



**SMALL BUSINESSES IN THE UK:  
FROM HARD TIMES TO GREAT EXPECTATIONS**

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# **SMALL BUSINESSES IN THE UK: FROM HARD TIMES TO GREAT EXPECTATIONS**

## **1 Introduction**

In this paper I would like to reflect on the position of UK small business at the beginning of the 21<sup>st</sup> century. The past 30 years saw a revival in small firms in the economy: between 1980 and 2002, the number of firms rose from 2.4m to 3.7m. Such are the headline statistics. Yet, such broad barometers of the state of small firms mask a variety of undercurrents which deserve examination before a balanced perspective of their contribution to the economy can be made.

In this paper therefore I would like to

1. Examine some trends in small business performance
2. Explore the reasons behind these trends, including government policies
3. Suggest which factors are most and least influential in the rise of small firms.

Indeed, the rise or fall in the number of new start-ups are often taken as a measure of the health or dynamism of the economy. This unquestionable ideological commitment to small firms may, however, be based on an over-optimistic expectation of their contribution. Overall, I would like to argue that the revival of small firms and the ostensible buoyancy of the economy is a result of structural changes in the economy rather than evidence of a dynamic individual entrepreneurialism. Also the data masks the continued low levels of innovation and productivity in the UK.

## **2 A Framework for Understanding Trends in Small Business Activity**

A number of authors have sought to explain the revival in smaller firms. Wennekers et al. (2002) look at a variety of macro conditions influencing changes in entrepreneurship including technology, economic development, geography, institutions and culture. The authors argue that the reasons for the overall rate of entrepreneurship may have common causes between different economies but there are also other factors which can affect this activity between economies and over time.

Curran (1999) provides a more UK focused analysis of the reasons for the revival of small firms in the UK economy and the role of SMEs. Curran considers seven reasons for the revival of small firms:

- i the reassertion of an enterprise culture
- ii changes in technology
- iii economic restructuring and the emergence of a global economy
- iv income effects and new patterns of consumer behaviour
- v the rise in unemployment since 1979
- vi increase in outsourcing and vertical disintegration of large enterprises
- vii reductions in red-tape and privatisation.

In his analysis Curran eschews mono-causal explanations for their revival and suggests instead that:

‘In practice, of course, it is very unlikely that the revival can be attributed to any single factor: it is more likely to be the result of several

factors working in combination, perhaps including some not on the above list' (Curran, 1999:9).

Within both of these frameworks it is clear that the reasons for the revival are multi-dimensional. Of course, modern writers are not the first to discuss the role of smaller enterprises. Marxian analyses have emphasised the dependent role of small firms in the economy and that the latest revival is a result of a crises of capital in large-scale enterprises, faced with technological product and market uncertainties (e.g. Shutt and Whittington, 1987; Harrison, 1994).

An alternative view to this structured explanation is that individuals make rational decisions between running a business and being a business owner. Within broader macro-conditions some authors suggest that the rate of business ownership is a result of occupational choice:

‘individuals chose between wage employment and business ownership by assessing and weighing the potential financial and non-pecuniary rewards and risks’ (Wennekers et al., 2002:7)

There are, however, a number of challenges in linking these themes and theories to small business activity. First, there has been an absence of authoritative and reliable historical data in order to objectively measure changes in, for example, the contribution of small firms to GNP or the role of self-employment. This problem is accentuated if one seeks to compare between national states or economic regions. Second, as with a great deal of analysis in the social sciences, there are difficulties in applying and testing theories because of the absence of suitable data. Hence, analyses of an ‘enterprise culture’ is problematic not least because of its multi-dimensional nature.

Such difficulties can lead authors keen to promote or dismiss the role of smaller firms in the economy to jump too soon to conclusions which confirm their position. In this paper, I will seek to address a number of specific reasons for the revival of small firms and their role in the fortunes of the UK economy. This approach may contribute to the growing analyses and debates rather than provide the last word on the matter.

