



**Research to understand the barriers to take up and use of business support**

**For the Department for Business Innovation and Skills (BIS)**

Final Report

July 2011

**Centre for Enterprise and Economic Development Research (CEEDR)**  
Middlesex University Business School  
The Burroughs  
London NW4 4BT

**BMG Research**  
Holt Court  
Heneage Street West  
Aston Science Park  
Birmingham B7 4AX

**Research Team:**

Professor David North, CEEDR, Middlesex University

Dr Rob Baldock, CEEDR, Middlesex University

Dr Kevin Mole, Warwick Business School

June Wiseman, BMG Research

Charlotte Binnie, BMG Research

**Acknowledgements:**

The authors would like to thank the businesses that gave of their time to be interviewed for this research and other staff at BMG Research and CEEDR for their part in the research. They would also like to thank the project managers, Janette King and Ian Drummond, and members of the steering group for their guidance during the research and comments on the draft of the report. The findings and interpretations in this report are those of the authors and do not necessarily represent the view of BIS.

Published in 2011 by BIS

URN 11/1288

© Crown Copyright 2011

This document can be accessed online at: [www.bis.gov.uk](http://www.bis.gov.uk)

Postal enquiries should be addressed to:

Analytical Unit

BIS Enterprise Directorate

2 St. Paul's Place

125 Norfolk Street

Sheffield

S2 4FJ

Email enquiries should be addressed to: [research.enterprise@BIS.gsi.gov.uk](mailto:research.enterprise@BIS.gsi.gov.uk)

The views expressed in this report are the authors' and do not necessarily reflect those of the BIS Enterprise Directorate or the Government.

## Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>2</b>
<b>1. INTRODUCTION .....</b>	<b>9</b>
1.1 THE RESEARCH CONTEXT .....	9
1.2 RESEARCH AIMS AND QUESTIONS.....	11
1.3 RESEARCH METHODS AND SAMPLING .....	12
1.4 REPORT STRUCTURE .....	13
<b>2. CHARACTERISTICS AND CHALLENGES OF SMES.....</b>	<b>14</b>
2.1 CHARACTERISTICS OF THE SURVEY SAMPLE .....	14
2.2 MAIN BUSINESS OBJECTIVES .....	17
2.3 GROWTH PERFORMANCE.....	18
2.4 CHALLENGES AND PROBLEMS TO GROWTH AND BUSINESS DEVELOPMENT .....	19
2.5 CONCLUSION.....	20
<b>3. OVERVIEW OF BUSINESS SUPPORT USE IN THE LAST THREE YEARS .....</b>	<b>22</b>
3.1 OVERALL USAGE OF FORMAL BUSINESS ASSISTANCE IN THE LAST THREE YEARS.....	22
3.2 COMPARISONS OF USERS (PRIVATE AND PUBLIC) AND NON USERS .....	24
3.3 TYPES OF PRIVATE AND PUBLIC PROVIDERS USED .....	36
3.4 INFORMAL BUSINESS SUPPORT USERS .....	38
3.5 CONCLUSION.....	38
<b>4. USE OF BUSINESS SUPPORT INFORMATION IN THE LAST THREE YEARS .....</b>	<b>40</b>
4.1 TYPES OF INFORMATION USED AND FREQUENCY OF USE .....	40
4.2 PROVIDER OF MAIN PRIORITY INFORMATION .....	42
4.3 FORMAT OF DELIVERY OF MAIN PRIORITY INFORMATION.....	43
4.4 EXTENT TO WHICH INFORMATION ADDRESSED BUSINESS NEEDS .....	44
4.5 THE IMPACT OF INFORMATION ON BUSINESS PERFORMANCE .....	44
4.6 CONCLUSION.....	46
<b>5. USE OF BUSINESS SUPPORT ADVICE IN THE LAST THREE YEARS.....</b>	<b>47</b>
5.1 TYPES OF ADVICE USED AND FREQUENCY OF USE .....	47
5.2 PROVIDER OF MAIN PRIORITY TYPE OF ADVICE .....	49
5.3 FORMAT OF DELIVERY OF MAIN PRIORITY ADVICE .....	50
5.4 RESPONDENTS' ASSESSMENT OF IMPACT OF ADVICE RECEIVED .....	50
5.5 AMOUNT PAID FOR ADVICE .....	53
5.6 BUSINESS REVIEWS .....	53
5.7 WHERE FURTHER FORMAL EXTERNAL ASSISTANCE WAS NOT USED .....	54
5.8 CONCLUSION.....	55
<b>6. NON USERS OF FORMAL EXTERNAL ASSISTANCE .....</b>	<b>56</b>
6.1 INTRODUCTION .....	56
6.2 CHARACTERISTICS OF NON USERS.....	56
6.3 NON USERS CONSIDERING USING FORMAL BUSINESS ASSISTANCE .....	56
6.4 REASONS FOR NOT USING FORMAL BUSINESS ASSISTANCE .....	57
6.5 POSSIBLE BENEFITS OF EXTERNAL ASSISTANCE FROM HINDSIGHT .....	59
6.6 BENEFIT OF AN INDEPENDENT REVIEW .....	60
6.7 CONCLUSION.....	61

