

# Enterprise: unlocking the UK's talent

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March 2008



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Unlocking talent





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# FOREWORD

Enterprise is a talent we admire in individuals and applaud in companies. In a competitive global market, it is also a vital attribute for nations. For ten years enterprise has been one of the five core drivers of the Government's strategy to lift the productivity of the economy. It has been a remarkably successful strategy. We have seen UK's productivity performance improve. We now have a record four and a half million businesses operating in the UK. We have seen higher levels of survival rates than existed ten years ago, and the total contribution to UK output by small businesses is as much today as large businesses.

We must now build on these successes. The world economy is becoming more intensely competitive. Growth in emerging markets and developing economies continues to outstrip that in developed economies.

The UK is well placed to rise to these challenges. We epitomise the globalised economy. We have the international language of business and even the central time zone. We have a unique combination of international reach, openness to ideas, to people, to talent. We have the lowest barriers to entrepreneurship of any OECD country, and the World Bank ranks us as Europe's second most enterprising economy, and puts the UK in the global top ten in terms of ease of doing business. But our ability to succeed in this new world will be defined first and foremost by our adaptability. Our success as a trading nation – whether in products, services or knowledge – has and will always reside in a spirit of openness, enterprise and innovation.

We must unlock this talent. Currently, despite the strength of our international standing, we compare less well against certain major competitors in terms of business growth such as the US which has 20% more businesses per head; 40% more US businesses achieve high growth than businesses in the UK. We must close this gap if we are to truly rise to the wider global economic challenges.

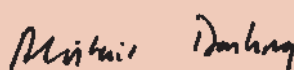
Over the past six months, we have listened to over 600 small businesses and entrepreneurs from all sections of the community. Working with them and drawing on international evidence we have developed this new strategy. It provides a framework of five "enablers" around which we have set out new measures and within which we will continue to work and develop policy on enterprise issues. It is about enabling the enterprise environment on regulation and finance and enabling enterprising people by unlocking talent through culture, knowledge and skills, and improving our ability to innovate: to commercialise new ideas.

The creation of the Department for Business Enterprise and Regulatory Reform is designed to provide a renewed focus on meeting these challenges. This new Enterprise strategy is the first complete public statement since then of the Government's aims for enterprise going forward. It reflects the Government's aim of wanting more new and growing businesses in the UK, and more companies and people acting on their enterprising ideas. Further strengthening our entrepreneurial capacity, enabling entrepreneurial creativity and innovation will help the UK respond to the challenges and opportunities of globalisation.

Unlocking talent – enterprise talent – for people from all sections of society and in our small businesses, helping them to grow, is where the UK's long term prosperity is going to reside.



Gordon Brown



Alistair Darling



John Hutton





# EXECUTIVE SUMMARY

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## VISION

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This strategy sets out the Government's renewed enterprise vision to make the UK the most enterprising economy in the world and the best place to start and grow a business.

The Government wants to see more people with the ambition to start, grow and innovate within business; having access to suitable business advice and finance and enabled by a strong regulatory environment.

## Progress

Over the last ten years, enterprise, as one of the five drivers of productivity, has contributed to the UK's increased rate of productivity growth and a narrowing of the gap with comparator countries. The UK now has a record four and a half million businesses and an environment for enterprise recognised as among the best in the world.

Furthermore;

- more UK SMEs have ambition to grow. In 2006, 65 per cent of SMEs had aspirations to grow over the next two or three years – a nine percentage point increase on 2005;
- there has been a 16 percentage point increase in the proportion of SME employers reporting that they had undertaken either product or service innovation in the past 12 months; and
- business survival rates are higher than a decade ago – 92 per cent of new VAT registered firms are still registered after one year; 71 per cent after three years.

## Challenges

Globalisation, involving increased flows of goods, services, technology and ideas, presents challenges and opportunities to those enterprising individuals and businesses who are able to compete successfully in global markets.

While ahead of many European competitors in terms of enterprise, on a number of key indicators, we trail the United States. The US has more businesses per head than the UK and more US businesses achieve quicker and higher growth than in the UK<sup>1</sup>, and fewer people in the US cite fear of failure as a reason not to start or grow a business.

## Five enablers of enterprise

This strategy sets out a new framework of five enablers which will inform and structure the Government's enterprise policy in the next few years. As a first set of measures in this new framework, the strategy sets out some new policy measures under each enabler:

**Culture** The Government will build on the success of recent initiatives to raise awareness of the rewards obtainable from enterprise and the motivation to act upon aspirations. The Government's policy will have three main streams of activity:

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<sup>1</sup> Hoffman, A., Junge, M. (2006) Documenting Data on High-growth Firm and Entrepreneurs across 17 countries. First Draft. Available at [http://www.foranet.dk/upload/documentation\\_of\\_high\\_growth\\_firms\\_oct\\_2006.pdf](http://www.foranet.dk/upload/documentation_of_high_growth_firms_oct_2006.pdf)

The Government proposes to change the law by the end of 2009 so that insolvency officers have the discretion to decide whether or not to place an advertisement in the local press with the aim of reducing the embarrassment and risk of stigma in the local community and associated **fear of failure**.

The Government will develop initiatives focussed on **inspiring young people around enterprise**. It will work with the English Premier League football clubs to promote enterprise through the football clubs' community programmes. The Government will also support the pan-European pilot programme for young entrepreneurs to offer cross-border mentoring and work placements in SMEs.

On measures of enterprise culture, women score consistently lower than men. The Government will fund a high level **media campaign around women's enterprise** – 'Spark an idea', to be coordinated by Enterprise Insight.

**Knowledge and skills** Government's challenge over the next ten years is to build on investment that has already been made, to foster further and support the development of enterprise skills and knowledge in the wider education system. Alongside this, Government is committed to strengthening the ability of businesses to access the support and skills development they need.

The Government will develop seamless enterprise education. A further £30million will extend **enterprise education** from secondary schools into primary and tertiary education. In addition, entrepreneur Peter Jones is working with the Government to launch a National Enterprise Academy (NEA) as a first in a network of enterprise academies.

Government will develop a package of measures to develop the **knowledge and skills for enterprise among women, including working** with the Regional Development Agencies (RDAs) to pilot Women's Business Centres (WBC). Through Children's Centres it will also make enterprise support and advice more women-friendly and more readily available. A national mentoring network for women in business will be coordinated to recognise and support the distinctive nature of women's business start-up and growth.

Government will take forward measures to simplify and develop relevant **business support and mentoring**. This includes an increase in investment in a Leadership and Management Programme and work with the RDAs, and the leading private sector agencies, to establish better links between mentoring programmes and the business support network overall.

**Access to Finance** The Government is building on the range of initiatives already in place to help businesses finance their ambitions to start-up and grow.

SME lending in the UK has remained stable in the face of recent financial market disruption. However Government is committed to ensuring that businesses who are starting up and those seeking to expand and grow are not constrained in obtaining finance as a result of any financial market disruption and is therefore proposing to strengthen the **Small Firms Loan Guarantee** by:

- a 20 per cent uplift in lender allocations for one year; and
- extension to the eligibility of SFLG to businesses with growth ambitions that are more than five years old, including, but not limited to, those that have changed ownership.

Further, to help bridge the finance gap for growth businesses, Government is proposing the following measures:

Commitment of £12.5million for a **capital fund focussed primarily on investing in women-led businesses**.

Additional £30million capital commitment to stimulate the delivery of **mezzanine finance** through Enterprise Capital Funds (ECFs) but also through SFLG. Commitment to stimulate delivery through SFLG

Removal of clauses in public procurement contracts that might prevent the use of **factoring and invoice discounting** as a means of finance, thereby enabling SMEs to compete.

Development of a national framework for the delivery of **investment readiness** support, including targeted support for underrepresented groups such as women.

Support and work with British Business Angel Association to develop and build capacity in UK's **Business Angel sector**.

Launch of a third round of **Enterprise Capital Funds**, with around £50m available to invest. Further £100million available to commit in two subsequent rounds.

**Regulatory Framework** Building on its targeted net reduction in the regulatory burden of 25 per cent by 2010, the Government will renew its focus on reducing regulatory burdens, recognising that unnecessary or overly complex regulation can stifle enterprise and have a disproportionate impact on small firms.

- The Government will consult on the introduction of a **new system of regulatory budgets** for Departments that would set out the cost of new regulation that can be introduced within a given period.
- The Government will introduce a **new approach to regulating small firms** in line with its 'think small first' policy. In the first instance, it will examine whether small firms can be fully exempted from new regulatory requirements or be subject to simplification of enforcement. Where this is not possible Departments will seek to work with small firms to design specific approaches for them.
- The Government will review existing legislation, ensuring the **Hampton principles** are embedded, introducing new, or amended, exemptions for small firms and, wherever possible, simplified inspection and enforcement.
- The Government will establish an independent review to make recommendations on ways of ensuring firms can place greater **reliance on official guidance** and thereby reduce the cost of compliance.

**Business Innovation** The strategy reinforces the role of innovation as a driver of enterprise itself and at the root of all entrepreneurial activity, complementing the Government's new Innovation Strategy. As the Government starts delivering this strategy it will:

Investigate the role that **innovation vouchers** can have in encouraging firms to innovate in liaison with universities.

Refocus **Small Business Research Initiative (SBRI)** co-ordinated by the Technology Strategy Board.

Offer a 3-month trial period for new firms registering on [supply2gov.uk](https://supply2gov.uk) Government will do more to encourage public sector buyers to register and post opportunities on the site.

Through the National Council for Graduate Entrepreneurship establish **university enterprise networks**.

**Wider benefits** The Government's aim is, through all forms of enterprise, to bring significant social and economic benefits to more deprived parts of the country and those groups in the population heavily represented there. Key measures as the Government starts delivering this strategy include:

£1 million funding for the **Prince's Trust** to identify role models and raise awareness of the benefits of enterprise amongst some of our most disadvantaged young people.

Supporting Community Development Finance Institutions to help business in deprived areas to access finance, funding the Community Development Finance Association to improve standards, and introducing flexibility and confidence through improvements to the operation of Community Investment Tax Relief.

The Government will provide up to £10 million to establish a Risk Capital Fund for social enterprises. The fund will be the first of its kind and will benefit social enterprises at the start-up and early growth stages of developing their businesses.

# INTRODUCTION

## The vision for enterprise

**I.1** The opportunities in today's modern, global economy are immense. By 2020, total global output is forecast to almost double, and new, dynamic markets are opening. The consequent international flows of goods, services, technology and ideas, and increasing environmental pressures, present unprecedented opportunities for those enterprising individuals and businesses who are able to compete successfully in global markets

**I.2** At the same time, globalisation and growing global demand will continue to create opportunities for countries to increase the proportion of skilled workers in their economies. Assuming current trends in the labour market continue, by 2020 in the UK there will be over 4 million more people employed with higher level qualifications than in 2004.

**I.3** The UK is responding well to these opportunities and challenges, and has made progress over the last decade in raising the rate of productivity growth and narrowing the productivity gap with comparator countries. Since 1997 the UK has narrowed the output per hour gap with France and Germany by around a third, and made progress in narrowing the gap with the US.<sup>1</sup>

**I.4** The creation of the Department for Business Enterprise and Regulatory Reform adds fresh impetus to the Government's strategy to support business growth and raise productivity. BERR will bring a unified focus to enterprise and the regulatory framework, with the department acting as the voice for business, at the heart of Government.

**I.5** This strategy sets out the Government's renewed enterprise vision to make the UK the most enterprising economy in the world and the best place to start and grow a business.

**I.6** The strategy is a key part of our delivery plan for the Public Service Agreement (PSA) goals for which BERR has lead responsibility.<sup>2</sup> The strategy is central to helping us work with business to:

- raise the productivity of the UK economy;
- deliver the conditions for business success in the UK; and
- improve the economic performance of all English regions and reduce the gap in economic growth rates between regions.

**I.7** In addition, the strategy will support the wider Government PSA goal of addressing the disadvantages that individuals experience because of their gender, race, disability, age, sexual orientation, religion or belief.<sup>3</sup>

**I.8** The strategy also recognises the important role of Social Enterprise in delivering broader enterprise policy objectives. The policy measures in the strategy will promote all enterprise activity, including social enterprise, and complement the initiatives being taken forward by the Office for the Third Sector.

<sup>1</sup> ONS International Comparisons of Productivity

<sup>2</sup> Public Service Agreements 1, 6 and 7. Full details available at [http://www.hm-treasury.gov.uk/pbr\\_csr/psa/pbr\\_csr07\\_psagrowth.cfm](http://www.hm-treasury.gov.uk/pbr_csr/psa/pbr_csr07_psagrowth.cfm)

<sup>3</sup> Public Service Agreement 15. Full details available at [http://www.hm-treasury.gov.uk/pbr\\_csr/psa/pbr\\_csr07\\_psaopportunity.cfm](http://www.hm-treasury.gov.uk/pbr_csr/psa/pbr_csr07_psaopportunity.cfm)

**I.9** Over the past six months, the Government has consulted with over 600 businesses and business leaders, to develop a better understanding of the challenges of building an enterprise economy.

**I.10** Informed by this dialogue, and building on extensive academic analysis, including work by the OECD, on what drives enterprise and growth, we will focus our enterprise policies over the coming years on five enablers.

<b>Enterprise enablers</b>	
<b>Culture</b>	<b>Develop a culture, where talent can be unlocked and flourish, recognising differences in enterprise culture across different social groups, reducing fear of failure that prevents start-ups, and giving everyone the opportunity to be entrepreneurial.</b>
<b>Knowledge and skills</b>	<b>Ensure that individuals and business have access to and are able to develop the best possible knowledge and skills to support the growth of their business.</b>
<b>Access to Finance</b>	<b>Enable new and growing businesses and those people seeking to exploit their ideas to have access to the appropriate level of finance and advice.</b>
<b>Regulatory Framework</b>	<b>Renew our focus on reducing regulatory burdens, recognising that unnecessary or overly complex regulation can stifle enterprise and have a disproportionate impact on small firms.</b>
<b>Business Innovation</b>	<b>Reinforce innovation’s role as a driver of enterprise itself and at the root of all entrepreneurial activity, complementing the Government’s new Innovation Strategy.</b>

## Ambition of Enterprise Strategy

**I.11** This paper presents important new policy priorities relating to these inter-related enterprise enablers which will have a materially positive impact on every business in the UK. The enablers will shape the future priorities of BERR as a new department. In future years, successful delivery of this strategy will see:

- a greater proportion of people with the ambition to start and grow a business;
- an increase in the proportion of SMEs making use of external business advice;
- a fall in the extent to which access to finance is likely to act as a barrier to enterprise;
- an increase in the proportion of SME turnover due to new or significantly improved products; and
- the benefits of new regulations justifying costs and unnecessary increases in regulatory burdens avoided.

## Progress towards an enterprise economy

**I.12** There has been considerable progress in promoting an enterprising economy in the UK over the past ten years. There are record numbers of businesses – 4.5 million at the start of 2006, over 750 thousand more than in 1997. And employment in the private sector now stands at 23.5 million – an increase of over 2 million (ten per cent) since 1997.

**I.13** The UK is also increasingly recognised by international organisations as having one of the best business environments in the World for starting and growing a business:

- The OECD considers the UK to have the lowest barriers to entrepreneurship of all OECD countries.<sup>4</sup>
- The World Bank ranks the UK second in Europe, and in the top ten countries (out of 178 economies) on measures of the ease of doing business.<sup>5</sup>
- The UK's finance market has been ranked third best in the world for supporting business financing needs.<sup>6</sup>

**I.14** In addition, the new and small business sector has become more dynamic over the last ten years in terms of growth and its contribution to wealth creation.

### Increased dynamism in the small business sector

- **Employment in small and medium sized businesses (SMEs) has grown by 1.2 million (ten per cent) since 1997.**
- **Productivity growth in small firms has exceeded that in large firms since 1998.**
- **More SMEs have ambition to grow. In 2006, 65 per cent of SMEs had aspirations to grow over the next two or three years – a nine percentage point increase on 2005.**
- **There has been a 16 percentage point increase in the proportion of SME employers reporting that they had undertaken either product or service innovation in the past 12 months: 48 per cent in 2006 compared to 32 per cent in 2005.**
- **On average around 180,000 businesses have registered for VAT each year since 2000 and VAT registrations have exceeded de-registrations for twelve years in a row.**
- **Business survival rates are higher than a decade ago – 92 per cent of new VAT registered firms are still registered after one year; 71 per cent after three years.**
- **There has been an increase in levels of enterprise in deprived areas, with self-employment rates now almost one percentage point higher than in 2000. The gap between VAT registration rates in the most and least deprived areas has been narrowing since 2000.**
- **There are now more than a million self-employed women, a 17 per cent increase on 2000.**

**I.15** These improvements in business performance have been accompanied by the development of a more entrepreneurial culture, particularly amongst young people (Box 1: Developments in the UK's entrepreneurial culture).

<sup>4</sup> OECD, 'Product Market Regulation in OECD Countries: 1998 to 2003', April 2005, available at: [http://www.oilis.oecd.org/olis/2005doc.nsf/LinkTo/NT00000BA2/\\$FILE/JT00181518.PDF](http://www.oilis.oecd.org/olis/2005doc.nsf/LinkTo/NT00000BA2/$FILE/JT00181518.PDF)

<sup>5</sup> World Bank, Doing Business 2008, 2007, available at: [http://www.doingbusiness.org/documents/FullReport/2008/DB08\\_Full\\_Report.pdf](http://www.doingbusiness.org/documents/FullReport/2008/DB08_Full_Report.pdf)

<sup>6</sup> Milken Institute Capital Access Index 2006, the UK was just behind Hong Kong and Singapore.

**Box 1: Developments in the UK's entrepreneurial culture**

- The UK is now third in the G8 ranking for early stage entrepreneurship, up from fifth in 2001.
- The proportion of working age population expecting to start a business in next three years has increased by 70 per cent (4.6 per cent in 2002 to 7.8 per cent in 2006).
- The proportion of the population who believe they have the skills to start a business is up by a quarter (40.2 per cent in 2001 to 49.6 per cent in 2006).

**I.16** Given the many external influences which can impact on business and culture, it would be wrong to attribute such improvements in enterprise performance to Government action alone. But over the last ten years, substantial reforms to both the macroeconomic and microeconomic policy frameworks, including enterprise policy, have been significant in driving progress.

**Macroeconomic stability** **I.17** The Government's macroeconomic framework is designed to maintain long-term economic stability. Stability allows business, individuals and the Government to plan more effectively for the long term, improving the quality and quantity of investment in physical and human capital and helping to raise productivity.

The monetary policy framework, which gives full operational independence for the Monetary Policy Committee (MPC) in setting interest rates to meet the Government's target, seeks to ensure low and stable inflation, while fiscal policy is underpinned by clear objectives and two strict rules that ensure sound public finances over the medium term while allowing fiscal policy to support monetary policy over the economic cycle. These policies continue to deliver unprecedented growth and stability:

- sixty-two consecutive quarters of GDP growth, the longest sustained expansion on record;
- the UK's longest period of sustained low and stable inflation since the 1950s; and
- historically low and stable interest rates.

**Microeconomic reform** **I.18** Alongside the macroeconomic framework, the Government has delivered a programme of microeconomic reforms, focused on raising productivity growth. In addition to reforms to enterprise (discussed below), the Government has introduced policy reforms aimed at improving the contributions of the other drivers of productivity, competition, innovation, skills and investment. These include:

- strengthening the UK's competition regime through a number of major reforms;
- promoting innovation through record investment in science;
- implementing the recommendations of the Leitch Review of skills; and
- significant investment in infrastructure including annual real increases in expenditure for transport infrastructure.



**I.19** These reforms have contributed to significant improvements in performance across the drivers:

**Competition:** The competition regime in the UK is generally viewed positively in international comparisons. The latest Global Competition Review rates the Competition Commission joint first in the world in the ranking of individual competition enforcement agencies in 2006.

**Innovation:** The UK's science and engineering base remains strong, with the UK substantially ahead of US, Germany and France on the number of peer-reviewed publications. Levels of R&D patenting are still relatively low, although this is largely explained by the composition of the UK business population compared to other countries.

**Skills:** The UK performs well on higher skills, with a relatively high proportion of the population having degree-level qualifications. Performance in terms of the low skills profile is less strong, although more positively the overall skills profile has shown improvement both in absolute terms and relative to the country's main competitors.

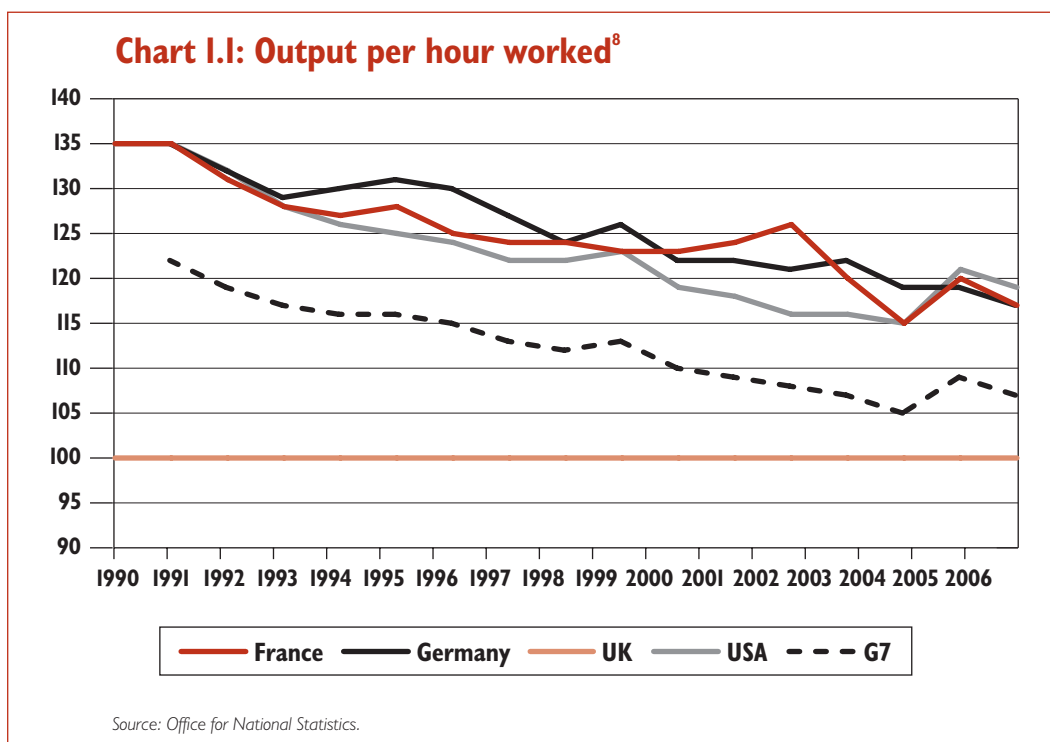
**Investment:** Both business and public sector investment intensity has generally been lower than the UK's main competitors over the last decade. However, Government investment in the UK stabilised as a proportion of GDP in 2000 after a long period of decline, and is now increasing.

**Enterprise policy to date** **I.20** Over the last 10 years the Government has introduced a number of important enterprise policy reforms which have improved the environment in which business operates and have helped to promote an enterprise culture. For example:

- successfully launching the first phase of Enterprise Capital Funds to help the development of high-growth small businesses;
- modernising the Small Firms Loan Guarantee to reduce the barriers in accessing finance faced by young and growing small businesses;
- introducing administrative burden reduction targets and putting in place for the first time just two annual commencement dates for new legislation affecting business;
- the Enterprise Act (2002) modernised insolvency law to encourage the rescue of viable businesses, either by achieving a turnaround of the insolvent company itself or alternatively a sale of its business as a going concern;
- inspiring many more people to think seriously about starting a business and to develop their enterprising skills through the establishment of a national Enterprise Week, part of a reinvigorated Enterprise Insight campaign;
- launching the internationally acclaimed [www.businesslink.gov.uk](http://www.businesslink.gov.uk) portal – bringing together more than 50 departments and agencies – making it easier for businesses to access the information they need to succeed;
- improving the performance management of local Business Link operators, resulting in higher levels of business satisfaction and a doubling of their customer base, helping to ensure that more entrepreneurs are able to access the high quality support they need to start and grow;
- making it much easier for small businesses to spot and seize opportunities to supply to the public sector by starting a pioneering new website, [www.supply2.gov.uk](http://www.supply2.gov.uk);

- improving infrastructure, including launching a review of the potential barriers to deployment of high speed broadband in the UK, to help ensure that all companies have the opportunity to benefit from the growth in global markets for digital good and services;
- creating the first new type of company for 100 years – the Community Interest Company, which is particularly appropriate for social enterprises; and
- further measures on enterprise contained in the Budget and Pre-Budget documents produced by Her Majesty’s Treasury over the last 10 years.

**1.21** These reforms to macroeconomic and microeconomic policy, including enterprise policy, have helped drive improvements in the UK’s productivity performance over the last decade. Trend productivity growth (output per hour worked) is estimated to have increased from 1.9 per cent per annum over the previous two cycles, to 2.4 per cent over the current cycle.<sup>7</sup> This has supported the narrowing of the productivity gap with our main industrial competitors (Chart 1.1). Nevertheless, more progress is required if we are to further close the gap with these economies.



## Enterprise and the global economy

**1.22** Despite the present uncertainties in the global economy, the long-term prospects for both the UK and the global economy remain strong. The economy has the underlying resilience to adapt and cope with periods of uncertainty.

<sup>7</sup> Estimates from HM Treasury published in Budget 2008

<sup>8</sup> Measurement error and the potential influence of changes in relative prices (resulting from the conversion of GVA into common units using the recommended current price PPPs) mean that small changes in relative productivity (under 5 percentage points) are not treated as significant by ONS. However the long term trends illustrated in the above graph are clearly significant being between 15 and 20 percentage points over the period.

**I.23** The challenges and opportunities presented by continuing globalisation reinforce the need for a strong enterprise culture in the UK. Increasing international flows of goods, services and investment and the rapid growth of low cost economies provide huge opportunities for UK business. As well as giving firms access to new and larger export markets, participation in global markets also exposes firms to new ideas and technologies and increases their productivity by increasing competition and the incentives to innovate.<sup>9</sup>

**I.24** In addition, the growing pressure on environmental resources presents both challenges and opportunities for business as they play their role in helping the UK and global economies to achieve more sustainable levels of carbon emissions. Enterprising companies who are able to develop and commercialise goods and services which help address environmental concerns will be able to benefit from the expected global growth of this sector.<sup>10</sup> In the UK EGS market is projected to grow from £25 billion in 2005 to £46 billion by 2015.

**I.25** The growth of so-called 'born global' companies in recent years demonstrates the increasing fundamental importance of entrepreneurship to the economy<sup>11</sup>. Born global companies are able to leap-frog the traditional model of firm development based on selling initially to domestic markets and engage in international activities right from birth. They are a representation of the opportunities that can arise from the increasingly inter-connected nature of global economies.

**I.26** Globalisation also creates challenges for the UK economy by putting firms and workers in competition with those from across the globe. Globalisation reinforces the need to make further progress on closing the productivity gap. Businesses will also need to respond to the challenges of climate change, altering their behaviour as they face new incentives to save energy and reduce emissions.

### Challenges in levels of business growth

**I.27** Despite progress over the last 10 years, there are a number of challenges for enterprise performance which need to be overcome if the UK is to reap the full benefits from, and is able to respond effectively to globalisation and climate change, which this strategy seeks to address.

**I.28** Business growth is central to improving long term economic performance and rising living standards, but:

- Although there has been some improvement as set out in Box 2, large numbers of businesses still have no ambition to grow. Only 65 per cent of all UK businesses with employees report that they intend to grow in the coming two to three years.<sup>12</sup>
- Even amongst those businesses that aspire to grow, a large number are not successful in their ambition. Only one in five of all businesses achieve employment growth in any given year and less than ten per cent achieve sustained growth.

<sup>9</sup> 'Globalisation and the changing UK economy', BERR February 2008, provides a broader discussion on the impact of globalisation on the UK economy and the Government's policy response.

<sup>10</sup> the environmental goods and services (EGS) sector was estimated to be worth \$548bn in 2005, and is expected to grow by 45% by 2015 with world markets growing to \$688 billion by 2010 and just under \$800 billion by 2015

<sup>11</sup> Harris, R., Li, Q Cher (2007) Born Global Companies: Evidence from FAME and CIS April 2007. Final Report to UK Trade and Investment

<sup>12</sup> BERR Annual Survey of Small Business Opinions 2006/07 (ASBS 2006/07), available at <http://www.berr.gov.uk/files/file42727.doc>

**I.29** A large proportion of businesses, particularly smaller businesses, could perform better on a wide range of factors associated with business performance and growth:

- Less than one half of businesses introduced some kind of new or improved product or service in 2006 and only 12 per cent introduced an entirely new product or service.
- A quarter of businesses with employees are exporters and only a further five per cent plan to start exporting in the future.
- Two-thirds of businesses provide any staff training in a given year and only a quarter of managers receive any training.

