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Small Businesses in the UK

State of Development. Expectations and Policy

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Introduction

As the title indicates, the overall objective of this paper is to provide an overview of the state of small business development in the UK. One immediate issue that arises concerns definition. And it is clear that one could almost devote a whole paper to this. There is no really official definition of small business in the UK although the norm of under 200 employees in manufacturing industry has been accepted ever since the Bolton Committee report in 1971 – which marked the beginning of renewal of interest in the small business in the UK.¹ This Report also produced a number of different definitions for retail, hotel, transport and distribution industries – namely those industries dominated by small businesses – although this merely underwrites the obvious – that definition of small business is a relative concept. It will depend, for each industry sector, on the relative size distribution and mean of firm size. Different results will also be obtained dependent upon whether it is measured in terms of employment, net assets, value added, physical asset base or in other ways.

The paper will begin by arguing that small business development can be seen in terms of a number of stages and that, ideally, measuring the health or state of development in any economy will depend upon taking measures of what is happening at each of these stages. Most economists, if asked to provide an overview, would make judgements in terms of changes in the stock of small firms in the economy as brought about by birth and death rates and perhaps the quality of stock. This paper provides some evidence recently produced in these respects. They might also, as part of their assessment criteria consider changes in the relative importance of small firms in employment and productivity terms in the economy over time. This I will also attempt to do. And they would also look for evidence of growth of the existing small firm base and factors influencing it. Taking a long-term view, however, it is arguably necessary to provide evidence relating to the long-term determinants of the stock of small businesses and I will also attempt to address this issue.

To some degree the state of development of the small business sector reflects government policy. The UK has had, since 1979, a Conservative government which has placed a great deal of emphasis on the development of a 'self-help and enterprise culture' (without always being clear as to what it means). This has had some effect and its impact can be traced. Moreover, this government has again been re-elected and is at the beginning of a new term of office with a firm commitment to strengthen Enterprise. Thus present policies will also impact on the future. The paper also reflects upon this.

The state of development of small business could be explored within a number of frameworks, economic, sociological and psychological. Each of these will lead to different criteria being used. The major frame of reference in this paper is economic, although some sociological and psychological parameters will also be explored par-

ticularly in relation to long-term perspectives. I would like to begin, however, with a brief introduction to the UK economy and its recent performance which provides a major context for exploration of the state of development of small business.

The UK Macro Economy

Generally, in the period since the Second World War, Britain's economic performance has been relatively poor compared with that of her major competitors. Britain's average annual growth rate was less than two thirds of that of the OECD countries as a whole in the period 1950-1970 and was still below that of other member countries in the decade 1970-1980.² Since 1980, however, performance has been nearer to other OECD countries: and currently, British GDP is growing at about 3.5 per cent a year.

(Exhibit 1)

These changes in the past decade have been accompanied by a substantial growth in unemployment. The unemployment rate rose from 6 per cent in 1979 to 14 per cent at the beginning of 1986, with over 3 million unemployed. Since then the rate has fallen, although part of this fall can be explained by changes in the calculation of unemployment (although undoubtedly there has also been a real fall in unemployment). On a recalculated basis unemployment is currently around 10 per cent and under 3 million. These changes have been accompanied by:

- A substantial erosion of the manufacturing base of the economy. Over 1.5 million jobs were lost in manufacturing between 1978 and 1984.³ Manufacturing output declined at an average rate of 0.8 per cent between 1974 and 1985. Its share of total output has fallen to less than one quarter compared with 37 per cent in 1960

(Exhibit 2). Despite a noticeable recovery in output and economic growth from 1982 onwards industrial production and manufacturing production has done no more than recover to 1979 levels. At the end of 1985, for example, manufacturing output was still 6 per cent below the level of 1979 and 9 per cent below the peak year of 1973. In general the recovery has been, until 1987, insufficient to make major inroads into unemployment.

- A growth of fixed investment which has been sluggish and in manufacturing industry still in real terms 22 per cent below 1979 levels in 1986. Employment in research and development (R&D) fell sharply from 1981 to 1986 although real expenditure has risen.

- A rise in imports of manufactured goods. There is a growing deficit on manufacturing goods trade, and overall import penetration of domestic sales is rising faster than the proportion of domestic output exported.

- The collapse of oil prices leading to a deteriorating balance of payments position. The current account moved into deficit in 1986 and the figures for 1987 are expected to show a substantial deficit.

- A more substantial impact on some regions than others. The North of England, most of Scotland and all of Wales, and in the 1980s the West Midlands, have suffered particularly.⁴ And the depressed regions in the UK have had the worst male unemployment rates in the EEC in the 1980s. Generally, the regions in which incomes have fallen the most relative to the national average are also generally those areas most hard hit by rising unemployment.

- Substantial improvements in labour productivity. Manufacturing output per

person employed rose at an annual rate of 0.7 per cent between 1973 and 1979 but at 4.1 per cent between 1979 and 1985. Currently UK productivity growth is second only to that of Japan's, and partly indicates why the rise in output from 1983 has not been substantially reflected in falls in the unemployment rate, although the employed labour force has grown.⁵

The economics profession is polarised (as always) as to the interpretation of the underlying significance of this picture. There are those who argue that the fast growth in the UK since 1980 is merely a function of recovery from the depths of the 1978/80 recession which were plumbed much lower in the UK than in other European countries. There are others, however, who argue that the experiment in 'monetarism' in the early 1980s has worked in shaking out overmanning and obvious over-capacity in the British economy with the result that the economy is now 'leaner and fitter'. Recent events in the Stock Market have lent support to the former rather than the latter view.

