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What is Small Business Policy in the UK For? Evaluation and Assessing Small Business Policies

by James Curran

SINCE 1980 SMALL BUSINESSES HAVE HAD A key role in UK economic strategies (Storey, 1994)¹. Already by 1983, the *Department of Trade and Industry* (DTI) listed 98 small business support measures (DTI, 1983)². A *House of Commons Library* paper (Edmonds, 1986) estimated that between 1980 and 1985, government assistance for small business totalled over £1.1b. This has been more than maintained since with more policies and schemes added almost every year (Employment Department, 1992; Storey, 1994; DTI, 1995; DTI, 1998a). Such has been the proliferation, it has become difficult to offer a coherent overview. Even by 1989, half-way through the period covered here, the *Audit Commission* concluded that UK small business policy was a "... patchwork quilt of complexity and idiosyncrasy" (Audit Commission, 1989:1), a conclusion echoed by Storey (1994:254) in his later authoritative review.

The aims of UK small business policy have been difficult to pin down but two long running key objectives emerge from politicians' speeches and official statements:

- i) job creation;
- ii) the promotion of an enterprise culture and higher levels of enterprise.

At the start of the 1980s, the UK experienced its most dramatic economic downturn since the 1930s. At about this time, a US study (Birch, 1979) reported that US small firms were creating more jobs than larger firms. The then UK government seized on this and small enterprise promotion, to counter unemployment. At the end of the 1990s, unemployment is down almost to 1980 levels and apparently causes voters less concern. Accordingly, the rhetoric of UK small business policy has shifted more to the second aim (DTI, 1998b).

The notion that Britain needed a new

enterprise culture was an increasingly prominent leitmotif of the Thatcher administrations from 1979 onwards (Goss, 1991:8–14). This commitment to an enterprise culture linked to more small enterprise, has remained a key rationale for small business policies in the 1990s. In 1997 a Labour government was elected but this appears no less committed to these beliefs:

“Entrepreneurship and innovation are central the creative process in the economy and to promoting growth, increasing productively and creating jobs . . . As many people as possible should have the skills and support to set up, run and grow businesses . . . The Government’s aim is to create a broadly-based entrepreneurial culture, in which more people of all ages and backgrounds start their own businesses” (DTI, 1998b:14–15).

Other aims of small business policy have been stressed, if less emphatically. The most common probably has been countering regional economic decline. In the 1980s support for small enterprise was a part of regional strategies but in practice there was more emphasis on inward investment by large (often foreign) companies (Martin and Tyler, 1992). Because of Conservative antipathy to the EU and subsidies in general, European funding played a minor role. The Labour government is setting up business-led *Regional Development Agencies* which will link with existing small business support (DTI, 1998b:42–46). It is also keener to use EU support (DTI, 1998a:15).

At the operational level, small business policies have been equally difficult to decipher. As always the devil is in the detail. Storey (1994:257–258; 1998:4) for

instance, argues that, while there have been plenty of policies, they have been introduced piecemeal and poorly specified. Objectives *are* stated but in ‘politician speak’: policies are said to be ‘enhancing key management skills in the entrepreneurial firm’ or ‘helping established businesses realise their growth potential’. The problem, as Storey points out, is that stated in this form, it is difficult to determine whether they are successful.

On the other hand, whatever the nit-picking about the detail of UK small business policies since 1980, there has been a spectacular increase in the numbers of small businesses. The business population is now 1.3m higher than in 1980, an increase of over 50 per cent (DTI, 1998c). Most of the increase has been in more small businesses. Success at creating jobs is more controversial (Storey, 1994:chap. 6 *passim*). But UK official statements have claimed, directly and indirectly, considerable success (see, for example, DTI, 1995, 1996 and 1998a).

