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Getting UK enterprise policy right

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Synopsis

This report looks at the evolution of UK enterprise policy, offering a critique of the current landscape. The report questions whether the 891 different sources of support for small businesses and 18 access to finance schemes are the best way to organise enterprise initiatives, arguing that there are more effective, focused approaches that could be followed from elsewhere in the world. Of particular interest is the Kreditanstalt fur Wiederaufbau bank in Germany (the KfW), in operation since 1948, and the US Small Business Administration (SBA) that was created in 1953. Both have a clear focus, which is to help small firms access finance and push firms to export. The paper argues the new Business Bank should look to these institutions for lessons, take the opportunity to rationalise the unwieldy set of support on offer, and be the basis for a more fully fledged institution based on the SBA that will act as the anchor for enterprise policy.

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Chapter 1: Introduction

This report is intended to stimulate a debate around enterprise policy. By looking over policy formulation stretching back to the 1930s, and drawing on extensive academic research, our work underlines that for too long UK enterprise support for small businesses has lacked focus with numerous small initiatives with dubious effectiveness, and has been overly complex and too costly. To address these issues and to provide an anchor to policymaking and delivery of small business policies, it advocates the creation of a UK Small Business Administration (SBA) to provide that 'anchor'. Such an institution has been in place in the US since the 1950s, with considerable success. Other countries have elements of that model in place, Germany's state-owned bank Kreditanstalt für Wiederaufbau (KfW) for instance.

The issues and evidence to support the creation of a UK SBA are set out in Chapters 2, 3 and 4. Chapter 2 gives a high level summary of current enterprise support. It shows that there are currently 891 different sources of support available to small businesses (BIS, 2012a). One evident problem with there being so many schemes is that support may be being duplicated. Another issue is that the enterprise support is so complex that the entrepreneur finds it difficult to access what potentially may be valuable public support.

As Chapter 3 shows, these issues are not new. It examines the history of UK enterprise support, revealing that the design of enterprise policy objectives has shifted from using enterprise support as a tool for addressing equity (social inclusion) or efficiency (productivity) concerns. It presents evidence to show that UK enterprise support has been costly, with the most recent estimate suggesting that total annual public sector expenditure on small firms costing £12 billion (Richard Report, 2008).

In addition Chapter 3 considers the problems inherent in the way the UK has approached the delivery of enterprise support. It identifies that the delivery of enterprise support has been marked by a series of weaknesses including: a congested and confusing supply of such provision; high levels of policy initiative 'churn'; duplication of provision; and a weak evaluation culture. It provides a brief critique of the creation of the UK's Small Business Service (SBS) intended to address these weaknesses, and why it failed. This institution was set up in the early 2000s to act as the lead body in supporting small businesses but abandoned a few years later for two central reasons:

- The SBS was given responsibility but had very limited 'power' across central government; and
- The SBS's objectives were so broad that it was extremely difficult to correlate its activities with its given targets.

Chapter 4 compares the UK experience with that of other countries, and especially the United States' SBA. Operating for nearly 60 years, the US SBA has consistently focused its efforts on three core activities:

- Access to finance solutions;
- Government procurement; and
- Business advice and assistance.

In conclusion, the report argues that policymakers can and should learn from both the SBA in the US and from the UK's failed experiment with the SBS as well as drawing on insights from other models operating successfully in other countries, including the German KfW bank. It suggests that the UK should consider the creation of a UK SBA with clear legislative powers so that its goals and targets are achievable. If the policy is adopted, its ambition needs to be narrow too: a salient lesson from the prior contrasting experience of both the SBS and the US SBA is the necessity to focus on a core set of enterprise activities. Certainly from the outset, this report argues that the central focus of a UK SBA should be on improving access to finance for small businesses and that opportunity may be emerging with the fledgling Business Bank.

Chapter 2: Current provision of UK enterprise support

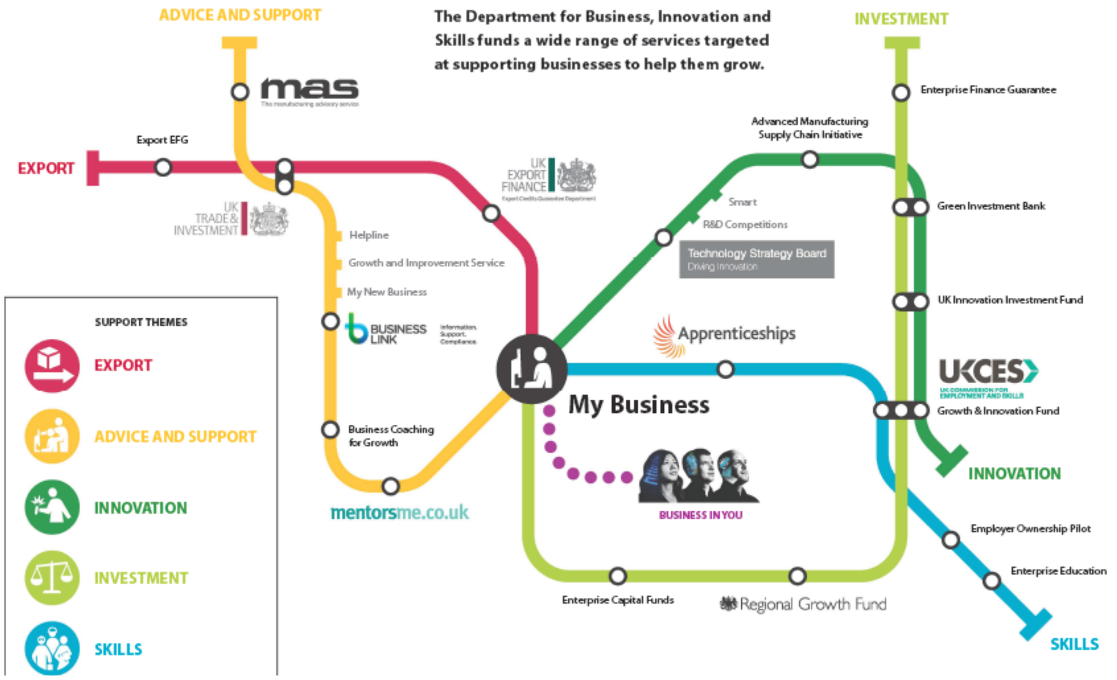
The UK economy, as with all other economies, currently faces significant challenges in dealing with the 'great recession' that has occurred since the onset of the financial crisis in 2008 (Fairlie, 2011). This Government, as with the previous government, has sought to support the financial solvency of the banking system and promote the vibrancy of its enterprise population (OECD, 2012).

To meet that aim, various mechanisms to support financially constrained small businesses have been developed either by indirectly encouraging UK banks to lend more to small businesses (the Enterprise Finance Guarantee, Project Merlin, Business Finance Partnership or the recently announced Funding for Lending) or by direct attempts to provide access to finance solutions for small businesses either mediated by the banks or through setting up a Government-backed Business Bank.

The Government has also sought to reconfigure existing support. Following on from the Richard Report (2008), it has reduced - if only for the English regions - the scope and delivery ambitions of Business Link down from a 'cradle to grave' advice and assistance program to an internet and telephone based information and signposting service. In addition the Regional Development Agencies (RDAs) have been replaced by Local Enterprise Partnerships (LEPs) in the hope that these new business-led organisations will provide better, more focused, regional provision of support.

Figure 2.1 shows the Department for Business, Innovation and Skills' (BIS) enterprise support 'journey planner'. This is designed to orientate a business ('my business') through its five most common support needs (exporting, innovating, advice, investment and skills). It suggests that there are 18 main 'stations' of support (denoted by the circles) available from BIS. Taken at face value, Figure 2.1 would imply that UK enterprise support is focused and simple.

