

Guest editorial

Government and policy for SMEs in the UK

Government interest in small firms in the United Kingdom dates back to 1969 and the establishment of the Committee of Inquiry on Small Firms. Prior to the appointment of this committee there had never been a comprehensive study of the small-firm sector in the United Kingdom, the area was little researched, and the formulation of industrial policy had proceeded without any real understanding of the functions performed by small firms or of the likely effects on them of government actions. With the publication of the committee's report (Bolton, 1971) all that changed. The committee recognised that the interests of small firms were neglected by the UK government "because it was nobody's job to consider them" and recommended, amongst other things, that "a Small Firms Division should be created within the Department of Trade and Industry, responsible for the development, interdepartmental co-ordination and implementation of policy towards small firms and for the administration of such official services as are provided for them" (paragraph 9.27). As a result of that recommendation, the United Kingdom now has a Minister for Small Firms within the Department of Trade and Industry and a Small Business Service which "gathers evidence, analyses the needs of small business and successfully influences all of government to 'Think Small First'." In so doing, it works closely with the research community, be it academic researchers in the country's institutions of higher education or private sector research and consultancy organisations. As a consequence the sector has become a major focus of research investigation over the years and there has been a proliferation of small-firm policy research, some of which has been captured in two publications 'celebrating' the tenth (Stanworth et al, 1982) and twentieth (Stanworth and Gray, 1991) anniversaries of the Bolton report. However, there has only ever been one formally coordinated investigation into small firms (Storey, 1994), with the result that research has been somewhat piecemeal and fragmented. Under such circumstances, the annual National Small Firms Policy and Research Conferences, organised by the Institute for Small Business Affairs, have become the main fora for researchers, practitioners, and policymakers, enabling them to come together each year to share the latest thinking in the field.

At the 2003 conference, from which the papers in this theme issue are drawn, the Small Business Service announced the government's action plan for small business, which was launched in January 2004 (<http://www.sbs.gov.uk/content/7-strategies/Actionplan.pdf>) and based on a new policy framework for a government-wide approach to helping small firms (Small Business Service, 2002). Basically the government's objective is to make the United Kingdom "the best place in the world to start and grow a business" and in order to do this, it has identified seven strategic themes as the key drivers:

- (1) building an enterprise culture,
- (2) encouraging a more dynamic start-up market,
- (3) building the capability for small-business growth,
- (4) improving access to finance for small business,
- (5) encouraging more enterprise in disadvantaged communities and underrepresented groups,
- (6) improving small businesses' experience of government services,
- (7) developing better regulation and policy.

Knowledge is seen as being integral to the delivery of these strategies and the Small Business Service is charged with the task of bringing knowledge together, analysing it, and disseminating it to those who can use it to make a difference in policy and delivery. Inevitably, in so doing, a rich source of knowledge on small firms and policy is the annual conference, and at the 2003 conference 26% of the papers delivered were on the theme of “public sector policy measures to support new venture creation and SME development”. Of these, five are presented here in this theme issue. Each relates to one of the strategic themes identified by the Small Business Service.

In the first paper, “Policy toward novice, serial, and portfolio entrepreneurs”, Westhead et al focus on how to encourage a more dynamic start-up market. On the basis of a survey of 354 small firms in Scotland, they draw attention to the marked differences between the three entrepreneurial categories and question the extent to which policymakers should continue to provide general support in order to increase the number of firm owners in an economy, arguing (page 797) that their findings suggest that “policymakers and practitioners should adopt different approaches to the support of portfolio, serial, and novice entrepreneurs.” This is precisely what is happening in the context of disadvantaged communities and underrepresented groups. In order to encourage their involvement specific measures are being taken, as the paper by Wilson et al demonstrates, with respect to female entrepreneurship. In “Women’s enterprise: a critical examination of national policies”, the authors review the recent policy developments in the provision of public sector support for women in enterprise. Whilst they acknowledge that the measures represent “the first UK coordinated response and a genuine attempt to create policy for women in a democratic, highly collaborative, and cross-cutting fashion” (page 812), they also stress that a strong economic argument for supporting women’s enterprise has not yet been presented and suggest that this cannot occur without gender-disaggregated statistics. Hence they conclude that “policy in the arena of women and enterprise has moved ahead of research, understanding, and the development of a firm theoretical stance from which to move forward” (page 812), something that clearly the government is anxious to avoid.

