

Innovative Small Businesses in Cotton Communities

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1.0 Introduction

We live in a world of rapid, and indeed accelerating, change affecting all facets of economy and society. That change is driven, in turn, by a large range of interacting processes. Prominent among those are:

- the application of a rising flow of new knowledge in both the physical and social sciences;
- the simultaneous discovery of new resources, offset by the continual depletion of existing stocks;
- the need to sustain the earth's rapidly expanding human population;
- domestic macro-economic policy coupled with evolving global trade and finance settings; and
- increasing environmental regulation, at all spatial scales from the global to the local.

By implication, such changes are likely to affect the vitality and survival prospects of both small rural communities and the businesses they host. Moreover, both communities and their resident entrepreneurs will almost certainly have to adapt quickly, constructively and appropriately to the opportunities and threats posed by their changing socio-economic and physical environments. This report focuses on the adaptive strategies and capacities of small and medium enterprises (SMEs) located in a sample of cotton communities: Warren, Wee Waa, Moree, St George, Dalby and Emerald. Using that knowledge, we suggest ways in which those communities and their businesses could improve the quality and speed of their responses to changing circumstances.

Before we report on our empirical observations and their implications for encouraging adaptive communities, we will sketch the relevant literature on processes shaping the evolution of regional economies and especially the significant roles played by innovative SMEs. Using the framework developed from the literature, we then report our findings for the innovative strategies used by small businesses in cotton communities to adapt to changes in their environment. The research design is described after the literature review and the findings presented in section four. The emerging themes are summarised in the fifth section and recommendations presented in the sixth section to conclude the report.

2.0 Literature Review

Their contribution to regional economic growth and employment, both as individual enterprises and through collective networking, is discussed extensively in literature (Asheim and Coenen, 2005; Acs and Armington, 2004; Braunerhjelm and Borgman, 2004; Cooke, 2001; Foelster, 2000; Callejon and Segarra, 2000; Ashcroft and Love, 1996). And some authors (for example, Asheim and Coenen, 2005; Karlsson and Dalberg, 2003; and Cooke, 2001) have concluded that the extent of SME innovation is closely related to individual regions' endogenous business cultures and capacities, and in particular to the networking among functionally or conceptually related enterprises. The most spectacular examples of this phenomenon are such high technology nodes as Silicon Valley in the San Francisco Bay area, but there is general reason to expect that innovation is spatially contagious in the sense that regional clusters of innovative enterprises tend to be mutually supportive and trigger further local innovation in a circular and cumulative way. Although primarily concerned with nations, not regions or for that matter SMEs, Porter's famous work on the competitive advantage of nations emphasises links between clusters of competitive businesses as an important trigger for innovation (Porter, 1990). Porter (2000), subsequently focused more on the importance of local or regional business clusters for innovation and development, a theme already developed by Storper (1995, 1997) in a European context. Searle (2008) develops similar ideas for both Sydney and Melbourne. Both Martin (2000) and Amin (2004) also point out that the quality of local institutions (business networks, government, infrastructure, finance, education, etc.) is critical for kick-starting local development and innovation. Fritsch and Mueller (2004) go further and explicitly link local levels of innovation, especially in the SME sector, to relative regional well-being within nations, implying that technologically advanced regions are likely to continue their economic lead into the future.

Innovation, then, is important, but much of the relevant literature already cited focuses on industrial nodes in the dominant industrial economies of North America, Europe, and East Asia. Australia's non-metropolitan conditions differ from those locations in so many ways that we may question how far that literature applies 'down under'. For example:

- Two of Australia's dominant economic bases are resource-based (mining and agriculture), not in manufacturing;
- These resource outputs are largely rural (i.e. geographically remote within an already globally peripheral economy), heavily export oriented, and at the mercy of highly variable commodity prices;

- Population densities outside of the metropolitan cores are extremely low, posing important networking and accessibility problems for both producer and consumer services;
- The population sizes of most regional towns are also well below the thresholds needed to assemble a wide diversity of workforce skills or high technology inputs and develop industry-specific networks of small enterprises;
- Much of rural Australia lies in the Sahel belt (15-30 degrees north or south), and suffers from severely unstable climatic regimes – alternating drought and flood events or long duration – and consequent economic roller coaster rides in its small towns;
- Given their economic bases, rural Australia’s research and development needs differ significantly from those in North America and Europe, and are indeed constructed quite differently in terms of finance, geographical location, and information dissemination (Sorensen, 2010, forthcoming); and
- The resource sector receives, by international standards, few government subsidies (Hearfield and Sorensen, 2009; Sorensen, 2009a, b).

In short, Australia’s rural economy is simultaneously loaded with opportunity and extremely high risk (Sorensen, 2010a; Pritchard *et al*, 2010). This diagnosis applies equally to basic industries – agriculture and mining and to non-basic service activities, as well as to nearly all non-metropolitan regions. It is perhaps surprising, then, that there is so little research focusing on SME innovation in regional Australia specifically or in countries located peripherally to global industrial cores. In both these cases, their risky and uncertain economies simultaneously require, but potentially compromise, on-going innovation. This report partially remedies this deficiency.

This then raises an important question. How far does local development and innovatory capacity reflect a balance between (a) local history, culture and knowledge or (b) national – and even international settings? Friar and Meyer (2003) suggest that a country’s economic growth is the sum of the growth of its local economies or regions rather than the local economies being dependent on the national economy. This is supported to some extent by Hearfield and Sorensen (2009) who observe that Australia’s local economic development often depends on energetic, knowledgeable and imaginative business and community leaders rather than central government strategy. However, “no man is an island”¹ and the same applies to regions. This is especially true in Australia’s case where the great bulk of rural commodities are exported inter-regionally or internationally, making rural localities highly

¹ Written by the English poet, John Donne, in 1624.

dependent on national macro-economic and micro-economic settings: everything from monetary and fiscal policy, to interest rates, exchange rate movements, trade policy, and labour relations (Sorensen, 2009). Similar effects emerge from growing environmental regulation and resurgent government roles in infrastructure supply.

These considerations raise another interesting issue. Greene, Mole and Storey (2004) note a degree of permanence in the relative contributions of regions over time, which suggests that adverse, or conversely beneficial, regional business cultures and settings may be long-lived. This argument, we noted above, is congruent with the work of Fritsch and Mueller (2004). Once again, Australia's experience probably diverges markedly from overseas experience. This country continually witnesses marked movements in relative regional prosperity, well-being and economic development, simply reflecting changing commodity prices, oscillating climatic circumstances, on-going large-scale resource discoveries, dynamic economic growth in Asian economies, rapidly rising national wealth, high population mobility across all age groups, and unstable (but rapidly rising) exchange rate relative to trading partners. Such movements have traditionally been much larger here than anywhere in Europe or North America. And, unlike those parts of the world, some of Australia's wealthiest regions lie in remote rural regions. Moreover, studies of local business and civic leadership have demonstrated conclusively its capacity to lift regional development significantly and reposition particular localities (Hearfield and Sorensen, 2009). This observation is also supported by recent, but yet unpublished, work for the RIRDC on community resilience.

So, in this dynamic part of the world there is little evidence of immutable regional performance. Australia's non-metropolitan regions are unstable hot-beds of opportunity and threats, over which local actors exercise minor strategic control. Simultaneously, innovation is a well-known antidote to uncertainty and risk and its necessity applies to individuals, businesses and communities alike, all of whom sail in the same leaky ship (Sorensen, 2010). Audretsch (2004) and Fritsch and Mueller (2004) acknowledged this central role of innovation to regional development. However, this then raises the question of whether the types of motivations and business strategies for innovation in small rural towns bear any relationship to the classic literature. For example, Friar and Meyer (2003) argued that growth and profitable ventures, rather than micro-businesses, are necessary for regional job creation and economic growth, while businesses that remain small and generate income for the owner or family do not become dominant in their field or readily engage in innovative practices. In

contrast, businesses that aim for profit and growth create value through innovation by serving unmet market needs. Likewise, Acs and Varga (2004) associate regional development with businesses with high potential that create 20 or more jobs within 5 years and export goods or services associated with technological change. But most businesses in our remote country towns fall into the micro-business category, which both sets of authors disparage, either explicitly or implicitly, as innovators.

On another tack, such researchers as Lovering (2001) have emphasised the importance to regional development of SMEs serving local and/or national markets, which is a re-run of the old debate linking development to the promotion of basic, as distinct from non-basic service activities. This view, in contrast to ideas about innovation, fairly describes regional Australia whose highly developed agriculture and minerals sectors have always been hugely export oriented. In this regard, the small business problem examined in this study is that of bolstering local producer and community services under conditions unimaginable in much of Europe and North America – starting with extremely low population densities, and very small towns spaced a long way apart.

