

Government SME Intervention Policy: Perception is 9/10ths of the Truth?

Introduction

The Small and Medium Enterprise (SME) sector plays a pivotal role in creating innovation, wealth, employment and economic growth in industrialised and developing countries (Robson and Bennett, 2000). Specifically, Jutla *et al.* (2002) estimated that SMEs accounted for 80% of global economic growth, driven partly by their numerical significance (Birchall and Giambona, 2007). In the UK context SMEs account for over 4.5 million entities (99.8%), and 52.4% of employment, whilst Europe's population of SMEs accounts for 99.8% of all businesses and 66.2% of employment (SBS, 2008). Support for SMEs has, therefore, become an important component of many economic policies to promote sustainable competitive advantage (see for example Greene *et al.*, 2008).

Broadly, government policy has increasingly focused on encouraging entrepreneurship generally (see Huggins and Williams, 2009 for the UK) and new firm growth in particular (see Smallbone *et al.* 2002; Sloan and Chittenden 2006). Recently there has also been a renewed emphasis on increasing and encouraging the business start up rate among women, with a particular discourse around the under utilisation of women and the resultant potential gains and losses to individuals and the economy (see, for example, Women's Business Council, 2013).

In the UK, government policy support has often taken the form of providing SMEs with access to resources, such as finance (e.g. see Moore and Garnsey, 1993; Cressy, 2000; Hyytinen and Toivanen, 2005; Beck *et al.* 2008). This can be directly, but also, increasingly through the promotion and support of business angels and their networks. Wiltbank (2009) states, for example, that business angels are a key source of investment in very early-stage and high-risk companies with high potential for growth. In addition, the European Commission (2003), amongst others, also documents that business angels, as well as providing financing, also provide managerial experience, which increases the likelihood of start-up enterprises being able to survive.

Business support more generally has also included direct government advice services (see Mole 2002; Curran and Storey 2002), as well as government subsidizing existing sources of formal support (such as private consultants or business professionals e.g. accountants) to provide business support to new firms (for example, see Turok and Raco 2000), in order to promote business growth. In terms of categories of advice offered through government, Bennett and Robson (2003) identified business strategy; management organisation; marketing; market research; advertising; public relations; product or service design; new technology; computer services; personnel and recruitment; taxation and finance.

Not all firms, however, favour seeking advice and, in particular, are often reluctant to use external, government sources of advice, because of fear over loss of control (Bennett and Robson, 2003), Jones *et al.* (2013) highlighting that internal training and that provided by private providers was often perceived to be of more value than government sources of training. This also highlights the potential negative effects of government intervention.

This can also be seen in terms of demand side SME policy such as the encouragement of SMEs to take advantage of public procurement opportunities. Loader (2005, 2007, 2012), for example, found that SMEs perceived a range of problems in engaging with public procurement regimes, related to lacking awareness of opportunities, ability to get on the

approved supplier list, knowledge of the process, focus on cost, restrictive environmental requirements, concerns related to requiring a strong previous track record, but also the inertia of public sector organisations in their choice of suppliers, and excessive paperwork requirements. More broadly, are the potentially disproportionate (compared to larger firms) deleterious effects of regulation, where regulation raises SME costs and reduces their competitiveness, but without necessarily achieving the intended objectives (Petts, 2000).

The effectiveness of government intervention is therefore increasingly open to debate, particularly in the current age of austerity, where understanding which interventions are most likely to be effective is more important than ever. Unsurprisingly therefore, Mason (2009), has called for an increased research focus on the effects of government policymaking generally on entrepreneurship, seeing it as a particularly important arena in times of economic turmoil and recession.

This theme issue undertakes this task drawing primarily on papers presented or developed from the 36th annual Institute for Small Business and Entrepreneurship (ISBE) conference held in Cardiff in November 2013. The conference attracted delegates from around the world, included academics, entrepreneurship researchers, policy practitioners, and entrepreneurs. Under the chairmanship of Professor David Pickernell (University of South Wales) and supported by Christine Atkinson and Dr. Christopher Miller, the ISBE papers were presented within fourteen dedicated tracks, topics ranging from enterprise education, social enterprise and family business, to business creation, gender, and networks and innovation.

The conference theme focused on the diverse ways in which countries around the globe face the challenges of economic and financial recovery, how entrepreneurship and small business are increasingly key to regeneration of local and regional, as well as national, economies and the range of international processes shaping entrepreneurship in terms of policy development.

Papers with a particular focus related to government intervention policies were therefore considered for publication in this themed issue of Environment and Planning C: Government and Policy. Papers selected for this theme issue have been peer reviewed in the same way as normal submissions to mainstream issues of this journal.

The papers:

The papers in this issue adopt both theoretically and empirically based approaches, and examine a range of enterprise policy interventions in different contexts and geographical settings.

The first paper, by Chittenden and Ambler (2014) examines an issue often perceived negatively by small and large firms alike, namely regulation. This is a topic that continues to be contentious between SMEs, policymakers and scholars. For example, whilst many (though not all) business lobbying organisations claim that regulation is a barrier to business growth, policymakers often argue that regulation creates net benefit for society.

