urban firms. From the result it seems that firms in urban areas exploit their advantage with regard to making changes in new products and markets which might be less feasible for firms in rural areas.

With regard to cost-cutting measures, we identified three actions that rural firms were significantly more likely to have taken: increased use of unpaid family labour, invested personal savings and cancelled personal holidays. Urban firms, however, were more likely to cut costs by changing the management team, introducing wage/salary freeze, reducing debt to external sources, and shortening payment periods for customers. The different actions taken by urban and rural firms reflect the differences in business structure on the one hand and their customer profile on the other. As rural firms are smaller than urban firms with a higher involvement of family members and a smaller and more difficult to change customer base, their actions are more likely to be of a private nature; i.e., increased use of personal and family resources. Urban firms, however, are more likely to exploit resources other than their personal ones first. Independent urban firms showed a mixed pattern when it comes to cost cutting measures.

Table 9: SME Strategic responses to the recession

	Urban and recession affected		Independent Urban and recession affected		Rural and recession affected		X^2
	N	%	N	%	N	%	
Revenue Generation							
Introduced new products/services**	377	54.4	53	54.6	76	45.0	8.4
Sold in new geographic areas***	106	16.1	11	11.3	11	6.5	11.0
Sold more to existing customers***	202	30.8	28	28.9	27	16.1	14.5
Sold to new types of customers**	261	39.7	34	35.1	49	29.0	6.9
Cost Cutting							
Reduced advertising/promotional expenditure*	140	21.3	20	20.6	49	29.0	4.8
Used new suppliers*	211	21.1	30	30.9	38	22.5	5.9
Changed management team***	115	17.5	14	14.6	5	3.0	22.7
Increased use of unpaid family labour**	95	14.5	18	18.6	38	22.5	6.7
Introduced wage/salary freeze***	190	28.9	18	18.6	27	16.1	14.4
Introduced new working practices*	133	20.3	19	19.6	22	13.0	4.7
Reduced debt to external sources**	154	23.4	21	21.9	22	13.0	8.7
Invested personal savings***	208	31.7	25	25.8	82	48.5	20.4
Shortened payment period for customers***	82	12.5	11	11.5	0	0.0	23.3
Negotiated change in duration of lease*	46	7.0	3	3.1	5	3.0	5.4
Cancelled personal holidays**	220	33.5	38	39.2	76	45.0	8.0

Notes: ***p<.01; **p<.05; *p<.10
X^2 with post-hoc analysis of standardized residuals

6. Discussion

In this section we discuss our findings in the light of our earlier coverage of theoretical issues and the development of research questions.

The survey results show that there are number of distinctive characteristics of rural SMEs in New Zealand. As might be expected from our theoretical discussion, firms in rural areas are more likely to be smaller in size and more likely to be in primary production or wholesale and retail sectors than firms in urban areas. However, there is a distinctive group of firms that are in the independent urban areas. These areas are effectively small independent towns and have a sufficiently large enough settlement to provide scope for retailing and other business and service sector firms. Although such areas are given an ‘independent urban’ classification by Statistics New Zealand (2004), they show more characteristics of rural areas than urban and with their own distinctive SME business population. It is arguable that independent areas have sufficient local markets to sustain larger size firms than the more remote rural areas. It is arguable as well that their environments are more dynamic, producing a greater range of opportunities. These results strongly support the theoretical case for the role and significance of independent small settlements or ‘market towns’ as distinctive forms of settlement from urban and more rural areas. It can also be argued that the results give some weight to a resource-based view of the firm, that such settlements provide sufficient resources and networks to provide SMEs with distinctive characteristics and with sufficient opportunities to be resilient in recessionary economic conditions.

From a resource theory perspective, rural SMEs exhibit further characteristics associated with the lack of munificence in the rural environment and the rural population demographics. Hence they are more dependent as expected on family networks for resources with larger numbers of family firms with little difference here in independent urban areas from rural areas. As expected, the human capital of owner-managers was higher in urban areas (possibly reflecting greater educational opportunities), but with firms in independent urban areas also having significantly higher levels of human capital. This suggests that SMEs in the independent urban areas have distinctive characteristics that set them apart. Although they share some of the characteristics of the more remote rural firms, especially in terms of size and resources, there is a greater possibility of effective business networks and access to higher levels of human capital and possibly to social and financial capital. Given the demographics of rural areas, as indicated theoretically, we would expect older owners and less vitality in the SME population. The results in table 4 support this proposition. That is, SMEs in rural areas tend to be longer established and have owner-managers who are older.