Assessing the Impact of Small Business Policies and Support

To what extent can the increase in small businesses since 1979 be attributed to public support for small enterprise? It might be assumed that much, if not all, of this upsurge is a result of their impact. But the UK economy has also been undergoing radical restructuring during this period. While older industries and manufacturing were already in decline in 1979 — a decline which accelerated rapidly in the 1980s — there has been a great expansion in services and ‘knowledge-based industries’ (DTI, 1998b). Some argue (Curran, 1999:13–16) that a key result was a decline in sectors with relatively few small

businesses and growth in sectors where small businesses are more common and more able to compete with larger enterprises. These structural changes might be as, or even more, important than policies promoting small firms.

This article examines the impact of small business support since 1979 and the implications for small business policies in the UK. It is almost universally accepted among politicians that more small enterprise is unquestionably beneficial for the economy. Yet this can be questioned. Small business support also involves public expenditure. The Edmonds (1986) estimate suggests it was already sizeable by the mid-1980s. Up-to-date estimates are harder to come by but given the increase in support since, costs have probably risen substantially. For example, Gavron *et al* (1998:59) report that the almost 200 government initiatives had an overall cost of £632m in 1995–1996³. Given the near total endorsement of small-scale enterprise, costs look likely to continue to rise⁴.

Governments in the 1990s have claimed that demands on the public purse now outstrips state revenues. Both main parties assert that taxpayers are unwilling to contribute more taxes and, indeed, demand reduced taxation. So far, small business support has not been questioned seriously in the political skirmishing over public expenditure. Nevertheless, the question can be put: is public support for small enterprise value for money? To what extent has it helped promote the increase in small businesses since 1979? Even if it can be shown to have been effective, is it still justified in the late 1990s?

Evaluating UK Small Business Policy and Support

Part of the answer to the above

questions should come from assessments of policy and support for small businesses. But evaluation of small business policies and initiatives has lagged behind their growth and proliferation. One possible reason is the consensus that supporting small enterprise undoubtedly promotes entrepreneurship, employment and national economic performance. In the 1990s, however, concerns among academics have emerged (see, for example, Curran, 1993; Storey, 1994 and 1998; and Gibb, 1998) as also has awareness of the difficulties of evaluation (Bennett, 1997; Storey, 1998; Curran *et al*, 1999).

The evaluation of small business policies in the UK has been of two main kinds:

- i) evaluations sponsored by government funding departments and/or agencies delivering the policy, conducted by private sector for-profit bodies. Most small business support evaluation in the UK is probably of this type and the results often never enter the public domain;
- ii) evaluations by independent (usually academic) researchers on a not-for-profit basis, sponsored by others than those funding or delivering the initiative, such as ESRC, professional associations and charities. The results are normally made public with the aim of promoting constructive discussion.

The distinction between the two⁵ is important. As Curran *et al* (1999) highlight, the first kind is much more likely to be favourable to the policy or programme than the second kind. Where those conducting the evaluation are dependent on the initiator or deliverer for their fees and future similar work,

there will be pressures to be less critical. This is less likely if evaluation is by researchers not reliant on policy-makers or deliverers for their funding and the results are open to peer scrutiny. One result, it can be argued, is that, overall, small business initiatives receive more favourable recognition for promoting small businesses, employment and economic performance, than they merit.

Much more recognised are the difficult methodological problems in evaluating small business policies and support. The key issues here are linked to:

- i) **additionality**, that is, net positive outcomes (desired outputs or even unanticipated consequences) attributed reliably to the policy or programme.

Additionality, in turn, has always to be offset against **deadweight** and **displacement**:

- ii) **deadweight** refers to desired outcomes which would have resulted even if the policy or programme had never been initiated;
- iii) **displacement** occurs where, as a result of the policy or programme, other firms not involved cease to trade or have lower sales or employment or suffer higher costs.

In principle, it should be relatively easy to measure additionality using before-and-after research designs. In practice, it is extremely difficult. Because the firms supported *are* small, they are extremely sensitive to external influences. Most policies and support initiatives operate over at least several months and sometimes much longer. Even over a few months, firms can experience severe, difficult to predict effects from external influences beyond their control which modify their performance. Measuring and allowing for these in assessing

additionality, is very difficult or even impossible.

