



**SWP 34/88 "WELSH" AND "IMMIGRANT" NEW FIRMS
AND NEW FIRM FOUNDERS - ARE THEY
REALLY DIFFERENT?**

**DR PAUL WESTHEAD
Research Officer
Cranfield Entrepreneurship Research Centre
Cranfield School of Management
Cranfield University
Cranfield
Bedford MK43 0AL
United Kingdom**

**Tel: +44 (0)234 751122
Fax: +44 (0)234 781806**

'WELSH' AND 'IMMIGRANT' NEW FIRMS AND NEW FIRM FOUNDERS - ARE THEY REALLY DIFFERENT?

PAUL WESTHEAD

(Research Officer, Cranfield Entrepreneurship Research Centre, Cranfield School of Management, Cranfield Institute of Technology, Cranfield, Bedford, England, MK43 0AL).

There has been very little in the way of systematic, broad-based research, looking at people who have become new firm founders from different birthplaces. Differences between the characteristics of new firms founded in Wales by 'indigenous Welsh' founders and those established by 'immigrant' founders are explored. 'Immigrant' founders are found to be different to 'Welsh' founders in a variety of ways. Survey evidence indicates that 'immigrant' founders have made a valuable contribution to increasing new firm formation rates as well as generating new jobs and wealth.

INTRODUCTION

In recent years, research into new and small firms has grown at an prolific rate. A number of studies have investigated new and small firms in specific regional and subregional environments (Gudgin, 1978; Firm and Swales, 1978; Lloyd, 1980; Cross, 1981; Fothergill and Gudgin, 1982; Mason, 1982; Gould and Keeble, 1984; O'Farrell and Crouchley, 1984; Hart, 1987; McEldowney and Middleton, 1987; Westhead, 1988), new firms in high-technology sectors (Susbauer, 1972; Oakey, 1981, 1984; Cooper, 1985), new firms which have grown into 'high-fliers' (Birley and Norburn, 1986), new firms founded by women (Goffee and Scase, 1985, 1987; Waldinger et al., 1985; Birley et al., 1986; Birley, 1987; Cromie, 1987), asian and black businesses (Jenkins, 1984; Ward and Jenkins, 1984; Ward et al., 1986; Wilson and Stanworth, 1986; Ward, 1987) and hispanic and non-hispanic entrepreneurs (Welsch et al., 1987) have all been examined to some extent. Despite the considerable interest and range of research there has been very little in the way of systematic, broad-based research, looking at people who have become new firm founders from different birthplaces. In fact, no study has yet explored in any detail the contrasts between businesses founded by 'indigenous founders' to a region or country within the UK and those founded by 'immigrant founders' to that region or country. Nevertheless, policymakers have requested detailed information on the characteristics and

motivations of new firm founders in a variety of environments (Frank et al., 1984). Consequently, this paper will examine if there are any significant differences between the characteristics of new firms founded in Wales by 'indigenous Welsh' founders and those established by 'immigrant' founders.

PREVIOUS RESEARCH

The migration issue has been reported in recent new firm formation studies and Table 1 indicates that in a variety of studies in the UK over 55% of founders had 'local origins'. However, Keeble and Gould (1985) found in a recent study that 65% of founders in rural East Anglia were 'immigrants' to that region. On the basis of this evidence an exploration of the complexity associated with the migration issue in new firm formation process needs to be further explored in some detail. Also, the characteristics of indigenous and immigrant new firm founders as well as their new firms has yet to be discussed in any great depth.

Research from outside the UK has indicated that entrepreneurs have a tendency to be of 'foreign stock', that is foreign-born or having foreign-born parents. A study of technical entrepreneurs in Canada found that 33% were immigrants (Litvak and Maule, 1973). Of 82 founders of manufacturing firms in Michigan in the USA, 55% were of foreign stock (Collins and Moore, 1964). High rates of enterprise formation have also been reported for some groups of refugees, such as Cubans in the USA and French immigrants from North Africa (Shapero and Sokol, 1982). Cooper and Dunkelberg (1987) in their study of 890 entrepreneurs who were members of the National Federation for Independent Business in the United States found that only 15% were born outside the United States or had foreign-parents. This result was lower than originally anticipated.

Shapero and Sokol (1982) have demonstrated a variation between different ethnic minority groups propensity for self-employment stemming from the circumstances of their migration. They state that new ventures are likely to be formed where life was dislocated through forced migration - like that of refugees. Therefore, one explanation has been that such groups are made up of 'outsiders', somewhat out of the mainstream of society. The social marginality thesis (Dickie-Clark, 1966; Stanworth and Curran, 1973, 1976; Scase and Goffee, 1980, 1982) suggests that there is a perceived incongruity between the individual's personal attributes and the role(s) he or she holds in society. The relative deprivation may thus provide the necessary impetus for such individuals to become self-employed. With paths to success such as government, military and church closed to them, they channel their energies into commerce (Hagen, 1971).

Ward (1985) argued that immigrants moved to locations in the UK initially as wage labour but subsequently switched to entrepreneurship as the initial jobs disappeared. Also, in relation to the cultural lag hypothesis it has been suggested that a small business economy needs entrepreneurial motivations in its labour force. Aronowitz (1973) in his study in the United States indicated when the economic base of small business deteriorated and self-employment appeared to be in the process of decline, socialisation lagged behind. Ultimately, the market's surplus of aspiring entrepreneurs reached back into the socialisation system, which resulted in the reallocation of motivational resources. As salaried workers corrected their aspirations for realistic prospects, there was a corresponding increase in the number of small business owners from lower socio-economic groups. Alternatively, Light (1984) has argued that immigrant and alien status release latent facilitators which promote entrepreneurship independently of cultural endowments. In fact, Light (1984) sees post-war immigrant entrepreneurship in terms of reactions arising from relative satisfaction in terms of reactions arising from relative satisfaction and immigrant solidarity as well as from culturally transmitted institutions / resources, whilst stressing that ethnic resources should be distinguished from class resources (property, money, skills, bourgeois values, etc). From this evidence it can be tentatively hypothesised that "...entrepreneurial' business owners are more likely to be of foreign stock" (Cooper and Dunkelberg, 1986, p.56)..