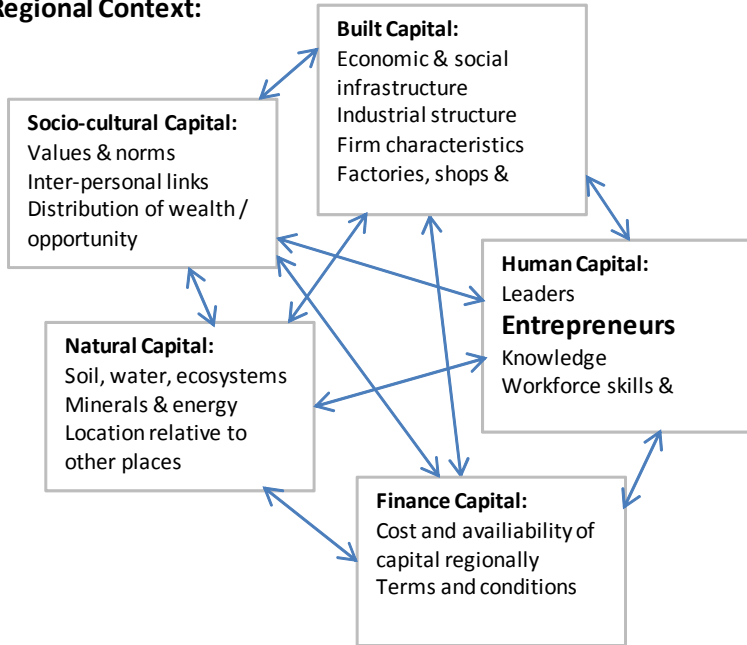
Under European and North American conditions, it is widely recognised that innovation in SMEs derives from an effective balance between enterprising individuals and lucrative opportunities and resources in the regional environment (Venkataraman, 1997; Timmons, 1999; Morris and Lewis, 1995). Such environments provide the opportunities and resources to encourage enterprising individuals to start new, or expand existing, businesses and operate successfully. In turn, enterprising individuals add to the resources within their environment and enhance the opportunities available. Regional development is thus associated with specific resources within the region – such as infrastructure, finance, natural resources, and a variety of human and social capital – which entrepreneurs configure in new combinations able to sustain and add to the region's resources in a circular and cumulative way. Note however, that these pull factors are often supplemented by push factors, where innovators respond to strong threats in their operating environments. Indeed, it is likely that opportunity and threat are mutually interconnected in the minds of successful innovators. However, one might hypothesise that Australia's rural micro-enterprises, with their often slim resources, turbulent environments and very low levels of government subsidy, might be largely motivated to innovate by push factors.

The relative influence of the environment and the person on SME innovation has been debated over time (see the strategic adaptation perspective of entrepreneurship in Sandberg and Hofer (1987) and the population ecology perspective in Hannan and Freeman (1977)). Nonetheless, a general consensus is that these two factors are also mutually interdependent and must exist together for SME innovation to occur. In fact, SME owners are part of the region's human capital and therefore a regional resource. Acs and Armington (2004) emphasised that no matter how richly endowed a region is with all other resources someone has to organise the resources to pursue market opportunities. The region must have innovative individuals motivated and competent enough to assume the risks and responsibilities of initiating and sustaining new ventures or new and better ways to perform existing tasks.

Figure 1, which is derived from Kotey (2006), summarises the explanation so far of forces shaping SME innovation in regional Australia. Since regions are embedded in states and/or nations (and even globally), resources, business conditions and policy settings at those superior spatial scales provide an over-arching context in which regions develop and grow. For example, SME innovation is partly constrained by the national economic, legal, institutional, technological and public service conditions (or contexts) outlined earlier. Thus, some of the variation in the rate of innovation among regions is likely to reflect the extent to which local residents are able to absorb and make effective use of such superior settings to develop their resources – in effect the five *capitals* as shown in Figure 1. The remaining variation is hostage to local variations in the quantity and quality of resources and opportunities arising from them. Perhaps, though, rural Australia's low population densities, tyranny of distance and unstable conditions impact adversely on individual innovative imperatives and capacities in ways Acs and Armington cannot imagine: far more than in the developed parts of the northern hemisphere, leading to physical resources being the prime component in local development. Even if local entrepreneurial (or innovation) capacity strongly determines the rate and competence with which local resources are developed, Fritsch and Mueller (2004) note the role often played by non-local leaders or entrepreneurs in

Figure 1: Determinants of Regional Entrepreneurship

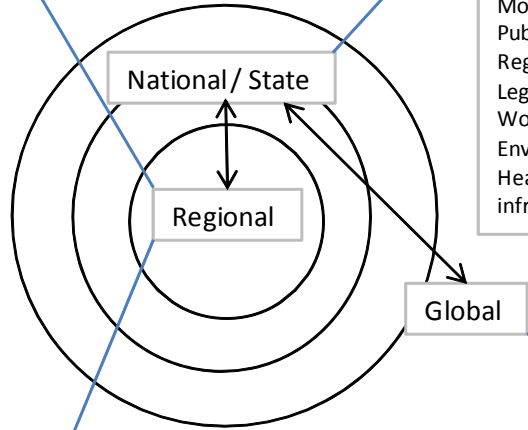
Regional Context:



Source: derived from Kotey 2006

Global - National Context:

- Trade
- Fiscal
- Monetary
- Public - Private relationships
- Regulatory
- Legal
- Workplace legislation
- Environmental regulation
- Health /education /transport infrastructure supply & price



Notes:
 (a) Entrepreneurs, and the success of their enterprises, are nurtured by both their regional and global-national contexts.
 (b) The items in each are box are themselves mutually interconnected.

innovation transmission and the benefits of networking with other regions. One would expect this option to rate highly in small and risky rural economies.

Important though endogenous innovative capacity and local resources may be, many of the other conditions shown in Figure 1 are also important. Kotey (2006) argues that the quantity and quality of a region's resources also affects the rate and form of innovation, citing Smith (1990) who noted that regions with depleting resources may find it difficult, though not impossible, to innovate. Innovation may be spurred through reliance on local networks, with businesses working co-operatively to increase their productivity and competitiveness (Fukuyama, 1995; Klein, 1999; Bjarnar and Gammelsaeter, 2003; Johnstone and Lionais, 2004), though this conclusion stem from practices in the industrialised northern hemisphere.

Another handicap faced by some Australian regions is their inability to attract and maintain skilled migrants because they lack the necessary social amenities and social support structures (Standing Committee on State Development, 2006). The huge importance of this for attracting innovative people to creative industrial and high technology regions is analysed by Florida, (2002, 2005). In effect, Florida suggests that the emergence of creative cultures (from which innovation arises) in certain favoured locations can be a self-sustaining advantage leading to widening spatial disparities in wealth and opportunity. By way of antidote, governments might augment the social support and community infrastructure able to nurture, attract and retain human capital, but this is a long bow to draw for most small rural towns. Lovering (2001) also notes that large intra-regional inequities in the wealth distribution can impede innovation, which suggests that fiscal or educational policy designed to reduce such inequities might be regionally beneficial.

However, it is possible to mount a counter-factual case that resource-poor regions may force enterprises to become innovative or adaptive in order to survive. For example, Covin and Covin (1991) and Miller and Toulouse (1986) note that munificent resources and safe environments have been found to encourage conformity, risk averseness and inefficiency; to provide limited incentive for risk-taking; and to leave little room for individual initiative. Consequently, innovation might occur more in dynamic environments than in munificent environments (Audretsch, 2004; Morris and Lewis, 1995; Florida, 2002, 2005)), although one might want to question here both the implication that creativity and risk assessment are not resources and the direction of causality. Are places dynamic because of the innovation

occurring, or is innovation triggered by dynamism and change – or perhaps a bit of both? Poot's (2004) edited collection provides a useful corrective to the northern hemisphere work of Porter (1990), Storper (1997) and others rejoicing the power of innovation clusters associated with some of the world's leading research universities and innovative financial centres. Such thinking rarely fits places far away from industrial hubs and the contributors to Poot's book ask such questions as:

- Why, for example, is the Headquarters of the world's largest cell-phone maker (Nokia) buried in a Finnish forest rather than Silicon Valley?
- Why do New Zealand and Australia have strong reputations for innovation in film-making – perhaps precisely because they are, or were not, networked into Hollywood?

Perhaps being different / innovative is actually easier in some circumstances as an outsider.

We should also remember that all the components of Figure 1 exist in time as well as space, and that both entrepreneurial and innovative activities reflect an uneasy amalgam of accumulated history, current circumstance and future imagination. Moreover, all variables are interconnected in complex ways across all spatial scales simultaneously and evolve at different speeds – some, like commodity prices, change by the hour; others, like human knowledge and behaviour are amassed over a life-time; and laws or institutions often take centuries to evolve. Note, too, that individual components of the system in Figure 1 are frequently in conflict among and between individuals, social groups, businesses, and government; conflicts that also evolve over both time and space to bequeath us – and entrepreneurs – the ultimate wicked problem (Rittel and Webber, 1973) or social mess (Horn and Weber, 2007). SMEs, and their owners or managers, therefore operate in complex environments washed over by a large number of interconnected, conflicting and evolving variables whose precise configuration is only vaguely known.