**I.30** Most measures of entrepreneurship including key indicators of business growth and competitiveness, show UK performance, while ahead of many European competitors, some way behind that of the United States.

- The US has 20 per cent more businesses per head than the UK. A significant proportion of this gap is explained by much lower rates of women's entrepreneurial activity in the UK.
- Once established, the average new business in the UK is also likely to grow more slowly, with 40 per cent more US businesses achieving high growth than businesses in the UK.<sup>13</sup>

**I.31** Fear of failure is commonly cited as part of the explanation for differences in enterprise and businesses formation rates between the UK and US. 36 per cent of people in the UK compared with 21 per cent in the US say that fear of failure would prevent them from starting a business.<sup>14</sup>

Within the UK, attitudes towards enterprise and entrepreneurial activity differ markedly between groups of people and regions.

- Despite the rise in the numbers of women involved in enterprise activity in recent years, only 14 per cent of businesses with employees are led by women,<sup>15</sup> with two men starting up in business to every one woman.
- London has double the number of businesses per adult and more than double the number of new VAT registrations per adult than the lowest performing region, the North East.

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<sup>13</sup> Hoffman, A., Junge, M. (2006) Documenting Data on High-growth Firms and Entrepreneurs across 17 countries. First Draft. Available at [http://www.foranet.dk/upload/documentation\\_of\\_high\\_growth\\_firms\\_oct\\_2006.pdf](http://www.foranet.dk/upload/documentation_of_high_growth_firms_oct_2006.pdf)

<sup>14</sup> <http://www.london.edu/assets/documents/PDF/GEMUK>

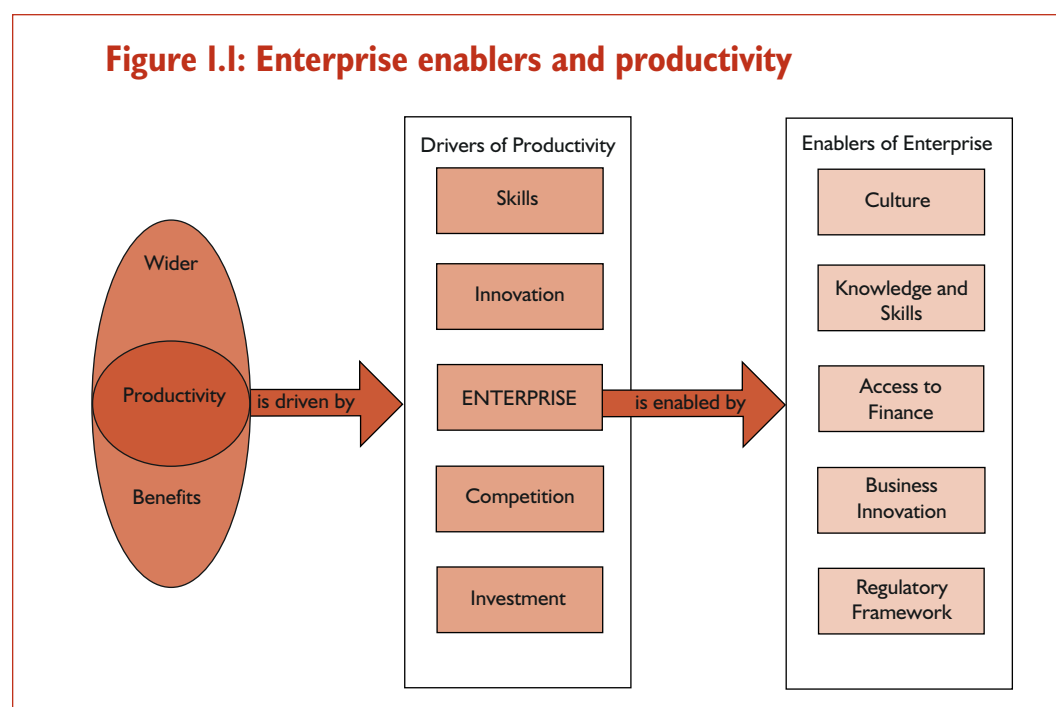
<sup>15</sup> BERR Annual Survey of Small Business Opinions 2006/07 (ASBS 2006/07), available at <http://www.berr.gov.uk/files/file42727.doc>

## Promoting enterprise – a framework for government policy

### Five enablers of enterprise

**I.32** The Government believes that the best way to promote enterprise is through releasing the energy and innovative capacity of firms competing in free and fair markets. It recognises that wealth is created by the actions of businesses of all sizes. While it is not the role of government to either duplicate or substitute for private sector activity, there is an important role for targeted interventions to overcome market failures and imperfections to ensure that markets deliver the best outcomes.

**I.33** A country's enterprise performance depends on a multitude of underlying factors. This framework brings these factors together and groups them within five separate, but closely inter-linked, themes or 'enablers'; Culture, Knowledge and Skills, Access to Finance, Business Innovation, and Regulatory Framework. It builds on many important contributions to the academic literature on entrepreneurship over the years, and ongoing work by the OECD on the factors driving entrepreneurship internationally. Links between the enablers of enterprise and the drivers of productivity are shown in Figure 1.1.



**I.34** Consultations with academics and businesses have confirmed the importance of these five enablers in driving productivity and growth performance in businesses. There is general agreement amongst stakeholders that a new but simpler and more coherent strategic framework is required – one that is more meaningful to businesses themselves, but also relevant to the range of bodies responsible for delivering enterprise policy objectives and firmly based on an analysis of the market failures which underpin the rationale for government action

**I.35** The enablers will provide a new focus for how we think about the development of enterprise policies as well as informing our priorities in the same way that the five drivers of productivity will continue to inform our broader productivity policies. We believe the following enablers are key to delivering our enterprise vision:

**Culture** People's fear of failure and their perceptions of their own potential to be enterprising, affects their assessment of the costs and benefits of entrepreneurship. These factors play an important role in determining enterprise levels, as does the value society places on entrepreneurial success and the way it judges 'failure'.

*There are 200,000 more 16-24 year olds thinking of starting a business than there were in 2003, but overall 7.4 per cent of people in the UK have considered starting a business in the next 3 years compared to 14.4 per cent<sup>16</sup> in the US.*

*The European Commission Flash Barometer found that around 43 per cent of people in the UK agreed with the statement 'one should not start a business if there is a risk it might fail'. This is lower than the average for the EU (48 per cent), and lower than Germany (55 per cent) and Italy (53 per cent), but higher than fear of failure in France (41 per cent) and the US (19 per cent).<sup>17</sup>*

The Government has an important role both in raising the status and profile of entrepreneurs in UK society and in promoting an environment in which people are able to make better informed assessments of the risks of entrepreneurship. Unless there is a positive cultural environment that motivates people to exploit their talent and potential to be enterprising, the benefits from other enablers will not be fully realised.

In turn, policies under all other enablers impact on culture. The regulatory environment and finance market are particularly significant in shaping perceptions of risk by altering the assessment by potential entrepreneurs of the balance between the costs and benefits of enterprise.

Although the Culture enabler and the Knowledge and Skills enabler (which is discussed below) are closely interlinked, they have a different role in enabling enterprise. The strength of the enterprise culture is critical in motivating and inspiring people and businesses about 'what can be achieved'. But individuals and businesses also need the knowledge and skills to make a reality of their ambitions.

**Knowledge and Skills** Continuing development of a broad range of skills and knowledge, including management skills and capabilities, is key to developing and implementing strategies to support growth and competitiveness.

*Evidence shows that the quality of management is often perceived to be lower in the UK than other countries. Annual expenditure on developing managers in the UK is one-third (37 per cent) of that in Germany and two-thirds (61 per cent) of expenditure in France.<sup>18</sup> More generally, evidence suggests that a third of UK firms provide little or no training to staff and less than a quarter of firms seek external advice.*

Government has a role to play in raising awareness of the value of developing knowledge and capability in these key areas, and where appropriate provide targeted interventions to support business investment in skills.

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<sup>16</sup> Global Entrepreneurship Monitor (GEM) Global Report (2007), available at [http://www.gemconsortium.org/download/1204734290274/GEM\\_2007\\_Executive\\_Report.pdf](http://www.gemconsortium.org/download/1204734290274/GEM_2007_Executive_Report.pdf)

<sup>17</sup> European Commission Flash Barometer 192, 'Entrepreneurship survey of the EU (25 member states), US, Iceland and Norway', April 2007, available at: [http://ec.europa.eu/public\\_opinion/flash/fl\\_192\\_en.pdf](http://ec.europa.eu/public_opinion/flash/fl_192_en.pdf)

<sup>18</sup> Leadership and management in the UK: Raising our ambition, The Leadership and Management Advisory Panel, Submission to the Leitch Review, October 2006.

**Access to Finance** Awareness of, and access to, appropriate sources and levels of external finance and the development of sound financial skills are often critical in determining the investment and innovation performance of small businesses, and the extent to which they realise their full growth potential. While most firms are able to access the finance they need, significant barriers exist for a minority, particularly amongst businesses with growth ambitions.

*The proportion of businesses failing to access finance from the first source they approach has remained consistently low for the last five years. However, businesses aspiring to grow are both more likely to seek finance and more likely to experience difficulties obtaining it. 26 per cent of growth aspirant businesses who are seeking finance report difficulties obtaining it compared with 16 per cent of businesses not seeking growth.<sup>19</sup>*

The Government's role is to work in partnership with the finance markets and business support providers to address access to finance barriers, to ensure that finance markets work efficiently and businesses can access the finance they require for start-up, investment and growth.

**Regulatory Framework** The efficient operation of a market, supported by a strong regulatory, legal and tax framework, provides certainty and incentives around enterprise activity.

*The UK regulatory environment is consistently recognised as amongst the best in the world. The UK is ranked sixth by the World Bank in terms of ease of doing business globally,<sup>20</sup>*

*The Government is delivering on its commitment to achieve a 25 per cent reduction in administrative burdens by 2010 – worth £3.5 billion to business and the third sector annually – £800 million of annual net savings have already been delivered.*

*The government is implementing the recommendations of the Hampton Review, to deliver a risk-based approach to inspection and enforcement, including implementation of the Regulators Compliance Code which comes into force in April 2008.*

*14 per cent of SMEs see regulation as the biggest obstacle to their success,<sup>21</sup> with businesses overall spending at least £1.4 billion annual on advice on following regulations.*

The Government has a responsibility to improve the conditions for business success by delivering better regulation and improvements in the administration of tax regimes and by ensuring that administrative and enforcement burdens do not impact disproportionately on SMEs.

**Business Innovation** The successful exploitation of new ideas is pivotal to driving the UK's productivity performance and to maximising the benefits from increasing globalisation. There is a strong two way correlation between innovation and enterprise; innovative small businesses are more likely to achieve growth, while small businesses which have experienced recent growth are more likely to introduce new or improved products and services or new ways of working.

<sup>19</sup> BERR Annual Survey of Small Business Opinions 2006/07 (ASBS 2006/07), available at <http://www.berr.gov.uk/files/file42727.doc>

<sup>20</sup> World Bank, Doing Business 2008, 2007, available at: [http://www.doingbusiness.org/documents/FullReport/2008/DB08\\_Full\\_Report.pdf](http://www.doingbusiness.org/documents/FullReport/2008/DB08_Full_Report.pdf)

<sup>21</sup> BERR Annual Survey of Small Business Opinions 2006/07 (ASBS 2006/07), available at: <http://www.berr.gov.uk/files/file42727.doc>

*Although the proportion of businesses which are innovation active has increased from 36 per cent in 1998-00 to 43 per cent in 2002-04, the UK still remains behind other European economies including Germany (65 per cent), Denmark (52 per cent) and Sweden (50 per cent).*

Encouraging more SMEs to undertake innovation, not only through the introduction of new products, but for example in using technology to deliver products in new ways, offers a route to greater overall productivity gains and growth. The promotion of social enterprises is particularly important to encouraging the development of pioneering innovative solutions to social and environmental problems.

**I.36** These enterprise enablers are of critical importance in driving enterprise activity – boosting productivity and growth in enterprises of all sizes, and at each stage of their development. But they are particularly important in facilitating the growth of dynamic, world-beating companies which are well placed to reap the full benefits from the unprecedented set of new opportunities arising from globalisation. Specific measures to promote enterprise in each of these areas will be complemented by broader Government economic policies designed to drive productivity and growth.

**I.37** The Department for Business Enterprise and Regulatory Reform was created to ensure an increased focus from central Government on promoting the creation and growth of business and a strong enterprise economy. The renewed enterprise strategy will not only drive enterprise policy over the next decade but it will also provide a clear framework for shaping BERR's activities and engagement with both the business community and other parts of Government. By focusing on the five enterprise enablers which underpin the renewed enterprise strategy – Culture, Knowledge and Skills, Finance, Innovation and Regulation, BERR will improve its ability to promote productivity and competitiveness across all areas of Government policy.

**I.38** Subsequent chapters examine each of the five enterprise enablers in more depth, focusing specifically on SMEs. Each chapter provides an overview of the evidence explaining why the Government is taking action; briefly describes existing policies and other relevant initiatives relating to the priority area; and finally highlights outstanding issues and new policy proposals. Given the specific concern that the Government has in the wider benefits which flow from a more enterprising economy, particularly to disadvantaged communities and people who are disadvantaged in the labour market, the framework also has a separate chapter on these issues.

### Devolved administrations

**I.39** The strategy sets out a broad enterprise framework for the whole of United Kingdom. Within this the Government recognises that support for enterprise is a matter that is devolved to Wales, Scotland, and Northern Ireland.

**I.40** We will continue to work closely with the devolved administrations, and we hope this framework will help inform their thinking as they develop or refresh their own approaches to enterprise.



**Vision**

*Together we can build the strongest entrepreneurial culture that the world has ever seen. Together we can encourage young people to realise and unlock their talents so that their potential is realised to the full. To bridge the gap between what we are and what we have in ourselves to become.*

*Prime Minister, Gordon Brown*

- The Government's vision is for many more people in the UK to have the opportunity, aspiration and motivation to use their talent and initiative to be enterprising and have an increased proportion of people starting a business.
- The Government will work to develop an environment in the UK where attitudes to and aspirations about enterprise, measured through the Global Entrepreneurship Monitor, are based on accurate information and relevant role models and not on myths that lead to misplaced risk aversion.

**Progress to Date**

- The UK is now third in the G8 ranking for early stage entrepreneurship, up from fifth in 2001.
- The proportion of working age population expecting to start a business in next three years has increased by 70 per cent (4.6 per cent in 2002 to 7.8 per cent in 2006).
- The proportion of the population who believe they have the skills to start a business is up by a quarter (40.2 per cent in 2001 to 49.6 per cent in 2006).
- More SMEs have ambition to grow. In 2006, 65 per cent of SMEs had aspirations to grow over the next two or three years, a nine percentage point increase on 2005.

**Next challenges**

- The UK population has a level of 'fear of failure' that while lower than its major European competitors is almost double that in the US and Canada. 43 per cent of people in the UK compared with 19 per cent in the US believe a new business should not be created if there is a risk that it might fail.
- Even where they may be well equipped to exploit opportunities for growth many UK businesses lack the aspiration to do so.
- Attitudes to enterprise vary considerably across the population: women, the over 50s and some northern regions have much lower aspirations than the average.
- Whilst more young people now aspire to start a business few of them feel confident enough to turn these aspirations into reality.

**Strategy**

- Over the next 10 years, the Government's strategy is to improve attitudes to enterprise across the UK so that many more people feel they can use their talents to start and grow businesses. In particular:
  - the Government will help more people to obtain accurate information on the returns from and opportunities for enterprise;

- through the steps we are taking, many more women will feel that they have the ability and confidence to start a business, and women owning businesses will feel more confident in their ability to grow their business;
- young people will be made aware of their potential to be enterprising and encouraged to exploit this in later life; and
- the Government will address the stigma of business failure across society.

An overview of measures to start delivering this strategy are contained in a box at the end of the chapter.

## THE GOVERNMENT'S VISION

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**2.1** The Government's vision is for many more people in the UK to have the aspiration, opportunity and motivation to use their talent and initiative to be enterprising, whether expressed through starting or growing a business.

**2.2** In recent years, young people have been the focus of much of the Government's activity around enterprise aspiration and motivation and it is encouraging that many more young people now aspire to starting up in business – 200,000 more in the last five years. This represents a good start, but an even greater effort and broader delivery is needed.

**2.3** The UK is widely recognised as one of the best environments in the world in which to start and grow a business. Reflecting this, the last ten years have seen us reach a record 4.5 million businesses. However, people in the UK, including business owners and managers, can be more fearful of failure and the consequences of failure than people in competitor countries, such as the US and Canada. 36 per cent of people in the UK compared with 21 percent in the US say that fear of failure would prevent them from starting a business<sup>1</sup>. Evidence suggests that this is often based on misconceptions.

**2.4** The Government will work to develop an environment in the UK where attitudes and aspirations around enterprise are based on accurate information and relevant role models and not on myths that lead to misplaced risk aversion. Success will be measured through a greater proportion of people with the ambition to start and grow a business. This is measured through early stage enterprise activity (the number of businesses less than three and half years old is a good proxy for wider enterprise culture) and growth aspirations captured respectively by Global Entrepreneurship Monitor and BERR's Small Business Survey.

**2.5** Other chapters will set out the importance of equipping individuals and firms with the capability and skills and other resources to undertake enterprising activities. They will explain the actions Government is taking to encourage a supportive environment for enterprise, to promote innovation as a core enabler of enterprise, to enhance access to finance for entrepreneurs and to develop a supportive regulatory and legal framework.

**2.6** But a more positive enterprise culture will not only result in more people wanting to put their ideas into action by starting a business in the future, but will also increase the drive, creativity and flexibility of people working in businesses of all types and sizes to grow. The benefits for the economy are clear. However these benefits will be tempered unless there is a positive cultural environment that motivates people to exploit their talent and rewards them for acting on their potential to be enterprising.

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<sup>1</sup> (GEM 2007).

**PROGRESS MADE SO FAR**

**Changing perceptions**

**2.7** The UK is developing a more enterprising outlook. In particular, research shows that younger people are significantly more likely to think about starting a business. The proportion of 16-24 years thinking of starting a business has increased from 14.4 per cent to 17.5 per cent<sup>2</sup>. This means that there are now over 200,000 more 16-24 year olds thinking of starting a business than there were in 2003.

**2.8** Compared to 2003, it is also clear that female entrepreneurship is increasing, with the percentage of women who are thinking of starting a business rising by 1.7 percentage points (a statistically significant increase)<sup>3</sup>. Recent survey evidence shows that over half of women see entrepreneurship as a good career choice and approximately two in five say they have the skills to start a business<sup>4</sup>.

**2.9** Compared with other countries, the UK has a particularly high proportion of entrepreneurs who are motivated by the pull of being independent. Nine out of ten (88 per cent) entrepreneurs are seeking to exploit an opportunity rather than acting out of necessity, for example, because they had no other employment choices<sup>5</sup>.

**2.10** Table 2.1 below shows that people in the UK are more positive than in the US, Germany and France about both the opportunities for entrepreneurship and also their own capabilities.

**Table 2.1: Attitudes and perceptions towards entrepreneurship (percentage of working age population who expressed an opinion and agreed with the statement at the top of the column)**

	<b>There are good start-up opportunities where I live</b>	<b>I have the skills, knowledge and experience to start a business</b>
France	23.3	33.5
Germany*	20.0	39.0
<b>UK</b>	<b>36.9</b>	<b>49.3</b>
US	25.2	48.3

Source: GEM Global Report (2007).

\* GEM 2006 (GEM 2007 does not include data for Germany).

**A focus on people**

**2.11** The Government’s focus on starting with the young in developing awareness, aspirations and motivations around enterprise has borne rapid results, with the largest culture changes across the younger age groups; an increase of over 20 per cent of the proportion of those considering starting-up in less than five years. A highlight has been the annual Enterprise Week launched in 2004 to celebrate and champion enterprise and entrepreneurial behaviour in young people. The success of Enterprise Week in the UK has inspired the first Global Entrepreneurship Week in November 2008, which was announced by the Prime Minister last November. Since its launch, the UK’s annual Enterprise Week has involved over 11,000 events and more than 1.5 million participants. Survey evidence shows that enterprise interest is over 50% higher among participants compared to non-participants.

**2.12** The knowledge and skills imparted through enterprise education are also important in influencing culture. Chapter 3 details the Government’s rapid extension of enterprise education in schools in recent years. Further to this, since its launch the National Council for

<sup>2</sup> SBS 2005 Household Survey of Entrepreneurship <http://www.berr.gov.uk/files/file38260.pdf>

<sup>3</sup> SBS 2005 Household Survey of Entrepreneurship <http://www.berr.gov.uk/files/file38260.pdf>

<sup>4</sup> Harding, R (2006) GEM UK report [http://www.london.edu/assets/documents/PDF/GEM\\_UK\\_Full\\_Report\\_2006.pdf](http://www.london.edu/assets/documents/PDF/GEM_UK_Full_Report_2006.pdf)

<sup>5</sup> GEM (2007) Global Report

[http://www.gemconsortium.org/download/1204802535946/GEM\\_2007\\_Executive\\_Report.pdf](http://www.gemconsortium.org/download/1204802535946/GEM_2007_Executive_Report.pdf)

Graduate Entrepreneurship (NCGE) has established itself as a leader in its field, introducing a number of initiatives including the Flying Start programme which has successfully inspired thousands of under-graduates and post-graduates to consider and prepare for entrepreneurship.

**2.13** Reflecting the importance of role models and enterprise ‘champions’ in shaping aspirations, the Government has brought together 1,000 successful women entrepreneurs to act as ambassadors to inspire women of all ages to start their own businesses. Furthermore, the Queen’s Award for Enterprise Promotion – launched in 2004 rewards people who have played an outstanding role in promoting enterprise – developing enterprise skills or entrepreneurial attitudes in others and stimulating business growth. So far, there have been three life-time achievement winners and 30 awards for achievement in enterprise promotion.

**2.14** Personal bankruptcy and business liquidation casts a long shadow in the UK by dulling aspirations and negating attitudes to entrepreneurs and risk-taking. In the US, attitudes to failure are more positive with many investors seeing business failure as a learning opportunity and reducing the risk of further failure in a new business. In part to reflect this, the Enterprise Act (2002) included provisions to encourage company rescue or sale as a going concern where it was possible and desirable to do so rather than enter into liquidation. Administration and Company Voluntary Agreements (CVA) were introduced in Insolvency Act 1986 to promote company rescue.

**A focus on place** **2.15** The Government has also recognised the importance of place in shaping aspirations and motivation. Launched in 2004, Enterprising Britain is the Government’s national competition to find the city, town, place or area in the country that is best improving economic prospects and encouraging enterprise. North Staffordshire Regeneration Zone is the most recent winner and has shown the real impact of culture change, generating 500 new businesses in what was once branded the “worst place in the world to start a business”. The UK’s initiative has inspired the European Commission to introduce the European Enterprise Awards, which ran for the first time in 2006.

## THE CHALLENGE FOR THE UK

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**2.16** The Government’s aim in developing a positive enterprise culture will focus on informing and inspiring people about what can be achieved through enterprise including the opportunities and rewards. (Other chapters concern the Government’s priorities around the environment and what it means for people to be enterprising.)

**2.17** Developing an enterprise culture is not just important for stimulating higher levels of entrepreneurship. It is also important in driving business growth within existing businesses and encouraging the flow of new ideas, innovation and competitive challenge that is a natural product of new businesses entering the market. Despite a range of positive outcomes from current policies in the UK, there remains a challenge to further build positive aspirations for enterprise.

**2.18** There are two aspects to this:

- individuals in the UK do not appreciate the returns or opportunities from enterprise and overstate the likelihood and consequences of failure;
- society does not fully value entrepreneurial success and tends to over stigmatise failure;

**Fear of failure 2.19** The UK population has a higher level of ‘fear of failure’ around enterprise compared to the US and Canada but is ahead of many European competitors. Chart 2.1 below shows the relationship between enterprise activity (measured in terms of Total Early stage Entrepreneurship Activity (TEA<sup>6</sup>)) and fear of failure (both indicators are reported in the GEM Global report 2007). Although the relationship is not perfect, the chart shows a correlation between the two indicators whereby countries with higher rates of fear of failure tend to have lower rates of entrepreneurial activity.



**2.20** Fear of failure is clearly linked to the extent to which people are risk averse. The European Commission Flash Barometer found that around 43 per cent of people in the UK compared with 19 percent in the US believe a new business should not be created if there is a risk that it might fail<sup>7</sup>.

**2.21** There is clear evidence that risk aversion is based on misconceptions about the risks inherent in starting a business. Research<sup>8</sup> suggests there is a perception that the majority of businesses fail in their first year when, in fact, only around 10 percent of businesses cease trading twelve months after start up. Similarly, the same study found evidence that people underestimate the potential income from running a business and over estimate the difficulty of obtaining finance.

**2.22** Role models can shape what people understand in terms of the opportunities and risks in enterprise. They are key in influencing whether someone who is capable of starting an enterprise actually does so. This is especially so for young people and for those in communities where enterprise is not the norm. Young people with parents involved in running a business

<sup>6</sup> Early stage entrepreneurial activity (TEA) is defined as being in the process of starting up or in a business less than 42 months old

<sup>7</sup> European Commission Flash Barometer 192, Entrepreneurship Survey of EU (25 Member States) United States, Iceland and Norway: Analytical Report April 2007 accessible at <http://ec.europa.eu>.

<sup>8</sup> BERR (SBS) (2005) Myths around starting and running a business.

are twice as likely as the average for all young people to start a business<sup>9</sup>. Personally knowing an entrepreneur increases the likelihood of having a suitable role model, but the UK has one of the lowest proportions of the population reporting this to be the case within the G8<sup>10</sup>. This goes to the heart of issues around enterprise inequalities and why certain parts of the population do not start up in business. (These issues are considered more fully in the Chapter 7.)

**2.23** The literature on fear of failure or risk aversion often relates to starting a business but the challenge is much wider than this. It impacts on the growth performance of businesses in the UK.

**2.24** The vast majority of UK businesses (with employees) are looking to grow and this has increased in the last year (from 56 to 65 percent)<sup>11</sup>. OECD data<sup>12</sup> describing the proportion of businesses with a sustained high growth rate is presented in Table 2.2. The UK rate is at least double that in some of our main competitor countries and the highest rate in Europe, but this is lower than that achieved in the US. 40 per cent more of US businesses are achieving high growth than in the UK.

**Table 2.2: High Growth Businesses – percentage of all businesses achieving 60 per cent turnover growth over a three year period – selected countries**

Country	High growers (%)
Germany	1.23
France	2.09
UK	5.80
US	8.14

Source: OECD 2006

**2.25** Despite some indications of high aspirations and strong performance, it is clear from the evidence that some UK businesses have an organisational culture which does not encourage their employees to be flexible, creative and enterprising. Even where they may be well equipped to exploit opportunities for growth some can lack the motivation to do so<sup>13</sup>. This issue has also been acknowledged by the CBI as a challenge for the UK.

**2.26** Chart 3 below shows aspirations to grow among businesses in the UK. Around half of all businesses (including the majority with no employees) are looking to grow in the next 2-3 years but this proportion increases with the size of business<sup>14</sup>.

<sup>9</sup> London Development Agency (2005) Young People and Enterprise in London [http://www.lda.gov.uk/upload/rtf/Young\\_People\\_and\\_Enterprise\\_in\\_London\\_Final\\_Report.rtf](http://www.lda.gov.uk/upload/rtf/Young_People_and_Enterprise_in_London_Final_Report.rtf).