It is arguable that the global downturn has not had the same severity or depth of impact in New Zealand compared to other developed countries. Thus overall, SMEs reporting severe impacts of the recession were relatively small in proportionate numbers across all locations. We suggest that theoretically rural SMEs in New Zealand may be more resilient to the effects of the recession, than in some other developed economies, which may be based on SME sectoral concentrations and differences. However, perhaps surprisingly, rural SMEs were found not only to be resilient, but were significantly more likely to report increases in turnover compared to SMEs in urban areas. Given that our sample is not representative of primary producers, sectoral differences cannot explain this difference, although there may be related sub-sectors such as food manufacturing. When this finding is combined with that in table 8, that, although small numbers, rural SMEs are more likely to report location as an advantage, it does suggest that SMEs in rural areas were able to exploit their location as an advantage during the recession. For example, rural SMEs may be able to market the attractiveness of the rural environment as some of the previous literature has suggested (McAuley, 2003). This gives some support to the opportunity-based theoretical perspective. Therefore, it is likely that theoretical considerations from both a resource-based view and from the provision and exploitation of opportunities can help to explain SMEs resilience in recessionary economic conditions. For example, a Schumpeterian dynamic approach to the impact of the recession would argue that economic turbulence produces new opportunities and when examining strategies in the face of recessionary times, we find that a distinctive group of firms were more likely to undertake investment strategies rather than retrenchment, Not surprisingly, SMEs in rural areas, faced with limited resources and human capital, were more likely to follow the latter strategy of retrenchment than their urban counterparts, such as increased use of personal and family resources.

The primary focus of the paper, however, is on strategic behaviour of SMEs in rural and urban locations, this was encapsulated in our third research question. It is in this context that some of the differences in strategic behaviour between rural and urban SMEs can be discussed. The key results are shown in table 9. This table indicates that firm location in a rural or urban environment can influence the nature of firm reactions to changing economic conditions. The results indicate the general resourcefulness of SMEs, but in particular they illustrate that the flexibility and resourcefulness of rural SMEs. As expected urban SMEs have greater opportunities for investment and new product development, perhaps drawing on external resources. Rural SMEs by contrast are more likely to respond in ways in which they can manage limited resources and investment, such as bootstrapping methods. Despite this, they are perhaps remarkably resourceful and have been able to maintain turnover and performance. However, there is also a distinct group of independent urban SMEs that have some differences in strategic responses and behaviour. Although they share business demographic characteristics which are similar to rural firms, they differ in strategic behaviour and are able to invest and exploit new market opportunities. It could be that such SMEs are able to take advantage of a stronger technological infrastructure in these areas compared to rural firms. As indicated earlier in this section, a combination of both resource and opportunity-based theories is required to explain some of the differences in strategic behaviour. Overall, these findings give additional weight to views that independent towns and small settlements are important locations for innovative businesses and SMEs, both resilient to recessionary conditions and able to take advantage of opportunities afforded by such settlements and their rural hinterlands.

7. Conclusions

This paper has considered empirical evidence on the strategic behaviour of rural SMEs compared to urban SMEs in times of difficult economic conditions. We have built the paper from a theoretical discussion that suggests that will be distinctive differences in SMEs' strategic behaviour across different settlement patterns, utilising resource-based and opportunity-based theoretical perspectives. This led to three research questions which were concerned with three elements when comparing urban and rural SMEs; their characteristics, their performance and their strategic behaviours. Following a review of the literature on the interdependence and linkages of settlements, we have argued that the role and strategic behaviour of SMEs in this literature has been neglected. Therefore, we consider that the following conclusions mark a contribution to a research gap in the literature on empirical evidence on SMEs strategic behaviour across different rural and urban settlement types.

Compared to urban SMEs, rural SMEs in New Zealand are characterised by greater use of family labour, are longer established, have older owners and have lower human capital and other resources. We have found that although there were some similarities, there were distinctive differences between urban and rural firms in their strategic behaviour and in the impacts of the recession. There was a diversity of responses across small business in three different settlement types (or locations: urban, independent urban, or small towns, and rural). We found differences in the effects of the recession in terms of the timing of the recession with a delayed effect on independent urban firms. Rural small businesses appear to show greater resilience than urban firms and were less affected by the impact of the recession than were urban firms. It may be that the location for independent urban and rural firms provides a more stable environment with more stable customer relationships than that for firms in urban environments in recessionary times. Distinctive differences were also apparent in strategic responses to the recession with urban firms more likely to make changes to products and attempt to enter new markets than firms in rural areas. However, urban firms were also more likely to cut costs than those in rural or independent urban areas,

We argue that there is a distinctive group of SMEs that are located in the independent urban areas. This finding adds weight to an emergent view in the literature that these 'small town' settlement areas have distinctive linkages with their rural hinterlands which can provide resources and opportunities for a vibrant small firm business and economic base. These areas are effectively small independent towns and have a sufficiently large enough settlement to provide scope for retailing and other business, including manufacturing, and service sector SMEs. We found a delayed effect of the recession and arguably greater sustainability of firms in independent urban areas. It is arguable that independent areas have sufficient linkages to provide SMEs with local markets to sustain larger size firms than the more remote rural areas. It is arguable as well that their environments are more dynamic, producing a greater range of opportunities. We argue that independent urban areas have sufficient local markets to sustain larger size firms and provide a greater range of opportunities than the more remote rural areas. These findings support a combination of resource-based and opportunity-based explanations for this strategic resilience of SMEs in independent urban areas.

