Government, SMEs and Entrepreneurship Development: the challenges of intervention

Deakin University

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Objectives of the presentation

- Discuss the effectiveness of support for SMEs
- Explain the reasons for the **mixed success** of policy interventions
- Identify the diversity of SMEs and importance of context
- Suggest possibilities for improvements in support and routes to better engagement
- Draw upon wide evidence base and cases eg UK

Public Policy Perspectives

- Why intervene and support SMEs?
  - Gaps in market provision of advice and support
- Early investigations eg.
  - UK MacMillan 1931; Bolton 1971; Aus Wiltshire 1971; France Miliaret 1973;
- Late C20th momentum for support gained
  - Initially finance; then widened (Birch 1979)
- SMEs again attractive to policy makers!
  - Growth; innovation; job creation; political attractiveness
- Institutional frameworks
  - Eg SBA USA; NDRC China; MEcD New Zealand;

Plethora of interventions worldwide....

- Most countries have an SME / entre policy
  - Developing/ developed economies
  - Some supranational orgs eg EU Commission
- Importance of econ/socio/political context
  - Our review shows evolutionary paths eg. China; Vietnam; USA; France (Blackburn & Schaper 2012)
- But many similar themes
  - Institutional organisations
  - Policies on growth; financial schemes; deregulation
  - Awash with initiatives and interventions

SMEs’ perspective: need for advice /support

- Small firms *limited internal resources*
  - Scale and expertise of internal financial, human, technological etc base
- Go beyond conventional boundaries of the firm
  - Use external resource base
  - SME as an ‘open’ system: rethink concept ‘the business’
- Reasonable *a priori* position: SMEs need to draw on external resources to survive / develop

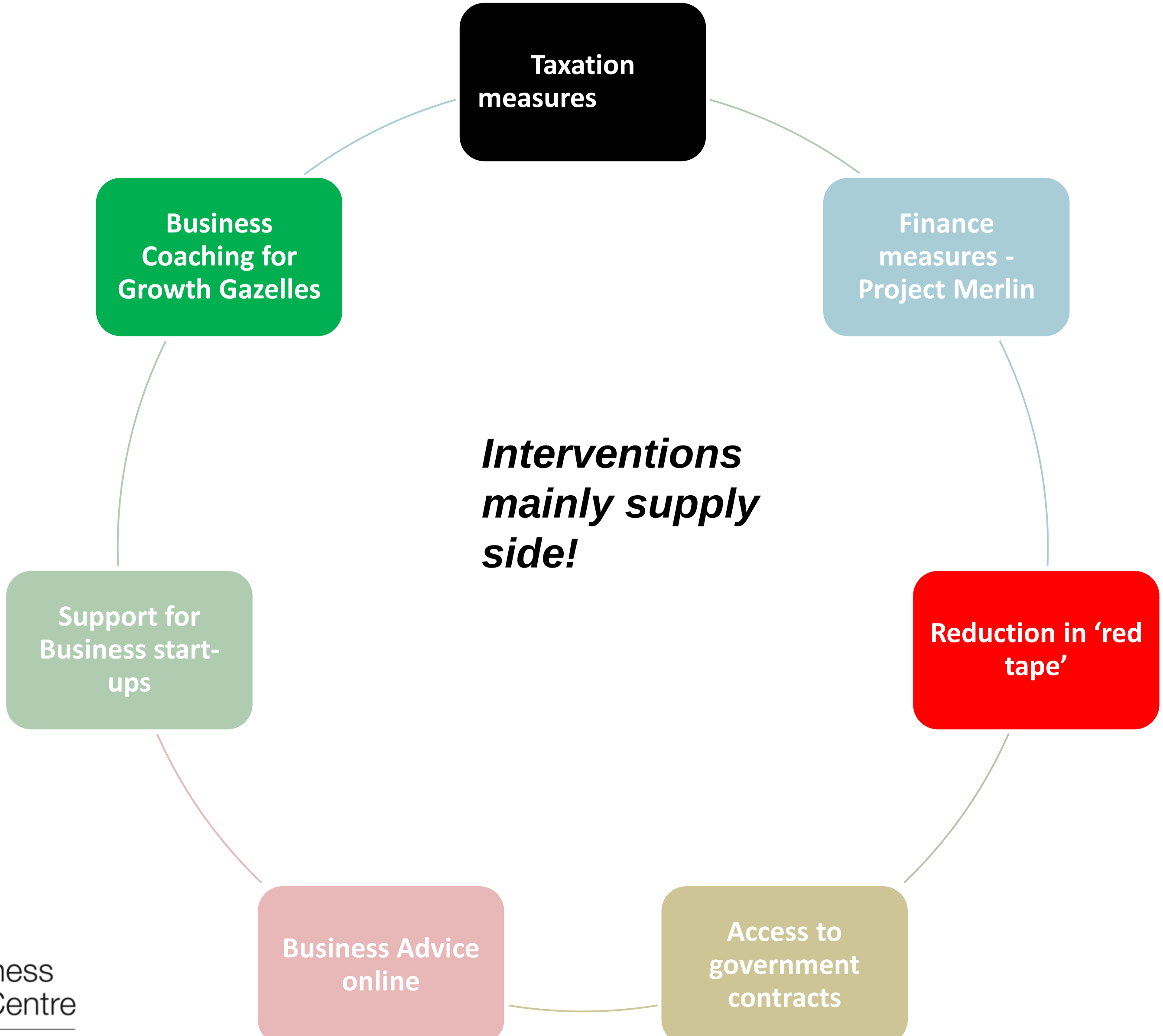
Yet, common ambivalence of small business owners to external support