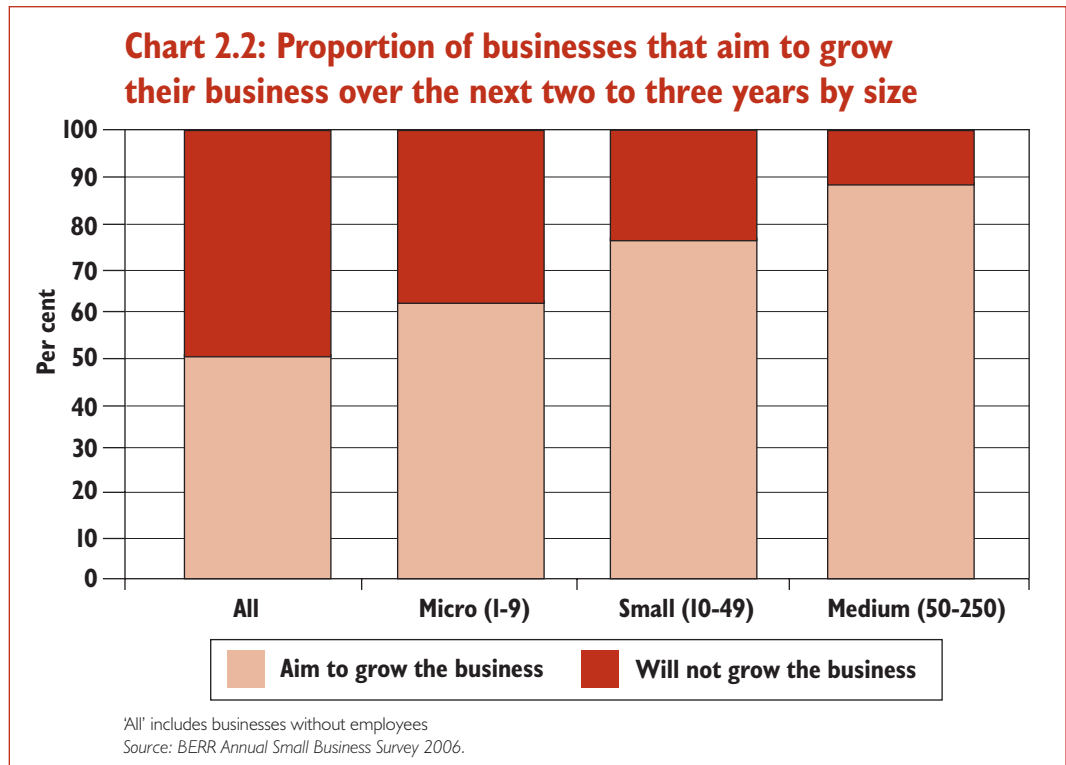
<sup>10</sup> Harding, R (2006) GEM UK report [http://www.london.edu/assets/documents/PDF/GEM\\_UK\\_Full\\_Report\\_2006.pdf](http://www.london.edu/assets/documents/PDF/GEM_UK_Full_Report_2006.pdf)

<sup>11</sup> BERR Annual Survey of Small Business Opinions 2006/07 (ASBS 2006/07), available at <http://www.berr.gov.uk/files/file42727.doc>.

<sup>12</sup> Hoffman, A., Junge, M. (2006) Documenting Data on High-growth Firm and Entrepreneurs across 17 countries. First Draft. Available at [http://www.foranet.dk/upload/documentation\\_of\\_high\\_growth\\_firms\\_oct\\_2006.pdf](http://www.foranet.dk/upload/documentation_of_high_growth_firms_oct_2006.pdf)

<sup>13</sup> Wiklund, J. & Shepherd, D. (2003) Knowledge-based resources, entrepreneurial orientation, and the performance of small and medium-sized businesses *Strategic Management Journal*† vol.24, †no13, pp. 1307-1314

<sup>14</sup> BERR Annual Survey of Small Business Opinions 2006/07 (ASBS 2006/07), available at <http://www.berr.gov.uk/files/file42727.doc>



**2.27** Low growth aspirations in some businesses are partly due to their management teams overestimating the risks involved in growing and developing their business, including not having sufficient resource to manage a growth strategy, potential cash flow difficulties and increased risk of business failure<sup>15</sup>. It can also be due to a culture within the business that discourages employees from being more enterprising. There is evidence, though, that the development of such a culture can improve competitiveness and encourage employees to take a greater interest in the growth and renewal of the business<sup>16</sup>. Microsoft provides a good example of this:

*In Microsoft's experience, businesses must encourage the people within their organisations to be more entrepreneurial, if they are to deliver greater levels of meaningful innovation. 'Intrapreneurs', those people using their entrepreneurial skills for the benefit of the organisation they work for, are therefore key components in fostering an innovative environment and helping an organisation grow.*

**Gordon Frazer, Managing Director, Microsoft (UK)**

## Key culture differences within the UK

**2.28** Attitudes to enterprise vary considerably between genders across age groups and regions.

**Gender 2.29** Women's fear of failure is higher (39.2 per cent)<sup>17</sup> compared with men (32.6 per cent) and women are substantially less likely:

- to know an entrepreneur (22.5 per cent compared with 31.7 per cent of men);

<sup>15</sup> SBS (2006) Myths about growing a business London: SBS <http://www.berr.gov.uk/files/file42056.doc>

<sup>16</sup> For example. Pinochot, G. (1985) Intrapreneuring: Why you don't have to leave the corporation to become an Entrepreneur. New York: Harper and Row.

<sup>17</sup> Harding, R (2006) GEM UK report [http://www.london.edu/assets/documents/PDF/GEM\\_UK\\_Full\\_Report\\_2006.pdf](http://www.london.edu/assets/documents/PDF/GEM_UK_Full_Report_2006.pdf)

- to see good business opportunities (32.1 per cent compared with 41.2 per cent of men); and
- or to think they have the skills to start a business (39.8 per cent compared with 58.6 per cent of men).

**2.30** The significance of these perception differences is all the more telling when you consider that women largely account for the difference in enterprise levels between the UK and the US.

**Age 2.31** Research shows that age is a significant factor affecting attitudes to enterprise and whether capable individuals start or grow a business<sup>18</sup>. Those aged over 50 are less likely to consider starting a business or plan to grow their business<sup>19</sup>. It is perhaps understandable that ambition falls in later life but this is a challenge for the UK if we are to remain competitive with an ageing population. Forecasts<sup>20</sup> suggest that the number of people aged over 50 will rise from 19.8 million in 2005 to 24.5 million by 2020, an increase of nearly a quarter.

**2.32** For younger people the issues are almost reversed. Younger people are significantly more likely to think about starting a business than older people but because they do not think they have the skills and knowledge they are less likely to do so<sup>21</sup>. This suggests that enterprise promotion and development programmes need to be carefully tailored to the specific needs of individuals at different points in their careers<sup>22</sup>.

**Regions 2.33** Analysis suggests that regional disparities in enterprise levels cannot be fully explained by a region's history or sectoral mix. Entrepreneurial aspirations vary markedly by region and show a similar pattern to actual levels of enterprise. Entrepreneurial aspirations are lower in northern regions, particularly among younger people.

**2.34** The proportion of 16 to 24 year olds thinking of starting a business in the future is 14 per cent in the North East and Yorkshire and 12 per cent in the North West. The equivalent levels in London, the South East and South West are around 50 per cent higher.<sup>23</sup> Regional Development Agencies (RDAs) are the strategic leaders of economic development and regeneration in their regions and have been given the freedoms and flexibilities to respond to the particular economic challenges, such as these, within their regions.

## GOING FORWARD: REACHING MORE PEOPLE AND PLACES

**2.35** The enterprise enablers set out in subsequent chapters will also influence the culture for enterprise in the UK but the measures below have a specific focus on motivation and inspiration. The Government will build on the success of recent initiatives to raise awareness of the rewards obtainable from enterprise and the motivation to act upon those aspirations. The Government's policy will have three main streams of activity:

- inspiring more young people;
- reaching those with the lowest aspirations and unlocking their talent; and
- addressing the environment that shapes fear of failure.

<sup>18</sup> SBS (2007) Household Survey of Entrepreneurship 2005 London: SBS <http://www.berr.gov.uk/files/file38261.pdf>.

<sup>19</sup> Analysis of 2006 ASBS finds only 56 percent of aged 50 plus plan to grow their businesses compared to 73 per cent those aged under 50.

<sup>20</sup> The Office of National Statistics.

<sup>21</sup> SBS (2007) Household Survey of Entrepreneurship 2005 London: SBS <http://www.berr.gov.uk/files/file38261.pdf>.

<sup>22</sup> See for example, Rae, D. (2005) Mid-career entrepreneurial learning, *Education and Training*, 47, 562-574.

<sup>23</sup> SBS (2007) Household Survey of Entrepreneurship 2005 London: SBS <http://www.berr.gov.uk/files/file38261.pdf>.



## Inspiring more young people

**2.36** The Government's objective is to develop an environment where individuals can better understand the risks and rewards of enterprise based on accurate information and not on unfounded myths. This can be pursued in many ways, but key to the UK's future success is to develop a broader outlook and more positive aspirations at an early age.

**2.37** The reality for the future generation of entrepreneurs is that in a global economy opportunities are increasingly less constrained by country boundaries. The Government therefore proposes a global initiative that will help young people to connect with activities around the world to encourage them to see enterprise opportunities at an early stage in their lives. The UK has led the world in enterprise promotion. Building on the success of the UK's Enterprise Week, run annually since 2004, around 40 countries will now join in the first **Global Entrepreneurship Week** in 2008, unleashing young peoples' entrepreneurial talent and ideas.

*Giving young people a chance to show their talent, a chance to unlock their creativity will have a profound effect on business culture, on the way people live their lives and on the quality and cohesion of societies in all kinds of economies around the world.*

Gordon Brown, Prime Minister

Launch of Global Entrepreneurship Week in 2007

**2.38** During Global Entrepreneurship Week in November 2008, university students, school pupils, teachers and lecturers, entrepreneurs, corporate leaders, employees, non-profit organisations and many others will participate in a range of activities – online and face-to-face – to celebrate and promote entrepreneurship across the globe. Furthermore, the Government will support the pan-European pilot programme (currently known as 'Erasmus for young entrepreneurs') to offer cross-border mentoring and work placements in SMEs. This is being developed in direct response to suggestions from the business community that it would benefit entrepreneurs who are targeting new markets for business growth.

**2.39** The Government will work with the **Premier League** and Enterprise Insight to build on the successful enterprise promotion work started by Middlesbrough and Blackburn Rovers football clubs. These clubs use football as a key engagement tool to introduce young people to the world of work and enterprise. The tutors use the football clubs as real life case studies to improve students' perception of business in a way they can relate to and understand. Football related enterprise challenges are also created, such as working in teams to design and create a new football strip or developing products which the participants have to learn how to market and sell at a profit. Incentives are offered to encourage successful completion of the course, such as match tickets and player visits. As a result of their participation students benefit from improved enterprise skills, more self-confidence and raised aspirations.

### **Case study: Middlesbrough F.C. Enterprise Academy**

Middlesbrough FC Enterprise Academy introduces 11 to 19 year olds to the world of business and enterprise. Anthony Emmerson, who runs the Academy, said that his team of eight teachers uses the business of football to spark and hold pupils' interest.

"We don't have a man in a suit talking about profit and loss. We have one of our teachers, in a Middlesbrough tracksuit, asking the students to think about how a club raises ticket sales, how it decides to buy a new player or what might be the best surface for players to train on. Students who do well get to meet the players and are awarded certificates – for many, the first they have had."

**2.40** The Government and the Premier League will roll out an enterprise programme to include all Premier League football clubs, with support from the RDAs. Initially, two more clubs – Aston Villa and Manchester City – will take part, with the clubs’ community programmes delivering enterprise education to 13-14 year olds in curriculum time, drawing on existing material from Middlesbrough’s Enterprise Academy. They will work with local schools and offer a 10 hour enterprise programme. The clubs will also help promote enterprise messages to wider members of the local community.

### Reaching those with the lowest aspirations

**2.41** Enterprise Insight has developed a range of activities and had success in raising the profile of enterprise and social enterprise through their Make Your Mark campaign. But the Government is committed to going further and reaching a wider audience, particularly where low aspirations have become more entrenched. Enterprise Insight will broaden the focus of the **Make Your Mark** campaign to target women of all ages, the over 50s and those who are under-represented in enterprise.

**2.42** Women represent half the UK’s population, but are the largest under-represented group in the UK in terms of participation in enterprise and offer a wealth of untapped talent and economic opportunity. The Government will fund a high level media campaign – **‘Spark an idea’**, to be coordinated by Enterprise Insight. This will help to unleash the potential of women who are under-represented in enterprise – the young, the economically inactive, specific ethnic minority communities and those returning to work. The campaign will be used to promote the assistance available through the Women’s Enterprise Ambassador Network and with the Women’s Business Centre pilot projects (see Chapter 3), and together the provision of business support services available from Business Link. The campaign will enhance and build up existing regional women’s enterprise campaigns being run by RDAs. It will also reflect on the successful media approaches developed and implemented in the US, as part of their successful development of women’s enterprise.

**2.43** Given the ageing population and the lower aspirations around enterprise amongst older age groups, it is important for the UK’s future growth prospects to encourage more people over 50 to become enterprising. The Government will work with Enterprise Insight, PRIME and SEEDA to develop a campaign to **encourage older people** to realise the benefits of unlocking their talent and exploiting their skills and knowledge to be active in enterprise.

## Addressing the environment that shapes fear of failure

**2.44** The regulatory and legal framework may seem a world away from enterprise aspirations, but people pick up signals from its operation that shape their perceptions around risk and failure. It is within government's control to influence this, and we will build on earlier changes around insolvency rules.

**2.45** The **insolvency legislation** currently requires insolvency officers to advertise key insolvency events in a newspaper in each and every case. In order to remove unnecessary burdens on creditors of insolvent estates the Government proposes to change the law by the end of 2009 so that insolvency officers have discretion to decide whether or not to place an advertisement in the local press, having regard to the particular circumstances of the case. As virtually all advertisements currently placed appear in local newspapers, this change is likely to lead to a reduction in the perceived level of stigma associated with bankruptcy. Notices will continue to be published in the London, Edinburgh and Belfast Gazettes.

## FUTURE ISSUES

**2.46** In the longer term, the Government will make sure that the progress we have made with young people feeds through to other sections of society, particularly girls and women. So that people are thinking globally from the very first in developing their ideas, and have an understanding of the different cultures and approaches to business. This will ensure they seize opportunities, commercialise ideas and innovation, and build productive business relationships in an increasingly fast moving environment the Government will work with a range of partners to foster an enterprising spirit in everyone and across all walks of life, for example by supporting the work of the Involvement and Participation Association in their campaign to build employee engagement and promote the benefits an enterprising workforce can bring. The Government will also ensure that those seeking a "second career" as an entrepreneur later in life are able to access the necessary information and support to be able to use their skills and experience in their own business.

**Culture: Key policy new proposals**

The policies proposed to tackle remaining challenges and embed culture more widely and reduce unfounded fear of failure:

- **Insolvency rules** – the Government proposes to change the law by the end of 2009 so that insolvency officers have the discretion to decide whether or not to place an advertisement in the local press with the aim of reducing the embarrassment and risk of stigma in the local community and associated fear of failure.
- **Global Entrepreneurship Week** – Building on the success of the UK's Enterprise Week, run annually since 2004, 35 countries will now join in the first Global Entrepreneurship Week in 2008, involving 14 – 30 year olds, schools and universities, and a wide range entrepreneurs, businesses, and non-profit organisations.
- **Erasmus for young entrepreneurs** – Government will support the pan-European pilot programme (currently known as 'Erasmus for young entrepreneurs') to offer cross-border mentoring and work placements in SMEs.
- **Premier League** – The Government will work with the English Premier League football clubs to promote enterprise and deliver enterprise education through the football clubs' community programmes. This will include working with schools and wider members of the clubs' local communities.
- **Women's enterprise campaign** – The Government will run a high level media campaign around women's enterprise – 'Spark an idea', to be coordinated by Enterprise Insight.
- **Over 50s Campaign** The Government will work with Enterprise Insight, PRIME (the Prince's Initiative for Mature Entrepreneurs) and South East of England Development Agency to develop a campaign to encourage older people to realise the benefits of unlocking their talent and exploiting their skills and knowledge to be active in enterprise.

**Vision**

*Unlocking our nation's talent requires both broad enterprise knowledge and the specific skills to enable people to turn that knowledge into successful businesses.*

*John Hutton, Secretary of State  
for Business, Enterprise and Regulatory Reform*

- The Government's vision is for many more people in the UK to have the enterprise skills to successfully start and grow a business and for businesses to be able to access the skilled workforce they require to grow.
- Success will be understood through a measure in the Global Entrepreneurship Monitor of people believing they have the skills to start a business and measures of staff training, recruitment of suitably skilled staff and business advice from BERR's Small Business Survey.

**Progress to date**

- Over the last five years, the proportion of schools providing pupils with enterprise education has risen from 10 per cent to 90 per cent.
- More than half of employing SMEs in 2006 (60 per cent) had funded or arranged staff training or development during the past 12 months.
- Every £1 spent by Government through Business Link providing advice to business generates £2.26 of value to the economy.
- Since 2006 over 72,000 employers – a high proportion of which are small businesses – have engaged with Train to Gain, over a third of a million learners began learning programmes, and almost 145,000 achieved their first full level 2 qualifications.

**Next challenges**

- Despite the link between business support and improved business performance only a quarter of businesses access external support.
- Evidence shows that UK management practice is less effective than that in a number of countries including the US, Germany and Italy.
- Only around 10% of students in further education have access to enterprise education.

**Strategy**

To meet these challenges Government will extend and enhance its delivery of:

- enterprise education in schools and colleges, from primary to further and higher education;
- high level skills and training in the workforce;
- wider business support offer to business, including mentoring; and
- driving the development of enterprise skills and knowledge for women.

**An overview of measures to start delivering this strategy are contained in a box at the end of the chapter.**

## Government's vision

**3.1** Over the last ten years, the Government has invested to ensure that all businesses are able to tap into a skilled labour force and to gain access to the training and skills development support they need. Government has also invested heavily to embed the concept of enterprise education in the education system.

**3.2** The challenge for Government over the next ten years is to build on this solid foundation, further strengthening the ability of business to access support, making sure that support is relevant and appropriate to the needs of business, and further embedding enterprise skills in the curriculum. Government will gauge success across the range of programmes through a broad range of measures that monitor performance.

## Progress so far and further challenges

**3.3** Over the last ten years, Government has primarily focussed its actions in a number of key areas:

- enterprise education in schools and colleges;
- business support, advice and mentoring;
- skills of women; and
- improving education and skills in the workforce;

### Enterprise education in schools and colleges

**3.4** The earlier that children are introduced to enterprise, even in the most general sense, the more receptive they are. Government's approach, which has built up steadily, is showing rapid results in increasing young people's belief that they have the skills to be enterprising. Young people are also reporting that they intend to be entrepreneurs in the future.

**3.5** Ofsted's *Developing Enterprising Young People* report (2005) found that employers and universities seek students who can take responsibility, are innovative in their approach to solving problems and can work effectively in teams. These are all by-products of enterprise education. In addition schools and universities see enterprise courses as a way of helping students see the practical applications of the subjects they are studying.

**3.6** Government has focused on improving the level of enterprise education, particularly at secondary level. Today over 90 per cent of secondary schools provide enterprise education for all their pupils at Key Stage 4. Significantly, the proportion of 16 to 24 year olds considering or planning to become entrepreneurs has increased from 14.4 per cent in 2003 to 17.5 per cent in 2007, a rise of almost 20 per cent.

**3.7** Budget 2006 announced the launch of a new Schools' Enterprise Education Network (S'EEN), managed by the Specialist Schools and Academies Trust and based on 51 expert 'hub' schools embracing all secondary schools in their regions.

**3.8** Through Enterprise Insight's *Make Your Mark* campaign, Government has funded the pilot of *Make Your Mark Clubs* in 30 secondary schools in 2006. The clubs form a network of student-led groups that make enterprising ideas happen through running live enterprise projects and providing a network of peers for enterprising people aged 14 to 19. These clubs have been established in more than 70 secondary schools and the initiative is now being piloted with 30 Further Education colleges.

**3.9** In Budget 2007, the Government renewed its commitment to enterprise education, confirming the allocation of a further £60m per year until 2010/11, to facilitate a comprehensive and seamless provision of enterprise education through all tiers of education.

**3.10** In response to concern about the level of basic skills, the Government is making functional skills of English, Maths and ICT a compulsory component of GCSEs, apprenticeships and the new diplomas which combine theoretical study with practical experience. Employers and universities are collaborating to design the new diplomas which will start to be made available from September 2008.

**3.11** The challenge for Government now is to extend enterprise education to reach all school-aged children.

**Business support,  
advice and  
mentoring**

**3.12** There is evidence that owner-managers tend not to fully recognise the importance of leadership and management skills, particularly their crucial significance to growing businesses. This is despite the fact that over half of CBI employers cite improving management and leadership skills as the most significant factor contributing to competitiveness and various research studies confirm a strong relationship between the systematic implementation of management best practice and organisational performance.

**3.13** Skills and training improve business performance but too few UK managers recognise the link. The connections between skills levels and training practices and business performance are well established. Growing businesses are more likely than others to invest in training. Research findings also show a link between good management practice, including a strategic approach to training and innovation, and business growth (see figure 3.1).

**3.14** Although business advice and skills training are available, many small businesses do not have the knowledge and skills they need to ensure business success.

**3.15** Business Link is the Government's primary access channel for business support. Business Link monitoring data, compiled by the RDAs, shows that Business Link has consistently increased its customer base year on year, and in the year ending March 2007, Business Link helped 610,000 existing businesses and 182,000 pre starts. Of those surveyed, 91% of customers were satisfied with the service and 96% of customers would recommend the service to others. Similarly, businesslink.gov.uk now receives 1 million unique visitors a month.

**3.16** Evidence shows that businesses that use business support tend to perform better than those that do not, but across the whole business population take up of business support remains low. Smaller businesses find it difficult to assess the benefits of well-tailored advice and support without experiencing it, therefore, they under value it. As a result they either do not use advice services or under use them, and have a low willingness to pay the market value that good quality impartial advice might cost. This under utilisation can have implications on the business or entrepreneur; by missing out on advice that leads to them having a better chance of starting up or failing to exploit their growth potential.

**Skills of women**

**3.17** Developing the skills and confidence of women in education and in the workforce are critical issues for accelerating women's enterprise. Although still lower than men, women are increasingly likely to believe they have the skills to start a business. There is also evidence that women are more likely than men to seek business support and advice and that their propensity to do so in recent years has increased at a faster rate than men. The gender difference in seeking advice is particularly marked for new start-ups.

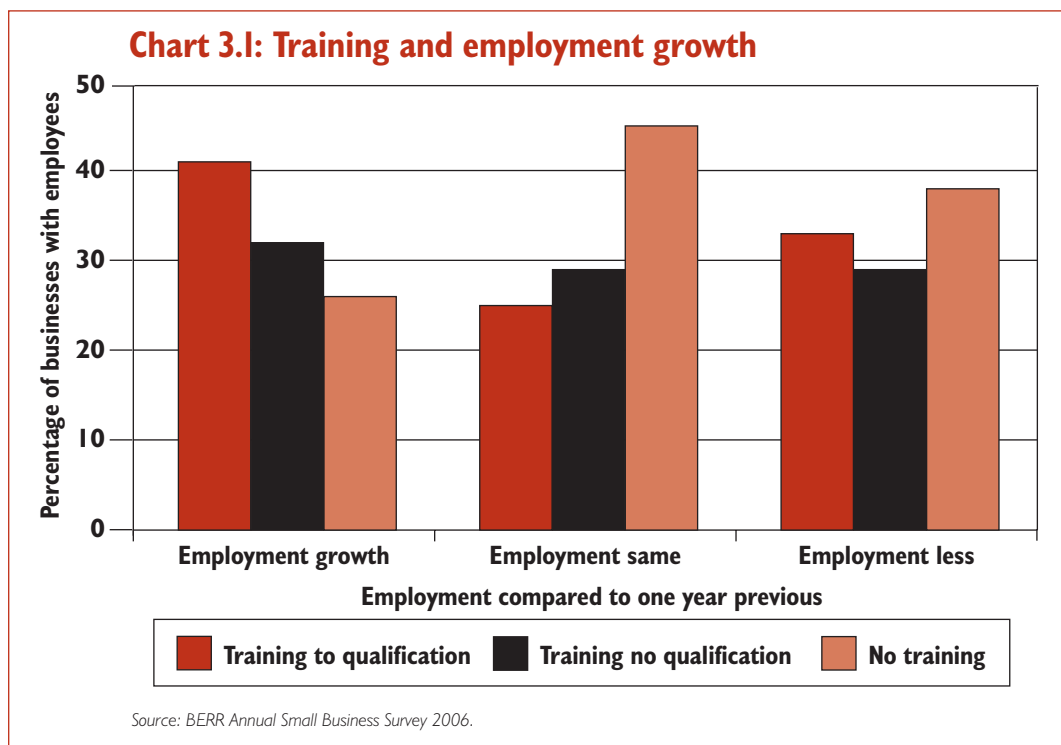
**3.18** In terms of web-based business support, women are regular users. Women consistently make up almost half of the users of the website businesslink.gov.uk Of course, this is in line with the proportion in the population but well above current levels of representation in business ownership.

**3.19** Around a quarter of self-employed women (24%) have a degree or equivalent, compared with a lower level of 18 per cent of self-employed men. This is almost a reversal of the situation for paid employment. The educational levels of business owners have also been shown to have a positive association with business performance and growth.

**3.20** There have been positive developments in policy, both nationally and across the English regions. The Government established the Women's Enterprise Task Force (WETF) in 2006, to ensure that the environment for women's enterprise improved and that economic participation amongst women was boosted. The cross-RDA women's enterprise group was established at the same time to ensure a more co-ordinated approach to policy and to stimulate the sharing of good practice across the RDAs.

**Improving education and skills in the workforce**

**3.21** Independent research suggests that skills deficiencies is one of the factors contributing to the UK's relatively low level of productivity compared to our main international competitors. Despite significant improvements in recent years, the UK's skills base is average by international standards<sup>2</sup>. For example, studies conducted by the National Institute of Economic and Social Research (NIESR) over several years have shown that a lower stock of skills contributes to the productivity gap observed between the UK and France, Germany and the US.



**3.22** Survey data suggests that skills gaps (skills lacking amongst businesses' employees) and skills shortages (a lack of skills in the labour market) are both relatively uncommon in the UK. The latest National Employer Skills Survey (NESS) findings showed that only 16 per cent of establishments reported skills gaps and four per cent reported 'skills shortage vacancies'. Small and medium sized businesses are more likely to report both skills gaps and skills shortages vacancies than micro businesses. Fewer than half of Britain's businesses have a training plan, only a third have a dedicated training budget and only a quarter seek external business advice.

**3.23** The Annual Small Business Survey (ASBS) 2006 data show that 31 per cent of UK businesses with employees reported a 'shortage of skills generally' as an obstacle to business success and four per cent reported this as the biggest obstacle. Slightly less than one in five



(18 per cent) businesses with employees reported a shortage of managerial skills or expertise as an obstacle to their business success and just one per cent reported this as the biggest obstacle they faced.

**3.24** While this may appear to be encouraging, it reveals the fact that too few managers in the UK recognise the extent to which an improvement in skills and training could make a difference to their business.

**3.25** Furthermore, although the scale of reported skills deficiencies and the extent to which they are seen as constraining businesses performance may appear small, they have most effect on the most dynamic businesses. Today over 60 per cent of 15 year olds achieve at least five good GCSEs compared to only 45 per cent ten years ago. Today around 42 per cent of young people aged 18-30 participate in higher education, more than ever before.<sup>1</sup>

**3.26** Subject to Parliamentary approval, from 2013 young people will be required to participate in education or training until the end of the academic year in which they turn 17; and, from 2015, until the age of 18.

**3.27** In addition, the Government has recently announced a major expansion of apprenticeships, with increased Government funding, reaching over £1 billion by 2010/11 to increase the number of young people and adults starting apprenticeships.

**3.28** Train to Gain is the Government's premier skills service for employers. It is central to the development of a skills system which is truly demand led; in which employer choice influences where Government spends its money and what qualifications are made available. A key element is the provision of free, independent and impartial advice to help employers identify their skills needs as a route to improve business performance.

**3.29** In addition to the free, independent and impartial advice, employers can access free training in literacy and numeracy and a first full level 2 qualification (five good GCSEs or equivalent) for employees without prior qualifications at that level. But the benefits go much wider, helping employers source the full range of training and skills support to meet their needs. By bringing training to the workplace, at a time to suit the employers' requirements, Train to Gain minimises the cost to a small business. As a further incentive, a contribution to wage costs is provided for companies with fewer than 50 workers to compensate for loss of production during training.

**3.30** Train to Gain is already making an impact. Since 2006 over 72,000 employers have been engaged, over a third of a million learners began learning programmes, and almost 145,000 achieved their first full level 2 qualifications. Small businesses have benefited greatly from Train to Gain. Almost 100,000 learners in SMEs achieved their learning goals in 2006/07, and around half of these worked in businesses with fewer than 50 employees.

## Going forward: promoting enterprise skills and knowledge

**3.31** Government's challenge over the next ten years is to build on investment that has already been made to further foster and support the development of enterprise skills and knowledge in the wider education system. Alongside this, Government is committed to strengthening the ability of businesses to access the support and skills development they need. Mentoring will play an enhanced role, particularly for women.

<sup>1</sup> Leitch S (2006) Review of Skills: Prosperity for all in the global skills economy – world class skills. [www.hm-treasury.gov.uk/media/6/4/leitch\\_finalreport051206.pdf](http://www.hm-treasury.gov.uk/media/6/4/leitch_finalreport051206.pdf)

## Enterprise education in schools and colleges

**3.32** Building a successful enterprise economy starts with children in schools. Government has been working to make young people more aware of the opportunities that exist and more motivated to engage in enterprise.

**3.33** The Government intends to build on this commitment and is announcing proposals that will further embed enterprise education into the mainstream by:

- extending **enterprise education across the whole school system** and embedding it in the curriculum;
- establishing a **National Enterprise Academy**, with wider links into enterprise in further education; and
- promoting **self-employment as a career option**.