Although the impact of the recession in New Zealand has not been as severe as in the Northern Hemisphere, rural SMEs have still been affected by falling levels of demand. Rural SMEs have, nevertheless, been resilient in the face of recession. It seems that the recession has taken longer to take effect in rural areas, but rural SMEs still report investment strategies. However, compared to urban SMEs, rural SMEs are more likely to respond in ways in which they can manage limited resources and investment, such as bootstrapping. Independent urban area SMEs are more likely to report investment strategies.

In this paper, we have been able to use an annual survey of SMEs to report results on characteristics, performance and strategic behaviour of SMEs in three location settlement patterns; rural, independent small towns and urban areas. We have shown that SMEs in independent urban areas/small town settlements have distinctive characteristics, performance and strategic behaviour. The paper has contributed to a research gap by considering the evidence on strategic behaviour of SMEs across the three types of settlement. There are differences in the way that urban, independent urban and rural SMEs have responded to recessionary conditions, we have suggested that there are theoretical perspectives that help to gain an understanding of underlying reasons for these differences. The important conclusion is that geographical location matters; that impacts of changing economic conditions cannot be assumed to be homogenous across economies; SMEs across different settlement patterns will adopt different strategic response and behaviours. This paper has contributed to our understanding of the nature of the differences in those strategic responses.

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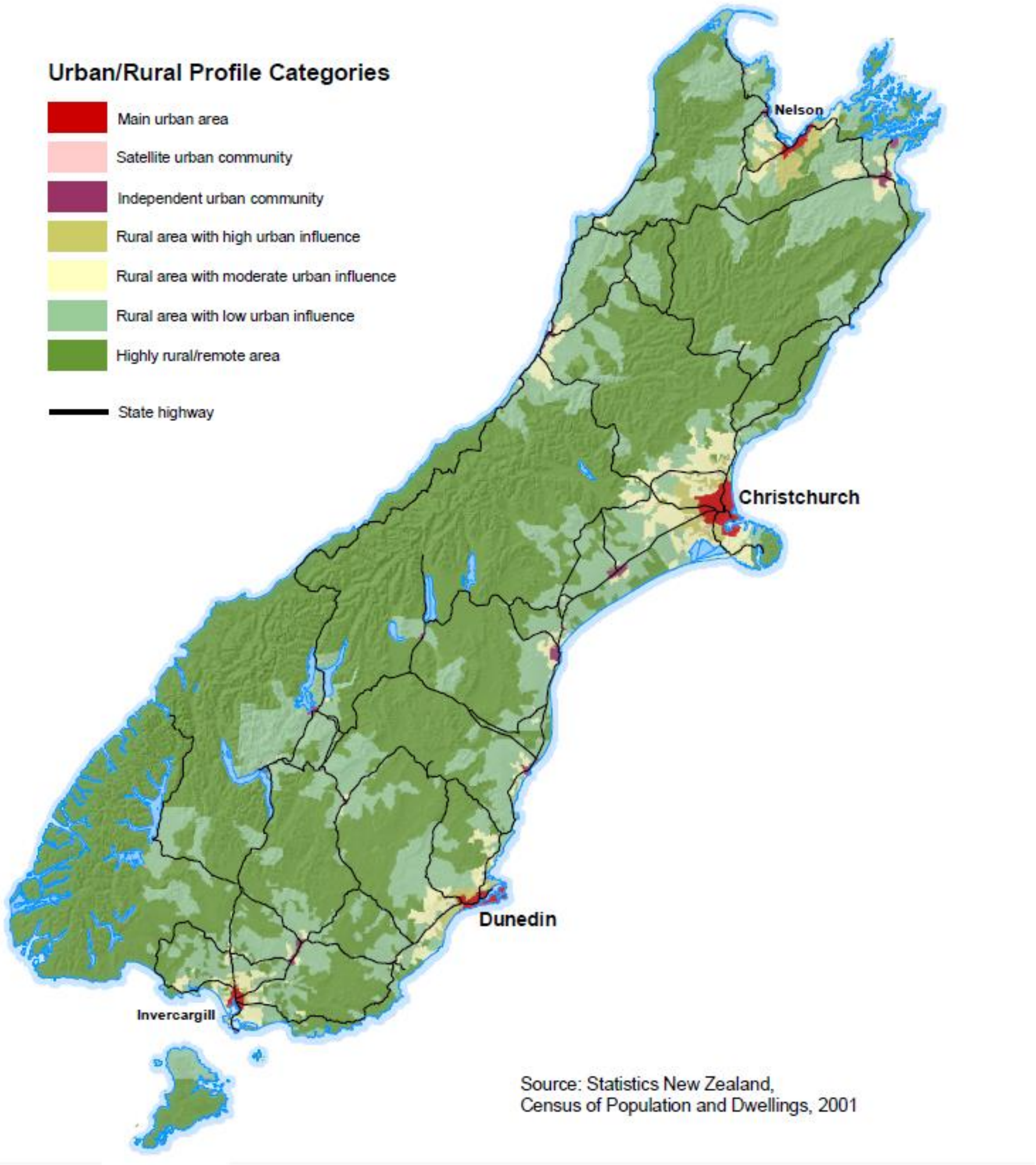
Appendix: The Distribution of Urban and Rural Settlements in New Zealand

South Island



North Island