In order to understand the process of new firm formation by Welsh and immigrant founders in Wales over the 1979 to 1985 period, new firm formation theory was referred to in order to establish a context within which the migration phenomenon could be logically explored. It is realised that the decision to establish a new firm is, in every sense, a strategic decision by the new firm founder (Cooper, 1981). However, this researcher (following the work of Gibb and Ritchie, 1982) argues that this strategic decision can be better understood in terms of types of situations encountered and the social groups to which the individuals relate. "This view sees individuals as changeable throughout the course of life. The individual is developed by transactions with other individuals in his on-going social life. Thus, within the context, class structure, family of origin, education, occupational choice and development, career and organisational history and experience, present lifestyles and social attachments are all seen to be potentially important influences within this context" (Gibb and Ritchie, 1982, p.27). In order to unravel the similarities as well as the differences between Welsh and immigrant founders the influences identified by Cooper (1971, 1981) to be associated with the entrepreneurial process will be explored in this paper. Cooper has suggested that

the decision to found a new firm is influenced by three broad factors. First, the entrepreneur, including the many aspects of his background which affect his motivations, his perceptions, and his skills and knowledge. Second, the organisation for which the entrepreneur had previously been working, whose characteristics influence the location and nature of new firms, as well as their likelihood of spin-offs. Third, the influence of various environmental factors external to the individual and his organisation, which make the climate more or less favourable to the starting of a new firm.

Antecedent Influences Upon the Entrepreneur

Psychological research has suggested that some new firm founders have a high need for achievement and a belief that they can control their own fate (McClelland, 1961). Some founders may in fact be driven to founding their own business by their need to avoid being in a subordinate relationship to others (Collins and Moore, 1970). A study of manufacturing firm founders in Michigan in the USA suggested that entrepreneurs often have difficulty in relating to 'authority figures' such as teachers and bosses (Collins and Moore, 1964). Caused apparently by their having had poor relationships with their fathers, these attitudes then led them to leave school at an earlier age and to have a succession of jobs. They were described as having an "unwillingness to 'submit' to authority, an inability to work with it, and a consequent need to escape from it" (Collins and Moore, 1964, p.240). On the basis of this research, Cooper and Dunkelberg (1986, p.56) hypothesised that entrepreneurial people would have less formal education and that they would be 'job-hoppers', staying in previous jobs for shorter periods.

The relationship between education and entrepreneurship is a complex one but Storey (1982) has argued that academic qualifications are a necessary but not a sufficient condition for entrepreneurial success. In contrast, Pickles and O'Farrell (1987) hypothesised that education beyond the secondary level may reduce the livelihood of an individual establishing a business given the fact that more employee opportunities are available for those with higher education.

An individual's family background will influence his or her values, attitudes, achievement, motivation and goal orientation. A father's social class may have an effect upon the type of employment entered at the start of a career and the subsequent range of business and other experience acquired. Pickles and O'Farrell (1987) tentatively hypothesised that the sons of fathers from manual and semi-skilled

manual occupations would be less likely to have developed the value and skills appropriate for entrepreneurship from their parental background.

Studies have shown that founders often come from families where the father or a close relative was in business for himself (Roberts and Wainer, 1971). This was true of 39% of the technical founders studied in Canada (Litvak and Maule, 1973) and of 50-58% of company founders in a variety of studies in the United States (Shapiro and Sokol, 1982). O'Farrell (1986) in a study of new firm founders in the Irish Republic observed that 46% of new firm founders had fathers who were self-employed. A family tradition of business ownership, presumably exposes the young potential entrepreneur to 'role models' and to the educational experience of learning what is involved in owning and managing a business (Cooper and Dunkelberg, 1986). Furthermore, a household in which the father was self-employed may have exposed the potential new firm founder to the expertise and values of entrepreneurship; within the household there may have been a commitment to the ideology and the nature of the reward system inherent in self-employment (Pickles and O'Farrell, 1987). Also founders may have chosen this career path because other career paths have been closed to them either because of their age, colour, race or religion (Hagen, 1971). On the basis of these findings it is suggested that some people by virtue of their family background and early childhood influences including educational experiences and attainments (Fothergill and Gudgin, 1982; Keeble and Gould, 1985; O'Farrell, 1986) may be more likely to establish a new business.

Incubator Organisation

As the prospective new firm founder moves into a career and joins a particular organisation, those experiences and that setting influence subsequent entrepreneurial action (Cooper and Dunkelberg, 1986). Cooper (1971, 1981), Cross (1981) and Gibb and Ritchie (1982) have stressed that another major factor influencing whether a potential founder will start a new business is the nature of the organisation, which he last worked in prior to start-up. The location of the incubator organisation locates the potential founder in a particular geographic area which may or may not have a favourable entrepreneurial climate. A number of studies have indicated that most founders start their businesses close to their place of residence and where they work (Cooper, 1970; Susbauer, 1972; Watkins, 1973; Scott, 1976; Gudgin, 1978; Johnson and Cathcart, 1979; Cooper, 1985; Keeble and Gould, 1985; Cooper and Dunkelberg, 1981, 1987). Starting in the same geographic area permits the founder to draw upon personal contacts and market knowledge, to

start on a part-time basis while keeping an existing job, and to avoid the disruption of a family move. Also, previous empirical evidence has suggested that entrepreneurial expression is likely to be more vibrant in rural and small-town communities than in cities (Gudgin, 1978; Gould and Keeble, 1984; O'Farrell, 1986).

The incubator organisation also provides the entrepreneur with the experience which leads to particular managerial skills and industry knowledge. Employees who work in small firms it is argued appear more likely to set-up a new business than those working in large firms (Cooper, 1971; Johnson and Cathcart, 1979; Storey, 1982; Gudgin and Fothergill, 1984; Gould and Keeble, 1984; O'Farrell and Crouchley, 1984; for a dissenting view see Beesley, 1955 and Cooper, 1985). It is suggested that small firms appear to be good incubators because their employers learn about technologies and markets which can form the basis for small firm strategies. In addition, they probably attract more entrepreneurially inclined employees who are then exposed to the role model of the company owner-manager (Cooper and Dunkelberg, 1986). It is hypothesised that employees working in large factories are not provided with the relevant work experience necessary for entrepreneurial training and management. In contrast, the presence of a very active small firm sector can provide plenty of examples for potential founders to follow. For example, contacts with other small firms may be made as part of an employee's job and informal contacts with potential and actual founders may be more likely.