This observation prompts, in turn, questions about the relative capacities of regional residents or outsiders for shaping regional economic futures. Are they essentially in the hands of isolated individuals, groups of leaders and entrepreneurs, local institutions, extra-regional actors, various tiers of government, or all of those together? And do they best approach the task by direct innovation or by configuring the contexts shown in Figure 1 to best spur purposeful and successful production? The strong importance of individualism probably reflects the character of Australia's market order, which, according to the Heritage

Foundation, ranks 3rd globally on their index of economic freedom after Hong Kong and Singapore. Most small town businesses are largely on their own in the sense that:

- there's no "big state" behind them,
- they are spatially isolated with low levels of local competition in narrowly developed service activities,
- local business leadership is sometimes relatively weak, and
- networking opportunities with neighbouring centres up to 100km away are tenuous.

Yet we know that from c. 1793 (the founding of Elizabeth Farm near Parramatta) rural Australia has been a hot-bed of innovation, much of it world-class. This just does not fit the prescriptions of the industrial location / development theorists. And the piecemeal side of things stems from simultaneous high risk and small-scale. Small operators do not have access to sufficient capital (more so in the GFC and in a time of drought!) to implement grand visions; nor the time and skills to frame such visions. Thus, they are hands-on innovators in much the same way as legions of innovators since John Macarthur established Elizabeth Farm and established Australia's Merino Wool industry. Nonetheless, it is interesting to see how technologies that reduce the friction of distance (railways, air transport, and now the Internet) have perhaps disproportionate impact on business organisation and behaviour in rural regions shorn of government patronage. They are a prime means of accelerating the flow of ideas among people, while simultaneously creating opportunities of new business types less hampered by remote location.

The balance of forces between these alternative perspectives is crucial for our work. That balance will be affected by the extent and form of state intervention – for example, taxes and subsidies; labour market policies; expenditure on R&D; extent of social security outlays and their allocation between people; the cost of meeting community service obligations; and so on. Now, Australia is almost completely different in all these respects to other developed nations in the extent of its free market economy and absence of subsidies; and also in its dependence on primary industries for export income; and in its low population density outside of major metropolises. We may frankly question the relevance of a lot of northern hemisphere literature in explaining patterns of business innovation and the reasons for their adoption. Table 1 outlines the major differences between innovation in the industrial heartlands of the northern hemisphere and the environments in which innovation occurs in small town rural Australia.

Table `1: Paths to Business Innovation Based on Theory

Contributing Factors	Innovative Regions, Industrial Heartlands ¹	Small Town Rural Australia	Corporate Agriculture / Mining
Inter-personal Culture: creative, risk-taking, tolerant	+	—	+
Social Capital: strong, diverse, adaptive	+	—	?
Workforce / Professional Skills: high level, diverse, adaptive	+	?	+
Demography: high population turnover, young average age	+	—	—
Research: cutting-edge, globally competitive, intensive - with embedded major universities	+	—	+
Technology Transfer: fast product and process innovation, relevant professional advice	+	—	+
Strong IP Protection: legal, professional advice	+		
Innovative Finance: free-flowing venture capital for innovative business	+	—	
Global Connection: airports, ports, access to international markets / ideas / supplies	+	—	?
Interregional Connection: good road / rail / air access	+	—	?
Strong IT Connection: speed /access	+		
Entrepreneurial Capacity: risk-accepting, forward thinking, networking, decisiveness	+	?	?
Excellent Inter-Firm Networking: government / private institutions / industry sectors	+	—	
High Environmental Quality: urban and natural	+	?	+
High Quality Entertainment: fine arts, sporting events, concerts	+	—	—
Excellent Social Facilities: schools, hospitals, etc.	+	—	—

1. For example: Silicon Valley / Seattle / Route 128 (Boston) / North Carolina; M4 Corridor / Silicon Glen; Chennai / Mumbai / Pune, Osaka / Tokyo; Shenzhen / Shanghai / Hong Kong; Singapore

3.0 Research Design

A qualitative methodology, involving focus group meetings with owner-managers in the six cotton communities, was employed and a snow balling technique used to select participants. The Chamber of Commerce manager in each community was approached to assist with selecting between 8 and 10 participants for the meetings, although the actual number of participants ranged between 3 and 7. The low participation rate in some communities, a result of participants dropping out at the last minute for urgent commitments, has implications for our ability to generalise the findings to the business communities investigated. Nonetheless, the information collected is consistent with our *a priori* expectations and understandings of business innovation in small communities and with information from earlier interviews with community leaders and business owners.

The focus group discussions centred on four key questions on innovation and a copy of the prompt sheet, setting out the issues covered in focus meetings, is provided in Appendix A. Participants were asked to explain the concept of innovation, and to discuss the factors that determined innovation in their communities as well as the innovative activities implemented in their businesses in the last five years. As part of the determinants of innovation they were asked about barriers to innovation within their communities. HREC protocols were followed and participants assured that their information will be aggregated for analysis and that they will not be quoted directly, except with their permission. Questions were mainly posed by the research team, but the proceedings had scope for individual respondents to probe questions and issues more deeply. The length of the meetings ranged from 1.5 to 2 hours. Permissions were sought from participants to record the discussions at each meeting and they gave their consent by signing the relevant forms. The recorded discussions were transcribed and the transcripts collectively analysed for all communities by question and/or theme to enable comparisons of responses between the different communities. Secondary data on performance on the small business sector in each community were analysed for purposes of triangulation and for in-depth understanding of the sector as a whole within each community

4.0 Findings

This section is organised under the main themes of: concept of innovation, determinants of innovation, small business performance in each community, and types of innovations undertaken by participants in their businesses.

4.1 The Concept of Innovation

Participants presented various perspectives of innovation and, in general, innovation was seen as a necessary adaptive process by which businesses responded to changes in their environment in order to remain viable. It was agreed by the majority of participants in all six communities that innovation entailed changing with the times, with business climate, or with business / product life cycle. Innovation was said to involve an internal assessment whereby business processes were analysed for business strengths and weaknesses, which were then assessed against changes (opportunities and threats) in the external environment with the aim of identifying gaps in the business's adaptive capacity and implementing strategies to address the gaps. Few participants elaborated that innovation required thinking outside the box and searching for new ways of doing things i.e. doing things differently, but the majority saw innovation as triggered by events in the business environment, portraying innovation as reactionary rather than proactive.

In one of the communities, there was a discussion as to whether a reactionary response to external events, required of all businesses to survive, could be classified as innovation compared with proactive activities that evolved from creative processes not pushed by external pressures. This question induced further analysis of the sources of innovation and it was held that innovation originated from individual business owners. A participant in another community reiterated that innovation was a product of self-reflection and a desire to do things differently in order to increase rewards for all involved. In this regard, it was necessary that small business innovations were consistent with the personal objectives of their owner(s). Expanding this position, the participant explained that despite the central locus of innovation, its realisation required selling the vision to others, involving them in its implementation and sharing the associated benefits with all involved. The researchers raised this issue in all other communities and the general consensus was that innovation extended beyond idea formulation to its realisation: a holistic process requiring access to capital (debt and equity) from financial institutions and investors, engaging employees to implement the idea, and convincing customers to accept the associated product or service.

Participants in NSW suggested that innovation did not have to be expensive but could involve an accumulation of small incremental changes to move the business forward. Innovation was therefore perceived as ongoing and progressive, occurring in humps and bumps rather than at a constant rate. It involved disjointed incrementalism, creative evolution of a business,

strategic thinking, and working on and not in the business. It was established that innovation must lead to improved efficiency; as such the end result must be holistic, covering all aspects of the business so that activities became consistent and cohesive. In one community, the idea of working strategically on the business was seen as innovation and different from the daily operations or work in the business. It was argued that the latter was necessary but, at the same time, a hindrance to innovation (working on the business) and did not require as much reflective thinking as for innovation.

Despite some participants tracing the source of innovation to individual business owner(s), it was generally agreed in all communities that innovation was driven by factors external to the business and that businesses were more likely to be innovative in uncertain, hostile and turbulent environments than in stable environments where resources were abundant. Consistent with this view, a participant in one of the Queensland communities recapped that the relatively lower levels of subsidies to the Australian agricultural sector, in comparison to Europe and America, had encouraged innovation in Australian farming communities.

In general, participants regarded both minor changes to daily operations as well as radical changes that added significantly to the value of the business as innovations, so that they felt they were innovative if they made changes to their business operations. We now explore the determinants of innovation as presented by the participants.

4.2 Determinants of Innovation

While the researchers avoided specific reference to the determinants in figure 1 above, the issues presented by participants were along similar lines, although determinants in their local communities received greater attention than those at the state, national and international levels. Triggers within the immediate business environment comprised competitors, customers, technology and suppliers. We examine the determinants thematically.