Improving access to finance is a further issue that the government intends to address and in the next two papers attention is focused on this particular aspect of policy. In the first, “The use of counterfactual scenarios as a means to assess policy deadweight: an Irish case study”, Lenihan and Hart detail and evaluate the assistance provided by Enterprise Ireland, the Ireland Enterprise Development Agency. The evaluation is based on a study of forty-two Irish-owned firms that had received financial assistance from Enterprise Ireland during 2000 and 2001. It results in a series of estimates of deadweight but suggests that 19% of firms reported 100% deadweight (that is, did not need any assistance from Enterprise Ireland to undertake and complete their business project) and only 7.1% reported zero deadweight, indicating that they would have completely abandoned their project in the absence of financial assistance. This leads the authors to conclude that the research raises issues concerning the efficient operation of the Enterprise Ireland package and suggests that there is a need to tighten, further, the ways in which the agency maximises its impact on companies. This theme is taken further by McGuinness and Hart in their paper “Mixing the grant cocktail: towards an understanding of the outcomes of financial support to small firms”. Here the central concern is to explore the extent to which the value of financial assistance influences growth. They do this by analysing a data set of 551 growth firms in Northern Ireland provided by the Local Enterprise Development Unit. The results reveal a number of interesting findings for policy, not least the fact that the actual amount of finance received is of greater significance for the smaller small firm than it is for the larger, suggesting that “business-support strategies need to

be sensitive to firm size in understanding how the assistance package can impact upon the range of economic outputs they are seeking to influence" (page 854).

The idea of sensitivity, this time to regional variations, is integral to the Business Link concept. In England, Business Link (Business Gateway in Scotland, Business Eye in Wales, and InvestNI in Northern Ireland) is the operational arm of the Small Business Service. It takes the form of a network of advice centres run by local providers for small businesses around the country. The Business Link operator provides independent and impartial business advice, information, and other services tailored to the needs of local small businesses and start-ups. As a consequence, the range of services varies from one service to the next but, perhaps more importantly, so does the level of service. In the final paper, Bennet and Robson address the strategic theme of improving small businesses' experience of government services by examining the variations in the performance of Business Link. In their paper, entitled "Support services for SMEs: does the 'franchisee' make a difference to the Business Link offer?", the researchers examine the different franchise arrangements that exist and their impact on market penetration and client impact and satisfaction. They discover that there is considerable variation both between and within franchise types, but some types do appear to perform better than others, and they propose that the ineffective franchises need to be removed and their territories covered by more effective operators. Clearly the findings have implications both for the government and for the British Chambers of Commerce, as some Business Links operate through the chambers, and in many areas the chambers are not effective.

Clearly all five papers have significance for government and policy suggesting, as they do, the need for greater refinement and sensitivity in policy formulation. As such, they demonstrate how academic research can both inform policy formulation and monitor the effectiveness of policy. However, they also demonstrate the somewhat piecemeal and fragmented nature of research in the field resulting, at least in part, from the considerable emphasis placed in the United Kingdom on academic freedom. Researchers are free to undertake the research they find of interest. Given the UK government's agenda to make the country the best place in the world to start and grow a business, perhaps the challenge to government is how best to stimulate and harness research on small businesses in order to ensure better regulation and policy, without constraining the research agenda and limiting the freedom of the country's academics to pursue issues that are of academic as well as practical interest and concern. If they can achieve this, and a sound evidence base can be developed, it should be possible to eradicate ineffective policy and regulation and, at the same time, develop policy that meets the needs of, and supports, the country's small and medium-sized enterprises. Only then will the United Kingdom have the opportunity to become the best place in the world to start and grow a business. For this to happen, though, there needs to be close and ongoing dialogue between government and academia. No longer are the interests of small business neglected—by government or the academic profession—but good policy formulation needs to be informed by quality research.

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