Figure 2.1: Business journey planner



Source: BIS, 2012a

This 'journey planner', however, masks the complexity of current government enterprise support. There are three illustrations of this.

First, as Chapter 3 will highlight, central Government expenditure and activities to support enterprises are not confined to BIS. In fact, the most recent official estimate of UK enterprise activity and cost (PACEC, 2005) suggests that BIS only accounts for about one-fifth of actual Government expenditure on smaller businesses with the rest being spread across other Government departments. That would imply Figure 2.1 significantly under-estimates the cost and complexity of UK enterprise support.

Second, Table 2.1 shows central Government's current access to finance initiatives. In total, it highlights 18 access to finance schemes rather than six sources of investment support (Figure 2.1). This brings to light two other aspects to small business support:

- There is a great diversity of support available to small businesses. This may be judged important because small businesses are heterogeneous; and
- It is answer to the perceived need, given the prevailing macro-economic climate and the acknowledged difficulties that small businesses face in accessing finance, for the Government to have a greater range of responses to the current barriers facing smaller businesses.

Set against this argument, one drawback with this range of activities is the potential for duplication of support to small businesses with support providers coming from both the public and private sector with attendant 'crowding out' effects. A further drawback to these different routes to support is that it is potentially complex for 'consumers' of their services – small firms themselves as well as their various supporting agents such as accountants and tax planners. Consequently, the support landscape can become confusing to resource constrained small businesses and their stakeholders[1].

Table 2.1 Current UK Government access to finance initiatives

	Name of Scheme	Target Groups	Contact point
1	Funding for Lending Scheme (FLS)	Businesses and consumers	Banks and building societies.
2	Start Up Loans	Young people between 18-30	www.startuploans.co.uk
3	Youth Contract Wage Incentives	SMEs taking on apprentices	Jobcentre Plus
4	AGE Employer Incentive	Small firms taking on their first apprentice aged 16-24	National Apprenticeship Service
5	Regional Growth Fund	Varying organisations	BIS
6	New Enterprise Allowance	Unemployed people	Jobcentre Plus
7	Technology based SME development of new products/services	Innovative SMEs	Technology Strategy Board
8	Business Finance Partnership	Organisations looking to lend to businesses	HM Treasury
9	Community Development Finance Initiatives (CDFI)	Unsuccessful loan applicants from disadvantaged communities	Via CDFIs
10	Seed Enterprise Investment Scheme	Investors in SMEs with turnover below £200K	Via HMRC
11	Enterprise Investment Scheme	Most unquoted trading companies with <250 employees	Via HMRC
12	Venture Capital Trusts	SMEs	Via HMRC
13	Business Angel Co-Investment Fund	Investment/mentors in angel syndicates	Via individual funds
14	Enterprise Capital Funds	SMEs	ECF fund managers
15	UK Innovation Investment Fund (UKIIF)	Specialist technology funds	Via Fund of Funds managers
16	UK Export Finance products	Exporters, particularly SMEs	Via UKEF
17	Enterprise Finance Guarantee	SMEs with turnover below £41m	Banks
18	Growth Accelerator	SMEs with high growth potential	www.growthaccelerator.com

1 See, for example, the 'teething' problems witnessed by the banks and their small business clients when the Enterprise Finance Guarantee Scheme was expanded in 2010 (House of Commons Business, Innovation and Skills Committee, 2011).

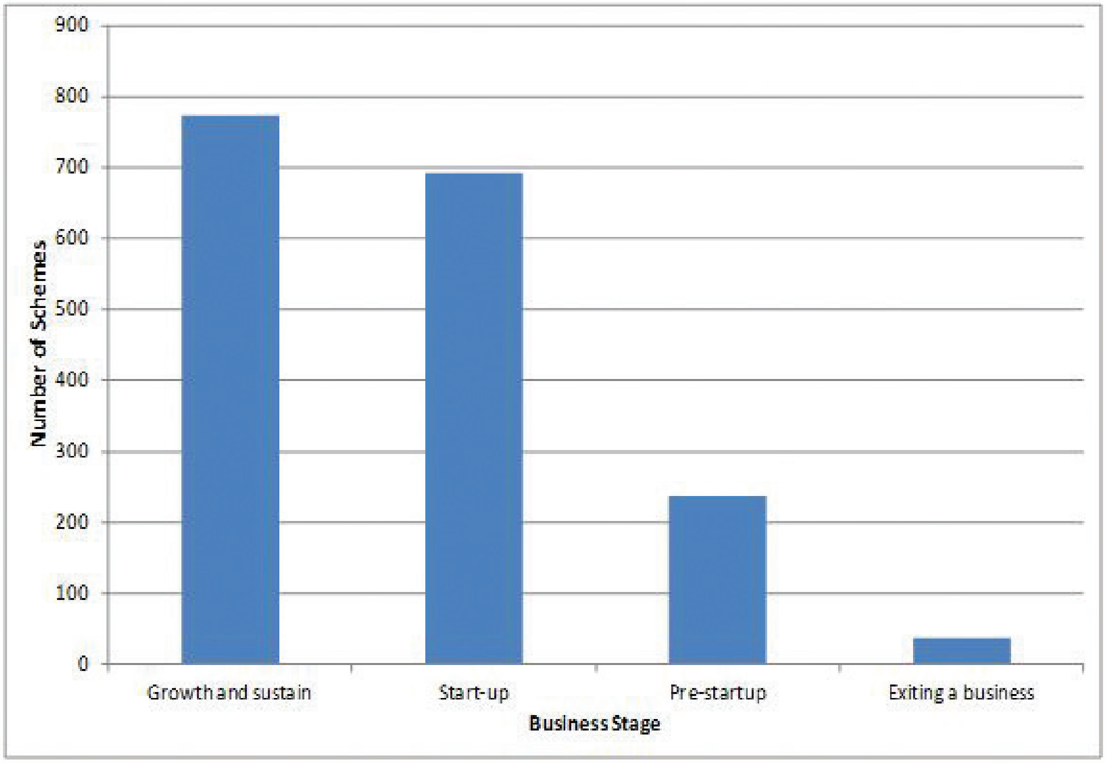
As the remainder of the paper aims to demonstrate, these initiatives are in stark contrast to enterprise support in the US, which uses its SBA as the principal delivery mechanism for supporting small businesses. Moreover, despite the heterogeneity of small businesses, the US SBA has just four main schemes to support small businesses (see Chapter 4 for further details). Evidence also suggests that the US has been able to lend more to small businesses in the current economic climate (FSB, 2012).

The third and final illustration is that although it is difficult to capture the full extent and cost of current enterprise support across all areas of the public sector, the Government's own 'GRANTfinder' service identifies 891 support schemes available to small businesses (BIS, 2012b). Figure 2.2 shows the two main features of this provision:

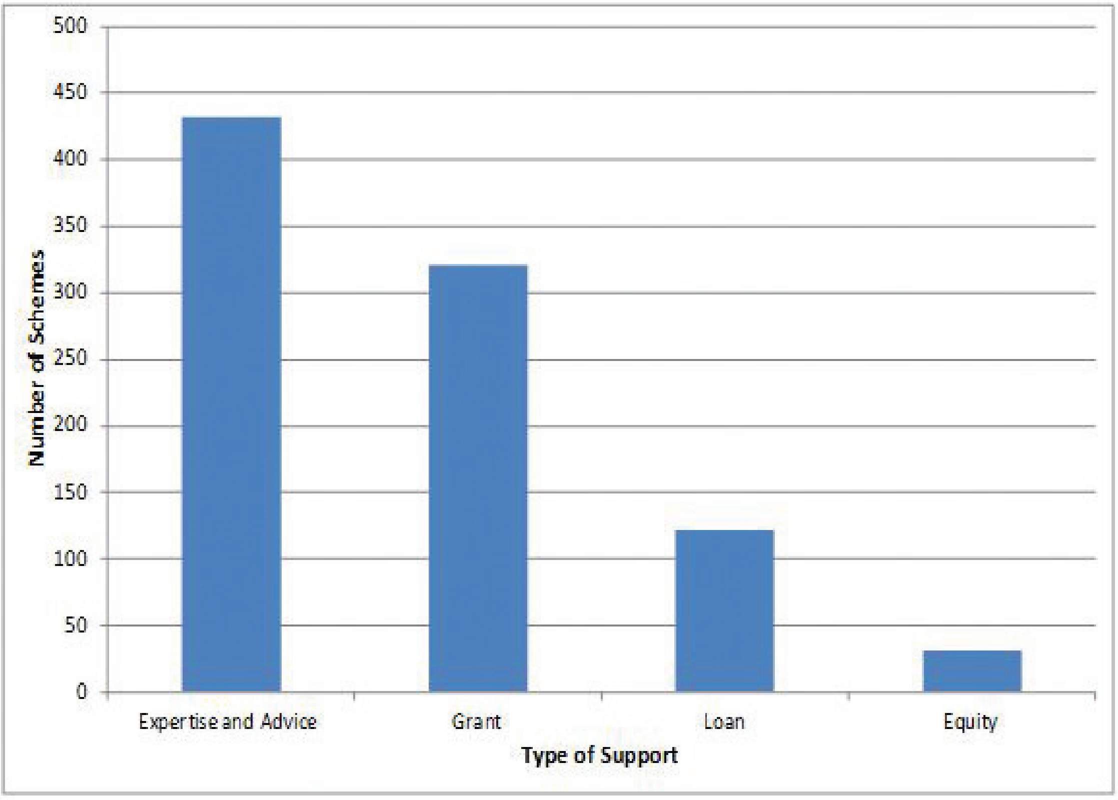
i. Business support is largely focused on businesses that either want to grow or survive (773 sources of support for 'growth and sustain') and start up activities (639) rather than pre-start up (237) or exiting the business (37); and

ii. Support is most often in terms of expertise and advice (432) or grants (321) rather than loans (122) or equity (31).

Figure 2.2 Target groups and types of BIS support available through 'GRANTfinder'



Source: BIS, 2012b



Source: BIS, 2012b

Again, the sheer number and diversity of schemes is likely to pose problems for time-poor small businesses. The very nature of having many schemes often means decisions are delayed or not made at all. Much of this is due to the overwhelming level of information and duplication which small firms will not have time to consider. Such complexity in the support ecosystem is in contrast to the US SBA which offers a limited menu of advice and assistance (principally through its network of Small Business Development Centers) to existing entrepreneurs. As Chapter 4 will show, the focus of the US SBA is also on access to finance.

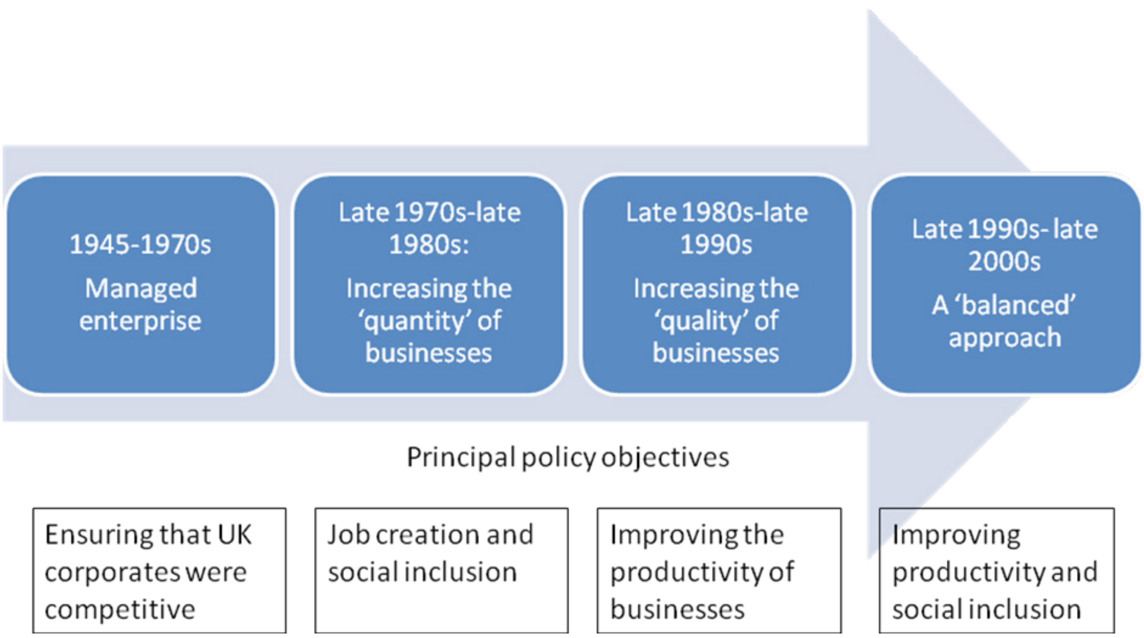
A final observation is the balance of such support may be inappropriate. Greene (2012) identifies that there is no deficit of individuals coming forward wishing to set up a business in many developed economies. Indeed, the UK enterprise population has grown more than a quarter in recent years, up from 3.5 million in 2001 to 4.5 million in 2011 (BIS, 2011). Where the challenge lies is to ensure the vibrancy and growth of the business population, particularly as businesses with growth ambitions are key to the UK economy providing jobs and innovation (van Praag and Versloot, 2007).

Chapter 3: A brief history of UK enterprise policy

The previous chapter gave a summary of the current enterprise support environment. This chapter provides a brief overview of how the UK has arrived at that point through a review of the evolution of UK enterprise policy since the last century. Figure 3.1 summarises that evolution, showing that surprisingly, in light of their current importance, small businesses were not a policy focus for much of the last century when small businesses were seen as "inimical to progress and professionalism" (Boswell, 1973:19) or run by individuals at the margins of society (Stanworth and Curran, 1973).

It was only in the 1980s when the development of a policy to increase the 'quantity' of new UK businesses came to the fore, and small business came to be recognised for their potential to create jobs (Birch, 1979) and be a source of productivity gains. Towards the end of the 1980s and into the 1990s, the emphasis shifted to improving the 'quality' of the UK small business stock through targeted initiatives such as Business Link. By the 2000s, the approach became more 'balanced' as policymakers sought to use enterprise policy both as an instrument of social policy to improve opportunities for disadvantaged individuals and communities and, at the same time, to improve the productivity of small businesses.

Figure 3.1 The evolution of UK enterprise policy



Why do governments intervene?

Before looking at the history of enterprise policy, it is useful to set out the rationale for government intervention. Generally, the central rationale for public sector interventions to support private sector businesses is the presence of market failures – instances where the private sector fails to provide otherwise desirable goods and services, meaning a role exists for the state to intervene to ensure these goods and services are provided. Market failures exist in the small business domain for three main reasons:

1. When there is insufficient competition such as evidence of barriers to entry and exit, oligopoly or monopoly in markets;
2. Where there are information asymmetries between consumers and suppliers, for example, banks unable to assess the risks of investing in a new technology or business model; and
3. If unpriced positive externalities exist, it means the firm cannot extract all the rents it is due from its activity. Such externalities take various forms but mean that others can take advantage of the firm's activity for free. For example, a new technology in the absence of patent protection. In these cases, the supply of such goods is below the optimum.

Potential and actual entrepreneurs are likely to face persistent market failures. New entrepreneurs, for example, may be ignorant of the benefits of starting and running a new business. Enterprise policy may therefore advantage individuals and particular groups in society such as the young, ethnic minorities and women by addressing such information asymmetries. Information imperfections may also be experienced by existing businesses, which limit their potential to survive and prosper. Equally, dynamic businesses with a growth orientation may experience particular barriers, for example accessing export markets and training their staff, which may limit their ability to grow successfully.