4.2.1 Immediate Business Environment

A participant from one of the communities in Queensland described how innovation can arise from gaps in the market associated with weak competition and competitors' inability to meet specific needs of customers or the needs of a niche within the broad market. Businesses were forced to innovate to maintain or gain market share when competition was intense and it was

noted that monopolistic situations and business stability induced inertia and discouraged innovation.

Another source of innovation identified by respondents was technology which required businesses to keep up, adapt and remain competitive, by assessing the new technology and training employees with the skills to use it. The efficiency gains from adapting to new technology were illustrated by a participant who compared a cotton farm using a picker with one employee to another farm with older equipment and six employees. It was suggested that adapting to new technology needed not be costly as businesses could outsource or hire new equipment rather than purchase it outright.

Customers comprised another source of innovation, as businesses were sometimes forced to innovate to meet specific needs of customers. As an example, a participant in NSW described how he was unable to meet customer demand for parts to fix starter motors from the complete units supplied by his suppliers, calling for an innovative solution to the minor repair needs of customers who did not want to replace whole parts. Customer credit was another area that called for innovation to increase sales at minimum costs. The provision of credit was necessary for businesses to remain competitive but customers were taking longer to settle their accounts. In Queensland, businesses incurred large bad debts from customers who declared bankruptcy so that evaluation of customer credit risks had become very important. An instalment payment system was implemented by a participant to reduce bad debts and increase payments from debtors (discussed further in section 3.3).

The small population size of some of the communities deterred innovation, a situation worsened by internet purchases by locals. Nonetheless, it was agreed that the internet was useful for exposing communities to outsiders and thereby building new markets to compensate for the small local markets. New technology was thus seen as both enabling and threatening innovation.

4.2.2 Human Capital

Human capital comprises the knowledge, information, ideas, skills and behaviours of several people in the community: business owners, community leaders, service providers and employees. Thus human capital extends beyond the immediate environment of the business. The personality of the owner, influenced by such demographics as age and gender, were

identified as determinants of innovation. A participant in Queensland drew attention to inter-generational differences in business systems between her business and that of her parents, pointing to greater use of new technology within her business, which she attributed to different beliefs about effective methods of operation. In another community, it was noted that a large number of progressive businesses were owned by migrants and locals were less willing to invest in opportunities within the community. In this regard, it was suggested that the investment opportunities provided by the hot springs in Moree were likely to be pursued by outsiders than by local residents. This position was also evident in Warren where participants believed the success of their community lay with a large investor from outside the community.

Certain attitudes of local residents were portrayed as deterrents to innovation and in one of the Queensland communities, preference for professional services and advice from big-city firms denied income to local service providers and to the wider community. Risk averseness among residents, who preferred to save their excess cash rather than invest in local businesses, was also seen as detrimental to innovation in the community. Aversion of both the older generation and micro businesses to using the internet for business transactions, preferring hard to electronic copies of invoices and receipts, also hindered innovation. Despite evidence of increasing use of email within the communities, few businesses had websites, a situation blamed on the lack of appropriate infrastructure.

The quality of local leadership and its ability to leverage resources, promote the town, and induce population growth influenced business innovation. Proactive leadership in the Local Councils and Chambers of Commerce in some of the communities spurred business innovation during the difficult periods of the drought. In another community, participants disparaged their Council for accepting too many tenders from non-local businesses at the expense of local suppliers. For example, the redevelopment of the main street in Emerald was contracted to a company in a big city that shipped all required equipment and supplies to the location of the contract, despite these resources being available locally, depriving the community of potential income from the project. The absence of a Development Officer or a similarly funded position, to provide business development assistance and advice hindered innovation in some communities, a situation exacerbated by poor communication between the Chamber of Commerce and the Local Council in one community, denying local businesses access to information vital to their development. The long tenure of the mayor and other

council members in two of the communities investigated was blamed for inertia that deterred business innovation in these communities. Delays in infrastructure developments, due to extensive red tape and divisions among community leaders, presented setbacks to business innovation and development.

Shortage of skilled labour was consistently cited in all six communities as a major barrier to business innovation. In one of the NSW communities, a participant was unable to expand his business despite access to capital because of lack of the relevant skills. The skills shortage was particularly severe in the mining communities of Dalby and Emerald where mining companies competed with local businesses for the available skills, using high wages to lure employees from the small business sector. There was a lengthy discussion on the work attitude of Generation Y employees who were described as wanting instant gratification and quick promotion without developing the relevant skills and experiences. In Queensland, it was noted that businesses unable to meet their labour requirements were those unwilling to take workers on full time basis, even during the good seasons. Lack of access to professionals, particularly accountants was also a major setback to innovation.

4.2.3 Industry Structure

The state of the basic industries within the community also determined innovation. The majority of businesses in the communities investigated was directly or indirectly associated with the basic industry in the community so that small business performance fluctuated with performance of these basic industries. It is well-known that the health of basic industries is crucial for regional well-being and growth. The basic industries in the communities studied were agriculture, mining, and tourism. It was obvious that businesses in predominantly agricultural communities were forced to innovate to remain viable during the drought period when population and disposable income from the community declined, dragging down demand for products and services. Similarly, increased technology and automation in the cotton industry and consequent reduction in labour requirements called for innovative responses by businesses to lost markets. The corporatization of farms and reduction in the number of small family farms was perceived as another setback to small business innovation in cotton communities. Unlike corporate farms, small family farms bought supplies and invested their excess cash in the community. Small family farms were also seen as more stable and predictable than corporate farms. Price was a major purchase decision factor for the latter and since small local businesses lacked the scale to compete on price, they were

excluded from the opportunities from corporate farms. It was felt that industry diversification in predominantly agricultural communities was necessary for business growth.

In spite of the perceived opportunities from mining, small businesses in mining communities faced several threats from mining companies, including competition for labour and accommodation, both of which increased business costs and hindered competitiveness. In Emerald, this additional cost was referred to as the 'Emerald tax'. Added to this, mining companies had satellite cities outside the towns with highly subsidised rent for their workers, whose needs were met from extra-regional sources, denying local businesses potential income from these activities. It was suggested that 20%-30% of itinerate mine workers residing in the town would bring considerable income to the community. The restructuring of operations required for local businesses to access opportunities from the mining sector significantly added to business costs in Emerald leading to a two price structure with higher prices for mining customers than for local businesses.

The establishment of new big businesses within a community presented a range of opportunities triggering innovation in small firms. Examples include a proposed tyre recycling and carbon capture business in Warren and an orange juicing business in Moree which grew and processed oranges. Proposed new retail buildings in Emerald were expected to bring in new businesses despite scepticism about the ability of the local market to sustain more retail stores. In addition, Moree's healing water festival, usually held in the last week of September, exposed the investment potential in the hot springs to outsiders.

4.2.4 Resources in the Community

Resource availability and accessibility also induced *thinking outside the box*. The main resources of concern to the small businesses investigated were labour and finance. Access to labour and its impact on innovation were discussed above. The negative impact of lack of finance to innovation in small business was emphasised in the Queensland communities where following the global financial crisis (GFC) local banks had tightened credit, especially to the small business sector where borrowers had limited assets to secure loans. It was felt that financial institutions saw small businesses as risky and were therefore unwilling to lend them money. Lack of access to finance by the farming sector also affected small businesses that serviced this sector. The efficacy of processing loan applications extra-regionally by officers with little knowledge of borrowers was questioned by a participant who suggested that loans

were granted on the basis of postcodes rather than the potential of the investment for which the application was made. The cash flow problems associated with lack of finance were worsened by the long lead periods for invoice payments by the mines. In one of the mining communities, local businesses were required to pay their creditors within 7 days of invoice date but had to wait for up to 90 days for monies owed by mining companies to be paid.

Again in Queensland, reference was made to the need for satellite dishes or broadband network systems for improved access to the internet and use of devices such as GPS systems. Distances from suppliers and cost of transporting supplies were barriers to innovation for a participant in NSW, delaying access to supplies and in turn services to customers.

The facilities within a community also influenced the ability of businesses to innovate. Smaller towns that lacked such basic facilities as medical centres, shopping centres and schools, lost customers to bigger towns. Locals shopped in the big towns when visiting their doctors, dentists, children in boarding schools and/or accountants, taking their trade out of their local communities. Delays in infrastructure developments due to red tape adversely affected business innovation in Moree but resources such as highways and train tracks to major cities enabled access to distant markets, benefiting businesses in the community. The distance of St George from major cities was seen as a barrier to small business innovation. As noted above infrastructure development also threatened business innovation through trade leakage to other regions.