The most obvious research design to control for external influences on firms in support programmes is some version of the matched control sample. Firms supported are compared with firms not supported to isolate influences unrelated to the policy. But, as Storey (1998:15–18) points out, matched samples in small business evaluations are very difficult to construct. The main reason for this is the great heterogeneity of small businesses and their external situations. Small firms operate in all areas of the economy. They are run by people of different ages and genders, with different social and educational backgrounds and different ethnic origins. They also have very different aims for their businesses⁶. Further, firms operate with different technologies and different labour/skill mixes. They also operate in different regions and markets. Even firms ostensibly in the same sector and locality may serve very different markets (Curran and Blackburn, 1994: 76–80).

The above problems are compounded by two further problems. First is the lack of suitable sampling frames for selecting firms for matched samples. There are few full listings of small firms in the UK, even for small localities or particular types of enterprise. Lists that do exist often provide little detail and date rapidly due to the contraction and expansion of firms or other changes. These result in the very high level of ‘churning’ in the UK small business population⁷. The second problem in response, particularly where representative samples upon which statistical analyses can be undertaken, are needed. Typically, response rates are low in the commonest kind of evaluation study, the postal survey. A recent study

(Bryson and Daniels, 1998) exemplifies this approach. The authors wanted to determine the extent and character of external expertise used by small businesses. They aimed to recruit a nationally representative sample of firms employing 10–250 employees in selected sectors. The response rate, however, was 10 per cent.

Low response rates do not necessarily mean results are unrepresentative but will do so if there is response bias. Unfortunately, response bias is common in small business research. It arises in two firms. First, as size bias, that is, smaller firms are less likely to respond than larger firms but firms of differing size operate internally differently and relate differently to the external environment (Goffee and Scase, 1995). Second, firms in some sectors are more likely to respond than others (Curran and Blackburn, 1994:69–71). Such biases weaken the value of results considerably where the research seeks (as in the Bryson-Daniels study) to analyse subsamples based on firm size, economic activity and the amount and kinds of external expertise used.

The above is also relevant where the less rigorous alternative to the matched control sample is employed. Here, firms supported are compared with an 'average' firm based on data from businesses not in the initiative. But sample selection, response problems and response bias mean the results are unlikely to provide reliable 'average' firm benchmarks. Even more fundamentally, where a population has very high heterogeneity, variability around any 'average' is likely to be large and indeterminate so that notions of a 'typical' or 'average' firm are virtually meaningless.

Finally, comparisons between firms helped and other firms can be affected by administrative selection, self-selection or moral hazard (Storey, 1988:19; Bennett, 1997:13). Administrative selection occurs where firms are selected as suitable for the programme on some criteria. It may be difficult to find firms fitting the same criteria for a control sample. Self-selection or moral hazard can occur for a variety of reasons. For example, a business growth programme may attract firms wanting to grow and only too happy to receive free or subsidised help. Or again, owners wishing to minimise labour costs may be more likely to participate in job creation programmes which include wage subsidies. Comparing firms will be difficult if little is known about the growth/employment strategies of control firms.

What the above also implies is that displacement and deadweight are also difficult to assess. Of these two, the most difficult to estimate is displacement mainly because it has so many possible forms (Bennett, 1997:7). A proper assessment requires a careful analysis of all enterprises 'at risk' of being affected, directly or indirectly, by any support policy. In practice this is extremely difficult. Many evaluations *do* estimate displacement but most estimates are guesses or expressed as minimum/maximum values offering sponsors the opportunity to select the outcome they prefer. Deadweight is also difficult to estimate. The commonest source of data on deadweight are owner-managers in the initiative. But asking 'as if' questions about what respondents would have done in the absence of the policy or support, is always problematic. Some owner-managers might be expected to be over-optimistic if only because a positive

outlook is likely to be a common attribute of entrepreneurs. On the other hand, some might be pessimistic if they believe this helped win the support or could help secure future support.

