

## Small & Medium Enterprise In an International Context

Task:

Part 1.

- Assessment of Government policy towards SMEs
- Effectiveness of it
- Recent evidence to justify answer

Part 2.

- Proposition for changes to Government policies towards SMEs in the future
- Reasons for making these recommendations
- Possible outcomes

## Part 1

*“This Government recognizes that enterprise is the lifeblood of our economy – boosting productivity, increasing competition and innovation, creating employment and prosperity, and revitalizing our communities.”*

(Tony Blair)

### Illustration 1: Tony Blair in “The Way Forward”<sup>1</sup>

Since the Bolton Committee’s report in 1971 on small firms Governments, Conservative and Labour, have implemented policies to support Small and Medium Enterprises (SMEs).

Improving the availability of information and advice, the Government has established departments, agencies and services which can be accessed on the Internet. The Department for Trade and Industry (DTI) has set up the websites “Small Business Service (SBS)”<sup>2</sup>. SBS was introduced in 2000 in order to implement and enforce the start up and growth of businesses in the UK. It is an “*umbrella organisation which would promote and co-ordinate the wide range of help, information and advice available from many sources*”<sup>3</sup>

The website “Business Link”<sup>4</sup> is operated by SBS and therefore falls under this umbrella. It concentrates on helping and advising already existing businesses.

### The 7 Core Strategies

The Government together with SBS has developed a strategy how to encourage entrepreneurship and how to make sure that start-ups are able to succeed. A policy framework was implemented with 7 Core Strategies<sup>5</sup>:

1. Building an enterprise culture
2. Encourage 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 under represented groups
6. Improving small businesses’ experience of Government services
7. Developing better regulation and policy

### Illustration 2: The 7 Core Strategies

Martin Griffiths, Chief Executive of SBS, explains that the policy framework aims are based on “Think Small first”, delivery of information and services from Government departments and access to a wide range of advice.

1. Building an enterprise culture means that the Government encourages an environment for people to start up their own businesses. Some cultural factors are difficult to change, for example people’s fear to fail. This can influence the desire to start and expand a business. However, the Government has started to widen the awareness of possibilities in the SME sector and the knowledge of a potential culture. For example by offering sources to schools, so that young people receive basic knowledge about entrepreneurship and the surrounding

<sup>1</sup> Small Business Service, Small Business and Government, The Way Forward (2002)

<sup>2</sup> [www.sbs.gov.uk](http://www.sbs.gov.uk)

<sup>3</sup> David Stokes (2002), p. 129

<sup>4</sup> [www.businesslink.gov.uk](http://www.businesslink.gov.uk)

<sup>5</sup> The Way Forward, op. cit.

environment. Another example is the contribution of SBS to the expenses of "Enterprise Insight"<sup>6</sup> £ 0.7 million was provided in 2002 – 03.

2. The Government encourages a more dynamic start-up market. It helps starting up businesses to overcome entry barriers. Several publications help to do so. Their aim is to make the regulatory requirements that apply to start-ups and the range of support that is available understandable. A *Non-Nonsense Guide* to Government rules for starting a business has been published. It explains regulations that apply to SMEs as well as Government services.

Barclays Bank develops statistics of business start-ups and closures. In Quarter 1/03 it showed a rising trend in business start-ups. 107 000 start-ups were counted which is 12% more compared to the same period of the year before. Closures rose by 4%<sup>7</sup>.

3. Small business growth can positively be influenced by giving good advice. In understanding where the impact on growth in SMEs lies the Government is able to implement policies and regulations. Key factors for growth can be good management skills, innovative ideas and workforce development.

4. and 5. The Phoenix Fund, launched by the Government, is an example of how to improve access to finance for entrepreneurs of existing businesses and start-ups in disadvantaged regions. In this Fund are integrated:

- The Development Fund

Innovations and experimentation are encouraged as well as the identification and spread of best practice in deprived areas. Under the Development Fund also falls the Rural Development Fund. The fund aims to promote non-farm business recovery from the affection of the foot and mouth outbreak.

- The provision of capital, revenue and loan guarantee support to Community Development Finance Institutions (CDFIs). It gives assistance in finance and business to potential entrepreneurs and small firms that are mostly not able to access the financial help they require.