Also, there is evidence to suggest that skilled manual workers are better equipped than unskilled and semi-skilled manual workers for small firm formation because they acquire more of the problem-solving skills required. Management and professional employees, particularly where they have had some responsibility for financial matters or some involvement in marketing and sales, seem to be better equipped than manual workers to start a business, though not necessarily to turn out a good product (Cross, 1981; Fothergill and Gudgin, 1982; Storey, 1982; Gould and Keeble, 1984). Moreover, it has been reported that individuals working in externally-owned branch plants are less likely to establish new firms (Johnson and Cathcart, 1979; O'Farrell and Crouchley, 1984). In contrast, individuals employed in locally-controlled establishments are more likely to obtain the skills and risk-taking experience necessary for entrepreneurship (Gould and Keeble, 1984).

The strengths and weaknesses of the newly founded business reflect those of the new firm founder. Thus founders often start new businesses in fields they already know (Mayer and Goldstein, 1961; Hoad and Rosko, 1964; Cooper, 1970; Gudgin, 1978; Johnston and Cathcart, 1979; Cooper and Dunkelberg,

1986, 1987; Cross, 1981; Storey, 1982), drawing upon technical and market knowledge acquired in the incubator organisation (Cooper and Dunkelberg, 1986). Since industries vary widely in the extent to which they offer opportunities for new ventures, this means that the strategy of the incubator organisation determines to a greater extent whether its employees will ever be in a position to spin off and start their own business. Thus an established organisation in a mature industry with little growth and heavy capital requirements is unlikely to have many spin-offs (Cooper, 1971, 1981; Gudgin, 1978; Checkland, 1981; Cross, 1981; Gould and Keeble, 1984).

The relationship between the length of an individual's work history and the probability of establishing a business is a complex one (Pickles and O'Farrell, 1987). The probability of starting a new firm will be low in the early years of employment due to lack of capital and experience. The effective capacity for establishing a new firm typically increases between twenty-five and thirty years of age; as a person grows older, however, this trend is modified and then reversed as family-related obligations and interests are incurred (Liles, 1981).

Individuals who become new firm founders are undoubtedly motivated by a complex mix of factors. Prior research, particularly that based upon personal interviews, suggests that 'displacements' or 'pushes' play a prominent role. Examples would include having your previous organisation fail, getting fired, or concluding that the organisation or one's career were not going anywhere (Shapiro and Sokol, 1982; Vesper, 1983). It can, therefore, be suggested that the level of employment loss in redundancies and establishment closures may 'push' individuals into self-employment and new firm formation (Cross, 1981; Storey and Jones, 1987). Recent surveys have indicated that the threat of unemployment or actually being unemployed may stimulate firm formation (Fothergill and Gudgin, 1982; Storey, 1982; Atkin et al., 1983; Binks and Coyne, 1983) with potential founders comparing actual incomes with expected incomes resulting in the establishment of a new business (Creedy and Johnson, 1983).

External Environmental Factors

Factors external to the individual and to the last employer prior to start-up also appear to influence new firm formation (Cooper, 1981). Much of the research in this area is only suggestive, but it seems that climates can change over time and that past entrepreneurship makes future entrepreneurship more likely. The credibility of the act of starting a company appears to depend, in part, upon whether the founder knows of

others have taken this step (Shapero, 1975). Venture capital availability (Storey, 1982; Whittington, 1984), accumulated personal collateral against which loans can be served (Cross, 1981; Storey, 1982) and the existence of well-developed communication channels across standard regions in the UK can help determine the feasibility of new firm creation. The presence of experienced entrepreneurs (Cooper, 1981) and agencies giving advice and financial assistance (McEldowney and Middleton, 1987) also influences future entrepreneurship and it seems clear that past entrepreneurship influences the climate for future entrepreneurship (Cooper, 1981; O'Farrell and Crouchley, 1984).

At this point it must be realised that new firms may be established by several individuals. Cooper and Dunkelberg (1986) have suggested that reliance on full-time partners seems related to the kind of business started. For new high-technology firms in the United States the proportion started with teams of two or more full-time founders was found to be 48, 56, 59 and 61% in four different studies (Susbauer, 1972; Litvak and Maule, 1973; Shapero, 1971; Cooper, 1970). Moreover, Cross (1981) in his study of new manufacturing firms in Scotland found that 54% of surveyed new firms had been set up by groups. Members of founding teams often meet each other in the incubator organisation. If the incubator organisation includes, at a given site, all of the key functional activities, such as research and development, manufacturing and marketing, then it is more likely that balanced founding teams can be formed. A team permits the assembling of a broader range of talents as well as the pooling of capital and psychological support. On the other hand, a larger management team means more overhead and a higher break-even point.

Particular industrial, occupational and plant-size characteristics give a labour market its own distinctive features which can influence new firm formation but it must be borne in mind that there are other aspects of the environment which influence new enterprise development. Most new firms serve local and regional market areas (Johnson and Cathcart, 1979; Storey, 1982; Lloyd and Mason, 1984; O'Farrell and Crouchley, 1984). Relatively few first-time enterprises are established on the basis of a product of their own and most are engaged in sub-contract work for larger companies and institutions (Gudgin, 1978). On both counts, therefore, the rate of enterprise creation and the subsequent growth of such enterprises will tend to be significantly influenced by the level of final and intermediate demand in the local and regional economy which itself will rest upon the performance of corporate 'prime-movers' and public sector agencies. The expansion of a labour market's total and manufacturing employment bases and increased local population

demand may lead to the opening up of new markets and expand existing ones thereby providing opportunities for new firms. Rising total and manufacturing employment and local population will increase the pool from which new firm founders are most likely to emerge (Cross, 1981).