### **3 The UK Economy: Stable Growth and Rise in Small Firms**

Before we embark on a detailed analysis of the contribution and causes of SME growth in the UK, it is important to put the UK economy into perspective (Table 1). How has the UK economy performed over the past decade? The UK working population grew by 3.2 per cent 1990-2000 (similar to that of Japan) to 27.7m in 2000 (Table 1). Unemployment fell slightly from 6.9 per cent to 5.5 per cent. There was also a major shift to the service sector during this period. In 1990 a third of employment was in ‘manufacturing industry’ but by 2000 this had declined to a quarter (25.4 per cent). Conversely, employment in services grew from two-thirds of the workforce to 73.5 per cent in 2000. Clearly, the UK economy appears to have overcome the high unemployment of the 1970s and 1980s.

Table 1

If we examine the GDP performance of economies internationally, the UK again appears to be matching the OECD total (Table 2). In terms of GDP growth per annum the economy exceeded the average for OECD area and the average annual change was around 2.7 per cent compared with 2.3 per cent for the 67 nations (and 1.1 per cent for Japan). The Table also reinforces the shift to the service sector, from contributing to 62.9 per cent of Gross Value Added in 1990 to 70.1 per cent in 2000 (compared with 66.6 per cent in Japan). In contrast, however, the UK does not seem to match other developed economies in terms of GDP per capita. For example, although the UK scored 103 on the OECD index, this was below the USA (148), Germany (108), Japan (108) and Italy (106). In other words, although the UK appears to have overcome the malaise of unemployment and poor growth, in terms of productivity there remains a challenge.

Table 2

Although these data are broad, they do present an important context for an examination of the revival of small firms in the UK economy. Indeed, I will argue that these structural changes in the economy are important in understanding the revival. I will now examine data relating to the role of small firms in the UK economy.

#### **4 Trends in the UK SME Population**

One of the most interesting, if not remarkable, changes in the UK economy over the past 30 years is the seemingly revised of small-scale enterprise. At the time of writing, the Bolton Report summarised the position of smaller firms in the economy as in decline:

“... the contribution of the small firm to national output and employment is declining in the long term not only in this country but in all the other developed countries ... The number of small firms in existence in the United Kingdom is also decreasing ... Behind these statistics lie a number of factors which amount to an increasingly hostile environment for the small firm. Indeed, we have found it extremely difficult to identify any factors working strongly in favour of the small firm.” (Bolton Report, 1971: 75) (Emphasis in the original).

If we examine the contribution of SMEs to the economy there appears a steady growth since the 1970s particularly during the 1980s. Between 1980 and 2001 the number of enterprises in the UK grew from 2.4 million in 1980 to 3.7 million in 2002 (Table 3). However, this growth has not been uniform and has stayed at 3.7 million since the early 1990s.

Table 3

A look at the industrial composition of businesses reveals that as with most developed countries, the UK has a concentrated proportion of smaller firms in specific sectors (Table 4).

Table 4

If we examine all sectors, only in Mining and Quarrying, Manufacturing and Electricity, Gas and Water Supply do firms employing 50 or more contribute three per cent or more of enterprises in that industry. On the other hand, firms with no employees are particularly strong numerically in Construction, Transport and Agriculture, Forestry and fishing.

The actual *performance* of smaller firms as contributors to the UK economy is, however, more fruitfully explored through the analysis of their contribution to employment and turnover. The bulk of enterprises have no employees (69 per cent) but these only contribute to 12.8 per cent of employment and 7.2 per cent turnover (Table 5). This suggests that one-person enterprises as a whole have lower levels of productivity than larger firms with employees. In the UK, productivity increases with enterprises size. In the largest sizeband of 250 people or more, 0.2 per cent of enterprises contribute 44.6 per cent of employment and 48.6 per cent of turnover. Quite clearly, whilst small firms contribute to employment their contribution in terms of productivity is lower to that in larger firms

Table 5

If we examine the changes over time (1993-2001 the period for which data is available) there appears to be an increase in the contribution of firms employing less than 10 people in terms of number of businesses, employment and turnover. In contrast, there appears to have been a fall in the contribution of firms in the 50-249 category particularly in their contribution to turnover.