- A national pilot network of volunteer mentors. Several volunteers, coming from different businesses mentor pre and early stage businesses, including those in disadvantaged communities and under-represented, e.g. women and ethnic groups.

On a press release from the SBS on the 27<sup>th</sup> of October 2003, a £11 million funding for innovative schemes was announced. This funding should bring considerable investment to disadvantaged areas through the network of CDFIs.

*"Entrepreneurs play a crucial role in rebuilding Britain's disadvantaged communities, but in some parts of the country they're unable to get the finance they need from conventional sources. Yet businesses operating in these areas need investment like all other businesses"*

(Nigel Griffiths)

**Illustration 3<sup>8</sup>**

<sup>6</sup> A joint venture which focuses on Enterprising Education, Communities and Business

<sup>7</sup> Keith Marsden (2003), p. 41

<sup>8</sup> Speech at the launch of CDFI funding for Hasting-based 1066 Enterprise Ltd.

6. The load of administrative demands on SMEs can be very confusing. Therefore SBS aims to improve small businesses' experience of Government service and aims to simplify its services.

On the Business Link website<sup>9</sup> information in response to issues raised by businesses is given. Further information to this can be received from Business Link Operators (BLOs) which provide a local network service. SBS plans to spend £ 144 million in 2003 – 04 for the local service.

8. Develop better regulation and policy.

SBS represents SMEs in proposals for new regulations. The Government consults the SBS for information about how policies could have an impact on SMEs.

SBS also has worked with Government departments to intensify the knowledge of regulations for SMEs in order to make administrative process easier and timesaving.

### **Lack in Government policies**

The Government has set itself a timeframe till 2005 in which it wants to make the UK the leading place in the world to set up and grow a business.

In general the Government has developed an SME friendly environment. However the effectiveness can be questioned by the following<sup>10</sup>:

#### - Lack of objectiveness

Small business policy is not given from the Government as a whole, but from different departments. The monitor of targets is not clearly defined.

#### - Regional bias

Most of the available schemes are accessible on a national base. Regional differences are not taken into account. As a result, the richer areas in the south of Britain have benefited more from financial support than northern regions.

#### - Backing winners or losers

Help for existing SMEs is extensively spread. This hardly supports people who are unemployed to start up their own business and to be able to compete with existing businesses. However the Government has recognized this and moved to establish assistance for unemployed to set their own business by giving training and advice.

#### - Confusion and overlap

There is an enormous number of information available from the UK Government. It is hard for managers of businesses to determine all the help. To find the right assistance and information can get very time consuming and inefficient. Through the DTI, SBS and Businesslink the Government tries to solve some of these problems.

---

<sup>9</sup> Business Link website, op.cit.

<sup>10</sup> David Stokes (2002), p. 131

## Part 2

### **Social versus economic policy**

The UK Government strongly encourages existing SMEs and start-ups. As already mentioned above the aim is to build an environment in the UK which is to be the leading area worldwide in setting up and running a successful business. The Government also enhances workers' rights. EU Directives are enacted by the Parliament and then become domestic law. Employment regulations and family friendly policies have been implemented, for example: minimum wage, maximum working week, part-timers' benefits, parental leave and stakeholder pensions.

All of the workers' laws add to the costs of SMEs. There is a danger that these laws discourage business and make the business environment less competitive.

The load of "Red Tape"<sup>11</sup> is not proportional for SMEs in comparison to larger firms. The administration of the duties of the welfare state can be very time consuming for SMEs.

In my opinion it is the Government's obligation to improve this situation. It should enforce rules and regulations which balance the improvement of the quality of working life and the support for businesses in a competitive environment. The combination of social and economic policy is important to ensure and grow a healthy economy in the UK.

It doesn't necessarily mean that rules aiming on one side exclude the other but on a long-term basis that could be the case and has to be taken into account.

Policies which bring these 2 aspects together could be based on a stronger link between the EU and local SMEs through the national and local Government.

The outcome could be that SMEs are able to save cost and have more time for actual business. Encouraging a stronger identification of workers with the business can help to raise the ability to grow.

A strong identification with the company means that a worker knows more about the company, feels integrated and wants to work towards the growth of the company. The Government could encourage business-owners and managers to be aware of these facts and to help them integrate it into their businesses.