In Dalby, local Council task groups had partnered with Chambers of Commerce executives to address issues affecting business growth such as infrastructure, transport, environment, training and information technology (IT) development. The Council recognised that these partnerships were important to business development in the region. Dalby had also developed a financial investment proposal and a business gap study as part of its economic development plan. The council acknowledged the importance of information to effective business operation and had developed systems for collecting information on various aspects of the region that could be accessed by businesses for decision-making. The economic development plan for Dalby also included initiatives to assist local businesses develop the structures, processes and systems necessary to gain access to supply chain opportunities from the emerging energy sector. A database of businesses and their capabilities had been compiled to assist with teaming up businesses to handle opportunities beyond their individual capabilities. It was

emphasised that the amalgamated Council had a positive impact on business innovation because it reduced red tape by providing a united voice for the whole of Dalby and enhanced service delivery to member shires. At the time of the research most of the goods and services required by the energy companies were shipped from Brisbane.

The business excellence awards, organised by the various Chambers of Commerce in the region, also encouraged business innovation. The criteria for selecting winners were based on evidence of continuous improvement and the process of preparing a submission exposed businesses to areas where they could improve performance. The downside of the business excellence awards was raised by a participant who noted that businesses tended to concentrate on their submissions rather than internal improvements, especially where the accuracy of claims in the submissions were not verified. Attendance at these award nights had dropped in Wee Waa.

It was suggested that industry benchmarks enabled franchisees to assess performance and improve their businesses; a resource not available to independent businesses. A participant from one of the Queensland communities enquired about the industry benchmarks produced by the former Financial Management Research Centre attached to the University of New England. It was thought that an internet site that provided local businesses with industry benchmarks and resources such as business planning kits would be valuable to small businesses in rural locations.

4.2.5 Socio-Cultural Trends

The general culture of a community was another determinant of business innovation identified from the discussions. It was apparent that the general attitude of locals, including business owners, influenced innovation. High levels of apathy among business owners and locals in two of the communities deterred progress. A general reluctance among business owners to spend money on innovation was mentioned for one of the communities. In other communities, a welcoming image attracted new residents, growing the population and encouraging innovation. The collective impact of businesses on the image of the community was raised in one of the Queensland communities. It was held that a bad customer experience from one business could tarnish the image of the town and its businesses. In this regard, the negative image of Moree in the media with regards to the indigenous population was said to present a setback to population growth and business innovation.

4.2.6 Political and Legal Issues

Political uncertainties, such as those associated with the recent federal election, impacted innovation as businesses were unsure of how policies in the pipeline will affect their business decisions. The period of change from the Rudd to Gillard government, the weeks up to the elections and the period of indecision by the independents all created uncertainties for business innovation. Similarly, businesses were affected directly and indirectly by various government legislations. For example, it was emphasised in all six communities that government regulation regarding water buy-back and its effect on water availability to farmers would have direct adverse impact on businesses in cotton communities and their ability to innovate.

Bureaucracy and red tape at the local and state government levels, as well as rising compliance requirements and costs, were considered deterrents to innovation. The ‘material change of use’ required of Emerald businesses in rented premises wanting to change their shop fronts and/or services were seen as restrictive to business innovation. It was also noted that business services were very expensive and continued to rise despite businesses completing most of the requirements for which they were charged. An example provided by a participant was real estate agents preparing contracts for tenants and paying solicitors hefty fees to oversee this service.

4.2.7 International Issues

Small businesses in the communities examined were affected by trends in global prices for the major exports from their communities. Fluctuating global prices for produce such as cotton, coal and gas created uncertainties for local businesses affiliated with these basic exporting industries.

The effect of the GFC on regional communities was delayed; businesses presented as resilient to the GFC in 2009 when its impact was most felt in the major cities. This resilience may have arisen from the effect of the government’s rescue packages. A year later, when businesses in the capital cities were recovering from the GFC, the impact had become more pronounced in regional businesses following the tightening of credit by financial institutions.

The analysis of the factors that determine innovation in cotton communities paints a grim picture for small businesses in these communities. Their environments could be described as hostile, uncertain and changing with little stimulus for innovation. It may be that the level of risk inherent in these environments and the lack of appropriate resources require a piecemeal and emergent approach to innovation rather than the radical and revolutionary changes expected of the sector for regional development. The performance of the small business sector in the communities investigated is analysed next.

4.3 Performance of Small Business in the Communities

Table 2, extracted from the ABS National Regional Profile (Cat No. 1379.0.55.001), shows significant differences among the six communities in income from unincorporated businesses from the period 2004 to 2007, when the impact of the drought was most felt. Consistent with the position that innovation and growth in small business is partly determined by the environment in which they operate, we explain the fluctuating performance of small unincorporated businesses in the communities by changes in their local environments.

Table 2: Average Own Unincorporated Business Income 2004 - 2007

Cotton LGAs	2004	2005	2006	2007
	\$	\$	\$	\$
Central Highlands	10 622	11 869	15 598	15 495
Dalby	13 939	13 315	8 456	1 789
Balonne shire	-815	14 410	13 904	- 4 800
Moree	8 726	20 223	13 954	20 854
Narrabri	12 531	19 427	12 967	11 099
Warren	15 651	17 429	3 184	- 3 111
Australia wide	16 538	16 868	16 997	17 974

Source ABS government statistics, retrieved on 24 September 2010 from <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/LGA15300Economy12004-2008?opendocument&tabname=Summary&prodno=LGA15300&issue=2004-2008>

Table 2 shows growth in income from unincorporated business from 2004 to 2006 with a slight and insignificant decline in 2007 for the Central Highlands Region, with its headquarters in Emerald. The region was the wealthiest among the six communities investigated with large primary, mining and tertiary sectors, a large population and very low unemployment rate. However, small businesses in this community faced significant labour and accommodation shortages and costs, the high cost of business limiting competitiveness. Few businesses took advantage of opportunities in the mining sector because it was expensive

to undertake the restructuring required to do so. Further, the majority of contracts from the mining and government sectors went to businesses in Brisbane and Cairns. Nonetheless, the diversified basic industries protected businesses from the effects of the drought, explaining the increase in average small business in 2006 when income fell in most of the other communities. The population of Dalby was also relatively large and unemployment low, but small businesses suffered the double effects of the drought and high rental and labour costs associated with the emerging energy sector, leading to a sharp fall in average small business income in 2006 and a continued decline in 2007. These results may also be associated with the poor state of infrastructure and conflicts among residents strongly opposed to allocation of land to energy exploration, both of which created an uncertain environment with negative consequences for the small business sector. Agriculture was the basic industry in Balonne Shire with a variety of produce including horticulture and livestock and cotton the main crop. The dependence on water and declining output from the Cubbie Station in Dirranbandi, poor infrastructure, distance from major cities, and relative passiveness among business owners resulted in significant decline in small business income in 2007.

Moree was the wealthiest cotton community in NSW, although it lagged behind Emerald. It had a large agricultural sector, especially cotton and wheat; a reasonable tertiary sector servicing the surrounding small towns; and a limited secondary sector. It suffered population decline and skilled labour shortages during the drought and local markets were adversely affected by improved technology in cotton production. The hot springs, ageing population, transport network, and distance from other bigger towns presented prospects for diversification and growth. Local economic performance improved between 2004 and 2007 and with it performance of the small business sector, except in 2006 when average small business income fell sharply reflecting the community's dependence on the primary sector. Among the six communities, Moree had the highest average small business income among the six regions in 2005 and 2007. Wee Waa (in Narrabri shire) a wealthy agricultural community dependent on cotton, suffered significant population and income decline during the drought, with adverse effects for the small business sector. Residents were resilient, proactive and keen to see their community survive. Close location to Narrabri and access to its bigger markets and experts constituted opportunities for Wee Waa, nonetheless dependence on cotton may explain the large decline in small business income in 2006 continuing in 2007. Warren, a predominantly agricultural (cotton) community, was the worst affected by the drought among the six communities. Located off the highway with a small and declining population, limited

prospects for diversification, and an ageing population, average small business income fell sharply in 2006 and continued its decline in 2007.

We also observed that small business exits were high in 2006 in the majority of communities, especially among non-employing businesses, indicating greater vulnerabilities for newer and smaller businesses due perhaps to limited access to resources compared with the larger employing firms. This finding confirms that innovation and growth enhance viability of small businesses. The ABS data also revealed that the number of new business entries was similar or greater than exits in many of the communities, supporting the theory that business opportunities increase in a turbulent environment (Venkataraman, 1997). However, the implementation and operation of these new businesses would be challenging in the environments described above, especially for communities dependent on the primary sector.

While the above descriptions paint a grim picture for communities reliant on agriculture and cotton, several small businesses survived the drought, implementing various innovative changes to remain viable.

4.4 Forms of Innovation

Several forms of innovation were presented at the focus group meetings in all six communities. Radical innovations undertaken by participants were few and included: addition of new products/services to existing lines (diversification), entry into new markets, and mergers with similar businesses. New product developments were rare. These radical changes were required changes to various aspects of operations for consistency with the new strategy.