There is a further dimension to small business activity in the UK which deserves attention: that of self-employment. Overall, between 1984 and 2002 self-employment expanded from 2.7m to 3.2m people (Figure 1). Within this, the contribution of the self-employed to total employed was stable at 11.2 per cent. What is interesting within this is the rise in the proportion of part-time self-employed from 457,000 (16.9 per cent) to 710,00 (22 per cent) between 1984-2002.

## **5 Business Ownership in the UK: A European and World Comparison**

The above data shows the growing contribution of small firms to the UK economy over the past decade or so. Yet, what of the relative performance of the SME population when compared with other industrial economies?

Data produced by the EIM (reported in Wennekers et al., 2002) show the steady growth in business ownership in the UK (see Table 6). The number of business owners excluding the primary sectors of the labour force in the countries included in the analysis grew to 10.9 per cent of the labour force (from 9.8 per cent in 1972). There are also strong differences in ownership rates between different economies. The highest appears to be in Greece (around 18 per cent) and the lowest in Luxembourg (5.9 per cent provisional) and Denmark (6.4 per cent). The overall change during 1972-1998 was upwards by around 1.1 per cent points. However, the UK's expansion was particularly high from 7.8 per cent in 1972 to 8.6 per cent in 1984 and 10.9 per cent in 1998. In contrast, Japan's business ownership rate declined from 12.6 per cent to 10.0 per cent in 1998.

## Table 6 and Table 7

The contribution of self-employment to total employment is also shown to vary over time and between economies (Table 7). Thus, comparatively the UK business growth rate has been high. It is now time to examine some of the possible causes behind these statistical trends.

### **6 Changes in the Industrial Structure and Size Composition of the Economy**

I would argue that the revival of small firms in the UK economy is strongly linked to a shift to the service sector, and in particular business services. This has had two effects in the UK: a lowering of the barriers to entry for new firms (compared with manufacturing) and a rise in opportunities for smaller firms. It is generally argued that in many service sector industries, the minimum efficient scale is lower than other sectors.

## Table 8

The evidence for a rise in the service sector is irrefutable. The contribution of services to employment grew from 65.5 per cent to 73.0 per cent between 1990 and 2000, and the contribution of GDP rose from 62.9 per cent to 70.1 per cent (Table 2). Correspondingly, the UK has also witnessed a decline in the manufacturing sector.

The data also shows a strong concentration of smaller firms and the self-employed in the service sector (Table 8) and a decline in manufacturing to 6.4 per cent in 2002. There was also a decline in the number working in Distribution, Hotels and Restaurants (from 23.9 per cent in 1993 to 17.9 in 2002).

In contrast, the growth areas in self-employment are in Banking, Insurance and Finance and Public Administration, Education and Health. It is these sectors which demonstrate the new opportunities for the self-employed and include the legal, accounting and auditing professions as well as knowledge-based activities such as consultancy.

This leads us to ask the question: is the rise in smaller firms merely following the shift to the service sector in the UK or is it leading this shift? I would argue that the shift to the service sector has provided opportunities for small firms. In other words, the cause is structural rather than as a result of the dynamism of small firms *per se*. One explanation for this growth in service sector activity is that as the economy becomes wealthier service sector functions enter the formal economy and become market based activity. This may be particularly relevant for the rise in consumer services and healthcare. The reasons for the rise in business services are perhaps more debatable. One their argues that there has been a rise in the amount of sub-contract work which was previously undertaken in-house. In the UK in the 1980s and 1990s there was undoubtedly a trend to contract-out service activities which were not part of the core activity of an organisation. Hence, there was a rise in the volume of contract cleaning, for example (Keynote, 1990). Which gave voice to proponents of the 'fragmentation thesis' and a flexible economy position. First, although there was evidence of a rise in contract work which was previously done 'in-house', there was

insufficient evidence to show which type of enterprises were receiving the work. In some cases, there is evidence that it is large multinational businesses which are conducting such work.