<b>7.</b>	<b>EVIDENCE OF LATENT DEMAND AND MARKET FAILURES .....</b>	<b>62</b>
7.1	INTRODUCTION .....	62
7.2	THE SCALE OF LATENT DEMAND .....	62
7.3	LATENT DEMAND REQUIREMENTS .....	64
7.4	CHARACTERISTICS OF SME EMPLOYERS EXHIBITING LATENT DEMAND .....	64
7.5	MARKET FAILURE .....	65
7.6	COMPARISON OF RECOGNISED AND UNRECOGNISED LATENT DEMAND MARKET FAILURES .....	68
7.7	CONCLUSION .....	70
<b>8.</b>	<b>SUMMARY CONCLUSIONS RELATING TO KEY RESEARCH QUESTIONS .....</b>	<b>72</b>
	<b>TECHNICAL ANNEX .....</b>	<b>78</b>

## KEY FINDINGS

- Over the last three years, two fifths of SME employers made use of formal external assistance, with one in five seeking only information, one in eight both information and strategic advice, and one in twenty only strategic advice.
- Almost one fifth of SME employers made use of assistance only from the private sector, one in ten used assistance from only the public sector, and another one in ten used both private and public assistance.
- Growth orientated SME employers were more likely to seek formal business assistance than survival orientated SME employers.
- Those SME employers achieving rapid growth had the highest propensity to use formal business assistance from both private and public sources.
- Survival orientated businesses, new businesses, micro businesses, and women-led businesses had a greater tendency to use assistance from public sources than other types of business.
- The main (in rank order) private sector providers of information were accountants, consultants, and banks and of strategic advice were consultants, accountants, and buyers/suppliers. Both information and strategic advice from private sources were most commonly received via face to face or telephone contacts.
- Business Link was the main public sector provider of information and strategic advice, with email, telephone, and face to face methods being used more frequently than web based methods.
- Almost half of information users considered that it had helped improve business performance, with one in six identifying a significant improvement. Almost three fifths of users of strategic advice considered that it had improved business performance, with one in five identifying a significant improvement.
- An estimated 28 per cent of SME employers had a latent demand for formal business assistance over the last three years: half were non users that did not recognise their need for assistance, despite experiencing unresolved problems; a third were non users that did recognise their need for assistance; and one in seven were users who had other unmet needs for assistance.
- Amongst SME employers with latent demand, the main reason for market failure was doubts about the benefits and value of assistance in relation to the expense and time involved. Relationship failures such as a lack of trust or confidence in external advisors were also evident amongst certain types of business, as were concerns about being able to find appropriate assistance.

## EXECUTIVE SUMMARY

The research is concerned with the barriers to the take up of formal sources of external assistance, the reasons for such barriers and whether there is evidence of market failure, and the extent to which there is latent demand for business support services. The research differentiates between: (i) non users of external assistance; (ii) users of private sector external assistance (e.g. accountants, solicitors, consultants, trade associations etc.); and (iii) users of public sector business assistance (e.g. Business Link, UKTI, local authorities etc.).

The research also differentiates between *transactional assistance* i.e. where support is typically provided at arms length via a particular piece of information to assist with standard, day to day business operations and *transformational support* i.e. where more in-depth, diagnostic, often face-to-face, support is required in order to facilitate stepped change relating to business growth and productivity.

The research is based on a CATI telephone survey of the owner-managers of 1202 employer Small and Medium-sized Enterprises (SMEs) in England undertaken in March 2011. The survey aimed to achieve a sufficiently robust sample of larger SMEs. The sample data were then weighted so that the achieved survey findings are representative of the SME employer population in England.

The following summarises the key findings relating to each of the main research questions:

### **What proportion of businesses accessed support over the previous three years?**

- Two fifths (40 per cent) of all SME employers (an estimated 409,384 SME employers) used formal external assistance over the last three years. Over a quarter of all SMEs (29 per cent) used private sector support and one fifth (20 per cent) used public sector support.
- Almost one fifth (19 per cent) used *only* private sector assistance, just over one in ten (11 per cent) used *only* public sector assistance, and just below one in ten (nine per cent) used *both* private and public assistance.
- Just over one fifth (22 per cent) of all SME employers had sought only information, one in eight (12 per cent) had sought both information and strategic advice, and just over one in twenty (six per cent) had sought only strategic advice.
- There was little difference between SME employers using *only* private sector sources and those using *only* public sector users in terms of the proportions receiving information and advice. Two thirds (62 per cent of *only* private users and 66 per cent of *only* public users) sought information only.
- Almost two thirds (60 per cent) of those SME employers using *both* private and public assistance were most likely to be seeking both information and strategic advice.
- Almost half (47 per cent) of SME employers had used informal assistance (e.g. from friends, family and business acquaintances) over the past three years. Businesses using informal assistance were more likely to also use formal assistance than those not using informal assistance, indicating a readiness of these owner-managers to take advice from various sources.

