

A government action plan for small business

Making the UK the best place in the world
to start and grow a business

The evidence base



dti

A DTI SERVICE



SMALL BUSINESS SERVICE

AN EXECUTIVE AGENCY OF THE DTI

Working with the public, private and voluntary sectors to make the UK the best place to start and grow a business.

The DTI drives our ambition of 'prosperity for all' by working to create the best environment for business success in the UK. We help people and companies become more productive by promoting enterprise, innovation and creativity.

We champion UK business at home and abroad. We invest heavily in world-class science and technology. We protect the rights of working people and consumers. And we stand up for fair and open markets in the UK, Europe and the world.

A wide range of government departments and agencies and delivery partners have been involved in developing the Action Plan, and they will be important to successful implementation. They include:

Business Link
Cabinet Office
The Countryside Agency
HM Customs and Excise
Department for Culture, Media and Sport
Office of the Deputy Prime Minister
Department for Education and Skills
Department for Environment Food and Rural Affairs
Office of Government Commerce
Health and Safety Executive
Home Office
Inland Revenue
Regional Development Agencies
Small Business Service
Department of Trade and Industry
UK Trade and Investment
HM Treasury
Department for Work and Pensions

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FOREWORD

If government is to achieve its vision of making the UK the best place in the world to start and grow a business, the Small Business Service (SBS) must provide a centre of expertise within government on small business issues. The SBS must encourage its partners across government and beyond to develop their understanding of the vital importance of the small business sector to the economy and the impact, both positive and negative, of their actions on our small business customers.

Building the SBS's position as a centre of expertise means using the best available evidence from a wide range of sources. It means listening to the small business community, learning from our own experiences and those of our partners in delivering services, and making extensive use of the academic research base. Above all, it means ensuring that full use is made of knowledge and expertise in developing new ideas and new approaches which better meet the needs of small business. Our aim is to ensure that all decisions which affect small business are only taken after reviewing the evidence on what is needed and what actually works – and where the lessons learned in the delivery of products and services are fed back into the further development of policy.

This document illustrates the importance that the SBS attaches to the accumulation and use of knowledge and to making sure that all policy decisions are underpinned by sound evidence and analysis. It complements the *Government Action Plan for Small Business* by providing a more detailed analysis of the evidence base justifying the case for the new actions.

Many government departments and agencies and delivery partners have been involved in developing the Action Plan. They have contributed valuable knowledge and expertise based on their interactions with small businesses. These sources have been augmented by a thorough review of the statistics and research literature on small businesses by our analysts in the SBS Research and Evaluation Team, working closely with the academic research community and analysts across government.

The main purpose of this document is to give an overview of the key messages emerging from the review which informed the development of the Action Plan and outline how the SBS will monitor and evaluate progress in delivering the new actions. But it also highlights where there are still gaps in our knowledge about small businesses and how they view their experiences of government services – gaps that must be filled if we are to further develop policy in the future and improve the quality of our services for small businesses.

Our next task will be to work with other government departments and academics to develop a long-term research agenda for publication in the Spring. We need an agenda which identifies the key priorities for future research and guides academic and government analysts alike in designing future studies which will really make a difference to policy development and through this to the small business sector and the economy as a whole.



Martin Wyn Griffith
Chief Executive
Small Business Service

INTRODUCTION

Introduction

- i. Government is committed to making the UK the best place in the world to start and grow a business. A government wide Action Plan was published in January 2004 to help make that vision a reality.¹
- ii. This paper sets out a more detailed analysis of the evidence base underpinning the Action Plan. It aims to provide a resource which policy makers and analysts across government and external researchers in the small business field can draw upon, and to make transparent the evidence on which policy is made.

Structure of the paper

- iii. The cross government Action Plan is based around seven themes identified as key drivers for economic growth, improved productivity and enterprise for all:
 - Building an enterprise culture.
 - Encouraging a more dynamic start-up market.
 - Building the capability for small business growth.
 - Improving access to finance for small businesses.
 - Encouraging more enterprise in disadvantaged communities and under-represented groups.
 - Improving small businesses' experience of government services.
 - Developing better regulation and policy.
- iv. Work on developing the Action Plan has involved, for each theme, a detailed analysis of the evidence justifying the case for government intervention and a careful assessment of what has worked in the past, why, and what more needs to be done to help small business.

- **Section 1** provides the context for subsequent sections by presenting a statistical overview of the nature and characteristics of small businesses and their importance to the economy.
- **Sections 2-8** provide a summary of the evidence underpinning each theme.
- v. Each thematic section is designed to be a free standing resource in its own right and follows a standard format:
 - The rationale for intervention – why action is required.
 - The evidence base – the nature and extent of the problem to be tackled.
 - How the government will measure its success in delivering the new actions.
- vi. The remainder of this introductory section sets the scene by describing the framework used to assess the circumstances in which government action to help small businesses is justified, and explains the importance the Small Business Service attaches to the accumulation and analysis of evidence in developing and delivering improved services for small business.

The government's framework for intervention to help small businesses

- vii. The government's economic strategy aims to achieve sustainable increases in prosperity. The UK has enjoyed relatively strong growth in GDP per head in recent years. This has been achieved by creating a more stable economic environment and a more responsive regulatory framework. The relative improvement in GDP per head has, however, been largely driven by increases in the UK's relative employment rates. The UK still faces a persistent productivity gap of at least 20 per cent with its major competitors – France, Germany and

¹ A Government Action Plan for Small Business www.sbs.gov.uk/action

the USA. This explains why within the OECD, the UK is still a middle ranking country in terms of GDP per head despite recent GDP growth performance.²

viii. The DTI has identified five drivers of productivity – Investment, Innovation, Skills, Competition and Enterprise, which provide an analytical framework for assessing the UK's progress in improving productivity (*DTI 2003a*). There are of course, complementarities and interdependencies between productivity drivers and no one driver should be thought of as more important than another. For example, in addition to driving productivity growth in their own right, enterprising small businesses interact with the other drivers of productivity growth by providing a competitive threat to rival businesses and by playing a key role in the process of innovation. The focus by the Small Business Service on the seven themes (described in paragraph iii above) recognises the different ways that government strategies focused on enterprise can help to drive productivity and GDP per head.

ix. The government's approach to helping small business does not seek to favour small businesses over larger ones. It recognises that wealth is primarily created by the action of businesses operating in free markets, and it is not the role of government to either duplicate or substitute for private sector activity. In particular, it recognises market forces have a crucial role to play in generating business 'churn' and in creating the competitive forces that provide the link between new business formation and growth and productivity growth in the economy as a whole.

x. But the government's enterprise policy also recognises that the market mechanism is weak or incomplete in a number of important areas affecting the formation and development of small businesses. Left to themselves, markets cannot always be relied upon to deliver outcomes which are optimal from

society's perspective or to achieve important equity objectives that ensure prosperity for all. Where this is the case, there is a role for government to intervene.

xi. Market failures can arise and be classified in many different ways (see, for example, *HM Treasury, 2003 and DTI, 2003a*). However, the evidence from the research presented in subsequent sections indicates that there are four broad types of market failure which act to constrain new business formation and growth to levels which are less than optimal.

Imperfect and asymmetric information

xii. Imperfect information can lead to uncertainty and reduce the ability of small businesses or potential entrepreneurs to assess the risks of a particular project or the risks of starting a new business. This affects their ability to assess the rates of return to research and development (R&D) and training. It also affects perceptions about the value of externally available expertise and advice.

xiii. In addition, the distribution of information between small businesses and those with whom they contract may be asymmetric. This could affect the willingness of others to supply resources to small businesses, such as premises, consultancy and advisory services. It could also affect the willingness of other organisations to purchase from small businesses and to enter into mutually advantageous ventures with them in areas such as R&D and training.

xiv. The consequences of asymmetric information are likely to be particularly acute when small businesses and potential entrepreneurs are attempting to access finance. Financial institutions are likely to know less about the ability of individuals applying for funds and the quality of their business proposition than those seeking the funds. This information

² See DTI, 2003a: *The Strategy for Prosperity for All* and the accompanying document on the underpinning Strategy Analysis for a fuller account.

asymmetry can cause two problems. First, the provider of the funds cannot observe all the information which is relevant to the decision to enter into a contract to supply finance. Second, since there is a problem that the small businesses will not perform subsequently in a manner which is consistent with the contract, some form of monitoring procedure will be required.

xv. Where the costs of gathering information and monitoring are high, the providers of finance are more likely to ration credit, request collateral as a means of minimising their risks, and favour projects which offer higher short-term returns over potentially more profitable longer term investments in, for example, R&D. Since financial institutions are likely to have more information about larger businesses than smaller ones, the latter are likely to suffer disproportionately from this type of market failure, particularly where they lack the collateral or personal capital to overcome the information problems.

Externalities and incomplete property rights

xvi. Externalities, or spill over effects, occur when the actions of individuals or businesses confer benefits (or impose costs) on others. The existence of externalities, together with incomplete property rights, or the high transaction costs involved in defending them, can prevent small businesses from appropriating the full benefits of their investments. This problem is likely to be particularly severe in activities relating to R&D and training. In these areas, intellectual property rights and the rights to the benefits of investment in human capital can be weak and this is likely to encourage businesses to wait for others to invest, so that they can gain from it without committing any cost. The fear of this type of 'poaching' of ideas and skilled workers and managers, is likely to be particularly acute in the case of small businesses which have fewer resources to defend property rights. Consequently, if left entirely to the market, small businesses may tend to under-invest to a greater extent than larger businesses.

Imperfect market structures

xvii. Small businesses may be disadvantaged by anti-competitive behaviour in the product and resource markets in which they operate. For example, the exercise of market power by larger businesses can limit the ability of smaller businesses to penetrate certain markets or gain access to some sources of materials. This prevents new businesses with

new products and more efficient processes from playing their full role in driving innovation and raising productivity in the economy. A lack of competition in the labour and financial markets can also affect the ability of small businesses to attract and retain labour, or to obtain finance on the same terms as those offered to larger businesses. In addition, poorly developed or uncompetitive commercial consultancy markets can result in the cost of externally available advice and expertise being prohibitively high, or not geared to the specific needs of the smaller business.

Poor regulation

xviii. Although government regulation has a vital role in ensuring that markets operate efficiently, excessive, unnecessary or poorly implemented regulation can reduce the efficiency with which markets operate. This is a particular problem for small businesses since compliance burdens are often regressive in that they bear more heavily on smaller than larger businesses.

xix. These market failures are likely to interact and present a series of barriers to the start-up, survival and growth of small businesses. Relative to larger businesses, smaller businesses face particular barriers in accessing finance, have reduced awareness of the availability and advantages of external business advice, suffer disproportionately from poor regulation, and face difficulties in accessing the full benefits of research and development and training. The cumulative effect of these problems is likely to be particularly acute in disadvantaged communities.

The importance of developing the evidence base on small businesses

xx. The Small Business Service (SBS), established in 2000, ensures that small businesses have a strong voice and influence in government by providing leadership and a centre of small business expertise. In order to carry out its role effectively, the SBS has firmly embraced the principles of evidence-based policy making.

'This government expects more of policy makers. More new ideas, more willingness to question inherited ways of doing things, better use of evidence and research in policy making and a better focus on policies that deliver long-term goals.' (Cabinet Office, 1999)

'...evidence is wide ranging in nature and good policy making draws on all forms of evidence which include: expert knowledge; published research; existing statistics; stakeholder consultations; previous policy evaluations; the Internet; outcomes from consultations; costing of policy options; output from economic and statistical modelling.' (Strategic Policy Making Team, 1999)

xxi. To a large extent, the emphasis by SBS on the accumulation and use of knowledge in the development of the Action Plan reflects the push across government to make sure that decisions are underpinned by a good evidence base. But formal research and evaluation, and continuous feedback from customers and partners, are particularly important to the SBS. This is because the vision is to make the SBS a centre of expertise on small business issues and a key resource others in government can draw upon when making decisions that will affect small businesses.

Figure 1.1: The Virtuous Circle



xxii. The aim is to put the SBS at the centre of the “ virtuous circle” – a process where all decisions that affect small businesses are only taken after reviewing the evidence on what is needed and what actually works – and where the lessons learned in the delivery are fed back into the further development of services.

xxiii. The concept of the ‘virtuous circle’ (Figure 1.1) was designed to ensure all the characteristics identified below by the Cabinet Office’s Strategic Policy Making Team as core to professional policy making were present in the strategy development process underpinning the Action Plan and in all future policy making.

■ **Forward looking:** takes a long-term view of the likely impact of policy.

■ **Outward looking:** takes account of influencing factors and learns from elsewhere.

■ **Innovative and creative:** questions the status quo and is open to new ideas.

■ **Evidence base:** uses the best available evidence from a wide range of sources.

■ **Inclusive:** is fair and takes account of the interests of all.

■ **Joined up:** works across institutional boundaries and considers implementation.

■ **Reviews:** keeps policy under review.

■ **Evaluates:** builds evaluation into policy process.

■ **Learn lessons:** learns from experience of what does and does not work.

xxiv. Many government departments and agencies and delivery partners have been involved in developing the Action Plan. They have contributed valuable knowledge and expertise based on their interactions with small businesses. These sources have been augmented by a thorough review of the statistics and research literature on small businesses by analysts in the Small Business Service Research and Evaluation Team, working closely with the academic research community and analysts across government. Subsequent sections in this paper give an overview of the key messages emerging from that review and outline how the SBS will monitor and evaluate progress in delivering the new actions.

SMALL BUSINESSES AND THEIR ROLE IN THE UK ECONOMY

Introduction

1.1 The purpose of this section is to provide context for the subsequent sections of the evidence base, which look in turn at each of the seven themes that underpin the *Government Action Plan for Small Business*. This section:

- Outlines the nature and characteristics of small businesses.
- Provides an overview of the role of small business in the economy.

What is a small business?

1.2 The statistical definition of a small business is a business with fewer than 50 employees. However, the SBS has a wider role, and also supports medium sized enterprises – those with 50 to 249 employees.

1.3 In this document, the term small business is used to describe small and medium sized businesses with fewer than 250 employees.

1.4 The European Commission also has a definition of small businesses¹ based on number of employees, annual turnover, annual balance sheet total, and level of autonomy.

1.5 Businesses have different legal forms. Around a quarter of businesses are companies (incorporated business), where one or more people are employed as company directors. However, the majority of businesses are un-incorporated – they are owned and managed by self-employed people, either on their own or in partnership.

¹ The European Commission definition can be found on the Europa website at http://europa.eu.int/comm/enterprise/enterprise_policy/sme_definition/index_en.htm

Who are the entrepreneurs?

1.6 Entrepreneurs – those in the process of setting up or running a business or venture – are extremely diverse in nature: men or women, young or old, those from differing ethnic, social or educational backgrounds, sole traders or employers. They can range from people who are self-employed with no employees, to owner-managers of companies with a large workforce. They engage in entrepreneurial activity for a variety of different reasons: to gain more freedom at work; to make money and aim for high growth; or to sustain a going concern – often a family concern – and provide employment for the local community. Consequently, each business founder and owner has very different needs and expectations.

Women are under-represented in the self-employed population...

1.7 While women account for 44 per cent of all economically active people in the UK, only 26 per cent of the self-employed population are women (Chart 1.1).

1.8 Lower female self-employment rates may partly reflect the sectoral distribution of self-employment, greater difficulties in raising finance, and the fact that women are more likely to have primary childcare or other domestic responsibilities (*Barclays, 2000*). However, there are signs that more women are becoming self-employed. For example, the Spring 2003 Labour Force Survey (LFS), shows that 31 per cent of the one million self-employed people who had started self-employment since 2000 are women. But, this still indicates that men are more than twice as likely to become entrepreneurs than women. Other research (*Harding, 2002*) also supports the view that women are becoming more entrepreneurial, but again shows that men are still more than twice as likely to start-up in business than women.

Chart 1.1: Gender breakdown of self-employed people compared to employees and all working age people, UK, Spring 2003

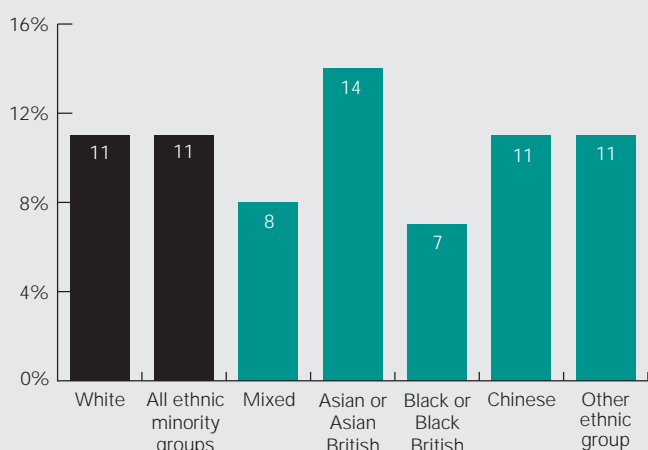


Source: SBS Statistics Team, from Office for National Statistics (ONS) Labour Force Survey (Spring 2003)

... as are some ethnic minority groups...

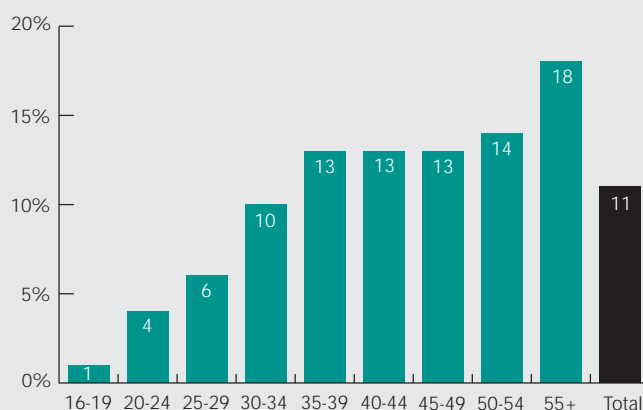
1.9 There are some differences in self-employment rates by ethnic group. In aggregate, ethnic minorities exhibit a similar self-employment rate to the white population (Chart 1.2), but there is some variation between different minority groups. For example, self-employment rates for Black or Black British and mixed groups are much lower than other groups. Again, this imbalance is starting to change – the Spring 2003 LFS shows that although only 1.5 per cent of all self-employed people are from these two ethnic minority groups, 2.3 per cent of the stock who recently become self-employed are from Black and Mixed groups. The business activities of ethnic minority entrepreneurs are concentrated very heavily in the transport and distribution sector.

Chart 1.2: Self-employment rates¹ by ethnic group, UK, Spring 2003



¹ Self-employed as a rate of all economically active people of working age.
Source: SBS Statistics Team, from ONS Labour Force Survey (Spring 2003)

Chart 1.3: Self-employment rates¹ by age group, UK, Spring 2003



¹ Self-employed as a rate of all economically active people of working age.
Source: SBS Statistics Team, from ONS Labour Force Survey (Spring 2003)

Self-employment rates increase with age. However, many start young...

1.10 The Spring 2003 LFS shows that overall, 11 per cent of economically active people are self-employed. Self-employment rates increase with age, from just one in every hundred 16-19 year olds in the labour market, to almost one in five people aged 55 or over (Chart 1.3). Only 10 per cent of the self-employed population are aged under 30 compared to 27 per cent of all employees – an indication that the self-employed population has an older age profile than the employee population. However, most self-employed people do start self-employment when they are young. For example, two in five started before the age of 30, and over half of these before the age of 25.

...and are well-educated, particularly the women

1.11 One in five self-employed people are educated to degree level or equivalent, and a further two in five to A Level or higher. This is similar to the educational breakdown of employees. It is interesting to see that although women are less likely to become self-employed than men, those that do

become self-employed are more highly educated, and stand out from the general population (Chart 1.4). This pattern is consistent across all age groups and particularly strong for young women – the Spring 2003 LFS shows that nearly half (46 per cent) of self-employed women aged 25-29 have a degree or equivalent, compared to 34 per cent of female employees and 28 per cent of women in the same age group. This could in part be due to gender differences by sector highlighted earlier. For example, nearly a third of self-employed males work in the construction sector and only 3 per cent of these (750 thousand) are degree educated. A third of self-employed women (nearly 300 thousand) work in health and other services and over a quarter of these women have a degree.

What kind of businesses do they run?

1.12 Although estimates of the whole business population are published by the SBS, this section focuses on VAT registered enterprises, since more information is available on these businesses.

Two sectors dominate the UK business population...

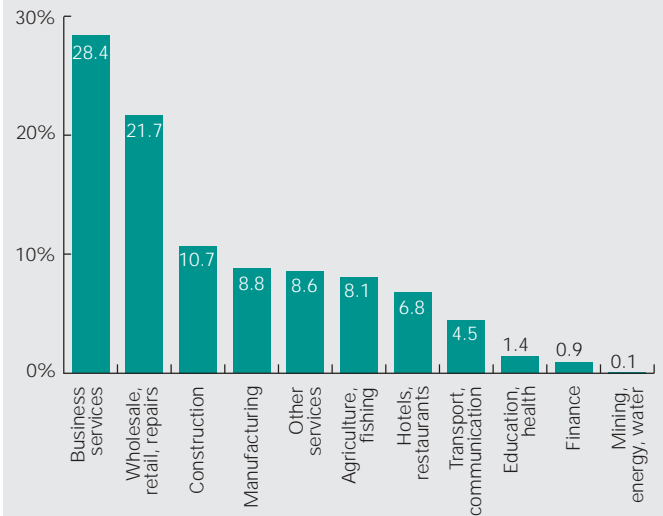
1.13 Half of the 1.7 million VAT registered enterprises in the UK are in just two sectors – the business services sector (real estate, renting and business activities), and wholesale, retail and repairs (Chart 1.5). Over a third of all new VAT registrations in 2002 were in business services – this sector has seen the most growth, from 314 thousand enterprises in 1994 to 500 thousand enterprises in 2003 (SBS, 2003a).

... and enterprise activity varies across the UK ...

1.14 Enterprise activity is particularly limited in the UK's least prosperous regions and communities. At a regional level, there is a wide variation in both business start-up rates and business density (Chart 1.6).

