Government, SMEs and Entrepreneurship Development: the challenges of intervention

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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

- Taxation measures
- Finance measures - Project Merlin
- Reduction in ‘red tape’
- Access to government contracts
- Business Advice online
- Support for Business start-ups
- Business Coaching for Growth Gazelles

Interventions mainly supply side!
Significance of SMEs (eg. UK Economy)

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

Source: BIS 2011
Heterogeneity of the SME market

- **Region**
  - Delivery methods

- **Personal**
  - Ambition and capabilities

- **Size**
  - Workforce

- **Age**
  - Life-cycle

- **Growth trajectory**
  - New thresholds

- **Sector**
  - Regulatory environment
  - Markets
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 (%)

- Regulations: 2%
- Legal: 7%
- Tax/NI: 8%
- Marketing: 8%
- Employment: 8%
- Financial: 23%
- Business growth: 29%
Reasons for not seeking advice/info last 12 months

- Expense
- Doubt benefits
- Not right type exits
- Did not know where to go
Main Sources of advice seeking (UK SBS 2012)

- Accountants: 40%
- Consultant: 15%
- Bank: 13%
- Business networks / trade associations: 10%
- Solicitor: 9%
- Govt Business Link: 2%
- LA: 2%
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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