RESEARCH QUESTIONS

There are two research questions. First, are new firms established by 'Welsh founders' significantly different from those established by 'immigrant founders'? Second, do 'Welsh founders' have different backgrounds than 'immigrant founders' with regard to antecedent influences upon the founders, the characteristics of their previous employer prior to start-up and the environmental context of the birthplace of the new firm?

SURVEY METHODOLOGY

Survey Design

The results presented in this paper are taken from a wider study of new manufacturing firm formation in Wales which have been detailed in Westhead (1988). The definition of the new firm adopted was that the wholly new manufacturing firm had been established independently and had no "obvious parent in any existing business organisation" (Allen, 1961). The start-up date of the new firm was taken as the date of commencement of production on a full-time basis. The survey included firms with one (i.e. the founder) or more workers. The focus on new manufacturing firms was due to two main reasons. First, manufacturing firms form part of the 'basic' industrial base in a local labour market area (Fothergill and Gudgin, 1982, p.34-37). Second, in the 1980s manufacturing employment change emerged as the dominant influence upon unequal growth in the UK (Fothergill and Gudgin, 1982, p.46).

At this point it must be stated that the only possible source of information about the background of new firm founders, new firms and the actual process of firm formation is the entrepreneur (i.e. the new firm founder). Unfortunately, it was not possible to gain access to an accurate listing of new manufacturing firms in Wales due to confidentiality constraints of the 1947 Statistics of Trade Act. As a consequence of this data shortage and due to the problems of time and resources as well as the objective of surveying new firms in a variety of environments, it was decided on pragmatic grounds to choose a number of labour markets in Wales and interview as many new firm founders in these labour markets as possible. In order to

survey new firms in contrasting environments the forty Travel-to-Work Areas (TTWAs) in Wales were classified into a smaller number of sub-regions which could then easily be classified into a smaller number of 'ecological incubator' environments. On the basis of a logically derived classification (Westhead, 1988) it was possible to survey founders in demonstrably different environments in Wales.

The New Firm Survey

The data for this paper were gathered by personal visit and interview during 1986 to surviving manufacturing firms which had been established in Wales during the period between 1979 (1st January) and 1985 (31st December). Twenty out of forty TTWAs were targetted for surveying new firms (selected on a subjective basis) and the survey procedure identified a total of 335 new manufacturing firms. In eighteen of the twenty TTWAs (represented by a proportional symbol in Figure 1) new firms were surveyed (the two TTWAs where no new firms were identified are indicated by the N.I. symbol in Figure 1). The identification of new manufacturing firms was aided by the construction of a manufacturing establishment databank already assembled for the whole of Wales (Westhead, 1988). Detailed fieldwork in the TTWAs surveyed enabled new firms which had been omitted from the establishment databank to be included in the survey design. In all, 269 out of 335 new firms were contacted during the 'grab' survey using an unarranged 'knock-on door' approach which produced a noteworthy 80.3% response rate.