Changes in the state of development of small business discussed below must be seen against this economic background. The impact of unemployment on small business starts cannot be ignored. The impact of the massive manufacturing company shake out in particular, the pursuit by government of a 'self help' philosophy and official support of small business as a source of employment growth are factors of considerable importance. Changes in the philosophies of large companies concerning plant size, and the greater use of sub-contracting and the pruning of many levels of management have had a major impact. And, finally, there has been a major growth of the service sector which currently provides well over half of output and two thirds of employment, and where small scale is even more predominant. (Exhibit 2)

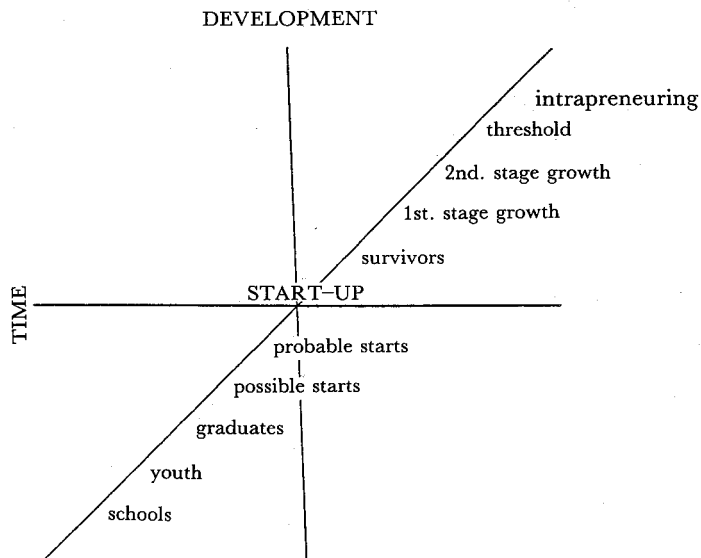


FIGURE ENTERPRISE DEVELOPMENT –THE SECTORS

The State of Development of Small Business – An Overview

The conventional way of monitoring the health of the small business sector is to count the numbers although it is argued that the small business sector will grow if:

- there is a growth in numbers of small business starts
- there is an increase in survival rates

· there is a more rapid growth of existing small businesses.

It is notoriously difficult to monitor the health of the small business sector in these respects because of non-availability of adequate statistics. In the UK the best attempts have been based either on VAT registrations,⁶ Dunn and Bradstreet⁷ data (emulating the work of Birch⁸ in the United States) as well as company registrations and deregistrations.⁹ You will be well aware that all of these methods have major deficiencies and I will not seek to explore these in this paper. However, any attempt to provide an overview of the state of development should, in my view, also seek to identify measures of the quality of the emergent existing small business population and, beyond that, should endeavour to look at longer term influences relating to the formation of a 'culture' which might stimulate the growth of small enterprise in the economy in the long run.

Figure 1 provides a framework for consideration of all stages of development of small business. Broadly, the stages are divided into pre- and post-start-up phases. In those stages relating to youth, school, vocational and higher education the concern will be with: the strength of values, attitudes, beliefs insofar as they support, or otherwise, enterprise, and the degree to which they are reinforced (or otherwise) by education and life experience during formative years. Sociological research demonstrates the importance of such experience during youth in creating enterprise cultures.¹⁰ It is possible to take a long-run view of the state of development of small business by examination of what is happening currently in these sectors likely to reinforce or otherwise the process of pursuit of independent business careers among the emergent adult population. It is, however, very difficult to provide a statistical measure of this.

It is somewhat easier to monitor the Possible and Probable stages of small business development – the latter by the resultant numbers of starts. The first group of small businesses constitutes the major group in any economy. The micro businesses (employing under 5 employees) of this group are composed of: recently started businesses who are still at the survival stage; businesses who wish to remain as micro or small-scale businesses of which the self-employed person is the classical figure; and those businesses with potential to grow. The survival category includes a large number of those operating on a small scale in the 'professions' (accountants, solicitors, architects etc). The next category can be loosely characterised as those businesses with employment up to approximately 50 employees which, outside of the professions, are those probably still run by a dominant entrepreneurial figure and without a full management team. Again, this group can be divided into survivors, maintainers (those who wish to stay this size) and growth businesses. The next category upwards is that of the emergent professional small company with a management team perhaps operating in a variety of markets with a wider product and customer base, and geographical spread. This group is far more likely to have had more extended interface with financial organisations over and above the obtaining of simple overdraft facilities. Again businesses in this category can be divided into the three groups mentioned above. The final group is that of the Threshold company which has the potential to grow into a public company. Those firms that have the capacity and motivation to grow further will be of interest to the venture capital companies. The health of this sector might therefore be monitored by their involvement with agencies providing venture capital or providing the means of approaching the Unlisted Securities Market or Over the Counter Market. Finally, at the top end of the spectrum the health of 'small business' as a management philosophy may be

monitored by the interest of large firms in various aspects of 'intrapreneuring' or new venturing on a small scale.