A study of the contracting-out of local authority work, for example, in the 1990s found that because of the large size of contracts the bundling of work and the need to follow strict bureaucratic procedures this provided few opportunities for smaller firms (Abbott et al., 1996). Second, many of the sectors in which there has been a growth in small business activity is in new rather than already established sectors. This point is linked to the next section in this paper: the enabling effect of new computer-based technologies.

Overall, the UK economy of the 21<sup>st</sup> century is very different from that 30 years ago. The shift to the service sector has opened up a range of new opportunities for small firms: in both traditional services as well as more recent knowledge-based activities. Clearly, the shift to services is a major factor in explaining the rise of small firms in the UK.

## **7 Changes in Technologies**

The relationship between changes in technology and the role of small firms has excited interest from a variety of authors. Schumpeter (1934) explained a process of creative destruction in which small firms are able to respond and thrive during times of rapid technological change. During the past 20 years there has also been a good deal of debate surrounding a 5<sup>th</sup> Kondratiev Wave in which there has been a fundamental shift in the technology base (see Burrows, 1991 for discussion). Piore and Sabel (1984) suggested that new kinds of flexible manufacturing technologies reduced the economies of scale for production and facilitated new networking relations between enterprises. This enabled smaller firms to compete more with larger firms, as clusters of firms, and enabled them to respond quickly to market changes. Whatever the validity of these arguments as explanations in these rise of small firms, I would argue that the world has now moved on. As we enter the 21<sup>st</sup> century, in the UK one of the major forces behind the continued revival of small firms is the *enabling* role of computers. Combined with the restructuring of the corporate sector and the shift to the service sector, we have a powerful explanation for the rise of small firms. Changes in technology can be said to have a number of consequences: changes to market boundaries, redefinitions of the business, changes in the nature of work and the location of work (Rowlatt et al., 2002).

If we examine the trends in the UK economy, without doubt the rise in computer based tasks to achieve economic activity has led to:

- i) a rise in 'telework'
- ii) a rise in small firms, and
- iii) a re-definition of the workplace

Teleworkers are defined as those who do some paid or unpaid work in their own house and who use both a telephone and a computer. A narrower definition called 'TC teleworkers' includes those workers for whom both a computer and a telephone are essential for them to perform their job. Data for the UK shows that in Spring 2001, there was 2.2 million teleworkers or about 7.4 per cent of those in employment.

This is just above the average for 10 EU countries where France and Germany have the smallest proportions of teleworkers and Finland the highest (Hotopp, 2002). Teleworking is concentrated in the private sector (74 per cent) and although 55 per cent were employees, a disproportionately high 43 per cent were self-employed. In other words, the opportunities presented by new computer based technologies has enabled a rise in self-employed economic activities relative to employees. However, the rate of growth in teleworkers for employees now exceeds that of the self-employed although both rates are high: between 1997 and 2001 employee teleworkers grew by 82 per cent and self-employed grew by 48 per cent. All the indications are that this phenomena is set to continue. The Institute of Employment Studies for example, reported that 22.6 per cent of those in employment in the UK could potentially telework. Whilst this may be considered an overestimate, it is likely that the trend will lead to opportunities for an expansion in self-employment. The ability to work from home has also led to challenges to the conventional organisation of the workplace.

Clearly the revival of small firms has been facilitated by the enabling role of new technologies, and specifically the more recent role of computer based activities.