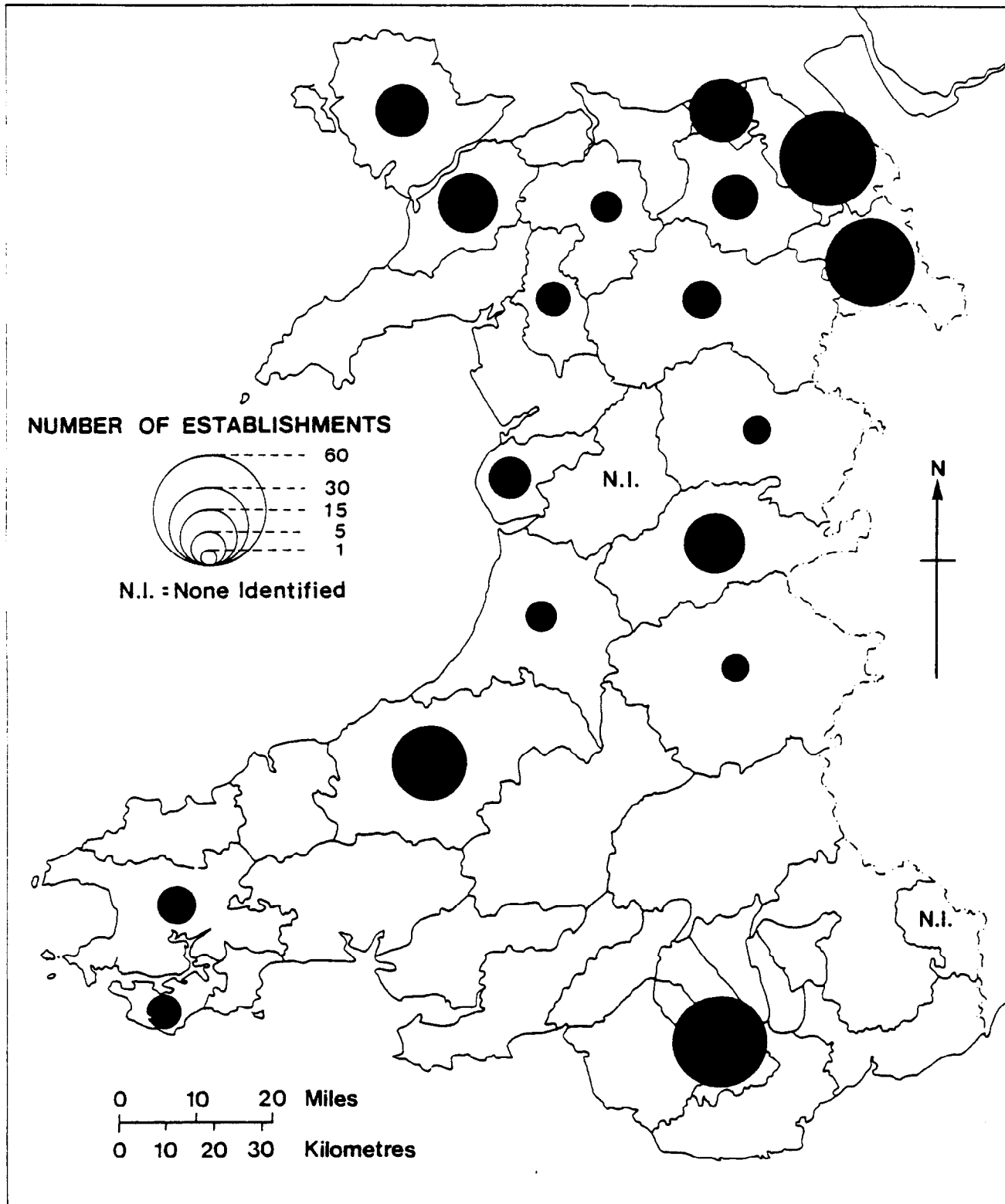
RESULTS

Characteristics of the New Firms

The survey of surviving new manufacturing firms in Wales found that only 93 new firms (34.6%) had been established by Welsh founders born in Wales and that a 176 new firms (65.4%) had been founded by immigrant founders who had been born outside Wales. The main donor regions for immigrant founders were the North West of England (23.0%), the South East of England (16.7%) and the West Midlands of England (7.8%). These regions are adjacent to Wales with the notable exception of the South East of England. This level of immigrant new firm founders is even higher than that recorded in prosperous rural East Anglia in England by Keeble and Gould (1985). In terms of the employment contribution it was found that the Welsh firms had created 625 new jobs whilst the immigrant firms had created 1,445 jobs (the mean employment sizes of the new firms were 6.79 and 8.21, respectively - $t = -1.10$, no significant difference

Figure 1

THE LOCATION OF SURVEYED NEW MANUFACTURING FIRMS IN WALES, 1979-1985



Source:

Survey (1986)

between the two founder types at the 0.05 level of significance). In both types of firms over 61% of present employment was in firms with less than 6 employees and there is no statistically significant difference between them (Criterion 1 in Table 2). These statistics reveal that Welsh and immigrant new firms as well as new firms elsewhere (Cross, 1981; Lloyd and Mason, 1984; Keeble and Gould, 1984; O'Farrell, 1986) are very small and there is a tendency for the size distributions to have a strong positive skew.

There is a statistically significant difference between the two types of firms in terms of industrial sectors (using the 1968 Standard Industrial Category (SIC)) (Criterion 2 in Table 2). Markedly more Welsh firms than immigrant firms had been established in Timber, Furniture, etc (SIC 17), Metal Goods n.e.s. (SIC 12) and Paper, Printing and Publishing (SIC 18). Over 48% of firms founded by Welsh founders had been established in the two sectors of Timber, Furniture, etc (SIC 17) and Metal Goods n.e.s. (SIC 2), compared to only 28.4% of immigrant firms which had a tendency to be established in a wider range of industries.

In terms of the financial characteristics of the surveyed firms it was interesting to note that there is no significant difference between the two types of firms with regard to both level of turnover and level of net profitability (Criterion 3 in Table 2). However, 41% of Welsh firms had a level of turnover greater than £99,999 compared to only 29.7% of immigrant founders. With regard to the current level of net profitability, in both types of firms over 58% of firms were making a profit greater than 10% (Criterion 4 in Table 2). On the basis of this evidence it can be concluded that both Welsh and immigrant firms had modest levels of turnover and also that a better level of profitability had been reported in previous studies (Storey, 1982; Keeble and Gould, 1984) than in the two defined types of firms in Wales.

Antecedent Influences Upon New Firm Founders

Family background

Over 86% of Welsh and immigrant founders were male and there is no statistically significant difference between them (Criterion 5 in Table 2). However, slightly more immigrant founders were females (6.1% compared to 13.1%). In terms of the founders fathers social class ranking there is a significantly significant difference between the two types of founders (Criterion 6 in Table 2). Welsh founders fathers had generally been engaged in the following activities: agricultural workers (24.7%), small proprietors and self-employed artisans (21.5%) and semi and unskilled manual workers in industry (19.4%). In marked contrast, immigrant founders fathers had essentially been semi and unskilled manual workers in industry (26.3%), lower grade

professionals (18.9%) and small proprietors and self-employed artisans (14.9%). Moreover, over 25% of both types of founders had parents who had previously started a new business. There is no statistically significant difference between the two types of founders but slightly more Welsh founders parents had experience of starting a business (34.4% compared to 25.6%) (Criterion 7 in Table 2).

Early childhood and educational background

During their early childhood the Welsh and immigrant founders parents had encouraged the new firm founders small business projects (86.0% and 77.0%, respectively) (Criterion 8 in Table 2). However, in terms of the types of schools attended there is a statistically significant difference between the two types of founders (Criterion 9 in Table 2). Over 67% of Welsh founders had attended elementary/secondary modern/comprehensive types schools whilst a further 4.3% of Welsh founders had attended private and public schools. In contrast, only 54.9% of immigrant founders had attended elementary/secondary modern/comprehensive type schools but a further 13.1% of founders had attended private and public schools. At school both types of founders had similar vocational interests but there was a slight tendency for Welsh founders to have had a greater interest in craft and technical subjects (45.2% and 35.4%, respectively) with immigrant founders having a more pronounced interest in mathematical and scientific subjects (19.4% and 22.9%, respectively) (Criterion 10 in Table 2). Similarly, the qualifications achieved by the types of founders is not significantly different from one another (Criterion 11 in Table 2). For those founders who had obtained qualifications, over 38% of both types of founders had obtained a City and Guilds type qualification. Slightly more Welsh founders had obtained a HNC/D qualification (20.7% and 14.5%, respectively) whilst more immigrant founders had been awarded a first and a postgraduate degree (10.3% and 23.1%, respectively).

In terms of the number of employers worked for by new firm founders prior to business formation it was found that the responses between the two types of founders were not significantly different (Criterion 12 in Table 2). However, over over 66% of Welsh founders compared to only 54.8% of immigrant founders had worked for more than four previous employers prior to start-up. Also, there is a statistically significant difference between the two types of founders in terms of their previous experience of founding an independent business (Criterion 13 in Table 2). Over 39% of immigrant founders had founded an independent business prior to start-up compared to only 24.7% of Welsh founders.