However, it is not enough to demonstrate that market failures exist: these constitute a necessary but not sufficient reason for intervention. What also needs to be demonstrated is that overall, the social benefits of intervention outweigh its social costs. Interventions to meet this test can be grouped as:

- Support to improve access to finance - loan guarantees and venture capital funds for example
- Interventions to improve entrepreneurial awareness and propensity amongst the young - enterprise in secondary schools, the expansion of tertiary enterprise education
- Interventions to improve social inclusion - supporting the unemployed into business ownership; hard (financial) and soft (training, mentoring) support for disadvantaged groups and businesses
- Soft support to improve managerial capabilities and capacities in small firms
- Horizontal support (generic tax and infrastructure support to make it easier for businesses to do business) and sector specific support (support designed to increase the quantity and quality of businesses in a particular sector)
- Export support - financial support to access overseas markets and trade missions to new markets
- Innovation support - financial support for high-tech businesses whose lack of a track record makes it difficult for them to access equity or mezzanine finance

A brief history of enterprise policy

1930-1979: The era of managed enterprise policy

For most of the last century, small businesses were largely ignored by British policymakers with two notable exceptions. First, following the Wall Street crash of 1929 and the ensuing global depression, the Macmillan Committee (1931) identified that British small businesses were ill-served by the British banking system – a situation current politicians will not be unfamiliar with. The Committee called for a rebalancing of the relationship between banks and their small business customers. Out of this the Industrial and Commercial Finance Corporation was formed. Second, following the post-war decline in Britain's small business population, the Bolton Report (1971) sought to identify why this occurred and was allowed to happen and what could be done to support small businesses. This led to the creation of the Small Firms Service in 1973.

There were few other policy initiatives over the period aimed at supporting small businesses (Beesley and Wilson, 1984). Instead, policymakers were interested, particularly in the post war period, in an industrial policy that sought to rationalise UK-plc into ever bigger and better corporate entities[2]. This policy of 'picking winners' failed. Rather than policymakers focusing on 'sunrise' industries, what happened in the 1960s and 1970s was that "it was losers like Rolls Royce, British Leyland and Alfred Herbert who picked Ministers" (Morris and Stout, 1985: 873).

By the late 1970s, however, an increasing interest was taken in small businesses for a number of reasons. One was that there was increasing recognition that Keynesian demand-side policies of the 1960s and 1970s had left Britain as the 'sick man of Europe'. In its place, the rise of supply-side economic theory and political shifts meant there was an increased belief that supply-side reforms to liberalise product and factor markets would lead to economic growth (Joseph, 1976). Another factor was the emergence of unprecedented high levels of unemployment in the 1970s. Policymakers began to realise that small businesses were potentially central to the economic renewal of the UK, and they were also increasingly seen as a means to reduce unemployment. Because small businesses then – as now – represented 99 per cent of the total UK enterprise population, the hope was that if small businesses could be persuaded to employ just one extra worker, the unemployment problems of the 1970s would be eased (Appleyard, 1978).

1979-1988: Increasing the 'quantity' of small businesses

Two events in 1979 heralded the shift away from the managed (corporate) policies of the 1960s and 1970s and towards enterprise (small business) policies. The first was the publication of research that found that small firms – rather than large firms – were net job generators (Birch, 1979). This provided a rationale for government support of smaller businesses. The second event was the election of the Thatcher administration that saw the need to rebalance the UK economy towards promoting competition and enterprising behaviour.

While this administration introduced initiatives such as the 'first generation' of Enterprise Zones, the Business Expansion Scheme (tax relief for investments in new companies) and the introduction of the Small Firms Loan Guarantee scheme, its main policy aim throughout the 1980s was to increase the uptake of enterprising activity. Attention therefore focused on lowering the barriers to business entry, promoting the benefits of entrepreneurship (Fraser and Greene, 2006) and to respond to the persistent unemployment of the 1980s, encouraging the unemployed to start up their own business.

2 This should not be seen as a particularly British concern. As Audretsch and Thurik (2004) suggest the main aim of European post-war enterprise policy was to ensure that Europe had more 'elephants' (large firms) than the US. Klapper et al (2012) identify that this led, in France, to policymakers largely ignoring smaller businesses.

This interest in small business and self-employment led to an increase in the number of policy initiatives: there were 33 initiatives between 1971-1981 (Beesley and Wilson, 1984) compared to 103 over the period 1982-1989 (Curran and Blackburn, 1990).

Overall, if judged simply in terms of the aim of increasing the number of UK small businesses, this policy focus was a success. Programs such as the Enterprise Allowance Scheme (565,700 participants over its lifetime, 1983-1991) helped lift the UK enterprise population from 2.4 million businesses in 1980 to 3.6 million in 1989 (Greene, 2002).

1988-1997: The focus on 'quality'

Although new entrants bring productivity benefits (Disney et al, 2003), the UK has perennially suffered from a 'long tail' of under-performing businesses. Since nearly all UK businesses are small businesses, successive Conservative administrations during this period brought forward a series of policy innovations to improve the 'quality' of the stock of small businesses. Initiatives included governance innovations (re-aligning the Department of Trade and Industry (DTI) as the 'Department for Enterprise'; the replacement of the centrally managed Manpower Services Commission with local Training and Enterprise Councils)[3]; and initiatives to improve managerial practices in smaller businesses (the 'Consultancy Initiative'; 'Managing into the 1990s').

The principal enterprise policy innovation of this period was the creation of the Business Link network. Piloted in 1993, the aim of Business Link was to rationalise business support by acting as a 'one stop shop'. Its other main role was to focus directly on helping small businesses grow and to support this effort, a network of 'personal business advisors' was created. Its explicit remit was to concentrate on businesses with between 10 and 200 employees with growth potential.

Overall, from a pure growth point of view it is not clear whether these policy innovations had their desired goal (Curran, 1993). Barrell et al (2010) identify that GDP growth per annum over the period 1987-1997 was 2.3 per cent. This was higher than France but lower than Germany, Japan and the US. Moreover, if the aim was to rationalise business support and focus on quality then that aspiration was not met. The number of dedicated small business policies in fact increased markedly, up from 103 initiatives over the period 1982-89 to more than 200 initiatives by 1996 (Gavron et al, 2000).

1997-2010: The 'balanced' approach

Small business policy continued to evolve under successive Labour administrations during this period. Some policy innovations remained. For example, despite concerns about the quality of 'personal business advisors' and the crowding out effects of subsidised public assistance to other private sector support providers (Chambers of Commerce, accountants) (Bennett, 2010), Business Link stayed as a 'cradle to grave' small business support service.

During this period there was a continued focus on encouraging enterprise activities amongst disadvantaged groups. This included not only helping the unemployed into business through the New Deal initiative but broadening support through initiatives such as the Phoenix Fund, the development of Community Development Finance Institutions and the Community Development Venture Fund.

3 Although this review focuses on the broad patterns of UK enterprise policies, there have been differences within the UK. For example, Brown and Mason (2012) show that there have been similar policy movements in Scotland, although the emphasis and pace of these has differed from the wider UK changes in the policy environment. Hence, Brown and Mason suggest that the emphasis of Scottish enterprise policy was on supporting Foreign Direct Investment (1945-1990) before this shifted to increasing the 'quantity' (Scottish Birth Rate Strategy) of new businesses in the 1990s. Since the 2000s, the emphasis has shifted towards supporting 'quality' (high growth starts in the 2000s; high growth firms in the 2010s) businesses.

Initiatives also continued to focus on reducing the distance between education and enterprise (the Lambert Report (2003); the Science Enterprise Challenge; and the Davies Report (2002)) as well as initiatives designed to alleviate the equity gap preventing fast growth businesses accessing angel and venture capital finance (the UK High Technology Fund; Regional Venture Capital Funds; the Early Growth Fund).