I will attempt to make some observations about each of these categories. I will not start logically at the bottom of Figure 1 and work upwards but will deal firstly with small business starts, secondly with survival, thirdly with growth and development through the various stages then with intrapreneuring and finally with youth and enterprise culture. You will note that the progression I have chosen is one of ease of measurement!

The Birth of Small Firms and their Employment Contribution

As mentioned above a great deal of controversy surrounds the evidence relating to the birth of small businesses and their contribution to employment and output. This largely reflects the inadequacies of databases. It is not the intention of this paper to reflect greatly on this controversy but mainly to seek to state what is, more or less, universally agreed. There is no doubt that the stock of small firms has risen substantially in the UK since 1971 and very rapidly indeed since 1979. Small firms' share of manufacturing employment, for example, rose from 27 per cent in 1973 to 38 per cent in 1984, and their share of net output from 25 per cent to 33 per cent. This reflects a very substantial decline in the number of establishments with over 1000 employees. Exhibit 3 demonstrates how the number of establishments with 10 employees or fewer has returned to the level of the 1930s.¹¹

There has also been substantial growth in the self-employed, particularly marked since 1980¹² (Exhibit 4). But there is evidence to suggest that the level of self-employment is still well below that of any other countries, in particular France and Germany.

The figures also demonstrate a substantial growth in new company registrations which is particularly rapid in the 1980s. Although there has also been an associated growth in compulsory and creditor voluntary liquidations (see Exhibits 5 & 6).¹³

High start-up rates are invariably and healthily combined with high failure rates. There is, of course, a straightforward correlation between size and vulnerability. Data collected for the period 1972-81 in the UK demonstrates that firms under 20 employees are 78 per cent more likely to fail than those having over 1000 employees. The UK data demonstrate that for every 100 firms registered in 1972, for example, between 40 and 45 per cent will still be in business after 10 years, and that the peak failure rate occurs within the first three years (60 per cent of failures take place in this period).¹⁴ These figures, however, are based on VAT deregistrations, and are as vulnerable as any others.

The issue of the potential of small firms to generate jobs has become a major political one in the UK following the publication of the Birch and Brookings Institute¹⁵ findings, concerning the job generation capacity of small business in the United States. The evidence in the UK in general demonstrates that small firms have in the 1970's, and particularly in the 1980's, been net generators of new jobs and that large firms have been net losers. It also supports the view that this job generation has been a result both of expansions and births. Certainly, failure rates have lagged behind start-ups. And it is demonstrated that 31 per cent of new private sector jobs between 1971 and 1981 were provided by small firms, which were only 13 per cent of the workforce. Ganguly¹⁶ argues, from his analysis of data, that the smaller the firm the greater its potential to create jobs. All of these findings ignore the fact, however, that gross job generation, not taking into account closures or failures, is greater among

large than small, and that net job creation of small firms has been less than adequate to meet the net decline in jobs in large companies.¹⁷

Thus, it would seem that health of the small firm sector has grown considerably in both the 1970s and particularly in the 1980s in the UK.

It has been argued that much of this growth reflects the insecurity of the labour market. Union power has declined in the UK along with the growth of labour surplus conditions. There has been a growth in employment insecurity, job insecurity (so that workers can more readily be shifted from one job to another), work insecurity (where the working environment is less and less regulated) and income insecurity (where earnings are unstable).¹⁸ Taken in a positive context, this is associated with the growth of a more flexible labour system and it can be argued leads to the greater acceptance of self-employment which itself is commonly associated with income insecurity and employment insecurity. Most researchers would agree that the rise in small business starts is directly a function of unemployment. First the supply side of the economy can be seen to be 'regenerating itself out of idle resources'.¹⁹ There is little evidence, however, to indicate how many of these new businesses are formulated by the unemployed and/or by those who are being 'pushed' to self-employment by threats to their existing careers. The government's encouragement of the unemployed through the Enterprise Allowance Scheme (see below) ensures a link between unemployment and self-employment. But this scheme covers only a proportion of small business starts. There is little evidence yet to indicate whether the personally adverse circumstances in which many businesses are started leads to a lower quality of business start and therefore higher failure rates. Certainly, compulsory liquidations and creditors voluntary liquidations have risen rapidly in recent years, but not substantially out of proportion (in relation to the number of company formations) as in earlier years. (Exhibit 7).

The Growth of Existing Small Businesses

The point has already been made above that existing small businesses have contributed their share of net employment growth. The tentative evidence would suggest that in the 1980s small firms under 20 employees have been a major source of net employment growth.²⁰ For every 100 jobs in firms of this category size an additional three were created between 1980 and 1983. And for every 100 jobs in large firms (those having over 1000 employees) five jobs were lost. This growth has not, however, been even. The evidence suggests that in the early 1980s the main growth occurred in construction, production, wholesaling and services and that there were losses in retailing, catering and agriculture. Moreover, growth is exhibited more in the more prosperous areas of the south than in the north, thus exacerbating regional imbalance.²¹ Research also indicates that in the 1970s, firms in the 20 to 99 size group also were net job creators.²² This is not the case in the 1980s but the data are not strictly comparable. Indeed much of the data analysis seeking to demonstrate the growth, or otherwise, potential of existing small firms, has been based on Dunn and Bradstreet data which in fact accounts for less than a third of the total small firms population and probably has numerous biases. Moreover, it requires a considerable statistical manipulation and a large number of questionable assumptions before it can be successfully analysed. It is therefore scarcely surprising that some of this research has been dismissed recently as 'not robust enough or comprehensive enough to be the basis for policy discussion'.²³ Recent statistics released on the number of

establishments and employment in manufacturing show a decline of almost 2 million in employment from 6.9 to 5.0 million in manufacturing between 1978 and 1984, a small decline in employment in plants under 100 employees and a decline of over 1.2 million in plants having over 1000 employees. There was, moreover, a small increase in employment in the plants of size 100–500 employees.²⁴