## **8 A New Enterprise Culture?**

One compelling argument for the revival of small firms in the UK has been the effect of a new enterprise culture, generating a supply of entrepreneurs prepared to start their own businesses. However, attempts to identify, measure and link an enterprise culture with the revival of businesses in the UK have proved amongst the most challenging for researchers. Certainly the term 'enterprise culture' became a well used slogan in the 1980s particularly in the political context. For some, the rise in small firms is regarded as an economic manifestation of a reassertion of the values of freedom and individual self-expression over collectivism. In his analysis of the role of an enterprise culture on small firms activity, Curran (1999) concluded:

“The evidence that the enterprise culture has been a powerful positive force promoting higher levels of self-employment and small business ownership is therefore not strong” (Curran, 1999:11).

Curran drew evidence from interviews with business owners (Blackburn et al., 1990) who found little sympathy with the ideology of an enterprise culture. Instead, this was regarded by some as a creation by the media which also fitted with the agenda of the then Conservative government. Instead, the research revealed norms of survival and independence amongst owner-managers but less so those of greed and the 'yuppie' culture of the 1980s. An alternative way of understanding the role of the phenomenon of the 'enterprise culture' was suggested by Burrows (1991). Here, the argument was that the term was regarded as an agent-centred means of explaining away the restructuring that took place in the economy and society.

Of course the above analysis covers those already in business for themselves, are reporting in data from the 1980s and early 90s and do not take into account the possibility of any time-lag in the effects of any pro-enterprise Conservative administrations of the 1970s and 1980s.



Indeed, the prolonged revival of smaller firms may be a result of a new rise in interest in business ownership, over and above the ‘unemployment-push’ of the 1970s and 1980s. Psychological analyses of the aggregate determinants of self-employment have also emphasised the relationship to materialistic values in society (Ulhaner et al., 2002). In other words, countries with lower levels of materialism tend to have lower rates of self-employment.

If we are to address these issues in relation to the UK situation we also need to examine the aspirations, attitudes and experiences of younger people as well as draw upon evidence which seeks to address the labour market preferences of people more broadly. It is younger people who have having their value system shaped who may have been more influenced by the rise in an enterprise culture and the associated materialism of the 1980s.

Greene (2002) examined the role of enterprise support for younger people in the 1980s and 1990s. He found that despite a plethora of initiatives aimed at boosting entrepreneurship amongst younger people, labour market responses are influenced by structural conditions (principally unemployment rates) rather than the promotion of a particular ideology.

More recent research has considered the analysis of nascent entrepreneurs, that is those who are engaged in starting a firm. Internationally, the Global Entrepreneurship Monitor (GEM) seeks to measure the amount of entrepreneurship activity in nation states (Reynolds et al., 2001). The Total Entrepreneurial Activity (TEA) is an overall index which sums the proportion of nascent entrepreneurs as a proportion of the adult population (18-64 years old) with the presence of new firms, that is the proportion of adults operating a business less than 42 months old. The TEA index is shown to vary considerably between economies. On the rating of the 29 countries in GEM, in 2001, the UK scored a TEA index of 6-8 per cent (Japan 4-6 per cent and the USA 10-12 per cent). The GEM project seeks to make associations with the TEA index and economic growth. However debatable this relationship is, the UK does not appear to have a high TEA index and as such there appears to be no abnormally high supply of nascent entrepreneurs.

In England a survey of households sought to explore the attitudes of people to entrepreneurship (SBS/IFF, 2002). The survey found

- i that 8 per cent of the population aged 16-64 are self-employed and/or own or part-own a business and have been in operation for between three or four years or less.
- ii Overall, 12 per cent of those interviewed were thinking about starting a business or buying into an existing business and those who have thought about becoming self-employed. The 16-24 year old cohort was on average more likely to be starting a business (17 per cent) followed by 25-34 (16 per cent), 35-44 (11 per cent) and 45-54 (7.0 per cent).
- iii A third of those would-be entrepreneurs are serious and almost certain it would happen (4 per cent of the overall sample of 5872).
- iv The main reported barriers to entrepreneurial activity by those not in business appear to be fear of debt (48 per cent), obtaining finance (46 per cent), and fear of failure (44 per cent).

- v Around one in 10 (9 per cent) do not admire entrepreneurs and a half believe that people who are highly successful in business often have low morals or ethics. (SBS/IFF, 2002).