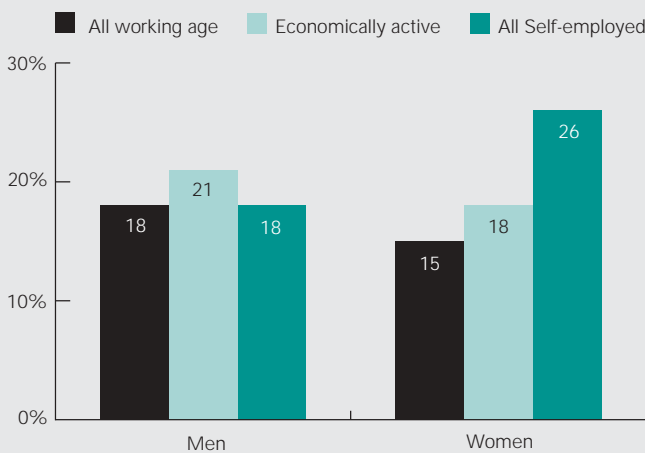
1.15 Areas with low start-up activity rates tend to have low closure rates and low business density. For example, in the North East, there were 21 new VAT registrations per 10,000 adults in 2002 compared to 57 in London. These two regions also have the lowest and highest business densities (Chart 1.6) and de-registration rates (SBS, 2003a).

Chart 1.5: VAT registered businesses by industry sector, per cent, UK, start 2003



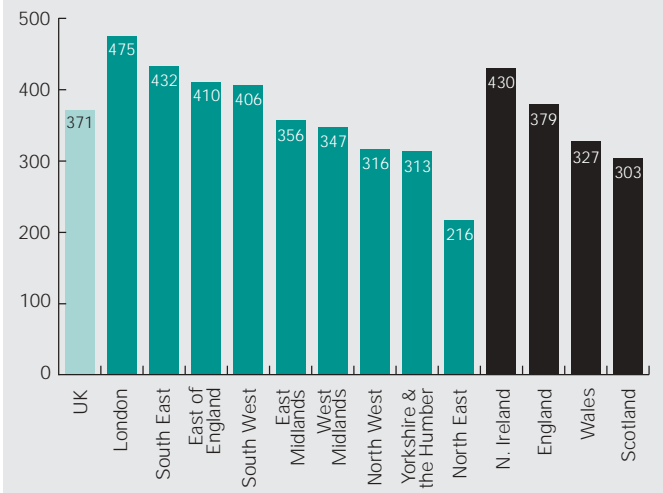
Source: SBS Statistics Team VAT registered and de-registrations (start 2003)

Chart 1.4: Percentage of people educated to degree level by activity and gender, UK, Spring 2003



Source: SBS Statistics Team, from ONS Labour Force Survey (Spring 2003)

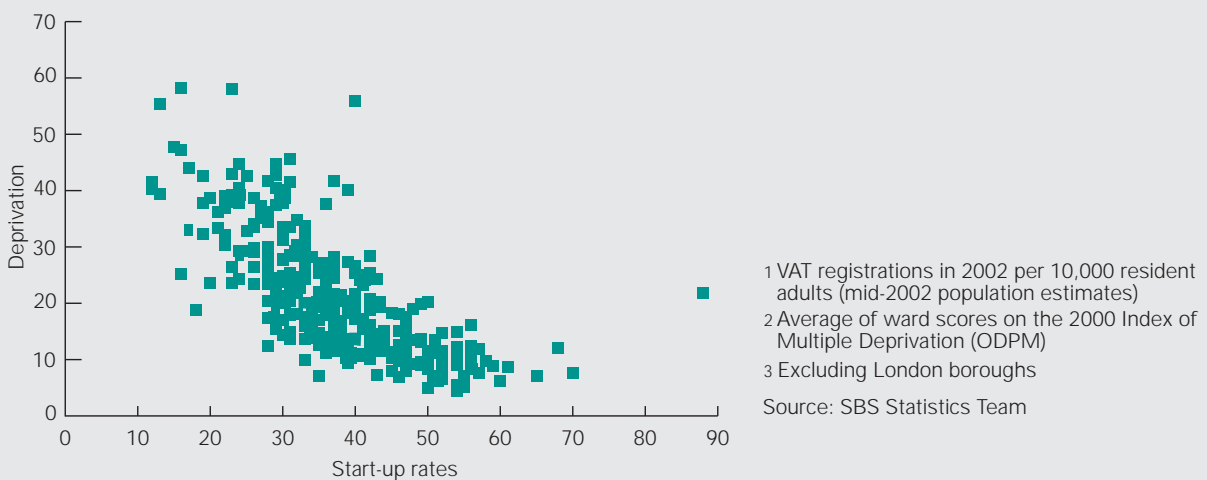
Chart 1.6: Business density¹ by country and region, UK, start 2003



¹ VAT registered businesses per 10,000 resident adults

Source: SBS Statistics Team registrations and de-registrations (start 2003)

Chart 1.7: Business start-up rates¹ by level of deprivation² in English local authority areas³, 2002



... and by level of deprivation...

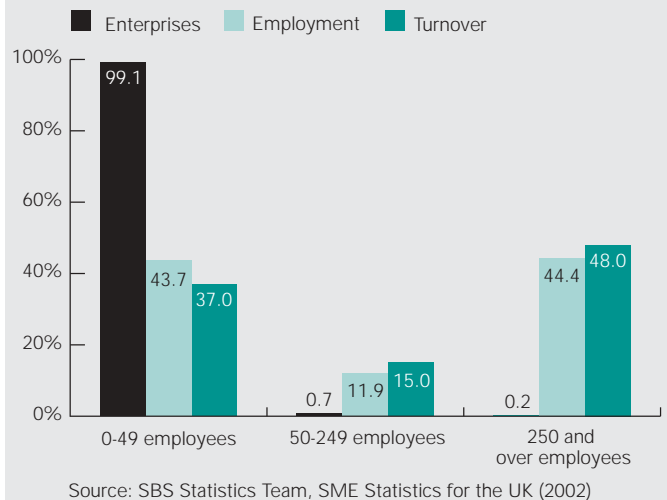
1.16 Substantial disparities also exist at a sub-regional level. Excluding London, the 20 most deprived local authority districts in England had 27 VAT registrations per 10,000 resident adults in 2002, compared to 51 in the 20 least deprived districts² (Chart 1.7) (SBS, 2003a).

The importance of small businesses in the UK economy

Small businesses make a significant contribution to the economy...

1.17 Small businesses, including those without employees, account for over 99 per cent of the UK's 3.8 million businesses at the start of 2002, 56 per cent of employment (12.6 million people) and 52 per cent of total UK turnover (£1,100 billion) (Chart 1.8). However, 1.6 million (69 per cent) businesses are sole traders – that is, self-employed people operating without employees (SBS, 2003b).

Chart 1.8: Share of enterprises, employment and turnover by size of enterprise, UK, start 2002



² SBS analysis using VAT registrations (SBS, 2003a), population estimates, and the 2000 index of multiple-deprivation.

Chart 1.9: Source of job creation and loss, 1995-1999, millions



1.18 The estimated number of enterprises in the UK rose steadily during the 1980's, from 1.4 million in 1980 to a high of 3.8 million in 1990. After a slight decline to 3.5 million in 1993, the volume has now returned to 3.8 million (*SBS, 2003b*).

The small business population is constantly changing...

1.19 Although the stock of enterprises is very stable, there is a massive amount of churn. Each day in England and Wales, 440 businesses register (and de-register) for VAT (*SBS, 2003a*), and over a thousand businesses start-up (and close) on average (*Barclays, 2003a*). Around a third of the current self-employed population started self-employment in the last three years, and VAT registrations per year equate to around 10 per cent of the stock.

...and small businesses make a large contribution to employment through job creation...

1.20 The creation of new businesses also provides a significant source of job creation. In the UK, new businesses, especially smaller new businesses, are the greatest single source of new jobs, providing jobs at all points of the economic cycle.

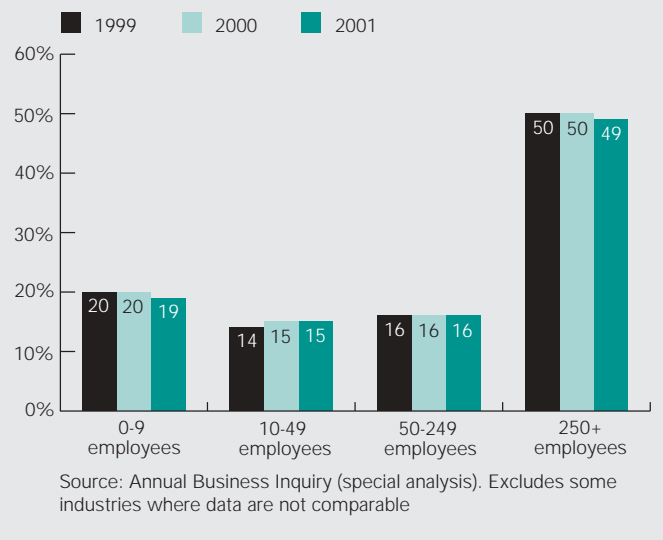
1.21 A study of job creation over the period 1995 to 1999 found that there were 2.3 million extra jobs in new businesses, of

which 85 per cent were in small businesses (*Dale and Morgan, 2001*). Expanding businesses provided 3.5 million new jobs between 1995 and 1999. Although small businesses were less likely to expand than large businesses, because there are so many of them, they accounted for more than 50 per cent of new jobs in existing businesses (Chart 1.9). Overall, new and existing small businesses accounted for 66 per cent of all new jobs created in this period, contributing more to job creation than their share in employment (56 per cent) might have indicated. However, small businesses were also responsible for around 66 per cent of job losses in this period. There was a net gain of 800 thousand jobs in the period, and small businesses accounted for around 70 per cent of this.

The contribution of small businesses to output is similar to that of large businesses...

1.22 Chart 1.10 shows that small business (those with fewer than 250 employees) and large businesses contributed almost identical amounts to gross value added (GVA)³ in recent years. In 2001, the latest year for which data is available, the share of GVA in businesses with 10 to 249 employees increased slightly at the expense of large businesses and those with fewer than 10 employees.

Chart 1.10: Share of Gross Value Added (GVA) by business size, per cent, UK, 1999-2001



³ The productivity measure is approximate gross value added (GVA) per employee. GVA represents the income generated by businesses out of which is paid wages and salaries, the cost of capital investment and financial charges, before arriving at a figure for profit.

... and their contribution to productivity growth appears to be growing...

1.23 There is also very little difference in the gross value added per employee by size of business. Indexing GVA per employee in large businesses at 100, Chart 1.11 shows that in each year, 1999 to 2001, small businesses were only slightly less productive than large businesses, and that the gap has been narrowing over time. In 2001, small businesses were 96 per cent as productive as large businesses, compared with 94 per cent in 2000 and 93 per cent in 1999.

1.24 Chart 1.12 illustrates this in a different way by showing that businesses of all sizes experienced an increase in GVA per employee over time, but that the increase is more marked for small businesses. Overall, small business productivity growth was higher than large business productivity growth by 1.1 percentage points in 2000 compared with 1999, and by 2.9 percentage points in 2001 compared with 2000. There is research evidence to suggest that relatively greater small business sector growth leads to greater subsequent national economic growth (see, for example, *Reynolds, 1998; Audretsch et al, 2001*).

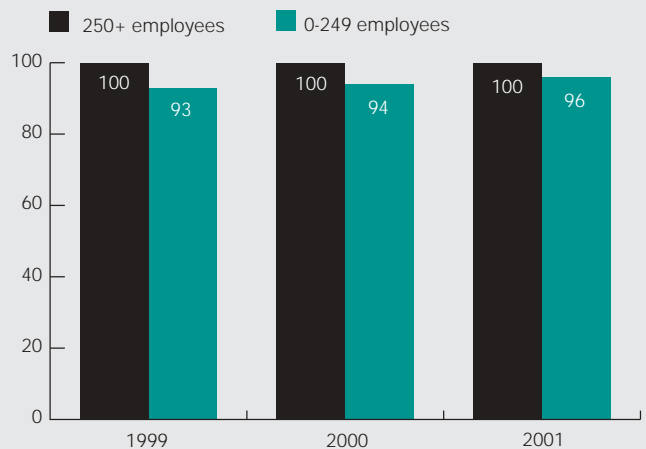
In some sectors, small businesses are more productive than larger businesses...

1.25 Although small businesses are on average slightly less productive than large businesses, this is not true of all sectors. In 2001, small businesses were more productive than large businesses in the Agriculture, Construction, Wholesale, and Business Service sectors. The small business premium was particularly marked in Business Services, where small businesses generated £42,000 gross value added per employee compared to £32,000 per employee in large businesses (Chart 1.13).

Small businesses help drive productivity growth in the economy in a number of ways...

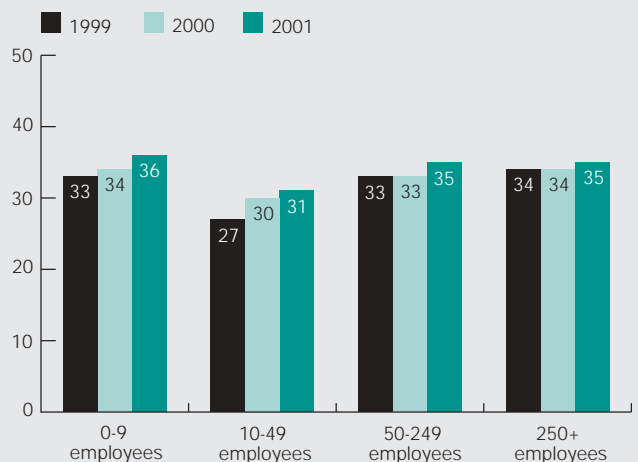
1.26 The DTI has identified five drivers of productivity – Investment, Innovation, Skills, Competition and Enterprise, which provide an analytical framework for assessing the UK's progress in improving productivity (*DTI, 2003a*). There are of course, complementarities and interdependencies between these productivity drivers and no one driver should be thought

Chart 1.11: Productivity (GVA per employee) by business size, UK, 1999-2001, Index Large=100



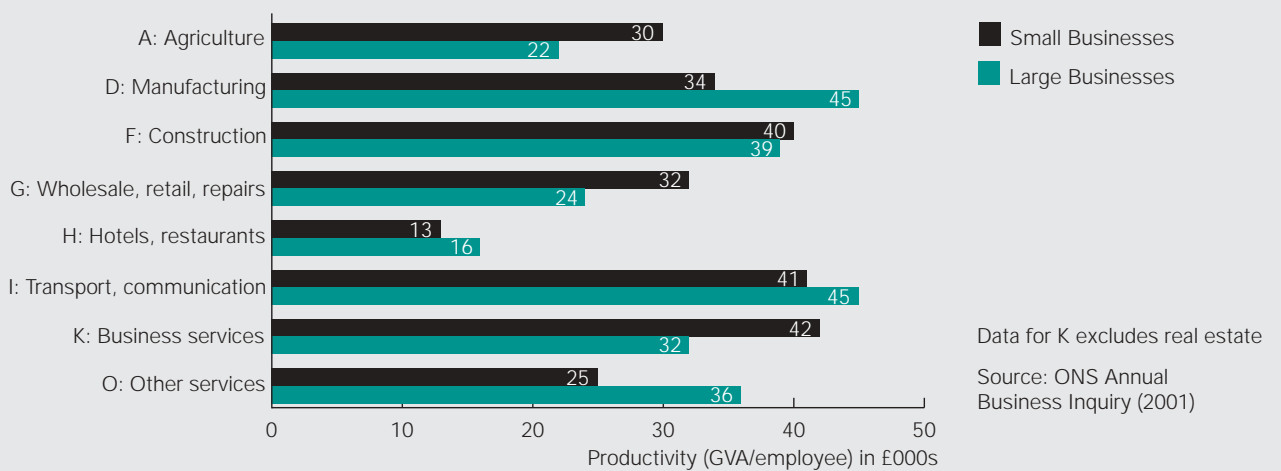
Source: ONS Annual Business Inquiry (special analysis). Excludes some industries where data are not comparable. GVA is measured at basic prices and therefore not adjusted for price inflation.

Chart 1.12: Productivity (GVA per employee) by business size, £'000s, UK, 1999-2001



Source: ONS Annual Business Inquiry (special analysis). Excludes some industries where data are not comparable. GVA is measured at basic prices and therefore not adjusted for price inflation.

Chart 1.13: Productivity (GVA per employee) by sector and size of business, UK, 2001 (£000's)



of as more important than another. Small businesses have an important role to play in all of them. For example:

- Enterprise in the form of new small businesses boost productivity by increasing competitive pressure within the economy. Incumbent businesses are forced to increase efficiency in order to stay in the market. If incumbent businesses are unable to match the productivity of new or fast growing small businesses, then they are either forced to exit the market or their market share is reduced, so increasing the productivity of the market as a whole. Furthermore, any efficiency gains can be passed on to consumers through lower prices and greater choice. Mainly for methodological reasons, evidence on the precise impact of this 'productive churn' to productivity growth is lacking, particularly in the UK where there is a shortage of good longitudinal data. However, an investigation of productivity growth across a number of OECD countries concluded that differences in productivity between entering and exiting businesses, many of which are small, typically accounted for between 20 and 40 per cent of aggregate labour productivity growth over a five-year period (Scarpetta et al, 2002).

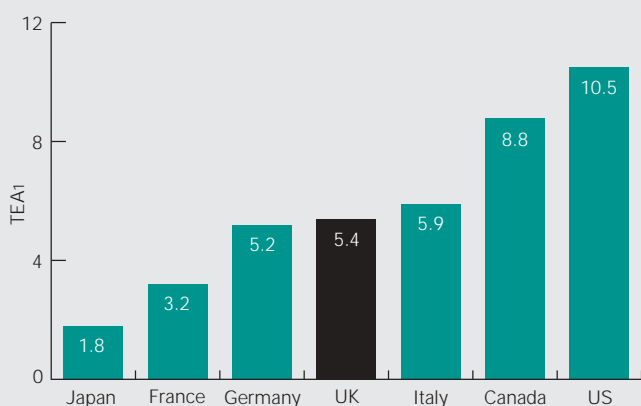
- Although large businesses are more likely to be involved in innovation activity than small businesses⁴, smaller businesses produce more patents than their use of inputs would suggest. Recent estimates indicate that 33 per cent of small businesses are actively engaged in research and development at any one time (Cosh and Hughes, 1998).

- Data from the ONS Annual Business Inquiry shows that small businesses also make a large contribution to capital expenditure in the UK. In 2001, small businesses accounted for nearly 40 per cent of all net capital expenditure – a total of £30 billion. Their share of net capital expenditure also increased between 1999 and 2001 by three percentage points.

- Any given small business is less likely to have skills shortage vacancies than large businesses, but due to the vast number of small businesses, the small business population as a whole, hold many of the vacancies (Hogarth et al. 2001 and 2002).

⁴ Over the 3-year period 1998-2000, 46 per cent of small businesses were innovation active, compared to 67 per cent of large businesses. Source: UK Innovation Survey 2001 (DTI).

Chart 1.14: The enterprise gap, 2002, G7 countries¹



¹ Total Entrepreneurial Activity Index: Proportion of the working-age population involved in starting or growing a new business (under 42 months old)

Source: Global Entrepreneurship Monitor UK report table 1 (2002)

But the UK is still lagging behind the US and others...

1.27 Despite the rapid growth of the small business sector since the 1970s, rates of entrepreneurial activity in the UK remain only moderate by international standards, with the UK mid-ranked out of 37 countries assessed (*Harding, 2002*). It is estimated that around 5.4 per cent of working-age adults in the UK are engaged in either starting a new business or in running a young business (Chart 1.14). Focusing on the G7 countries, UK performance is on a par with Germany and Italy, higher than Japan and France, but significantly lower than the US and Canada.

1.28 There is still a wide productivity gap between the US, France, Germany and other countries, so small businesses have a crucial role to play in narrowing the gap.

1.29 Countries exhibiting the highest rates of entrepreneurial activity are typically characterised by more widespread involvement of women. The level of female entrepreneurship is also much lower than in the US and many other countries. A recent study (*OECD, 2001*) found that the UK had the third lowest rate of female entrepreneurship amongst a sample of 15 industrialised countries.

Measuring success in building an enterprise society

1.30 Improvements in the policy development and delivery process require that the government continually re-assesses the extent to which it is successful in achieving its objectives through monitoring progress, evaluation and further research.

1.31 The Public Service Agreement target applicable to the Small Business Service is to: 'Help build an enterprise society in which small businesses of all kinds thrive and achieve their potential, with an increase in the number of people considering going into business, an improvement in the overall productivity of small business, and more enterprise in disadvantaged communities.'

1.32 Three headline measures are used for monitoring this target:

- Increase the proportion of adults in England considering going into business or becoming self-employed from 12 per cent in 2001 to 14 per cent in 2005.
- Small business's productivity to grow at a faster rate than all business's productivity in the UK each year.
- A narrowing of the gap between VAT registration rates in the 20 per cent most and 20 per cent least deprived wards in England.

1.33 In addition to these headline measures, a number of other success measures will be used to monitor progress against each of the seven themes. These are shown in the following evidence base sections.

1.34 The main criteria used in choosing these success measures in each theme were: (a) a data source was already in existence, or could be developed at relatively low cost to business; and (b) the spread of measures gives a rounded picture of success in achieving the overall objectives for each theme.

BUILDING AN ENTERPRISE CULTURE

Introduction

2.1 The government's main objective in building an enterprise culture is to provide people with sufficient understanding to enable them to make an informed choice between employment and enterprise. A secondary objective is to enable people to make informed decisions about supporting enterprise by, for example, providing formal financial backing or encouraging a family member setting up in business. These choices should be based on full information and a rational appraisal of the opportunities, risks and rewards of enterprise.

2.2 The purpose of this section is twofold:

- To provide an overview of the evidence to explain why the government is putting in place a range of activities and actions to provide people with the skills and knowledge necessary for enterprise.
- To outline how the government will monitor success in achieving its objectives and highlight the main gaps in the evidence base that will need to be filled if policy is to be further developed and improved.

2.3 This section, therefore, complements Chapter Two of the *Government Action Plan for Small Business* by setting out, in more depth, the rationale for the government's actions in this area, evidence on the nature and extent of the problem and plans to track and monitor success.

Rationale: why is action required?

2.4 In an age of rapid technological change and global competition, the capacity to innovate and adapt to change is crucial for the success of the UK economy. Being entrepreneurial, and starting and growing businesses, provide a source of competition and new ideas leading in turn to a

more efficient 'churn' of businesses, enhanced productivity and economic performance.