Following on from the evidence provided by endogenous growth theory, a distinct emphasis was placed on the positive externalities of agglomeration. This was focused at the sub-regional level by the creation of Regional Development Agencies that was, inter alia, designed to support the development of particular 'clusters' of innovative high tech small business activity (Porter and Ketels, 2003).

The Small Business Service

Another significant policy innovation of this period was the creation of the Small Business Service (SBS) in 2000. As already suggested, insights from the UK's experience with this failed model is informative to how future enterprise policy should be built.

The SBS was a dedicated agency within the DTI whose role was "to build an enterprise society in which businesses of all sizes thrive and achieve their full potential", "which listens to their needs and influences all of Government to 'Think Small First'", and to provide "more coherent delivery of services from Government departments, by sharing objectives and working collaboratively at all levels: nationally, regionally and locally".

In effect, the SBS's role was to act as an 'innovator', a 'centre of expertise' and an 'engine for change' between Whitehall policy communities and the delivery of small business support. To achieve this, there was a focus on seven policy 'pillars' and a focus on targets that were evidence-based[4].

Despite these lofty ambitions, the SBS was short lived. The executive agency status of the SBS ended in April 2007 with critical reports by the National Audit Office (2006) and the House of Commons Public Accounts Select Committee (2007). Two main failings were found:

1. It was difficult to correlate its performance against targets; and damningly
2. It was a poor champion of small business across Government.

These frailties, however, need to be contextualised against the increasingly complex and costly nature of enterprise support. In the first estimates produced anywhere in the world of the cost of enterprise support, in 2002 a joint DTI-HM Treasury report identified that in 2001, enterprise policy represented an annual cost of £8 billion. Major costs were the Common Agriculture Policy subsidies (£2.8 billion) and tax incentives of £2.75 billion (income foregone rather than direct expenditure). This meant direct expenditure on enterprise support was £2.5 billion. As Bennett (2008) suggests, this equates to about £600 per UK business or about £2,000 per business (at 2005 levels) for those businesses that employ staff.

A similar analysis by PACEC (2005) for 2003-04 revealed that the overall cost of enterprise support was £10.3 billion, of which £2.4 billion was agricultural subsidies and £3.6 billion was tax incentives. This implies that £4.3 billion was spent directly on enterprise policy, roughly equating (again using 2005 figures) to £1,000 per UK businesses or £3,500 per UK employer businesses.

An important feature emerges from this analysis, and why the SBS was doomed to fail: which is that direct government enterprise spending is widely spread across central Government departments. Although the DTI, along with the SBS, was the lead department, its actual direct spending on small businesses was

4 The seven policy pillars were: macroeconomic stability; investment; science and innovation; best practice; raising skills and education levels; modern infrastructure; and creating the right market conditions.

£696 million (or about 18 per cent of direct enterprise spending). Other major departments were the Department of Environment, Food and Rural Affairs (£297 million), the Department for Culture, Media and Sport (£336 million) and the Department of Work and Pensions/Jobcentre Plus (£331 million). So, too, was the Learning and Skills Council (£1.7 billion). This wide web of spending departments meant the SBS – like the DTI – did not have direct control over the majority of enterprise support: it was an exercise in responsibility without power.

Another now familiar feature also emerges: that enterprise support had become increasing complex (Curran and Blackburn, 2000) and that an 'enterprise industry' had come into being (Lovering, 1999). While government accounting of the level of enterprise support had become clearer and more transparent since Gavron et al (2000) estimated that there were over 200 small business support programs in operation in 1996, this did not stop new schemes coming into being. By 2005 an estimated 267 central government enterprise support services and over 800 small business support schemes were in operation in three English regions (PACEC, 2005) while a wider estimate suggested that there were 3,000 enterprise support programs available to small businesses in 2006 (NAO, 2006). Given this complexity, it is difficult to see how the SBS could easily and readily correlate its performance with its targets. Support had also become more costly. Official estimates suggested enterprise support increased from £8 to £10 billion while unofficial estimates put the cost at £12 billion with 2,000 separate providers of public support to smaller businesses (Richard Report, 2008).

How effective has intervention been?

If market failures persist over time, it would be reasonable to assume a stable set of small business policies would have been developed. But as this chapter has shown, the UK Government 'strategy' for supporting small firms has shifted over time. These changes are evident in the way the UK Government has chosen to deliver enterprise policy, and the effectiveness of those interventions. The following now looks in more detail at those interventions.

Table 3.1 shows the 'development' of business advice and consultancy over a 40 year period (1973-2011). Business support has fluctuated between different managerial points, different delivery managers, different fee structures and variations in the intensity of advice and assistance.

Table 3.1 Advice and consultancy schemes in the UK, 1973-2011

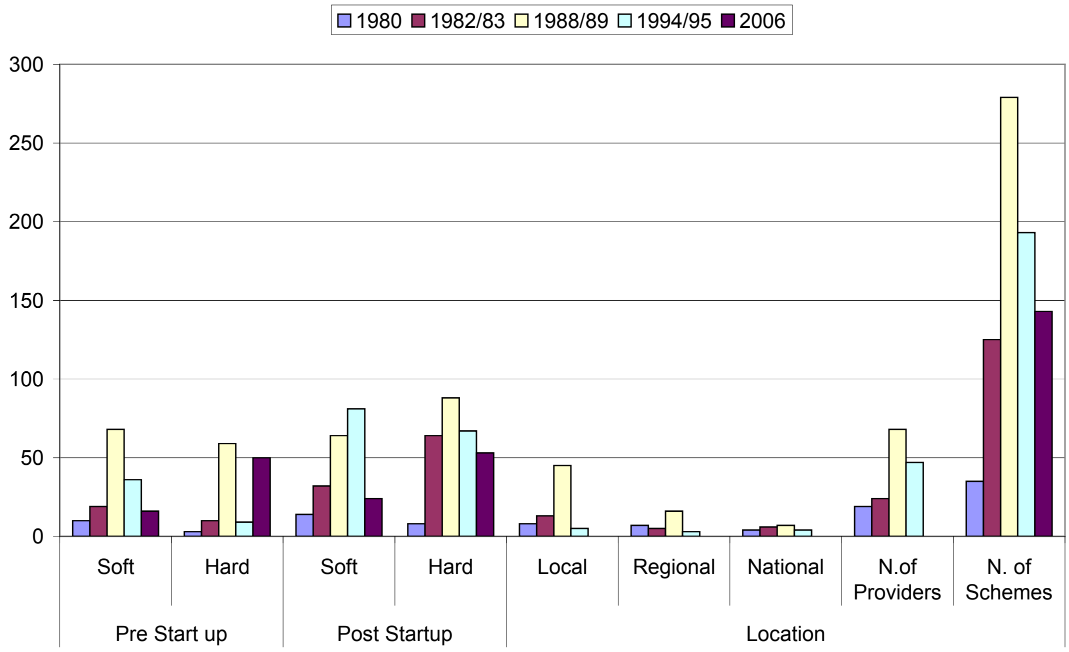
Main Schemes	Period	Point of management	Administration	Delivery	Client fees	Intensity of advice
Small Firms Service (SFS) and Business Development Service	1973-88	Central and government regional offices	Civil servants	Referral and market consultants	Free advice, subsidised consultants	Mainly low, a few high
SFS and Enterprise Initiative	1988-93	Central and government regional offices	Civil servants	Referral and market consultants	Free advice, subsidised consultants	Mainly low, more high
Business Link	1993-2005	Local: County and districts level	Contracts to government agencies, partner bodies, and franchisees	Internal, Partnership Brokers Accreditation Scheme (PBAs), and some referral	Complex mix of with fee targets	Targeting high, also low
RDAs and Business Link	2005-2010	Regional and county level	RDAs, partner bodies, and specialist contractors	Internal, PBAs, and some referral	Complex mix with some fee targets	Targeting high, also low, varied
Local Enterprise Partnerships in England	2010-	Local: City-region and county	Local strategy boards	Partners and private sector	Existing supplier fees, with some subsidies	Mainly low, a few high, very varied

Source: Bennett (2012)

As well as an ever changing delivery models, enterprise support has also been historically overly complex. This is evident in three main ways.