Taken together, the problems of sampling, response bias, self-selection and establishing control samples, make evaluation extremely hard. But equivocal outcomes offer opportunities for positive interpretations of results. An example shows how easily this occurs. A Business Links evaluation for the DTI (Ernst and Young, 1996) included telephone interviews with 250 Business Link clients, case studies of business advisors and businesses helped and interviews with key personnel in Business Links and other local organisations. After excluding firms which had just a simple business review or used the Business Link solely for 'sign-posting', the evaluation reported that just over half the firms had used one or more Business Link services (Ernst and Young, 1996:77).

The above might appear to imply, however unintentionally, that Business Links were delivering support to about 50 per cent of small firms. However, firms in the evaluation were self-selected: they were already Business Link clients. Other research suggests a very different picture. For instance, a survey (Curran *et al.*, 1996) carried out at about the same time, recruited just over 800 small businesses with under 200 employees. This reported that only seven per cent had used a Business Link for training support⁸. In other words, self-selected samples and lack of control samples, frequent in evaluation studies, tend to inflate the impact of support and policies.

Another serious problem with quantitatively-based aggregate evaluations of small business policies (by far the most

common) is that they offer little on how *individual* firms respond to policies. Given the heterogeneity of small firms, the asymmetrical impact of policy is likely to be great. How owner-managers integrate any support with their business goals, how it impacts on operational procedures and relates with those outside the firm, is hidden where evaluation offers aggregate findings only. Yet without knowing how a policy goes through 'the black box' which is the firm and its activities, no evaluation can properly estimate impact on business performance.

The most rigorous kind of assessment arguably ought to concentrate on business performance. Growth is one obvious indicator and the most common which evaluations try to assess. It may not be the most appropriate, however. Most small businesses do not grow (Storey, 1994:119) but an initiative may not have failed if businesses do not grow. A more appropriate measure might be efficiency measured by output relative to the capital/labour employed. Evaluation studies rarely attempt to measure such impacts except as reported subjectively by owner-managers. One reason for not employing conventional economic measures is that tracking policy impacts on small firms is extremely difficult. Storey and Westhead (1994), for example, examined a large number of studies of small business management training programmes. They found most were methodologically flawed but among the few deemed adequate there was "... little evidence that management training programmes clearly led directly to better performance amongst participating SMEs" (Storey and Westhead, 1994:1).

The above emphasis on the inadequacies of quantitative/statistical

approaches to evaluating small business policies and support reflects their importance in UK evaluations. Although some researchers have become less confident about these approaches of late, they still have influential champions (see, for example, Bennett, 1997; Storey, 1998). So far, however, attempts to eliminate their weaknesses have not been convincing. As elsewhere in business and policy research, qualitative research approaches have become more popular recently (Denzin and Lincoln, 1994; Gill and Johnson, 1997). This has affected evaluation of small business policies but the impact has been relatively slight and uneven.

Quantitative researchers, sensitive to criticisms and especially the absence of information at the firm level, have increasingly included qualitative components in their research. The most common is face-to-face interviews with a sample of owners from the larger population analysed quantitatively. For example, the Bryson and Daniel study undertook 60 face-to-face interviews to add to their mail survey data. Another common alternative is adding a small number of case studies. A qualitative element in evaluation studies can be very helpful in understanding why statistical findings are patterned in particular ways. They can also be used to find out what happens in the firm itself. In practice, however, qualitative elements are typically add-ons to quantitative evaluations. Quotations from face-to-face interviews are used to illustrate quantitative findings⁹ rather than the qualitative data being used to uncover findings not derivable from the quantitative data. Frequently, where researchers want to give qualitative evaluation a central role, sponsors insist that to be 'rigorous'

evaluation must be quantitative.