2.5 Whilst the general business environment is clearly vital in developing an enterprise culture, factors that influence the individual and the choices they make are just as important. For enterprise to flourish there needs to be a culture where people with the initiative, skills and drive to start and run a successful business have the confidence to do so and consider it to be a realistic career choice.

2.6 The Davies Review defined 'enterprise capability' broadly as "the capacity to handle uncertainty and respond positively to change, to create and implement new ideas and ways of doing things, to make reasonable risk/reward assessments and act upon them in one's personal and working life" (Davies, 2002).

2.7 Despite a generally supportive environment and positive attitudes towards enterprise, the UK continues to lag behind the USA and many countries in Europe in terms of entrepreneurial activity.

2.8 A relatively low level of entrepreneurial activity compared with other countries, is not in itself evidence of market failure requiring government intervention. It is perfectly rational, for example, for individuals to prefer employment to self-employment if the perceived costs of self-employment exceed the benefits. However, market failures, such as those arising from incomplete information, can prevent individuals from making an accurate assessment of the costs and benefits of starting in business and result in levels of enterprise activity which are sub-optimal from society's perspective.

2.9 There is currently a bias in the information available to members of the UK population in that:

■ Individuals find it easier to access information about a career which would involve employment as opposed to a career in enterprise (COI, 1999).

■ There seems to be a greater focus on the perceived risks of enterprise than on its potential rewards (Flash Eurobarometer, 2002; Harding, 2002).

2.10 It is important that people have access to full information on which to base choices about their working lives. The provision of experiential learning at all levels of society is generally thought to be the most effective way of improving understanding of enterprise along with the promotion of the potential rewards of enterprise.

2.11 However the market itself is unlikely to address these information problems and provide everyone, especially young people, with the information and experiences that would engender a more enterprising culture. This is because the private returns on the investment involved are likely to be long term and because many of the economic and social benefits from the cultural shifts which would help build a more enterprising society are unlikely to be captured by individual private investors. There is, therefore, a clear role for government in undertaking actions to build an enterprise culture.

Nature and extent of the problem: what does the evidence say?

The UK has one of the best business environments in the world, but is below average in terms of entrepreneurial activity ...

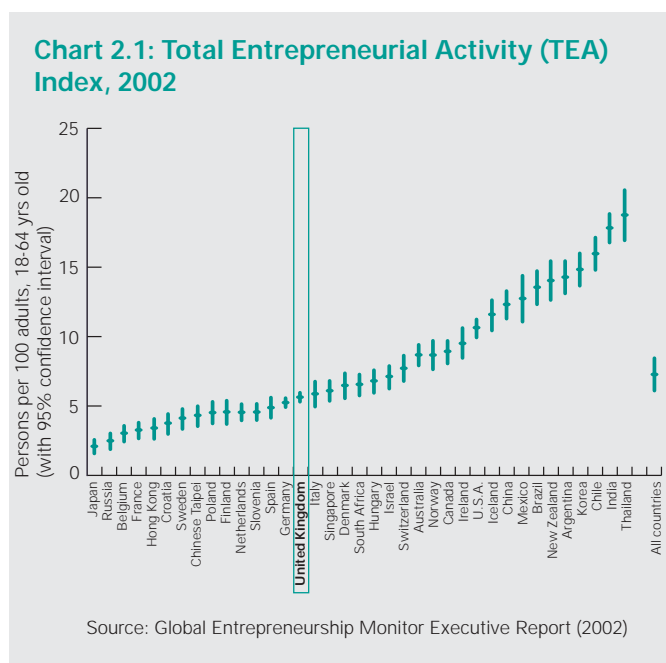
2.12 Several independent surveys (*Nicoletti, 2000; Anderson/GrowthPlus, 2001*) have found that the UK has one of the most favourable regulatory environments for starting a business. The UK, followed by Spain and the Netherlands, are the countries that most actively stimulate entrepreneurship (*Anderson/GrowthPlus, 2001*).

2.13 Whilst the evidence indicates that the UK has one of the most favourable business environments, in practice the UK is only middle ranking in terms of actual entrepreneurial activity. According to *Harding (2002)*, the UK's Total Entrepreneurial Activity (TEA) index¹ is only 5.4 per cent compared to an average of 8.0 per cent globally and a US score of 10.5 per cent. This suggests that cultural factors can be significant in explaining differences in enterprise activity between countries.

2.14 Using a broader measure of entrepreneurship 18 per cent of adults in England are engaged in entrepreneurial activity and a further 12 per cent are thinking about it.² A follow-up survey found that 15 per cent of these 'thinkers' had become 'doers' within a year (*SBS, 2002a*).

2.15 Just 1.7 per cent of people in the UK are investors in start-ups or growing businesses, a drop from the 2001 figure of 2.6 per cent (*Harding, 2002*). The UK ranks 29th out of the 37 countries surveyed for prevalence of informal investment.

¹ The key indicator used in the GEM research is the Total Entrepreneurial Activity Index (TEA) which is made up of the total numbers of people involved in nascent (start-up) businesses and in new businesses which have been operating for up to 42 months.



A variety of factors influence career choices ...

2.16 Career choices tend to evolve rather than being made at a single point in time. Children are starting to make these choices in primary school, and yet young people remain open to further suggestion until just before taking a first job (*COI, 1999*). Moreover, almost half the working age population seeks help in making decisions about education, training and jobs at some time (*Guidance Council, 2001*).

² The SBS Household Survey uses broader measures than GEM in that it measures: a) The proportion of adults thinking about starting a business or becoming self-employed (12% in 2001). b) The proportion of adults currently involved in any form of entrepreneurial activity, including self-employment or owner-managed businesses (18% in 2001). Both measures also include those engaged in entrepreneurial activity as a sideline or secondary income to their main employment activity.

2.17 The career choices made by young people are based on impressions and images more than on facts (COI, 1999). Too often, though, all that is available is a selection of ‘fact-packs’, which essentially ignore the options that do not lend themselves to this format – owning and running a business being a clear example. Young people are interested in a holistic approach and want to know about the lifestyle issues associated with different career options.

2.18 Davies (2002), found that the greatest influence on 15-18 year olds’ career choices are their parents/families, other role models, work experience and the media.

2.19 The precise influence of the family on enterprise is unclear. One study found that family involvement was the only cultural factor which had a consistent impact on entrepreneurial perceptions (Chrisman, Chua and Steier, 2002). Further research has found that respondents with at least one parent who is/was self-employed are more likely to be self-employed (Flash Eurobarometer, 2002). Few young people are attracted to career areas in which their parents work (COI, 1999).

2.20 Feeling that work is useful or worthwhile, or earns respect from others, is an important component of job satisfaction as perceived by young people making career choices (COI, 1999). It follows that general impressions and media images of enterprise could act as enablers or barriers to enterprise engagement.

The risk/reward balance – a strong underlying fear of debt ...

2.21 One factor often cited as a partial explanation for the disparity between US and UK levels of entrepreneurship is ‘fear of failure’. In the US, risk is seen as intrinsic to enterprise. Only 26 per cent would not set up a business because of the risk of failure, whereas in the EU this figure is 46 per cent. The UK fares better on this measure at 34 per cent (Flash Eurobarometer, 2002). These findings are supported by data from GEM, which shows that fear of failure acts as a barrier to enterprise for between 28 and 34 per cent of the UK population compared with 20 per cent of those in the USA.

2.22 Both GEM and the SBS Household Survey recognised that the main barriers to entrepreneurial activity are financial and that there is a strong underlying fear of debt. Two thirds of

people – 66 per cent - are scared of getting into debt. Similarly, large proportions agree that loss of their current income and security prevents them starting a business or becoming self-employed (SBS, 2002b).

2.23 Research by Lloyds TSB found that three quarters of would-be entrepreneurs had not started a business because ultimately they liked the security of working for somebody else; owning their own business would be too much responsibility or that they did not like uncertainty (Lloyds TSB, 2003).

2.24 The Davies Review (2002) found that while most 15-18 year olds would not want to run their own business because they consider the personal and financial risks to be too high, they might reconsider in another ten years time. According to Flash Eurobarometer (2002) the risks most feared by adults are:

Table 2.1: Frequency of perceived risk

	US	EU	UK
Uncertain income	45%	33%	32%
Job insecurity	13%	19%	16%
Risk of losing one’s property	39%	50%	64%
Devoting too much energy	15%	12%	10%
Possibility of suffering personal failure	18%	16%	14%
Possibility of going bankrupt	49%	44%	54%

Source: Flash Eurobarometer (2002)

2.25 Data on the perceived rewards of enterprise – the counterbalance to risk – are more limited and fail to provide clear evidence.

2.26 The SBS Household Survey found that the main motivations for starting a business were; the freedom to adapt their own approach to work (95 per cent); to make more money (88 per cent); and to be their own boss (82 per cent). 82 per cent of those running a business said they enjoy it always or most of the time (SBS, 2002b).

2.27 A fifth of people (21 per cent) would like to start their own business because they are simply fed up of working for others and want to be their own boss (Lloyds TSB, 2003).

2.28 Self-employment is associated with flexibility over when, where and how much to work. This should make it an attractive option for those with carer responsibilities. While many mothers cite this as a relevant consideration, though, few fathers do (*Bell and La Valle, 2003*).

2.29 More managers and professionals are opting to start their own business, often branching out later in their careers, suggesting a greater interest in work-life balance considerations amongst this group (*Barclays, 2003a*).

Many people feel they have the skills to start a business ...

2.30 Some have questioned whether 'entrepreneurship' can be taught (*Jack and Anderson, 1999*) although there are a limited number of courses in the UK. There is now growing interest, however, in identifying and benchmarking the skills associated with the broader concept of 'enterprise'.

2.31 Most people consider themselves to be creative, persuasive, able to handle uncertainty well, and enjoy the challenge of risky situations. Almost half of those not engaged in enterprise consider themselves capable of running their own business (*SBS, 2002b; Harding, 2002*).

2.32 Research has found that not knowing how to start a business, or who to turn to for advice is a barrier to starting a business, but this decreases with age. A third of 16-24 year-olds see it as an obstacle compared with fewer than a fifth of those aged over 55 (*Lloyds TSB, 2003*).

2.33 However, whilst many young people recognise the challenges and rewards involved in starting and running a business, they are unsure of their own ability to meet the challenges successfully – they lack the skills and confidence to turn positive attitudes into action during their future careers (*Davies, 2002*).

2.34 There is evidence that while teachers are generally supportive of links with business, they are uncertain of their own ability to promote enterprise, and need help doing so (*Davies, 2002*).

Enterprise promotion has a positive impact ...

2.35 There is positive evaluation data on enterprise experience projects. Independent external evaluation of Young Enterprise Northern Ireland's (YENI) KEY Programme (a 14 day residential enterprise programme aimed at 14-16 year olds at risk of disaffection) found that upon programme completion almost 90 per cent of participants believed they were more confident and motivated and 65 per cent of participants said they would like to start their own business. Additional evaluation concluded that YENI has a clear impact on students' attitudes to self-employment and business ownership, and helps build confidence about the world of work and business (*YENI, 2002*).

2.36 The business volunteers in such programmes also generally report positive experiences. 76 per cent of volunteers in the Young Enterprise Primary Programme felt their involvement had contributed to their professional development, as well as being an enjoyable and rewarding experience. Davies found that 90 per cent of business volunteers in education link programmes reported a benefit to their business from their involvement (*Davies, 2002*).

2.37 Despite these positive outcomes, *Davies (2002)* found that less than 30 per cent of young people take part in enterprise activities such as mini-company schemes or enterprise projects as part of a curricular course.

2.38 There is little evidence of the longer-term outcomes from enterprise projects. Few longitudinal surveys have been carried out because of the cost and complexity of tracking individuals after a period of time. There are some encouraging indicators from longitudinal studies conducted in other countries. Experience from Sweden shows that more than 20 per cent of those who participate in Young Enterprise establish their own company after leaving school. In Norway, 21 per cent of 25-34 year olds who have participated in Young Enterprise have started their own company, compared with 4.5 per cent of this age group across the total population (*Luktavsslimo, 2001*).

2.39 Countries with high levels of enterprise promotion are those with more enterprising cultures. But even they do not rest on their laurels – in the US, media references to enterprise increased four-fold during the 1990s (*Stevenson and Lundstrom, 2001*).

Attitudes are generally positive about small business and entrepreneurs

2.40 Adults in England are generally positive about small businesses and entrepreneurs, if not necessarily comfortable with the idea of getting involved themselves (*SBS, 2002c*) and 85 per cent of young people in the UK have a positive impression of someone running their own business (*Davies, 2002*).

2.41 The *SBS Household Survey* found that 84 per cent of adults in England thought those who had failed in business ought to be given a second chance (*SBS, 2002b*). Similarly, *Flash Eurobarometer* found that throughout the United States and European Union, the majority (84 per cent) state that those who have failed previously should be given a second chance. However, results suggest that the reality of interactions with those whose previous business failed are less encouraging. Fifty one per cent would not invest in a business run by someone who had failed previously, and 40 per cent (US) to 45 per cent (EU) would be less inclined to place an order with such a person. The UK scores are slightly above the average here on both measures (*Flash Eurobarometer 2002*).

2.42 When asked which employment status they would prefer, 48 per cent of the UK population opt for "self-employed" rather than "employee". This is slightly above the average figure for the EU (45 per cent) but still behind the US (67 per cent). (*Flash Eurobarometer, 2002*). The *SBS Household Survey* also found that the majority of people (55 per cent) prefer the idea of working for a small business (*SBS, 2002b*).

2.43 A less positive finding was that half the population think those successful in business have low morals or ethics (*SBS, 2002b*). Moreover, only a small number of successful entrepreneurs are regularly used as role models (*Tenon Forum, 2003*).

2.44 Less work has been done in the UK on investigating perceptions of the relationship between enterprise and general prosperity. *Industry New Zealand* identified this as an area for further consideration in the light of their attitudinal research (*Industry New Zealand, 2002*). Unprompted, only 6 per cent of New Zealanders mentioned successful business as a factor likely to ensure their 'ideal New Zealand'. A third thought it was not appropriate to celebrate business success and slightly more were unable to name any business people they admired.

Table 2.2: Building an enterprise culture success measures

Key measures	Source	Current position	Next update
➤ Increase the number of young people involved in enterprise awareness activities	DfES – data source under development. (Current position from Davies Report)	Under 30% (2001)	Unknown at this time
➤ Increase the proportion of young people (aged 16-24) considering going into business	SBS Household Survey of Entrepreneurship	17% (2001)	Spring 2004 (2003 data)
➤ Increase the proportion of people aged over 25 considering going into business	SBS Household Survey of Entrepreneurship	11 % (2001)	Spring 2004 (2003 data)

Measuring success: what are the plans to monitor and evaluate progress in building an enterprise culture?

2.45 Table 2.2 includes the main indicators that the Small Business Service is committed to monitoring and reporting on over time in assessing the extent to which government has been successful in building an enterprise culture. It shows the current baseline position for each measure of success, and indicates when further information will be available to assess progress.

2.46 To complement these key measures, the SBS will work with partners to collect data on a number of supporting measures. These are likely to include:

- Increase the proportion of people who feel they have sufficient knowledge and understanding when considering business ventures.
- Increase the willingness to support a friend/relative/colleague in a business venture.
- Increase the proportion of small businesses involved in enterprise awareness raising activities.

2.47 In addition to monitoring success against these indicators, specific research and evaluation studies will be carried out to fill gaps in knowledge about what policy actions work and why; and to gather data on attitudes towards enterprise across society. For example, this evidence review has indicated that further research is needed to understand:

- How to influence development of an enterprise culture – what works best to change attitudes across society?
- What factors lead to inaccurate perceptions of the risk-reward balance?
- What is the impact of enterprise education and experience programmes over the longer term?
- What are the current perceptions held by advisers (especially those in Jobcentre Plus and Business Link Operators) and their customers of the support that is available for those wanting to become self-employed?
- How the 'enterprise culture' has developed and changed over time and the factors that have influenced these changes?

2.48 Evaluation of the Phoenix Development Fund³ currently underway will provide useful information on the impact of enterprise promotion activities in disadvantaged areas. The first pilot projects arising from the *Davies Review* will be evaluated by Ofsted and the results used to inform future developments in enterprise education and the longer-term evaluation plan. Other new initiatives and pilots such as the Enterprise Promotion Fund⁴ will have evaluation plans built in as they are developed.

³ The Phoenix Fund, launched in November 1999 is designed to encourage entrepreneurship in disadvantaged areas through a range of initiatives including Community Development Finance Initiatives, a network of volunteer mentors and City Growth Strategies.

⁴ The Enterprise Promotion Fund, announced in April 2003 will support a range of pilot projects designed to encourage creativity and innovation in the field of enterprise education and awareness raising.

ENCOURAGING A MORE DYNAMIC START-UP MARKET

Introduction

3.1 The main objective in encouraging a more dynamic start-up market is to boost productivity and economic growth by strengthening business support networks and creating an environment that encourages and supports entrepreneurial activity.

3.2 The benefits of dynamic start-up market extend beyond the benefits to individual business. A dynamic start-up market is a key driver of economic growth. The creation and growth of new businesses contributes to the beneficial process of 'productive churn' by which more efficient and innovative businesses replace less efficient ones, with the effect of raising overall productivity growth within the economy.

3.3 The purpose of this section is twofold:

- To provide an overview of the evidence to explain why the government is putting in place a range of activities and actions to strengthen business support networks and create an environment which encourages and supports entrepreneurial activity.
- To outline how the government will monitor success in achieving its objective and highlight the main gaps in the evidence base that will need to be filled if policy is to be further developed and improved.

3.4 This section therefore complements Chapter Three of the *Government Action Plan for Small Business* by setting out, in more depth, the rationale for the government's actions in this area, evidence on the nature and extent of the problem and plans to track and monitor their success.

Rationale: why is action required?

3.5 The Small Business Service envisages a dynamic start-up market to be one where:

- A growing number of people, regardless of background or location, recognise and value entrepreneurship.
- More people are thinking about starting a business, and those who wish to develop a viable business idea are encouraged and able to do so.
- Flexible high quality information and advice is clearly signposted and easy to access and available to all, whether from public, private or voluntary sectors.
- Through accessing high quality information and advice start-ups and young businesses are able to achieve their full potential.
- The potential of small businesses to contribute to reducing social exclusion and increasing productivity and economic growth is realised.

3.6 There is a range of market failures that create significant obstacles to starting and growing a business, hamper the quality and early success of new businesses and ultimately prevent a dynamic start-up market from emerging. The government's approach to creating a more dynamic start-up market is to:

- Address market failures that prevent the market from operating efficiently.
- Ensure that all groups in society have the opportunity to benefit from starting a business.

3.7 There are clear benefits to potential entrepreneurs and businesses from accessing high quality business support services. Information and advice can assist potential entrepreneurs in assessing the viability of their business idea,

understanding the risks and responsibilities of starting a business, and for those who do go on to start their business, help ensure that the new business has the best start possible. Once in business, information and advice can help new managers develop their businesses and assist those who want to grow achieve their objectives. There are, however, market failures in the form of imperfect information that prevent or deter potential entrepreneurs and new business owners from accessing information, and advice from business support organisations.

Imperfect information

3.8 The problems of imperfect information arise even before a potential entrepreneur has started up in business. Many people are unsure about what they need to know to develop a business idea and start a business, how to find out what they need to know and how to access the sources of information and advice appropriate to their needs. There are risks associated with starting a business, and obstacles to be overcome, and while some of these are real, some can often be perceived. Without access to full information prior to start-up a potential entrepreneur cannot make an informed assessment about whether a business idea is viable and subsequently how best to start-up the business.

3.9 Those who do go on to start a business are also deterred from seeking advice because of a lack of information as to what type of support is on offer to them. In addition the quality of information and advice can vary widely and new entrepreneurs often do not have the experience to assess the quality of services. Searching for and assessing the quality of information confers a cost on small businesses, both in terms of time and other resources, a cost that many small businesses may not be able to afford. In addition, entrepreneurs often do not always fully understand the full benefits of business advice, or recognise their own need for support.

Poor signposting

3.10 The market for business support fails to provide potential entrepreneurs with a full signposting service which, for example, provides information on the type, range and quality of services on offer, and how to access this support. These problems are often exacerbated by the plethora of organisations currently providing start-up advice, which has resulted in a lack of co-ordination and co-operation between the services on offer. Business support organisations that invest their resources in providing an effective signposting service cannot prevent other organisations from benefiting from this activity. Therefore, there is no immediate incentive for a business support provider to fulfil this role and, further still, to widely promote the benefits of business support, encourage improvements in quality and co-ordinate business support services to ensure that entrepreneurs have access to the most appropriate type. There is therefore a clear role for government in increasing awareness amongst entrepreneurs and 'would be' entrepreneurs of the benefits of business advice and improving access to high quality information and advice.

3.11 The benefits of removing market failures, that prevent a dynamic start-up market from emerging, extend beyond the direct benefits to individual businesses. Economic theory indicates that enterprise is a key driver of productivity growth. The creation and growth of new businesses contribute to the beneficial process of 'productive churn' within an economy in which efficient new entrants to the market replace less efficient existing businesses. It is through this process that new businesses play an important role in raising the overall level of productivity within an economy. High levels of entry by new businesses can raise the level of competition within markets, both by new entrants attempting to raise their market share and by challenging existing businesses with new innovative ideas and products. Increased competition stimulates businesses of all sizes to seek efficiency and quality improvements, and to invest and innovate.

3.12 New businesses create new employment opportunities. They also play an important role in contributing to the quality of the existing business stock through improving the efficiency and quality of supply chains. New businesses also complement existing businesses by enhancing 'innovation networks' by acting as a source of new ideas and practices, potentially increasing the innovation performance of other businesses.

3.13 New businesses have a further role to play in the local economic growth of communities: providing local services, employment opportunities and enabling people to contribute to and share in the economic development of their own communities. Starting a business can be a positive way out of unemployment, particularly in disadvantaged communities, where the potential wider benefits of enterprise can be even more significant.

Nature and extent of the problem: what does the evidence say?

New businesses are an important component for a dynamic and growing economy...

3.14 Evidence supports the economic arguments that new businesses have an important role to play in creating a healthy dynamic economy. The processes by which businesses, including new businesses, enter markets and replace less productive existing businesses may have accounted for between 20 and 40 per cent of labour productivity growth over a five year period (*Scarpetta et al, 2002*).