First, as noted earlier, there is the sheer number of schemes available. Greene et al (2008) charts the steady accretion of enterprise support in just one area – Teesside – over a 30 year period. Figure 3.1 shows that the delivery of enterprise support in Teesside has varied between start-ups and established businesses, soft and hard support and local, regional and national providers. More broadly, the Bank of England identified that, just in terms of access to finance, there were 183 initiatives in 2003, leading them to report that "it is hard for businesses (and their advisers) to review what is available and find the best scheme".

Figure 3.1 Enterprise Support Providers and Initiatives in Teesside (1980-2006)



Source: Greene et al (2008)

A second issue is the sheer churn of initiatives. In general, what can be discerned is that the average enterprise initiative faces the same fate that befell many Victorian children: some are stillborn, while the vast majority of them die in infancy or early childhood (Hughes, 2009). Moreover, for those that do survive through to their teenage years (Enterprise Zones, 1981-1996), they face the prospect of being abandoned, re-named or 're-discovered' (Enterprise Zones, 2011- onwards).

The third issue is the duplication of enterprise policy. Take, for example, the challenges faced by the Prince's Trust. For nearly three decades the Prince's Trust has provided a package of both soft and hard support to disadvantaged young people who want to set up their own business. Despite the Prince's Trust being seen as a policy 'success' (Lord Young, 2012), this has not prevented the current Government from developing the 'StartUp Loan' programme for young people which also offers hard and soft support. This is not the only competing government scheme. There is the New Enterprise Allowance introduced 2011 (a mix of hard and soft support for the unemployed aged 18 and over). This scheme is itself a successor to previous iterations of attempts to support young unemployed individuals: the 'six month offer' (January 2009-March 2011); self-employment options under the 'New Deal' between 1998 and 2011 - New Deal Young People, New Deal 25+, New Deal 50+; the Business Start up Scheme between1991 and 1995; or the Enterprise Allowance Scheme, which ran between1983 and 1991[5].

5 There is a similar contrast with Shell LiveWIRE. Shell LiveWIRE was 30 years old in 2012. Since 1982, it has consistently provided signposting services and awards to young people seeking to set up a new business (Greene and Storey, 2004). Successive UK Governments have introduced similar services ranging from interventions in tertiary education (Graduate Enterprise (1982-1996), Enterprise in Higher Education (1987-1996), Science Enterprise Challenge (1999-2004) and other more generic young people focused services (Enterprise Insight (later rebanded as Enterprise UK) (2004-2011) and a whole host of government backed specific schemes such as recent ones like 'Make Your Mark', 'Flying Start' 'Make Your Mark with a Tenner').

Given the degree of initiative churn, and the complexity and duplication of enterprise support, it is difficult to evaluate the efficacy of enterprise policies. This is because there have been very few robust evaluations of enterprise policies[6]. Nonetheless, the evidence base suggests that, at best, government enterprise policy has a patchy record of successfully supporting small businesses. For example, historical analysis of business advice and consultancy services shows that while usage levels of public enterprise support increased over the period 1973-2010, satisfaction rates fell over the same period from 95 per cent (1973-1988) to 79 per cent (2005-2010) (Bennett, 2012).

In addition, there is a dearth of evidence to suggest that supporting start-ups actually produce favourable outcomes (Shane, 2009). There is, however, strong international evidence to suggest that governments have proved more successful in supporting growing (Morris and Stevens, 2010) and innovative businesses (Foreman-Peck, 2010; Lerner, 1999) and in the provision of hard support, particularly through well-established loan guarantee schemes (Oh et al, 2009; Cowling et al, 2008; Cumming, 2007; Riding and Haines, 2001).

Overall, what emerges from this review of both current and previous enterprise policies is a 'patchwork quilt', 'chaos', 'labyrinth of initiatives' or 'muddle' (Audit Commission 1999, DTI/HM Treasury 2002, DTI, 2007) of government initiatives to support small businesses. A major explanation why governments often feel a need to intervene is when economic conditions or public voices raise areas of concern - the laudable intention is to 'do something'. However, policy and its behavioral intentions are not matched by evidence and the time needed for initiatives to 'bed in'. As this paper argues, a more vigorous, long term approach is needed. The supply of such schemes still remains congested, potentially crowding out private sector provision. Their sheer complexity and variety presents real problems for time constrained small businesses, making it difficult for them to access and utilise a complex package of government support, particularly when the ownership of these variety of schemes is spread across different government departments.

6 In this context, a robust and reliable evaluation is one that either uses a randomised control trial approach or one that uses quasi-experimental techniques to match treatment and control groups. The most famous example of an RCT approach in enterprise support is that of Benus (1994) who showed that a Massachusetts programme to support the unemployed into self-employment was beneficial. Bakhshi et al (2011) also use an RCT approach to evaluate innovation vouchers. Below the gold standard of RCTs, quasi-experimental evaluation studies have also provided robust evidence (e.g. Meager et al, 2003; Gorg and Strobl (2006); Mole et al (2008.

Chapter 4: Creating an anchor for enterprise policy

To provide greater clarity and coherence to UK enterprise policy, this chapter considers institutional frameworks and the case for a UK Small Business Administration (SBA) similar to the US model operating since 1953. As this paper has already shown, UK enterprise support has been marked, not only by fluctuations to the design of enterprise support, but also that the delivery of enterprise support has been overly complex and costly. It argues that these frailties could be resolved through the establishment of a UK SBA 'anchor' to bring strategic coherence to UK enterprise support.

If the approach is adopted, a UK SBA needs time to bring strategic coherence to enterprise policy alongside the requirement for consensus about the long term strategy underlying the UK enterprise support system. As this paper has suggested, enterprise support needs to be clear that the best way to aid small businesses is by focusing on a narrow set of activities which has access to finance solutions at its heart. It is far more than a rearranging of Whitehall 'deckchairs'.

The principles of good enterprise policy

Many reports and papers have suggested gold standards for policymakers to follow when designing enterprise policy. To that extent there is now a refreshing alignment of theoretical thinking from many governments which encompasses a hard-headed edge to policymaking and a 'less is more' approach, with a maturing understanding of what types of policies are likely to provide greater benefits to both the taxpayer and small businesses.

Where governments do intervene, experience shows that "structures for government provision, covering a whole country, with simple and single branding, offer superior management of expectations, simpler means of quality control and much lower costs of provision" (Bennett, 2012: 206). A further factor is the greater recognition that enterprise policy is more likely to be effective when it follows a 'less is more' approach. One clear message from the UK experience is that "there are too many initiatives for SMEs and entrepreneurship and what we need is fewer interventions but ones that have much higher impact" (Blackburn and Shaper, 2012: 2). However, and as this paper has touched upon, there are still too many examples today where we find political factors and 'loud voices' often pushing and pulling policies which are not evidence based or in fact needed.

Policy intervention also needs to properly target end users. The FSB would urge policymakers to consider the difference in business size and characteristics within the 'SME' sector. The needs for micro firms (those with below nine staff) will be very different to medium sized firms (those with staff numbers between 50 and 249) in relation finance, advice and internal capability. Communicating with micro and small businesses is notoriously difficult for government, which is just one reason why long-term policies are more favourable.