**What are the characteristics (including the growth potential/aspirations) of (a) non-users of business support, (b) users of private sector support and (c) government sponsored support services.**

- SME employers that had growth as their main aim over the past three years had a higher propensity to use formal external assistance than those that had survival as their main aim (46 per cent of growth seeking businesses compared to 34 per cent of survival seeking ones).
- There was little difference in the propensity to use external assistance between SME employers that said they had grown over the last three years (or since established in the case of new businesses) and those that stated they had not grown (41 per cent of growers and 38 per cent of non growers).
- Fast growing businesses were more likely to have used external assistance (48 per cent of those growing by more than 50 per cent in the last three years) and significantly more likely to have used support from *both* private and public sources.
- In terms of their actual performance, SME employers that had used external assistance exhibited a slightly higher proportion increasing their sales turnover over the past 12 months (43 per cent of users compared to 39 per cent of non users) as well as increasing their employment (30 per cent compared to 27 per cent).
- In terms of age of business, new businesses (i.e. those established for less than one year) had the highest propensity to use external assistance (47 per cent of them) whereas SME employers established for between six and 20 years had the lowest propensity to use external assistance (37 per cent of them).
- Looking at size of business, medium sized businesses had the highest propensity to use external assistance (57 per cent of them did so compared to 39 per cent of micro businesses). Moreover, a higher proportion of micro businesses used solely public sources than did their small and medium sized counterparts.
- Analysis by sector shows that SME employers in the public, community, social and personal services and the financial and business services sectors had the highest propensity to use external assistance (49 per cent and 48 per cent of them respectively), whilst SME employers in the hotel and catering sector had the lowest propensity (27 per cent).
- Finally, analysis by management characteristics shows that the use of formal external assistance was proportionately greatest amongst SME employers with larger management teams and amongst more highly qualified managers. Women-led businesses were significantly more likely to use public sector sources than their male run counterparts (28 per cent of women-led businesses using assistance compared to 18 per cent of male-led businesses using assistance).

**What organisations have provided this support and what proportions of the support received relate to (a) transactional (simple information needs or related to standard business operation) and (b) transformational (particularly strategic advice in relation to growth or productivity).**

1.1.1 Information:

- Just under a quarter (24 per cent) of SME employers received information from private sector sources, with accountants being the most frequently mentioned provider (13 per cent of all SME employers), followed by consultants, banks and solicitors (each six per cent).
- Just under one fifth (18 per cent) received information from public sector providers, with Business Link being the most frequently mentioned provider: nine per cent of all SME employers received information from BL via email, telephone and face to face methods and six per cent via the website.
- The most frequently mentioned reasons for obtaining information from external sources were to assist with developing and growing the business (13 per cent of all SME employers) and with regulations, tax and compliance issues (also 13 per cent).
- Those businesses using information from formal sources typically used these sources more than once over the three year period, with information relating to regulations, finance, and IT being obtained several times.
- Information provided by private sector sources was most frequently conveyed face to face (in 64 per cent of cases) or by telephone (40 per cent) whereas information provided by public sources was most frequently conveyed via websites (53 per cent of cases) as well as face to face (41 per cent).

1.1.2 Strategic Advice:

- One in seven (13 per cent) SME employers received strategic advice from private sector organisations, with management/business consultants being the most frequently mentioned provider (five per cent of all SME employers), followed by accountants (four per cent).
- One in twelve (eight per cent) SME employers had received strategic advice from public sector organisations, with Business Link being the most frequently mentioned: four per cent of all SME employers received strategic advice from Business Link via email, telephone and face to face contacts and three per cent via the website.
- As with information, the most frequently mentioned reasons for obtaining strategic advice were to assist with developing and growing the business (13 per cent of all SME employers) and with regulations, tax and compliance issues (nine per cent).
- Those businesses using advice services typically used them more than once over the three year period, with a third having seven or more contacts (particularly in relation to sales and marketing, developing and growing the business, and cashflow).
- Strategic advice was most frequently conveyed face to face (in 74 per cent of cases), although that received from public sector sources was significantly more likely to be obtained from websites (32 per cent of cases) or attending workshops/ seminars (25 per cent) than was the advice from private sector sources (11 per cent for both).



## What has been the impact of the information and advice received on the performance of the business?

### 1.1.3 Information:

- With respect to the most important information received over the past three years, over two thirds (68 per cent) of information users considered that it had fully met their expectations, with just one in twenty stating that it had not. A greater proportion (76 per cent) of users of *only* private sector information sources considered that the information had fully met expectations than users of *only* public sector information sources (59 per cent).
- Almost half (47 per cent) of information users considered that their business performance had improved as a result of the most important information received, with 16 per cent identifying a significant improvement. Just over a third (37 per cent) thought that the information had made no real difference to business performance.
- A significantly greater proportion of users of *only* private sources or *both* private and public sources (18 and 22 per cent respectively) considered that the business was performing significantly better than users of *only* public sector information sources (nine per cent).
- In terms of the nature of the improvements, the most frequently mentioned related to enabling survival, improving profitability, and a re-evaluation of the business. Businesses using private sector sources were more likely to identify improvements in profitability, whereas those using public sector sources were more likely to identify a re-evaluation of the business.