3.15 Turning to employment, evidence shows that over the period 1995-99 new businesses were found to be the greatest single source of new jobs, accounting for 2.3 million extra jobs, of which 85 per cent were in small businesses. (*Dale and Morgan, 2001*). Another study of job creation and destruction in manufacturing between 1980 and 1991, found that small businesses were responsible for between 50 and 68 per cent of job creation, and for about 40 per cent of job destruction. (*Barnes and Haskel, 2003*)

3.16 While many small businesses may have limited growth ambitions, evidence does suggest that small businesses are involved in innovation, although there are barriers that deter many from becoming innovators. Amongst businesses employing between 10 and 49 people, nearly half were active innovators (*Stockdale, 2002*). Where small businesses are involved in innovation their role is a key one. The evidence suggests small businesses play a key role in diffusing new ideas and technologies. The economic benefits of this activity are amplified when the larger businesses replicate or incorporate them into other products, processes and services, or use them to enhance their own innovation performance (*Acs et al, 1999; Tether, 1999*).

3.17 There is evidence that suggests a positive correlation between the level of the business start-up rate in the population and economic growth (*Harding, 2002*). However, this statistical finding on its own does not explain the nature and direction of this relationship. Nevertheless, this finding alongside evidence on the contribution of new businesses to the dynamism of the economy does suggest that new business formation is a feature of a growing economy.

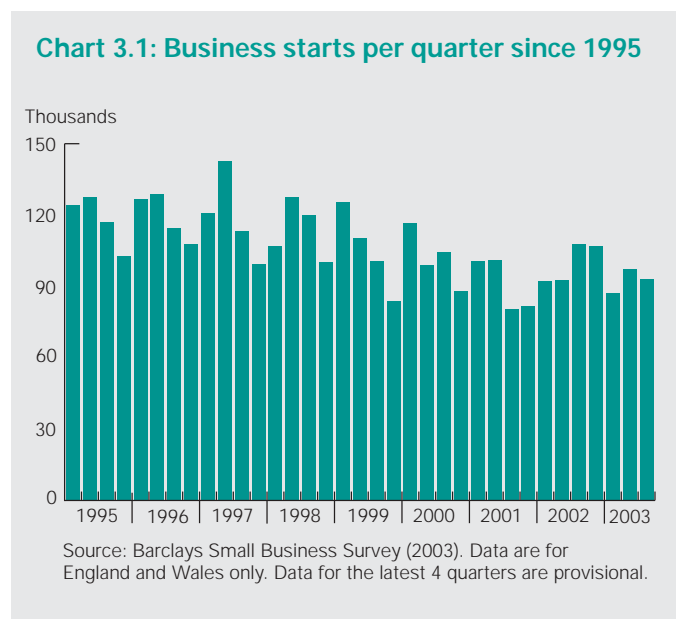
Economic factors affect business start-up rates. The role of government is to ensure that those who want to start a business have the opportunity to do so...

3.18 Small Business Service internal analysis shows that the majority of variation in the number of start-ups can be explained by changes in economic conditions, for example the level of demand and variations in house prices, the main form of collateral for small business lending. The level of industrial restructuring can be a key factor, such as increased contracting out and reduced job security (*Smallbone and Lyon, 2001*). Location and sector have also been identified as significant influences on new business growth (*Mole et al, 2002*). Other research also points to the economic climate as a key factor influencing the decision to start a business (*SBS, 2002b*).

3.19 Within this context, where local and national economic conditions are key determinants of the number of business start-ups, the potentially effective role for government intervention, beyond working to achieve a stable macro-economic environment, is to address market failures which create additional barriers that deter those people who want to further develop a business idea and go on to start a business.

The level of entrepreneurial activity in the UK is low compared to other countries...

3.20 There are no official estimates of the total number of business start-ups, although VAT registration rates are a good guide. Barclays Bank provides the most comprehensive indication of business starts based on business bank accounts. In 2002 there was a total of 400,000 business starts in England and Wales (*Barclays, 2003a*), and 176,000 new VAT registrations in the UK (*SBS, 2003a*). Chart 3.1 shows that the number of business start-ups has been in decline since 1997, but there have been some recent signs of improvement, particularly in late 2002.



3.21 The Global Entrepreneurship Monitor is an international survey that measures the level of entrepreneurial activity within an economy. The most recent survey (*Harding, 2002*) indicates that 5.4 per cent of the adult population in the UK is either actively involved in starting up a new business or is running an established new business (defined as no older than 42 months). The level of entrepreneurial activity in the UK is around half of that for the USA (10.5 per cent), but on par with Germany and Italy and better than France and Japan. Overall the UK has the 23rd highest measure of activity among the 37 countries investigated.

Only a small number of people thinking about starting a business actually go on to do so. Finance, know how, skills and access to information are key barriers...

3.22 A survey of the adult population in England indicates that around 12 per cent of adults are considering starting a business and half of these were characterised as being serious potential entrepreneurs (for example say they will start a business in the next two years and/or have undertaken some business start-up activity) (*SBS, 2002a*). A follow-up survey, almost 12 months later indicated that only 15 per cent of those thinking of starting a business were now businesses owners or self-employed (*SBS, 2002a*).

3.23 Survey evidence points to access to finance as the key barrier to starting up a business, followed by fear of debt, losing income and financial security. The next significant factor was the economic climate. Other significant barriers are the complexity of regulations, knowing how to start a business and lacking business skills (*SBS, 2002b*).

3.24 Many 'would be' entrepreneurs lack the necessary knowledge to start a business. Survey evidence shows that one in three people actually thinking of starting a business felt that they lacked knowledge on how to obtain finance. A similar number felt they lacked the skills to develop a business plan. A significant number also felt they did not have the necessary marketing skills, or the accounting skills necessary to start a business. Around one in four felt that they did not know how to 'get business support' to help them start-up their business (*SBS, 2002b*).

Business start-up activity is significantly lower in some regions despite similar levels of entrepreneurial aspiration...

3.25 In 2002 there were 57 new VAT registrations in London for every 10,000 residents aged 16 or over and 44 in the South East, compared to 31 in Yorkshire and the Humber and just 21 in the North East. Barclays Bank data based on new business bank accounts shows a similar pattern. However the differences between regions in terms of the proportions currently thinking of going into businesses do not vary as greatly as the numbers actively engaged in entrepreneurial activity (*SBS, 2002b*).

3.26 Substantial disparities also exist at the sub-regional level. Excluding London, the twenty most deprived local authority districts in England had 27 start-ups per 10,000 residents, compared to 51 in the least deprived districts. Again, as at the regional level, the proportion of adults in deprived areas thinking of starting a business is as strong as in other areas (*SBS, 2002b*). This does suggest people in deprived areas are less likely to translate their entrepreneurial aspirations into starting a business and are in need of more support.

The 'typical' entrepreneur is an employed graduate male, aged between 35 and 44 with a high income...

3.27 Evidence from the Global Entrepreneurship Monitor survey (*Harding, 2002*) on the proportion of the UK adult population involved in entrepreneurial activity – the proportion that are in the process of starting up or running a new business – shows that:

- Men are more than twice as likely as women to start-up a business.
- People in the age range 35 to 44 have the highest levels of entrepreneurial activity, with the next highest being for those aged 25-33.
- Entrepreneurial activity is significantly higher amongst graduates than those with GCSE or A level qualifications.
- People in employment have nearly three times the level of entrepreneurial activity as their non-working counterparts.
- People in the top third of the income distribution are more than three times as likely as those in the lowest third to start-up a business.

3.28 Analysis of the statistics on self-employment rates confirms that graduates are a key source of entrepreneurial activity in the UK, with the Spring 2003 LFS showing that 11 per cent of graduates are in self-employment compared to 8 per cent of non-graduates. However, it seems that most graduates leave starting a businesses until later in life. Only 4 per cent of graduates aged under 30 years old are self-employed.

3.29 Other evidence also confirms this picture of entrepreneurial activity and business start-up. A survey by Barclays showed that men were more than twice as likely as women, across all age groups, to be currently in the process of starting up in businesses for the first time (*Barclays, 2003a*). Another shows that men are more likely than women to be thinking of going into businesses (*SBS, 2002c*). In addition, the Spring 2003 LFS shows that while women account for 44 per cent of all economically active people in the UK, only 26 per cent of the self-employed working age population are female. This low level of entrepreneurial aspiration and activity in the context of high levels of economic activity amongst women does suggest that women may possibly be more constrained by barriers to starting up a business.

3.30 The ONS Labour Force Survey shows that self-employment rate amongst people from ethnic minorities as a whole is similar to that for white people, but there is substantial variation in entrepreneurial activity between different ethnic minority groups. People of African-Caribbean origin are substantially less likely to be self-employed than other groups. This is despite evidence showing that people from African-Caribbean origin have the highest and strongest levels of entrepreneurial aspiration compared to all other ethnic groups (*SBS, 2002c*).

3.31 While research shows that people who are not in work exhibit much lower levels of entrepreneurial activity, other research shows that unemployed people are significantly more likely to be thinking about entrepreneurial activity than the population as a whole, and many 'would be' entrepreneurs have a business idea. Despite these high levels of aspiration unemployed people are less likely to have given starting up in business serious thought compared to other groups. This is likely to be linked to the fact that unemployed people are more likely to see getting finance and lack of business skills as key barriers to entrepreneurial activity (*SBS, 2002c*).

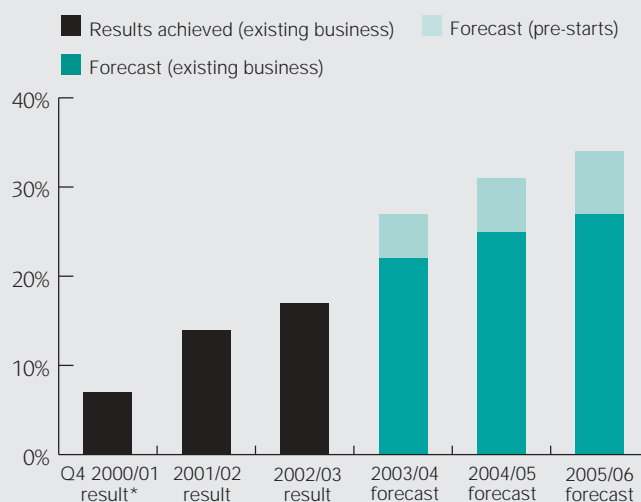
While general awareness of business support organisations is high there are weaknesses in the demand for and the provision of business support....

3.32 While research shows that start-ups who seek external advice typically build turnover faster, and are more likely to survive than those new businesses that do not, it is estimated that only around 50 per cent of start-ups seek external advice (*Barclays/NFEA, 2002*). Other surveys of young businesses also show that only around half use external advice, with the most used sources being accountants and banks (*SBS, 2002c*). Business Link Operators were the most widely used public sector support service.

3.33 Survey evidence shows that around two thirds of people thinking of starting a business were aware of business support organisations, similarly for those who had recently started a business. However, this indicates that a significant minority were not. Perhaps of even more significance is that only two fifths of people who were previously considering going into business, but had since given up on this idea, were aware of business support organisations (*SBS, 2002a*).

¹ This figures rises to 27 per cent if pre-starts are included. Pre-starts were not included prior to 2003/04.

Chart 3.2: Business Link Operator market penetration



*2000/01 result only includes businesses helped in quarter 4 of 2000/01, and is therefore not comparable with later years.

Source: BLO Management Information submissions and BLO Delivery Plans 2003/04. The base for market penetration is all VAT and/or PAYE registered enterprises, from a special analysis from the ONS Inter Departmental Business Register.

3.34 Despite relatively high levels of awareness of business support organisations, usage of organisations such as Business Link Operators has been low until recently. Analysis of Business Link Operator management information indicates that penetration has increased significantly since 2000/01 (Chart 3.2), rising from 14 per cent of existing businesses in 2001/02 to a forecast of 22 per cent in 2003/04.¹

3.35 The *SBS Household Survey* asked people thinking of starting a business, and new entrepreneurs, if they would use a Business Link Operator or a local enterprise agency in the future. Around half of those thinking of starting a business and a quarter of new entrepreneurs thought that they would. Key reasons for not considering using the organisations in the future were based on a perception that advice was not needed, or would not be sufficiently specialised to meet their needs, for example by being focused on bigger businesses. Other reasons included an unwillingness to pay when people in their own networks will do it for free (*SBS, 2002b*).

3.36 Focus group research with a small number of entrepreneurs revealed that a critical weakness within the entrepreneurial support structures was a lack of high quality business advice, with the current structures not regarded as useful (*Harding, 2002*). This view was also echoed by entrepreneurship ‘experts’ who pointed to inconsistency in the quality of support services within regions, as well as across the UK, and confusion over delivery (*Harding, 2002*).

3.37 Similar concerns were raised during Bank of England consultations around the country in 2002 (*Bank of England, 2003*), and in response to the SBS consultation document on a comprehensive strategy for start-ups (*SBS, 2002d*). People looking to start a business and established small businesses found it very difficult to find out what support is available. The quality of business advisers and the need for real coordination and collaboration of services between all public and private sector providers, and their intermediaries, also needed to be addressed.

Measuring success: what are the plans to monitor and evaluate progress in encouraging a more dynamic start-up market?

3.38 Table 3.1 indicates the main indicators which the Small Business Service is committed to monitoring and reporting on over time in assessing the extent to which government has been successful in encouraging a more dynamic start-up market. It shows the current baseline position for each measure of success, and indicates when further information will be available to assess progress.

3.39 To complement these key measures, the SBS will work with partners to collect data on a number of supporting measures. These are likely to include:

- Increase the proportion of adults considering going into business.
- Increase employment in new businesses.
- Maintain or improve the UK’s position on opportunity entrepreneurship and total entrepreneurial activity in comparison to other countries.

Table 3.1: Encouraging a more dynamic start-up market success measures

Key measures	Source	Current position	Next update
➤ Increase productivity (or turnover) of new businesses	ONS Annual Business Inquiry/ Inter Departmental Business Register	Measure under development	Unknown at this time
➤ Increase the proportion of small businesses seeking external business advice during start-up	SBS Small Business Survey	A new measure	Spring 2004 (2003 data)
➤ Reduce barriers to start-up	SBS Household Survey of Entrepreneurship	73% of would-be entrepreneurs had multiple barriers to start-up (2001)	Spring 2004 (2003 data)

3.40 In addition to monitoring success against these indicators, specific research and evaluation studies will be carried out to fill gaps in knowledge about what policy actions work and why and to gather views from small businesses themselves on what more needs to be done. For example, more research is needed to examine in further depth the extent to which people who would like to start a business are deterred by real or perceived barriers, in effect separating out potential 'myths' about the difficulties of business start-up and more robustly defining the real barriers in the market.

3.41 While some evidence does exist to suggest that external business support does have a positive impact on business start-up, in terms of the quality of the new business, its survivability and future growth, more robust research is needed in this area. This includes examining which types of business support, and other types of intervention have the greatest impact on business start-ups, and therefore where the scope for government intervention lies.

3.42 The Small Business Service will publish a full research and evaluation strategy in Spring 2004 after consultation with other stakeholders, including other government departments, academic researchers and practitioners, on priorities for filling gaps in the evidence base over the next 3 years.

BUILDING THE CAPABILITY FOR SMALL BUSINESS GROWTH

Introduction

4.1 The government's objective under this strategic theme is to improve the growth capability of small businesses by helping businesses to raise performance across key areas, particularly innovation, management skills and the adoption of best practice.

4.2 The purpose of this section is twofold:

- To explain why the government is putting in place a range of activities and actions to build the capability for small business growth by presenting an overview of the evidence which points to the need for further initiatives.
- To outline how the government will monitor and evaluate success in achieving its objective and highlight the main gaps in the evidence base that will need to be filled if policy is to be further developed and improved.

4.3 This section, therefore, complements Chapter Four of the *Government Action Plan for Small Business* by setting out, in more depth, the rationale for the new government actions and by giving a fuller account of the plans to track and monitor their success.

Rationale: why is action required?

4.4 Small businesses are a key driver of economic growth not just because they grow themselves but also because their dynamism stimulates competition and innovation throughout the economy as a whole.

4.5 Small businesses make an important contribution to the process of productive churn, whereby new entrants to markets replace less efficient existing businesses leading to increased productivity in the economy as a whole. In addition, the

competitive threat posed by new entrants and growing small businesses is also an important driver of productivity growth, stimulating other businesses to innovate and to improve efficiency. Small businesses that aim to grow substantially exert the greatest competitive threat to other businesses, and are particularly likely to provide a stimulus to productivity growth amongst rival businesses.

4.6 Too few UK small businesses grow fast enough, or are competitive enough, to contribute as fully as they might to overall productivity levels. Many UK small businesses want to grow, but there are a number of market failures and associated barriers to growth that prevent small businesses maximizing their potential.

4.7 These barriers lead to sub-optimal investment in innovation and skills development, particularly higher order management skills, and discourage the adoption of commercial best practice. The evidence suggests that these are areas where focussed intervention over and above the wide range of more general advice and support services available, can have potentially significant impacts.

Innovation, a key driver of small business growth, but market failures are holding the UK back...

4.8 There are a number of market failures that prevent small businesses from investing in innovation:

■ **Limited access to capital.** Key market failures in capital markets stem from information asymmetries between finance providers and lenders. Potential lenders and investors often lack all the information needed to fully assess the risks and returns associated with a business proposal. As a result finance providers adopt strategies to mitigate risk, for example

requiring security for loans or undertaking costly due diligence on investment proposals. These create barriers to accessing finance that can be particularly acute for small businesses. These problems are exacerbated when innovative activities, which by their nature tend to be high risk with uncertain outcomes, are involved. Accordingly, small businesses find securing finance for innovation particularly problematic.

■ **Difficulties appropriating the full benefits of innovation.** In a competitive environment, small businesses tend to encounter particular difficulties in securing sufficient internal return to make innovation worthwhile, not least because of the high transaction costs involved in defending property rights. While the industry-wide benefits can still be substantial once the innovation is replicated by other businesses, the fact that these may not be retained by the innovating small business acts as a disincentive to investing in innovation. Even where the private return from innovation is high, there may still be under-investment because the social returns, which are unlikely to influence decision making within an individual business, may well be even higher. In addition, small businesses may fail to secure the returns to innovation because they lack the skills needed to commercialise innovative products or services.

■ **Inability to diversify risk.** Innovation tends to be a high-risk activity in small businesses because it is likely to involve a very high proportion of their total assets. While a large business can normally invest in and exploit a new idea or product, knowing that should the initiative fail the business will still survive, this is often not the case for a small business.

Small businesses' capability to grow is being limited by a lack of skills...

4.9 The under-investment by small businesses in skills development is also underpinned by a number of specific market failures:

■ **The poaching problem.** Businesses may be reluctant to invest in training because they may not receive the full benefits of this investment if their employees subsequently move on to other jobs. This is a particular problem for small businesses typified by high staff turnover and limited scope for internal career progression.

■ **Information problems.** Small businesses experience particular difficulties in judging the quality of training and often do not appreciate its benefits in terms of improved business performance. This problem can be accentuated by the low initial skills base in many small businesses that affects perceptions about the value of externally available sources of advice and expertise.

■ **Problems with access to finance.** Many small businesses, which are typically preoccupied with short-term financial pressures, lack the resources to make significant investments in training that will, necessarily, take time to produce benefits.

■ **Frictional effects.** Businesses with few employees cannot easily release key employees for training.

Small businesses are deterred from adopting commercial best practice...

4.10 The case for intervention to promote greater adoption of commercial best practice is also underpinned by market failure:

■ **Information problems.** The principal area of failure is the lack of information available to the 'purchasers' of best practices. The problem tends to be particularly acute for small businesses that tend to face greater information barriers than larger businesses because of their limited resources. Also, 'suppliers' – the private sector consultants and other providers such as universities – face significant problems identifying potential users.

Nature and extent of the problem: what does the evidence say?

Small businesses – driving growth throughout the economy...

4.11 There is a growing body of evidence illustrating the contribution of new and growing small businesses to overall economic growth, (see for example, *Audretsch et al., 2001*). Enterprising small businesses clearly make a direct contribution to overall growth in terms of both productivity and employment. Importantly, however, static analyses of small-business productivity fail to capture other important ways in which enterprising small businesses drive economic growth.

4.12 The creation and growth of new businesses, and the implementation of innovative ideas and products within existing businesses, creates a competitive challenge that contributes to the beneficial process of productive churn through which new and more efficient businesses replace less efficient ones. These processes may together have accounted for over 20 per cent of labour productivity growth over a five year period (*Scarpetta et al, 2002*).

International comparisons of small business growth patterns – the UK is good and getting better, but not the best...

4.13 Although there has been rapid growth of the small business sector since the 1970s, rates of entrepreneurial activity in the UK remain only moderate by international standards, particularly in comparison with the US (*HM Treasury, 2002a*). Similarly, *Scarpetta et al. (2002)* suggest that although entrant businesses in the US tend to be smaller than their European counterparts, they expand relatively faster once they are established.

4.14 There is also evidence that the UK lags behind a number of European countries in other respects. For example, for the period between 1985 and 1990 the net employment gain from UK small manufacturing businesses two years after their establishment was lower than that for equivalent businesses in France, Germany, Portugal and Italy (*OECD, 2003*). The UK also under-performs relative to some European countries and the US in terms of the contribution 'creative destruction' makes to overall economic growth (see, for example, *OECD, 2003*).

Table 4.1: Constraints on ability to meet business objectives by size

Constraints	All small businesses	Number of employees		
		<10 (micro)	10 to 49 (small)	50 to 259 (medium)
Increasing Competition	2.69	2.48**	2.77	3.00
Availability/cost of finance for expansion	2.63	2.75**	2.59	2.27
Marketing and sales skills	2.53	2.40**	2.60	2.70
Availability/ cost of overdraft finance	2.38	2.47**	2.36	2.09
Overall growth of market demand in principal products	2.35	2.20**	2.45	2.54
Management skills	2.31	1.97**	2.52	2.82
Skilled labour	2.25	2.00**	2.48	2.38
Acquisition of technology	1.95	1.93**	1.94	2.02
Difficulties with new technology	1.89	1.76**	1.90	2.10
Availability of appropriate premises or site	1.75	1.70*	1.78	1.80
Access to overseas markets	1.60	1.47**	1.66	1.84
Total responses (no.)	2362	1008	1060	274

Means are calculated from scores on a scale of 1-5. 1= insignificant, 2 = slightly significant, 3 = moderately significant, 4 = very significant, 5 = crucial. Asterisks indicate statistically significant differences (*10% level; **5% or better).