This is virtually the only broad based statistical evidence available with which to monitor the state of the existing small business sector. However, there are other indicators particularly of start-ups and growth of larger small businesses. For example, there has been a substantial recorded growth in management buy-outs by employees of existing large firms.²⁵ In 1979 there were an estimated 52 such buy-outs at a value of £26 million. In 1986 there were 260 at a value of £1.2 billion (Exhibit 8). In total there were 1,300 such buy-outs in the period 1979–86, an indication of the growth of threshold companies. There has also been a rise in the numbers of new listings on the stock exchange and the unlisted securities market (launched in 1981) by the end of 1987 had 567 companies. There has also been a substantial growth in the UK-based venture capital market (Exhibit 9). Estimated investments by UK venture companies grew steadily from 1981 (£195 million) to 1986 (£671 million). These statistics and casual empirical evidence, suggest that there has been a growth of the new type of entrepreneur not in the classical mould but in the mould of the manager dropping out of the large organisation, converting his existing skills and contacts into a business venture, often with team back-up. From my personal contacts at the Business School in the North of England I can identify easily over 100 companies of this type formed in the 1980s. We are about to launch a research project to identify and monitor these over the next two years. Overall, therefore, the quality of management of the larger small business may be improving or at least different!

The Share of Small Business in Employment and Output

As indicated above there are obviously a number of direct links between the decline in manufacturing and the growth of small business. There are some authors who suggest that one such link is provided by the trend towards decentralisation by large companies and the adoption of 'federal structures'.²⁶ This partly reflects changes in production technology, moves to create greater flexibility because of market uncertainty and efforts to remove unwanted overhead costs. This in part has meant the growth of subcontracting and the externalisation of previously internalised services.²⁷ Thus, many employees have been turned into self-employees. Evidence from a Confederation of British Industry survey of 2000 companies in 1985 found that 24 per cent of small firms and almost 50 per cent of the larger scale companies intended to increase their use of subcontracting in the future. A survey of industrial and commercial companies by the Financial Times in 1986 found that in the previous three years 35 per cent of respondents in Britain had contracted out work on a regular basis to other companies, which had previously been done in-house. The proportion of work contracted out was two and a half times higher in firms employing over 1000 people compared with those employing 50 or fewer.

Many of the large companies in the UK have shed substantial numbers of employees (see Exhibit 10) and firms under 500 employees now provide some 55 per cent of the jobs in manufacturing compared with 45 per cent in 1979.²⁸ (Exhibits 11 & 12.)

It is impossible to indicate what proportion of this change represents a simple transfer of output from large to small. Similarly, it is difficult to attribute what proportion of the remarkable 50 per cent growth in business services between 1981 and 1985 is a simple transfer out of previous internalised services. Obviously a large proportion of employment in any manufacturing company is in fact service. Large firms consist of numerous functions which could be externalised. The growth of this externalisation, it is argued, reflects a disenchantment with arguments in favour of economies of scale, the pursuit of flexibility and recognition of the need to release entrepreneurial energy into the marketplace rather than internalise it.²⁹ There has certainly been both a growth in interest in new venture spin-offs from large firms as a response to market uncertainty in traditional markets and a general growth in interest in encouraging greater individual contribution to organisations and a decline in the emphasis in managerial philosophy on planning and control. This is reflected in the writings of management gurus such as Drucker³⁰ and Peters.³¹ There is as yet little evidence as to the extent of these intrapreneurial ventures and of their success among UK companies.

Of major policy as well as academic interest is the issue of whether this shift from large to small has helped to raise productivity. Some recent work³² demonstrates that productivity growth has slower in large plants and markedly so in the largest plants over the period of 1973-79 compared with small, but precisely the opposite was true between 1979 and 1984 (Exhibit 13). This might reflect a number of factors:

- That the most inefficient of large plants have closed leaving the more efficient in operation.
- There has been a pruning of large plants by subcontracting of processes and transferring out of the indirect services.
- That there has been a general increase in the level of productivity of large firms attributable to other factors.

It has been noted, however, that high productivity is not necessarily the same as high profitability. There is a close association of the strength of trade unions and the number of strikes (which have impacted significantly upon profits in the past) with firm size. Beyond this speculation it is difficult to establish from these statistics any firm view. It should be also borne in mind that productivity measurements tend to be in terms of labour productivity and therefore reflect capital intensity. There is some evidence to demonstrate that small firms measured in terms of capital productivity are at least more efficient if not more than large.