Chittenden and Ambler's paper seeks a partial explanation for these differing viewpoints (including the financial cost of regulation), through analysis of UK impact assessments undertaken in the time period 1998-2009. They find that differences in the criteria used for decision making between the different parties, provide such an explanation, concluding that

rather than engaging in “gaming behaviour”, they are instead acting rationally in pursuit of their goals. More broadly, the benefits of regulation may accrue to society as a whole in the long term, whilst the costs may accrue to small business in the short term, with benefits to business found in only a small percentage of the cases, and again over the longer term. This leads to very different perceptions of cost and benefit for small business relative to the regulators.

Issue of perceptions of government policy, regulation and impacts on business growth are also explored in the second paper, by Cowling and Lee (2014). They examine the differences between rural and urban firms in terms of their perceptions of barriers to business growth. Importantly, they identify that business support policy for SMEs is often differentiated between urban and rural areas as a result of assumptions that barriers to business growth differ because of the geographical location of the business. They highlight, however, that SMEs in rural and urban areas also differ in their firm characteristics, which may be stronger influences on firm growth than location.

Their paper therefore tests whether firms in urban, semi-rural and rural areas perceive a range of obstacles (the economy, obtaining finance, cash flow, taxation, recruiting staff, regulations, skills shortages, location and lack of customers) to their success differently. Based on a large sample of UK SMEs, and controlling for selection effects, they do find that rural and semi-rural firms were more likely to perceive regulation as a problem while rural firms are more likely to see the economy as an obstacle to success. They also found evidence that skills shortages may be more acute for rural firms, once selection effects are controlled for. Overall, however, they argue that results provide only limited support for geographically differentiated policy for small businesses. For example, they argue that the results support the image of over-regulated, struggling small firms in rural areas to an extent, which may justify policies to address these problems, but that because the result reflect perceptions of rural entrepreneurs it may also be that businesses in these areas are also less tolerant of such regulation.

The final paper also examines issues of regulation, perceived barriers to business growth, and government policy, this time in relation to finance. Specifically, Mason and Harrison (2014) explore business angel investment activity through the 2008 financial crisis. Partly because of increased regulation, this transformed the financial environment, causing significant declines in bank lending and venture capital access for SMEs. This created a significant barrier to business growth, partly because of perceptions amongst business owners that their loan applications would be rejected. Consequently, government was prompted to increase availability of debt and equity capital. One of the conduits for this, in addition to banks and venture capital are business angels.

Whilst comprehensive statistics on bank lending and venture capital investments exist, equivalent information on business angel investment activity is, however, lacking. Mason and Harrison (2014) therefore UK business angel networks, Scottish angel groups and individual UK angels, to evaluate how the angel market fared during the early stages of the financial crisis. While not providing an entirely consistent picture, they found that, broadly, angel investment activity has held up well since the financial crisis. As well as emphasising the increasing economic significance of business angels, it also underlines the need for on-going and increased Government support, prompting a need to review possible policy options.

Future directions

Taken together, the papers enhance our understanding of some of the complexities of supporting entrepreneurship, policy choices available, and impacts that firm size, sector, and geography can make. All of the papers examine how SMEs are impacted by policy interventions, both those aimed to be positive (i.e. business support policy, business angel network and group activity support policy) and also perceived as negative (government regulation) to SMEs.

More broadly they examine issues that highlight the importance of the perceptions of the impact of regulation and a variety of government policies on small business growth. The papers therefore provide lessons on policies in different situations, what some of the limits of interventions are, and the importance of perceptions in determining how government small business support policy is viewed. The papers this theme issue should therefore be of significant value to both current and future policy makers.

It is also to be hoped that the lessons contained feed into future academic and practitioner debates so that positive growth paths can be enabled. For example, perceptions (often negative), can often also be seen to have affected the view of female entrepreneurship. Proposed government support measures to encourage women into entrepreneurship continue to be informed by a female underperformance hypothesis (McAdam, 2013; Marlow and McAdam, 2012), underpinned by perceptions that potential and practising female entrepreneurs may be suffering from a detriment or detriments.

These include reported perceptions among women themselves of greater difficulty in accessing finance (Roper and Scott, 2009), of lacking the skills necessary to start a business (Levie and Hart, 2013) and of a lack of diverse female role models (Women's Business Council, 2013). The resulting support measures recommended therefore often include provision of greater access to a wider range of finance options, including crowd funding and angel investment, enterprise education, business mentoring, as well as the promotion of women's business networks and wider access to role models, (Women's Business Council, 2013). The conference thus discusses important issues in female entrepreneurship including a workshop that explores the roles women owned businesses can play in creating sustainable communities.

More generally, the backdrop remains economic uncertainty, despite the recent positive signs of growth. This makes enterprise policy, both its reality and perception, of continuing importance, as a potential lever in generating sustained economic growth.

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