Source: Keeble (1998)

Realising the latent growth potential of UK small businesses...

4.15 It is widely accepted that not all small businesses want to grow or can grow. There is, however, evidence that the proportion of UK small businesses that want to grow is greater than the numbers currently growing in practice. Data from the *SBS Omnibus Survey (2002c)* suggests that over the next three to five years, 10 per cent plan to grow significantly, and a further 48 per cent plan to grow moderately. Within this, businesses with between 50 and 249 employees had the highest growth aspirations, at 19 per cent planning to grow significantly and 57 per cent moderately, while those with less than 10 employees have the lowest aspirations, at 10 per cent

and 47 per cent respectively. In practice, a significant proportion of these aspirations are not currently being realised.

4.16 Analysis of VAT registrations shows that seven per cent of new registrations currently achieve high-growth each year (based on a definition of high-growth as achieving at least £1m turnover and/or 10 or more employees by the fourth year of trading). Data from the *SBS Omnibus Survey* describes a similar pattern.

4.17 Small businesses typically encounter a range of barriers to growth. *Keeble (1998)* identifies and assesses the relative significance of constraints to growth and competitiveness as described by small businesses themselves (see Table 4.1).

It should be noted, however, that some constraints to growth at the level of the individual business, such as 'increasing competition', may in fact be a spur to growth at the economy wide level.

Building capabilities that cut across the complexities of small business growth...

4.18 A considerable volume of the academic literature has attempted to explain the growth of small businesses through the development of explanatory models that are intended to be relevant to most if not all businesses (see for example, *Poutziouris et al., 1999a*). Other analysts, including for example *Storey (2000)*, have focussed on particular criteria including the nature of the entrepreneur involved, the specifics of the business and the businesses' strategy.

4.19 A key theme in much of the more recent academic literature, however, is the complexity and uncertainty that surrounds the causes of small business growth. As a number of authors point out, from this perspective the validity and policy relevance of many of the explanatory models that have been developed are questionable, not least because they cannot meaningfully capture the wide range of factors that affect growth. As *Vinnell and Hamilton (1999)* explain, small business development is complex; the result of an idiosyncratic and unstable process involving the interplay of the local environment and features internal to the business.

4.20 In practice, there are many policies, including both well-established ones and new initiatives described in the Action Plan that have supported and will continue to support small business growth in different ways. Beyond this, however, there is considerable evidence highlighting the particular importance of measures designed to support innovation, higher order skills development and the promotion of best practice. These are areas where there is sound evidence that intervention is both needed and potentially highly effective.

Innovation: the driver of growth for both individual businesses and the economy as a whole ...

4.21 According to *DTI (2003b)*, UK innovation performance is around the average of other advanced economies. As a group, UK owned businesses appear to be less creative and less able to introduce workplace changes than those in some other

advanced economies because they lack skills and appear to place less emphasis on developing a learning culture. In some areas, the UK lags in the adoption of business best practices. The data show the potential for improved innovation performance and higher levels of productivity across, and within, all sectors.

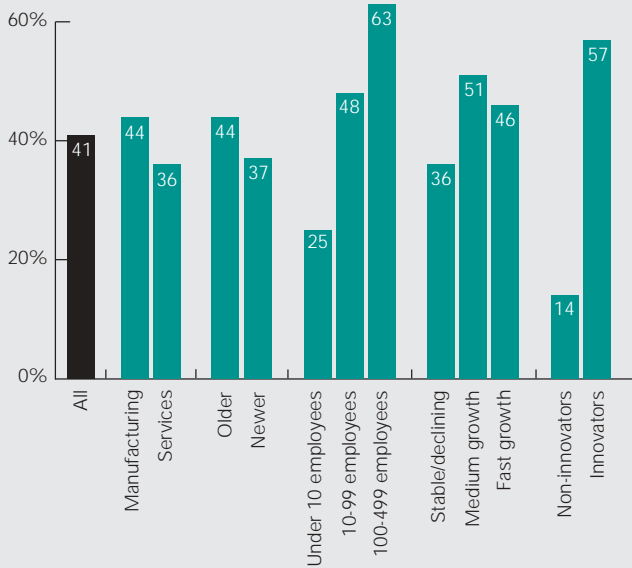
4.22 The importance of innovation to growth in small businesses is a well established tenet of the literature (see for example, *Phillips and Kirkhoff, 1989; DTI, 2003b*). *Audretsch et al., (2001)* argue that small businesses contribute to overall growth in a number of ways, but principally through innovation. Innovation within small businesses tends to help these businesses themselves to be successful, but importantly, it also promotes innovation in other businesses and this, in turn, makes a major contribution to dynamism and growth at a national level.

4.23 Although, innovations made by small businesses typically have only a modest impact on the innovating businesses' own sales, their wider economic benefits are greatly amplified when larger businesses replicate or incorporate them into other processes, products and services (*Acs, 1999; Tether, 1999*).

4.24 According to *Mole (2002)*, small businesses have at least two further, distinctive and generally significant roles with regard to innovation. First, they act as a seedbed of innovation that provides a dynamic spur to the market. Second, small businesses are more likely to develop radical innovations than are larger ones. The literature also indicates that small businesses contribute to 'innovation networks', for example by providing specialised equipment or services, which in turn enhance the innovation performance of larger businesses. In this respect, small businesses may be viewed as complementary to larger businesses in the innovation process.

4.25 There is evidence of significant disparities in the levels of innovation practiced by UK businesses. *Cosh and Hughes (2003)*, for example, suggest that larger businesses and manufacturing businesses are significantly more likely to engage in Research and Development than smaller businesses or those in the service sector (see Chart 4.1). *Hughes (2000)* shows that innovation activities, in both the manufacturing and service sectors, fall below those of some other EU member states (see Chart 4.2).

Chart 4.1: Proportion of small businesses engaged in research and development in 2002

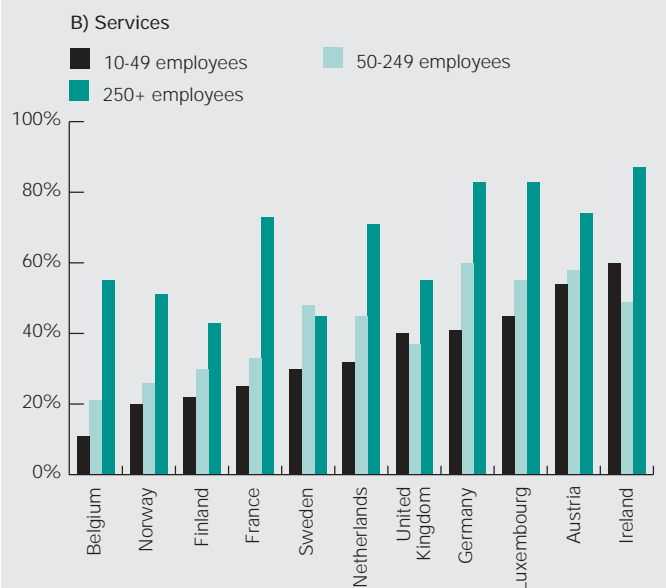
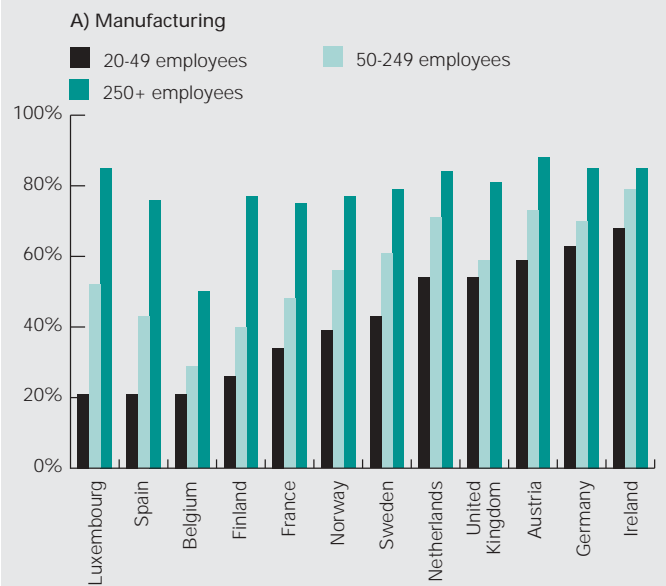


Source: Cosh and Hughes (2003)

4.26 *Cosh and Hughes (2003)* identify and assess a range of constraints to innovation as reported by small businesses. The most significant barriers they cite are: a lack of appropriate sources of finance (approximately 28 per cent of small businesses); innovation costs are too high (approximately 30 per cent of small businesses); and the pay-off period too long (approximately 28 per cent of small businesses).

4.27 In terms of factors internal to business, the most significant are a lack of innovation potential (approximately 23 per cent of small businesses) and a shortage of skilled personnel (approximately 20 per cent of small businesses). Hi-tech businesses have particular difficulties with finance. Perceptions of risk are also a factor; approximately 23 per cent of small businesses rated 'excessive perceived risks' as either a very significant or crucial barrier. Overall, businesses with more than 50 employees generally experience barriers to innovation less severely than those with fewer than 50 employees.

Chart 4.2: Innovation Activity in a) Manufacturing and b) Services in the EU (innovating enterprises as a proportion of all enterprises), 1996



Source: Hughes (2000)

4.28 Evaluation evidence indicates that initiatives to encourage R&D in small businesses can be very effective. For example 'SMART', which is to be superseded following the DTI business support review by an R&D grant, provides grants to individuals and small to medium-sized businesses to develop technologies leading to commercial products. Evaluation suggests that 70 per cent of SMART products reach market, and that 94 per cent of beneficiaries would not have been able to pursue the project without the award. Each £1m of expenditure created additional turnover of £2.4m (*PACEC, 2001*).

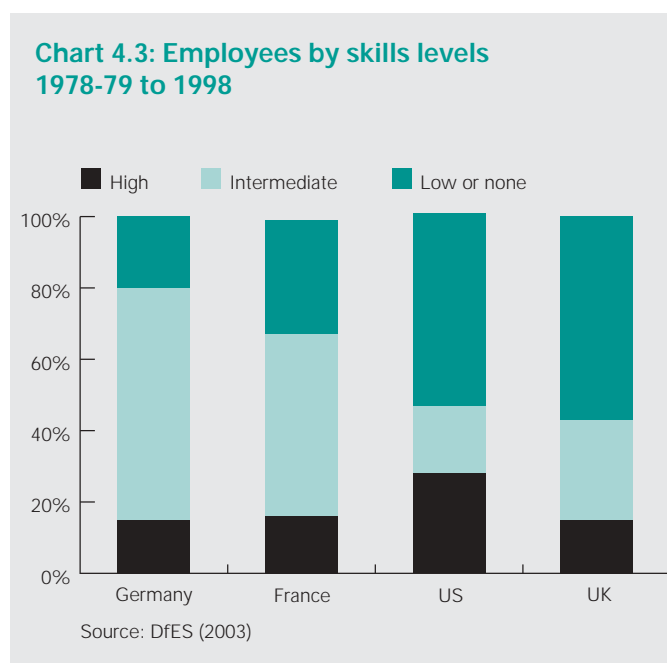
Skills development: releasing the potential for growth through building key capabilities...

4.29 The significance of key skills, particularly management skills, to small business growth is highlighted in a number of recent studies, (see, for example, *Hughes, 1998*). According to *DTI (2002a)* a lack of appropriately skilled workers is holding back investment, innovation and productivity – a status quo that reflects not just historic weaknesses in the educational system, but also an inadequate commitment to workforce development.

4.30 *Patton et al. (2000)* point out that levels of skills development remain relatively low in the UK. The UK lags behind the US in terms of high level skills (first degrees and above) and below key European competitors in terms of intermediate level skills (BTEC, HNC/HND, City and Guilds, BTEC ONC/OND, etc.), (see Chart 4.3).

4.31 The Employers Skills Survey (*Hogarth and Wilson, 2001*) found that small businesses have particular and persistent problems in recruiting skilled staff. For example, in 2001, 10 per cent of small businesses had skills-shortage vacancies compared to 8 per cent of all businesses; and 28 per cent of small businesses reported skills gaps compared to 23 per cent of all businesses. *Hogarth and Wilson (2001)* argue that skills deficiencies, particularly at the management level, created by a failure of staff to keep up with change, impose a significant constraint on output. Similarly, *Cosh and Hughes (2003)* note that a lack of management skills is a key constraint on business development for growth and innovation-orientated businesses.

4.32 The need to generate further capacity now to address the trend to an increasing 'skill intensity' of employment is



also commented on by a number of analysts. For example, *Campbell et al. (2001)* found that the importance of skills in the workplace is increasing and that occupations that require higher skills levels are growing faster than others.

4.33 Evidence suggests that small businesses are less likely to invest in formal, 'off-the-job', training and skills development than larger ones; while only 29 per cent of businesses with one to four employees provided such training, 77 per cent of those with over 25 employees provide at least some training (*Spilsbury, 2001*). In practice, a significant proportion of small businesses are sceptical of the value of externally provided training and 52 per cent see no need to provide training to established workers (*Kitchen and Blackburn, 2001*). However, a higher number of small businesses do provide 'on-the-job' training: in 2001, 52 per cent of businesses with one to four employees and 89 per cent with over 25 employees, provide such training (*Spilsbury, 2001*).

4.34 The literature also considers the ways in which skills are best developed within small businesses. One theme of this literature is the important role played by tacit knowledge and informal learning (*Kitchen and Blackburn, 2001*). The relatively positive attitudes that small businesses have to 'on-the-job'

training and tacit knowledge are potentially important because key skills are often most effectively developed through a process of experiential learning that involves repeated practice of the skills being developed.

4.35 While there is evidence for both the importance of skills development and of a skills gap in UK, there is also evidence suggesting that measures designed to simply boost the supply of skills and formal qualifications are unlikely to lead to productivity gains on their own. As *Harris (2003)* points out, businesses need the ability to use factor inputs effectively if they are to compete and grow. Similarly, *Kemp et al., (2002)* suggest that the impact of enhanced skills is greatest when it is associated with wider changes in work organisation, job design and systems of people management.

Promoting the adoption of commercial best practice: building the capability to plan, manage and achieve growth...

4.36 There is some debate in the literature concerning the appropriateness and potential utility of commercial best practice and business excellence models such as Total Quality Management to small businesses, (see for example, *Zairi and Youssef, 1995; Harris, 2003*). There is, however, a substantial body of opinion advocating both their usefulness and the case for their wider adoption. *Harris and Robinson (2001)*, for

example, suggest that public sector support for business level capability building and the adoption of best practice has an important role to play in supporting healthy 'survival of the fittest' market dynamics, by helping to upgrade the overall standard of capabilities that are brought into play in the competitive process.

4.37 These authors also stress the importance of measures to strengthen the institutional infrastructure required for healthy innovation processes, including the development and dissemination of new and improved business practices. There is evidence that suggests that a significant proportion of UK small businesses would benefit from a greater engagement with commercial best practice. As *Cosh and Hughes (2003)* point out, only 20 per cent of small businesses currently have a human resources strategy and less than half have a business plan.

4.38 Following a substantial further review of the relevant literature, *Harris (2003)* found that there is a statistically significant relationship between the adoption of best practices, such as Total Quality Management, and improved business performance. He points out that although there is clear evidence that best practices do make a difference, current engagement with commercial best practice is inconsistent and that the potential value of adopting best practice in this area is not being fully realised. This, he suggests, means that there is a clear economic justification for intervention in this area.

Table 4.2: Success measures

Key measures	Source	Current position	Next update
➤ Increase the proportion of businesses reporting that they want to grow	SBS Small Business Survey	A new measure	Spring 2004 (2003 data)
➤ Increase the number of small businesses actively involved in innovation	SBS Small Business Survey	A new measure	Spring 2004 (2003 data)
➤ Increase take-up of external business advice by small businesses	SBS Small Business Survey/ Omnibus Survey	50% sought external advice in last 12 months (Autumn 2002)	Spring 2004 (2003 data)

Measuring success: what are the plans to monitor and evaluate progress in building the capability for small business growth?

4.39 Table 4.2 describes the main indicators that the Small Business Service is committed to monitoring and reporting on over time in order to assess the extent to which the government has been successful in building the capability for small business growth. For established measures, it shows the current baseline position; for each of the measures it indicates when further information will be available.

4.40 To complement these key measures, the SBS will work with partners to collect data on a number of supporting measures. These are likely to include:

- Increase net capital investment in small businesses.
- Increase the proportion of managers in small businesses carrying out management/leadership training.
- Reduce the number of small businesses reporting skills shortages.
- Increase the use of ICT by small businesses.

4.41 In addition to monitoring success against these indicators, specific research and evaluation studies will be carried out to fill gaps in our current understanding of both what policies work and how they work. Within this, we will be particularly concerned to gather the views of small businesses themselves regarding the success of current policy and what more needs to be done.

4.42 For example, the Small Business Service will explore ways in which to make more effective use of longitudinal data in order to better understand the factors that affect small business growth over time. SBS will also work with the DTI to evaluate a range of new business support products, including those associated with research and development and the promotion of commercial best practice. Additionally, a new evaluation of Business Link operators, planned for 2004, will examine the impact of external advice on small business growth.

IMPROVING ACCESS TO FINANCE FOR SMALL BUSINESSES

Introduction

5.1 The government's main objective in improving the access to finance for small businesses is to reduce the number of small businesses encountering access to finance as a barrier to growth.

5.2 The purpose of this section is twofold:

- To provide an overview of the evidence to explain why the government is putting in place a range of activities and actions to improve small businesses' access to finance.
- To outline how the government will monitor success in achieving its objective and highlight the main evidence gaps that will need to be filled if policy is to be further developed and improved.

5.3 This section, therefore, complements Chapter Five of the *Government Action Plan for Small Business* by setting out, in more depth, the rationale for the government's new and existing actions, and by giving a fuller account of the plans to track and monitor their success.

Rationale: why is action required?

5.4 Well functioning capital markets ensure that businesses have adequate access to the capital they need to operate efficiently and grow. Efficient capital markets promote productivity improvements and economic growth by:

- Facilitating business start-ups.
- Ensuring that businesses are able to finance potentially viable investments, enabling them to expand operations to meet demand.
- Providing funds for businesses to innovate, generating new technologies and new, more productive ways of operating.

■ Allocating resources in the economy to their most productive use.

5.5 The UK has well-developed and dynamic financial markets that are argued to be amongst the most efficient in the world. The fact that some small businesses are unable to obtain finance is not, in itself, an indication of a market failure requiring government action. If markets are working efficiently then inefficient businesses, or those with inferior techniques and products will face difficulties in obtaining finance. However, there are failures in finance markets that mean the 'right' amount of finance is not always provided by the market for reasons which are unconnected with the viability of the proposal.

5.6 In addition, barriers can also result from rational behaviour by investors in the face of structural market failures such as incomplete information which can prevent existing businesses and new entrepreneurs with viable business propositions from accessing the finance they require. As a result potential economic benefits, in terms of employment and output growth and productivity improvements from new business formation and business growth, are foregone. The failures in the market for finance exist in the both the debt and equity markets.

Debt markets

5.7 Failures in the debt markets stem from information asymmetries between the borrower and the lender. The potential borrower knows more about the potential success of a project for which funds are sought and the probability of default on a loan, than the lender. Without access to the same information the lender has to make a decision based on the assessment of risk. As a result the lender attaches importance to particular factors which are thought to mitigate risk. These factors include the borrower's track record, both with the

lender and in business, and their willingness to offer collateral or to take a significant equity stake in the business.

5.8 Potential borrowers who do not meet these criteria are likely to experience more difficulty in accessing finance, either in terms of having an application rejected despite a viable business proposal or through being charged higher than average interest rates. For many entrepreneurs trying to start a business, access to personal or family wealth or collateral poses the greatest obstacle. For others, this is likely to be exacerbated by other personal characteristics such as lack of a relationship with a bank, an important element of an individual's financial track record, and their ability to produce business accounts, an important source of information about a new businesses prospects.

5.9 As a result of these information asymmetries, banks are more likely to confine their lending activities to the lower risk segments of the market. Banks' strategies for reducing exposure to risk may also include rationing their lending by quantity rather than through the price of finance, further confining their lending activities to the lower risk end of the market. The result is that the opportunities to access debt finance for some potential entrepreneurs to start their own business, and for existing businesses to fund innovation and investment, are restricted. The scope for wider benefits to flow from this additional business activity is also reduced and potentially confined to particular groups in society who are more likely to be able to meet banks' lending criteria.

Equity finance

5.10 Information asymmetries are also present in the market for equity finance, which lead to a number of barriers emerging that restrict the flow of equity finance to smaller businesses. For some businesses equity is a more appropriate source of

finance than debt based finance. This is particularly so for those businesses who seek to grow rapidly, or those based on highly innovative activities where product or process development needs significant investment before income from sales can be generated.

5.11 To overcome information asymmetries in the equity market investments are only made after a process of due diligence. The costs involved in appraising potential projects, and in monitoring their subsequent progress do not vary proportionally with the size of the investment. For smaller investments, these costs may be prohibitively large relative to anticipated returns, making equity investments in small businesses less attractive, and potentially less viable. Another barrier facing small businesses, particular young businesses, is that the risk is perceived to be higher because the business management team may be unproven, as may be both their product and market. Investors may not perceive the potential returns as commensurate with the risk, and investing in larger businesses with a proven track record may present a more attractive risk-reward relationship, thereby reducing the flow of funds to smaller, early stage investments.

5.12 The problems on the supply side of the market do not exist in isolation from problems on the demand side. The perceived higher risk associated with investing in early stage companies is exacerbated by lack of investment readiness displayed by some small businesses seeking equity. Poorly specified business plans further increase information problems by requiring investors to carry out even more expensive due diligence. As a result the factors that lead to a supply-side equity gap are made more acute. As well as impacting on investors' perceptions of risk and the costs of assessing this risk, the lack of investment readiness amongst small companies may simply result in too few viable business proposals being presented to potential investors. Raising the levels of equity investments in small businesses requires both market failures on the supply side and weaknesses on the demand side to be addressed, so that any increase in the willingness of investors to invest in small businesses is matched by an increase in viable and investment ready propositions.