### 1.1.4 Strategic Advice:

- With respect to the most important strategic advice received over the past three years, nearly three fifths (58 per cent) of users of advice considered that it had improved the performance of their business, with one in five (20 per cent) stating that the business was performing 'significantly better'. A third considered that the advice had made no real difference to business performance.
- A significantly greater proportion of users of private sector advice (24 per cent of them) considered that the business was performing 'significantly better' than users of *only* public sources (five per cent).
- In terms of the nature of the improvements, the most frequently mentioned related to increased sales turnover, improved profitability, and enabling survival. Users of *only* private sector advice were more likely than users of *only* public sector advice to identify sales turnover growth, whereas users of *only* public sector advice were more likely to state that the advice enabled business survival.

### 1.1.5 Relationship between Information and Advice and Transformational Assistance:

- These findings on the impact of information and strategic advice on business performance indicate that there is no simple distinction between the provision of straightforward 'transactional' information and strategic advice that is seen as

- In practice, transactional and transformational types of support are invariably interlinked, such that a request for information can quickly lead to advice being given by the provider, especially when it is delivered on a one to one basis.

**How large and how significant is latent demand (unrecognised or unmet demand). What proportion of latent demand relates to (a) transactional (simple information needs or related to standard business operation) and (b) transformational needs (more strategic or intensive support).**

- Amongst *non-users*, one in seven (14 per cent) indicated that during the last three years they had seriously considered using formal business assistance for information about the day to day running of their business i.e. transactional support. Also, just over one in ten (11 per cent) indicated that they had seriously considered using external assistance for strategic advice to help introduce a stepped change i.e. transformational support. These non-users therefore had a *recognised but unmet need* for formal business assistance and represent 10 per cent of all SME employers.
- Also amongst *non-users*, just under a quarter (24 per cent) did not seriously consider using formal business assistance but nevertheless had experienced at least one significant concern during the last three years which they had been unable to deal with completely. These non-users therefore had an *unrecognised and unmet need* for formal business assistance and represent 14 per cent of all SME employers.
- Amongst *users*, almost one in ten (nine per cent) mentioned that they had further information or advice requirements over the last three years for which they had not received external assistance. These users therefore had a *recognised but unmet need* for formal business assistance and represent four per cent of all SME employers.
- When the above three types of latent demand are combined, it would appear that 28 per cent of all SME employers (estimated at 292,361 SME employers) had a latent demand for formal business assistance. Most of this comes from the recognised and unrecognised needs of non-users, although there is a smaller element of unmet demand amongst users.
- The *non-users with recognised needs* tended to be younger businesses that were growth orientated and run by younger aged and less experienced managers. In contrast, the *non-users with unrecognised needs* tended to be older businesses that were survival orientated and run by less well educated and older managers. Women-led and minority ethnic group led businesses were significantly more likely to report having an unmet need for strategic advice than other businesses.

**How widespread are the market failures and how do they differentially affect different segments of the business population? To what extent is the value of advice and support not recognised and to what extent do businesses not know where to access support?**

- Given the overall scale of latent demand, it would appear that more than a quarter (28 per cent) of SME employers experienced various barriers to the take up and use of formal business assistance during the last three years.
- Of the three main categories of market failure identified, *doubts about the benefits and value of assistance in relation to the expense and time involved* appeared to be the most common form of market failure experienced by both those businesses that recognised their need for assistance and those that did not. Over half of them (55 per cent) identified this as a definite reason for not seeking assistance and a quarter (26 per cent) considered this to be the main reason.
- Concerns about the expense of external assistance most commonly applied to businesses in the hotel, restaurant and catering, and financial and business services sectors, and to businesses that were not growing. The difficulty of finding the time to use assistance applied particularly to survival orientated businesses.
- *Relationship failures such as not being able to trust external advisors or concerns about whether advisors would understand the business* appeared to be the second most common form of market failure, with over two fifths (44 per cent) of those businesses with a recognised or unrecognised need for assistance identifying this as a definite reason and one in seven (14 per cent) as the main reason.
- A lack of trust in advisors was most evident amongst businesses in the retail and distribution, construction, and hotel, restaurant and catering sectors, and especially amongst survival orientated businesses. Lack of confidence to approach professional advisors was particularly evident amongst young businesses in their first year of trading, less experienced owner-managers, and women led and minority ethnic group led businesses.
- *Concerns about being able to access appropriate assistance* appeared to be the third most common form of market failure, with a third (35 per cent) of those businesses with a recognised or unrecognised need for assistance identifying this as a definite reason for not seeking assistance and just one in ten (11 per cent) as the main reason. These concerns applied particularly to those businesses with a recognised need for external assistance.
- Concerns about accessing support were most commonly found amongst SME employers in the retail and distribution, and hotel, restaurant and catering sectors, and also amongst women led and minority ethnic group led businesses.
- The majority of all non-users were confident that they would be able to find appropriate external assistance, should they need it, although just under a quarter (23 per cent) were not at all confident.
- Half of non users would be willing to pay for external advice that might help the business grow. Of these, a third said they would be willing to pay no more than £25 per hour, and a further fifth up to £50 per hour. A third said that they did not know how much they would be prepared to pay. Very few would be willing to pay more than £50 per hour, even though most users paying for external assistance paid at least this much.