### Extending enterprise education across all tiers of school education

**3.34** From autumn 2008, the Government will commit a further **£30m to extend enterprise education from secondary schools into primary and tertiary education**. Secondary school pupils will lead ‘feeder’ primary pupils in enterprise projects; and colleges will learn from ‘feeder’ secondary schools, thereby extending good practice in enterprise education to every part of the education system including Higher Education.

**3.35** The Government is also taking action to ensure that special needs schools are embedded into S’EEN; national and hub websites are being set up; Young Chambers will be established at all hub schools; and business coaching and mentoring will be provided in schools.

**3.36** The Government will ensure that enterprise is also an element of all new Diplomas (new qualifications that combine theoretical study with practical experience). Diplomas will cover 17 disciplines, including Engineering, IT, Science and Humanities and will require students to achieve a minimum standard in English, Maths, ICT, complete a project and do a minimum of 10 days work experience. Diploma students will also acquire the skills and knowledge which are essential for success in employment and higher education, both related to the discipline and those like teamwork, self-management and critical thinking skills, that have a universal relevance.

### National Enterprise Academy

**3.37** Entrepreneur Peter Jones is working with the Government to launch a National Enterprise Academy (NEA). His aim is for the NEA to be a catalyst for cultural change, unlocking the UK’s entrepreneurial talent through the delivery of higher level enterprise skills.

*“My vision for the Academy is to embed it into the framework of enterprise education and support in the UK. Indeed, I see it as the beating heart of a new entrepreneurially-minded nation, delivering far-reaching and tangible social and economic benefits which will establish the UK as a global enterprise leader. The Academy will be a true enabler in bringing the boardroom into the classroom. Others may have thought it – I’m going to do it.”*

**Peter Jones**

### The National Skills Academy Programme

**3.38** The National Skills Academy programme is supporting the creation of specialised national centres of excellence providing skills and training for young people and adults in chosen sectors. Six have been established so far, with six more in development, working towards the published commitment to have a National Skills Academy for every major sector of the economy as resources permit.

**3.39** From the wider government policy perspective, the primary focus for the National Enterprise Academy for the first three years would be on enterprise skills and knowledge, building on the existing initiatives, such as Enterprise Insight, to create a more enterprising culture in the UK. But over time, recognising that enterprise is a cross-cutting theme for all sectors of the economy, the National Enterprise Academy will seek to link with other National Skills Academies, to support enterprise and innovation in their sectors. For example, there is a high proportion of self-employed and micro-business in the Creative and Cultural and in the Construction sectors, where better support for enterprise could have particular impact.

**3.40** The National Enterprise Academy would also have an important role to play in fostering innovation, by equipping people with the skills and talents to develop new ideas and see them through to successful realisation. That is the essence of entrepreneurship, which is an essential component of the Government's wider national strategy for innovation.

**Development of the NEA proposal**

**3.41** Working with the LSC, the proposal will be developed through the usual business planning process against the criteria for the wider NSA programme. The intention is that the National Enterprise Academy would become the national centre of excellence that builds the talents, behaviours, attitudes and skills that foster enterprise in young people and adults. Peter Jones' aim – supported by Government – is to spearhead a change of culture that supports entrepreneurship and changes mindsets from “Can I?” to “I Can”.

**3.42** Beyond this the aim is to build strong partnerships with high profile companies and business leaders in the private sector. The National Enterprise Academy would also ensure that the qualifications, programmes and services it develops are relevant to employers seeking enterprising young talent, and for those young people who see themselves as the UK's next generation of business leaders and entrepreneurs. It would aim to become a benchmark for enterprise learning excellence internationally, with student exchange and visiting tutor links with bodies such as the Kauffman Foundation in the United States.

**Funding**

**3.43** Peter Jones will be contributing funding through his charitable foundation. The wider capital and revenue funding model will be drawn up as part of the standard NSA business plan development process. The outline business plan developed so far estimates that a Government capital contribution of some £3 million to £4 million will be required. Subject to approval of the final business plan, the public contribution to the capital and ongoing running costs would be met by the LSC as part of the wider NSA programme. The funding needs of each Academy are assessed individually. But the initial capital allocations approved or proposed for the Academies confirmed so far range from £1.3m to £7.7m.

**Timing 3.44** The National Enterprise Academy is aiming for an initial student intake in January 2009, followed by the first full academic year running from September 2009. The current planning assumption is for some 750 student places. As part of its remit the National Enterprise Academy will identify and engage with some of the hardest to reach and most disadvantaged young people. Two initial locations are being considered in the South East and North West, with an ambition to build a wider specialist network for enterprise education through regional hubs, working with a range of delivery partners. Although the National Enterprise Academy will be open to students in the 16 to 19 age group, it will also have a broader remit of raising enterprise awareness across the entire population and age range, including adults, and encouraging more women entrepreneurs.

**Improving careers advice 3.45** The Government also proposes to take forward work to embed self-employment as a career option. Until now, enterprise has not been promoted extensively to people going into the labour market. However, Learndirect advisers and Nextstep providers do offer advice to adults on the skills needed for a chosen career. This includes information about starting a business as a viable alternative to working for someone else. The advice ensures that appropriate links are made to Business Link – and to other organisations including the Prince's Trust.

**3.46** Work is underway to **merge the services of Learndirect and Nextstep** to support adults with learning and careers advice and to increase the range of clients currently helped. The aim is to have the new adult advancement and careers service fully operational in 2010/11. The Government will help these bodies to build their capacity to offer advice and information on self-employment. This is a further opportunity to inspire and support potential business start-ups from across all sections of society, particularly people not in employment, and those from disadvantaged groups and in deprived areas.

### **Business support, advice and mentoring**

**3.47** Continuing to improve enterprise education in our schools and the higher and further education system will provide the platform for the future success of our businesses. But this needs to be complemented with measures targeted at businesses, a focus on mentoring and access to wider business support.

**Mentoring 3.48** Entrepreneurs acknowledge that there are many ways in which to develop skills and knowledge within their businesses. When asked, most recently at a series of consultation events run by BERR in the run up to publication of this strategy, many businesses say that the advice they value most comes from people they feel have real experience which they are willing to share – mentors.

**3.49** **Business to business mentoring** can promote skills development, capacity building and enhanced business performance, where it might not otherwise occur. The Government therefore is putting forward a number of proposals to both strengthen and build capacity for mentoring in the UK, including building on existing networks and to support corporate mentoring.

### **Building on existing mentoring networks**

**3.50** The Regional Development Agencies are already active in providing mentoring capacity in their regions. For example, Finance South East provides business mentoring within the SEEDA region. The service gives free unbiased support through a specially selected mentor to help businesses grow and develop, particularly in the critical pre and post investment periods.

**3.51** BERR will work with the RDAs, and the leading private sector agencies, to establish better links between the existing programmes and the business support network overall.

**Corporate mentoring** **3.52** A4e, an international business and market leader in global public service reform, has long recognised the value of mentoring both to A4e managers who volunteer to mentor small businesses owners.

**3.53** The Government will work with A4e over the next four years to develop a full understanding of good practice in such corporate mentoring as A4e expand their “Alchemy” mentoring programme and disseminate evidence of the benefits to businesses of all sizes and the local communities where they are based.

**3.54** Alchemy involves volunteer mentors from across a range of disciplines and business units at A4e. The expanded programme will be targeted at small and medium sized businesses, particularly those owned by women, who have a real desire and potential to grow. A4e will also encourage mentors to think about organisations (from the private and third sectors) in their supply chains that may benefit from the mentoring programme.

**David Jackson, Strategic Sales Director, has been mentoring two companies and is clear about the benefits mentoring brings: “The companies I work with are able to speak to someone who “has the scars”, to question their business strategies and draw on my business networks. I benefit by learning through doing, encouraging me to question the way I do business and the strategic decisions I make.”**

**3.55** A4e aims to increase the number of mentors involved in the Alchemy programme ten fold over the next year, and involve over 100 of their managers from Edinburgh to Exeter. A4e will develop with BERR a framework for the further roll out of the programme, which could equally be used by other large businesses.

**The wider business support offer** **3.56** **Business Link** is being positioned as the primary access channel for all business support services to employers in England which will help provide a simple route for businesses and allow them access to all support available, be it from the private, public or third sector. Following the integration of Train to Gain brokerage into Business Link by April 2009, there will be a single information, diagnostic, brokerage service to address employers’ skills needs.

**3.57** The impetus afforded by the **Business Support Simplification** Programme gives the Government a remit to enhance the core role of Business Link. As products, delivery and access channels are simplified, the individual user’s journey will be further simplified by the integration of information, diagnosis and brokerage elements of product portfolios into a unified service. This will mean that products and services are more clearly focused on their core delivery functions and that users are more able to make well informed choices. Business Link will focus on introducing businesses to the best expertise from the public, private and voluntary sectors.

**3.58** Simplifying publicly funded business support is about better service for customers. The publication, ‘Simple Support, Better Business’, on the BERR website [www.berr.gov.uk](http://www.berr.gov.uk) outlines what the business support landscape will look like in the future.

**3.59** The long term goal is a simpler and more coherent employment and skills system that makes the best use of public funding for workforce development. A system that unlocks more – and smarter – investment by employers in the skills of their workforce.

## Raising the standards of delivery for business support

**The Government has been working in partnership with the newly formed Institute of Business Consulting to create a new set of national standards for all organisations involved in the delivery of business support.**

**3.60** These new standards aim to improve the quality of advice and introduce a process of continual professional development for business support professionals. A specialist qualification for skills brokers has already been introduced and over the next few years, new standards will be put in place for Business Link advisers.

**On-line service delivery 3.61** One exciting area of development is in the use of on-line services. The capability to deliver support around the clock to businesses at work, at home or on the move is important to the business community.

**3.62** Sir David Varney, in his report “Service Transformation” published in December 2006, recommended that businesslink.gov.uk becomes the primary website for Government to manage its communications and transactions with business. With over 7 million unique visitors a year already using the site for information and advice it is already well placed to ensure this vision becomes a reality. Between now and 2011, content from the Government’s business facing websites will be migrated to businesslink.gov.uk.

**3.63** Business Link providers have already been given the ability to deliver their on-line services using the national website as a platform, freeing up an estimated £10m that can be used to improve the delivery of support services.

## Skills for women

**3.64** The Government recognises the important role that women can play in driving up enterprise activity in the UK. Accordingly, Government is proposing a number of measures that will support women entrepreneurs and provide them with the knowledge and skills that will allow them to see enterprise and business ownership as a real choice for them, including:

- piloting women’s business centres;
- enterprise support focused on women through RDAs and Business Link;
- offering enterprise advice through the Children’s Centres network;
- establishment of a national women’s business mentoring network;
- access to finance measures targeted at women (see Chapter 4); and
- establishment of a national centre to reinforce the economic case for supporting women’s enterprise.

**Enterprise support for women 3.65** The Government believes that, while general business support should be available on a universal basis, the needs of women entrepreneurs can be met more effectively. The experience of the US shows that more focused provision for women can bring benefits. The US experience has shown clear gains in:

- promoting services in such a way to attract women;
- providing business support services that meet the needs of women; and
- developing solutions which bring together the public and private sectors and the corporate community.

**UK/US: Women’s Enterprise Comparisons**

**GEM 2006 reports that total Entrepreneurship Activity (TEA) for women in the UK is 3.6%, which trails the 7.4% in the US.**

**The Annual Small Business Survey 2006 reports that 13% of UK enterprises are majority women-led in the UK. This compares to 30% of the total in the US.**

**If the UK matched US levels of female entrepreneurship there would be 700,000 more businesses in the UK.**

**The enterprise gap between the UK and US is largely accounted for by the difference in rates of female entrepreneurship.**

**3.66** Research shows that a relational model of business support is more effective for some women than transactional support services.

**The Government will work with the Regional Development Agencies (RDAs) to pilot the principles of the US Women’s Business Centre (WBC) model. The RDAs in the South East, East of England, East Midlands and the North West will participate in the pilots.**

**3.67** The objective of the pilots is to instil women with the confidence, skills and knowledge they need to successfully start their own businesses, and to increase their understanding of how they could grow their businesses. The pilots will test a variety of approaches including physical centres, outreach, virtual units, capacity building and network development. The pilots are designed to encourage more women to access business support and will integrate with the wider range of mainstream Business Link services available. The learning from the pilots will be used to inform and influence other regions in developing their future activities to promote women’s enterprise and associated business support services.

**3.68** The WBC pilots will draw on the experience, advice and guidance of Julie Weeks (President and CEO Womenable). Julie Weeks is one of the world’s leading authorities on women’s enterprise and was instrumental in the establishment of the network of USWBCs. The pilots will also draw on findings from research undertaken by Professor Ian Stone of Durham University and Professor Sara Carter of the University of Strathclyde who have researched the operation of business support centres in the US, Canada and Sweden.

**3.69** To supplement the Women’s Business Centre pilot projects, and initiated with Government funding, the West Midlands RDA is piloting WECO (Women’s Enterprise Centre of Expertise). This is a new resource for the development of women’s enterprise across the region. The centre will be run by Prowess and funded by Advantage West Midlands. WECO will operate at the strategic level to support the existing infrastructure of economic development throughout the region. It will aim to reinforce the economic case for women’s enterprise support, embed good practice and explore areas of market failure. WECO will not provide direct business support itself but will work with existing organisations to increase the participation of women in enterprise activity throughout the region.

**3.70** The Government will support WECO to become a national centre of expertise. The outputs from the WECO will be used to influence:

- women’s enterprise policy development at regional and national levels;
- the financial services sector in recognising the increasing investment opportunities offered by women-led businesses; and

- the private and corporate sectors in seeing women-led businesses as key suppliers of products and services.

**Children's Centres** **3.71** Part of the Government's approach is to make enterprise information and advice available in a family-friendly environment through **Children's Centres**. These are funded by the Department for Children, Schools and Families (DCSF) through the SureStart programme and are intended to enable families to access a range of services and information including early education, family support and outreach to parents and child and family health services. The Government's aim is to have a Children's Centre in every community and plans to have 3,500 in place by 2011.

**3.72** In addition, the Children's Centres will provide advice on employment and training, and will work with Business Link to engage with traditionally hard to reach groups, in particular mothers who are economically inactive. For example, Pakistani and Bangladeshi women who have an employment rate of 25 per cent which is 20 percentage points lower than that for all women.

**3.73** Rotherham Metropolitan Borough Council currently has 12 centres with a further 8 opening this year, and Yorkshire Forward and Business Link will look to pilot this approach. Closer contact between Children's Centres and Business Link will also provide the opportunity to ensure business needs with respect to childcare are identified and demand can be met. The lessons learned in Rotherham will be used in extending the pilots across England.

**Certification standard for women-owned business** **3.74** The Government is also supporting work to connect women-owned businesses with multinational corporations, to ensure that women-owned businesses are given fair and equal access to corporate and public sector procurement opportunities. Government is working with **WEConnect** – whose corporate members include Accenture, Cisco, Goldman Sachs, Microsoft, Merrill Lynch and Pfizer – and with the RDAs to extend, develop and promote WEConnect's certification programme. This will certify enterprises as women owned and by managing and developing a practical programme will connect those certified as Women's Business Enterprises (WBE's) to corporate, and public sector contract opportunities.

*"I joined WEConnect because it is a great idea and a fantastic opportunity to work with multinational corporations, who can be difficult to access for small companies like myself – with limited manpower to find the correct person to speak to in such large companies through to having the sales staff to find these opportunities."*

**Diane Turner, Chief Executive, Anthias Consulting Ltd**

**Women's Business Mentoring Network** **3.75** Access to quality mentoring is particularly valued by women starting and growing an enterprise. Mentoring helps them to build belief in a positive vision for the development and growth of their business and provides a conduit to business support and information. A national mentoring network for women in business will be coordinated to recognise and support the distinctive nature of women's business start-up and growth.

**3.76** The network will signpost to existing **mentoring services** and, where there is no provision, deliver both face-to-face and web-based mentoring to fill the gaps. It will also assist in the development of peer-based mentoring groups and networks, building a sustainable and cost-effective model for the future. The network will coordinate the recruitment and training of mentors (both male and female) and provide a matching service for businesses. It will provide an essential link to other sources of business support and, critically, sources of business finance.



**3.77** A national strategic partnership, including RBS, Prowess, Everywoman and the British Chambers of Commerce will champion the initiative and ensure it integrates and adds value to existing mentoring provision across the regions.

**Women's Enterprise Ambassador Network**

**3.78** Working with the RDAs, the **Women's Enterprise Ambassador Network (WEAN)** has been successfully established and currently involves over 1000 SME business owners in promoting women's enterprise.

**3.79** Enterprise Insight will work with the RDAs to embed a mentoring capability within the network. This will be developed by introducing a training framework, linked to a quality assurance process which will enable those Ambassadors who wish to extend their role to include mentoring.

**Improving education and skills in the workforce**

**3.80** **Train to Gain** is evolving and further improvements are planned, including:

- from 2008-09 there will be matched funding for Level 3 qualifications (2 or more 'A' levels or equivalent);
- piloting support for HE level programmes; and
- eligibility for Train to Gain will also be extended to include the self-employed.

**3.81** Over the next three years the Government will also increase its investment in the Leadership and Management Programme for SMEs from £4 million to £30 million per annum. Eligibility will be extended from April 2008 to SMEs with between ten and 250 employees (currently 20 to 250 employees). This £90 million investment will increase the skills of around 60,000 key directors and managers in approximately 42,000 small and medium sized companies.

**Simplifying the employment and skills system**

**3.82** The Government is actively working to **simplify the employment and skills system** in England, seeking opportunities to simplify what is offered to employers, whether they are coming as customers or in support of strategic planning needs.

**3.83** The UK Commission for Employment and Skills will make the simplification of the employment and skills system in England one of its top priorities. The Commission will carry out a review and make recommendations by April 2009. The Commission is working with partners including the RDAs, the LSC and Sector Skills Councils. It aims to:

- articulate a simple customer journey that employers can expect as they engage with the employment and skills system; and
- help national and regional partners better understand and address the long term skills needs of employers in every region and in key sectors.

**Looking ahead: the changing landscape of business support**

**3.84** Improving enterprise knowledge and skills development provision will ensure that key building blocks of a successful economy are put in place and the measures outlined in this chapter will further help to deliver on this. However, there remain challenges. Going forward we will need to respond to the changing needs, engagement and learning preferences of our business community. Government will also continue to embrace new media and technologies to better address the needs of businesses.

**Making more use of new technologies** **3.85** The internet is a powerful resource that is increasingly being used by many individuals and businesses. The internet is enabling business to work differently and more effectively; transactions can be completed more quickly and relationships can be built faster, with the capability of global reach. Young people are leading some of these changes – with their use of social networking sites like Facebook, Bebo, Horsesmouth, and MySpace. These developments afford new opportunities for communicating in a very different way, building networks without geographical or cultural boundaries. This broader shift in youth culture towards peer-to-peer interactions is likely to provide opportunities for the delivery of networking and mentoring opportunities for business. Government will be considering the opportunities presented by development such as on-line mentoring support to build the UK's entrepreneurial capital and empower young entrepreneurs.

**Knowledge and skills: key new policy proposals**

- Government has committed a further £30m to extend enterprise education from secondary schools into primary and tertiary education;
- entrepreneur Peter Jones is working with the Government to launch a National Enterprise Academy (NEA);
- Government will work with the Regional Development Agencies (RDAs) to pilot Women's Business Centres (WBC);
- Government will provide enterprise support focused on women through RDAs and Business Link;
- a national mentoring network for women in business will be coordinated to recognise and support the distinctive nature of women's business start-up and growth;
- Government will work through Children's Centres to make enterprise support and advice more women-friendly and more readily available;
- Government will extend and improve the Train to Gain programme;
- Government will increase its investment in the Leadership and Management Programme for small business;
- Government will work with the RDAs, and the leading private sector agencies, to establish better links between existing mentoring programmes and the business support network overall;
- Government will work with A4e over the next four years to develop a full understanding of good practice in corporate mentoring; and
- the Government has been working in partnership with the newly formed Institute of Business Consulting to create a new set of national standards for all organisations involved in the delivery of business support.

# 4

## ACCESS TO FINANCE

### Vision

- The Government's vision is for more UK entrepreneurs and businesses to be able to access the finance they need to enable greater levels of enterprise, whether expressed through start-up or growth. The strength of the financing market for entrepreneurs and businesses, as measured by the Milken Institute, will be maintained and enhanced.
- There will be a particular emphasis on those with the potential to start dynamic new businesses, those with the potential for growth and those from currently underrepresented groups.
- The Government will place a renewed emphasis on women-owned businesses accessing higher levels of capitalisation, thus demonstrating that they are gaining more confidence to access the right type and level of finance.

### Progress to date

- UK finance market ranked consistently amongst the best in the world for supporting business financing needs.
- In the last five years, consistently around three-quarters of businesses report no problems accessing finance.
- Government has secured more than £5bn lending through Small Firms Loan Guarantee and has made £247m of early stage capital investment, leveraging a further £400m of private funding.

### Next challenges

- Barriers to accessing finance persist in both debt and equity markets, with around 25,000 businesses, with viable propositions,<sup>1</sup> unable to access finance a year.
- Reflecting increased entrepreneurial activity, recent data shows an increase in businesses seeking finance (particularly younger businesses (increase from 21% to 32% for those businesses under 4 years old) and those proposing to grow (up from 22% to 27%). However, the percentage obtaining no finance from the first source they try has increased (from 9% up to 13%).<sup>2</sup>
- Women are less likely to seek finance and are more likely to rely on informal, more expensive, sources of finance to start-up. They are more likely to be undercapitalised at start-up.
- Ill-founded perceptions around accessing finance can prevent some people accessing the finance they need or get, particularly women.

### Strategy

- In addressing these challenges, the Government's strategy is to address both the supply and demand side of accessing finance so that entrepreneurs and businesses have the skills and the opportunity to access the finance they need. In particular, Government will ensure that:
  - early stage high growth businesses are better able to secure appropriate sources of investment and finance; and
  - all businesses and entrepreneurs, but particularly those from under-represented groups including women, are more 'investment ready' before seeking the finance they need.

**An overview of measures to start delivering this strategy are contained in a box at the end of the chapter.**

<sup>1</sup> BERR estimate.

<sup>2</sup> BERR (2008), Annual Small Business Survey 2006, London, BERR.Small Business Service (2006), ASBS 2005, London, DTi.

## Introduction

**4.1** The UK's finance markets are amongst the most flexible and dynamic in the world. Nevertheless, there is evidence that, for a minority of firms, barriers to accessing finance persist. Over the last ten years the Government has taken steps to help businesses, especially small businesses, to get better access to finance and, as importantly, to make themselves more 'investment ready' for potential investors. The Government intends to build further on these measures and will monitor the extent to which access to finance continues to be a barrier to enterprise in order to measure the success of its actions.

## Progress made so far

**4.2** Despite the UK having one of the most efficient finance markets in the world, it has long been recognised that there exist market failures. These can create barriers for a small minority of viable businesses who require finance to start and grow. The fact that some businesses do not obtain finance is not in itself an indication of failures in finance markets. Markets are acting rationally in not providing finance to some business proposals. However, there could be good businesses proposals that will find it difficult to access external finance because of the market's use of collateral, financial track record and cost of due diligence to assess risk for small firms.

**4.3** An "equity gap" exists in equity finance markets because the costs of making smaller investments can be prohibitively high. This creates the scope for fund managers to exploit economies of scale by focusing investment on fewer, larger investments in more established businesses. Over the last decade venture capital companies have moved away from the start-up and early stage markets.<sup>1</sup> As a result, access to modest amounts of equity finance for new businesses, even those with very high growth potential, can be problematic. The balance of evidence has indicated that those seeking between £250,000 and £2 million have particular problems accessing equity finance.<sup>2</sup>

**4.4** To address these issues the Government has, over the last ten years, developed targeted interventions, both in debt and equity markets, to improve access to finance. Recent evidence suggests that only around one in eight businesses seeking new finance fails to obtain any<sup>3</sup>. In addition the UK's finance market has been ranked second best in the world for supporting business financing needs by the Milken Institute Capital Access Index 2007, just behind Hong Kong, and ahead of other OECD countries.

## Bridging the finance gap

**4.5** Since 1981, around 100,000 loans valued at £5 billion have been guaranteed through the Government's Small Firms Loan Guarantee (SFLG). SFLG can be used by banks where a business has a debt-appropriate proposition but does not have the collateral that most banks expect to see to secure a loan – or if that business cannot demonstrate a financial track record.

<sup>1</sup> Almeida Capital (2005), A mapping study of venture capital provision to SMEs in England. London, Small Business Service. Stockholm School of Economics (2005), Factors Determining the Performance of Early Stage High Technology Venture Capital Funds. London, Small Business Service.

<sup>2</sup> HM Treasury and Small Business Service (2003), *Bridging the Finance Gap: next steps in improving access to growth capital for small businesses*. London, HM Treasury.

<sup>3</sup> Fraser, S. (2005), *Finance for Small and Medium-Sized Enterprises: A Report on the 2004 UK Survey of SME Finances*. Warwick, University of Warwick. BERR (2008), *Annual Small Business Survey 2006/07*. London, BERR.

**Small Firms Loan Guarantee (SFLG)** is the Government's principal debt finance instrument. It is an established mechanism through which the Government provides participating lenders with an alternative form of security, underwriting 75% of the loan, to small businesses with viable business plans who meet the bank's normal lending criteria but do not have the collateral or track record against which to secure that lending.

**4.6** The Government also directs targeted debt finance support to people from disadvantaged communities looking to start up businesses through Community Development Finance Institutions, covered further in Chapter 7.

**4.7** On the supply of equity, since 2000 the Government has supported programmes to address an equity gap which showed that SMEs seeking relatively small amounts of finance (between £250,000 and £2 million) were disadvantaged by the lack of private sector venture capital funds operating at that size<sup>4</sup>.

**4.8** At the same time, Regional Development Agencies have provided additional equity opportunities via venture capital loan funds (VCLFs), which are co-financed by the European Regional Development Fund (ERDF). VCLFs are now managing investment funds worth over £480 million, including £58 million of public sector money committed.

**4.9** Research has shown that publicly backed equity funds have become an extremely important source of capital for SMEs, accounting for nearly one third of start-up and growth stage investments in SMEs over the period 2003 and 2004. The Regional Venture Capital Funds have been judged by venture capital providers to play a complementary role to the private sector in the provision of equity finance<sup>5</sup>.

**Government equity funds have been established under a variety of programmes to:**

- encourage risk funding for start-ups through **Regional Venture Capital Funds and Early Growth Funds**;
- encourage investment in the most deprived wards through the **Bridges Community Development funds**; and
- encourage specialist investment through the **UK High Technology Fund**.

**Enterprise Capital Funds (ECF)**, are the most recent to be launched, in 2006. They operate on a commercial basis but invest a mix of private and public money in small high growth businesses that are seeking up to £2 million in risk capital. The Government provides up to two thirds of the capital in each ECF and takes only a limited share of the profits in order to encourage private investors to participate where they would not otherwise. The Government has now committed over £141 million to ECF funding with a further £150 million earmarked for future funds over the next 3 years.

All of these programmes use standard capital market disciplines and the skills and experience of the professionals in the private sector to meet both their and public goals via hybrid fund structures.

Since 1997 these programmes have provided over £247 million funding, leveraging another £400 million of private funding.

<sup>4</sup> HM Treasury and Small Business Service (2003), *Bridging the Finance Gap: next steps in improving access to growth capital for small businesses*. London, HM Treasury.

<sup>5</sup> Almeida Capital (2005), *A mapping study of venture capital provision to SMEs in England*. London, Small Business Service.

**4.10** The Government has also used the tax system to provide an additional incentive for investment in early stage and growth businesses.

#### **Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs)**

Since its inception, the Enterprise Investment Scheme (EIS) has raised over £6.1 billion, invested in over 14,000 small, high-risk companies, while Venture Capital Trusts (VCTs) have invested over £3.2 billion in over 1,500 companies. EIS and VCTs are tax-based schemes designed to improve small, unquoted, high-risk trading companies' access to full-risk equity finance. They do so by providing a range of income tax and capital gains tax reliefs to individuals who make direct investments (under EIS) or indirect investments (mediated through a VCT) into qualifying small companies. EIS has been an important factor in stimulating the growth of business angel investment in the UK.

### **The demand for business finance: developing investment readiness support**

**4.11** The supply of finance and its enabling environment is an important element of improving the access to finance for small businesses, but is not the whole story. If businesses are to be able to take full advantage of the range of supply of finance available, it is important that they are finance and investment ready. In other words, that they understand the range of financing options available to them and what those options mean for their business and that they have the skills to access them.

**4.12** The Government has played a key role in developing investment readiness support through running a series of demonstration pilots and subsequently developing best practice guidance. Investment readiness provides business owners with the skills to enable them to better access the right kind of finance to fund their business's growth ambitions. Good practice examples of current investment readiness programmes include SEEDA's Escalator, the Scottish Enterprise High Growth Start-up Unit and Connect, helping businesses with investor readiness support, coaching and networking.