5.13 In summary, the rationale for government action in finance markets is to improve their efficiency through targeted interventions designed to help market participants overcome

the structural features of the market that create barriers to accessing finance, barriers which can disproportionately affect new and existing small businesses. It is these barriers that can restrict the flow of both debt and equity finance to viable businesses, and limit the opportunities open to those who want to start and grow a business. By taking action to improve access to finance for small businesses, the aim is to ensure that businesses of all sizes benefit from well functioning capital markets, and increase the important contribution of new enterprise formation and business growth to the government's goal of increasing productivity, economic growth and prosperity for all.

Nature and extent of the problem: what does the evidence say?

Most existing small businesses face no difficulties in accessing the finance they require...

5.14 Survey evidence suggests that established small businesses are generally satisfied with the availability of external finance. The *Small Business Service Omnibus Survey (2002)* shows that around four out of five established small businesses who sought external finance had no difficulty in raising the finance that they needed. Evidence from other sources confirms that access to finance is not the key difficulty facing many businesses, and also suggests that general financing conditions for small businesses are improving. For example:

- There have been significant increases in the value of deposits held in small business bank accounts. Small business deposits now exceed bank lending by over £3 billion (*Bank of England, 2003*).
- A survey by the Small Business Research Trust showed that only 1 per cent of small businesses cited access to finance or the level of interest rates as their main problem (*Small Business Research Trust, 2003a*).
- Surveys conducted by the Centre for Business Research since 1991 show that the issue of finance as a constraint in meeting business objectives has declined in importance (*Cosh and Hughes, 2003*).

5.15 Whilst the general financing situation for existing business might be good, the evidence suggests that difficulties remain for a small minority of businesses. For example, the Small Firms

Loan Guarantee is designed to support debt financing for those small businesses that would otherwise be prevented from accessing debt finance by a lack of collateral. In addition, there remains a key group of small businesses which are not suited to debt finance, and which are currently not able to access the equity capital that they need to thrive.

Personal wealth appears to be a significant determinant of an individual's propensity to engage in enterprise...

5.16 Research shows that on average, businesses receive a total amount of £20,000 in start-up finance. Typically, £10,000 of this is from personal investments, £5,000 is from family and friends and the remainder is from external sources of finance such as venture capital and banks. Individuals in the upper third of the income distribution are substantially more likely to start-up a business. More generally, entrepreneurial activity is highest amongst employed males aged 35-44 with graduate qualifications and earnings in the highest third of the income distribution (*Harding, 2002*).

5.17 Some econometric studies further confirm the relationship between personal wealth and entrepreneurship. One study indicated that the rise in self-employment in the 1980s was driven, in large part, by rising personal wealth, especially in housing assets (*Robson, 1998*). Other studies have found that the receipt of a windfall payment (such as inheritance) had a positive relationship with entry to self-employment (*Taylor, 2001; Blanchard and Oswald, 1998*).

Some start-ups and existing small businesses face difficulties in accessing the debt finance they require...

5.18 Surveys of 'would be' entrepreneurs identified that one of the main barriers to entrepreneurial activity is obtaining finance (*SBS, 2002b*). For example a survey of the adult population in England showed that 50 per cent of 'would be entrepreneurs' reported obtaining finance as one of a number of barriers to starting a business. Around a quarter (24 per cent) of 'would be entrepreneurs' identified finance as one of the main barriers to starting a business (*SBS, 2002e*).

5.19 Evidence suggests that the most important criteria used in assessing the risk associated with a loan application from both start-ups and established businesses are: credit history, past account management; the applicant's willingness to

invest their own money in the business, particularly for start-ups; availability of security and evidence of repayment capacity based on a business plan (*Bank of England, 2002*).

5.20 The most recent evaluation of the government's Small Firms Loan Guarantee¹ (*KPMG, 1999*) showed that the key economic arguments put forward as the rationale for the programme are valid. Around 71 per cent of the businesses surveyed in the evaluation cited a lack of security and 20 per cent a lack of track record as the reason for needing to use the scheme.

5.21 Therefore entrepreneurs with little or no wealth, or access to family wealth, are likely to face particular difficulties accessing debt finance on the same terms as other businesses. Where individuals and established businesses have limited or no collateral this is likely to pose additional barriers to accessing finance for viable business propositions. The market failure in the debt market is therefore likely to underpin the observed higher probability amongst people with higher personal wealth to start a business.

Evidence suggests that barriers to debt finance are more pronounced for certain communities and groups...

5.22 Analysis of data on the characteristics of self-employed people in deprived areas suggests that potential entrepreneurs and businesses in these areas are more likely to have characteristics that could impact negatively on their ability to access bank finance (*Bank of England, 2002*). Compared with people in other areas, self-employed people in deprived areas are:

- Twice as likely not to have a personal bank account.
- Less likely to be able to produce business accounts.
- More likely to have lower incomes from full-time self-employment.
- Less likely to own their own home or to hold significant financial assets that may be offered as collateral or invested in the business. Even for those who do, the property or financial assets are typically of a lower value.

5.23 While the evidence shows that small businesses in deprived areas have similar access to loan facilities as businesses across Britain, bank loans to these businesses are typically offered at higher interest rate margins, are smaller in

¹ Under the Small Businesses Loan Guarantee, the government provides a guarantee to lenders where a small business has a viable proposition but is unable to offer adequate security against a conventional loan.

value and shorter in duration than comparable loans elsewhere (*Bank of England, 2002a*). There is some evidence to suggest that small businesses in deprived areas are, on average, a higher credit risk than elsewhere which may account for some or all of the difference in average margins between deprived and other areas. But the reasons for this are not clear, and cannot be fully explained by differences in age, size and sector (*Bank of England, 2003*).

5.24 Examination of VAT registration rates in England (excluding London) shows that nearly three quarters of the fifty most deprived local/unitary authorities appear in the bottom quartile of the data distribution (*SBS, 2003a*). Although VAT is an imperfect data source for measuring the level of business start-ups, the data suggests that the more deprived an area the less entrepreneurial activity appears to take place in that area. The data could be interpreted as a lower level of demand for business finance. But taken in conjunction with evidence that exists on the relatively strong levels of entrepreneurial aspiration amongst adults in deprived areas and that this is less likely to be translated in to action (*SBS, 2002c*), it is perhaps more likely that existing demand for debt finance is not being met as fully as in other areas.

5.25 Research has shown that there are no major differences between ethnic minority businesses' (EMB) and similar non-EMBs' access to finance at start-up from formal finance sources. However, African Caribbean Businesses face particular disadvantages, in terms of having less success in accessing bank loans and greater problems in providing collateral for bank loans, particularly for start-up funding (*Ram et al, 2002a*).

5.26 A large number of studies have suggested that it is more difficult for women to raise finance and that women encounter credibility problems when dealing with bankers. Other studies have refuted these results and the debate continues. However, the evidence does consistently show that irrespective of sector and location, women start in business with only one-third the amount of capital used by men. Building a business track record improves women's chances of successfully gaining external finance for business survival and growth. Nevertheless, men are more likely to use external financing for the on-going business, than are women (*Carter et al, 2001*).

Chart 5.1: Venture capital investment by stage

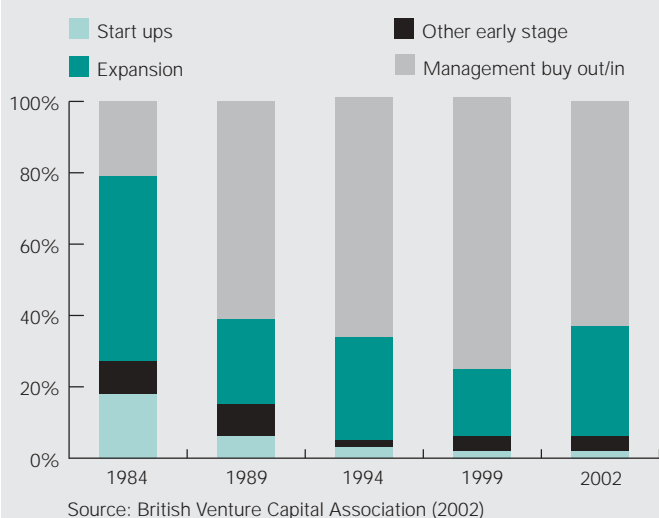
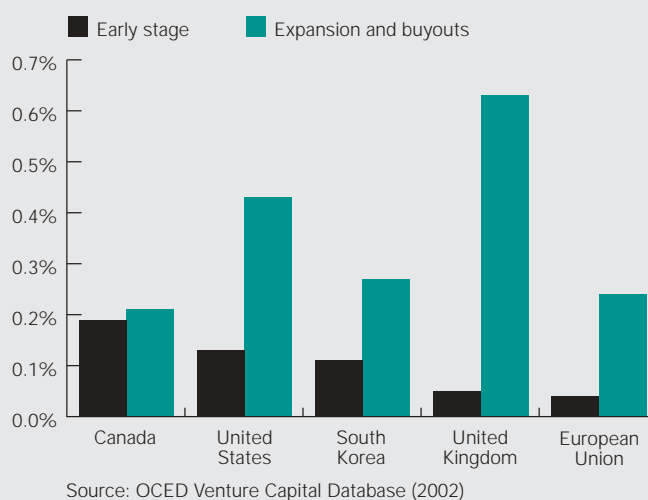


Chart 5.2: Venture capital by stage as proportion of GDP, 1998-2001



Small businesses find it difficult to obtain modest amounts of private equity finance....

5.27 Private equity investments in UK companies totalled £4,480m in 2002. However, only 2 per cent (£99m) of this equity investment was invested in businesses at the start-up stage (see Chart 5.1). The number of companies financed at this stage was 165, representing 13 per cent of the total number of UK companies invested in. Only a further 4 per cent of total private equity investment was invested in other early stage businesses. The number of businesses financed at this stage was 233 (*British Venture Capital Association, 2002*).

5.28 In recent years the supply of private equity finance has grown rapidly, and the UK has the largest private equity industry in Europe. The growth in private equity investment has been accompanied by a marked increase in the average value of individual investments. In the decade to 2002, total funds invested in UK businesses by members of the British Venture Capital Association more than trebled, but the number of businesses receiving investment has been virtually unchanged – rising from 1,147 to 1,196. Average investment size over the period increased from around £1 million to almost £4 million. Compared with other countries, the total private equity investment in early stage companies in the UK, as a proportion of GDP, is relatively low (see Chart 5.2).

5.29 The geographical distribution of venture capital investments is highly uneven. In 2002 the South East and London represented 61 per cent of total UK investments, and 44 per cent of all companies financed. The West Midlands was the next significant region, representing 13 per cent of the total investment and 7 per cent of all companies (*British Venture Capital Association, 2002*). There is evidence that suggests that even in areas of the country where funding sources are more numerous and accessible, demand for small amounts of equity outweighs supply. St John's Innovation Centre in Cambridge report that as many as 90 per cent of the businesses that had sought advice from its Equity Advisory Service were unable to attract equity investors, and it was estimated that around 45 per cent of these businesses were considered potentially viable.

5.30 Business angel investments are a source of equity finance for new and nascent businesses. However, business angels typically make relatively modest individual investments. A survey of business angels showed that three-quarters of business angels make investments of less than £50,000; and 40 per cent averaged less than £20,000 per investment (*C2 Ventures, 2003*).

Demand side factors contribute to the low levels of equity investments in small businesses...

5.31 In addition to evidence suggesting supply-side weaknesses in equity markets, there is evidence that demand side issues are also important. A number of factors are believed to operate on the demand side that can reduce the attractiveness of equity to small business, and also the attractiveness of the business proposal to investors. Research has highlighted some of the perceived key issues that deter small businesses from seeking private equity. Loss of control was the greatest fear expressed by those businesses surveyed, followed by loss of management freedom of action, target pressures from third parties, financing costs and lack of knowledge of external financiers (*Poutziouris et al, 1999*).

5.32 The small subset of high growth businesses that do actively seek out equity investments can be hampered by a lack of investment readiness which include factors such as limited awareness of the possibilities of different forms of risk finance, poor quality of businesses plans and poor presentation, which in turn can deter the market from investing in such businesses (*Mason and Harrison, 2001*).

Table 5.1: Improving access to finance success measures

Key measures	Source	Current position	Next update
➤ Reduce the number of small businesses reporting difficulties in obtaining finance for start-up and growth	SBS Small Business Survey	A new measure	Spring 2004 (2003 data)
➤ Increase the number of equity investments in start-up and early stage business	British Venture Capital Association	398 (2002)	July 2004 (2003 data)
➤ Increase investment in capital and innovation by small businesses	ONS Annual Business Inquiry	38% of net capital expenditure in 2001 was by Small Businesses	Oct 2004 (2002 data)

Measuring success: what are the plans to monitor and evaluate progress in improving access to finance?

5.33 Table 5.1 includes the main indicators which the Small Business Service is committed to monitoring and reporting on over time in assessing the extent to which government has been successful in improving access to finance. It shows the current baseline position for each measure of success, and indicates when further information will be available to assess progress.

5.34 To complement these key measures, the SBS will work with partners to collect data on a number of supporting measures. These are likely to include:

- Reduce the differences in the ease of access to finance between disadvantaged and other areas.
- Reduce the proportion of small businesses who cite lack of financial understanding as a barrier to growth.

5.35 In addition to monitoring success against these indicators, specific research and evaluation studies will be carried out to fill gaps in knowledge about what policy actions work and why, and to gather views from small businesses themselves on what more needs to be done. For example, more detailed and robust information is needed on access to finance, and uses of external finance for different sub groups of the small business population, including start-ups and fast growing businesses, ethnic minority, women owned businesses and businesses in deprived areas.

5.36 More up-to-date and detailed information is required on the 'equity gap', on the attitudes of investors and how these are changing with developments in the market, particularly as a result of current government interventions. Comprehensive research is also required to understand small businesses' attitudes to venture capital and issues around accessing it.

5.37 The Small Business Service has a range of evaluation studies in progress which will help to increase understanding of the impact of specific initiatives in improving the access to finance. These include the evaluation of the Regional Venture Capital Fund and Investment Readiness Pilots.

ENCOURAGING MORE ENTERPRISE IN DISADVANTAGED COMMUNITIES AND UNDER-REPRESENTED GROUPS

Introduction

6.1 The government's main objective in encouraging more enterprise in disadvantaged communities and under-represented groups is to increase the overall rate of business start-up and growth. This objective forms part of a wider government agenda to address social exclusion, whether this is caused by lack of access (disadvantage) or a lack of resources (deprivation).

6.2 The purpose of this section is twofold:

- To provide an overview of the evidence which explains why the government is putting in place a range of activities and actions to address this issue.
- To outline how the government will monitor and evaluate success in achieving its objective and highlight the main gaps in the evidence base that will need to be filled if policy is to be further developed and improved.

6.3 This section therefore complements Chapter Six of the *Government Action Plan for Small Business* by setting out the rationale for the government's actions and by giving a fuller account of the plans to track and monitor success.

Rationale: why is action required?

6.4 Despite sustained economic growth, low inflation and falling unemployment, marked differences in levels of enterprise between and within UK regions have persisted. Regions and sub-regions differ significantly in their ability to develop local enterprise; there are marked disparities in rates of male and female entrepreneurship; and there are substantial variations in levels of entrepreneurial activity between different minority groups.

6.5 If the potential economic and social benefits of enterprise are to be fully realised, it is vital that all individuals in society have equal opportunities to contribute to and gain from the benefits of a strong small business sector. It is widely accepted, however, that without at least some intervention, the market cannot always be relied upon to deliver the most efficient, or socially desirable outcomes.

6.6 The rationale for government activities to encourage more enterprise in disadvantaged communities and under-represented groups is underpinned by two inter-related government objectives:

- To correct for specific market failures.
- To ensure equality of opportunity.

6.7 Of the 9.6 million people of working age living in deprived wards, over 2.5 million are not in work and claiming some form of benefit, and even more are in low paid jobs. Enterprise may offer a real opportunity for meaningful and rewarding employment for many. However, the challenges and barriers to starting and succeeding in business, discussed in more depth in other sections of this evidence base, tend to be heightened for particular groups or areas. For many, this is an extension of wider labour market inequalities. For example, a more fragmented career history may lead to problems in accessing start-up finance and acquiring the skills needed to set up in business.

6.8 A range of factors can interact to reinforce and reproduce a position of disadvantage in relation to the labour market, including self-employment, particularly for those in deprived areas. Lower levels of educational attainment or vocational skills may be associated with under-performing schools in such areas. Relatively high levels of unemployment and low paid employment will often result in reduced labour mobility and

fewer opportunities to own property and build collateral for a business start-up. This acts to reduce the potential for business growth and investment which in turn can serve to maintain and increase deprivation in an area. Higher crime and poorer health are among a range of other negative consequences that also serve to reinforce and reproduce disadvantage.

6.9 Government action to offset market failures, which takes account of the particular challenges faced by some communities, can work to increase economic benefits and both alleviate social problems and reduce their associated costs to society as a whole. A thriving small business sector can help disadvantaged communities develop a more diverse economic base, giving them more resilience to economic change and improving the employment opportunities and household incomes for many.

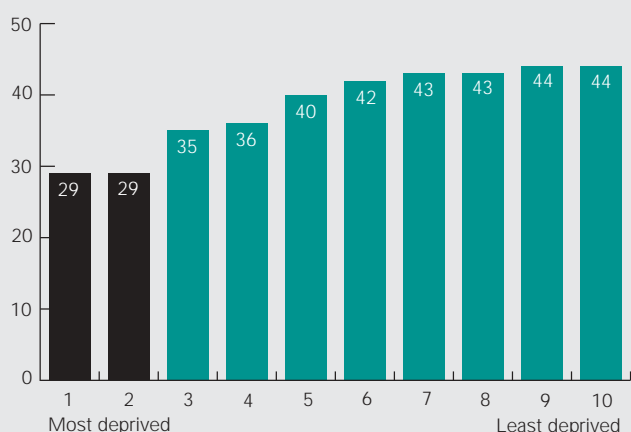
6.10 Beyond this, a buoyant small business sector can also encourage social cohesion by enabling people to contribute to and share in the development of their own communities. It also allows them to gain transferable new skills and experience that will enhance their prospects and subsequent employment opportunities.

Nature and extent of the problem: what does the evidence say?

Patterns of disadvantage, deprivation and under-representation: the reality of unrealised potential for enterprise...

6.11 The extent to which people in the UK engage in enterprise activity varies both geographically and between different groups of people. The reasons why some communities and some groups are under-represented include

Chart 6.1: VAT registration rates¹ by deprivation decile, English wards, 2001



¹ VAT registrations per 10,000 adults

Source: SBS, based on a special analysis from the ONS Inter Departmental Business Register, ONS mid-98 population estimates, and the 2000 Index of Multiple Deprivation. Wards which have undergone boundary changes since 1998 are excluded from the chart.

both culturally derived differences in preferences and attitudes to risk and, importantly, inequalities in the resources and opportunities available, (see for example *Bramley, 2002*).

6.12 People living in deprived communities and those from disadvantaged groups face all of the general challenges associated with starting and growing a business. Over and above these general challenges, however, many people encounter further difficulties specific to where they live or their background. These can and do significantly limit both their aspirations and their potential to succeed in starting and growing a business.

Geographies of disadvantage, deprivation and enterprise are complex and multi-layered...

6.13 Business start-up rates vary both between and within regions. For example, VAT registration statistics for 2002 show that there were 57 new VAT registrations per 10,000 residents aged 16 or over in London and 44 in the South East, but only 31 in Yorkshire and Humber and just 21 in the North East (*SBS, 2003a*).

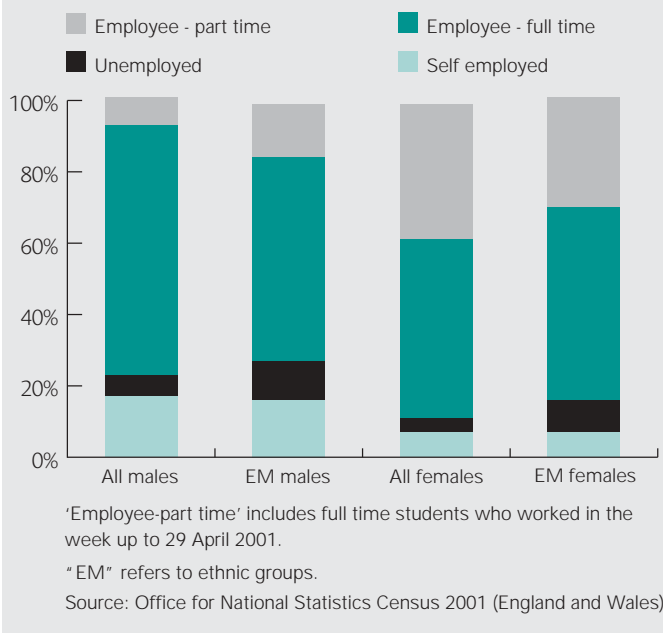
6.14 There is clear evidence that entrepreneurial activity is lowest in the most deprived local authority wards - most of which are located in urban areas. Chart 6.1 relates VAT registrations to levels of deprivation. There is a clear trend for registration rates to fall as the level of deprivation increases. Excluding London, the 20 per cent most deprived local authority districts in England had 27 start-ups per 10,000 residents, compared to 51 in the least deprived districts. Similarly, 70 of the 88 Neighbourhood Renewal Fund local authority areas in England have VAT registration rates below the national average (*SBS, 2003b*).

6.15 Although there is a clear statistical relationship between deprivation and levels of enterprise activity, the causes and consequences of lower levels of enterprise in particular areas are varied and complex. The specific problems faced by, for example, run-down inner cities are not the same as those faced by former coal, steel or textile areas or by remote coastal towns (*Westall, et al., 2000*). There are also examples of localities where enterprise rates are high, despite apparent deprivation. For example, in some London wards high VAT registration rates and deprivation coincide (*North et al., 2003*).

6.16 Although it tends to be most obvious in urban areas, deprivation and disadvantage also occur in rural areas. Rural England actually has a higher number of VAT registered businesses per 10,000 population (411) than urban (380), and higher proportions of self-employment, particularly among women. However, the situation is uneven. There are particular problems in some remote peripheral areas and pockets of deprivation elsewhere (*The Countryside Agency, 2003; Phelps et al., 2001*).

6.17 Many farming and agriculturally related businesses have faced particular problems in recent years, but these businesses account for only 15 per cent of all businesses in rural areas. The most common forms of business in rural areas are real estate, wholesale and retail. Established businesses and would-be entrepreneurs are affected by a number of problems that are particularly associated with remoteness, low population densities and limited local markets. For example, rural areas generally have smaller businesses (85 per cent have 10 employees or less); economic activity tends to be concentrated in particular sectors; major national and international markets can be difficult and costly to access; the small size and composition of rural labour markets is often

Chart 6.2: Economic activity by gender and ethnic group, England and Wales, 2001



problematic; local business support services can be limited; and, rural economies are often vulnerable to unique crises, for example foot & mouth (*The Countryside Agency, 2003; Keeble 2000*).