Approaches to evaluation which adopt a fully qualitative approach differ fundamentally from quantitative approaches¹⁰. First, they refuse to assume any simple, rational policy-making process. Governments typically claim policies are aimed at encouraging entrepreneurship, economic growth and national prosperity. The rhetorical character of such claims has already been discussed and qualitative researchers stress how policy reflects ideology. For instance, the most active period of small business policy and support in Britain coincided with the post-1979 Conservative administrations which proclaimed strong commitments to free markets, entrepreneurship and individualism. Small business policy was as much based on these ideological commitments as on any identified needs of small businesses. In fact, as Curran (1991), Storey (1994) and Gibb (1998) have pointed out, several frequently offered justifications for policies appear dubious. For example, the alleged existence of shortages of start-up finance or the negative impact of employment legislation on small business expansion and job creation, have been overwhelmingly rejected by research. Yet Conservative and Labour administrations in the 1990s have continued to cling to these assumptions and policy continues to be influenced by them strongly.

Second, qualitative approaches reject neo-classical economic assumptions about the behaviour of individuals, firms and market economies. They do not, for example, assume that owner-managers are profit maximisers, strongly growth-orientated or highly competitive. Small business policies are often predicated on one or more of these assumptions and

evaluations often adopt such assumptions at sponsors' insistence. In fact, as research shows (see, for example, Keasey and Watson, 1993; Curran and Blackburn, 1994; Storey, 1994) all three assumptions are highly questionable for most small firms. Few owner-managers are profit maximisers, few have a strong commitment to growth and most firms operate in markets where imperfections reduce competitiveness substantially¹¹.

Third, qualitative approaches are people-centred, concentrating on the firm as opposed to the population level of aggregate approaches. They assess the impact of policy and support by finding out how owner-managers and others connected to the firm respond. However, qualitative evaluation does not reject quantitative contributions. Knowing, for example, what proportion of firms have adopted a support initiative is clearly useful. Equally, some policy impacts such as effects on employment can be quantified and there is no reason to forgo this information¹². But quantitative data plays a support role in qualitative evaluations and, overall, it is accepted that there will always be a high level of uncertainty in estimating outcomes and impacts of support policies.

Evaluating the Evaluations: 20 Years of Small Business Policy and Support in Britain

It might seem from the above that it is difficult to say very much worthwhile about the impact of small business policy in the UK over the last 20 years. Most evaluations, it has been argued, have been methodologically weak, producing results capable of a variety of interpretations. While the number of evaluations over the period is unknown, it must run into hundreds of (mostly

unpublished) studies. Most will have been small-scale, focusing on the impact of support initiatives in particular localities such as TEC areas. Many will have been relatively short-lived so that evaluations will have been inconclusive. Generalising from such a miscellany of small-scale studies is hazardous. Any notion of a virtuous cycle in which careful evaluation produces results which are used to develop more refined policies and support which in turn become the basis for a further cycle is nullified by the haphazard and inconclusive character of UK small business policy-making and evaluation since 1980. It might even be more accurately seen as an ideologically-driven process in which new policies have been continuously added or supplanted old ones to make the *Audit Commission's* (1989:1) “. . . patchwork quilt of complexity and idiosyncrasy . . .” even truer as a description in 1999.

Yet accepting all of the above findings from evaluations, independent and sponsored, throws up one very striking finding which recurs again and again — *the low level of take-up*. Even support programmes targeted at all small firms such as training support and business ‘health check’ programmes, rarely achieve more than a 10 per cent take-up and often much less¹³. Despite 20 years of substantial government funding, the setting up of hundreds of dedicated local support agencies and at the best estimate, at least 200 initiatives, this prompts the obvious question: why do so many small business owners decline this help? Drawing on small business research generally as well as evaluation studies, three reasons suggest themselves.