Rather than these short term reactions, policy measures should be designed for the long term and aimed at correcting market failures, institutional failures and reverse adverse policy settings. Three themes give a view on how public policy should develop; a longer but practical guide for policymakers is found in Box 4.1. These are:

1. Where the market does not allocate resources to produce the best overall economic outcome in a liberal market economy. These can be categorised as anti-competitive behaviours, missing markets or information problems
2. Through undertaking reforms of fundamental business institutions such as the labour market, taxation, law and business regulations and regulators with a clear focus on the desired long term outcomes. Governments often spend time and money continually reforming without setting-out end objectives thus leading to constant uncertainty
3. Where economic agents – both consumers and producers – systematically make misjudgments, often due to information asymmetries

These three areas cover the macro environment which all small businesses operate in and can have a massive impact on the growth rate of the SME sector and the health of a modern economy. Economists now suggest that the legal system in a modern economy can have a major role in the growth rate of SMEs (OECD 1994). This can be linked to commercial and intellectual property rights and a redress mechanism for those who operate outside of the law. All fundamental business institutions such as tax, law and employment policy have a major impact on small firms and as such, governments have pushed and pulled these levers all too often, and at times in opposite directions.

Box 4.1 Check list for policymakers

For the purposes of this report, we use standard, internationallyrecognised labour market definitions used by the International Labour Organisation (ILO).

The following provides a guide to policy design drawn from a range of commentators. It is the 'check list' that policymakers should follow when drawing up new initiatives to support small businesses. If not met, the implication is the proposal should be dropped.

- Does the program target the problem effectively?
- Does it have acceptable take-up?
- Is it timely?
- Does it induce new activity?
- Are large transfers overseas avoided?
- Does the program have the right duration, scale and target group?
- Is it administratively efficient for Government?
- Does it impose big compliance burdens on firms?
- Is it transparent and accountable?
- Is it financed in the least costly way?
- What are the risks posed by the programme:
    - Strategic behaviour by firms?
    - Unforeseen liabilities for Government?
    - Adverse interactions with other policies?

Source: BIE (1996b), Mortimer (1997), IC (1997e), IC (1997f) and Lattimore (1997)

The importance of institutions

The UK's experience with the failed SBS provides a useful counterfactual of where institutional arrangements are not successful, and where the rhetoric ('champion of the small business', 'thinking small first') was set against the cold reality of having an organisation that had responsibility without power. There are however examples of successful state backed institutions that have operated successfully for many years to promote small business policies and intervene to address the issues outlines above. Variations between delivery mechanisms and political oversight are different but all G8 nations apart from the UK have a state backed institution which supports the financing needs of small businesses. Specific examples include:

- **Germany's KfW**, set up in 1948, which aims to provide long term affordable finance to the *Mittlestand*. In the year ending 2011, KfW had over €9billion worth of exposure to micro and start-up German firms. The two main loan products are the KfW Start-Up and KfW Entrepreneur Loan Programme which together cover most lending requirements; and
- **The Japanese Finance Corporation's SME unit**, which has been in operation since 1999 but existed prior to that through two separate state owned banks (Japan Export-Import Bank and the Overseas Economic Cooperation Fund). For the year ending 2011, the SME Unit has lent over ¥20 trillion to small businesses.

As well as these examples, the US SBA provides the best example from which to learn, both from the scope of its activity, especially its unwavering focus especially on improving access to finance for small businesses, and its longevity as an institution that has provided an anchor to the US enterprise policy framework. This is now looked at in more detail, and the case made for a similar institution to be implemented in the UK.

The US Small Business Administration

The SBA's mission is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters. Set up in 1953, with the passing of the Small Business Act, the SBA's aim then – as now – is to: ***"aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns"***. This highlights an immediate difference between the SBA and the SBS, which is that the SBS had insufficient teeth to lead on enterprise support. By comparison, the US SBA had legislative powers from its inception.

By 1954, the SBA was making direct business loans, guaranteeing bank loans to businesses, helping to get Government procurement contracts for small businesses and helping business owners with management, and technical assistance and business training.

The initial powers established in 1953 were then given extra scope in 1958 with the Investment Company Act. This established the Small Business Investment Company Program (SBIC) whose role is to provide long-term debt and equity investments to high-risk small businesses. Innovative activities were also given added impetus with the Small Business Innovation Development Act (1982) which saw the creation of the Small Business Innovation Research (SBIR) program. The other main historical development was the creation of a network of Small Business Development Centers across the 50 states of the US in 1977[7].

Tackling excessive federal regulatory burdens and protecting small firms from excessive federal regulatory enforcement are other important roles played by the SBA. The SBA fulfills these functions through the offices of Advocacy and the National Ombudsman, again underpinned by legislative powers in the Regulatory Reform Act 1977. The Office of Advocacy provides an independent voice for small businesses to advance its views, concerns, and interests before Congress, the federal government, federal courts and state policymakers. The National Ombudsman receives complaints and comments from small firms and acts as a "trouble shooter" between small businesses and federal agencies.

The SBA's portfolio of assistance to US small firms covers three main areas:

1. Access to finance programs:
   - 7(a) Loan Program, Capital Access Programs (Surety Bond Program, International Trade Program), 504 Loans, Microloans, and SBIC loans (see Box 4.2 for more details)
2. Accessing government procurement and contracts:
   - The Government Contracting and Business Development (GCBD) program (7(j) Program, 8(a) Program, HUBZone Program, Prime Contract Program, Business Matchmaking, Subcontracting Program)
3. Business assistance and advice:
   - Small Business Development Centers, Women's Business Ownership, Veteran's Business Development`

7 The SBA also plays a significant role in disaster relief. While supporting small businesses is important in the amelioration of disaster effects, this role is not squarely focused on small businesses. As such, the role of the SBA in disaster relief is not considered in this report.

Of these three roles, its primary and consistent focus has been on access to finance issues – the most important single factor for firms starting up and wanting to grow. This is in comparison to the UK experience detailed earlier, which highlights the sheer churn of policy initiatives and unnecessary duplication.

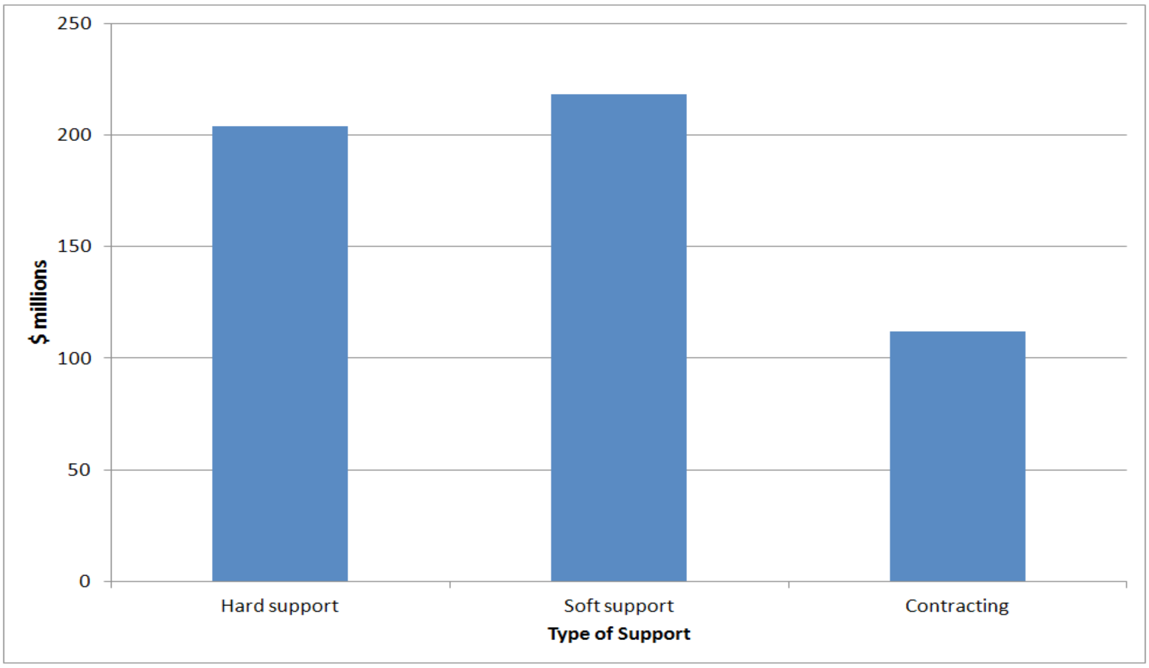
Greene and Storey (2010) provide a detailed review of the balance of these activities. They found that while the SBA did focus on 'soft' support (such as advice and assistance) principally through the Small Business Development Centers, its main role was the provision of 'hard' support. Indeed, Craig et al (2008) identified that in 2004 the SBA's loan portfolio was worth $60 billion dollars, making "it the largest single financial backer of small businesses in the United States" (p.118). Largely in response to recent economic conditions and to support small businesses, this loan portfolio grew to $80 billion by 2011.