Clearly, taken together the evidence (GEM, SBS) suggests that there does not appear to have been a rise in an enterprise culture amongst the population. However, what it does show is a rise in the awareness of younger people to enterprise: clearly in contrast to the historical findings of Greene (2002). One possible explanation for this apparent difference is an intergenerational effect from the rise in business ownership in the 1980s. One of the strongest predictors of running a business appears to be parental occupation. The relatively high proportions of younger people who are considering starting a business (seriously or otherwise) in the household survey of entrepreneurship does show that business ownership is now part of their occupational choices. Whilst not lending support to the notions that an enterprise culture has stimulated the revival of small firms, it does suggest that there has been a rise in the awareness of running a business as a career option.

## **9 The Institutional Environment: Changes in Small Business Policies**

In the UK government policy to small firms has taken a radical change in the past 30 years. During the 1950s and 1960s small-scale economic activity was regarded as inefficient and an obstacle to the development of a modern UK economy in the world. The Industrial Reorganisation Corporation established in 1966 sought to encourage mergers and achieve large-scale units. However, the 'build it big' strategy did not provide the solution to UK economic decline (Gray, 1998:9). Large-scale organisations had their own inefficiencies, struggled to compete in international markets and were associated with poor labour relations and unemployment (May and McHugh, 2002).

The keystone of small business policy is the Committee of Inquiry on Small Firms (Bolton Report, 1971). The Committee was appointed in 1969 and reported in September 1971, spanning two governments of different political ideologies. The report was extensive, included a postal survey of 3,5000 firms and examined official data together with written and oral evidence. In addition to the main report 18 separate reports were commissioned together with group discussions among business owners on special topics, such as finance.

As well as setting the foundation for a strategy for small business support in the UK, a significant outcome of the Bolton Report was the appointment of a minister with responsibility for small firms in 1972. This post has continued although it is considered a junior post with other non-SME responsibilities.

The political, social and economic landscape of the UK is very different to that of the 1970s and small business policy has been enhanced. Measures to support small firms has increased. Greene (2002) cites the number of measures for small firms from two (1946-60), to 13 (1961-70), to 33 (1971-81) to 103 (1989). Estimates of the cost of small business policies are also an indicator: in 1995-96 this was around £632m (Gavron et al., 1998) and the Small Business Service's planned expenditure is £410m for 2002-2003 (SBS Business Plan 2002-2003).

Small business policy in the UK has developed to be one of the most comprehensive, if not complicated, in the world. The generic areas of policy are shown in Table 9. Of course these change as the emphasis of policy changes over time.

Table 9

Currently, responsibility for SME policy resides with the SBS established in April 2000. The SBS vision is that:

“by 2005, the UK should be the best place in the world to set up and grow a business” (SBS, Annual Accounts, 2002:1).

The SBS seeks to achieve this enterprise society by:

- being a strong voice for small business at the heart of government – ensuring that government is aware of the needs of business;
- developing and maintaining a world class business support service to enhance the competitiveness and profitability of small businesses;
- championing entrepreneurship across society and particularly in under-represented and disadvantaged groups, increasing the number of people considering starting in business and aiming to change the culture so that society encourages, values and rewards enterprise;
- minimising the burden of regulation – by ensuring that government departments really do think small first when framing new regulations and by proving support to businesses to enable them to comply simply and easily.

In 2001, the Department of Trade and Industry (DTI) undertook a major review of business support, its priorities and structure. This involved consultation with a variety of stakeholders and the criticisms of the Department included views on business support. The feedback suggested that the Department had too many schemes and many were of low value and had low impact; and that there was no strategic overview. In response to this, the DTI sought to focus the SBS more directly on delivery including a strengthening of links with Regional Development Agencies who will set regional economic strategies. Access to support by businesses will continue through Business Links. Government offices in the regions will continue to promote government activity in the regions and act as the “eyes and ears” of the DTI including monitoring the performance of RDAs. In the Review the role of the 42 Business Link Operators as the delivery arm of small business policies was confirmed.