Women are under-represented in entrepreneurial activity...

6.18 Women in the UK are significantly less likely to start and own a business than men. Chart 6.2 illustrates figures for England and Wales. The Spring 2003 LFS shows that although women account for 44 per cent of the economically active population in the UK, only 27 per cent of self-employed adults are women.

6.19 Countries exhibiting the highest rates of enterprise activity are typically characterised by a more widespread involvement of women in entrepreneurial activities. The proportion of women engaging in enterprise in the UK is lower than that in some other developed economies. For example, although women's participation in self-employment in the UK

(27 per cent) is in line with most comparable European Countries, it is considerably lower than in the USA where their share of business ownership is estimated to be 38 per cent (*Harding, 2002*).

6.20 Women tend to believe they are less capable of running a business than men and are less likely to consider starting one – 15 per cent of men are 'would-be entrepreneurs' compared with nine per cent of women. Despite these differences in perceptions and practice, gender does not affect the success or failure of a business. However, women are more likely to be disadvantaged in terms of factors that influence business success (*SBS, 2002b*).

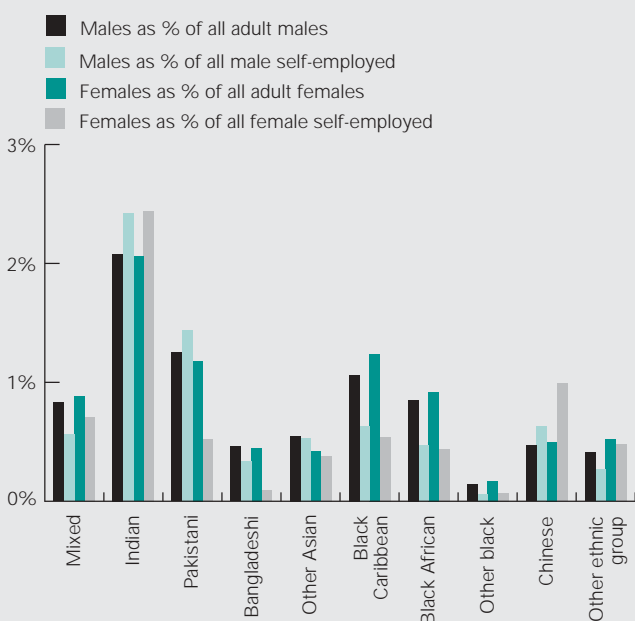
6.21 In practice, difficulties securing access to finance tend to be a particular issue for women. Women are more likely than men to rely on their own savings for start-up funding and less likely to use external financing for ongoing business survival and growth (*Carter and Rosa, 1998*). Women often lack the track record that lenders seek in terms of proven management skills and have fewer personal financial resources. They also have reduced access to financial or advisory support which is typically articulated through male dominated networks (*Carter et al., 2001*).

6.22 Increasing women's enterprise has been identified as a key way to increase the size and strength of the small business sector (*Harding, 2000*). However, if this potential is to be realised 'demand side' issues, including those related to how women relate to business role models, will need to be more fully understood.

Patterns of entrepreneurial activity vary significantly between ethnic groups...

6.23 The ethnic minority population as a whole engages in enterprise and self-employment at rates similar to the white population. However, there are substantial differences in entrepreneurial activity between different minority groups. For example, 22 per cent of Pakistani people currently in employment are self-employed, compared to eight per cent of black people.

Chart 6.3: Breakdown of adult population and self-employed population for minority ethnic groups, males and females, England and Wales, 2001



Source: Office for National Statistics, Census 2001, England and Wales only

6.24 Chart 6.3, which excludes data for the 93 per cent of the total England and Wales population classified as White, shows the numbers in each ethnic group as a proportion of the total adult population (for men and women separately) and compares this with their share of total self-employment. For example, Indian women represent approximately 2 per cent of all women over the age of 16, but they represent approximately 2.5 per cent of all women who are self employed. The data shows a number of significant differences. For example, Indian and Chinese men and women are relatively over-represented in self-employment, compared to their representation in the population as a whole. However, Black, mixed groups and Bangladeshis of both genders are relatively under-represented.

6.25 The evidence suggests that these differences are not simply the product of culturally defined preferences for particular forms of employment. For example, relatively higher proportions of working age people in the Asian and Afro-Caribbean groups are interested in starting a business, but the

apparent interest in the Afro-Caribbean community, and in the mixed group, is much less likely to be converted in to a business start-up (SBS, 2002b; Boorah and Hart, 1999).

Barriers to enterprise are more intense for some groups and in some localities...

6.26 There is considerable evidence that problems in gaining access to appropriate finance is a key barrier to would be entrepreneurs generally, and, as already raised in relation to women, a particular barrier to people from particular groups or localities.

6.27 For example, analysis of data on self-employed people in deprived areas suggests that potential entrepreneurs and businesses are more likely than the general population to have problems accessing bank finance (Bank of England, 2002). Compared to people in other areas, self-employed people in deprived areas are:

- Twice as likely not to have a personal bank account.
- Less likely to be able to produce business accounts.
- More likely to have lower incomes from full-time self-employment.
- Less likely to own their own home or to hold significant financial assets.

6.28 Businesses in deprived areas are typically offered smaller value and shorter duration loans at higher interest rate margins than comparable loans elsewhere (Bank of England, 2003).

6.29 Ethnic minority groups tend to differ quite markedly in the ways they access finance. Compared with white-owned firms, Chinese-owned businesses have a higher propensity to access start-up finance from banks, while African-Caribbean businesses are significantly less likely to do so. South Asian-owned firms have a similar propensity to white-owned firms (Ram, Smallbone and Deakins, 2002a).

6.30 The success with which an individual can start and run a business depends in large part on the skills they have. Business and management skills are particularly important to entrepreneurs (Hughes, 1998). In practice, there are marked geographical, socio-economic and ethnic differences in skill levels, educational achievement and in access to training, that can and do act as a barrier to entrepreneurial activity.

6.31 Barriers to entrepreneurship that particularly affect women include a lack of accessible or affordable childcare, the need for flexibility to support elderly or ill relatives and restricted eligibility for support in the transition from benefits to self-employment (*Marlow, 2003*).

6.32 There is some research relating different rates in starting up a business to attitudes, or entrepreneurial propensities, prevalent in different groups (*Bridge et al, 1998; Basu and Goswami, 1999*). In the case of women, their lower rate of entrepreneurship has been related to lower self-confidence or risk aversion (although such findings have been challenged, see for example *Carter, 2001*). It is apparent, however, that some communities or groups prefer advice and networks involving people from similar backgrounds. Research also suggests that barriers to enterprise can be perceived as being greater than they actually are by some groups.

6.33 One particular issue that affects various groups is a concentration of enterprise activity within particular sectors or within particular communities. For example, women entrepreneurs are over-represented in the services sector, where half the businesses are started by women. Similarly, certain ethnic groups are concentrated in particular sectors: for example 71 per cent of Chinese people work in the distribution, hotel and restaurant sector compared with an overall figure of 18 per cent (*Ram and Smallbone, 2001*).

6.34 Many ethnic minority businesses rely completely or heavily on co-ethnic minority markets – they supply and trade with businesses owned by people from the same ethnic group. This concentration of activity may offer a clear focus for business support activity. However, it can also be problematic where it limits the potential for growth amongst small businesses and creates vulnerability as a result of over-dependence on specific markets (*Ram and Smallbone, 2001*).

Enterprise can be a route out of disadvantage and deprivation but we need a better understanding of what works...

6.35 One debate within the recent academic literature relates to whether under-represented groups should be supported through mainstream or specific initiatives (see for example *Chrisman et al., 2002*). There is a body of evidence that highlights the specific problems and distinctive

needs of various disadvantaged groups and advocates the case for selective and targeted support designed to complement generic offerings (see for example *Mukhtar, 1998; Ram et al. 2002*). Other authors, including for example *Fadahnsi et al. (2000)*, advocate the use of more community based support networks.

6.36 A range of innovative solutions is currently being tested to address labour market inequalities and wider social exclusion issues through enterprise. For example, evidence from the USA suggests that inner city areas have some important competitive advantages, such as lower rents and wage costs, and that these advantages can stimulate new enterprises and small business growth (*Porter, 1995*). An ongoing evaluation of City Growth Strategy Pilots will establish whether this is the case in a UK setting. An evaluation of the Phoenix Development Fund¹ should highlight transferable good practice from a wide range of innovative projects offering specialist business support in disadvantaged communities.

6.37 There is an increasing body of evidence suggesting that enterprise can make a significant contribution to economic and social prosperity. For example, the Inner City 100 Index² demonstrates that between 1996 and 2000, the 100 companies listed created more than 3,500 additional jobs, and average turnover grew by 274 per cent. Research has also shown positive relationships between enterprise and employment and positive effects from area regeneration initiatives (see for example *North et al., 2003*).

6.38 Social enterprises, including for example those that aim to help ex-offenders into self-employment or to promote enterprise as an option for people with mental health problems, can make a contribution to local economic development in addition to their primary social outcomes. The evidence on how effectively this occurs in practice is, however, mixed (*North et al., 2003*).

¹ The Phoenix Fund, launched in November 1999 is designed to encourage entrepreneurship in disadvantaged areas through a range of initiatives including Community Development Finance Initiatives, a network of volunteer mentors and City Growth Strategies.

² <http://www.theinnercity100.org/>

Measuring success: what are the plans to monitor and evaluate progress in encouraging more enterprise in disadvantaged communities and under-represented groups?

6.39 There are a large number of indicators that could be used to monitor and track success in addressing enterprise inequalities. Table 6.1 includes the main indicators that the SBS is committed to monitoring and reporting on over time in assessing the extent to which policies and initiatives have been successful in addressing this agenda. It shows the current baseline position for each measure of success, and indicates when further information will be available to assess progress.

6.40 To complement these key measures, the SBS will work with partners to collect data on a number of supporting measures. These are likely to include:

- Increase the proportion of people in disadvantaged areas and amongst under-represented groups considering going into business.
- Increase the number of social enterprises.
- Increase the proportion of small businesses and individuals in deprived areas involved in enterprise awareness raising activities.

- Increase the take-up of business support across areas and communities (including all rural and urban areas).
- Reduce differences in the ease of access to finance between disadvantaged and other areas.

6.41 In addition to monitoring success against these indicators, specific research projects will be carried out to fill gaps in knowledge about why women, particular ethnic groups and other disadvantaged groups make the choices they do. Crucially, research will gather views from small businesses themselves on what more needs to be done.

6.42 Gaps in the evidence base are particularly acute in this area. For example, a review in 2003 found evidence on business-led regeneration to be 'fragmented and of variable quality; limited in the extent to which it makes direct reference to deprived areas; dated in that it relates to policies that have now finished' (*North et al., 2001*).

6.43 In recognition of these knowledge gaps, the SBS and other government departments have already begun an extensive programme of evaluation designed to draw out key lessons for informing future strategy development. For example:

Table 6.1: Main progress indicators

Key measures	Source	Current position	Next update
➤ Reduce the gap between start-up rates in the most and least deprived areas	ONS Inter Departmental Business Register	30:46 VAT registrations per 10,000 adults – a gap of 34% (2001)	Jan 2004 (2002 data)
➤ Reduce the gap between the self-employment rates of black (and mixed) and all groups	ONS Labour Force Survey	All groups: 11% Black/mixed groups: 7% (Spring 2003)	Aug 2004 (Spring 2004 data)
➤ Reduce the gap between male and female self-employment rates	ONS Labour Force Survey	Men: 15% Women: 7% (Spring 2003)	Aug 2004 (Spring 2004 data)

- The SBS evaluation of the Phoenix Development Fund will report in summer 2004.
- An evaluation of the City Growth Strategy Pilots will be published in spring 2004.
- An evaluation of Community Development Finance Institutions (supported by SBS) began in the summer of 2003.
- ODPM/SBS/HM Treasury research will report early in 2004 on the relationship between business and regeneration in a selection of deprived ward clusters.
- Another SBS study, to report in spring 2004, will analyse the link between business growth and job creation and displacement.
- Social Exclusion Unit (ODPM) research, to report in 2004, includes consideration of what more could be done to help unemployed people to become self-employed.
- A booster sample in the SBS Small Business Survey should allow a more refined analysis of the issues facing different ethnic groups.

6.44 Further evaluations will be considered, including the potential to evaluate the interaction of a number of government initiatives, including Enterprise Areas, targeted at deprived areas.

IMPROVING SMALL BUSINESSES' EXPERIENCE OF GOVERNMENT SERVICES

Introduction

7.1 The Small Business Service (SBS) defines small businesses' experience of government services as any interaction they may experience with government, including tax and regulatory transactions and guidance, business support, selling to government, and consultations. The government's main objective in improving small businesses' experience of government services is to make services more coherent, accessible and of better quality. It proposes to do this through:

- SBS working with other government departments to simplify and develop a more coherent approach to service design and delivery.
- Assessing and increasing small business satisfaction with government services, particularly business support services.
- Putting the customer first in the delivery of government services by ensuring that services are tailored more closely to small businesses' needs.

7.2 This evidence section complements Chapter 7 of the *Government Action Plan for Small Business* by setting out in more depth the rationale for the new and existing government actions and by providing a fuller account of the plans to track and monitor their progress. The section:

- Explains why government is putting in place a range of activities designed to (a) establish what current customer experiences are, and (b) consistently improve the quality of government interactions with customers.
- Outlines how the government will monitor and evaluate success in achieving its objectives and highlight the gaps in the evidence base that will need to be addressed if policy and delivery are to be further improved.

Rationale: why is action required?

7.3 Public services to small businesses are accessed and delivered through all tiers of government, nationally, regionally and locally, through direct departmental delivery, through sub-contracted delivery partners, face-to-face, by paper, telephone and online. While there are exceptions, many small business customers see services as fragmented, confusing and difficult to access and not particularly customer focused.

7.4 The government spends around £2.5 billion (excluding tax and Common Agricultural Policy payments) a year on services to small businesses (*DTI, 2002b*). The rationale for action is based on the simple proposition that a more customer-focused, joined-up approach to delivering government services to small businesses will significantly improve service delivery in the following ways:

- Improved targeting and take up of these services.
- Reduced overheads associated with multiple contracting and reporting arrangements.
- Reduction and, where possible, elimination of overlaps in service provision.
- Improved business perceptions of government and the burdens it places on them.

7.5 Improvements in service delivery will increase the cost effectiveness of government actions designed to offset those market failures that act as barriers to business success and, through this, will increase the impact of these actions on the performance of the small business sector.

Extent of the Problem: what does the evidence say?

Government delivers many services to small business...

7.6 The *Cross Cutting Review of Government Services for Small Business* divided government services into those that are available to all small businesses, regardless of their ambitions, sector, size, and location and those that are targeted at particular groups. Universal services can reach up to 100 per cent of small businesses and are estimated to be responsible for expenditure of £740m. Targeted services have an estimated reach of 10 per cent of small businesses, but account for £1800m of government spending across departments.

...in a variety of ways

7.7 Publicly funded services continue to be delivered through a variety of channels including face-to-face, over the telephone, by post, by e-mail and over the internet. Efforts to improve customer experience of government services will need to focus on the specific characteristics associated with each type of delivery channel. At present there is a lack of clear evidence about how customers view different channels. There are also gaps in the evidence about satisfaction with particular types of services.

Customers are still confused...

7.8 The *Cross Cutting Review*, subsequent work on the business.gov programme and regular SBS surveys have identified a number of concerns and expectations arising from small businesses' experience of government services. There is still a perception that government does not understand business and that some services remain too complex and bureaucratic to access. A range of informal SBS consultations

with small businesses and government departments undertaken during preparation of the Action Plan produced the following messages about small businesses experience of government services:

- 'I don't know what the regulations require of me, or who to ask'.
- 'When I ask them, they don't know'.
- 'It's all too complicated and it takes too long'.
- 'It turns out I'm not eligible for help (but my competitor down the road is)'.
- 'When I get it...its not what I want anyway'.

7.9 These messages suggest that some government services are fragmented, confusing, and difficult to access. This can act as a barrier to effective take up and compliance and lead to inefficiencies in delivery which can increase costs.

...and government needs to understand why

7.10 In order to raise the quality of government services, government needs to understand better what is meant by the term 'customer experience'. Identifying which actions can be taken to improve that experience will flow from this better understanding. Research on business support services (*CURDS, 2002*) suggested that variations in customer experiences are shaped by both customers' expectations and by their experience in accessing and using services in the past.

Government is making greater efforts to improve standards...

7.11 Efforts are underway across government to improve customer experience of service delivery (*HM Customs and Excise 2003; Inland Revenue 2003*). For example, the Inland Revenue uses the Charter Mark scheme – part of the Modernising Government programme – as one way to improve customer satisfaction, with various offices around the country being awarded the Charter Mark, some for successive years. Charter Mark is the government's award scheme for excellent service to the customer – for public services that go that extra mile. They are given for continuous improvement, and more stringent standards are set each time an organisation applies to renew its award. By achieving successive awards, continuous improvement is demonstrated.

7.12 HM Customs and Excise uses national standards as a means of measuring and improving experience of their services. The *Business Needs Survey (HM Customs and Excise, 1999)* found that 88 per cent of businesses were satisfied with the services provided by HM Customs and Excise. In addition, 20 per cent felt that the service had improved compared to the previous three years. Underlying these figures are specific measures, with targets, for aspects of service delivery that aim to reflect the needs of customers and are reviewed every year. They include speed and efficiency of response to customers in areas such as telephone calls, messages left on answer phones and all types of correspondence.

...and departments are talking to each other more than before

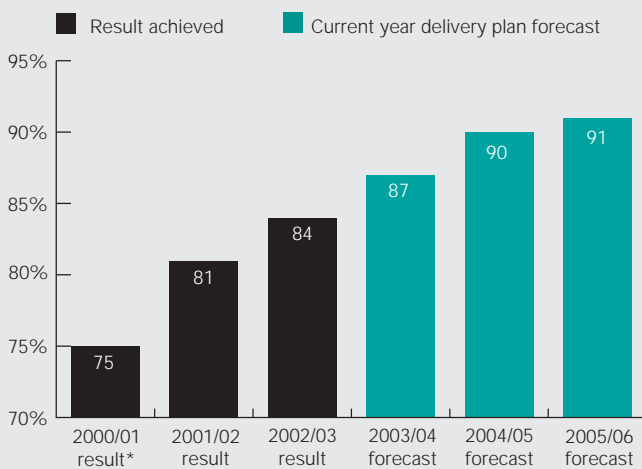
7.13 Each department and agency has teams responsible for monitoring, evaluating and measuring both performance and satisfaction. At present the approaches used are inconsistent in several respects and are not based on a common view of customer experience from the viewpoint of the small business. There is now more joint working across departments designed to increase understanding of these different approaches and to improve coherence, but more needs to be done.

Improvements in delivery are being reflected in increased customer satisfaction...

7.14 *Bennett and Robson (2003)* found that satisfaction with Business Link Operator services amongst manufacturing and business service sector businesses has increased to 81.5 per cent in 2002 from 69.3 per cent in 1997. This is consistent with SBS performance monitoring data, which currently show a satisfaction level of 85.3 per cent overall (Q2, 2003/04) (see Chart 7.1). Both these pieces of evidence suggest that SBS clients are largely positive about their overall experience.

7.15 *Bennett and Robson* found that satisfaction with central government services for small business is generally comparable to other public sector services (77.4 per cent).

Chart 7.1: Business Link Operator Customer Satisfaction



*2000/01 result based on MORI survey prior to introduction of independent Business Link Operator Customer Satisfaction Surveys

Source: BLO Management Information submissions and BLO Delivery Plans 2003/04

...with penetration of some government services increasing too...

7.16 As well as increases in customer satisfaction with Business Link Operators, the proportion of businesses using their services has also increased. SBS statistics show that penetration of Business Link Operator services¹ is currently 18.5 per cent (see Chart 3.2).

7.17 Other research has reported higher figures. For example, *Bennett and Robson (2003)* found that for the businesses they surveyed Business Link Operators were the most widely used public sector service with 32.6 per cent of businesses using them. The main reasons for the difference between these figures relate to the way in which penetration or use is measured and the different sampling methods (for example *Bennett and Robson* related only to businesses in the manufacturing and business service sectors).

¹ Expressed as a percentage of the total Inter-Departmental Business Register for all businesses and pre-starts that have used Business Link Operators.

But government needs to do more to understand what customers need...

7.18 *Bennett and Robson* suggested that there are few differences between type of business in terms of impact or satisfaction level, indicating that the nature of the particular problem and the attitudes and skills of advisers are the main determinants of client outcomes. Evidence from work on customer experience in Canada (*Institute for Citizen Centred Service, 2003*) also suggests that staff attitude and experience are important aspects of satisfaction. It suggests five key drivers of customer satisfaction:

- Fair treatment.
- Knowledgeable, competent staff.
- Positive and helpful staff attitude.
- Timeliness of service delivery.
- A successful outcome.

Government needs to aim high...

7.19 Small businesses expect government services to be provided in an impartial, accountable and honest manner. These attributes need to be considered in each of the three key areas that comprise overall customer experience:

- How was the experience of the channel used to access the service? For example, was the telephone answered quickly, professionally and courteously?
- How was the interaction with the service provider? For example, was the person contacted helpful, knowledgeable and reliable?
- Was the expected outcome achieved? For example, was the customer left delighted, satisfied or disappointed with the end result, and was their enquiry followed through to a conclusion?

...and be passionate about understanding customers' needs

7.20 Small businesses generally use the delivery channel that is most appropriate to their particular need and circumstances. Providing a clear view about the level of customer satisfaction can be difficult when information about the experience, interaction and outcome are encompassed in one piece of evidence. For example, SBS research (*SBS, 2001*) found that 84 per cent of those that used government website services

Table 7.1: Action plan indicators for measuring small business experience of government improvements

Key measures	Source	Current position	Next update
➤ Increase the number of small businesses saying they are satisfied with government services	Under consideration, including SBS Small Business Survey	Measure(s) under consideration/development.	Unknown at this time. SBS data for 2003 available Spring 2004.
➤ Increase Business Link Operator market penetration and customer satisfaction	Business Link Operator management information submissions	Penetration: 18.5% (Apr-Sept 03) Satisfaction: 85% (Apr-Sept 03)	January 2004 (2003/04, Q3 data) June 2004 (2003/04, annual data)
➤ Increase small businesses' perceptions that their concerns are being taken into account by government	SBS Small Business Survey	A new measure	Spring 2004 (2003 data)

thought them helpful. This tells us that customers were very satisfied but does not tell us why or allow us to focus on where the overall experience could be further improved.