- Owner-managers business = drive for independence
  - Need for achievement & strong 'internal locus of control'
- Antithetical to intervention!
  - Sign of weakness; need to retain control
- The motivations to run a business
  - Intrinsic interest in their product/service
  - Stability and security of income
  - Less so profit motive, or growth or employing people
- General ambivalence to public policy interventions 'at best': *fortress enterprise* at worst

Common criticisms of public policy

- Gap between provision and needs
  - Policy 're-inventing' of the wheel: SME fatigue
  - Poor evaluation techniques re 'additionality'
  - Inadequate use of accumulated evidence /evaluations; effect of political process
- Researcher – policy maker divide
  - Policy makers' reticence to take on implications
  - Researchers' inability to link into policy impact
- Let's take a micro level view....

Current UK Government interventions for SMEs



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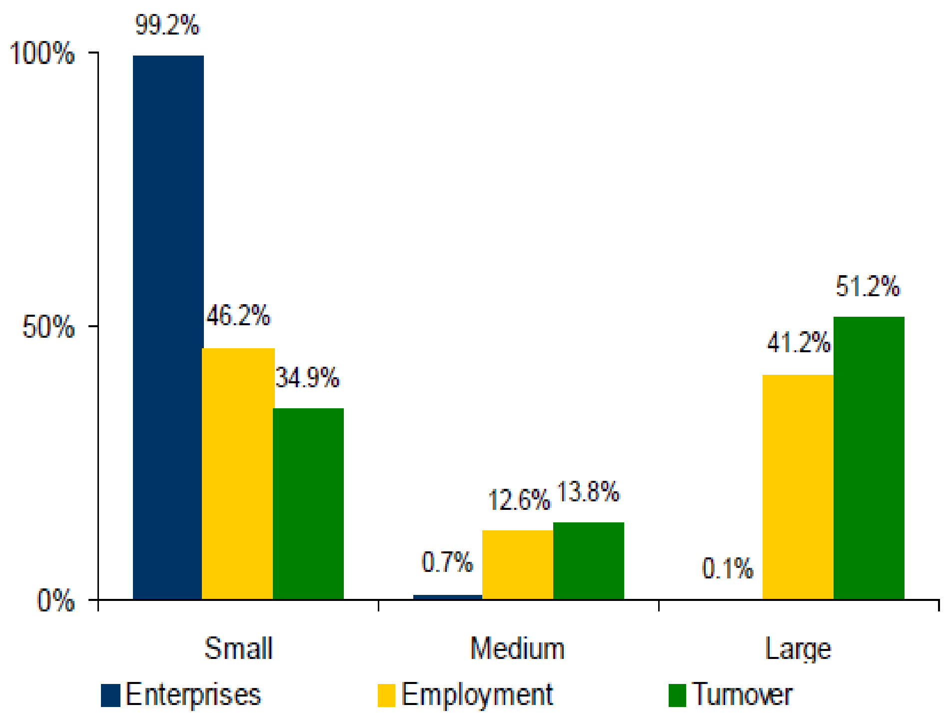
Significance of SMEs (eg.UK Economy)