The high risks associated with these innovations were illustrated by examples from participants in the meetings. A small independent business that attempted rapid expansion of its markets to other areas of the shire and to other shires incurred significant losses from increasing bad debts, and subsequently decided to downsize. Another business which embarked on a diversification strategy, adding a turf farm to its hardware shop, found the long operating cycles associated with growing, processing and selling turf and the limited market for this produce a severe drain on capital.

It was noted that these radical changes were easier where the existing or new business was a franchise than if it was an independent business. Support services from parent companies or franchisors provided relief from daily operations, enabling such businesses to devote attention to business strategy. For example a participant who was a franchisee took advantage of the falling business values during the financial crisis and purchased a new business in the same industry expanding operations. The majority of businesses adopted a cautious and incremental approach to innovation. We describe below a successful example of expansion through diversification.

4.4.1 Radical Innovation (Strategic Changes)

A small service business located in a medium-sized growing town took advantage of gaps in the market and expanded its range of services through diversification. It was the only locally-based business providing the service. Its competitors were branches of bigger businesses located in neighbouring towns and provided a limited range of services. The local business had a good reputation and was able to attract good employees. Its mission for expanding was to become a one-stop shop for business services. To achieve this, the business first merged with a business in the same service area, moved into new premises with more office space, and then extended its service range. This innovation (change) was accompanied by the installation of new and up-to-date technological equipment, improvements in storage of electronic files, and reduced consumption of paper. The fee structure was also revised to conform to the new outlook. New employees were recruited and a new training program developed to raise employee performance to standards consistent with the new business. Moreover, promotion of the business was intensified using diverse range of media to change customer perceptions of the business and win new customers. The promotional strategy was enabled by addition of a marketing division to the business services to serve the business needs and those of its clients. In effect, the change in strategic direction was accompanied by changes in all functional areas to ensure all business operations were aligned with the new business direction.

The innovations described by the majority of participants were incremental in nature, involving changes to various aspects of their operations, and were implemented in response to specific problems. These are presented in the next section.

4.4.2 Emergent / Incremental Innovations (Changes to Operations)

The areas that plagued businesses the most and for which they implemented various innovative responses were attracting and retaining customers and employees and collecting monies from debtors. The changes are presented for the main functional areas of market development and marketing, human resource management, operations, and networking.

Expansion of Target Markets

The majority of participants tried to expand their markets by drawing trade from surrounding small towns to make up for customers lost to competitors in bigger towns or lost through population decline in their communities. Examples included businesses in Warren reaching out to potential customers in Nyngan and Quambone (which had lost similar businesses) to replace customers lost to Dubbo. A bus operator who drove passengers from one of the NSW cotton communities to the main cities extended operations by teaming up with a tourism business to transport tourists from the cities to interesting places in the country. Attention was drawn to the risks associated with market expansions; a business that had expanded its customer reach to several towns lost money through bad debts.

Promotions Strategy

Participants emphasised the importance of selecting appropriate media to reach their target market. A service business had a new marketing division that served its internal needs as well as those of its clients. Whereas previously it rarely engaged in promoting its services, it had recently embarked on an active promotions strategy involving careful selection of media to reach its target population. Its promotions strategies included sponsoring community sporting events and school career days both of which provided opportunity to meet potential clients. It was explained that though outcomes for sponsorships were difficult to measure, they helped build goodwill within the community and provided a sense of belonging. Print material was also used for its cost effectiveness and wide reach.

Examples of promotional media mentioned by other participants included business logos on coasters given to customers; advertisements in local newspapers, radio and/or magazines; personal selling through site visits; and brochures especially for retail products on 'specials'. It was noted that including coupons in advertisements or asking new customers how they knew about the business enabled assessment of returns from a promotion strategy. Some participants changed their business names, put up new signage to communicate their new

image, and drew in customers by offering specials to celebrate the new image. Some retailers attracted customers by organising festive shopping evenings, business birthday parties and mothers' day teas, at which finger food was served and discounts provided on products. The majority of participants noted the strength of word of mouth promotion and the implicit need to provide a good service at all times, starting from first contact with customer (eg receiving calls) to follow up contacts after the work was done. This was particularly important for businesses that aimed for leadership positions or positions as preferred suppliers in their industries.

Pricing

There was a two price system in Emerald; prices for goods and services supplied to mining companies were two or three times higher than for other businesses in the community. The price differential was attributed to safety and security systems and training required to qualify for contracts from mining companies, and consistent with the additional cost of doing business with mining companies.

Customer Service and Accounts Receivable Management

Participants mentioned the importance of good customer service to winning and retaining customers. Customer service and a good name were seen as more critical to customer retention, business promotion and business growth in regional towns than in urban centres. Customer service initiatives included:

- Providing coffee vouchers to customers of a mechanic shop so they could have coffee while waiting for their services to be completed;
- Ordering goods that the business did not stock specifically for some customers; or
- Even buying the goods from competitors to meet customer needs were used by some businesses to build customer loyalty.

The strategy of reaching out to all customers was debated and one participant drew attention to the Pareto principle, explaining the benefits of a selective approach to customer service and customer relationship building. He emphasised that it was better to develop closer relations with the 20% of the best customers who provide 80% or more of the business income. This position was reiterated by a participant in another community who turned away customers requiring services or goods outside his range of services or pointed them to other businesses. She explained that the returns from chasing all customers were not worth the cost in time and effort and that the results were often a loss to the business and dissatisfied customers. Some

businesses engaged in companion selling, encouraging customers to buy related products, especially where their needs were better met by multiple products than the single product they asked for; the ultimate aim was to increase sales.

While the majority of participants had provided extended credit to customers with pressure on cash flow, others had found effective ways of managing this extended credit with strategies such as direct debit payment plans and sending invoices right after the goods were supplied or services completed rather than at the end of the month.

Internet Use

The internet was also seen as an important resource for business and participants indicated increased use for various aspects of their operations. Some had developed websites for promoting their businesses, others took orders and purchased goods online and yet others provided resources for customers online. Other participants used blogs, twitter and facebook for business purposes. A participant noted that the internet was critical to sourcing supplies. The internet provided a wider reach of clients not previously accessible to businesses. The internet was also used for assessing competition and competitors' products and services, for innovative ideas, as well as for information relevant to operations such as pricing. A participant expressed reservations about buying through the internet as quality was often inferior to what was illustrated.

Human Resources

Attention to the human resource area was seen as important to business success and an area requiring innovative actions. Recruiting and retaining good employees were particularly challenging to employers, as various innovative strategies failed to produce results. For example, some participants lost employees despite paying higher than award wages in addition to various incentives. Attention was drawn to the importance to employee retention of employer-employee relationship and the overall work environment.

To deal with the skills shortage, a business service firm recruited high school (year 12) graduates into traineeship programs, assisted with their university education and employed them in permanent positions after completing their studies. This strategy enabled retention of these professionals in a very competitive labour market. Similarly, a construction business took on young apprentices but allowed them to leave after their apprenticeships, so that it

constantly replaced and trained apprentices. Since the number of apprentices were limited compared with apprentice positions available in the community, business reputation was important to gaining an upper hand in this market. One participant suggested that it was better to recruit employees at younger than 18 years so that they could be moulded on-the-job. Another participant was concerned with the cost in time and money of recruiting and training apprentices.

Some businesses had recruited overseas workers under the 457 visa program and others employed temporal Backpackers to meet their labour requirements at relatively cheaper cost. A local farm had its video training program translated into other languages for overseas recruited farm hands and a business in one of the Queensland communities had recruited accountants from South Africa. It was suggested that increasing automation of farm operations had reduced labour requirements for farmers, especially with farmers preferring to outsource rather than invest in heavy and expensive machinery. Nonetheless, farmers retained skilled and good employees during the poor seasons to ensure they were available to work during the good harvest seasons.

A participant highlighted the importance of employee training to his business, spending as much as 50% of his wage bill on employee training. A variety of training providers were used including product representatives (for effective use of products) and a business coach (for employee training needs analysis and specific training programs). The ultimate aim was to empower employees to have ownership of the business processes – that is to be able to run key aspects of the operations with low level supervision. The participant believed that on-the-job training programs were important for low level technical employees or apprentices with no more than year ten qualifications with typical low self esteem. Such programs as well as in-house but off the job programs enabled employees to share their fears and concerns. In general, respondents were reluctant to invest in preparing employees for management duties because such development oriented training was considered the responsibility of the employee and also because employees often left to higher positions in other businesses on completing such training, leaving employers unable to recoup their investments. Concerns about the impact on business profits and loss of employees to other businesses usually restricted employee training to technical, relevant and on-the-job training in the majority of small businesses (Kotey and Folker 2007).