First, as Lightfoot (1998) has argued, there is a much repeated theme in owner-managers' replies when asked why they

do not use external support, even when free or subsidised. This is that the support provider 'does not understand' the owner's business. So common is this response that it suggests it does not simply refer to the lack of close knowledge of the business an external advisor will have, at least initially. An advisor can gain this knowledge given time. Nor does it refer simply to a lack of understanding of problems in particular sectors. Of course, small printing firms differ, sometimes fundamentally, from small computer software businesses but sector ignorance can be alleviated by targeted support. Some schemes, for instance, have always been tailored to specific sectors¹⁴ and Business Link Personal Business Advisors sometimes specialise in particular sectors.

Instead, Lightfoot (1998:237) suggests that the extreme reluctance to accept external advice, has its roots in small business owners' psychology as identified in many studies (Goss, 1991; Goffee and Scase, 1995). This shows a strong commitment to independence resulting in a stubborn 'I do it my way' individualism (Gibb, 1998:5). Their business is a principal means of self-definition and expression for many business owners. Accepting external support is often perceived as threatening this personal autonomy. This resistance may continue even when the business is in a crisis which could be alleviated by outside help (Curran and Blackburn, 1994:105–112). This inordinate commitment to autonomy also helps explain the common finding of a lack of strong growth ambitions among small business owners (Curran, 1986; Storey, 1994:110; Goffee and Scase, 1995:41–50). Growth is perceived by many owner-managers as a potential threat to their

autonomy because it will require managerial delegation and accepting 'interference' from outsiders such as those who help finance the growth.

A second reason for low take-up of support, again buttressed by research, concerns content. Basically, the weakness appears to be its 'top down' character. Providers see what they offer as the know-how for business success. The sources are standard texts in business and management education and large firm practice. Advice to small firms on business planning, financial management and training is distilled largely from these sources. Researchers (for example, Jarvis *et al*, 1996; Gibb, 1998; Lightfoot, 1998) however, have repeatedly found that owners are sceptical about the benefits for their businesses. The research suggests that owners may well be correct. Small businesses are not large businesses scaled down and textbook and large enterprise good practice is often poorly suited to the needs of small businesses. It is little wonder, therefore, if business owners are reluctant to accept such advice.

A third reason for the low take-up of support, is administrative convenience. Government departments favour standardised approaches easy to cost, administer and monitor. There have been initiatives dedicated to small firms in specific sectors such as the long established SMART (Small Firms Merit Awards for Research and Technology) scheme which mainly helps manufacturing firms. Similarly, there have also been initiatives to encourage small enterprises in Scotland, Northern Ireland and other areas where older industries have disappeared. But these have still been largely top-down and standardised, ignoring the heterogeneity

of small firms or the specific characters of localities. Business owners, would-be and actual, may therefore find it difficult to see how the help meets their needs.

All three sets of influences contribute to the failure of support to attract more than a small number of firms relative to those that could, in principle, benefit¹⁵. This low take-up of support has important wider implications. There has been an enormous expansion in the small business sector in the UK over the last 20 years but if only a small proportion of firms have been helped then the further question arises: what is public small business support *for* in the late 1990s?

Impacts and Implications for the Future of Small Business Policy in the UK

Despite the strong consensus among policy-makers that policies are needed to promote the small firm and its role in the economy the inference from the above review is that it is difficult to see how the large and growing support for the small enterprise could be having any great impact. Too few small businesses appear willing to accept the support and, among those that do, the evidence of any significant impact on the performance of the businesses helped appears scanty.

In the late 1990s, small and medium-sized enterprises (SMEs) are responsible for 54 per cent of turnover and 57 per cent of jobs in the UK (DTI, 1998c:4)¹⁶. In other words, SMEs are now more important than large firms in their contributions to business turnover and jobs. This raises the further question of whether there is now any *need* for national small business support on the present scale at the end of the 1990s. The cost of maintaining the support structure

and specific programmes is not cheap. The services provided are heavily subsidised with apparently little chance of users ever paying enough to make them self-funding. Whatever the need for such policies and support in 1980 and whatever their success since, the case for them in 1999 seems questionable.