In terms of current expenditure on small business support, one estimate suggests that £2.5bn was spent on a wide range of services for small firms, although only £350m is attributed to the SBS (Small Business Council, 2002:9). In the budgets of the Labour Government there have been numerous fiscal measures aimed at raising involvement in the new enterprise economy. The latest 2002 budget for example:

- reduced the corporation tax rate from 10 per cent to zero (meaning that 150,000 companies will no longer have to pay corporation tax)
- reduced small companies tax rate to 19 per cent (benefiting over 350,000 companies)
- increased the VAT threshold to £55,000

- provided a 25 per cent tax rate of super deduction for qualifying R&D expenditure against taxable profits  
(Source: Budget, 2002)

From a UK perspective EU small business policy is relatively new. Only in the 1980s did policy begin to emerge. Amongst the most prominent include the Better Environment Simplification Task Force (The BEST Report) set up in 1997, benchmarking projects and the new Multiannual Programme for Enterprise and Entrepreneurship (2001-2005) (Lundström and Stevenson, 2001). A key point in understanding SME policy in the European Union is that it seeks to add value to member states' policies, influence their direction and encourage harmonisation. UK small business policy also has an EU context. The European Charter for Small Enterprises (2000) outlines a series of action lines which seek to achieve the Lisbon objective of making Europe the world's most competitive and dynamic economy by 2010. These action lines include:

- Education and training for entrepreneurship
- Cheaper and faster start-up
- Better legislation and regulation
- Availability of skills
- Improving online access
- Getting more out of the single market
- Taxation and financial matters
- Strengthening the technological capacity of small enterprises
- Successful e-business models and top-class small business support
- Develop stronger, more effective representation of SMEs' interests at Union and national level.

In addition to this Charter a great deal of EU support for small firms is channeled through regional structural funds with the objective of overcoming various socio-economic disadvantages in specific areas.

Given the rise in the scope and volume of business support for smaller firms, what has been the effect on the small business population? Whether or not these policies are contributing to the development of small firms in the UK economy is open to debate. Let us first look at the analysis of UK policies.

Ostensibly, great strides have been made in small business policy in the past decade and there appears to be some political consensus in the view that SMEs are an important part of government economic strategy. However, the extent to which this has led to a rise in small business activity is difficult to estimate.

Certainly, critics of the effects of business policies seem to have been more plentiful than those extolling its virtues. The House of Common Trade and Industry Select Committee (1999:V) on looking back at small business policies described it as having:

“An excess of loosely connected and apparently uncoordinated policy initiatives shooting off in all directions, generating noise and interest, but not commensurate light”

Evaluations of the use of Business Link, the main delivery arm of small business policy show low usage especially amongst firms employing less than 10 people. Overall, business take-up of advisory services is around 5 per cent of the business population, but around 2 per cent of those with no employees and 3 per cent of those employing 1-4. Probably one of the reasons for this low penetration of micro enterprises is the deliberate focus on medium-sized firms – where take-up is around 37 per cent of the target population. Criticisms of Business Links have included the quality of the services delivered by the Personal Business Advisors (PBAs). However, other factors in this low take-up may also be cited including the ‘fortress enterprise’ mentality of many business owners, a perception that the quality of services from a public sector body is low and that seeking advice involves an opportunity cost. The effects of Business Link also appear that services were not targeted at fast growth firms. There were few effects on firms receiving assistance on productivity and no significant effects turnover and growth (Roper et al., 2001) Gibb (2000) also cites the *culture clash* between government and small firms. Government, for example, is looking for order, formality, accountability, transparency and planning whilst small firms tend to be informal, trusting, ambiguous and intuitive. These differences also add to the resistance by smaller firms to take up government initiatives.