Summary

From the information detailed above the antecedent influences upon Welsh and immigrant new firm founders were very similar in a variety of respects. However, immigrant founders had a tendency to be drawn from families with a slightly higher social status and immigrant founders had a greater tendency to have attended a wider variety of schools. At school the immigrant founders had a propensity to be interested in a wider range of subjects with a large percentage of them gaining first and postgraduate degree type qualifications. Immigrant founders had also a slightly less volatile work history in terms of the number of previous employers worked for and they had greater experience of founding new businesses.

Incubator Organisation

Not surprisingly, there is a statistically significant difference between the location of Welsh and immigrant founders previous employers prior to start-up (Criterion 14 in Table 2). Fifty-seven percent of Welsh founders had established their businesses in the same Welsh TTWA as their last employer compared to only 33.1% of immigrant founders. In contrast, 53.1% of immigrant founders had last employers located outside Wales. With regard to the previous employment positions prior to start-up there is a statistically significant difference between the two types of founders (Criterion 15 in Table 2). Forty-four percent of immigrant founders compared to only 33.3% of Welsh founders had previously held a managerial position. There was a greater tendency for Welsh founders to have at least held operative (26.9%) and foremen (10.8%) positions than immigrant founders (20.6% and 1.1%, respectively). Over 63% of both types of founders had last worked in a manufacturing establishment but it must be stated that 28.6% of immigrant founders compared to only 18.3% of Welsh founders had last worked in a services establishment (Criterion 16 in Table 2). With regard to the employment size of the last employer prior to start-up it was found that over 32% of both types of founders had last worked in a small establishment with less than 11 employees. Slightly more Welsh founders had last been employed in a large establishment with 500 or more employees (14.3% and 11.3%, respectively) (Criterion 17 in Table 2). However, there is a statistically significant difference between the two types of founders in terms of the corporate status of their incubator organisations (Criterion 18 in Table 2). Forty-three percent of Welsh founders were employed in Welsh locally-controlled establishments (43.3%) with a further 37.3% employed in UK nationally-controlled

establishments. In marked contrast over 53% of immigrant founders had last been employed in Welsh locally-controlled establishments, with a further 21.7% and 17.4% of immigrant founders being last employed in UK nationally-controlled and foreign-controlled incubators respectively. Also, over 35% of both types of founders had been employed in their last incubator organisation for between 3 and 5 years (Criterion 19 in Table 2).

The survey indicated that over 48% of both types of new firms were established by individual founders but slightly more Welsh firms rather than immigrant firms had been established by more than one founder (51.6% and 42.6%, respectively) (Criterion 20 in Table 2). It can therefore be suggested that Welsh founders had developed networks with other potential entrepreneurs whilst they had been employed in the incubator prior to start-up.

In terms of motivations leading to start-up there is no statistically significant difference between the two types of founders (Criterion 21 in Table 2). The main motivation for Welsh founders, in contrast to immigrant founders, was being forced into entrepreneurship due to actual or the threat of redundancy and closure of the founders previous employer (29.0% and 26.8%, respectively). Immigrant founders in contrast were generally motivated by the more positive reason of exploiting a perceived market opportunity (26.9% and 34.1%, respectively). Also, it must be stated that over 27% of both types of founders had been unemployed prior to start-up with a sizeable percentage of both types of founders adhering to the so-called 'livelihood principle' of maintaining the new firm founder in work (Oxenfeldt, 1943; Dahmen, 1970) (Criterion 22 in Table 2).

Summary

From this review of the characteristics of the founders incubator organisation it can be inferred that immigrant founders generally worked in incubators outside Wales prior to start-up, they had held managerial positions mainly in small locally-controlled manufacturing establishments which they had worked in for under ten years. They had been motivated to start the new firm for either the positive motivation of exploiting a market opportunity or the negative motivation of being forced into entrepreneurship. In contrast, Welsh founders had generally established their new firms in the same Welsh TTWA that they eventually established their new businesses in. Welsh founders had a tendency to be drawn from managerial as well as operative positions in essentially small manufacturing establishments

which were either locally-controlled or UK nationally-controlled. They had stayed with their last employer for between 3 and 10 years and had developed contacts which encouraged a few individuals to establish joint ventures. However, Welsh founders more than immigrant founders were motivated by the negative motivation of being forced into entrepreneurship and being unemployed prior to start-up. A sizeable percentage of Welsh founders were also motivated by the desire to exploit a perceived market opportunity.

Environmental Factors

Choice of location

Table 2 (Criterion 23) shows that there is a statistically significant difference between founders in terms of location chosen for starting the new firm. Forty-one percent of Welsh founders stressed the importance of a rural location for foundation in contrast to 60.8% of immigrant founders. The main reasons for immigrant founders moving into environments in Wales were as follows (in terms of number of mentions): previous employment position (23.9%), family reasons (22.6%), the physical environment (15.5%), house we could afford (10.2%) and factory availability (9.3%).

Surprisingly, Welsh founders had a greater propensity than immigrant founders to consider alternative TTWA locations for the location of their business though not in a statistically significant sense (74.2% and 63.4%, respectively) (Criterion 24 in Table 2). As anticipated by this researcher, it was the immigrant founders who significantly stressed the rural country type situation and involvement attractions of the location chosen (23.7% and 45.7%, respectively) (Criterion 25 in Table 2). Immigrant founders also had a greater tendency than Welsh founders to stress general way of life attractions of the new firm location (25.8% and 33.7%, respectively) (Criterion 26 in Table 2). In contrast, Welsh founders significantly stressed the importance of family related reasons for choosing the location for the new firm (66.7% and 39.4%, respectively) (Criterion 27 in Table 2). Welsh founders had a greater tendency than immigrant founders to state that the location was chosen for particular business reasons (71.0% and 65.7%, respectively) (Criterion 28 in Table 2).