In conclusion, this study of the take up and use of business support has shown that SME employer businesses are heterogeneous, with different segments of the market exhibiting different assistance requirements and sensitivities which can impact on the selection and non selection of business assistance providers. In order to optimise the take up of formal business assistance, the new business provision framework will need to be promoted and delivered flexibly in ways which will be attractive and appropriate to different market segments.

## INTRODUCTION

### 1.1 The Research Context

#### 1.1.1 Changes to the business support landscape

The context for this research is the changes that the Government is proposing to make to the business support system in England. In broad terms the changes are likely to continue the shift away from a 'provision based paradigm' in which public agencies provide support to businesses directly, towards a 'framework based paradigm' in which Government sets the framework for private sector support.<sup>1</sup> More specifically, the Government plans<sup>2</sup> first to improve online access to Government guidance, support, advice and transactions, with the Business Link website becoming the Government's comprehensive online resource for business from April 2011, but with a radical overhaul to follow, and supported by a national telephone contact centre from November 2011. Second, from October 2011 there will be an on-line business start-up hub where it will be possible for people wanting to start a business or to become self-employed to access a range of tools, guides, interactive learning and checklists. Third, working with the British Bankers' Association the Government plans to support the development of a national network of up to 40,000 experienced business mentors and from June 2011 there will be a web portal for mentors and for those seeking mentoring. And fourth, the Government plans to establish a Business Coaching for Growth service from January 2012 which will focus on high growth potential businesses to help them achieve transformational levels of growth. Thus a key objective of the new business support system will be to facilitate business growth by addressing various market failures that prevent businesses realising their full growth potential, including the reasons why some businesses do not avail themselves of the external sources of support available to them or do not take full advantage of the support that they may have received.

#### 1.1.2 Summary of theory and evidence on market failures

The case for government intervention in the area of business support needs to be based on evidence of market failure i.e. where the market fails to provide at an optimal level the information and advice that businesses need. Market failures may result from problems associated with the businesses themselves and the attitudes or pre-conceptions of entrepreneurs, problems associated with the organisation and delivery of support, and problems arising from the interaction between businesses and suppliers of support.

Existing theory and literature enables us to identify a number of different types of market failure relating to accessing business support, most of them resulting from various kinds of imperfect information relating to the interaction between businesses themselves and the suppliers of business support. These include:

- **Concerns about access to suitable information and advice** can prevent small businesses getting the help they might need. This may be because entrepreneurs are

---

<sup>1</sup> 'Small Business and Government: the Richard Report' Submission to the Shadow Cabinet by Doug Richard, 2008

<sup>2</sup> BIS 'Bigger, Better Business: Helping small firms start, grow and prosper' January 2011.

unaware of the information and advice that is available to them or are unsure how to access the relevant information and advice. They may also be uncertain about or confused by the range of information and advice available.

- Market failures that arise from **doubts about the value and benefits of obtaining information and advice from outside specialists**. This would include concerns about the cost of obtaining expert advice, whether it provides good value for money, and concerns about the time that would be needed to fully benefit from the advice.
- The **moral hazard dilemma** that can arise as a result of other incentives created by the relationship; for example, the incentive for transaction-driven consultants to provide solutions, irrespective of the nature of the problem presented.<sup>3</sup> This can lead to a gap in the provision of impartial diagnostic advice and create uncertainties as to whether external consultants and advisors can be trusted, including concerns about whether confidential information could fall into the hands of competitors.
- Asymmetric information can result in:
  - **Adverse selection issues** if the external advisors do not fully understand the business and thereby provide inappropriate assistance. Also, entrepreneurs may be *discouraged* from seeking advice as a result of either their previous experience or that of their business associates.
  - Business owner managers may be deterred by concerns about possible **power imbalances**, such as concerns about whether they have the skills and knowledge to interact with 'sophisticated' consultants on equal terms.
- On the **supply side**, difficulties can arise if there are gaps in the provision of the kind of services that businesses require or if the services that are provided are not sufficiently attuned to their specific requirements. Problems may also arise if the price of business support is above the value that entrepreneurs perceive and are therefore willing to pay.

Previous research evidence on business support suggests that certain types of business and types of entrepreneur are less likely than others to make use of external support. For example, whilst some survey evidence concludes that overall there is no strong evidence of market failure of supply or willingness to seek support, there are issues of failure related to the smallest businesses and start-ups.<sup>4</sup> With regards to the entrepreneurs themselves, various studies have indicated that certain ethnic-minority led businesses are less likely to make use of business support services than other groups<sup>5</sup>, although other recent research did not find a significant difference in the use of Business Link services once various other factors were controlled for.<sup>6</sup> We recognise therefore that a key aspect of the research will

---

<sup>3</sup> Hjalmarsson, D. and Johansson, A.W. (2003) 'Public advisory services theory and practice', *Entrepreneurship and Regional Development*, 15, 83-98.

<sup>4</sup> Bennett, R.J. (2009) 'Government SME policy since the 1990s: what have we learnt?', *Environment and Planning C.*, 26 (2), 357-97.

<sup>5</sup> Smallbone, D., Ram M., Deakins D., and Baldock, R., (2003) 'Access to finance by ethnic minority businesses in the UK', *International Small Business Journal*, 21, 291-314.; Ram, M., and Jones, T. (1998) 'Ethnic Minorities in Business', Small Business Research Trust.