The Growth of Enterprise Culture

At the beginning of this paper it was pointed out that the long run state of development of small business is a function of individual and collective aspirations and attitudes towards self-employment as a way of life and as a career. The importance of influences during formative years on youth through work experience, parents, extended family or friendship exemplars etc have been mentioned over and over again in the literature. Enterprise culture³³ can be defined in terms of a set of values, attitudes and beliefs which reinforce aspiration towards independent economic and social effort with key influences being:

- the weight of successful role models in society and particularly personal contacts;
- the existence of opportunities to work in small businesses particularly during youth;

- familiarisation with the uncertainties that surround small business during early family experience which in turn it is argued 'massage' entrepreneurial attitudes;
- the opportunity to become familiar with the entrepreneurial contact network on a personalised basis.

There is no evidence as to the strength of enterprise culture in the UK in these respects and of its growth or decline. But it might commonly be supposed that such a culture is in part a function of the strength of the small business sector which traditionally has been weak in the UK. The recent strong growth of small business identified above, when coupled with the much greater visibility given to enterprise and enterprise culture by the incumbent Conservative government, may, however, have somewhat changed circumstances. There has been a growth in interest in 'Education for Capability', a movement started several years ago which has gained considerable strength and is supported by a large number of eminent people.³⁴ This argues for reorientation of education towards the greater preparation of students for 'life' and the performance of necessary skills. There has been a substantial growth in 'Education for Enterprise' funded by several government departments and private companies. There has been an attempt to introduce enterprise training into vocational education both in schools and in vocational training institutes. And evidently considerable attention is being paid to means of influencing graduates more towards self-employment and a positive attitude to enterprise and industry.

There is shortly to be introduced a 'Enterprise in Higher Education' initiative which seeks to development enterprise education into the university curricula with substantial government support. There has been substantial reorientation of education and training within business schools towards small business and entrepreneurship. At the end of the 1970s small business options in MBA curricula were offered by only a handful of business schools. Now there is scarcely a business and management studies programme or option in the higher education sector which does not have an 'Enterprise' option. The teachers and staff of business schools are being trained in enterprise and small business management to cope with this new demand. Many large companies have given support to this initiative and are involved jointly with education institutions in the production of material, the development of counselling programmes for youth and in the provision of loan and equity capital. Government policy is substantially reinforcing and underpinning this trend (see below). Casual empirical evidence would suggest that the adult population is also being encouraged to adopt a more 'self-help' attitude. The unemployed are being given incentives to create their own employment. The growth of part-time working, much of it in association with the growth in the small firm sector has served to force a wider proportion of population to cope with uncertainty. There is evidence to suggest that, even within large companies, management and supervisory development programmes are no longer based on the 'lifetime company career' concept but are more geared to encouragement of individuals to serve the company in pursuit of their own self-help goals.

The Shape of Policy

There is no formal statement of small firms policy in the UK as in Germany, nor is there an annual review as in Japan. There is a junior minister for small firms located within the Department of Employment. But responsibility for enterprise in small businesses is spread substantially through a number of government depart-

ments. There is a national training and manpower planning organisation, the Manpower Services Commission (shortly to be the Training Commission), responsible for adult enterprise training programmes in higher and further education and to some degree in schools. The Department of Environment has major responsibility for a key area of future targetted development namely the Inner City. The Department of Employment operates enterprise counselling and information services through regional offices. And the Department of Trade and Industry has recently given itself the title of the 'Enterprise Department' with the objective of: encouraging industry/education links; encouraging enterprise in schools initiatives; providing support for innovation; providing counselling services for growth companies using private sector counsellors; and giving regional policy a major small firms thrust.

The government has a major commitment philosophically to the 'market' economy and has introduced a number of 'deregulation' measures designed to ease the burden of legislation on the small and medium enterprise. In particular it has a philosophy of encouraging private enterprise participation in support programmes for small business development. This has provided an incentive to the growth of a wide range of large company initiatives at the local and community level, in particular the development of the Local Enterprise Agency movement, in association with a private enterprise support organisation Business in the Community.

A wide variety of training programmes is available for the business starter and for the existing business, many of which are now channelled through private sector organisations or public/private enterprise partnerships such as the Local Enterprise Agencies or Chambers of Commerce. There are support programmes for linking graduates and unemployed managers to the small and medium enterprises, providing both training for the participants and sources of consulting, counselling and managerial help free to the small enterprise.

Specific financial assistance to small business includes

- reduction in tax rates for small firms.
- abolition or reduction of taxation on gifts and capital gains and capital transfers.
- measures to relieve the burden of VAT.
- the introduction of a scheme (the Business Expansion Scheme) providing tax relief on individual investments and small unquoted companies.
- the introduction of an Enterprise Allowance Scheme with 100,000 grants per year of £40 per week available to unemployed people in order to set up their own business.
- special support schemes for firms in inner city areas.

In general these programmes reflect a philosophy of movement from support of old traditional industries towards the new, a switch from automatic grants of support towards selective assistance and greater support for small and medium enterprises as opposed to large capital intensive companies. Policy is also moving from a system of government supported and delivered services to small firms towards joint ventures featuring public and private organisations or subsidiary private market for consulting and advice services etc. There is also a shift in policy away from business start-ups towards support of existing businesses particularly technology-based businesses with growth potential. Key areas of support need are seen as marketing, design, quality, financial management and information technology. It is likely that this change in em-

phasis will also be increasingly supportive of science parks, innovation centres, and technology research and development institutions which are already substantially visible in the UK and frequently involve the higher education sector.