Access to finance and assistance

At the time of start-up the new firm founders had similar ages with over 38% of both types of founders being aged between 31 and 40 years of age. In fact, the mean age of immigrant founders (38.7 years of age) was

slightly higher than that for Welsh founders (36.8 years of age) though not in a statistically significant sense ($t = -1.46$, no significant difference at the 0.05 level of significance) (Criterion 29 in Table 2). Therefore, the majority of founders had enough time to develop considerable business networks, had built up reasonable levels of collateral to put into their business and had had a variety of work experiences. For example, over 39% of both types of founders had used more than one initial source of finance and 16.2% and 20.0% of Welsh and Immigrant founders, respectively had used more than two initial sources of finance (Criterion 30 in Table 2). The new firm survey indicated that only 35.5% of Welsh founders compared to 68.2% of immigrant founders reported no problems in raising finance from outside sources. But in terms of the problems encountered by both types of founders they are not significantly different from one another (Criterion 31 in Table 2). For Welsh founders the main problems were conservative banks (33.3%) and a lack of guarantees (24.2%) whilst for immigrant founders the two main problems were a lack of guarantees (30.4%) and no track record (25.0%).

Over 70% of both types of founders also stated that they had found the role of local assistance and development agencies helpful during the start-up period (Criterion 32 in Table 2). New firm founders had contacted these agencies for very similar reasons such as advice and general information (68.8% and 69.7%, respectively) (Criterion 33 in Table 2), information about premises (89.2% and 80.0%, respectively) (Criterion 34 in Table 2) and grant availability and financial assistance (69.9% and 72.6% respectively) (Criterion 35 in Table 2).

Markets and customers

Welsh and immigrant new firms were very similar in terms of the type of work done with over 52% of both types of founders claiming that they mainly dealt with specification orders (Criterion 36 in Table 2). Also, both types of new firm founders claimed that the majority of their turnover was sold within the UK and only 24.7% and 29.5% of Welsh and immigrant founders, respectively claimed that they exported any of their turnover abroad (Criterion 37 in Table 2). In fact, 47.3% of Welsh founders and 39.2% of immigrant founders claimed that they had sold over 75% of their sales within the Principality alone (Criterion 38 in Table 2). Moreover, over 37% of both types of founders claimed that they sold zero percent of their total sales to industry whilst a further 54.8% of Welsh founders and 47.2% of immigrant founders stated they sold over 90% of their total sales to industry (Criterion 39 in Table 2). From this evidence it can be suggested

that both types of firms are equally split between producing mainly their own products and mainly specification orders for essentially local markets within Wales. These goods are either sub-contracted to other industries or are sold direct to the public for example as gifts for the tourist market in Wales.

SUMMARY AND POLICY IMPLICATIONS

This paper has shown that individual motivations, family background, education, work experience were all factors which contributed both to the decision to start a business, to the choice of market and to the environment within which the new businesses operated. But important differences between the routes to new manufacturing firm formation taken by Welsh and immigrant founders have been identified which significantly affected both the supply of new firms, and the industrial bias of the firms.

The new firm survey results have shown that the majority of new firm founders (65.4%) interviewed had been born outside the Principality and were in fact immigrant founders. These immigrant founders had been attracted to Wales because of a variety of reasons including a previous employment position, family reasons, the physical environment of Wales, the opportunity to buy a house and factory availability. Immigrant founders had made a contribution to job creation but like their Welsh counterparts they had only made a minimal impact on job generation in Wales, at least in the short term. The businesses established by Welsh and immigrant founders had low levels of turnover and modest levels of profitability. Few firms of either type were engaged in exporting and the majority of firms were dependent on selling nearly all their products and manufactured services within Wales. From this evidence it can be argued that at the present time the new firms are not a major source of wealth-creation for Wales and, in fact, a large number could be displacing the work done by existing establishments within the region. Moreover, on the basis of the survey evidence it was apparent that the degree of enterprise or innovativeness with regard to introducing completely new products was very low indeed. Few founders had launched their new enterprises from bright innovative ideas, and they were shown to be offering only a marginally-improved product or service in an established line of business.

It was, however, apparent that Welsh founders had a greater propensity than immigrant founders to establish their new businesses in only two sectors - Timber, Furniture, etc (SIC 17) and Metal Goods n.e.s. (SIC 12). From this evidence it can be inferred that Welsh founders generally entered industries which had

low-entry-barriers whilst immigrant founders had a tendency to enter a wider range of industries thus contributing more to the diversification of the industrial base of Wales.

On a range of family background and educational indicators Welsh and immigrant founders were found to be similar. But the new firm survey suggested that immigrant founders fathers had a greater propensity to have been semi and unskilled manual workers in industry, lower grade professionals and small proprietors and self-employed artisans. Also, more immigrant founders had attended a wider range of schools than Welsh founders who had mainly attended elementary/secondary modern/comprehensive type schools.

Immigrant founders were found to have had more experience of founding new independent businesses. Prior to start-up a larger percentage of immigrant founders than Welsh founders had last held managerial positions. It was found that a larger percentage of immigrant founders rather than Welsh founders had last worked in locally-controlled Welsh establishments. Not surprisingly, only a small percentage of immigrant founders last employers had been located in Wales.

With regard to the choice of a location within Wales immigrant founders had a greater tendency than Welsh founders to establish their businesses in rural and less-industrialised locations. In fact, immigrant founders particularly stressed the rural country type situation and involvement attractions of their chosen location. Welsh founders, in contrast, had a greater tendency to stress the importance of family related reason attractions for the choice of location. It was also found that markedly more Welsh founders recorded problems in raising outside sources of finance which may in part be due to their last employment position and work experience as well as the volatility of the low-entry-barrier industries which they had a greater propensity to enter.

From the new firm survey results it can be inferred that new firms established by Welsh and immigrant founders are only going to make a modest contribution to job and wealth creation and industrial diversification in Wales. However, in the long-run a small number of 'high-fliers' may make a substantial contribution to reducing unemployment and creating new wealth in the economy of Wales. On the basis of the survey results it can be suggested that 'blanket' measures available to all firms to encourage new firm formation have been found not to be particularly appropriate. In the cause of 'geographical welfare' it can be claimed that there is a need for more selective policy measures which target resources to areas which have factors associated with them which are not conducive to enterprise formation.