### **Challenge going forward**

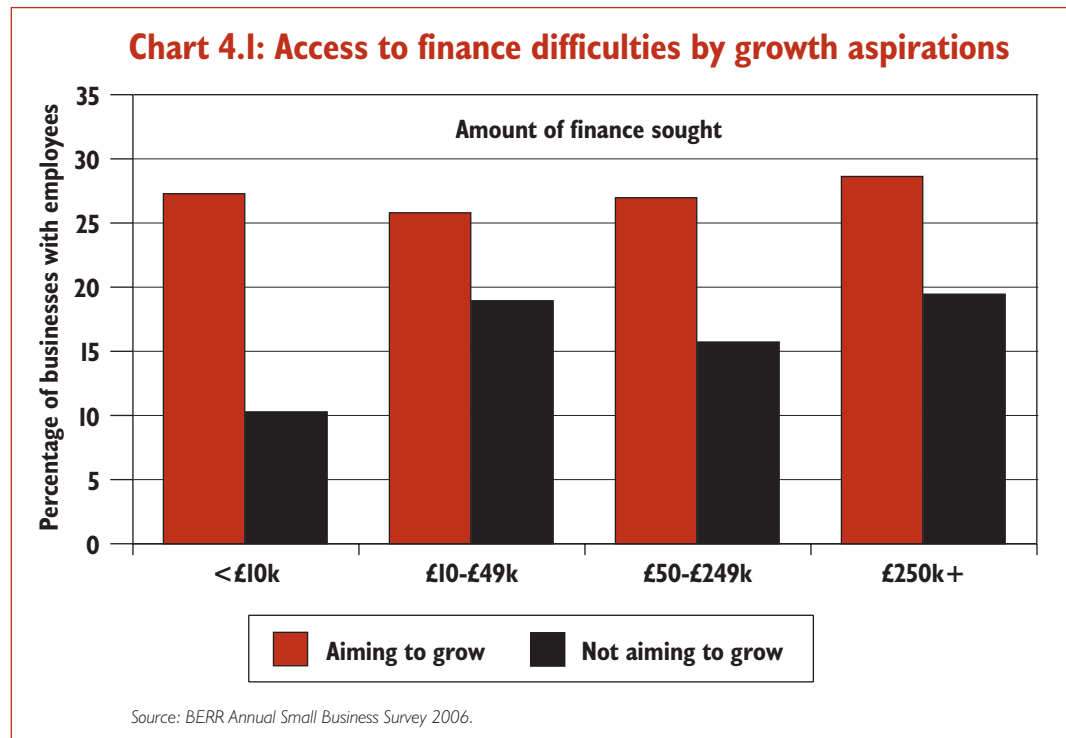
*Many small businesses don't know what finance is right for them or sometimes how to obtain it... The majority of small businesses in the UK say they have no ambitions to grow... we've got to persuade them growth is an opportunity..."*

**Secretary of State for BERR, John Hutton, November 2007**

**4.13** Despite the progress made in improving access to debt and equity finance some barriers persist, particularly for businesses with growth ambitions. A key challenge remains the lack of finance skills and knowledge amongst entrepreneurs, particularly women entrepreneurs, which can prevent them accessing to the sources of finance most appropriate to their business needs.

## Start-ups and growth businesses

**4.14** Research evidence shows that start-ups and young businesses continue to be more likely to experience difficulties accessing finance compared to more established businesses. Just over one quarter of young businesses seeking finance attributed difficulties to a lack of financial track record or in sufficient collateral.<sup>6</sup> Businesses aspiring to grow are both more likely to seek finance and more likely to experience difficulties compared with those businesses not seeking growth (Figure 4.1). Around one in seven growth aspirant businesses having difficulties obtaining finance attributed the difficulties to insufficient collateral.<sup>7</sup>



## Under-represented groups in enterprise

**4.15** Some communities under-represented in enterprise, be they geographic or defined by client group, are more likely to experience difficulties securing finance. In most instances this is explained by differences in business and risk characteristics, particularly the absence of a financial track record or collateral, rather than more specific supply-side constraints.<sup>8</sup> There is, however, evidence that demand-side barriers to accessing finance may be more prevalent amongst under-represented groups.<sup>9</sup> This is further explored in Chapter 7.

**4.16** There is clear evidence that women-owned businesses start with lower levels of overall capitalisation, and research has established unequivocal links between this initial under capitalisation and subsequent business performance.<sup>10</sup> Women-owned businesses are less likely to seek external finance for their business. More specifically there is evidence that women-owned businesses are less likely to apply for a commercial loan or mortgage from

<sup>6</sup> BERR (2008), *Annual Small Business Survey 2006*. London, BERR.

<sup>7</sup> BERR (2008), *Annual Small Business Survey 2006*. London, BERR.

<sup>8</sup> Fraser, S. (2005), *Finance for Small and Medium-Sized Enterprises: A Report on the 2004 UK Survey of SME Finances*. Warwick, University of Warwick; Fraser, S. (2007), *Finance for Small and Medium-Sized Businesses: Comparisons of Ethnic Minority and White Owned Businesses*. London, BERR.

<sup>9</sup> For example see Brown, H. (2002) *Finance for small businesses in deprived communities*. In *Finance for Small Firms*, Bank of England

<sup>10</sup> Carter, S. and Shaw, E. (2006), *Women's Business Ownership: Recent Research and Policy Developments*. London, Small Business Service.

banks or other financial institutions.<sup>11</sup> There is also evidence to suggest that women favour informal sources of finance and retained profits.<sup>12</sup> The research consistently shows that women-owned businesses have lower ratios of debt finance; and are much less likely to use private equity or venture capital.<sup>13</sup>

**4.17** The research literature shows that perceptions of access to finance difficulties are more prevalent for women entrepreneurs, particularly at the pre-start and start up stages.<sup>14</sup> It also suggests that low confidence levels are an issue amongst women entrepreneurs which can lead to negative perceptions about their chances in applying for external finance.<sup>15</sup>

**“The challenge is to understand to what extent it is about women’s perception of finance being unfriendly, about the extent to which it is about women’s investment readiness and their inability to get the finance that is there. Because if they don’t have the motivation and the confidence to grow, then they won’t be engaging in the international markets that we know are essential to growth and to innovation.”**

**Pam Alexander, CEO SEEDA and co-Chair of the Women's Enterprise Task Force**

## Improving financial skills and knowledge

**4.18** Research indicates that the emphasis of our support should be on stepping up the quality and provision of support to address improvements in the demand for finance. Many smaller businesses do not have their finances managed by a qualified individual; and confidence in dealing with finance is not high compared to other aspects of running a business.<sup>16</sup> Some entrepreneurs can therefore lack the skills and confidence to access external finance. As a result businesses can become inadequately capitalised and their survival and growth threatened. Some entrepreneurs have strong perceptions that accessing the finance will be problematic, which discourages them from applying for the finance they need.<sup>17</sup>

**4.19** Entrepreneurs and businesses are not always able to understand or navigate their way around the UK financial market effectively. Not all businesses understand the full range of ways in which finance and investment can be sought and raised from the market which presents a further challenge going forward.

**4.20** Some smaller businesses miss out on external investment because they do not know how to make their business proposals into attractive investment opportunities. In addition small businesses in the UK appear to be less aware of the possibilities of different forms of risk finance than their US counterparts.<sup>18</sup> Research shows that negative perceptions of equity

<sup>11</sup> Roper, S., Driffield, N., Sena, V., Anon Higon, D. and Scott, J. (2007), *Exploring Gender Differentials in Access to Finance – an Econometric Analysis of Survey Data*. London, BERR.

<sup>12</sup> Wyer, P., Ekanem, I., North, D. and Deakins, D. (2007), *Impact of Perceived Access to Finance Difficulties on the Demand for External Finance*. London, BERR.

<sup>13</sup> Carter, S. and Shaw, E. (2006), *Women’s Business Ownership: Recent Research and Policy Developments*. London, Small Business Service.

<sup>14</sup> Roper, S., Driffield, N., Sena, V., Anon Higon, D. and Scott, J. (2007), *Exploring Gender Differentials in Access to Finance – an Econometric Analysis of Survey Data*. London, BERR.

<sup>15</sup> Wyer, P., Ekanem, I., North, D. and Deakins, D. (2007), *Impact of Perceived Access to Finance Difficulties on the Demand for External Finance*. London, BERR.

<sup>16</sup> Fraser, S. (2005), *Finance for Small and Medium-Sized Enterprises: A Report on the 2004 UK Survey of SME Finances*. Warwick, University of Warwick. BERR (2008).

<sup>17</sup> For example see Wyer, P., Ekanem, I., North, D. and Deakins, D. (2007), *Impact of Perceived Access to Finance Difficulties on the Demand for External Finance*. London, BERR.

<sup>18</sup> Mason, C. and Harrison, R. (2001), *Designing an Investment Ready Programme: Some Considerations*. Unpublished report to the Small Business Service.



finance can frequently deter businesses from seeking it, there is also evidence of a reluctance to cede ownership to third parties.<sup>19</sup>

**4.21** The Government wants to ensure that all businesses understand the full range of ways in which finance and investment can be sought and raised from the market. It also wants businesses to be better able to engage a range of finance providers to successfully fund their business development; in other words, to be “investment ready”.

**4.22** The Government believes a market failure exists in the provision of finance and investment readiness support, particularly for early stage, potentially high growth, often high risk businesses. This is because the cost of such support, often needed on a one-to-one basis, is high but is usually only recouped much later, from future fees and earnings, if the business is successful<sup>20</sup>. Many private sector support providers are unable or unwilling to take the risk of substantial losses if the venture does not succeed. Growing businesses can also be constrained by a lack of senior managerial expertise. It is demand side weaknesses, rather than financial barriers, that are likely to constrain growing businesses who experience a knowledge/skills gap.

## Ensuring business support is tailored to the needs of business

**4.23** Future government interventions need to respond to the needs of businesses from different sectors, and recognise the range of ambition for business growth. A key challenge for the Government is to respond to the different requirements of:

- high growth (“stellar”) businesses;<sup>21</sup>
- businesses (“non-stellar”)<sup>22</sup> with more modest but still significant growth ambitions; and
- enterprises in disadvantaged areas, which can require a different set of supporting measures.

**4.24** This requires a holistic view of how various publicly funded measures interact with private sector provision across the supply of finance, advice and other resources for growth.

## Maintaining businesses’ access to finance

**4.25** Whilst the world of international finance and banking has been affected by the sub-prime lending problems in the US, indications suggest that business banking has remained stable and that SME lending in the UK remains strong. However, Government is committed to ensuring that businesses who are starting up and those seeking to expand and grow are not constrained in obtaining finance as a result of any disruption to global financial markets. To achieve this Government recognises the need to be responsive to shifts in the behaviour of the market.

<sup>19</sup>Poutziouris, P., Chittenden, F. and Michaelas, N. (1999), Working Paper 378: *The Financial Development of Smaller Private and Public Ltd. Companies*. Manchester, Manchester Business School.

<sup>20</sup>PKF (2004). *Barriers to Intermediation*. Unpublished report to the Small Business Investment Taskforce; SQW (2004). *Evaluation of investment readiness demonstration projects*. London, Small Business Service.

<sup>21</sup> Those with the ambition and potential to grow at rates likely to attract equity investment from business angels and, eventually, venture capital funds

<sup>22</sup> Those looking to grow at significant rates but who are unable or unwilling to grow at rates likely to attract equity investment but which need more than the routine debt products available from high street banks.

## Going forward

**4.26** Over the next ten years, the Government will focus on ensuring that entrepreneurs and businesses continue to have access to the finance and investment they need and have the necessary skills and confidence to make their businesses investment ready. In particular, the Government is committed to ensuring that women entrepreneurs are able to access the finance and support they need.

## Accessing and managing debt finance

**4.27** Bank loans continue to be the main source of external finance for start up business with one in five new businesses using debt finance to establish the business. New developments in credit scoring techniques, though beneficial for the majority of borrowers, favour those with a proven track record and good credit history. As a result some young businesses, innovative businesses and those businesses seeking to expand beyond their current asset base can continue to face difficulties accessing finance. The Government and banks are jointly committed to helping small businesses and entrepreneurs continue to realise their potential, particularly in a climate where there is disruption in global financial markets. In partnership with the main banks, the Government is setting out a comprehensive package of measures to ensure entrepreneurs continue to have the confidence to start up and grow businesses. This package includes:

- strengthening the Small Firms Loan Guarantee;
- increasing the capacity of the Money Advice Trust's Business Debtline; and
- removing the barriers to the use of invoice/debt factoring in government procurement as a means of business financing.

### Small Firms Loan Guarantee: bridging the debt finance gap

**4.28** The Small Firms Loan Guarantee (SFLG) is available to a wide range of businesses through high street lenders. Government is announcing changes to the operation of SFLG that will enable a wider range of businesses to continue to access debt finance for start-up and growth through high street lenders during any period of financial market disruption. The Government proposes to **increase the banks SFLG lending allocations by 20 per cent** for the next year. This will increase the amount of lending available by £60 million to a total of £360 million providing greater SFLG capacity at a time when financial market disruption may require the provision of debt finance to young and growing SMEs to be strengthened. In line with its renewed commitment to assist firms with growth ambitions, the Government will **extend the eligibility of SFLG to businesses** with growth ambitions that are **more than five years old**, including, but not limited to, those that have changed ownership. This will enhance the provision of debt finance for growing SMEs that lack loan collateral. In support of this change, the major SFLG lenders have committed to a renewed focus on promoting the appropriate use of SFLG to enable businesses who might otherwise not be able to access debt finance to fund their start-up and growth ambitions.

*"The Government's Small Firms Loan Guarantee scheme saved me in the early days – it got Cobra off the ground.*

**Karan Bilimoria, Founder of Cobra Beer**  
At No. 11 'Renewing the Enterprise Strategy' event, September 2007

### Helping business handle debt

**4.29** Ensuring that businesses are able to access specialist and expert help to manage debt is critical to small and growing businesses in particular. The Government is therefore proposing, with the support of the major banks, to **expand the Money Advice Trust's Business Debtline service**. This provides free, confidential and independent advice to small businesses

with cash flow or debt problems in Great Britain. Established in 2000, and jointly funded by the Government and the national banks, this service dealt with over 15,000 calls in 2007 and helped more than 10,000 clients. In addition, there were over a million hits to the website.

*“Business Debtline provides an invaluable service to micro businesses and is an excellent example of a public/private partnership working effectively. Working together to fund such a service makes business and economic sense.”*

**Stephen Pegge, Chairman of the British Bankers’ Small Firms Advisory Panel**

**4.30** Business Debtline offers specialist advice on the full range of debt issues from dealing with tax arrears to avoiding repossession of the home and business. The Government and banks have agreed to more than double its funding by 2010/11.

**Using invoice/debt factoring** **4.31** The Asset Based Finance Association (ABFA) estimates that over 48,000 businesses in the UK (and Republic of Ireland) **use factoring or invoice discounting** and that the total value of invoices assigned by those businesses in the year to September 2007 amounted to around £140bn.

**4.32** Factoring and invoice discounting can be an important source of finance to businesses, and SMEs in particular. Businesses continue to raise concerns that they are often prevented from competing for public contracts unless they receive prior consent on any assignation of rights and obligations under public contracts. This can be a key barrier to SMEs who fund their businesses through factoring or invoice discounting.

**4.33** The Government recognises that invoice and debt factoring is an important source of finance for businesses. The Office of Government Commerce will therefore remove the standard requirement for departmental consent from their model procurement clauses which will effect existing and new contracts.

## Finance for growth

**4.34** The Government is building on the range of initiatives already in place to help businesses finance their ambitions to grow, with a particular focus on early stage venture capital and mezzanine finance.

**Managing the Government’s own interventions** **4.35** The Government has tasked the newly created Capital for Enterprise Limited with taking responsibility for managing £350m of existing government venture capital and loan activity from 1st April 2008. Their primary role will be to deliver programmes aimed at high growth early stage investments, but they will also manage funds on behalf of other government departments.

**Launch of third round of Enterprise Capital Funds** **4.36** The Government will continue to support private sector investment in small business through Enterprise Capital Funds (ECFs). Capital for Enterprise Limited will be **launching the third round of ECFs** at the beginning of April 2008, and is committed to launching two subsequent rounds before the end of the current spending review period. Capital for Enterprise Limited will be seeking to commit around £50m of Government capital per year into Enterprise Capital Funds for the next three years.

**4.37** Alongside ECFs, Government will continue to provide additional equity opportunities via regional venture capital loan funds, including RDA co-investment funds, announced as part of successful bidding round for ERDF structural funds.

**Supporting the availability of Mezzanine Finance** **4.38** The Government has also asked Capital for Enterprise Limited to work with the major Banks and Fund Managers to seek to stimulate the **delivery of mezzanine products through both the SFLG and ECF** programmes, and will welcome mezzanine proposals in the next and future rounds of Enterprise Capital Funds. The Government has committed an additional £30m through the ECF programme over the next three years to stimulate the delivery of mezzanine finance.

**Capital Fund for women** **4.39** There is significant evidence to show that the perception that external finance is difficult to access is more prevalent amongst women and that women are less likely to seek finance, in particular venture capital finance. Women also encounter particular barriers such as networking opportunities and access to investment readiness support.

**4.40** Alongside a more accessible investment readiness offering to women, Government is proposing to establish a **capital fund focussed mainly on investing in women-led businesses**. Capital for Enterprise Limited will develop a fund, on a co-investment basis, that will invest predominantly in women-led businesses and will also make links with providers of investment readiness support and aim to provide increased networking support to women-led businesses to other sources of finance.

**4.41** In support of this national initiative, the South East England Development Agency's Finance South East will continue to pro-actively work with women entrepreneurs through its specialist female investment readiness programmes with the aim of significantly increasing the number of women entrepreneurs accessing and receiving funding through the South East Funding Escalator.

**Promoting Business Angel activity** **4.42** Over the past decade Business Angel investments have become an increasingly important source of equity finance for new and nascent businesses. The British Business Angel Association now has more than 22 Business Angel Networks as members, and a further 60 associated members involved with the business angel community. The UK has one of the most developed and sophisticated Business Angel markets in Europe. Encouraged by the Enterprise Investment Scheme, the amount invested in business has grown by 35% over the last three years.

**4.43** Government recognises the vital role that Business Angels play in the funding of early stage businesses. They play a particularly important role in helping to fill a difficult void in supply, where businesses are graduating from debt to equity finance but are also a critical source of advice, guidance and support for entrepreneurs.

**4.44** In order to build on the UK's strong position in Europe, Government has identified a number of key challenges:

- supporting the British Business Angels Association's efforts to build capacity in the UK;
- linking regional and local Business Angel networks with publicly-funded support for investment readiness and finance; and
- improving understanding of the UK Business Angel market, the range of investments that are made, the skills and incentives Angels require.

**4.45** Government will therefore continue to work with and **support the British Business Angels Association (BBAA)** to encourage participation of private investors in investing in growing UK businesses as well as building capacity in the Business Angel community.

**4.46** The Government will also work with BBAA and other partners, including NESTA and LINC Scotland to commission analysis to better understand the behaviour of the Business Angel market. It will also invite proposals from the angel community and networks on how to help new Business Angels to learn about investing.

## Creating a Framework for Investment Readiness

**4.47** Experience of Business Angel and venture capital markets indicates that there is a strong correlation between the standard of investment readiness of a business and its success rates in securing finance.

**4.48** The Government has a role in facilitating this development by providing a stronger framework for delivering finance and investment readiness advice and support, integrated with the wider business support landscape.

**4.49** Using the platform of the Business Support Simplification Programme, the Government will develop the **national framework to improve access and quality of delivery to the customer**. Utilising the primary access channel for business to Business Link this framework will serve as a curriculum for RDAs in strategic and operational direction of regional finance and investment readiness activity, with particular emphasis on:

- **enabling entrepreneurs to understand ways to finance their business:** including improving businesses' understanding of the Business Angel and risk capital market including demystifying equity finance and understanding the expectations of these types of investors; and
- **helping businesses to gain specialist skills and market understanding to be business ready for investment, including core business and finance skills as well as leadership and management skills.**

*"There is a real lack of education around how women can finance their businesses and where to go for advice. A lot of the Banks now are putting this type information on their websites, and are running tutorials for women on how they can finance their businesses. Women need this information to allow them to make the right decisions about how best to finance their business."*

**Amanda Rendell, Head of Marketing, Commercial Banking, HSBC**

## Targeted investment readiness support for women

**4.50** In developing a national framework for investment readiness, the Government, in partnership the British Bankers Association, a number of High Street banks, RDAs and their business support partners, will focus on under-represented groups, especially women. A tailored investment readiness strand will focus on the need to create networking opportunities for women entrepreneurs as well as increasing knowledge of the different types of finance available to women entrepreneurs.

**Banks and the delivery of investment readiness for Women****HSBC**

- HSBC has established its 'Women In Business Champions' network to represent HSBC in female targeted business networking communities.
- It provides sponsorship for 'Eve Educates Starting Your Own Business' within Eve Magazine.
- It sponsors business growth networking events to raise awareness of investment routes and opportunities for women.

**Bank of Scotland**

- Bank of Scotland has a dedicated Women in Business team to:
  - encourage women to start and grow their own businesses; and
  - ensure that Bank of Scotland has the right financial products and services, delivered in a way that is accessible, appealing and supportive.
- Women entrepreneurs:
  - are actively supported by the provision of female friendly information;
  - receive advice from Bank of Scotland staff at business networking events; and
  - are encouraged to look at the most effective way of funding growth within their business.
- The aim is to create a banking environment that welcomes female entrepreneurship and promotes the advancement of female talent.

**4.5I** The national finance and investment readiness framework is being developed side by side with a national specification for Proof of Concept funds, recommended by the Sainsbury Review and being implemented by DIUS. The Government will ensure appropriate integration of these activities. DIUS are also leading work on intangible asset reporting, as recommended in the Gowers Review.

## Future issues

**4.52** Alongside taking forward the above package of measures in partnership with the RDAs, Bank and other intermediaries, the Government will describe and promote a framework of integrated business support where awareness and understanding of business finance, investment readiness, and funding opportunities are better mapped and more visible to business – a so-called “escalator of finance”. This will seek to pin point the right support at the right time for every business depending on its needs.

**4.53** Alongside this strategy, the Government is publishing research by the Credit Management Research Centre (CMRC)<sup>23</sup> which provides a valuable addition to the evidence base on payment behaviour and the different and complex causes of late payment. The Government is also endorsing a leaflet being published by the Institute of Credit Management with credit management tips to keep the cash flowing.

**4.54** Building on the work of the Better Payment Practice Group, the Government will publish two new guides on preventing late payment and handling late payment on [www.businesslink.gov.uk](http://www.businesslink.gov.uk). These have been prepared with the Institute of Credit Management and CMRC and draw on the latest research. They will be supplemented by further tools (currently available on [www.payontime.co.uk](http://www.payontime.co.uk)) to help tackle late payment, as part of the Government’s programme to migrate the content from its business facing websites on to the Business Link site. A wider business audience should also be reached, with the website receiving seven million unique visitors each year.

**4.55** However, Government recognises that there may be more that can be done to tackle the problem of late payment and the Department for Business, Enterprise and Regulatory Reform will, over the next six months, explore non-legislative approaches to tackling late payment issues.

***“The need for professional credit management in keeping the cash flowing and overcoming late payment is becoming more critical than ever”***

**Philip King, Director General, Institute of Credit Management**

<sup>23</sup> Credit Management Research Centre (2008), *An Investigation into Payment Trends and Behaviour in the UK: 1997-2007*. London, BERR

**Access to Finance: Key new policy proposals**

20 per cent uplift in new SFLG tender allocations for one year.

- Extend the eligibility of SFLG to businesses with growth ambitions that are more than five years old, including but not limited to those who have changed ownership.
- An additional £30m capital commitment to stimulate the delivery of mezzanine finance through Enterprise Capital Funds commitment to stimulate delivery through SFLG.
- Commitment of £12.5m for capital fund focused primarily on investing in women-led businesses.
- Launch of a third round of Enterprise Capital Funds, with around £50m available to invest. Further £100m available to commit in two subsequent rounds.
- Commitment that businesses that use invoice/debt factoring are eligible to compete for public sector contracts.
- Expansion of the Money Advice Trust's Business Debtline service.
- Support and work with British Business Angel Association to develop and build capacity in UK's Business Angel sector.
- Development of a national framework for the delivery of investment readiness support, including targeted support for under-represented groups such as women.
- Commitment to explore further non-legislative approaches to tackling late payment.



**Vision**

*The modern enterprise challenge is to enhance the flexibility needed for a successful economy and tackle the regulatory concerns we know all industrial economies face without sacrificing the standards a good society needs.*

*Prime Minister<sup>1</sup>, Gordon Brown*

- The Government's vision is for the UK regulatory environment to encourage and enable enterprise activity, whether expressed through start-up or growth, whilst continuing to protect consumers, employees and the environment.
- Building on the UK's reputation as one of the most attractive places in the world, to start and grow a business, as measured by the World Bank, the Government will develop a sustainable, proportionate, risk-based, approach to inspection and enforcement of the regulatory regime.

**Progress to date**

- The UK's regulatory environment is recognised as amongst the best in the world. The 2008 World Bank Doing Business report puts the UK 6th out of 178 economies (up from 7th in 2005) in terms of "ease of doing business".
- The proportion of English SMEs citing regulation as main barrier to success has fallen in recent years – from 21 per cent in 2002 to 14 per cent in 2006<sup>2</sup>.
- The OECD says UK has lowest barriers to entrepreneurship of all OECD countries<sup>3</sup>.

**Next challenges**

- There is continuing evidence that owner-managers when dealing with regulatory issues are more likely to divert their attention away from more productive strategic activities.
- Over a third of adults who are not considering starting up in business, viewed the complexity of regulation relating to beginning a business as a barrier to undertaking entrepreneurial activity<sup>4</sup>.
- Successive surveys by the Federation of Small Businesses have found that small businesses are more dissatisfied with the complexity of regulation than the volume and the cost of compliance<sup>5</sup>.

**Strategy**

The Government will continue to work to reduce the burden imposed by existing regulations and change its approach to, and communication of, new regulation. In particular:

- Businesses will be saved time and money by the Government's continuing efforts to identify, simplify or abolish unnecessary regulations and its efforts to consider the impact of the cumulative burden of regulation.
- Businesses will be able to place greater reliance on official guidance, particularly around employment regulations.
- Businesses will have much clearer information so that the anticipated benefits of regulation are realised more effectively. Government Departments will consistently

<sup>1</sup> Speech made in 2005 when Chancellor of the Exchequer.

<sup>2</sup> Annual Small Business Survey 2006, BERR 2008.

<sup>3</sup> Product Market Regulation in OECD Countries: 1998 to 2003', OECD 2005.

<sup>4</sup> Household Survey 2005, Small Business Service.

<sup>5</sup> FSB, Lifting the Barriers to Growth in UK Small Businesses, FSB 2006.

and more effectively examine whether small firms can be exempted from new regulatory requirements or be subject to a simplification of enforcement.

**An overview of measures to start this strategy is contained in a box at the end of the chapter.**

## Regulation as a driver of enterprise

**5.1** All market economies need regulation. Regulation plays a vital role in ensuring the efficient functioning of markets. Good regulation corrects market failures, underpins competition, protects workers and consumers and promotes enterprise.

**5.2** Getting the type and level of individual regulation and the regulatory framework right is essential for strong productivity growth – regulation has a bearing on the five drivers of productivity.<sup>6</sup> As such, it is essential that the Government delivers a regulatory framework which promotes competition, innovation, investment and supports the formation of skills in the labour market. Regulation equally has an important part to play in raising the levels of enterprise in the UK.

**5.3** As societies develop and become wealthier, the public tolerance of risk tends to fall. Rising expectations of standards of goods and services means there is a growing demand for regulation. Sometimes those calling for more regulation overlook the potentially negative effects on the economy, especially in terms of the cumulative cost.

**5.4** Alongside the benefits it brings, regulation imposes costs, particularly on business. Some costs can be significant but even activities or requirements that are small in cost can be irritants for managers, owners and employees because of the process required by the regulation. In addition to the straightforward financial cost of complying, changes to regulation, increasing complexity and poorly presented guidance can all impact adversely on business, especially on small businesses. Three fifths of small and medium sized business employers see regulation as one of the obstacles to their success.

**5.5** In addition to promoting market efficiency, and putting in place necessary protections for consumers and employees there are other circumstances where it is right for the Government to regulate – for example to protect the environment, and in the future to meet climate change commitments. The challenge for government is to strike the right balance. To help it assess the advantages and disadvantages of acting, and to improve the quality of new regulation, it has reformed the impact assessment system. Impact Assessments enable the Government to ensure decision making is informed by an assessment of the costs and benefits of acting and that the benefits of a measure justify the associated costs.<sup>7</sup>

## Progress to date

**5.6** Since 2005, the Government has been developing a multi dimensional approach to regulatory reform which is recognised internationally as one of the most ambitious in the world. For the first time, the Government has established a method of quantifying the administrative burden of regulation which in turn makes possible policies to implement a targeted net reduction of 25 per cent by 2010. The recommendations of the Hampton Review, to deliver a risk based approach to inspection and enforcement, are being implemented. In Europe the UK has been instrumental in achieving a similar approach, with a similar targeted reduction of 25 per cent, for all existing EU regulation, to be achieved by 2012. Programmes

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<sup>6</sup>See chapter 1.