Several strategies were used for employee motivation and retention. A partner in a professional service business shared the business vision with employees, encouraging them to participate in its achievement. Work was assigned to employees according to their strengths and they were empowered to be creative and to perform independently of the business owners. It was important to another participant that employees fitted in with the business culture and its family environment, so that attention was paid to the 'congruence' factor during recruitment and selection. Another professional service firm attended to operating systems and procedures and ensured that employees were well informed of their responsibilities within the system. Employees therefore had access to all relevant information including financial performance information. In a mining community with a two-wage structure (high wages for mine workers and average wages for others) a participant encouraged employees to take up second jobs to fill the wage gap.

The view was expressed that employees were the best source of innovations in customer service as they were closest to customers and had better perceptions of customer needs. A participant explained a strategy developed to encourage innovation among employees. They were rewarded for their workable ideas and the rewards increased at various stages of idea development until complete implementation. In another business attention was given to employee embezzlements and theft by ensuring that audit trails were adequate.

Participants blamed the education system for the skill shortage and poor employee attitudes. The contention was that the education system, particularly TAFE, no longer prepared graduates for technical hands-on and soft life skills such as communication, required to perform effectively in their jobs. The skills shortage was also attributed to lack of appreciation for trade jobs among young people, who found such jobs unattractive, difficult and offering limited rewards compared with interesting and better paying positions like park rangers.

Operations

The discussions revealed that returns from extending trading hours varied with the type of business. A health service provider extended trading hours to 7 days a week and increased his customer base. In contrast, a retail business experienced no significant change in customer numbers from longer trading hours; the same customers came in but at later hours.

Inventory management was important to effective operations and called for innovative practices. Some retailers increased the number of lines to provide greater variety to customers. Other businesses such as mechanics reduced inventory, shifting to a just in time system. This was possible because they were able to schedule services for the whole week and to order parts as and when required for the service, cutting down inventory by as much as 30% to 40%. Another participant purchased inventory in bulk (about three months' supply) and although this tied up capital it was acceptable as it ensured stock was available at a reduced cost and on time. This turned the discussion to the importance of assessing costs against benefits for all innovations.

The retailers in the meetings emphasised the importance of regular inventory review, covering identification and replacement of slow moving items with fast turnover items in order to avoid capital being tied up in inventory. Some retailers targeted the upper end of the market, stocking items with high profit margins. The owner of a gift shop stocked unique items purchased from a variety of sources including trade fairs, the internet and so on. This careful selection combined with frequent changes in the arrangement of the store, provided a new look, shed more light on the slow-moving items, attracting customers to them and increasing sales. The strategy had sustained the business over time. Other participants also frequently changed their store layout for a fresh look and to draw customers. Another participant preferred to buy stock from within the community, and although it was expensive the savings on freight brought the cost at par with the cost of extra-regional purchases.

A service business had implemented initiatives to reduce its use of paper. Digital pens were used to take notes in the field and these were emailed to, and saved on the main server in the office. Other green initiative in this business included turning off lights when rooms were not in use and using gas-powered vehicles.

Networking and Sources of Support

The sources of business support shared by participants included: other business owners, family members, accountants, and industry group members. One participant was assisted by a network of support group members when faced with difficulties suggested that the business would not have survived without their support. Businesses gained customers from their networks through a referral process. A mechanic drew attention to a web-based industry planning session held weekly with industry members in various locations. These sessions

provided support and a source of ideas, enhanced knowledge of industry trends, and presented a forum for discussing problems facing the industry and for brainstorming solutions. The participant described a situation where members had difficulty accessing supplies and three hundred members organised as a group to import supplies in bulk at a lower price. Purchasing supplies in bulk reduced cost, ensured control over quality, and enabled members to compete on price with internet suppliers. The industry members eventually gained a competitive advantage over their internet suppliers by the services they provided to customers (as mechanics) with the products sold. It was important to another participant to be present or represented at social functions in the community which provided opportunities for promoting the business. An annual festival on the river front was planned for St George to draw people to the town and encourage networking among businesses.

On the downside, participants in all six communities expressed concern about the low participation rate at Chamber of Commerce meetings, business training sessions, and other community events. The usual excuse from non-participants was that they had little time to spare from working in their businesses. Attendance at such networking events was also costly: in addition to any direct fees required, business owners had to pay for a locum, sometimes providing accommodation and covering transport costs. In support of networking, a participant commented on the negative consequences of focusing on operational issues to the detriment of strategic issues and the lost opportunity for business improvement ideas from participating in networking activities. Networking and business support were limited for independent or stand alone businesses compared with franchises. Locating in small towns also increased the isolation factor for independent businesses. Networking was also hindered by the tendency among owners and managers to guard trade secrets in order to keep their businesses competitive. It is felt that business growth in small towns often occurred at the expense of other businesses. However, effective networking requires businesses to assess which capabilities to leave out of their networking activities in order to remain competitive whilst reaping the rewards of networking.

5.0 Discussions

Consistent with participants' understanding of the concept of innovation and the often hostile environments in which they operated, the business activities they described as innovative were incremental and emergent in nature rather than radical or revolutionary. These piecemeal

changes to business operations were necessary for re-aligning their businesses with their changing environments, but unfortunately were not of the type thought necessary for regional development by Friar and Meyer (2003). The authors consider such incremental changes insufficient for moving the community forward. Some of the business owners who dared to be entrepreneurial found the experience draining and returns not commensurate with the risks.

The operating environments, as described by participants in the research, are consistent with Miller and Friesen's (1983) and Covin and Slevin's (1989) delineation of a hostile environment. Covin and Slevin (1989) described a hostile environment as characterised by precarious industry settings, intensive competition, harsh overwhelming business climates and relative lack of exploitable opportunities. The multiplicity of problems faced by cotton communities is congruent with environmental hostility and poses challenges to the pursuit of radical innovation involving extensive risk-taking, forceful and proactive strategies and novelty. Miller and Friesen (1983) explain how such hostile environments require extensive analysis of incipient threats and of ways of mastering them, greater attention to conservation of resources, and selective pursuit of economical competitive strategies, especially since resources are scarce and profit margins slim. Under such conditions, Covin and Covin (1990) advocated strategies of industry awareness, emphasis on promotion, innovative marketing, extensive warranties or customer service, operating efficiencies, and new product development and protection. The authors advised competing on quality and uniqueness rather than on price. The recommendations are consistent with observations for the businesses studied in this research project where innovation involved small advancements for survival rather than big risky leaps.

The findings are consistent with those by Child (1990) for Mainland Chinese owner-managers operating in uncertain and often hostile transition environments. They focused on defending their existing positions rather than establishing new grounds because the latter was risky and the rewards not commensurate with the risks. Tan and Litschert (1994) also reported that high levels of uncertainty in the Chinese transition environment forced owner-managers to pursue defensive, safeguarding and short-term strategies to minimize risks.

6.0 Conclusions and Recommendations

Attention needs to be focused on making the environment more conducive to business innovation and to encouraging small businesses in cotton communities to access and use information to keep their businesses aligned with the dynamic and often hostile environment in which they operate. Solutions to the problems identified above are therefore multi-faceted, requiring actions at various levels: individual business, the Chamber of Commerce, the local Council, and state and federal governments. Nonetheless we believe the impetus for change must originate from within each community. We present our recommendations for reform at each of these levels.

Our findings provide evidence of market failure; businesses cannot factor the cost of climatic changes in their pricing of their goods and services, a situation that prevents efficient allocation of resources. A number of intervention programs is already being implemented by the federal government and include the exceptional circumstance payments to businesses and farmers and additional points for migrants intending to live in regional areas (aimed at directing skilled labour to the regions). However, the impact of these initiatives has been short-termed. Long-term responses in the form of tax breaks for individuals and businesses in regional Australia will expand markets for businesses by stimulating population growth. An increase in population beyond a given minimum should provide access to such facilities and resources as hospitals and doctors, enhanced education facilities (primary, secondary, tertiary facilities, child care centres and teachers) and other social amenities, all of which will stimulate further population growth. Such a program can be used to manage the exploding population growth in the major cities.

Improvements in road and rail networks and air freight services to and from regional areas are necessary for ready access to national and international markets and ultimately growth of the small business sector. Similarly effective and efficient internet access will open global markets to the sector. Such infrastructure developments can be supported by levying produce from basic industries in regional areas and must be pushed by communities working through their local governments with funding from state and federal governments

Local councils and chambers of commerce must be proactive in assisting businesses within their communities to develop the operating systems required to access opportunities from

basic industries in the community. A Development Officer, employed by the Council, could act on behalf of businesses by accessing and providing relevant information, searching for investment opportunities, and liaising with the business community for business development and infrastructure needs. The incumbent must work closely with businesses to ascertain their needs and implement programs to address them. Our meetings revealed that independent businesses (those not in a franchise or similar relationship with a parent business) are particularly vulnerable because they lack the time to attend to issues at the strategy level and do not have the support systems available to business with parent organisations. As such resources provided by the Development Officers will be particularly beneficial to these independent businesses.