### **Building an Enterprise Culture**

Under section 1 of the core strategies, the offer of sources to schools in order to make pupils aware of an entrepreneurial environment has been mentioned.

I think that it is important to move away from only supporting learning provisions but include the funding of the actual value of the learning provision. This means that supplying sources is not enough. The results of the learning process should also be recognized. Teachers need to be equipped with appropriate knowledge and understanding of entrepreneurship to be able to pass it on to their students.

A possible outcome is probably not immediate. However the interest for entrepreneurship can be encouraged and a possible realisation of a business idea could be seen in a later stage of a person's career.

### **Encouraging a start-up market**

To encourage a vital start-up market the Government has already taken a lot of action.

As mentioned above, publications give a first insight of how to start a business and what the necessary steps towards a success are.

These publications need to be flexible and able to adapt to different regions. On the top of that they should enable ease of updating because changes e.g. in the economy could lead to new regulations and policies.

The main focus of the Government lies in the quantity of start-ups, however the emphasis on achieving high quality start-ups is not given. Strategies towards a higher quality would create

---

<sup>11</sup> Red Tape = Government regulations

stronger businesses from the start-point. Failures because of lack of knowledge could be avoided. From the beginning on policies should also be focused on long-term strength of a business and the recognition of the possibility of failure. Characteristics of successful long-term performing SMEs should be known by the Government in order to create appropriate regulations for future enterprises.

### **Building the capability for small business growth**

To build the capability for small business success and growth it will be crucial that the Government takes a sensible course of action to encourage business start-ups. Policies towards prosperous growth need to be carefully thought of and appropriately implemented. Agreements about the policies throughout the Government departments and their agencies should be made in order to avoid conflicts. In my opinion a good information flow system throughout the Government, its departments and agencies is crucial. Internal governmental conflict could lead to a damaging impact on businesses that need support.

### **Developing better regulation and policy**

Very often the Government wants to improve situations where regulations were already made. In some cases, for example, when a whole new area of regulations take place it is hard to exactly distinguish in advance what negative outcomes could be. Nevertheless improvements should be considered in advance to the enforcement of regulations. A closer contact between the Government and business management needs to be enforced

### **The Role of SBS**

SBS should have a more active role. A stronger influence in the discussions which already take place would help to clarify the Government's policies and regulations. A more active role could strengthen the knowledge about the role of the Government. On the other side the feedback from business owners or managers could be received on the same base of knowledge. Proposals for changes in Government regulations and policies could be easier developed. It is the SBS's role to listen to those ideas and inform the Government. However only having discussions doesn't result in any action. SBS should therefore try to not only discuss but also find ways to transform the debates into direct action.

### **Conclusion**

Government policies towards SMEs are always a viable area. The Government needs to ensure that it is kept up to date with the latest changes in the business world. Knowing the sector and positively influencing it makes the Government an important source for SMEs. At the level of the national Government regional, national and international areas of interest should come together. This makes the Government an important knowledge base on which it can build regulations and policies.

## Bibliography

Marsden, K. (2003) *Gordon Brown and British Competitiveness A statistical Analysis* Centre for Policy Studies

Stokes, D. (2002) *Small Business Management*, London, Continuum

[www.businesslink.gov.uk](http://www.businesslink.gov.uk) (10.12.03)

[www.dti.gov.uk](http://www.dti.gov.uk) (10.12.03)

[www.enterprisingeducation.co.uk](http://www.enterprisingeducation.co.uk) (10.12.03)

[www.sbs.gov.uk/content/strategy/sbsstrategyfinalversion.pdf](http://www.sbs.gov.uk/content/strategy/sbsstrategyfinalversion.pdf) (09.12.03)

[www.sbs.gov.uk/phoenix](http://www.sbs.gov.uk/phoenix) (14.12.03)

[www.sbs.gov.uk/press](http://www.sbs.gov.uk/press), 27-Oct-2003, Griffiths unveils Phoenix Fund boost for disadvantaged communities (14.12.03)

[www.ufilttd.co.uk/press/responses/SBSResponse2.pdf](http://www.ufilttd.co.uk/press/responses/SBSResponse2.pdf) (10.12.03)

,