<sup>7</sup>Annual Small Business Survey 2006, BERR 2008.

are also in place to explain to business the purpose of new regulation and to make compliance more transparent and straightforward.

**5.7** In March 2005 the Government launched one of the most ambitious and radical better regulation programmes in the world when it accepted in full the recommendations of the Hampton Report: 'Reducing administrative burdens: effective inspection and enforcement' and the Better Regulation Taskforce (BRTF) report: 'Less is More: Reducing Burdens, Improving Outcomes'.

**5.8** The Better Regulation Executive (part of the Department for Business, Enterprise and Regulatory Reform) has co-ordinated the delivery of this agenda over the last three years. The programme is now well on course to deliver through a strategy for Government wide change. The programme of work includes:

- simplifying and modernising existing regulations;
- working with regulators (including local authorities) and departments to change their attitudes and approaches to regulation to become more risk based;
- working across departments to improve the design of new regulations and how they are communicated; and
- working across Europe, with the European Commission, European Parliament and other Member States, to improve the quality of European regulation.

**5.9** The Government's programme is underpinned by the five principles of good regulation: proportionality, accountability, consistency, transparency and targeting.

### Progress on tackling existing stock

**5.10** A vital component of the Government's strategy to simplify and modernise the existing stock of regulation is the programme to reduce the administrative burdens of complying with regulation by 25 per cent by 2010. This programme will deliver savings of around £3.5 billion to business and the third sector. To achieve this, each government department produces an Annual Simplification Plan to summarise their actions to reduce regulatory burdens and achieve administrative reduction targets. More than 700 measures were identified in the December 2007 plans.<sup>8</sup> The Legislative and Regulatory Reform Act 2006 provides the ability to fast-track measures to reduce regulatory burdens, and the Better Regulation Website<sup>9</sup> enables business and the public to suggest ideas for simplifying regulation. All suggestions and departmental responses are published. Better Regulation Executive project teams work with regulators and departments to identify areas for reform; for example the current review of health and safety together with the Health and Safety Executive.

### Working with regulators and enforcement agencies

**5.11** The time and costs of dealing with inspections and enforcement officers is also an important consideration for business. In particular, the Hampton Report found that greater efficiencies were possible to help smaller businesses with their paperwork and form-filing.<sup>10</sup> Some 60 per cent of businesses reported overlaps in current information requests; over 80 per cent of respondents believed moving to online forms would be efficient and around 90 per cent wanted online options to be extended. The benefits to business of achieving greater simplicity and stability through better regulation are therefore of particular importance to smaller businesses.

**5.12** Of the 63 regulators covered by the Hampton report, 21 have merged, with an additional seven mergers in the pipeline. Eleven regulators have been disbanded or have lost

<sup>8</sup> *Delivering Simplification Plans*, HM Government 2007

<sup>9</sup> <http://www.betterregulation.gov.uk>

<sup>10</sup> *Reducing administrative burdens: effective inspection and enforcement*, Philip Hampton 2005

their inspection functions. The Better Regulation Executive and National Audit Office will also be reporting in Spring 2008 on their review of national regulators to assess their progress in implementing the Hampton principles. There is also a better regulation indicator in the new set of national performance indicators for local government, requiring each local authority to measure the extent to which businesses interacting with trading standards, environmental health and licensing services feel they have been treated fairly and whether the contact was helpful.

### **Regulators Compliance Code**

**The code will come into force from April 2008. It sets out the statutory obligations for regulators based on the principles of effective inspection and enforcement devised by Philip Hampton.**

### **Regulatory Enforcement and Sanctions Bill**

**5.13** Subject to Parliamentary approval the Regulatory Enforcement and Sanctions Bill will establish:

- Local Better Regulation Office (already operational) – a new agency which is responsible for improving the quality and consistency of regulatory enforcement by local authorities – which are responsible for over 80 per cent of inspections.
- Primary authority principle – which will allow organisations operating across multiple local authorities access to a single “primary authority” as its main point of contact for advice.
- Civil penalties in co-ordination with existing criminal penalties – for example allowing regulators to impose fixed penalties for minor instances of non-compliance.

**5.14** It will also reduce unnecessary regulatory burdens by introducing a power to allow a Minister to bring in a duty on regulators. The duty requires any specified regulator to review the burdens it imposes in the delivery of its objectives, to remove or reduce those that are found to be unnecessary and unjustifiable and to report on progress annually

### **Tackling the flow of new regulations**

**5.15** The Better Regulation Executive is working across Government to ensure that all new regulation is necessary, that the burdens imposed on business are minimised and that there is effective communication of legislative changes. Measures already in place include:

- April and October common commencement dates for regulations affecting business. Regulatory changes are listed on the Business Link website, where users can register for a regulation update email alert service;
- from April 2008 the Government will publish annually a total cost benefit ratio of new regulation based on final Impact Assessments and for the first time will ensure that Impact Assessments are published in one place on the internet.

**5.16** Government recognises that better regulation is also an issue for consumers as well as business<sup>11</sup>. This is because consumers ultimately pay the price if business carries unnecessary cost burdens. Research has shown<sup>12</sup> that information provided by business does not always help consumers because the content is too long or complex. Simplifying the requirements Government imposes on businesses can therefore also provide an ultimate benefit to consumers.

<sup>11</sup> *Better Regulation: The Consumer Contribution*, Philip Cullum and Alan Terry, National Consumer Council 2007

<sup>12</sup> *Warning: too much information can harm*, Better Regulation Executive and National Consumer Council 2007

**Taking the  
better regulation  
message to  
Europe**

**5.17** The flow of legislation is heavily dependent on the flow of legislation originating in the EU, particularly in the areas such as employment law and environmental legislation. The Government has sought to embed the principles of Better Regulation within Europe.

**5.18** Following the example set by our own simplification programme, the UK led calls for an EU-wide commitment to reduce administrative burdens by 25 per cent, a commitment which the European Council is now calling on all Member States to deliver. The European Commission has also introduced a rolling simplification programme to simplify and modernise existing European legislation. They have already proposed or adopted 92 simplification measures and will present 45 new measures this year.

**5.19** The UK continues to press for a further deepening of the better regulation programme in Europe. This includes making the case for adopting a more consistent set of transposition deadlines for Directives or coming into force dates for Regulations so that there are fewer dates when legislative change occurs, consistent with the Common Commencement Date approach adopted for national legislation. The UK will also continue to press for the explicit adoption of a small firms impact assessment element in the Commission's Impact Assessments.

**5.20** The UK will continue to play a leading role in delivering these ambitious savings over the next few years, playing its part in shaping the Commission's plans for a Small Business Act.

**5.21** As well as ensuring that proposals under negotiation in Europe meet the better regulation principles the Government seeks to follow these principles when transposing European legislation. In 2005 the Chancellor of the Exchequer asked Lord Davidson QC to review the stock of EU sourced legislation in the UK and identify measures where unnecessary regulatory burdens could be reduced or the system simplified. The review found no evidence of systematic or extensive over implementation of EU sourced legislation. In 2006 the Government accepted the review's recommendations<sup>13</sup> on ten areas of legislation, including consumer sales, financial services, food hygiene training, transport and waste, where simplification could be undertaken. Further generic recommendations to spread best practice in the implementation of European legislation across departments and regulators were incorporated to guidance for officials in September 2007.

## **Regulation and the business environment**

**5.22** The UK regulatory environment is consistently recognised as amongst the best in the world. The World Bank ranks the UK 6th overall out of 178 economies in terms of ease of doing business. The UK is ranked second amongst G7 members and second among European Member States.<sup>14</sup>

<sup>13</sup>Davidson Review: Final Report, HM Treasury, 2006.

<sup>14</sup>Doing Business 2008, World Bank 2007.

**Table 5.1: Doing Business 2008, World Bank rankings for top 10 and G7**

Economy	Ease of Doing Business Rank (out of 178)
Singapore	1
New Zealand	2
United States	3
Hong Kong	4
Denmark	5
United Kingdom	6
Canada	7
Ireland	8
Australia	9
Iceland	10
Japan	12
Germany	20
France	31
Italy	53

**5.23** Similarly, the OECD ranks the UK second overall, and first in the G7, based on their indicators of product market regulation. It also reports the UK as having the lowest barriers to entrepreneurship of all OECD countries.<sup>15</sup>

**5.24** Whilst good regulation brings substantial benefits in terms of promoting enterprise, protecting consumers, employees and the environment, regulation also has a cost:

- By diverting resources away from productive activity or imposing constraints on the actions of businesses, regulation can hamper businesses' productivity, growth, and international competitiveness.
- While regulation can tackle market dominance and abuse, it can also create barriers to market entry making competition more difficult<sup>16</sup>.
- By making it harder to enter existing markets and compete with incumbents, regulation can discourage both the formation of new businesses and hamper the growth of existing ones. Diminishing competitive pressures can also reduce incentives to invest and innovate. Weakened competition impedes both technological diffusion and productivity performance.

## The challenge

**5.25** The global economy is becoming more competitive. Many formerly heavily regulated countries are following the UK's lead and simplifying and eliminating regulation. While this presents opportunities for UK businesses in terms of new markets and access to new consumers, it also presents challenges. To remain competitive it is clear that the UK must keep its regulatory burden as light as possible<sup>17</sup>.

**5.26** The gains from tackling the negative effects of regulation are potentially significant:

<sup>15</sup> *Product Market Regulation in OECD countries: 1998 to 2003*, OECD Economics Department Working Papers No. 419 (2005). Barriers to entrepreneurship are one aspect of the PMR indicator. The OECD ranking includes such factors as the administrative burdens on businesses in the process of starting up, and the degree to which administrative systems are difficult to understand.

<sup>16</sup> *Regulation and Productivity Performance*, Nicholas Crafts, Oxford Review of Economic Policy, Vol 22, No. 2, 2006

<sup>17</sup> In 1997 the OECD reported that "regulatory costs are the least controlled and least accountable amongst government costs. Many governments have no idea how much of their national wealth they are spending through regulation."

- The Government's initiative to set a target for reducing administrative burdens by 25 per cent by 2010 could increase GDP by 0.9 per cent<sup>18</sup>.
- Research into the macroeconomic impacts of regulation suggests that reform of regulation of product markets is positively correlated with total factor productivity growth, with the strongest impact from reforming administrative burdens<sup>19</sup>.
- Other research found a strong negative association between regulation and growth although this relationship is less strongly negative if the quality of institutions improves<sup>20</sup>.

**5.27** As well as international competitiveness better regulation is important to enterprise for other reasons. The perception of regulation and in particular regarding the complexity of regulation relating to creating a business can adversely affect the decision to start up a business<sup>21</sup>. Regulation can also act as a barrier to growth by distorting the incentives for existing businesses, for example through the introduction of costs which make expansion uneconomic. 14 per cent of businesses surveyed stated that regulation is the main obstacle to growth<sup>22</sup>.

**5.28** The cost of regulation, and the uncertainty from changing regulation, can have a disproportionate impact on smaller businesses.<sup>23</sup> Regulation often imposes more than one type of cost on business. In addition to fulfilling the required outcome (for example, the purchase of specific equipment or adapting existing equipment to meet minimum standards) there may be associated administrative costs (for example record keeping or reporting requirements).

**5.29** The administrative burden can be particularly significant for small and medium sized businesses. For example, the average total spent on health and safety per employee in 2001/02 was £149 for small businesses, £166 for medium businesses and £21 for large business<sup>24</sup>.

**5.30** There is also an 'opportunity cost' to a business of complying with regulation. Time taken to comply can divert resources from more productive uses such as small business development activity.<sup>25</sup> Unlike larger firms, smaller enterprises are often run by owner managers who are involved in both the strategic and operational sides of the business. There is evidence that these owner managers spend proportionately more time on regulatory issues, and hence less on productive strategic activities. This indicates that regulatory burdens and uncertainty have a more significant impact on productivity in smaller businesses<sup>26</sup>.

**5.31** Businesses both large and small often find the details of regulation complex and difficult to understand. As a result many buy in help – almost half of all businesses require external advice about how to follow regulation, spending at least £1.4 billion per year on such

<sup>18</sup> *The Lisbon Strategy – An estimation of the economic impact of reaching five Lisbon targets* Gelauf, G. M. M. and A. M. Lejour, Industrial and Economic reforms Papers No. 1. Brussels: European Commission 2006 – using the WorldScan macroeconomic model and the impact of a 25 per cent reduction of the administrative burden in Holland from 2002.

<sup>19</sup> *Regulation, Productivity and Growth: OECD Evidence*, Nicoletti, G. & Scarpetta, S., OECD Economics Department Working Paper 347. 2003.

<sup>20</sup> *Regulation and Macroeconomic Performance* Loayza, N.V., Oviedo, A.M. & Servén, L., World Bank Policy Research Working Paper No.3469. 2005.

<sup>21</sup> Household Survey, Small Business Service 2005.

<sup>22</sup> Annual Small Business Survey 2006, BERR 2008.

<sup>23</sup> Centre for Strategy and Evaluation Services LLP, forthcoming in BERR economic papers.

<sup>24</sup> *Costs of compliance with health and safety regulations in SMEs*, Research report 174, prepared by Entex UK Ltd for the Health and Safety Executive 2003.

<sup>25</sup> *How Businesses Use Their Time*, Barclays Bank plc 2003.

<sup>26</sup> Centre for Strategy and Evaluation Services LLP, forthcoming in BERR economic papers.

advice.<sup>27</sup> Further illustrating the importance of good guidance to explain the requirements of regulation, over half of businesses disagreed with the statement ‘it is straightforward to understand what you are required to do to comply with regulations’. Around three-quarters of small businesses say that the provision of guidance, setting out in clear and simple language what their business has to do to comply with a given regulation, was very important.<sup>28</sup>

## Going forward

**5.32** Building on its already strong better regulation programme, the Government will consult on the introduction of a new system of Departmental regulatory budgets covering the expected cost of new regulation over a given period.

**5.33** The Government will also introduce a new approach to regulating small firms in line with its “think small first” policy. It will examine whether small firms can be fully exempted from new regulatory requirements or be subject to a simplification of enforcement. This will not be possible in a large number of cases. So in these circumstances, Departments will seek to work with small firms to design specific approaches for them. When laying legislation before Parliament, the Government will include in the accompanying memorandum an explanation of the approach adopted towards small firms. As part of its ongoing commitment to simplification plans, the Government will review existing legislation to ensure the Hampton principles are embedded. It will identify and deliver new or increased exemptions for small firms.

**5.34** An independent review will make recommendations on ways of ensuring small firms can place greater reliance on official guidance and thereby reduce the cost of compliance.

**5.35** Taken together, with other measures, this will confirm the UK’s position as having the world’s leading better regulation programme.

## Regulatory budgets

**5.36** Good regulation provides essential protections for vulnerable workers and members of society and is necessary for the proper functioning of markets. However, the cumulative costs of complying with this regulation can be very real for business and the third sector as well as for front line public sector workers and citizens, even if for each individual piece of regulation a good case can be made in terms of the benefits obtained, and policy objectives secured, relative to the costs involved.

**5.37** The Government asked the Better Regulation Task Force and Philip Hampton<sup>29</sup> to advise it on better regulation. Both reports were published in March 2005 and the Government has made significant progress in implementing them. The Hampton report<sup>30</sup> recommended that risk assessment should form the basis of all regulators’ enforcement programmes. Both local authorities and national regulators are embedding the Hampton principles in their work. The BRTF report, “Less is More”, recommended that the Government should introduce a net target for the reduction of the administrative burdens it imposes by 2010. The Government has now measured the administrative burden, and 20 Government Departments and regulators have set themselves ambitious targets to reduce the administrative burdens. Over £800m in net savings have already been delivered.

**5.38** The BRTF report also recommended that the Government should develop a methodology for assessing the total costs of regulation, and consider introducing full

<sup>27</sup> Regulation and Business Advice, BERR, 2007.

<sup>28</sup> Survey of Business’ Perceptions of Regulation National Audit Office 2007.

<sup>29</sup> Chairman of J Sainsbury plc.

<sup>30</sup> Reducing administrative burdens: effective inspection and enforcement, Philip Hampton, 2005.



regulatory budgets. As the BRTF acknowledged in its report, such a move would be difficult and take time, as well as setting an international precedent.

**5.39** Since then, the Government has been laying the foundations for implementing the BRTF's recommendations. It has radically reformed the Impact Assessment process, so that estimates of costs and benefits are stronger and more transparent. Implementation of the administrative burden reduction programme has provided evidence that the discipline required for regulatory budgets could work. As a result, the Government will consult on a practicable system of regulatory budgets, while ensuring that it is able to meet its commitments on key cross-Government policy priorities such as climate change and national security through cost-effective action.

## Considering the cumulative impact of regulation on businesses

**5.40** Government Departments will work with the Better Regulation Executive to identify their main regulatory proposals in the next few years, along with their best estimates of the associated costs and benefits.

**5.41** The Government will consult on the introduction of a new system of regulatory budgets for Departments that would set out the cost of new regulation that can be introduced within a given period. Under this system the Government would introduce for each Department a rolling limit on the annually recurring costs of new regulation – “regulatory budgets” as suggested in the BRTF report.

**5.42** These individual departmental budgets would take full account of any cost reductions achieved by simplifying or removing existing regulation and would focus on regulation which impacts on business. All Departments and relevant regulators would be covered, particularly those which are part of the administrative burden exercise. Given the internationally untested nature of this innovative approach, the Government will consider whether as a first practical step a new system should be piloted by focusing on the costs faced by SMEs or by a particular sector.

**5.43** The Government recognises it will be important to ensure that a system of regulatory budgets would not prevent cost-effective action on key cross-departmental policy priorities such as climate change, emission reduction targets, national security or regulation needed for legal or policy reasons. It would also need to take full account of the cost of regulation that arises from EU legislation and other international obligations. While HM Treasury and Her Majesty's Revenue and Customs remain committed to tax simplification and reducing administrative burdens on business, tax, which is not a part of the regulatory regime, would not be covered by regulatory budgets. This will ensure that Government can flexibly and fairly finance public services.

**5.44** Government will work to ensure that estimates of costs are robust. Arrangements would need to be put in place to ensure that Departments stay within allocated budgets. If Departmental proposals are genuinely delayed, or if greater savings are realised, there should also be the possibility of flexibility across different years and between different Departments.

**5.45** The Better Regulation Executive will work with Departments and regulators to develop a detailed methodology over the coming months. In doing so, they will design a system which could closely control all regulatory costs while at the same time maintaining the independence of regulators and competition authorities.

**5.46** Implementing such a forward-looking limit on the net costs flowing from regulation would be another first for the UK – no other country has yet taken this step – adding further weight to our position as one of the best places in the world to do business.

### Future regulation of small businesses

**5.47** The Government has a long standing presumption of regulating only where necessary and seeking to offer flexibility for small business as part of its “think small first” policy. It launched the Small Firms Impact Test in 2001. However fuller consideration could be given to devising practical exemptions when policy is developed. Existing exemptions have developed piecemeal over time. This can lead to inconsistency and complication for small firms.

**5.48** To address this issue, the Government will introduce a new approach to regulating small firms (defined as firms with fewer than 20 full time equivalent staff and a turnover below £2.8 million). In the first instance, it will examine whether small firms can be exempted from new regulatory requirements or be subject to a simplification of enforcement. This will work in cases where it is possible to achieve most of the policy end whilst exempting small firms – this approach has already been effective in areas like company law and the transposition of the Information and Consultation Directive. In a large number of cases this will not be possible either for legal or policy reasons, Departments will seek to work with small firms to design specific approaches for them, which might include, for example, simplified guidance and easy-to-use forms.

**5.49** When the Government consults on policy, it will fully explore different approaches to regulating small firms. When laying legislation (both primary and secondary) before Parliament, it will include in the accompanying memorandum an explanation of the approach adopted towards small firms. This will help ensure that regulation affecting small firms is proportionate and appropriate and that it achieves the outcomes aimed for, minimising unnecessary impacts on small firms.

**5.50** The Government proposes to adopt this process for all regulatory measures for the legislative programme for 2009/10 onwards. It will also apply to secondary legislation from the parliamentary year of 2008/09.

### Other specific exemptions for small firms

**5.51** Tackling outdated, redundant regulation is an important part of the ongoing simplification process. In particular, those running small businesses should see a real change in how regulation applies to them. The Government will aim to remove requirements from small business where this can be done without affecting essential protections.

**5.52** In addition to the existing commitments in departmental simplification plans, new work will start to identify the scope for new exemptions or the extension of existing ones. This work will include:

- publication by the Health and Safety Executive of four further example risk assessments, taking the total available to 28;
- collaboration between the Department for Communities and Local Government and Health and Safety Executive to determine whether fire safety and health and safety assessments might be integrated. This work will seek to reduce the number of separate assessments small firms have to complete;
- a review by the Office for National Statistics (ONS) of the Osmotherly guarantee which limits the frequency with which micro-businesses have to complete

statistical surveys, with a view to a further reduction in burdens. ONS will work with other Departments to extend the coverage of the guarantee to the statistical surveys carried out across Government;

- work by the Department for Transport to explore the introduction of a new category of Boatmasters License for masters operating in geographically limited areas on tidal waters, in response to concerns that the high level of qualification currently required is disproportionate. Any amendment would follow extensive consultation to ensure that public safety is not compromised;
- review of farming statistics by the Department for Environment, Food and Rural Affairs later in 2008 will see what further opportunities there are to reduce burdens; and
- Work by the Department for Environment, Food and Rural Affairs to consider the potential to exempt the smallest claimants from the Single Payment validation inspection process coupled with other measures like e-business. This would involve farmers and the Rural Payments Agency sharing the same information with trends in data being used to facilitate payment instead of inspection visits. These possibilities will be assessed following the outcome of the CAP Reform Health Check.

**Forthcoming changes to regulation that will help small business include:**

- **Companies Act measures applicable from 6 April 2008: Small companies will benefit from changes that mean private companies will not have to appoint a company secretary unless they choose to do so nor will small companies need the signature of two directors to execute deeds – the signature of one director before a witness will be sufficient. New turnover and balance sheet thresholds will allow more small companies to benefit from accounting and audit exemptions.**
- **Though not a regulator, Her Majesty's Revenue and Customs is extending the coverage of its existing tax simplification schemes for small business by increasing a range of income tax self-assessment thresholds to simplify the reporting and payment arrangements for the smallest businesses.**

## Improving the quality of guidance

**5.53** Most regulation is designed to change behaviour and can only be successful if those affected understand what is required, and why. Few small businesses or third sector organisations read the original legislation itself so guidance is often the main route to compliance for businesses. If business is not given clear guidance, then compliance is likely to be low and small business will face unnecessary difficulties and costs resulting from either over compliance or having to pay for external advice.<sup>31</sup>

**5.54** On the other hand, good, clear, easy to follow guidance boosts compliance, increases certainty for small businesses and reduces costs. Small businesses want certainty when following guidance on regulation that if they act as described they can be confident that they have complied with the law. The lack of certainty felt by small businesses is contributed to by the variety of types of guidance in existence, such as statutory codes of practice, non statutory codes, best practice guidance, minimum standards guidance and so on.

**5.55** The Government is currently consulting on a Code of Practice on Good Guidance on Regulations which sets out the standards businesses can expect from government guidance.

<sup>31</sup> *Regulation and Business Advice: A report by the Better Regulation Executive*. Better Regulation Executive, 2007.

It has also launched the Employment Law Guidance Programme to reduce the amount it costs business to comply with employment law by improving the quality of the existing guidance, making the channels more consistent and streamlined, and raising awareness among employers. An online tool to guide employers through the journey of taking on new employees will be developed and launched on the [businesslink.gov.uk](http://businesslink.gov.uk) website.

**5.56** To address the concerns business has raised over the reliance which can be placed on guidance the Government has asked Sarah Anderson<sup>32</sup> to lead an **independent review into the best way to deliver clarity and certainty in guidance**. The review, which will report in late Autumn 2008, will examine the types, origins, status and reliability of government guidance for small businesses on how to comply with legal requirements. It will explore the potential to give small businesses greater certainty that when they have followed guidance that they have complied with the requirements of the law. It will also examine the impact of legal disclaimers in government guidance on small business confidence when following regulations, and identify ways of making improvements. The review will cover guidance in all areas of policy, but will focus initially on employment law.

### **Other issues affecting the UK's attractiveness as a place to do business – improving the experience for business air-travellers**

**5.57** As global competition continues to demand global travel, delivering a positive experience for business travellers at the UK's airports is an essential feature of the Government's wider strategy to encourage enterprise. A well-functioning and efficient service at the UK's international gateways is critical to the UK's competitiveness, bringing benefits to UK-based businesses and enhancing visitors' perception of the UK.

**5.58** Improving the passenger experience at the UK's major airports, particularly Heathrow, is critical to UK competitiveness. To reduce delays for travellers at Heathrow new targets will be introduced to reduce queuing at security, make greater use of automated biometric technology and, together with airlines, develop the Fast Track route through immigration.

### **Future issues**

**5.59** Delivering on our commitments to reduce the administrative burden of regulation on business by a net 25 per cent remains a key priority for the Government, as does completing the embedding of the changes to regulator behaviour set out in the Hampton Review. Going forward, the Government will also need to develop a practicable methodology for regulatory budgets.

**5.60** Communicating the concrete improvements in regulation and its enforcement to the 4.5 million businesses in the UK is important to shift some of the current misperceptions about regulatory barriers (which are often over estimated) thereby helping to promote enterprise, including business growth and business start up.

**5.61** The Government supports the initiatives now being taken in Europe to deliver better regulation and the increasing focus on enterprise and small firms. Many Member States are beginning to adopt their own better regulation programmes. The Government will continue its efforts to consolidate progress to date and to develop the European perspective further.

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<sup>32</sup>Sarah Anderson CBE is a member of the ACAS Council. She has extensive small business experience, has served on the CBI Employment Policy Committee and has previously been a member of the Women and Work Commission.

**5.62** The Government would welcome greater involvement of businesses, the public, the third sector and front line public service staff in the better regulation agenda through the [betterregulation.gov.uk](http://betterregulation.gov.uk) website.

**5.63** The Government will continue to monitor the UK's international ranking of the attractiveness of its enterprise environment based on the UK's position in key international studies. It will also continue to monitor business perception of the UK's regulatory environment.

**Regulatory Framework: Key new policy measures proposed in this chapter**

- The Government will consult on the introduction of a new system of regulatory budgets for Departments that would set out the cost of new regulation that can be introduced within a given period – “regulatory budgets” as suggested by the BRTF report.
- The Government will introduce a new approach to regulating small firms in line with its “think small first” policy. In the first instance, it will examine whether small firms can be fully exempted from new regulatory requirements or be subject to simplification of enforcement. Where this is not possible Departments will seek to work with small firms to design specific approaches for them.
- The Government will review existing legislation, ensuring the Hampton principles are embedded, introducing new, or amended, exemptions for small firms and, wherever possible, simplified inspection and enforcement.
- The Government will establish an independent review to make recommendations on ways of ensuring firms can place greater reliance on official guidance and thereby reduce the cost of compliance.



**Vision**

*“Companies have to innovate and so does government. In addition to policies that create the best possible conditions to innovate and grow, the UK needs a vision of our role in the global knowledge economy, and a strategy to ensure we are one of the winners in the “race to the top”. The UK should be a country famed for its innovation as well as its outstanding record of discovery; a country that invests in business R&D education and skills, and exports high technology goods and services to the world.”*

*The Race to the Top: A Review of Government’s Science and Innovation Policies – October 2007*

- The Department for Innovation University and Skills will tomorrow publish its White Paper on Innovation setting out Government’s strategy for encouraging innovation across all sections of the economy.
- The Government’s vision is to create an environment in the UK in which innovation can flourish and where businesses identify and capture the benefits of their innovation, and where barriers to under-investment in innovation are significantly reduced.
- The Government will work to ensure that markets do not hold UK businesses back from successfully capitalising on expanding global opportunities and commercialising their ideas. Success will be measured by examining the increase in the proportion of SME turnover due to new or significantly improved products through the Community Innovation Survey and the Annual Small Business Survey.

**Progress to date**

- There has been an increase in the proportion of businesses that are innovation active. Increasing from 45 per cent in 1998-2000 UK to 57 per cent in 2002-04 as measured by the UK Innovation Survey.<sup>1</sup>
- The increase in innovation activity applies in all sectors of the economy, ranging from 12 percentage points in Construction to 22 percentage points in Retail and Distribution.
- Latest survey data<sup>2</sup> show that a third of SME employers (33 per cent) had introduced significantly improved or new processes to their business, an increase on 22 per cent the previous year.
- While innovation activity levels increased substantially across all enterprises, the largest increase was reported by small and medium sized businesses (10-249 employees.)<sup>3</sup>

**Next challenges**

- Whilst all innovation can be important, relatively few UK businesses develop completely new or novel innovations. Slightly less than half of SME employers (48 per cent) had introduced new or significantly improved products or services in the past 12 months. Of these, three-quarters (73 per cent) introduced innovations that were new to the business, with 26 per cent believing their innovation to be completely new.