- **4.5m private sector enterprises**
- **Up 94k on 2010**
- **2/3 sole proprietorships**
- **27% companies**
- **10% partnerships**
- **3.2 m zero employment**
- **1.2m employed others**
- **Rise in zero employers**

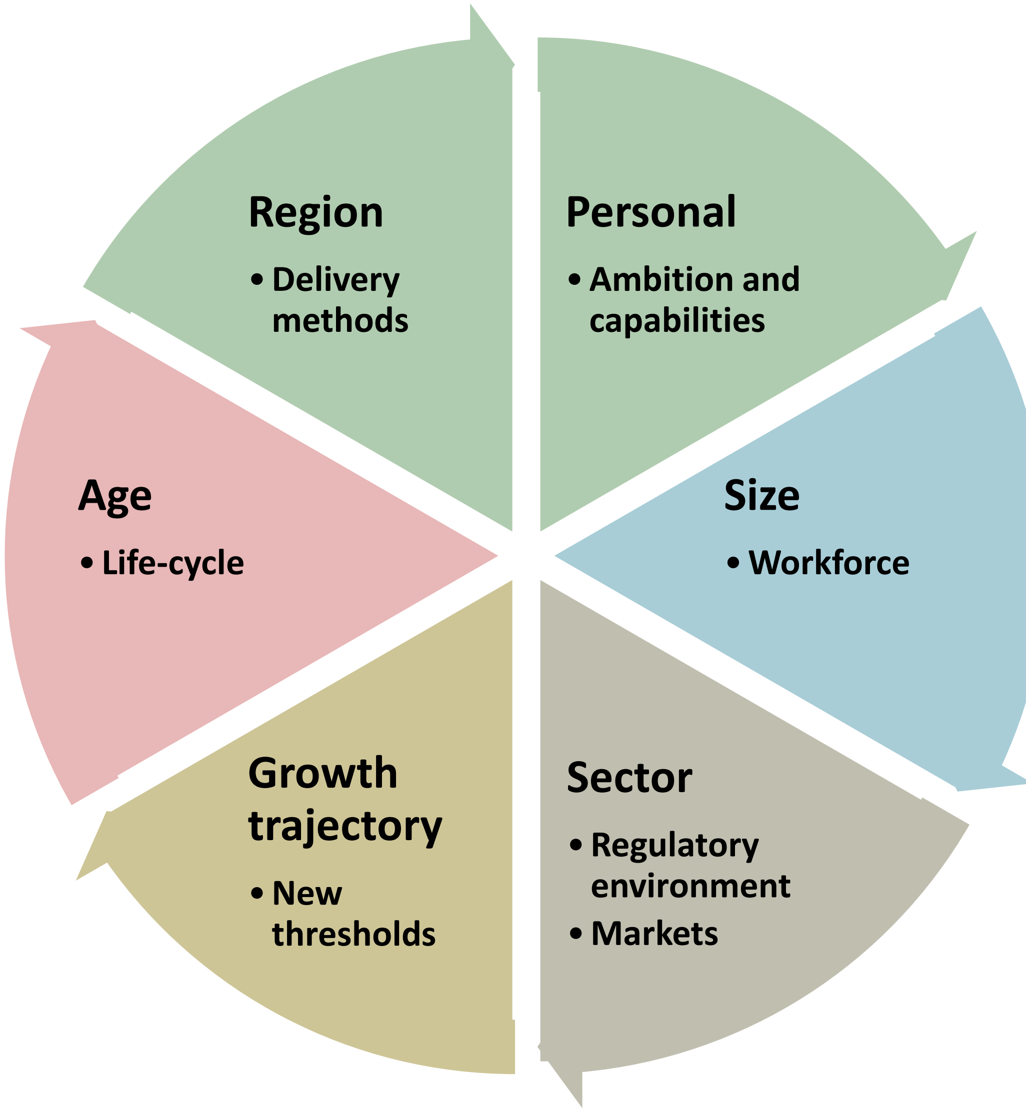
Source: BIS 2011

Figure 1

Share of enterprises in the UK private sector and their associated employment and turnover, by size of enterprise, start of 2011.