In the present paper it has been shown that the movement of immigrant founders into Wales has made a valuable contribution to increasing new firm formation rates as well as generating new jobs and wealth. This development, however, has decidedly mixed implications especially within rural Wales. Should they be encouraged so that the net population and activity levels are maintained if not increased, even if indigenous people cannot afford the resultant inflated property prices? Or should immigrants be discouraged as they erode the stereotype rural Welsh culture? Evidence from the new firm survey has shown that immigrant founders have made a notable contribution to the development of the economy of Wales. There is little evidence that their businesses have developed at the expense of formations by local people. Therefore, there is a continued need for immigration to be encouraged into Wales by agencies such as the Mid Wales Development (MWD) who have been actively involved in providing small, low cost, limited tenure premises, grants for the conversion of farm buildings for non-farming purposes, advice and finance to business and housing for new firm founders and key workers. Suggestions that there should be intervention in housing markets to limit the purchase of existing properties in Wales by pre-retirement non-locals appear unwise.

Local as well as Wales-scale enterprise and development agencies were found by Welsh and immigrant founders to have been helpful during the start-up period. However, the survey results suggest that the existing development agencies could further improve the perceived and actual environmental images of a number of areas within Wales (especially the traditional urban and industrialised areas of south and north-east Wales) as well as contribute to the development of an atmosphere of 'well being' and opportunity for both potential Welsh and immigrant founders. This researcher is of the opinion that advice and assistance should be rationalised with the development of a 'signposting system' which will encourage new firm founders to go to a smaller number of agencies for particular types of assistance. Moreover, a 'geographically related approach' to new firm formation associated with one or two agencies in each sub-region of Wales would be beneficial and is still urgently required.

The survey results also suggest that the enhancement of the financial infrastructure, particularly for Welsh founders, could provide a broader business culture which would be more conducive to firm formation and development. A responsive financial sector in Wales to the needs of both Welsh and immigrant founders is an essential pre-requisite for regional economic growth. Related to the above point, it can be suggested that policies towards new firm should be modified in order to discriminate in favour of

peripheral regions such as Wales, or alternatively special marketing efforts could be made to disadvantaged regions to ensure that the higher take-up rates compensate for their relative paucity of indigenous entrepreneurship. It must be remembered that the fortunes of the economy of Wales are strongly inter-linked with the fortunes of the UK economy as a whole. Therefore, if the UK economy continues to grow it will enable more Welsh and immigrant founders in Wales to seize new opportunities and to develop and exploit new market niches within the Principality.

Finally, it would be interesting to know how many new firms were established in areas outside Wales by Welsh people. If these data were available an assessment could be made of the gross gains and losses made by Wales in terms of generating and retaining new firm founders. It could well be the case that Wales is attracting more new firm founders than it is sending to other regions within the UK and countries outside the UK. Again, these data are not available, and would only be so if similar surveys were conducted in other regions.

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Table 1 The Percentage of New Firm Founders with Local Origins: A Comparison of Studies

Author (s)	Study area	'Local origins' (%)	Founders from 'outside the region' (%)
Scott (1976)	Scotland	73.5	26.5
Gudgin (1978)	East Midlands of England	81	19
Johnson and Cathcart (1979)	North of England	90	10
Lloyd (1980)	Greater Manchester and Merseyside	83	17
Cross (1981)	Scotland	67	33
Gibb and Ritchie (1981)	North of England	91	9
Mason (1982)	South Hampshire	56	44
Keeble and Gould (1985)	East Anglia	44	56
Present Survey	Surveyed areas in Wales	35	65

Table 2 Statistically Significant Differences Between Welsh and Immigrant Founders

Criteria	Chi-square value (χ^2)	Degrees of freedom (d.f.)	Significant difference at the 0.01 level of significance	Significant difference at the 0.05 level of significance
1. Present employment sizes	5.64	4		NO
2. Present industrial category	19.89	10		YES
3. Current level of turnover	4.29	3		NO
4. Current level of net profitability	4.38	4		NO
5. Gender of principal founders	2.12	1		NO
6. Fathers social class ranking	29.30	7	YES	
7. Had founders parents started a business?	1.91	1		NO
8. Parents responses to small business projects	1.10	1		NO
9. Type of secondary school attended by the founder	6.74	2		YES
10. Founders principal vocational interests at school	5.86	4		NO
11. Qualifications achieved	4.81	4		NO
12. Number of employers worked for prior to business formation	12.61	7		NO
13. Founders previous experience of founding an independent business	5.04	1		YES
14. Location of previous employer prior to start up	30.52	2	YES	
15. Previous employment position prior to start up	20.46	5	YES	
16. Standard industrial category of employer prior to start up	4.36	2		NO
17. Employment size of last employer prior to start up	5.51	5		NO
18. Corporate status of previous employer prior to start up	12.18	3	YES	
19. Time period with last employer prior to start up	2.82	7		NO
20. Number of founders	7.36	3		NO
21. Motivations to start the new firm	3.20	5		NO
22. Unemployed prior to start up	0.15	1		NO
23. Type of new firm location	8.72	1	YES	
24. Did the founder consider any other TTWA location	2.72	1		NO
25. Rural country type situation and involvement attraction?	11.82	1	YES	
26. General way of life attraction	1.43	1		NO
27. Family related reasons attraction	16.98	1	YES	
28. Particular business reasons attraction	0.54	1		NO
29. Age of founder at start up	3.83	4		NO
30. Number of initial sources of finance used	2.83	3		NO
31. Problems encountered in raising finance from outside sources	3.52	3		NO
32. New firm founders response to the role of agencies	0.00	1		NO
33. Advice and general information reason for contacting agencies	0.00	1		NO
34. Information about premises reason for contacting agencies	3.08	1		NO
35. Grant availability and financial assistance reason for contacting agencies	0.10	1		NO
36. Type of work done by new firms	0.05	1		NO
37. Percentage of turnover exported	2.31	3		NO
38. Percentage of sales sold in Wales	12.16	7		NO
39. Percentage of sales sold to industry	2.31	2		NO