<sup>1</sup> UK Innovation Surveys 2001 and 2005. DTI (2006). Innovation in the UK: Indicators and Insights. *DTI Occasional Paper No6*. London, DTI. Note that these figures are higher than those in the *Introduction* to compare the UK with other European economies, due to differences in coverage

<sup>2</sup> BERR Annual Small Business Survey, 2008.

<sup>3</sup> WDTI (2006). Innovation in the UK: Indicators and Insights, *DTI Occasional Paper No 6*. London, DTI.

- Around one-third of non innovating businesses report being inhibited by internal or external factors<sup>4</sup>.
- In some businesses, the volume of unexploited patents has been found to be as high as 75-90 per cent.

## Strategy

The Government's approach for business innovation, as set out here, consistent with Department for Innovation, Universities and Skills Science (DIUS) Science and Innovation White Paper, will target:

- an increase in the proportion of SME turnover due to new or significantly improved products;
- businesses increasingly looking externally to find ideas at each stage of development;
- innovative firms – and increasingly service-based businesses – playing a greater role in international markets; and
- new forms of innovation accelerated by the growth of new technologies.

**An overview of measures to start delivering this strategy is contained in a box at the end of the chapter.**

## THE GOVERNMENT'S VISION

**6.1** Innovation – the successful exploitation and commercialisation of new ideas – is key in enabling enterprise activity; whether the driving force for a business being started up or a catalyst for rapid growth. The Government's strategy for innovation set out here in relation to business, and in DIUS' forthcoming white paper, articulates a vision of an environment in the UK in which innovation can flourish and where many more businesses identify and capture the benefits of their innovation.

**6.2** A key measure of success will be the extent to which there is an increase in the proportion of SME turnover due to new or significantly improved products and services. This will be tracked through the Community Innovation Survey and the Annual Small Business Survey.

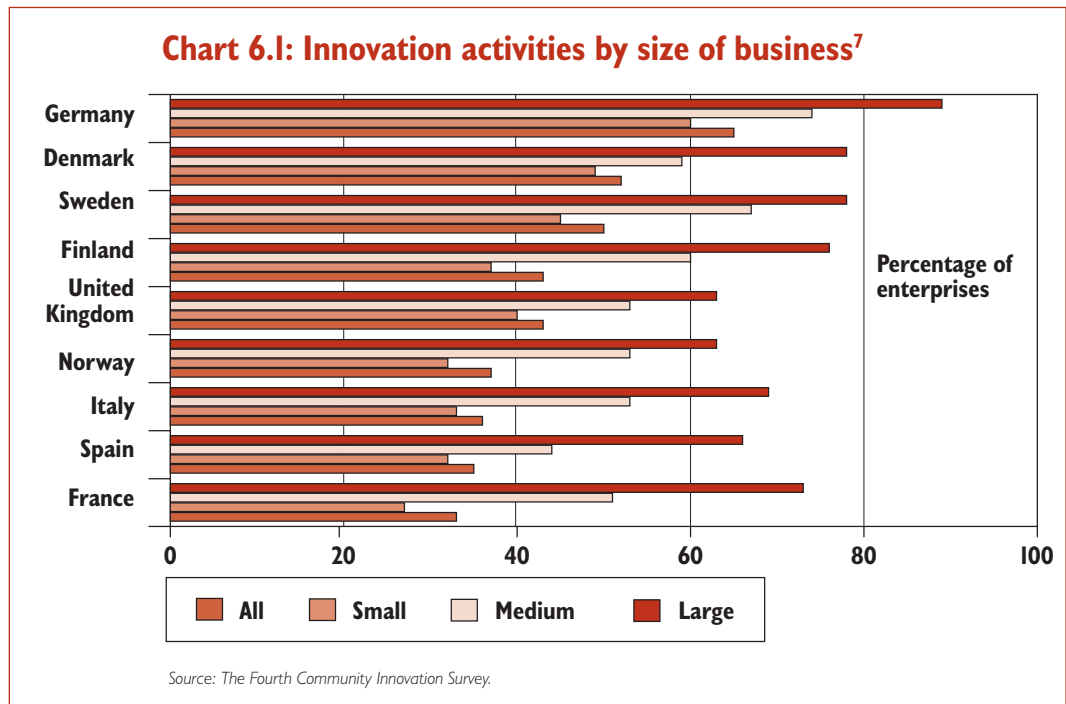
**Progress 6.3** The proportion of businesses which are 'innovation active' increased from 45 per cent in the 2001 survey to 57 per cent in the 2005 survey. While innovation activity levels increased substantially across all enterprises, the largest increase was reported by small and medium sized businesses (10-249 employees).<sup>5</sup> Despite this improvement, the research clearly shows that larger businesses in the UK and other countries are significantly more likely to engage in innovation than smaller businesses (see chart 6.1).<sup>6</sup>

<sup>4</sup> DTI (2006). Innovation in the UK: Indicators and Insights. DTI Occasional Paper No.6. London, DTI.

<sup>5</sup> DTI (2006). Innovation in the UK: Indicators and Insights. DTI Occasional Paper No.6. London, DTI.

<sup>6</sup> This pattern in innovation activity by size is also confirmed in other large scale UK surveys. For example BERR (2008). *Annual Small Business Survey 2006*. London, BERR; Cosh, A. and Hughes, A. (eds) (2003) *Enterprise Challenged: Policy and Performance in the British SME Sector 1999-2002*. Cambridge, Centre for Business Research.





**6.4** UK businesses consistently recognise the importance of new products and services to their success.<sup>8</sup> Businesses also recognise that innovation leads to improved product quality, increasing value added, an increased range of goods and services and the opening of new markets/increased market share.<sup>9</sup> For the majority of businesses these are the main objectives of their innovation activity.<sup>10</sup>

### Policy measures

**6.5** Through a combination of R&D tax credits measures, eg taxation, regulation, knowledge transfer, skills, grants and procurement rules the Government has sought to foster business innovation in recent years. For example, since their introduction in 2000 R&D tax credits have successfully delivered more than £2.3 billion of support to innovative UK companies, through almost 30,000 claims. R&D tax credits encourage greater R&D by providing a tax credit for qualifying R&D spend.

**6.6** R&D tax credits are the Government’s flagship business innovation policy and have been steadily improved through an ongoing dialogue with business. Budget 2007 announced an increase in the rates of relief, with effect from April 2008, from 150 per cent to 175 per cent for SMEs and from 125 per cent to 130 per cent for large companies. In addition, the Finance Act 2007 also included legislation to extend the more generous SME scheme to companies with up to 500 employees, subject to clearance from the European Commission.

**6.7** The Government’s ‘Grant for R&D’ provides support to individuals and SMEs who research and develop technologically innovative products and processes. Since the scheme’s inception in 2003, over 1,600 businesses have claimed support, totaling more than £130 million.

<sup>7</sup>The data is for the period 2002-04. The UK figure used for the purpose of international comparisons is lower than that reported in the UK Innovation Survey for 2001 and 2005 due to differences in coverage.

<sup>8</sup>BERR (2008). *Annual Small Business Survey 2006*. London, BERR.

<sup>9</sup>DTI (2006). *Innovation in the UK: Indicators and Insights. DTI Occasional Paper No.6*. London, DTI

<sup>10</sup>Cosh, A. and Hughes, A. (eds) (2003) *Enterprise Challenged: Policy and Performance in the British SME Sector 1999-2002*. Cambridge, Centre for Business Research.

**6.8** Under the SBRI programme the Government has made it mandatory for Government Departments to purchase at least 2.5 per cent of their R&D from SMEs. In 2006/07 the total resources made available under SBRI was £2.3 billion. The value of contracts made with SMEs was £136.9 million, representing nearly 6 per cent of the baseline R&D budget. While all the participating Departments exceeded the 2.5 per cent target, the MoD continues to dominate the figures with total resources made available of about £1.8 billion and contracts awarded worth £99 million.<sup>11</sup>

**6.9** In addition to the above measures, the New Technology Strategy Board (TSB) was created in 2007 to manage the Government's programme of support for business innovation. It also promotes business participation in European innovation programmes. TSB funds innovation through Collaborative R&D programmes, Knowledge Transfer Partnerships, Knowledge Transfer Networks and Innovation Platforms. During 2008-2011, the TSB will invest over £720 million in innovation.

## Key challenges and opportunities

### Innovation and manufacturing

**The manufacturing sector remains at the heart of our economy. A thriving and innovative manufacturing sector is essential for British jobs and for the British economy. But as with other sectors, manufacturing firms need to improve their competitiveness in order to succeed in the market place. Success depends not just on cutting costs, but on continually creating goods and services that people want to buy, using innovation, investment and good business practice. Building on the 2002 Manufacturing Strategy, the Government is conducting a review with a view to meeting the evolving needs of the sector. A new strategy will be published in summer 2008.**

**In reviewing the Manufacturing Strategy, the Government recognises that the UK has a comparative advantage in knowledge-intensive industries, and will need to continue to build a strategy based on openness, flexibility and investment in knowledge and skills that enhances our comparative advantage. This will enable companies to produce more knowledge-intensive goods and services and move more quickly into the new knowledge-intensive industries.**

**6.10** We have entered a period of fundamental change in the innovation environment for UK businesses – as production has become global and new technology has facilitated huge shifts in the nature of innovation. Climate change and the need to ensure sustainable development have also become significant drivers of business innovation.

**6.11** DIUS' parallel Science and Innovation White Paper describes the challenges and opportunities that businesses face in seeking to innovate in a rapidly changing, global economy. The categories below provide a basis for analysing how the world of innovation itself is changing and considering issues most relevant to supporting the role of innovation as an enabler of enterprise.

**6.12** Innovation is becoming an increasingly global process. In 2003, the world's largest companies spent \$70.6 billion in R&D outside their own countries, compared with \$33.9 billion in 1995.<sup>12</sup>

<sup>11</sup> In 2006-2007 – after MoD – the leading Whitehall Departments in terms of supplying extramural R&D contracts to SMEs under SBRI, by value, were: Home Office (£7.9m); DEFRA (£4.1m) and Department of Transport (£3.4m).

<sup>12</sup> OECD (2006), *OECD Science, Technology and Industry (STI) Outlook*. Paris: OECD.

**6.13** But alongside the challenges of global competition innovation, on a global scale, presents enormous opportunities. The international flow of ideas brings special advantages to countries – like the UK – that have strong capacity to absorb new ideas and talent from elsewhere and recombine them to create new knowledge and opportunities<sup>13</sup>.

**6.14** Knowledge-intensive services – among them finance, business services and engineering – are an increasingly large part of the UK's ongoing economic success and UK innovation activity. NESTA recently reported on this<sup>14</sup>.

**6.15** In 2007, the UK exported approximately £75 billion of knowledge-based services, an increase of 170 per cent on the decade before. However, innovation in these sectors is not usually technology-based and is not always captured by the established R&D-based metrics. Supporting and encouraging innovation in these sectors is a key challenge.

**6.16** Aside from innovating in what they produce, firms are increasingly innovating in the way in which they produce it. In many sectors, innovation comes directly from creative interactions between firms and their clients and suppliers. The recent DCMS strategy, 'Creative Britain: New talents for the New Economy'<sup>15</sup> (published in partnership with BERR and DIUS) has also highlighted the rising importance of innovation that takes place outside the 'traditional' high-technology and manufacturing sectors – for example, the contribution of design to innovative products and services.

**6.17** Innovation is becoming a more distributed process, demanding a more specialised, responsive and fragmented approach. Some companies are moving away from traditional models of innovation, based in-house, towards more open and networked approaches, with partners outside the company. In this way the wider economic benefits of innovations made by small businesses are greatly amplified when larger businesses replicate or incorporate them into other processes, products and services<sup>16</sup>.

**6.18** Compared to traditional models of innovation, open innovation offers huge benefits to the business and wider society. Previously, good ideas that did not apply to the firm's core business model were often discarded and their benefit lost to other businesses. In some firms, the volume of unexploited patents has been found to be as high as 75-90 per cent<sup>17</sup>. Large firms reaching out for ideas and offerings introduces great opportunities for innovative SMEs seeking growth.

**6.19** At a simplistic level, a manufacturer will expect to benefit from an innovation by selling it; a user will expect to benefit from using it. This puts users – firms or individuals – in a privileged position to adapt and modify existing goods and services for innovative purposes. They have 'the need, the means and the opportunity'<sup>18</sup>.

<sup>13</sup> OECD (2007), *Globalisation and Regional Economies: Can OECD Regions Compete in Global Industries?* OECD Reviews of Regional Innovation.

<sup>14</sup> NESTA Hidden Innovation; DTI Innovation in Services; forthcoming BERR-NESTA SIGs and NESTA-CMIT.

<sup>15</sup> DCMS (2008) *Creative Britain: New talents for the New Economy* <http://www.culture.gov.uk/NR/rdonlyres/096CB847-5E32-4435-9C52-C4D293CDECFD/0/CEPFeb2008.pdf>

<sup>16</sup> Acs, Z., Morck, R. and Young, B. (1999) *Productivity Growth and Firm Size Distribution*. In Arcs, Z., Carlsson, B. and Karlsson, C. (eds) *Entrepreneurship, Small and Medium Sized Enterprises and the Macroeconomy*. Cambridge, Cambridge University Press, 1999.

<sup>17</sup> DTI Economics paper No15 – *Creativity, Design and Business Performance*. DTI2 2005.

<sup>18</sup> Von Hippel, E (2005) *Democratizing Innovation*. Massachusetts: MIT Press.

**6.20** In many sectors, users are better positioned to develop new goods and services which meet their demand in radical new ways than traditional manufacturers, who are more focused on incremental improvements to existing products<sup>19</sup>.

**6.21** New technologies are providing huge opportunities to support innovation. The growth of broadband and the convergence of communication technologies and new information technologies are transforming the way products and services are developed and marketed in almost all sectors of the economy. They are also enabling the development of completely new services. Developments in grid computing and the internet will bring massive computing power into the hands of micro businesses and small firms, opening the prospect of a new wave of enterprise innovation.

**6.22** Despite these areas of opportunity, many businesses will feel constrained in terms of the innovation activity they will undertake. Around one-third of non innovating businesses report being inhibited by internal or external factors<sup>20</sup>. Research suggests that the most significant barriers are generally high development costs; a lack of appropriate finance and the length of the period for their investment to pay off<sup>21</sup>.

**6.23** There are also significant internal barriers. Businesses cite a lack of innovation potential and a shortage of skilled personnel<sup>22</sup>. In line with the broader strategy to encourage a more enterprising culture, the perception of risk also plays an important factor in constraining innovation for many businesses<sup>23</sup>.

## GOING FORWARD

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**6.24** Linking both to Lord Sainsbury's recommendations in his *The Race to the Top* report<sup>24</sup> and the parallel paper published by DIUS, among the range of activities we propose are the following:

- bringing business closer to world class research and design in the UK;
- driving innovation through Government procurement;
- fostering productive clusters and networks across universities, their students and business;
- investing in the UK's infrastructure to allow UK business to compete globally; and
- developing enterprise-innovation knowledge.

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<sup>19</sup> Chatterji A.K. & Fabrizio K. Professional 2007 Users as a Source of Innovation: the Role of Physician Innovation in the Medical Device Centre. Berkeley Working Paper. Riggs W & Von Hippel 'Research Policy.' Vol.3 (no4), pp 459-469. It should be noted, however, that encouraging user-led innovation has long been a conscious strategy in the scientific instruments business.

<sup>20</sup> DTI (2006). Innovation in the UK: Indicators and Insights. *DTI Occasional Paper No.6*. London, DTI

<sup>21</sup> Cosh, A. and Hughes, A. (eds) (2003) *Enterprise Challenged: Policy and Performance in the British SME Sector 1999-2002*. Cambridge, Centre for Business Research. DTI (2006). Innovation in the UK: Indicators and Insights. *DTI Occasional Paper No.6*. London, DTI

<sup>22</sup> Cosh, A. and Hughes, A. (eds) (2003) *Enterprise Challenged: Policy and Performance in the British SME Sector 1999-2002*. Cambridge, Centre for Business Research.

<sup>23</sup> Cressy, R (2001), Review of Policy to Help SMEs Develop and Apply New Technologies. Unpublished report to the Small Business Service.

<sup>24</sup> 'Implementing 'The Race to the Top': Lord Sainsbury's Review of Government Science and Innovation Policies.'

## Bring business closer to world class research and design in the UK

### Design – Multidisciplinary Centres of Excellence

“Multidisciplinary Centres of Excellence have been established in response to Sir George Cox’s ‘Review of Creativity in Business: building on the UK’s strengths’ (2005). The Cox Review recommended that, to prepare future generations of business leaders, closer links should be established between universities and SMEs and that Higher Education courses should better prepare students to work with and understand other specialists. Cox recommended that a nationwide network of multidisciplinary centres of excellence be established where business, technology design and science could combine and collaborate, so that future business leaders could be taught to understand creativity and methods to manage innovation.

Two years on, the first of these centres have been announced. Design London is a partnership between the Royal College of Art, Imperial College’s engineering faculty and Tanaka Business School. Backed with £5.8m public investment, Design London will teach MA, M Eng and MBA students how to integrate design with engineering, technology and business.

The Centre for Competitiveness, Creative Design, ‘C4D’ opens in October 2008 on Cranfield University’s campus and is a collaboration with London’s University of the Arts. It will bring design, engineering and science closer together with business. Its brief will be to boost competitiveness in global markets. This £5.5m partnership project includes £3.5m from the HEFCE Strategic Development Fund.

### Support for Design and Creativity

‘Designing Demand’ – the Design Council’s national business support programme is helping small businesses to perform better by using design effectively to build increased profits, improve productivity and sustain competitive advantage. The programme was developed following the DTI Innovation Review of 2003 and is delivered in partnership with RDAs across the UK.

Design London and Grant Thornton UK LLP have won a bid to run Designing Demand for London Development Agency, giving London businesses the chance to leverage the design and business excellence that the new collaboration offers.

**6.25** The UK has real strengths in terms of research and the vibrancy of the design sector. However, the connections for business, particularly SMEs, to research and design are weak. The Government will take forward early activity in fostering these connections.

**Innovation Vouchers 6.26** ‘Race to the Top’ report considered the scope for increasing knowledge transfer from business-facing universities to SMEs and suggested that the potential of enterprise engagement vouchers be explored.

**6.27** A number of ‘voucher type’ schemes are in operation, both regionally (for example, INDEX, the pilot run by Advantage West Midlands in partnership with Aston University, the Engineering and Physical Sciences Research Council (EPSRC), the Economic and Social Research Council (ESRC) and others) and internationally.

**6.28** The Government will assess these experiences and investigate the role that an innovation voucher can have in encouraging firms to innovate. DIUS and BERR will set out plans for innovation vouchers with a view to developing a national scheme within the Business Simplification Support Framework delivered regionally by the RDAs.

## Driving innovation through Government procurement

**6.29** The Government remains committed to improving the ability of small firms to access Government contracts. This brings more innovative solutions to government but also reinforces and nurtures the innovative behaviour of businesses.

### Technology Strategy Board: new innovation platforms

**6.30** The Technology Strategy Board (TSB) has a key role in supporting the UK's innovation framework. TSB will bring forward plans to increase the number of innovation platforms in the next three years. Innovation platforms bring together key players and partners (Government and business) to look at major societal challenges and to open market opportunities with a view to increasing business investment and innovation.

**6.31** Business needs innovative people with skills and entrepreneurial drive. The Government has a unique and essential role in supporting business innovation, by ensuring there is a stock of science, technology, engineering and mathematics (STEM) graduates and flexible labour markets for them to enter.

**6.32** DIUS will reform the Small Business Research Initiative (SBRI), refocused on technology based research, piloting this with the Ministry of Defence and the Department of Health, and will extend the revised SBRI to all participating Departments by April 2009.

**6.33** Transparency and easy access to R&D contract opportunities is essential. To ensure co-advertising, a link will be put in place between the TSB website and [www.supply2.gov.uk](http://www.supply2.gov.uk). This will enable maximum exposure for these opportunities amongst the SME sector.

### Supply2gov

**6.34** The Government remains committed to improving the ability of small firms to access Government contracts. Launched in 2006, [www.supply2.gov.uk](http://www.supply2.gov.uk) aims to open up the public procurement market to all types of business, particularly SMEs, giving them the facility to search, be alerted to and view open low-value contract opportunities (including R&D) across the public sector. More than 69,000 suppliers and 5,000 public sector buyers have registered on [www.supply2.gov.uk](http://www.supply2.gov.uk) to date, and over 72,000 opportunities have been published on the portal since its launch. To help SME's access contracts Government will introduce a free 3-month trial period for new firms registering on supply2gov. At the same time, Government will do more to encourage public sector buyers to register and post opportunities on the site.

## Clusters and networks

**6.35** All too often the links between business and those with the potential to be enterprising and innovative are limited. The government will support developments in two separate areas – universities and digital media – with a view to stimulating more enterprise but also productive clusters in the longer term.

### University Enterprise Networks

**6.36** Too many students graduate without a sense of how to think innovatively, and are prevented from fully realising the potential afforded them by their academic knowledge. There is a consequential risk that many will not contribute to business growth, whether as an employee or owner manager. Potentially, this is to both the detriment of themselves and the wider community.

**6.37** The Government is therefore providing the **National Council for Graduate Entrepreneurship** (NCGE) with additional funding to establish university enterprise networks, based on the US Kauffman experience. To help students experience 'real life' enterprise, the Government is keen to see private sector involvement in the networks and is working with a range of possible sponsors. Microsoft UK have agreed to support a network promoting enterprise to students studying for a technology-related degree, and is working with the NCGE

in the development of proposals. In addition, the Northwest Regional Development Agency (NWDA) is very supportive of the development of a network of entrepreneurial universities and will be working with its regional universities to help drive forward this initiative. NWDA anticipates that this initiative will not only provide support for businesses across the region, but has the potential to extend its influence to include schools, FE colleges and the wider community.

**6.38** Further, the South East of England Development Agency (SEEDA) will be working with their partners in their Higher Education Entrepreneurship Group to develop an exemplar enterprise network involving the South East's universities, and the East Midlands Regional Development Agency (EMDA) are developing their ideas for a network connecting schools, FE Colleges and universities in the region.

**6.39** This is a further step towards the realisation of the Government's vision of a national network of university enterprise clusters that inspires an enterprising approach among students and graduates alike, providing them with the quality, enterprise and entrepreneurship education that they deserve. The NCGE will continue to build and manage the network, and help ensure its world class status by capturing the best practice lessons and encouraging their widespread adoption.

**Digital Centres of Excellence** **6.40** The continuous development of digital technologies, the convergence of media and its ready access through a variety of channels, is transforming almost all sectors. It is therefore vital that UK firms have access to centres of excellence in the field of digital media, to understand its potential impact on their businesses, and also to develop the capacity to capitalise on the opportunities.

**6.41** RDAs have recognised the importance of these developments and sought to strengthen local capacity through the development of centres of excellence. In particular, Mediacity at Salford Quays is combining access to the North West's leading academic institutions and a cluster of creative firms around the projected new BBC complex; SWRDA has supported the Pervasive Media Studio which is a collaboration between HP Labs, Watershed and the South West's leading universities; and Advantage West Midlands have given support to the £50 million Warwick Digital Lab, based at Warwick Manufacturing Group, and bringing the power of digital technology to businesses across the region in sectors such as manufacturing, healthcare and construction.

## Infrastructure investment

**Next generation broadband** **6.42** The UK has seen a strong contribution to productivity growth from ICT over the past decade, demonstrating a capacity for absorption and the productive use of ICT, including broadband. To capitalise on ICT's potential to add further value to an innovation economy such as the UK's, it is vital that the communications infrastructure meets not only today's demands, but also provides the platform for creativity and innovation to support our future economic growth. That is why BERR and HMT recently announced an **independent review of next generation broadband**. This review, led by Francesco Caio, will look at the potential for removal of barriers to the significant private sector investment required.

## Developing innovation knowledge

**Innovation in services** **6.43** BERR, DIUS and NESTA have recently worked in partnership on a business-led project to understand the barriers to innovation and determine how Government might stimulate and support innovation in the service sectors. Ensuring that the Government fully supports innovation taking place in the service sector is now a Government priority.

**6.44** Building on an earlier DTI paper on Innovation in Services<sup>25</sup> and a NESTA report on 'Hidden Innovation'<sup>26</sup>, the project has examined the role of Government in supporting innovation in and across the service sectors.

**6.45** Together, internet services, retail, logistics, environmental services and construction services, account for approximately 25 per cent of UK gross value-added. Understanding the innovation that takes place in these sectors is therefore central to the Government's innovation strategy for business and will have important indications for the direction of Government policy in this area.

**6.46** The emerging findings have identified the power of ICT and the internet to transform global value chains as well as the pace of market change, all of which offer opportunities to enterprising firms. Government has a particularly important role in ensuring the openness of markets. Business have attached particular importance to the role of standards, networks and information in providing a comprehensive framework for new and diffuse value chains – for example in developing services around resource efficiency and waste management.

**6.47** The project will report in Spring 2008 and will provide a major evidence base for Government innovation policy in this area.

## Business Link/UKTI Export Advisers Intellectual Property (IP) training

**6.48** It is essential that business can access the UK's IP regime smoothly and can use it to capture the value of innovation. In order that SMEs do not lose out through lack of information and advice in this vital area of doing business, by the summer of 2009 all UKTI export and Business Link advisers will receive training from the UK-IPO in advising businesses on IP management. The training will also be available in Scotland, Wales and Northern Ireland.

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<sup>25</sup> DTI (2007) Occasional Paper number 9: Innovation in Services <http://www.berr.gov.uk/file39965.pdf>

<sup>26</sup> NESTA (2007) Hidden Innovation: How Innovation happens in six 'low innovation' sectors. [http://www.nesta.org.uk/assets/pdf/hidden\\_innovation\\_report\\_NESTA.pdf](http://www.nesta.org.uk/assets/pdf/hidden_innovation_report_NESTA.pdf)



**Business innovation: key new policy proposals**

This Government's vision is for an environment in the UK in which innovation can flourish where many more businesses identify and capture the benefits of their innovation. The measures proposed will strengthen the productive relationships between universities, businesses and government:

- Government to investigate the role that innovation vouchers can have in encouraging firms to innovate.
- Refocused Small Business Research Initiative (SBRI).
- 3-month trial period for new firms registering on supply2gov.uk Government will do more to encourage public sector buyers to register and post opportunities on the site.
- National Council for Graduate Entrepreneurship to establish university enterprise networks.
- Independent review of broadband led by Francesco Caio looking at the possible barriers to any new models of investment.
- Innovation in Services project to understand the barriers to innovation and determine how Government can stimulate and support innovation. Reporting Spring 2008.
- Intellectual Property training programme for all Business Link and UKTI advisers.



**Vision**

*“Social enterprises are bringing new energy and new ideas to make our economy more dynamic and our society fairer. Giving them the support they need with this new enterprise strategy and other actions across government, will help change our country for the better in the years ahead.”*

*Ed Miliband – Minister for the Cabinet Office and Chancellor of the Duchy of Lancaster*

- The Government’s aim is, through enterprise (measured by the self-employment rate), to bring significant social and economic benefits to more deprived parts of the country and those groups in the population heavily represented there.

**Progress**

- The self-employment rate in deprived areas is generally increasing from 5.6 per cent in 2000 to 6.4 per cent in 2007.
- The gap in self-employment levels between deprived and all other areas is now smaller than it was in 2004.
- The self-employment rate of under-represented ethnic groups has increased from 5.6 per cent in 2002 to 7.1 per cent in 2007.

**Next challenges**

- Communities in deprived areas have most to gain from the wider benefits of enterprise but are often most lacking in the skills, culture and resources needed to enable enterprise.
- Communities of particular significance are the unemployed, those claiming incapacity benefits and some ethnic minority groups.
- A key challenge for many is accessing the finance to support enterprise activity.
- A further challenge is embedding social enterprise as an accepted form of enterprise.

**Strategy**

The Government has introduced measures to re-focus local and regional roles in delivering economic development, including support for enterprise in deprived areas. Furthermore, in the coming years, the Government’s strategy is for:

- more businesses and individuals in communities that are underserved by traditional finance sources can access the finance they need;
- disadvantaged groups, including young people and ethnic minorities, can obtain better and more relevant forms of business support; and
- the social enterprise sector will be able to develop further with a new Social Enterprise Risk Capital Fund and wider awareness activities.