Heterogeneity of the SME market



The dynamics of the SME ‘market’ over time

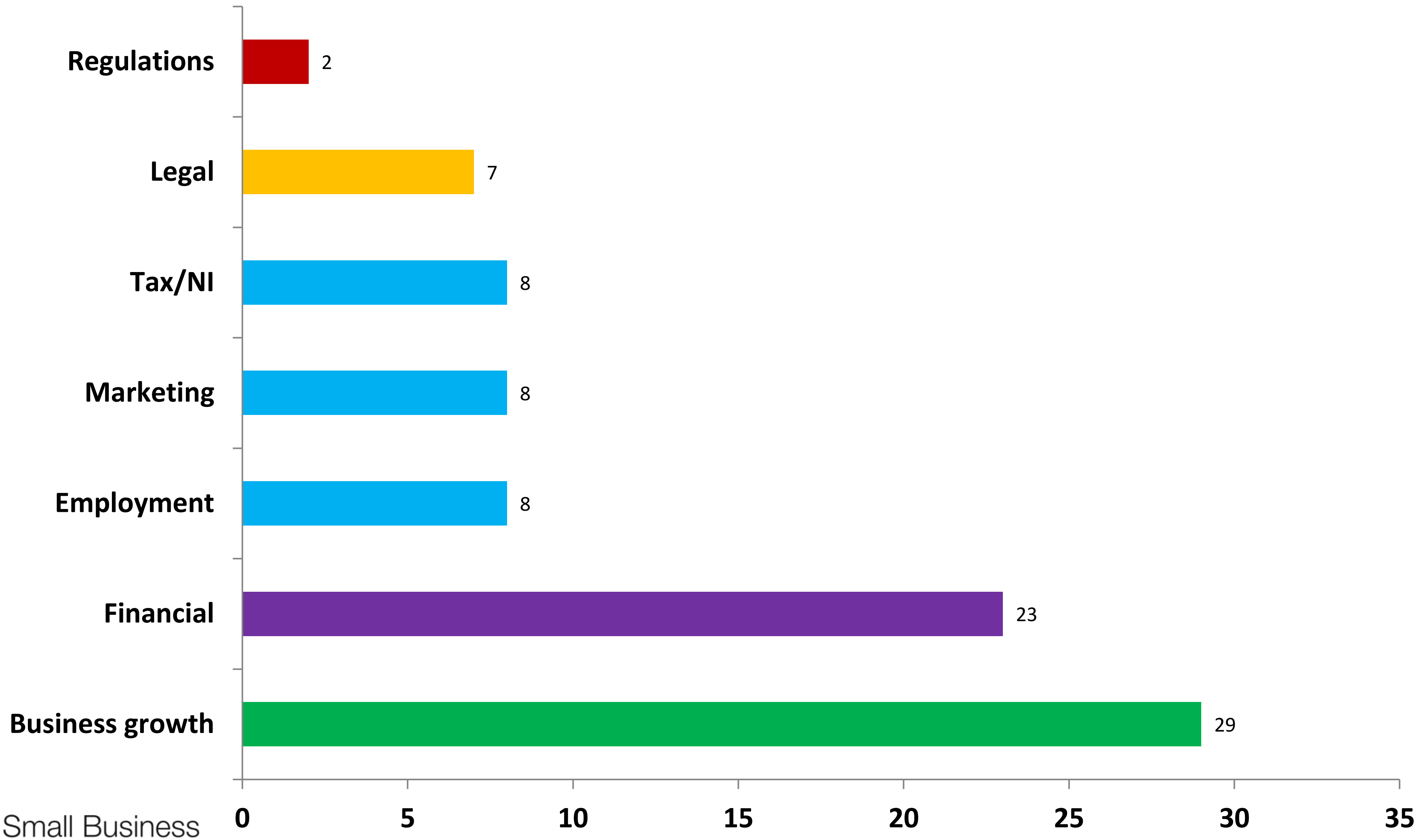
- Rise in *micro-enterprises*
  - Many different organizational forms
- Increase in *churn* of businesses
  - Rise in starts and stops
  - Continued throughout GFC
- Decline in manufacturing
  - Rise in service based
- No reason to assume decline in demand for advice or support: in fact it can grow

But mixed success of policy interventions

- Take-up limited eg. UK SBS 2012 (n=4000+) found:
  - 45% sought external assistance or information
  - 5% sought strategic advice
  - Engagement micros lower; new firms higher
  - 52% of seekers paid for advice

- Environmental 'shocks' important stimulant
  - Crises: HR, growth, changing regulations
  - But solve it DIY is default starting point
- *SME market for advice not a push-over*