In 2010, the SBA spent around $532 million on these programs (Figure 4.1), comparing favourably in value for money terms against the UK's total expenditure of around £2.5 billion in 2003/04 noted in Chapter 2. This funding is split largely between three activities:

- Hard support (financial support to small businesses) of around $204 million (38%);
- Soft support (business advice and assistance) of around $217 million (41%) which is mostly for existing entrepreneurs through the Small Business Development Center network; and
- Contracting and procurement support of around $112 million (21%).

Indeed, Karen Mills, head of the US SBA, stated in February 2013 that "over the last four years SBA supported more than $106 billion of lending to more than 193,000 small businesses and entrepreneurs."

Figure 4.1 US SBA total cost by programme



Source: SBA, 2012: Table 9 – Total cost by program and activity

Greene and Storey (2010) provide another comparison of value for money with the UK. They estimate that US enterprise support was around $100 per capita less than that of the UK expenditure, suggesting that part of the reason may be that sheer complexity of UK enterprise support drives up administration costs. The Richard Report (2008) estimated that these administrative costs represented 34 per cent of direct enterprise support spending in the UK.

Though the overall impression is favourable, the SBA is not immune from criticism. SBA schemes can be open to fraud and abuse (DeHaven, 2012). There are also claims – particularly prior to 2008 – that its loans are a "wasteful, politically-motivated subsidy" (de Rugy, 2006: 3), although these criticisms have been more muted in the current economic climate.

Default rates on SBA loans have also gone up in the current economic climate, a shift from the historical position that SBA loans were cost neutral to the taxpayer. US Congress (2011) also noted that there are signs of a drift by the SBA away from access to finance issues and towards supporting social inclusion initiatives (soft support). Finally, Greene and Storey (2010) identified a weak evaluation culture with little robust evidence to indicate that the SBA's suite of enterprise policies do provide economic returns to the taxpayer[8].

Nonetheless, and although these criticisms are important, the sheer longevity of the SBA does mean that there is a greater likelihood that nascent and actual entrepreneurs will recognise the assistance available. Equally, protected by legislative powers, the SBA has over a 60 year period followed what appears to be a stable and coherent suite of enterprise policies, largely focused around the key access to finance issue. It may be no coincidence that the US has made more finance available to smaller businesses since 2008 (FSB, 2012) and, more generally, outperformed the UK's GDP growth rate over the last 30 years (Barrell et al, 2010).

8 Gu et al (2008) outline that very few of the evaluations of US small business programmes actually evaluate these programmes based on a RCT or a quasi-experimental basis. This means that "few studies are able to identify a causal relationship between small business assistance programs and business creation and subsequent economic performance of assisted small firms." (p. 4)

Box 4.2 US Small Business Administration loan programmes

US Small Business Administration schemes

Banks and other lending institutions offer a number of SBA guaranteed loan programmes to assist small businesses. While SBA itself does not make loans, it does guarantee loans made to small businesses by private and other institutions.

How funds may be used

Funds may be used for the following purposes for long term fixed assets:

- Acquisition
- Construction
- Renovation
- Modernisation
- Improvement
- Expansion

7(a) Loan program:

This is the SBA's primary and most flexible loan programme, with financing guaranteed for a variety of general business purposes. It is designed for start-up and existing small businesses, and is delivered through commercial lending institutions. The major types of 7(a) loans are:

- Express Programs
- Export Loan Programs
- Rural Lender Advantage Program
- Special Purpose Loans Program

CDC/504 Loan program:

This programme provides long-term, fixed-rate financing to acquire fixed assets (such as property or equipment) for expansion or modernisation. It is designed for small businesses requiring "brick and mortar" financing, and is delivered by CDCs (Certified Development Companies)—private, non-profit corporations set up to contribute to the economic development of their communities.

Microloan program:

This programme provides small (up to $35,000) short-term loans for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery and/or equipment. It is designed for small businesses and not-for-profit child-care centres needing small-scale financing and technical assistance for start-up or expansion, and is delivered through specially designated intermediary lenders (non-profit organisations with experience in lending and technical assistance).

International Trade Loan Program:

The International Trade Loan Program offers loans for fixed assets and working capital to businesses that plan to start or continue exporting or those adversely affected by competition from imports which need to re-tool to become more competitive. The proceeds of the loan must enable the borrower to be in a better position to compete. The programme provides the lender with a 90 per cent guarantee on loans up to $5 million.

Small Business Investment Companies Program (SBIC)

The structure of the programme is unique in that SBICs are privately owned and managed investment funds, licensed and regulated by SBA, that use their own capital plus funds borrowed with an SBA guarantee to make equity and debt investments in qualifying small businesses.

Chapter 5: Conclusion

The aim of this paper has been to provoke a long overdue debate over the direction of UK enterprise policy. This is needed because for too long, UK enterprise support has been characterised by the confused, complex and congested delivery of such support. What UK enterprise support requires, and what international evidence suggests, is the development of a long term and coherent approach to how it supports small businesses anchored by a single institution.

A UK SBA could bring much needed coherence to these problems and provide that anchor. Admittedly, as the experience of both the Small Business Service and the US's SBA shows, there are likely to be challenges. However, if the UK can learn the lessons from both these experiences and learn by evolution rather than revolution, the hope would be that past mistakes could be avoided and it would provide over the longer term real direct benefits to UK small businesses. These lessons can be put to good use straightaway in the design of the Business Bank.

The central objective for such an institution must be to support a varied access to finance market for small businesses and tackle market failures under one umbrella body. A UK SBA should bring the good teachings from the US and other nations such as Germany to promote better practice in the UK. Amongst the key design principles the new institution should follow are:

- Like the US SBA, and crucially, a UK SBA would need legislative powers. One of the lessons that can be drawn from the UK's Small Business Service was that it was given responsibility but not power to lead on enterprise support, making it very difficult for it to achieve its goals and ultimately led to its closure. A UK SBA, therefore, would need to have a clear role in and across government and have sufficient powers to execute this role
- It should focus on a narrow set of activities. This should be in helping small businesses access finance and act as a promoter for new challenger banks and non-bank routes of finance, by channeling funding through these groups. It should also look at linkages to exporting schemes which comprise of both funding and advice natured products (both soft and hard support)
- Be target driven and operated by industry specialists at arm's length from the Government, thereby limiting political interference in its operation
- Use the existing retail financial system to offer guarantees and direct micro lending to UK small businesses with a range of needs, but especially to increase the availability of long term lending that is noticeable by its absence in the UK market. Pricing of such products should be competitive but applications should be merit judged on longer term objectives such as employment, innovation and national objectives (such as carbon reduction targets and increased exporting activity)

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