Conclusion

The overall objective of this paper was to provide an overview of the state of development of small business in the UK. It took as its basic framework a process of enterprise growth and development from enterprise culture through to business start-up to initial survival and growth and expansion of small business into public company and intrapreneurship. It took as its background the major changes in the UK economy over the past decade which have given considerable 'push' emphasis, and some 'pull', to the development of the small firms sector.

Controversy that presently surrounds the state of health of the UK economy, particularly relating to its medium term potential for sustaining growth, productivity and competitiveness, is very closely related to the debate on the contribution that small and medium firms might make to future economic prosperity. The evidence demonstrates that the small firm sector has grown substantially, particularly in recent years, and it has contributed, disproportionately to its size, to employment growth. But it also indicates that this has been insufficient to compensate for the decline in employment in large firms. Productivity performance of small firms has been good compared with large, and the share of small firms in the economy has grown in employment and net output terms. But there is evidence to suggest that the sector is still weaker than in many other European countries.

There is little evidence as to the quality and potential of those firms that have recently come into being. There has, however, been a substantial growth in management buy-outs, an increase in the number of small and medium firms reaching the Unlisted Securities and Over the Counter Markets. There has also been a growth in the Venture Capital industry and of its provision to the small and medium firm sector.

No hard evidence exists as to the development or otherwise of an 'enterprise culture' although this is a major objective of the present Conservative government. There has, however, been a substantial increase in education for enterprise at all levels of youth, a growth of teaching of small business and entrepreneurship in schools and management institutes and a substantial growth in the promotion of the self-employment ethic in the media and in agencies supporting business development.

The government has moved substantially towards support of an enterprising 'market' economy by pursuit of deregulation of industry, reward for private enterprise, support of private/public Local Enterprise Initiatives, development of training and counselling services and special provisions for the support of loan and equity capital.

There is now a substantial emphasis in government policy upon economic rejuvenation through small-scale enterprise and self-help.

It is nevertheless impossible to indicate whether there has been a fundamental shift in the UK economy towards enterprise and small business or whether growth in recent years of the small firms sector has been merely a reaction to the impact of large-scale unemployment. It is likely that unemployment will continue to fall in the next few years and that the decline in the manufacturing sector and in large company employment will slow considerably. It may also be, although this is somewhat more controversial, that the higher rates of growth of GDP achieved in recent years, will

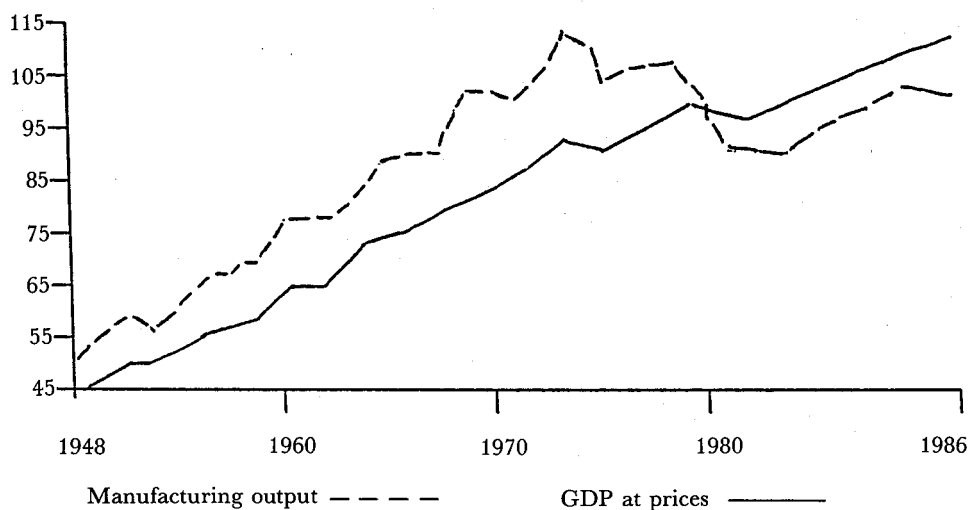
slow as the economy 'catches up'. The recent stock market crash may provide some indication of a rethinking of underlying confidence in the economic future. Although the reduction in share values will no doubt provide continued incentive to management buy-outs. In this respect it is evident that one critical factor, shaping the future of the small business sector, is the degree to which the organisation of industry and services is fundamentally changed to one of a 'sub-contracting' and 'industry service' economy. In this respect large company managerial decisions as to their growth strategies will impact on the future state of development of the small business sector.

It has been noted above that there is little indication of the quality of the new small firms that have emerged in the 1980's and of their potential for growth and survival. It will be particularly interesting to note whether there is any sharp acceleration in liquidations and deregistrations in the next few years. And it will be particularly important to note the degree to which new business starts involve young people and in particular the better qualified graduate or graduate equivalent population. It is clearly unlikely that some of the policy investment in the creation of enterprise culture among the young will pay off in the immediate future. And it is equally unlikely that the small firms sector will contribute substantially during the rest of the 1980s and early 1990s to gross job generation. Nevertheless, the now substantial commitment of the Conservative Government to the Enterprise theme ensures that for at least the next four years the climate for small enterprise development will be officially highly supportive. As an experiment in radical conservative economic and social philosophy the Enterprise movement in the UK will be worth monitoring for its impact over the next decade.