<sup>6</sup> Mole, K., Hart, M., Roper, S., and Saal, D. (2008) 'Differential gains from Business Link support and advice: a treatment effects approach', *Environment and Planning C.*, 26, 315-334.

be to provide an assessment of whether there are key market failures in the demand for business support that relate to certain types of business (as defined by e.g. age, size and sector) and types of entrepreneur (as defined by e.g. gender, ethnicity and other management characteristics).

## 1.2 Research Aims and Questions

The focus of the research is on the barriers to using formal sources of external business support, the reasons for these barriers and the extent to which there is latent demand for such services. The research differentiates between (i) non users of external assistance; (ii) users of private sector external assistance (e.g. accountants, solicitors, consultants, trade associations); and (iii) users of public sector business assistance (e.g. through Business Link, UKTI, local authorities).

Where assistance has been used, or might be required, the research also differentiates between *transactional assistance* i.e. where support is typically provided at arms length via a particular piece of information to assist with standard, day to day business operations and *transformational support* i.e. where more in-depth, diagnostic, often face-to-face, support is required in order to facilitate a stepped change relating to business growth and productivity.

The research addresses the following questions:

1. What proportion of businesses has accessed support over the previous three years?
2. What are the characteristics (including the growth potential and aspirations) of (a) non users of business support, (b) users of private sector support and (c) users of government - sponsored support services?
3. What organisations have provided this support and what proportions of the support received relate to (a) transactional (simple information needs or related to standard business operation) and (b) transformational (particularly strategic advice in relation to growth or productivity)?
4. What has been the impact of the information and advice received on the performance of the business?
5. How large and how significant is latent demand (unrecognised or unmet demand)? What proportions of latent demand relates to (a) transactional (simple information needs or related to standard business operation) and (b) transformational needs (more strategic or intensive support)?
6. How widespread are the market failures and how do they differentially affect different segments of the business population? How many businesses do not seek external advice and why not? What are their characteristics? To what extent is the value of advice and support not recognised, and to what extent do businesses not know where to access support?

### 1.3 Research Methods and Sampling

A CATI telephone survey of the owner-managers of 1202 employer SME (1-249 employees) businesses in England was undertaken in March 2011 by BMG Research. The survey was mainly quantitative, collecting additional qualitative information for unspecified categories and the interviews with business owner-managers took on average 20 minutes to complete. The survey sample was designed to provide statistically robust evidence of recent business use and non use of external business support services, differentiating between private sector and public sector sources of information and advice.

The survey aimed to produce a broadly representative sample of English SME employers and used a random stratified sample from the national Experian database from which quota sampling was adopted in order to capture sufficient numbers of businesses across key categories (which were not mutually exclusive). The initial business sample was 10 times the required survey target with businesses sampled from five employment size bands: 1-4 employees; 5-9; 10-19; 20-49; and 50-249, with half the sample being assigned equally to each band and the other half proportionately according to business size structure (BIS SME statistics 2009<sup>7</sup>). The aim of this was to achieve a sufficiently robust sample of larger SMEs. Interviews with larger SMEs then had to be weighted so that the achieved survey data was representative of the employer SME population and that the views of larger SMEs were not over-stated. Non-interlocking quotas by industry and region were applied in order to ensure that the sample was broadly representative of the business population by industry and region. A further quota was applied by the age of the business to ensure that the sample was appropriately balanced to include the views of young and more established employer SMEs (i.e. less than three years old and more than three years old).

The data presented in this report has been weighted by size band (unless otherwise stated) to correct for over-sampling amongst larger SMEs (see Technical Annex for more details). 'Grossing up' has been undertaken in order that each interview represents a number of SMEs based on their share of the employer SME population, so that the sample total becomes the total number of employer SMEs in the population and statistics are given as percentages and as the number of employers that they represent.

Most of the data presented in the figures and tables in this report will be based on the survey sample of 1202 SME employers and the weighted sample of 1,037,215 SME employers. Where the valid response base differs from this, it will be noted at the foot of the relevant table or figure.

Appropriate statistical tests were performed on the data to identify statistically significant differences and associations, including a multi nomial logit model to control for various factors in order to unravel the interrelations between various business and management characteristics (see Technical Annex for details). Where anything is described as being 'significant' it means statistically significant at the 95 per cent level of confidence.

Finally, it is important to bear in mind the economic circumstances over the three years (2008-11) when interpreting the findings of this research regarding the use of formal

---

<sup>7</sup> Inter Departmental Business Register (IDBR) for employer business population estimates



business support, as this has been a difficult period for many SMEs as the UK economy recovers from the credit crunch and the recession. We might for example expect to find a higher proportion of businesses seeking help with survival and raising finance than would be the case under more favourable economic conditions.

#### **1.4 Report Structure**

The remainder of this report is structured as follows:

Section 2 describes the characteristics of the sample of 1202 SME employers, including their business objectives and growth performance as well identifying the main challenges that the businesses faced over the last three years.

Section 3 presents an overview of the extent to which SME employers used external assistance during the last three years, distinguishing between information to support the day to day operation of the business and strategic advice to help introduce a stepped change in the performance of the business. Those businesses using support from private and/or public sources are compared with those not using support on a number of business and management characteristics.