Moreover, it is difficult to show any overall positive impact on UK economic performance due to more small businesses in the economy over the last 20 years. UK economic performance has remained below average compared with other OECD economies and growth rates since 1980 have been no higher than those of the preceding 20 years (Commission on Public Policy and British Business, 1997:17–19). Some have gone further suggesting that the increase may even have been harmful in some respects. For example, Curran (1999:31–33) noted that a widely debated problem in the UK has been the low level of formal, transferable skills compared with major competitor economies (DTI, 1998b:28–33). Small firms, for various reasons, find it difficult to offer formal training (Curran, 1999:31–32; Bennett, 1997:2). One result of more small firms is that overall formal skill levels in the economy are likely to decline unless governments act. UK governments have tried to raise skill levels but, as the recent white paper (DTI, 1998b) makes clear, results have been disappointing.

Similarly, contributions to innovation particularly by small new technology-based firms, are frequently trumpeted (Oakey, 1994). Small businesses have undeniably pioneered new technologies and products since 1980. But the contributions should not be over-stated: most small businesses use proven technologies to produce goods and

services marketed in simple, well tried ways. Smaller businesses also tend to be less capital intensive than larger businesses. One reason is they pay less well than larger firms (Low Pay Commission, 1998:49) and may have fewer incentives to invest in new technology. Others such as Harrison (1994) have pointed out, that the *kind* as well as the levels of innovation in small businesses are resource constrained. Much new technology and innovation requires the resources only large enterprises possess. A successful economy needs both small and large firms to be fully 'knowledge based'. Getting the right balance between small and large firms is difficult but any great increase in small firms in the economy runs the risk of reducing the potential to produce important forms of technological innovation.

The above suggests doubts about the need for, and cost effectiveness of, national small business policies. A case might exist, however, for *local* initiatives promoting economic revival through more small businesses. In Northern Ireland and in areas of Scotland, England and Wales where older industries have declined, supporting small enterprise might help promote economic rejuvenation. In practice, UK governments have rarely relied greatly on small firms for economic renewal. Support has usually focused much more on attracting foreign investment. The advantage is a bigger impact more quickly. The impact of 100 start-ups each creating a handful of jobs with few growing much, is easily outweighed by a single large foreign-owned, grant-aided plant. Regional policy reviews (for example, Martin and Tyler, 1992:158–161) suggest the contribution

to local economic revival by small businesses has been modest.

Conclusions

Twenty years of small business policy and support in the UK offers a case study for examining small business support in modern economies. The period covered (1980–1999) began with a growing unanimity that more small businesses meant more entrepreneurship, more jobs and more effective ways of adjusting to European and global economic change. The UK has generated a host of small business policies and support programmes to realise the alleged benefits of more small enterprise but clear benefits appear difficult to demonstrate. Politically, at the end of the 1990s, enthusiasm for small business policies appears as strong as ever in the UK. But is this enthusiasm justified in 1999? The policies and the infrastructure to deliver support to SMEs are expensive while small business owners themselves appear resolutely unwilling to accept their alleged benefits. At the very least, the key lesson from this UK case study over the period 1980–1999, is that the widespread received political wisdom on the benefits of small business support is worth a close questioning.

Notes

- ¹ As in most historical accounts, 1980 is an arbitrary start point chosen for convenience of discussion. In fact, policies promoting small businesses in the UK began much earlier (see Beesley and Wilson, 1981; Curran, 1986). However, the advent of the first Conservative administration in 1979 with its strong commitments to enterprise and the free market led to a sharp increase in the number and range

of such initiatives.