Main reason for advice last 12 months (%)



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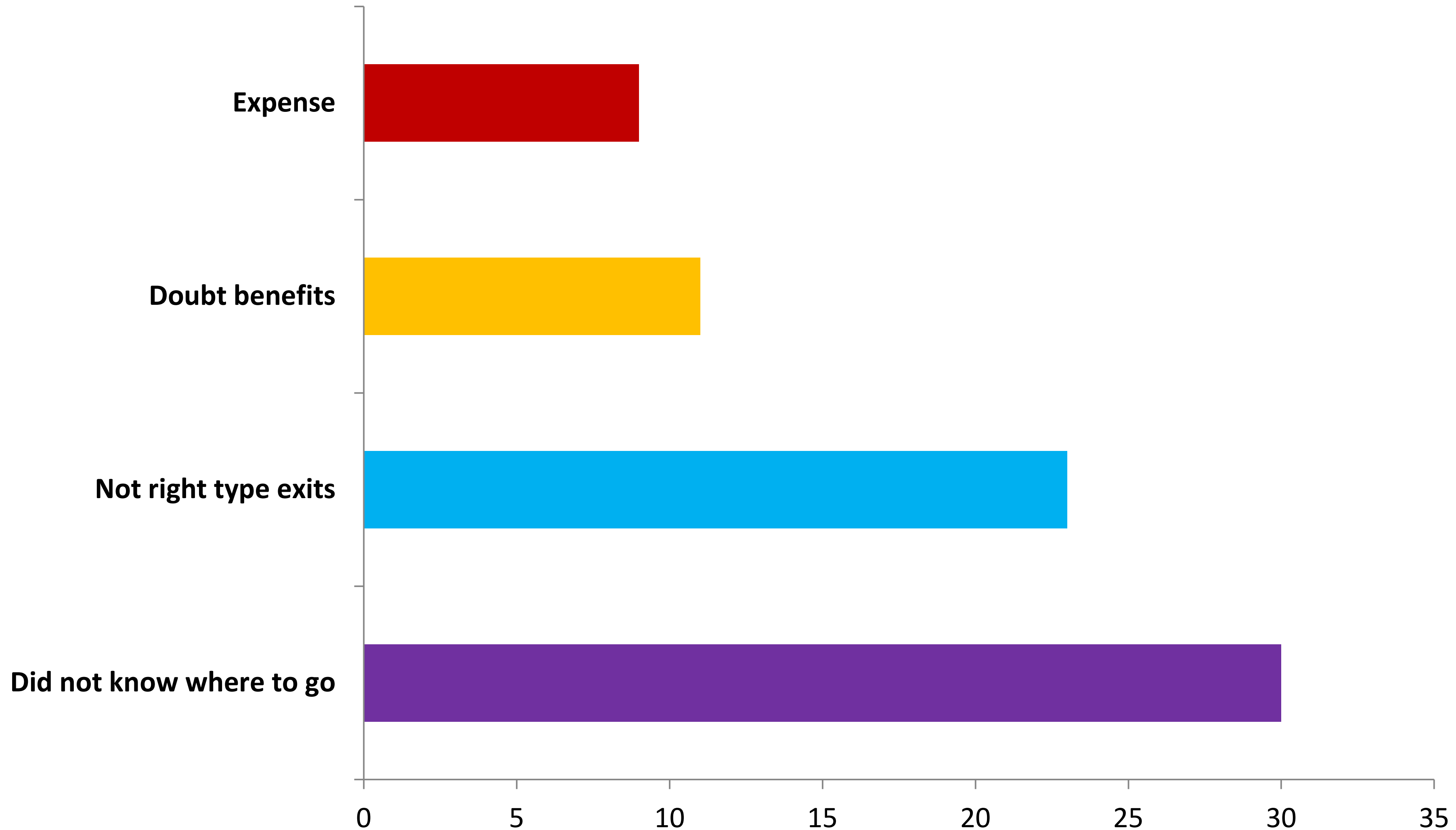
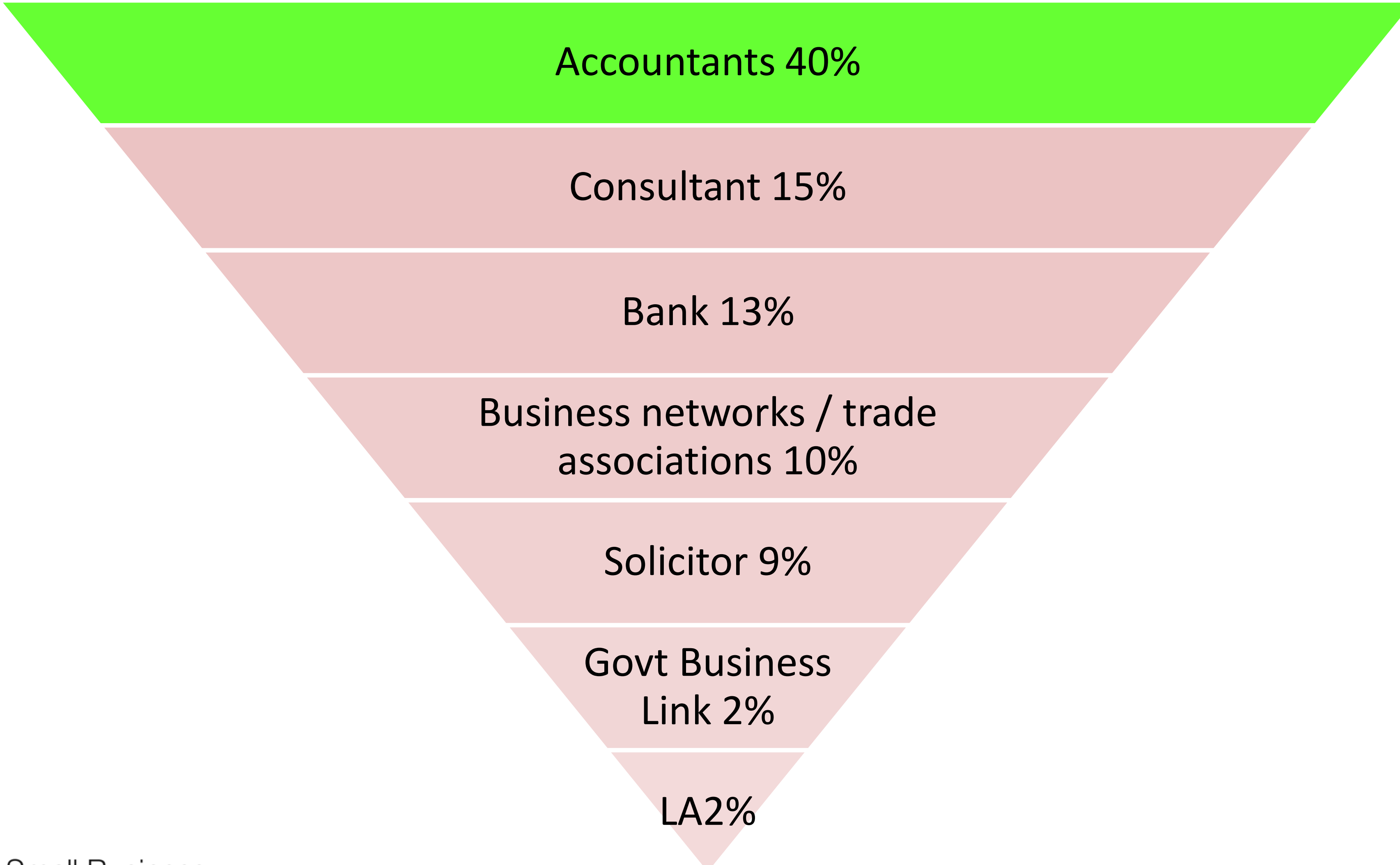
Reasons for not seeking advice/info last 12 months



Main Sources of advice seeking (UK SBS 2012)



Role of accountants and SMEs

- Accountants single most important source of advice
  - Contingent on price; competency; expertise; all elements of trust
  - Not confined to compliance services: HR; IP; grant seeking; sounding board
- But, research shows *no automatic extension* of take-up of non-compliance services
  - Trust appears bounded within a specific service
- Hence, no guaranteed extended market for SMPs
  - Non-compliance services: need to earn ***competency trust***

Conclusion and way forward?

- Policy provision for SMEs extensive
  - Yet somewhat wanting: take-up weak
  - Need for clearer policy objectives
  - Better evaluation approaches and use of evidence
  - At worst interventions displace existing activity
- Incremental improvements required
- Partnerships with ‘natural’ networks and trusted advisers
  - Role of intermediaries eg accountants key role

Thank you

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