Following Schumpeter's theory of 'creative destruction' businesses that do not innovate in response to their changing environment are likely to fail, making way for more efficient businesses, however the community will not benefit from intervening to save such businesses. Business owners must therefore engage proactively with their industry associations and other support organisations within their communities for access to the resources required for maintaining and growing their businesses. This calls for reducing the levels of apathy observed among business owners in some communities and their active involvement in creating an environment conducive to businesses in their community.

We recommend the following pathways for developing innovative and creative communities in which businesses thrive and grow based on our proposition that innovation and creativity are crucial to the survival and development of rural communities and ultimately the businesses that operate within them.

Ingredients for promoting an innovative and creative community:

1. Future orientation on the part of all members of a community: its businesses, institutions, individuals, community leaders. Including scenario development and analysis
2. Strong culture of entrepreneurship, not just in business but in all dimensions of rural life – willingness to have a go (take a risk) and invest capital in enterprises, facilities, infrastructure, events.
3. Willingness to generate ideas about the future and share or debate them openly. It is not necessary to have harmony of views as long as the debate is conducted civilly and honestly.
4. Ability to grow the pool of local capital.

5. Strong culture of education right across the spectrum: from pre-school to technical or post-graduate; and covering the arts, sciences and business/economics. Education is the gateway to the future and indeed the passport to the rising tide of technical and challenging jobs.
6. Sufficient resilience to recognise general or specific threats in advance and strategically work to remediate or counter them.
7. Continuous SWOT analysis, coupled with up-to-date information about the state of the regional economy and society.
8. Cultivation of effective leadership without which no change occurs
9. Networking: politically across all jurisdictions; locally within the business community; amongst local producers and service providers – by specific interest groups; and among community institutions
10. Providing incentives (financial, mentoring, motivational, psychological, and educational) to help businesses and the community in general adopt new approaches or perspectives.
11. Active participation in research and development and/or blue sky product or process development.

The above proposition is a whole-of-community adventure, involving all of the following participants:

- Individual businesses
- Groups of businesses (networks, trade associations, chambers of commerce)
- Governments (local, state and federal; and involving leading politicians and senior bureaucrats / officials)
- Statutory authorities (CMAs, national parks, etc.)
- Private individuals
- Community groups
- Institutions (including hospitals, museums, schools)

Other considerations include the extent to which participants should interlink their activities strategically and leadership for the processes involved. These issues will differ from community to community based on such factors as the stock and diversity of resources; recent economic history; current levels of wealth and opportunity; proximity to larger centres of population - and therefore to potential spread and backwash effects; the stock of leadership and entrepreneurial talent; and the extent of local comparative and competitive advantage – now and forecast. Each community has to work out its own agenda; decide who takes the lead in the matter (if not everyone); calculate the extent to which synoptic strategies are involved –

rather than piecemeal action; assess who should conceive potential futures; and what sources of advice or mentoring can be tapped to facilitate this agenda.

The first three participants identified above are the most important for fastest and most effective business innovation – individual businesses; groups of businesses; and governments – are likely to have faster impact because of their closeness to the business sector. The other participants are what one might term slow-acting contributors to creativity and innovation. Private individuals and community groups are nevertheless important for shaping overall future orientation or forward thinking in small rural towns over the long term and providing a nurturing environment for entrepreneurial businesses. Even then, community action can occasionally be fast-moving, as in the case of Coolah in the NSW Central West where the Coolah District Development Group successfully engineered town renewal in the late 1990s consequent upon the collapse of its major industry. A recent, but as yet unpublished, study of community resilience for the Rural Industries Research and Development Corporation also commends the power of simultaneous community and business action for place renewal. One of the authors of this report participated in that study over 2008-09. Although the communities examined such as Longreach, Blackall and Inverell are not cotton producing they share common features with our cotton communities.

Returning to business and government action, the first point to make is that local action is likely to be much more important for place prosperity than the roles of federal and state governments. The latter play a crucial role in creating favourable investment climates through sound macro-economic management and infrastructure provision. But both of those are not significantly place specific. That is because they affect businesses and communities everywhere more or less equally. Superior tiers of government have had regional development policies in place for over 40 years, but it is difficult to pin-point lasting impact on the great bulk of rural Australia despite all the effort involved. Governments' contributions to agricultural research and development have been far more important in shaping the prosperity and efficiency of rural Australia.

So, the task of creating innovative communities largely falls to local actors, the theme of several influential books like Michael Shuman's *Going Local: creating self-reliant communities in a global age* and Blakely and Leigh's *Planning Local Economic Development: theory and practice* (Schuman, 1998; Blakely and Leigh, 2009). Table 1 lists

the potential contributions to be made by business and related organisations, together with Local Government, to the 11 key ingredients mentioned previously.

Table 3: Who Is Responsible For Action?	Individual Businesses	Collective Business	Local Government
Future orientation on the part of all members of a community: its businesses, institutions, individuals, community leaders.	everyone together		
Strong culture of entrepreneurship, not just in business but in all dimensions of rural life – willingness to have a go (take a risk) and invest capital in enterprises, facilities, infrastructure, events.	everyone together		
Willingness to generate ideas about the future and share or debate them openly. It is not necessary to have harmony of views as long as the debate is conducted civilly and honestly.	everyone together		
Ability to grow the pool of local capital.	x	X	x
Strong culture of education right across the spectrum: from pre-school to technical or post-graduate; and covering the arts, sciences and business/economics. Education is the gateway to the future and indeed the passport to the rising tide of technical and challenging jobs.	X	X	x
Sufficient resilience to recognise general or specific threats in advance and strategically work to remediate or counter them.	x	X	x
Perpetual SWOT analysis, coupled with up-to-date information about the state of regional economy and society.	X	X	X
Cultivation of leadership: without leadership, nothing.	X	X	X
Networking everything: politically across all jurisdictions; locally within the business community; amongst local producers and service providers – by specific interest groups; and among community institutions.	X	X	X
Providing incentives (financial, mentoring, motivational, psychological, and educational) to help businesses and the community in general adopt new approaches or perspectives.	X	X	X
Active participation in research and development and/or blue sky product or process development.	X	x	x
X's = responsibility, graded according to scale of role			
<i>Source: the authors</i>			

Note that this is a very challenging task, with collective business organisations playing a central role. These include both Chambers of Commerce and business clusters of various degrees of formality. Some of the latter will operate informally as and when opportunity beckons; some will be trade networks operating more on an inter-regional spatial scale; some

may even be clusters of functionally unrelated business perhaps linked by family ties. The form and function of such networks probably does not matter much as long as business people get together and discuss the strengths and weaknesses of their operating environments, or canvass new technologies or emergent business opportunities or operating processes, or talk about remedial strategies for problems they observe. Such networking provides information, education, mentoring, motivation, constructive critique and a host of other benefits including:

- a. greater weight of numbers – a larger membership
- b. budgets for organising set-piece events (e.g. awards for business achievement; community festivals; business education and training)
- c. liaison with community to advance common purposes
- d. making representations to government about public policy issues, whether the quality of infrastructure or of public services in health and education; or business legislation; or the effect of macro-economic settings (e.g. exchange rates, interests charges, workplace relations), and
- e. networking with professionals able to offer sound advice to chambers and their members on any of the above issues.

This is a potentially large agenda and Chambers of Commerce have to convince local business members to join by delivering positively on agenda items. State, and federally funded, agencies should be able to provide quality input, but a better strategy could be to network with team of university-based professional dealing with small business innovation, community development, local government, local economic development, financial matters, and so on. Indeed, this avenue is likely to be open to individual enterprises, community groups and local government. Soliciting the advice of sympathetic university research teams can at least kick-start the process leading to the emergence of innovative communities in a circular and cumulative (self-reinforcing) process that, once under way, can become self-sustaining into the future. Most such researchers are also able to help those charged with the task of improving local development to avoid the pitfalls which litter the way. As people who have observed community and business development over many decades between us, we know about:

- the crucial role of strong leaders play in all aspects of rural life
- their necessary talents and alternative approaches
- ways of defusing inevitable conflicts between strong-willed people and melding effective teams from among them

- the issue of burnout among key actors in what can be a draining task of enthusing sceptical or apathetic local residents or individual business-people, or dealing with uncomprehending bureaucracies
- financing business strategies and maybe amassing local capital for on-lending to investment-ready small businesses, or
- a host of other complex issues.

The issues are complex because the pace of national, regional and local economic change is accelerating progressively under the twin forces of rampaging technology and rapid economic globalisation. Both these events place ever stronger pressure for small and vulnerable rural communities to cultivate their local economic plots assiduously to obviate looming threats and run with the opportunities opening up. Worse still, competition between rival service centres and communities is also hotting up and those that lag in the adjustment processes involved can lose business traction rapidly if they're not careful. We have all heard of the Latin phrase *caveat emptor*, which means *buyer beware* in lawyers' jargon; perhaps now we need another: *caveat ecfector*. That means *producer beware*.

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