- ² This estimate, as well as those below on the numbers and costs of small business policies, is very appropriate. The sheer number and variety of policies which have come and gone plus the impact of other policies which, while not aimed directly at promoting small-scale enterprise, have still affected small firms, makes accurate estimates virtually impossible.
- ³ Taking the estimate by Gavron *et al* (1998) and grossing it up to offer a rough comparison with the estimate for the period 1980–1985 by Edmonds (1986) supports the idea of a substantial increase in public expenditure since the early 1980s. It suggests that expenditure has almost tripled though, of course, allowance has to be made for inflation over the period.
- ⁴ For instance, in March, 1999 the government announced its intention to establish a Small Business Service supported by £100m of new money which would "... improve the quality and coherence of delivery of government support programmes for small business" (DTI Press Release, 10 March, 1999).
- ⁵ This is a simplification since, in practice, the boundaries between the two types are sometimes blurred. For example, academics may undertake evaluations on a fee basis for the funding department or delivering agency and the results may not be published or difficult to access.
- ⁶ Just to take the last of these differences. Small business owners vary from those seeking the fastest growth possible to so-called 'life style' owners who keep the business to a size that provides an income they regard as sufficient (perhaps added to income from other sources) and allows them to do what they find intrinsically satisfying. Both growth and profit maximisation may be consciously rejected to achieve these 'life style' aims.
- ⁷ One estimate (Barclays Bank, May, 1998) suggests that of the 2.6m business in England and Wales at year end 1997, during the foregoing 12 months there were just over 500,000 'starts' and just under 495,000 'stops', a high level of 'churning' by any standard.
- ⁸ Firms were selected from a database provided by Dun and Bradstreet. Size stratification criteria were used and firms contacted randomly. The response rate was 78 per cent in the telephone survey (n=751) and 60 per cent for the face-to-face interviews (n=70). Business Links were fairly new at the time and the number of businesses using Business Links for any kind of help has probably risen since. Recent research (Fitchew and Blackburn, 1998) suggests it may now be around 20 per cent for contacts of any kind over the previous 12 months, still well below the level implied by the Ernst and Young evaluation.
- ⁹ The Bryson and Daniels (1998) study illustrates this use of face-to-face interview data well also.
- ¹⁰ Examples of qualitatively based evaluations are much less common but see Curran *et al* (1994) and North *et al* (1998) for examples of research with substantial qualitative evaluation content.
- ¹¹ To be fair, neo-classical models are now questioned by many economic and quantitative researchers who often prefer alternatives such as the 'new' institutional economics (Kelm, 1996). This accepts that actors do not conform to the rationality assumptions of classical models and that economies always operate imperfectly with high

uncertainty so that firm predictions are impossible. Few evaluations of small business policies in the UK however have adopted such models.

¹² However, even estimating job changes due to policies or initiatives is not easy. It depends, for example, on the point in time when the estimate is made: jobs created in the short-term may disappear later. Such estimates are also subject to deadweight and displacement effects.

¹³ It might be argued that an obvious reason for low take-up is the relatively short lives of many initiatives. But even longer term initiatives are no exceptions. For example, the *Enterprise Allowance Scheme* started in 1983 still runs (albeit with changes in name and administration) to help the unemployed start businesses. The numbers helped add to a substantial total over the years. But the total was only a small proportion of starts over the period. Moreover, as Storey (1994:277–284) points out, evaluations suggested the businesses helped had high failure rates, led to high displacement and created relatively few, often short-lived jobs.

¹⁴ A current example is the *Biotechnology Mentoring and Incubation Challenge*, a competition to encourage the provision of incubators and specialist business mentoring to help young biotechnology companies grow (DTI, 1998a:16).

¹⁵ For example, the author directed TEC sponsored evaluations of two well-funded initiatives to help small firms in a local economy. Both sought to promote growth and employment with grants and subsidies but failed to recruit even half their target numbers. A 1995 national small business training initiative to support 100 projects with up to £5m, attracted only 350 bids (and only identified 74 worth supporting)

resulting in an almost 30 per cent underspend despite two rounds of publicity and expert help in preparing bids (York Consulting, 1997).

¹⁶ SMEs have under 250 employees, but if the cut-off is lowered to under 50 employees (the EU definition of a 'small' business) they remain responsible for almost 40 per cent of business turnover and almost 45 per cent of non-government employment.

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