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EXHIBIT 1 UK GDP and Index of Manufacturing Output 1980=100EXHIBIT 2 Output, Employment and Investment Sectoral Shares, 1960-82 (percentage of whole economy)

	Service		Manufacturing	
	1960	1982	1960	1982
Output	45	55	37	24
Employment	48	63	36	25
Investment	37	45	25	15

Source: Economic Progress Report, Financial Times, 26, Mar, 1984

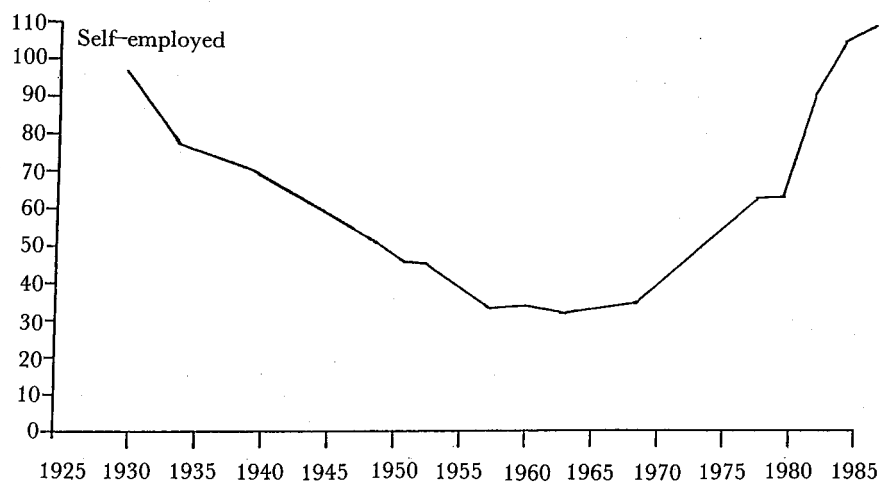
EXHIBIT 3 Number of Establishments with 10, Employees or Fewer 1930-1984

EXHIBIT 4 Self-Employment as Share of Total Employment,
United Kingdom, 1972-85

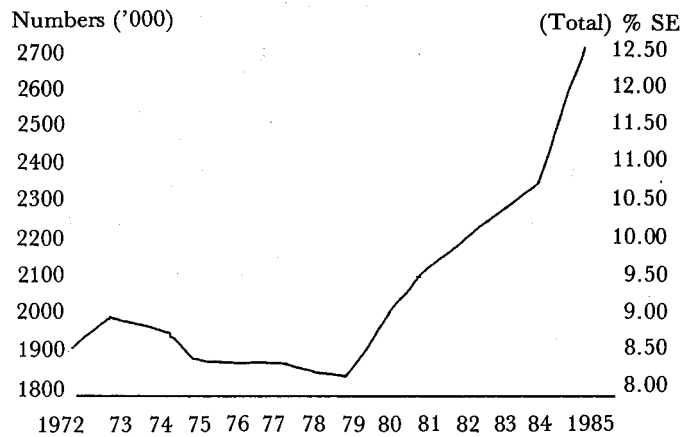


EXHIBIT 5 and 6 New Company Registrations and Numbers of Self-Employed

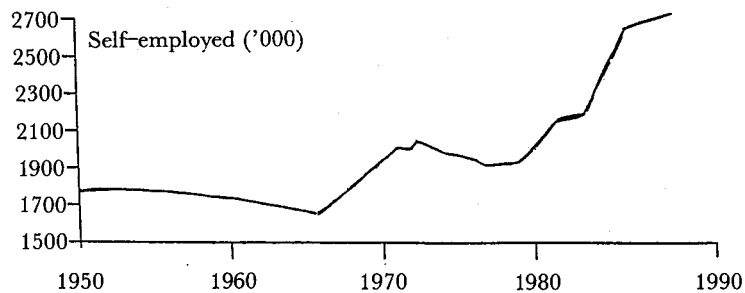
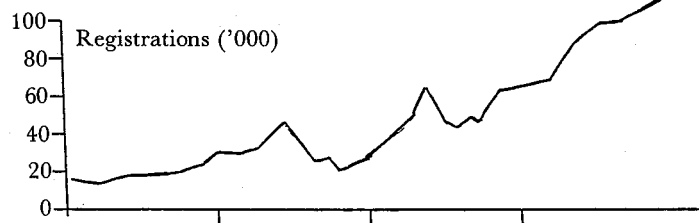


EXHIBIT 7 New Company Registrations and Liquidations,
Great Britain, 1970-86

	New Registrations	Liquidations
1970	30,262	8,782
1971	39,445	8,412
1972	54,456	8,215
1973	67,349	7,240
1974	42,496	7,885
1975	45,678	9,795
1976	56,085	10,640
1977	52,214	9,974
1978	63,566	9,205
1979	66,472	9,019
1980	69,374	11,481
1981	72,416	12,920
1982	87,166	16,731
1983	96,188	17,978
1984	97,908	18,250
1985	104,581	19,614
1986	114,831	

Source: 'Companies in 1986' DTI and earlier issues

EXHIBIT 8 Estimates of the Total Number and Value of Management Buy-outs

Calendar	Total	Value	Average Value
		£m	£'000
1979	52	26	500
1980	107	50	467
1981	124	114	919
1982	170	265	1,550
1983	205	315	1,534
1984	210	415	1,976
1985	229	1,150	5,020
1986	260	1,210	4,654