Sections 4 and 5 analyse the use of business support information and business support advice respectively over the last three years, focussing on the reasons for obtaining information/advice, the different kinds of provider, the format in which information/advice was provided, the extent to which it addressed the needs of businesses, and the impact the information/advice had on business performance.

Section 6 analyses those businesses that did not use formal assistance over the last three years, focussing on their reasons for not using support, whether or not they considered seeking support, and whether from hindsight they think they could have benefited from external assistance.

Section 7 draws together the evidence from the survey of SME employers which demonstrates the scale of latent demand for external assistance during the past three years and then assesses the types of market failures that have taken place which explain why this demand has not been taken up.

Section 8 summarises the main findings under each of the research questions.

## **2. CHARACTERISTICS AND CHALLENGES OF SMEs**

### **2.1 Characteristics of the Survey Sample**

A total of 1202 English SME employers (1-249 employees) were surveyed in March 2011, which when weighted by employment size to provide estimates for the SME employer population in England, provides data on 1,037,215 SME employers. This section presents data on the characteristics of the SME employers, using this weighted data (the characteristics of the survey sample using the un-weighted data can be found in the Technical Annex).

#### **Firm Employment Size:**

As Figure 2.1 shows:

- The SME employers have the following distribution by employment size: 84 per cent were micro businesses (1-9 employees); 14 per cent were small businesses (10-49 employees); and two per cent were medium sized businesses (50-249 employees).

#### **Firm Trading Age:**

As Figure 2.2 shows:

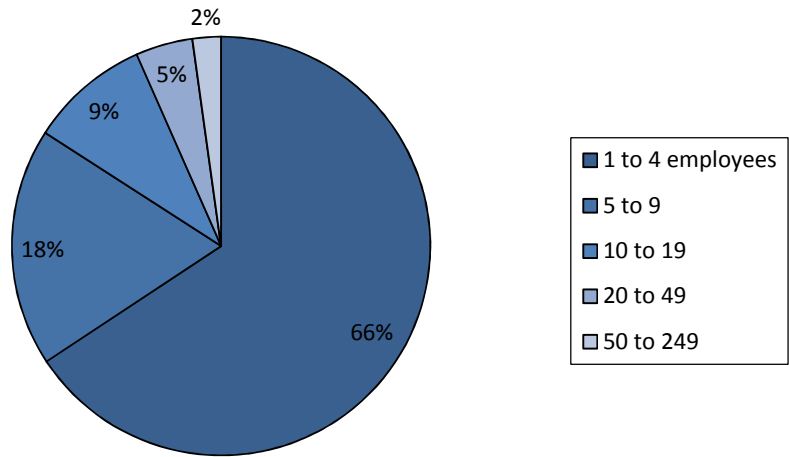
- The SME employers have the following distribution in terms of their trading age: 18 per cent had been trading for less than one year; a further nine per cent had been trading for one to three years; two fifths had traded for more than 10 years with nearly a quarter for more than 20 years.

#### **Regional Distribution:**

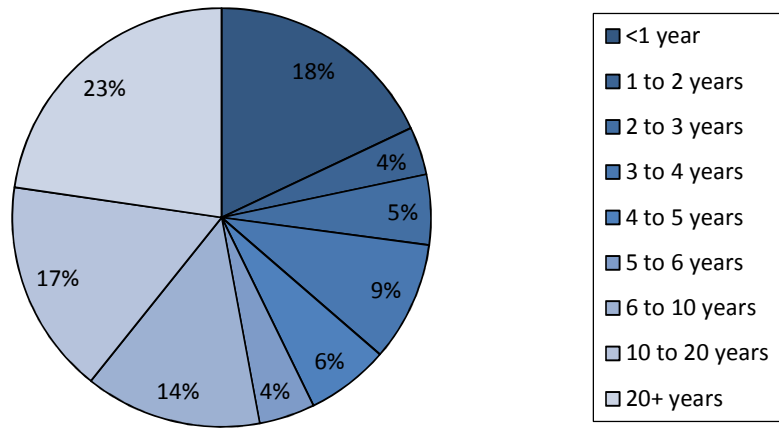
As Table 2.1 shows:

- The sample of SME employers is well distributed, in-line with national business data, across the English regions, ranging from four per cent in the North East up to 18 per cent in the South East, with slight underrepresentation in London (13 per cent).

**Figure 2.1: Employment size of SME employers**



**Figure 2.2: Age of SME employers**



**Table 2.1: Regional distribution of surveyed SME employers**

English Region	National Distribution %*	Survey %
East Midlands	8%	9%
South West	11%	12%
South East	18%	18%
London	16%	13%
West Midlands	10%	10%
North West	12%	13%
Yorkshire and The Humber	9%	9%
East of England	12%	12%
North East	4%	4%

\*IDBR, 2009

**Broad Sector:**

As Table 2.2 shows:

- The sector distribution is broadly in-line with the national business sector distribution and ranges from four per cent in the primary sectors and five per cent in the transport sector up to 23 per cent in retail and distribution and 29 per cent in financial and business services.