**An overview of measures to start delivering this strategy are contained in a box at the end of the chapter.**

**The Government’s vision**

**7.1** The Government’s vision is that everyone, irrespective of where they live, their gender, ethnic origins or any other differences, can be part of and enjoy the benefits of a dynamic and growing economy. It is essential that if we are to succeed as an economy in a globalising and competitive world, we are able to use everyone’s talent and abilities to generate growth and increase productivity.

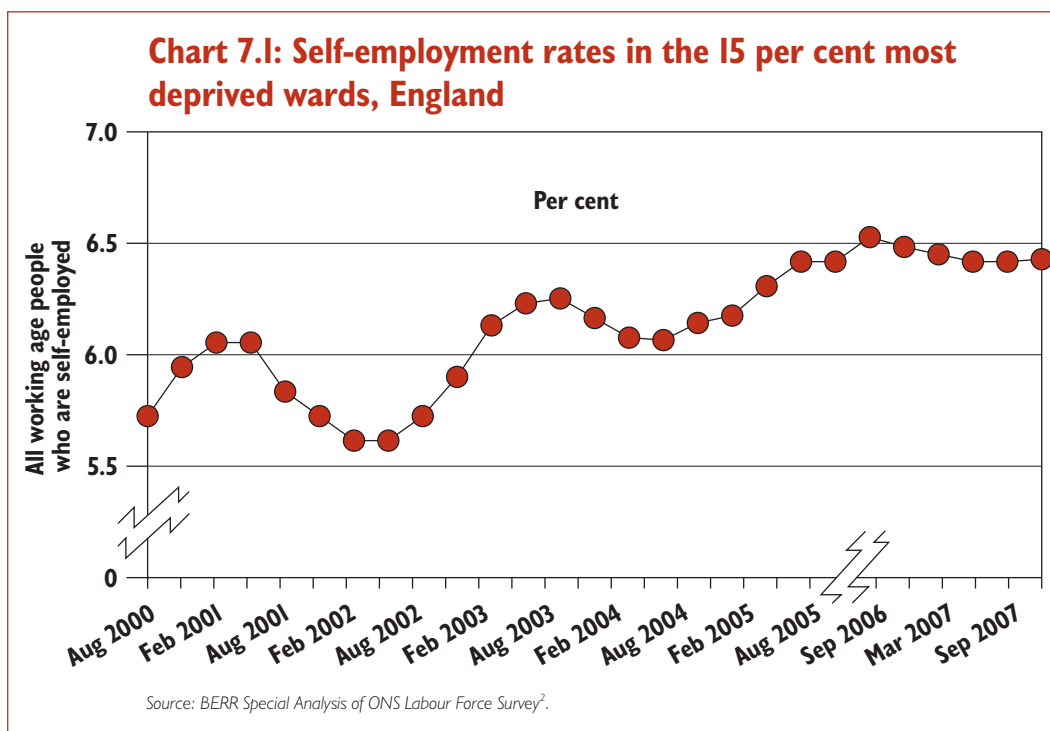
**“As a country of 60 million people competing with countries more than ten times our size, we cannot afford to waste the talents of anyone, so no-one should be held back.”**

**Gordon Brown Prime Minister**

**7.2** The government will promote enterprise in more deprived areas, and among the disadvantaged groups that are heavily represented there, to help raise enterprise levels in the UK as a whole and maximise the talents of everyone. Our understanding of success around enterprise in deprived areas is best informed by the self-employment rate, measured through the ONS Labour Force Survey. This survey is more reliable than others down to smaller spatial areas.

### Outcomes for disadvantaged communities

**7.3** A range of measures show steady improvements in enterprise for more disadvantaged communities.<sup>1</sup> The latest available data, for year ending December 2007, show that the self-employment rate of people of working age in deprived areas in England is 6.4 per cent<sup>2</sup>. Despite the slight fall early in 2007, the self-employment rate has generally been increasing since 2004. The gap in self-employment levels between deprived areas and all other areas has increased slightly over the last 18 months but it is still smaller than it was in 2004 (4.2 percentage points).



**7.4** The self-employment rate gap between under-represented ethnic groups<sup>3</sup> and other groups reduced from 4.0 percentage points in 2005 to 2.7 percentage points in 2007. The self-

<sup>1</sup> (BERR Special Analysis of ONS Labour Force Survey)

<sup>2</sup> ONS Labour Force Survey: <http://www.statistics.gov.uk>.

<sup>3</sup> Groups where self-employment is under-represented are “White and Black Caribbean”, “White and Black African”, “White and Asian”, “Other mixed”, “Bangladeshi”, “Other Asian”, “Black Caribbean”, “Black African”, “Other Black” and “Other”. “Indian”, “Pakistani” and “Chinese”, along with “British” and “Other White”, are not under-represented groups. For further information see the technical note: <http://www.berr.gov.uk/files/file14301.pdf>

employment rate of under-represented ethnic groups of working age increased from 5.6 per cent in 2005 to 7.1 per cent in 2007.<sup>4</sup>

**7.5** Analysis of ONS Labour Force Survey data suggests that ethnic minority self-employment is growing at a faster rate than self-employment amongst white British and other white groups. As of Quarter 4 2007 there are almost 330,000 working age self-employed people from ethnic minority groups in the UK.

**7.6** It has long been understood that different areas will present a different combination of challenges. Overall, however, communities in deprived areas have most to gain from the wider benefits of enterprise but were often most lacking in the skills, culture and other resources needed to enable enterprise.

## Policy developments

**7.7** Most of the reasons for lack of enterprise in any community are common across the whole country. However, local differences in economic history or even demographic mix, give rise to a variety of issues and therefore call for an appropriate variety of policy responses. The Government has pursued a range of policies aimed at empowering regional and local government to boost economic development in their areas, including involving social enterprises, and tailored measures to improve access to finance in disadvantaged communities.

**Local economic development** **7.8** Evidence<sup>5</sup> suggests that approaches to support enterprise in more deprived areas work best in conjunction with other spacial policies. Reflecting this, the Local Enterprise Growth Initiative (LEGI) has given some of England's most deprived local authorities a chance to bid for funds to support enterprise initiatives with the expectation that approaches complement other regeneration activity in the area. Since 2006, around £150 million has been committed to implement proposals from the 29 Local Authorities (LAs) involved. These initiatives contribute to economic development in a range of ways, including local productivity growth.

**7.9** LEGI funding already underway in 29 different areas will continue, given the necessarily long-term nature of the programme. A further £280 million will be committed between 2008 and 2011: £100m in 2008/09; £90m in 2009/10; and £90m in 2010/11. Although less direct, the government's support for social enterprise reflects a further commitment to local economic development. Social enterprises in the UK contribute to the economy while undertaking socially desirable activities, including employment and training for particular groups under-represented in the labour market. They also have an important role in improving the design and delivery of public services.

**7.10** Recognising the particular role and needs of social enterprises, in 2001, the Government established the Social Enterprise Unit, now based in the Office of the Third Sector (OTS). A key early achievement for the Unit was to develop the first new type of company for 100 years, Community Interest Companies (CICs). Introduced in 2005, CICs are designed specifically for social enterprises. They are limited companies, with special additional features, created for the use of people who want to conduct a business or other activity for community benefit, and not purely for private advantage. As of December 2007 there were approximately 1500 CICs. More recently the Government launched '*Scaling New Heights*,' an action plan setting out cross government commitment to supporting growth in the social enterprise sector. In 2007, the Third Sector Review renewed the government's commitment to supporting social enterprise. The Review committed government to improving the financing environment for social enterprises and the creation of a structure that facilitates investment.

<sup>4</sup>BERR Special Analysis of ONS Labour Force Survey

<sup>5</sup>Office of the Deputy Prime Minister (2003) Business-led Regeneration of Deprived Areas

**Supporting access to finance**

**7.11** The main instrument to support individuals in deprived areas who are unable to access finance from commercial banks is through Community Development Finance Institutions (CDFIs). With government support, the UK Community Development Finance sector has expanded significantly during the last decade. Data<sup>6</sup> indicates that the sector has onward invested £287m, created and sustained 33,000 jobs and levered an extra £330m of finance into the businesses and households it serves. The case study below shows the benefits CDFIs can bring to an individual and in turn to others in the community.

**Community development finance in action**

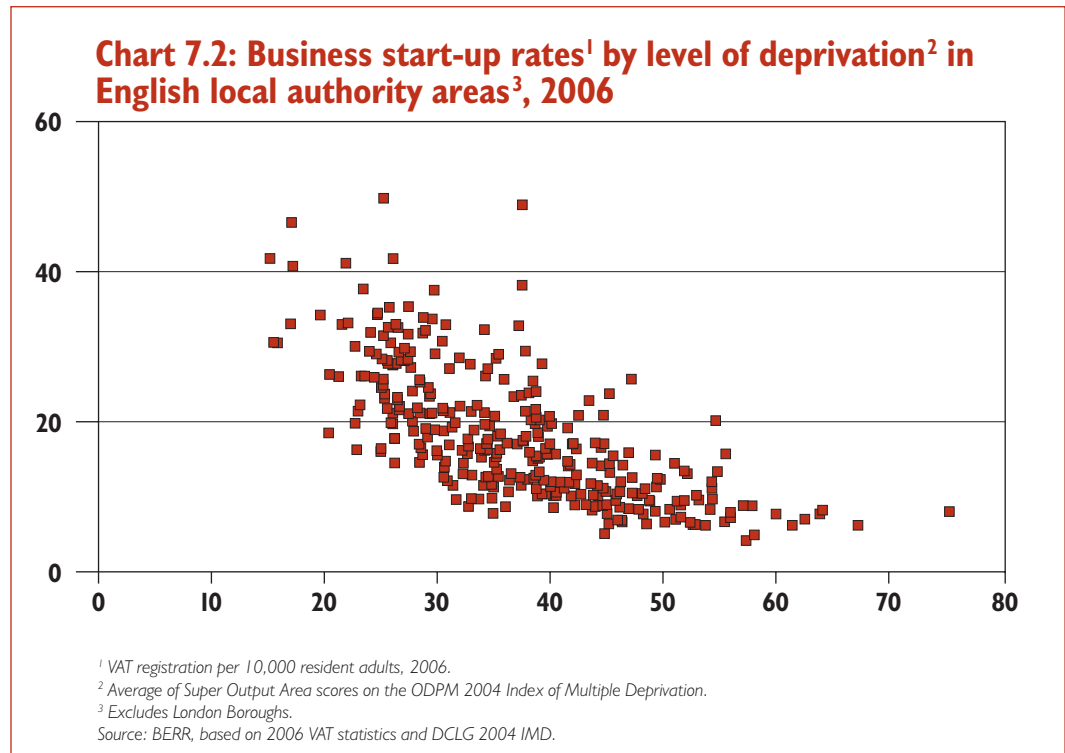
**Portsmouth resident Raymond Gough was in bad health, unemployed and claiming benefits until South Coast Moneyline gave him the finance he needed to start his own tattoo business. Ray completed his apprenticeship in tattooing and previously managed to set up on his own, but he fell ill, found himself in debt and lost the business. After turning his health around he approached banks for a loan to start up again, but was turned down due to his financial background. Moneyline financed Ray to set up Tattoo Asylum where he now employs an apprentice and one other worker, and is an active member of the Albert Road community where the shop is based.**

**7.12** Since 2000, the Government has invested around £55 million to support the creation and growth of CDFIs. In addition, a Community Investment Tax Relief (CITR) was introduced in 2002 to encourage more private investment in CDFIs and increase the supply of capital for onward lending to enterprises (including social enterprises) in disadvantaged areas. Support for the sector continues to be provided by Regional Development Agencies (RDAs), as part of their strategies for driving regional economic development.

**Enterprise and deprivation – key considerations**

**7.13** On all measures of enterprise, including start up rates and the number and growth levels of existing businesses, the English northern regions still lag behind London and the South East. As Chart 7.2 shows, there is a strong correlation between localised deprivation and levels of enterprise; the higher the level of deprivation, the lower the level of business start-up. Overall, the start-up rate in the 20 most deprived local authority areas is only half (51 per cent) the rate in the 20 most prosperous areas. Analysis suggests that regional and local disparities are often driven by differences in ‘demand-side’ factors, including the nature of local economies.

<sup>6</sup>Community Development Finance Association (CDFA).



**7.14** There have been steady improvements in terms of enterprise and deprived areas in recent years. However, there remain a multitude of factors relevant to further improving the situation in deprived areas. Financial resources, ethnic minority communities, unemployment and incapacity and the development of social enterprise are key concerns in terms of the wider benefits of enterprise.

## Financial resources

**7.15** Although disparities in enterprise are partly driven by cultural and other differences, access to finance can play a key role. We noted in Chapter 4 that only around one in eight businesses needing new finance fail to obtain any finance. Despite this generally positive picture, some communities experience particular difficulties securing finance.

**7.16** In most instances, problems in accessing finance arise for commercial reasons; particularly the absence of a financial track record or collateral. For example, research has shown that potential entrepreneurs and small businesses in deprived areas are more likely to have characteristics that could impact negatively on their ability to access bank finance.<sup>7</sup> They are less likely to have a bank account, more likely to have lower personal wealth and less likely to hold significant assets that may be offered as collateral or invested in the businesses. They are also less willing to approach banks, government or professional support providers.

**7.17** Research has shown that mainstream banks can find the transaction costs of serving potentially viable business propositions from these markets (i.e. time to assess prospective clients and provide support) too high relative to the returns.<sup>8</sup> Businesses with non-standard characteristics (such as social enterprises) may score badly for reasons other than the viability of their business plan.<sup>9</sup>

<sup>7</sup> Domestic Finance Division (2002) *Finance for Small Firms – A Ninth Report*, London, Bank of England

<sup>8</sup> GHK (2004) *An evaluation of Phoenix Fund Support for Community Development Finance Institutions* London, Small Business Service

<sup>9</sup> The Graham Review of the Small Firms Loan Guarantee: An Interim Report, June 2004, London, HM Treasury. <http://www.hmtreasury.gov.uk/media/3AE1F/ACF148B>

*Access to finance was often seen as a major barrier especially when there was a poor credit history (directly or indirectly the fault of the individual), past convictions or language barriers. A comment was by the representative of one of the local community groups we support that there was not a culture of borrowing from 'outside' the immediate community. Also there were experiences quoted of banks being unhelpful in their attitude, especially when the business idea was more unusual e.g. starting a record label.*

**Barrow Cadbury Trust**

## Ethnic minority communities

**7.18** Over 70% of the minority ethnic population of England live in deprived areas<sup>10</sup>. Whilst ethnic minority groups overall have a self-employment rate equal to British and other white groups (both eight per cent), there is a wide variation between ethnic groups. Black Africans (five per cent) and Bangladeshis (six per cent) have lower self-employment rates than Pakistani (11 per cent), Indian (eight per cent) and Chinese (eight per cent) people<sup>11</sup>.

**7.19** Ethnic minority businesses tend to be smaller than businesses generally and have lower turnover. Non-ethnic minority businesses are more likely to have a turnover of more than £250,000 (40 per cent) than ethnic minority businesses (29 per cent)<sup>12</sup>. Ethnic minority businesses are more likely to employ members of their own ethnic community<sup>13</sup> and so their growth may help reduce differences in employment rates.

## Unemployment and incapacity

**7.20** People on unemployment or incapacity benefits are heavily concentrated in some of the most deprived areas of the country. These areas also have far lower levels of self-employment, half the rate of England as a whole. Almost a quarter (23 per cent) of the 2.7 million incapacity benefit claimants live in fewer than ten per cent of the wards in Britain. Other research<sup>14</sup> has found that the worst affected tenth of streets in terms of worklessness accounted for 716,000 people on unemployment or incapacity benefits, more than a quarter of the national total.

**7.21** Self-employment is a viable economic activity option for many people with disabilities. Research by the University of Swansea<sup>15</sup> shows that, at least for men, self-employment may provide an important means by which many of those with work-limiting disabilities can overcome their disadvantage in the labour market.

<sup>10</sup> Prime Minister's Strategy Unit (2005) Improving the prospects of people living in areas of multiple deprivation in England, Cabinet Office

<sup>11</sup> BERR Enterprise Directorate Analytical Unit analysis of ONS Labour Force Survey data, proportion of all adults, 2007

<sup>12</sup> BERR Enterprise Directorate Analytical Unit analysis of BERR Annual Small Business Survey 2005

<sup>13</sup> Ashton, J. et al. 2006 Barriers to Employment of Pakistanis and Bangladeshis, DWP

<sup>14</sup> Social Exclusion Unit (2004) *Jobs and enterprise in deprived areas*. London, Cabinet Office.

<http://archive.cabinetoffice.gov.uk/seu/downloaddoc1ff6.html?id=281>

<sup>15</sup> Jones, M.K. and Latreille, P.L. (2006) *Disability and self-employment: evidence from the UK LFS*, mimeo, School of Business and Economics, University of Wales Swansea.



## The development of social enterprise

**7.22** Social enterprises are innovative in tackling some of the most entrenched social and environmental challenges and have the potential to transform communities in deprived areas. Almost a third (29 per cent) of social enterprises are located in the 20 per cent of most deprived areas.<sup>16</sup>

**7.23** Social enterprises also attract people from groups that, historically, have not been attracted to entrepreneurship. Women and some ethnic minority groups are more likely to choose to be social entrepreneurs than mainstream entrepreneurs.<sup>17</sup>

## Going forward

**7.24** Building on its present policies, the Government will put a particular emphasis on enterprise in establishing new frameworks for local and regional delivery of economic development and regeneration. Over three years, the Working Neighbourhoods Fund (WNF) will make £1.5 billion available to local authorities in areas of deprivation. There will be a renewed package of support for people and businesses in more deprived areas, including working with The Prince's Trust.

## The new frameworks for delivery

**7.25** A series of recent initiatives and ongoing reviews will set a new direction for government support in the more deprived parts of the country and the best ways of supporting enterprise. The sub-national review sets the role for national, regional and local government and the Working Neighbourhood Fund brings significant new funding.

### The Sub-National Review of Economic Development and Regeneration (SNR)

**7.26** In July 2007 the Government published its review of sub-national economic development and regeneration (SNR), setting out bold plans to ensure that every area of the country has the opportunity to benefit from rising prosperity. The review outlines plans to refocus powers and responsibilities to support economic growth at the regional, sub-regional and local level. RDAs will play a key strategic role with the private sector, in driving growth, local authorities will be supported to work together at a sub-regional level to tackle issues that cross administrative boundaries and will also have strengthened flexibilities and incentives to support prosperity in their area.

**7.27** These reforms will reinvigorate the economic performance of our regions, towns, cities and localities, and will help the public sector to work more effectively with business to better promote growth. This will help to spread a strong economic renaissance in all parts of the country.

**7.28** Key changes include:

- RDAs will take on an enhanced strategic role to develop a single regional strategy to be agreed with local authorities in consultation with business trade unions, the education sector, environmental and voluntary groups and others.
- Sharpening the role of RDAs with a clear focus on increasing economic growth, with increased scrutiny by local authorities and simplified and strengthened

<sup>16</sup> IFF Research (2005) *A Survey of Social Enterprises Across the UK*. London. Small Business Service. <http://www.berr.gov.uk/files/file38343.pdf>.

<sup>17</sup> Harding R. (2006) *Global Entrepreneurship Monitor: Social entrepreneurship Monitor*. London, London Business School. [http://www.london.edu/assets/documents/PDF/GEM\\_UK\\_2006\\_Social\\_Entrepreneurship\\_Monitor.pdf](http://www.london.edu/assets/documents/PDF/GEM_UK_2006_Social_Entrepreneurship_Monitor.pdf).

performance management by central government. Where appropriate, RDAs will also delegate responsibility for spending to local authorities.

- Giving RDAs a greater role in meeting business support needs, including a role in reducing the number of schemes to no more than 100 by 2010.
- A proposed new duty for local authorities to analyse the economic circumstances and challenges of their local economy. This will contribute to the development of the regional strategy and will help to determine the right level for action to be taken.
- A new extended round of Regional Funding Allocations to give regions a greater say on how spending is prioritised, including for further transport funding and regeneration investment.

**7.29** The framework set out in the SNR will help enable regions, sub-regions and localities to fulfil their economic potential; these reforms provide an opportunity to embed the principles of enterprise, and its delivery, at the most appropriate spatial level. For example, the SNR committed the Department for Communities and Local Government (CLG) to developing a framework for regeneration to support the Government's regeneration priorities. BERR will work with CLG to ensure this provides a clear link between economic development and regeneration, and supports enterprise growth as a route to achieving this.

**Local Government Performance Framework** **7.30** There are two measures in the National Indicator Set – part of the new Performance Framework for Local Authorities and Local Authority Partners – on small business registration rates and businesses showing growth. In all, there are around 200 national indicators, from which up to 35 can be chosen by Local Authorities as priorities against which they will be measured. Key to delivering these priorities will be the targets and implementation plans that local areas agree, in consultation with their partners in the private, community and voluntary sectors. Communities and Local Government will agree targets as part of the Local Area Agreement (LAA) process.

**The Working Neighbourhoods Fund (WNF)** **7.31** The WNF will provide resources to local authorities to tackle worklessness and low levels of skills and enterprise in the most deprived areas, replacing the Neighbourhood Renewal Fund. The WNF is worth £1.5bn, and will be allocated over the next three years with more than £450m in 2008/09, and over £500m in both 2009/10 and 2010/2011. WNF is being made available to around 65 local and 22 transitional authorities in the most deprived areas. Allocations have been based in part on the new Indices of Multiple Deprivation 2007.

**Review of Selective Finance for Investment (SFI)** **7.32** SFI is funding of last resort for companies that have exhausted all alternative sources of funding before applying for support. The Industrial Development Advisory Board (IDAB) is currently examining ways to make it easier to use Selective Finance for Investment (SFI) to support start-ups.

**7.33** As it is much easier for businesses to raise the last pound of capital than the first, IDAB would like to develop mechanisms by which SFI is used as a form of launch aid. The aim of such interventions would not be “to pick winners”, but rather to increase the amount of entrepreneurial activity in deprived areas. Such a move would help businesses raise the remaining finance from other sources, such as banks or Community Development Finance Institutions.

**Spatial economic research centre** **7.34** In developing policy further, the Government and academic community acknowledge that there is more that needs to be understood about the factors contributing to enterprise disparities across the country. Further quantitative analysis on what drives differences in economic growth at various spatial levels will be a key focus of a new Spatial Economics

Research Centre. The Department for Business, Enterprise and Regulatory Reform and the Department for Communities and Local Government will each provide over half a million pounds of funding over three years to the Centre, which with ESRC and Welsh Assembly Government contributions will see a total joint investment of £2.4 million.

## Better ways of supporting disadvantaged people

**7.35** The Government will continue to develop improved forms of support for the most disadvantaged communities; these communities are often over-represented in deprived areas. There will be new and continuing support through mentoring, social enterprise and access to finance. Through the Ethnic Minority Task Force the government will consider how best to support the more disadvantaged ethnic minority groups.

**The Prince's Trust 7.36** Government is going to further develop its work with the Prince's Trust, a UK charity with a proven track record of helping young people realise their potential and strong and established links with disadvantage communities. Government will provide the Princes Trust with £1 million which will enable the Trust to identify role models and raise awareness of the benefits of enterprise amongst some of our most disadvantaged young people.

**7.37** The Trust has built up a strong base of expert support from nearly 8,000 volunteers (mentors and panel members). We will work with CLG, key BERR partners such as Enterprise Insight and other BERR stakeholders including Local Authorities and RDAs in the development of this programme – building strong links between this proposal and the BSSP proposal “Local Community Business Coaching”.

**Risk Capital Fund 7.38** OTS announced on 27 February 2008 that following consultation they are able to give a firm commitment to provide up to £10 million to establish a Risk Capital Fund for social enterprises. The fund will be the first of its kind and will benefit social enterprises at the start-up and early growth stages of developing their businesses.

**Community development finance sector 7.39** The Community Development Finance sector has, with significant Government investment, trebled in size since 2002. The majority of these are located in deprived areas. This partnership has created economic and social benefits, but the longer-term challenge facing the sector is to improve its self-reliance and sustainability, while ensuring continued outreach to disadvantaged communities.

**Funding the CDFI sector 7.40** The RDAs have a clear role providing public support for CDFIs and they are responding to the challenge. For example, East Midlands Development Agency is in the process of establishing a £3 million regional CDFI fund. The Government continues to encourage RDAs to include provision (e.g. revenue funds) for supporting CDFIs in their Corporate Plans and to report on progress in their Annual Performance Reports.

**7.41** There is an increasing trend amongst RDAs to encourage rationalisation, including joint working, as part of their strategies to develop a more sustainable approach for funding CDFIs in their region. Government recognises that some rationalisation is inevitable and necessary to develop a more sustainable CDFI sector. However, it is critical that this does not result in ‘mission drift’ and a move towards larger, less risky loans. The Government will be asking RDAs to pay particular attention to this threat in their monitoring and in the development of their strategies.

**7.42** The proposed social investment wholesale institution will, subject to European approval, provide another clear opportunity for the CDFI sector to secure a sustainable source of future funding. The Government is currently introducing legislation to enable unclaimed money in dormant bank accounts to be used to fund youth facilities, financial inclusion

schemes and social investment. The creation of a social investment wholesale institution could assist intermediaries, such as CDFIs to help raise funding for onward lending.

**Improving financial management and governance**

**7.43** A key condition for attracting financial support is for CDFIs to demonstrate sound financial management and good governance mechanisms. The CDFA has a clear role in driving up standards in the sector and the Government will provide a further three years funding to enable this to continue. A proposed CDFI performance framework (including assessment process) will be published for consultation in Spring 2008 which will provide an important mechanism for driving up performance in the sector and help explain variations in performance.

**7.44** From March 2008, the Government will take forward improvements to the operation of the Community Investment Tax Relief. Greater flexibility is being introduced to encourage accredited CDFIs to promote this scheme and attract more private investment. The government has also announced that three more CDFIs have been accredited to use the Small Firms Loan Guarantee scheme, bringing the total to seven. These changes will encourage more private sector investment in CDFIs and raise the amount of finance available to support enterprise in disadvantaged communities.

**The Ethnic Minority Business Task Force**

**7.45** In June 2007, the Government announced the launch of the **Ethnic Minority Business Task Force**. In addition to making recommendations to government on the further development of policy, the Task Force will help foster growth among ethnic minority firms and boost economic participation by ethnic minority entrepreneurs. It will also ensure that ethnic minority entrepreneurs have access to appropriate and high quality business support.

**7.46** Current priorities areas for the Task force include:

- access to Government procurement;
- access to finance; and
- the provision of quality, accessible business support.

**7.47** The Ethnic Minority Business Task Force is committed to working across Government and with the Women's Enterprise Task Force to achieve shared objectives.

**7.48** London won the bid to host the 2012 Games on the promise that the event would be truly multi-cultural. This promise extended beyond sport, into the business legacy from building and staging the Games. To this end, the Task Force has jointly launched a series of road shows to help ethnic minority businesses bid for Games-related contracts and, more generally, help them acquire the tools to win other public sector contracts.

**7.49** BERR has provided initial funding to support the development of regional pilots. Participants will learn from the Olympic Delivery Authority how they can bid for Games contracts; from Supply2.gov the tools they need to bid for Government contracts; and all attendees will be able to get online procurement training through "winning the contract", which is a Learn Direct training course, as well as the opportunity to speak to other major government procurers from the NHS and MOD.

## Forward issues

**7.50** Looking to the future, the new Business Support Simplification Programme will allow some products to be designed to give additional support to under-represented groups. These products will have to be monitored and evaluated to ensure that the impact not only reaches the target audience but also helps them to contribute their skills and talents to boosting enterprise in the UK.

**7.51** In addition, we will explore how we can develop a network of Ethnic Minority Ambassadors to raise awareness of enterprise, particularly amongst under-represented groups. We will also look to work with organisations such as The Indus Entrepreneurs (TiE), a not-for-profit global network of entrepreneurs and professionals, to learn from the success of their global mentoring programme. We look forward too to receiving the recommendations of the Ethnic Minority Business Task Force.

**7.52** BERR will work closely with CLG in preparing a White Paper on proposals to empower communities and citizens under the banner of “Unlocking Talent”. One of its key themes will be to focus on how the Government can unlock talent through promoting enterprise at the local level.

#### **Wider benefits of enterprise: Key policy proposals**

**This chapter has set out the improvements and signs of change that are starting to embed enterprise and self-employment amongst some of our most deprived communities. There are still some significant challenges ahead and we propose to meet them by:**

**Ethnic Minority Business Task Force – The Government awaits the recommendations of the EMBTF and has already sought to act on its proposals in relation to the 2012 Olympics to ensure that the business legacy of the Games benefits the ethnic minority businesses in the East London area.**

**Business Support – The Government will use the BSSP programme to target and provide more intensive support for those currently under-represented in enterprise.**

**Prince’s Trust – The Government will develop further its work with the Prince’s Trust to help disadvantaged young people realise their talents and potential through raising awareness of enterprise and the role it can play in building and renewing communities.**

**Social Enterprise – The Government will take forward work on a £10 million fund to establish risk capital for social enterprises.**

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