Source: Trends in UK Buy-out, Venture Economics and the Center for Management Buy-out Research 1987

Management Buy-out, M Wright, J Coyne and A Mills, Woodhead-Faulkner, 1987 and GB&P estimates based upon information supplied by 3i

EXHIBIT 9 Number of UK Based Venture Capital Organisations

	Independent	Subsidiaries of Other Financial Institutions	Total
1979	5	15	20
1980	8	19	27
1981	15	29	44
1982	22	35	57
1983	29	48	77
1984	41	59	100
1985	49	64	113
1986	55	71	126

Source : Venture Economics

EXHIBIT 10 Employment in Large Manufacturing Companies,
United Kingdom, 1977-83

	1977	1983	% decline
British Steel	209 000	81 100 ¹	-61
GEC	156 000	136 944	-12
British Leyland	171 943	81 261	-53
Courtaulds	112 009	56 336	-50
ICI	95 000	61 800	-35
British Shipbuilders	87 569	62 583	-28
GKN	73 196	33 600	-52
Lucas	68 778	49 042	-29
TI Raleigh	61 777	25 100	-59
Dunlop	48 000	22 000	-54
Vauxhall	30 180	20 527	-32
Talbot	22 800	7 109	-69
Massey Fergusson	21 486	13 066	-39

¹

1982-83 figure. In some cases (British Leyland, British Steel and TI Raleigh principally) the full scale of the reduction partially reflected a sale of subsidiaries to other firms.

Source: Financial Times, 11 June 1984

EXHIBIT 11 Employment and Net output in Manufacturing (a)by Establishment Size

Size (no of employees)	Employment				Percentage shares of totals			
	1973	1979	1982	1984	Net Output (b)		1982	1984
					1973	1979		
1-99	18.2	20.4	25.2	27.1	15.6	17.8	22.2	22.8
100-199	9.2	9.5	10.1	10.7	8.4	8.8	9.3	9.8
200-499	16.3	16.1	16.3	17.3	16.0	16.2	16.1	17.3
500-999	13.9	13.2	13.5	13.1	14.5	13.6	13.9	13.9
1,000-1,499	7.1	8.0	7.0	6.5	7.2	8.2	7.3	7.2
1,500 and over	35.2	32.9	27.9	25.3	38.3	35.4	31.3	29.0
	—	—	—	—	—	—	—	—
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source:

(a) For 1973 and 1979 on the old (SIC 1968) definition; for 1982 and 1984 on the new (SIC 1980) definition

(b) Census of Production definition. It differs from value added by including the cost on non-industrial services received (e. g. transport) about 15 per cent of net output in 1979.

EXHIBIT 12 Number of Establishments and Employment in Manufacturing (a) by Establishment Size

Size (no of employees)	No of establishments				Employment (OOs)			
	1973	1979	1982	1984	1973	1979	1982	1984
1-99	82,598	96,768	93,937	127,219	1,388.6	1,410.2	1,351.2	1,368.8
100-199	5,012	4,682	3,837	3,861	701.4	654.7	540.3	543.0
200-499	4,018	3,602	2,860	2,853	1,244.1	1,117.4	875.8	876.8
500-999	1,522	1,318	1,054	966	1,059.8	911.2	723.8	661.2
1,000-1,499	441	460	313	272	539.9	556.2	375.9	327.3
1,500 and over	678	563	368	351	2,682.0	2,276.0	1,493.5	1,282.3
	—	—	—	—	—	—	—	—
Total	94,269	107,393	102,387	135,522	7,616.1	6,925.6	5,360.5	5,059.4

Source: 1979: Business Statistics Office (1982)

1982: Business Statistics Office (1985b)

1984: Business Statistics Office (1987)

(a) For 1973 and 1979 on the old (SIC 1968) definition; for 1982 and 1984 on the new (SIC 1980) definition.

Small Businesses in the UK

EXHIBIT 13 Level and Growth of Productivity in Manufacturing (a) by Establishment Size

size (No of employees)	Productivity level (b) (size 1-99 = 100)				Productivity growth (c) (annual average, per cent)		
	1973	1979	1982	1984	1973-9	1979-82	1979-84
1-99	100.0	100.0	100.0	100.0	1.3	2.8	3.0
100-199	106.9	106.1	105.1	107.7	1.2	2.4	3.3
200-499	114.9	114.3	111.9	118.3	1.3	2.1	3.7
500-999	121.7	117.9	116.8	126.2	0.8	2.4	4.3
1,000-1,499	118.4	117.1	118.1	131.4	1.2	3.0	5.2
1,500 and over	127.4	122.9	127.8	135.4	0.7	4.1	4.9

Source: In addition, the deflator for net output is the producer price index for 1979-84 for total manufacturing, from Economic Trends Annual Supplement 1987, and the wholesale price index for total manufacturing for 1973 and 1979 from Annual Abstract of Statistics 1979 and 1982, the two series being spliced together in 1979.

(a) For 1973 and 1979 on the old (SIC 1968) definition; for 1982 and 1984 on the new (SIC 1980) definition.

(b) Net output per person employed

(c) Growth of net output per person employed, deflated by producer price index for total manufacturing output (wholesale price index for 1973).