Government agencies also suffer from the very fact that they are a delivery agent of government policy. For some small firms, government is indeed the tax payer and regulator of private enterprise. Becoming involved with government on the grounds of support may be psychologically difficult for some business owners to accept. ‘Red tape’ together with growing regulatory environment through for example, the national minimum wage and Working time Directives, appear to be amongst the greatest concerns for business owners. Government is often associated with these ‘growing burdens’ although there is evidence that the regulatory burdens of starting a business in the UK are low. Estimates of the costs of starting a business in the UK in the late 1990s appeared to be lower than in most other economies at 420 ECU’s compared with 4000 in Japan and 3400 in France (OECD, 2000:18). Hence, although great efforts have been made to develop a sophisticated infrastructure for small business support and seek to limit regulation because of the attitudes of business owners, there may be a limit to what it can achieve.

Overall, therefore it is difficult to come up with a definitive answer to the question has UK small business policy improved the condition of small firms? At best one could suggest that it has had a minor positive effect. Yet without comprehensive independent assessments of policies this remains a broad qualitative judgement. Curran and Storey (2002) point out that there needs to be a stronger evaluation framework for SME policies and suggest both qualitative and quantitative evaluations.

Assessments of the impact of EU policies on small firms are even more problematic (House of Lords, 1999). One of the major effects of EU policies is the establishment of frameworks for the comparison of performance of national policies and the proportion of the EU to businesses. The EU produces an annual implementation report on European Charter for Small Enterprises. This evaluates the activities of each of the principles in business policy. The benchmarking studies, for example of the costs of starting up a business between member states, have proved successful in terms of showing divergence between nation states. In contrast, concern is expressed

regarding the representation of small businesses' interests at the EU and national level (Commission of the EU, 2002).

Although it is difficult to measure the effects of such policy statements on smaller enterprises, the EU is probably more important in its future potential than past activity as providing opportunities for UK smaller firms. Small firms are an important target group in the Sixth Framework for Research Technology and Development with 15 per cent of the budget reserved for SMEs, amounting to EUR 1,700m. In addition, EUR 450m has been set aside for the Collective Research and Co-operative Research programme (CRAFT). There is also an expected positive effect if the UK joins the Euro, particularly on those enterprise conducting trade in Europe.

In the absence of any rigorous evaluation reports, what can be said is that the policies of the EU have added to the promotion of national SME policies. As such, they have had some, but minor, effects through the promotion of policies from a world-region position.

## **10 Conclusions**

The broad figures on small business growth in the UK do not provide explanations in their own right and are a manifestation of a number of underlying phenomena. What we are witnessing in these figures is the net effect of a variety of factors shaping the size composition of UK businesses. These include structural changes in the economy in a shift to the service sector and within this particular types of services; changes in technology, and especially the lowering of MES in many sectors, rendering large-scale units less viable. To this may be added the rise of computer-based technologies which have enabled home-based micro-enterprises to flourish. In addition there have been changes in the UK institutional environment. There has been a political consensus in the belief that small firms are an important component of the economy, if not the 'engine room' of economic growth. The UK Government has now developed a sophisticated framework of business support with focused targets and monitoring systems. UK and EU policies have had some influence. Collectively, UK and EU policies appear to have legitimised rather than stimulated the rise in smaller firms. Small business policies have so far had some success but policy is in danger of expecting too much from enterprise. Small firms are now an integral component of virtually every government department: as a vehicle to improve the competitiveness and dynamism of the economy, a means of helping combat social exclusion, an important aspect of education for younger people and a significant route to self-fulfillment for older people.

There is little evidence to suggest that the UK has experienced a re-assertion of an enterprise culture. At best individuals are more aware of the opportunity to start a business than 30 years ago, but the relative attractiveness of running one's own business compared with being an employee does not appear to have changed. In short, I would conclude that the major reason for the shift to small firms is primarily a result of structural changes in the economy and technology rather than institutional or individual rise in 'entrepreneurship' factors. Hence, although UK small firms have come through hard times, government should be cautious in having too high expectations of their contribution in the economy.

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