7.21 The international benchmarking survey (DTI, 2002c) provides another example of this. It found that across all countries the proportion of businesses interacting online with government appears to have fallen by some considerable margin compared with the last survey. 50 per cent of UK respondents said they went online to find out about local or central government services (Sweden 73 per cent, Japan 21 per cent), down from 62 per cent in 2001. This evidence also does not tell us why this happened. These examples point to a need to undertake research that asks enough in-depth questions about customer experience to be of value in improving the service delivery process.

Government needs to build on success...

7.22 Given high levels of satisfaction with some government services, it is important to be clear about exactly which areas of service provision it is hoped can be improved upon.

To achieve this, SBS is commissioning a major research project to develop further the work undertaken in the *Cross Cutting Review of Government Services for Small Business*. This project will map government spend on services to small business and will inform government about where improvements to service delivery might be achieved.

Measuring success: what are the plans to monitor and evaluate progress in improving small businesses' experience of government services?

7.23 Table 7.1 includes the main indicators which the Small Business Service is committed to monitoring and reporting on over time in assessing the extent to which government has been successful in improving small businesses' experience of government services. It shows the current baseline position for each measure of success, and indicates when further information will be available to assess progress.

7.24 In addition to these key measures, the SBS will work with partners to collect data on a number of supporting measures. These are likely to include:

- Increase Business Link brand awareness.
- Increase usage and satisfaction with business.gov.

Gaps in the Evidence – there is still much to do...

7.25 In addition to monitoring success against these indicators, specific research and evaluation studies will be carried out to fill gaps in knowledge about what policy actions work and why and to gather views from small businesses themselves on what more needs to be done.

7.26 Work is already underway on strengthening the evidence base. SBS is supporting the development of the UK Business Advisor Barometer. This survey tool, along with the UK Business Barometer, will be used to research customer experience during 2004. In addition, SBS is also undertaking research to map and analyse how government expenditure on services for small businesses translates into customer experiences, in order to understand better, and to improve, service delivery.

7.27 These pieces of work will be the starting point for strengthening the evidence base on this issue, but further work is required. This evidence review points to a need to:

- Devote time and resource to establishing where evidence exists (such as in research already undertaken by government departments, agencies, academics and consultants).
- Undertake new research, probably jointly commissioned by several government departments, to obtain a fuller understanding of how to define experience of government and what the main areas of improvement should be.
- Focus efforts to improve customer experience of government services on the specific characteristics associated with each type of delivery channel. At present there is a lack of clear evidence about how customers view different channels.
- Undertake research that asks sufficiently in-depth questions about customer experience to be of value in improving the service delivery process.

DEVELOPING BETTER REGULATION AND POLICY

Introduction

8.1 The government's main objective in developing better regulation and policy is to reduce the regulatory burden on small businesses, particularly those which act as a barrier to start-up and growth, and improve the ability of small businesses to sell to the public sector.

8.2 The purpose of this section is twofold:

- To provide an overview of the evidence which explains why the government is putting in place a range of activities and actions to improve regulation and policy affecting small business.
- To outline how the government will monitor and evaluate success in achieving its objective and highlight the main gaps in the evidence base that will need to be filled if policy is to be further developed and improved.

8.3 This section therefore complements Chapter 8 of the *Government Action Plan for Small Business* by setting out, in more depth, the rationale for the government's new and existing actions and by giving a fuller account of the plans to track and monitor their success.

Rationale: why is action required?

8.4 Most people accept that regulation has a crucial part to play in modern society by correcting market failures, promoting fairness and ensuring public safety. Effective regulation confers many positive benefits on businesses, employees and customers through its role in helping to:

- Boost productivity by promoting competition and by improving employee welfare.

- Protect individuals and vulnerable groups from exploitation and risks to their health.
- Stimulate innovation and investment, for example through patent regulation and regulation linked to research and development.

8.5 But economic theory also predicts that regulation can stifle enterprise activity by removing incentives and by imposing costs, delays and uncertainties on the business. The costs of complying with legislation and controls associated with, for example, protecting the environment, health and safety, employment, planning permission, renting premises, and registering for VAT, can bear disproportionately on smaller businesses. Not only does this constrain development by increasing relative costs and reducing the ability of small businesses to compete but it can also divert resources from training, innovation and management in a way that is not common in larger organisations.

8.6 The nature of the taxation and welfare systems can also create disincentives to the establishment and development of small businesses by reducing incentives and artificially depressing the rewards to risk taking. For example, the benefit system might act to discourage unemployed people from starting their own business. The favourable tax treatment given to investments in ISAs and pensions, in relation to informal investments in small businesses, is an example of how the fiscal environment in which the small business operates can act as a barrier to start-up and growth by contributing to distortions in the financial markets.

8.7 These market failures can be compounded by a lack of information and uncertainty by small businesses about what government is asking of them or how they can meet those requirements. The cost of gathering the information required to comply with regulation and tax-related obligations can again

fall disproportionately on small businesses, since the time and expenditure required to learn about what is required is often fixed, regardless of business size.

8.8 Many of the costs of regulation and taxation on small business are unavoidable in the sense that they represent the price which society has to pay for promoting fairness and public safety and achieving other government objectives in relation, for example, to education or health care. However, poorly conceived or implemented regulation or taxes intensify market failure by imposing unnecessary costs on small business.

8.9 In addition, it is often possible to take steps to reduce the disproportionate impact that regulation and taxes have on small business without reducing the effectiveness of regulation, or the efficiency of the tax regime in raising revenue. Such steps include communicating regulatory and tax-related requirements more effectively, providing small businesses with improved advice and support to help them meet their obligations, and ensuring proportionate risk based enforcement.

8.10 A wide variety of public policies other than regulation have the potential to impact on the business environment that affects the ability of small business to start-up and grow. These include, for example, government policy relating to such diverse areas as crime, pensions, insurance, childcare and training. Evidence relating to some of these policy areas is addressed in other sections.

8.11 In particular, the procurement practices of government departments themselves can have a direct and significant impact on small businesses. Centralised purchasing, characterised, for example, by conservatism in the choice of supplier, and complex tendering procedures, can lead to market failures in competitive forces and the under-

representation of small businesses in the public sector procurement market.

8.12 The rationale for government action in all the non-regulatory policy areas, such as government procurement policy, is identical to the rationale for better regulation, namely to improve the environment in which small business operates by offsetting those market failures which act as a brake on enterprise activity.

Nature and Extent of the Problem: what does the evidence say?

Unnecessary and poorly implemented regulation can reduce productivity and employment growth...

8.13 A number of research studies summarised in Enterprise in Britain (*HM Treasury, 2002a*) confirm the rationale for better regulation by highlighting the consequences of market failure caused by unnecessary, overly complex and poorly delivered regulation. New business start-up rates are generally lower in countries with over-burdensome regulation and administrative obstacles and this can reduce productivity in the wider economy.

8.14 The cumulative effect of regulation slows down business responsiveness, diverts resources away from productive investment, hampers entry into markets, and reduces innovation. Countries where there are high costs associated with starting a new business generally have lower employment rates. Strict product market regulation is also likely to be detrimental to productivity performance.

8.15 A recent *World Bank* study (2003) of 130 countries also indicates that heavier regulation is associated with greater inefficiency in the public sector, higher rates of unemployment, increased corruption and a larger informal economy.

In comparison with many countries, the UK is a lightly regulated economy...

8.16 Chapter eight in the Action Plan illustrates that the government has already made significant progress in encouraging better regulation and policy. This progress has been reflected in recent international comparisons which show that the UK is a relatively lightly regulated economy. For example:

■ The UK ranked lowest in the index recently compiled by the *OECD (2002)* to illustrate barriers to entrepreneurship, which takes into account such factors as administrative burdens on start-up and the degree to which administrative systems are difficult to understand.

■ A study of legislation, taxation and regulation affecting established businesses in the USA and 9 EU countries concluded for the second consecutive year that the UK provides the most entrepreneurial friendly environment (*Anderson/Growth Plus, 2002*).

But a high proportion of small businesses are dissatisfied with the legislative environment in which they work and many think it is getting worse...

8.17 A survey of 18,500 businesses by the *Federation of Small Businesses (2002)* highlighted that around 80 per cent of small businesses were dissatisfied with either the volume or the complexity of the legislation. The *Small Business Research Trust Survey (2003a)* also found that around 80 per cent of small businesses with 20 or more employees believed that there is too much regulation and paperwork related to employees.

8.18 Not only are many small businesses dissatisfied with the regulatory environment, but a significant minority of them also believe that there has been an increase in regulation in recent years. For example:

■ A survey by the *Small Business Research Trust (2001)* found that about a third of respondents perceived that legislation and government regulation was on the increase, with the European Union believed to be the primary source of red tape.

■ More recently, a *HBOS survey (2003)* found that over two thirds of small businesses believe that the burden of red tape has increased in the last year.

Around 15-20 per cent of small businesses feel that the regulatory environment is their greatest problem or obstacle to success...

8.19 Various surveys of small business have been consistent in finding similar proportions of small businesses citing regulation as their greatest concern or obstacle to success. For example:

■ The SBS Omnibus Survey (*SBS, 2002c*) found that around one in five small businesses view regulation as the greatest obstacle to the success of their business, more than any other factor.

■ The *Small Business Research Trust (2001)* also found that over one in five small business owners regard regulation as the most significant problem currently facing their business. About a third of respondents said that regulation and government red tape had acted as a barrier to growth and a similar percentage said that due to red tape they had seriously considered not continuing with their business.

8.20 The Small Business Research Trust has also monitored over time the extent to which regulation is perceived as a significant problem to small businesses. Chart 8.1 illustrates that since 1999 the proportion of small businesses citing government regulation and paperwork as their biggest problem has been relatively stable, averaging around 15 per cent or one in seven of small businesses (*Small Business Research Trust, 2003a*).

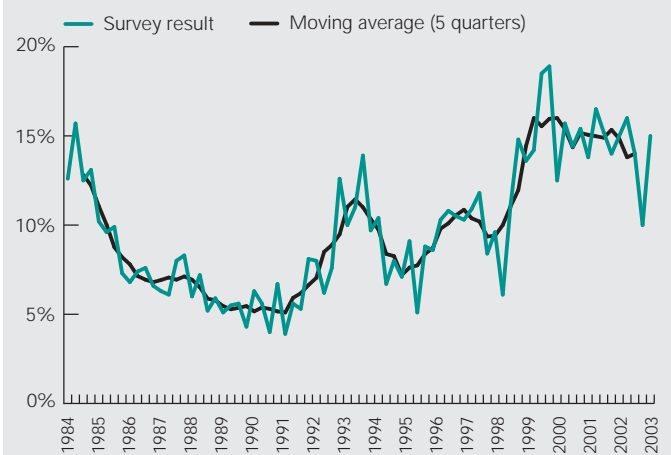
8.21 Of course, survey evidence of the kind quoted above, should be interpreted with caution. Small businesses are not a homogenous group and neither are regulations. Different regulations impact on different types of small businesses in different ways, and their perceived impact can vary according to the macro economic environment.

8.22 For example, in the unstable environment of the late 1980s and early 1990s, surveys consistently found that high interest rates, rather than regulation, were ranked as the major concern of small business by a significant margin. Nevertheless, there is a degree of consistency in the findings from a number of studies which does suggest that it is possible to draw out key messages to inform government actions.

The regulatory environment can also impact on the decision to start-up...

8.23 Although international comparisons consistently show that the UK is a relatively lightly regulated economy, there is evidence that the UK does not score as highly as some other countries in relation to regulation that impacts specifically on the decision to start-up in business.

Chart 8.1: Proportion of business owners citing regulations as their biggest problem



Source: NatWest Quarterly Survey of Small Businesses in Britain

8.24 The GEM survey (*Harding, 2001*) ranks the UK around average for the regulatory burdens on new business start-up, measured by the number of procedures to register a new business. The SBS Household Survey (*SBS, 2002c*) found that around a third of adults thinking about starting a business viewed the complexity of regulation as a barrier to entrepreneurial activity.

Some types of regulation are perceived to have a greater impact than others...

8.25 A number of studies including the *Business Planning & Research International study (2000)* indicate that dealing with taxation issues is of particular concern, with VAT and payroll taxes considered the greatest regulatory burdens for all sizes of smaller businesses.

8.26 The *Small Business Research Trust survey (2003)* also found that VAT and employee taxation are the two areas of government regulation and paperwork that take small businesses the most amount of time. 80 per cent of small businesses with no employees however feel that self-assessment is the most time consuming aspect of government regulation. Of particular concern is the finding that

over 50 per cent of small businesses admit to either reducing the number of people they employ, or avoid employing more people because of worries over the increased burden of paperwork and to avoid further regulation.

8.27 More recent and in-depth discussions across government with small businesses and their representative groups, however, have found that tax stability and the quality of basic taxation services can have a significant impact on perceptions of the burden of complying with taxation obligations.

And there is evidence of a disproportionate impact on small businesses...

8.28 According to a study by the *Institute of Chartered Accountants (2003)*, red tape costs the UK economy £6 billion a year, with 68 per cent of this falling on micro businesses employing less than 10 people.

8.29 A literature review commissioned by the Small Business Service (*Chittenden, et al., 2002*) provides an overview of the various studies and methodologies used to quantify the compliance costs of regulation. It concluded that although caution must be exercised in using these results because of the difficulties in obtaining accurate data, the results do suggest that the burden of regulation falls disproportionately on smaller businesses in all countries where estimates have been made.

8.30 It is estimated that compliance costs for businesses employing less than 20 people are at the very least 35 per cent higher per employee than for larger businesses. Other studies have found that the average cost of compliance is likely to be between £2000 and £4000 per annum or between four per cent to six per cent of turnover.

8.31 According to the *Small Business Research Trust survey (2001)*, a small business with 10-14 employees spends 31 hours a month complying with government regulation and paperwork, while an owner of a business with 50 or more workers needs 43.4 hours a month to comply. A recent survey (*Barclays, 2003b*) on how small businesses use their time indicated that the time needed to comply with 'red tape' could be squeezing out business development activity. One in ten small businesses claim not to do any business development activity at all, despite this being key to securing future revenue.

But some small businesses overestimate the extent of regulatory burden because of uncertainty and shortcomings in information and advice...

8.32 The *Cross Cutting Review of Government Services for Small Business (DTI, 2002b)* found that many small businesses are not clear about what is expected of them. For example, smaller businesses are typically less aware of the details of employment regulation, though the impact of regulation may actually turn out to be less significant in practice than the business owner had previously expected. Perceptions that compliance with regulation or taxes is more difficult than is actually the case can lead to small businesses overestimating the costs of compliance and can be an unnecessary constraint on the decision to start-up in business or grow.

8.33 Communicating regulatory requirements more effectively and improving advice and support will help to overcome inaccurate perceptions and reduce compliance costs. However, the *Small Business Research Trust survey (2001)* found that although almost 4 in 10 small businesses said they needed advice or information on government regulation, almost half of these were unsuccessful in obtaining it.

8.34 Where support has been effectively tailored to small business need, however, usage and satisfaction levels with support services have been high. According to an *Inland Revenue Survey*, 95 per cent of small businesses using the services of Business Support teams (providing, for example, support visits to new and small businesses to help them meet tax and National Insurance obligations) found them helpful.

8.35 The *Business Needs survey (HMCE, 1999)* found that 88 per cent of businesses were satisfied with the services HM Customs and Excise provided. In addition, 20 per cent felt that the service had improved compared to the previous three years. The HMCE telephone advice service, handling general enquiries on VAT, customs, excise duties and environmental taxes, had two million calls in its first year, illustrating the importance of the telephone as a method of contact for business putting queries to HMCE.

There are many other aspects of government policy which can affect the business environment in which small businesses operate...

8.36 A wide variety of public policies other than regulation have the potential to impact on the business environment in which small businesses operate.

...including access to public service contracts...

8.37 The procurement practices of government can have a significant impact on the health of the small business sector. There is a shortage of good quality data on the extent to which small businesses are successful in winning government contracts mainly because there are different practices of recording contracts by business size across government. Nevertheless, the evidence there is does suggest that small businesses are under-represented in the public sector procurement market.

8.38 The Small Business Service's own survey of public procurement (*SBS, 2002g*), indicated that 46 per cent of all contracts were awarded to small businesses but that these represented only 22 per cent of the value of the contracts, despite small businesses accounting for 52 per cent of turnover in the economy. Early results for 2003 suggest there has been no improvement in this position.

8.39 A more limited survey by *Databuild* (forthcoming) based on only three government departments found that small businesses account for 71 per cent per cent of suppliers of goods and services to these departments but only 30 per cent of spend. Small businesses were found to face greater obstacles in supplying government than medium and large companies, and to have fewer resources to be able to overcome these obstacles. Obstacles include bureaucracy in tendering, lack of awareness by small business of what work is available and who to contact for information, and incorrect preconceptions about the way in which government procures work.

8.40 The joint *Better Regulation Task Force and Small Business Council report (2003)* supports the view that the market place favours larger providers. Problems encountered by small businesses include: the disproportionate costs and complexity involved in tendering; not being able to find out about

opportunities; and the drift towards larger and longer contracts and to reducing the number of suppliers.

strategies for reducing business related crime...

8.41 There is also evidence to suggest that strategies for reducing business related crime can have a significant impact on the ability of small businesses to prosper.

8.42 A recent survey of small businesses (*Lloyds TSB, 2003*) found that well over half of small businesses had experienced some form of crime in the last 12 months. Experience of crime varied significantly between sectors, with 74 per cent of small retail businesses, 53 per cent of manufacturing businesses, and 50 per cent of businesses in the business sector reporting that they had been a victim.

8.43 A large proportion of these victims of crime (36 per cent) said that they would consider moving location or closing if local crime rates deteriorated further. The flight of small businesses from crime trouble spots is of particular concern given that these tend to be concentrated in disadvantaged areas where rates of employment and small business formation, and ease of access to services, are already relatively low.

8.44 The *British Chambers of Commerce (2002)* estimate that crime costs the UK economy around £19 billion a year, or around £5,000 for each business. Although evidence of the extent to which the costs of crime vary with business size is lacking, there are strong reasons for believing that costs fall disproportionately on small businesses. The *Lloyds TSB (2003)* survey found that one third of small businesses who had experienced crime in the last year, assessed overall costs to be in excess of £1,000, with 12 per cent recording costs in the upper band of £5,000 to £50,000. The cost of crime in the retail sector was double the average, with two thirds of crime victims estimating costs in excess of £1,000. These figures should be judged in the context of the fact that over half of all businesses in the economy are not registered for VAT and therefore have an annual turnover below the £56,000 threshold.¹ Since smaller businesses have fewer resources to absorb the costs of crime, there is a higher probability that experience of crime will threaten the viability of the business.

¹ Although there are some VAT exempt areas such as health, education and public administration, the majority of the 2 million unregistered businesses will be operating below the VAT threshold.

8.45 A recent consultation by the *Home Office (December 2002)* on business crime found significant support amongst small business for strategies, which helped to reduce the costs of crime through, for example, closer partnership working with small businesses, improving advice and support services, and improving the quality and the sharing of information on business related crime.

...and strategies for reducing the burden of insurance

8.46 Survey evidence indicates that strategies to reduce the burden of Employer's Liability Compulsory Insurance (ELCI) will also improve the business environment in which small businesses operate (*SBS Omnibus Survey, 2002e*). Around one quarter of all small businesses report problems in renewing ELCI, with small manufacturing businesses most likely to encounter a problem (31 per cent).

8.47 The vast majority (89 per cent) of those with difficulties, reported that an increased premium was the main problem. Micro businesses which faced difficulties in renewing ELCI were, however, nearly twice as likely as businesses with over 10 employees not to receive a renewal offer at all.

8.48 Difficulties in renewing ELCI could at least partly explain why around seven per cent of small businesses were found to be trading illegally without any cover.

Measuring success: what are the plans to monitor and evaluate progress in achieving better regulation and policy?

8.49 Table 8.1 includes the main indicators which the SBS is committed to monitoring and reporting on over time in assessing the extent to which government has been successful in developing better regulation and policy. It shows the current baseline position for each measure of success, and indicates when further information will be available to assess progress.

Table 8.1: Developing regulation and policy success measures

Key measures	Source	Current position	Next update
➤ Reduce the proportion of small businesses citing regulation as an obstacle to growth	SBS Small Business Survey	A new measure	Spring 2004 (2003 data)
➤ Increase the UK's position in international comparisons on regulatory burdens	Various	OECD –1st (2001) Not just peanuts – joint 1st (2001)	At various times, depending on source
➤ Increase small businesses' awareness of sources of advice and support on compliance issues and their satisfaction with them	SBS Small Business Survey	A new measure	Spring 2004 (2003 data)

8.50 To complement these key measures, the SBS will work with partners to collect data on a number of supporting measures. These are likely to include:

- Increase small business perceptions that their concerns are being taken into account by government.
- Increase the proportion of new regulation subject to meaningful Impact Tests.
- Reduce the time spent complying with regulation.
- Increase the number of government contracts with small businesses.
- Reduce the proportion of small businesses affected by crime.

8.51 In addition to monitoring success against these indicators, specific research and evaluation studies will be carried out to fill gaps in knowledge about what policy actions work and why, and to gather views from small businesses themselves on what more needs to be done.

8.52 For example, the evidence review above indicates that there is a need to develop more robust measures of the total cost to small business of compliance with government regulation and track more accurately changes in compliance costs over time. The Cabinet Office and DTI have commissioned a research study to develop a methodology for assessing the impact on business of existing regulation. A report on the first pilot study was published in September 2003 and a second report will be published in mid 2004.

8.53 The evidence review also indicates that there is a need to improve data collection and measurement of the success of small businesses in accessing government contracts. As a first step in filling this knowledge gap, two pilots are currently in operation designed to assess ways of improving the flow of information to small businesses about government opportunities and to inform the development of appropriate advice services and training packages.

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