**Table 2.2: Sectoral distribution of surveyed SME employers**

Sector	National Distribution %*	Survey %
Primary / Agricultural	4%	4%
Manufacturing	11%	10%
Construction	11%	12%
Wholesale, Retail and Repairs	19%	23%
Hotels and Restaurants	9%	7%
Transport, Storage and Communication	4%	5%
Financial and Business Services	27%	29%
Public, Community, Social and Personal Services	15%	12%

\* IDBR, 2009

Management Characteristics:

Of those SME employers surveyed:

- Four fifths had no more than two directors/owners (36 per cent had one director/owner and 43 per cent had two directors/owners). Just nine per cent had four or more directors/owners.
- One fifth (21 per cent) were majority owned by women.
- One in six (16 per cent) had ethnic minority directors/owners.

- Just over two fifths (44 per cent) of respondent directors/owners had at least degree level qualifications, with a further 19 per cent having A levels or equivalents. One in eight (12 per cent) had no formal qualifications.
- Just under a quarter (22 per cent) of respondent directors/owners were under 35 years old, 41 per cent were aged between 35 and 50, and 37 per cent were aged over 50.
- Two thirds (67 per cent) of respondent directors/owners had over ten years business experience, whereas at the other extreme, less than a fifth (18 per cent) had less than six years experience (and 10 per cent less than three years).

#### Size of Sales Turnover:

- The SME employers were evenly distributed with regards to business sales turnover for the last recorded financial year with: 15 per cent with less than £67,000; 28 per cent between £67,000 and £250,000; 25 per cent between £250,000 and £1m; 17 per cent between £1m and 2.8m; and 14 per cent with over £2.8m.
- More than two fifths (41 per cent) of SME employers indicated that sales turnover for the last financial year was higher than the year previously, whilst 37 per cent remained stable and 22 per cent declined.

## 2.2 Main Business Objectives

Surveyed SME employers were asked what had been their main business objective during the past three years.

- Growth (42 per cent) and survival (43 per cent) were by far the most frequent responses. Much less frequently mentioned objectives included to make a profit, provide a good service, provide good customer care, develop new areas of business, and sell the business.
- Where growth was the main objective in the past three years, 66 per cent aimed to grow sales turnover, a similar proportion (64 per cent) aimed to increase profits, 26 per cent aimed to increase market share, and 23 per cent aimed to increase employment.
- Almost two thirds (65 per cent) of SME employers stated that their main objective in the next three years is to grow their business, with one quarter stating that survival is their main objective.

Further analysis of business objectives by business characteristics indicates significant differences, as follows:

- Medium sized SME employers were significantly more likely to have had growth as their main business objective in the past three years (60 per cent of them) than their smaller counterparts, particularly when compared to micro businesses with 1-4 employees (39 per cent).
- Public, community, social and personal services had the highest proportion of businesses with growth as their main aim (51 per cent), whilst the construction sector had a significantly lower proportion (35 per cent).

- Younger SME employers, trading for less than three years had a significantly higher proportion of businesses with growth as their main aim (51 per cent) than older established businesses, particularly those trading for more than 10 years (34 per cent). Conversely, older established SME employers, trading for more than 10 years had a significantly higher proportion with survival as their main aim (51 per cent), compared to the youngest trading SME employers (29 per cent).
- Micro businesses with 1-4 employees had a significantly higher proportion of businesses with survival as their main aim (47 per cent of them), particularly when compared to small (31 per cent) and medium sized businesses (25 per cent).
- Construction (52 per cent) and transport, storage and communication (50 per cent) are the sectors with the highest proportions of businesses with survival as their main aim, whilst this is a significantly lower proportion in public, community, social and personal services (35 per cent).

### **2.3 Growth Performance**

Surveyed SME employers were asked if their business had grown during the past three years and, more specifically, whether they had experienced sales growth and/or employment growth over the last 12 months.

- Overall two thirds (66 per cent) of SME employers indicated that they had grown over the last three years.
- More than one quarter (27 per cent) of SME employers indicated that they had grown by more than 50 per cent, either in terms of sales turnover or employment, during the past three years.
- Two fifths of SME employers experienced sales turnover growth over the last 12 months, whilst just over a quarter (28 per cent) experienced employment growth in this period.

Further analysis of the two-thirds of SME employers exhibiting growth over the past three years by business characteristics indicates the following significant factors:

- Medium sized businesses (50-249 employees) were the most likely to report growth in the last three years (77 per cent of them), which was significantly higher than for micro SME employers in the 5-9 employees category (59 per cent).
- The public, community, social and personal services sector exhibited the highest level of growth (78 per cent of them), with all other sectors (apart from construction at 47 per cent) showing that around two-thirds of businesses had grown.
- SME employers trading less than three years exhibited the highest proportion achieving growth (83 per cent), followed by those trading between 3-10 years, with older SME employers trading over 10 years exhibiting a significantly lower proportion (49 per cent).

Further analysis of the quarter of SME employers exhibiting growth of over 50 per cent during the past three years shows that:

- There is no significant difference between the proportions of SME employers in different employment size categories with growth of more than 50 per cent during the past three years.
- With regard to broad sectors, the transport, storage and communications and financial and business services sectors contained the highest proportions of higher growth businesses (both 33 per cent), whilst construction contained a significantly lower proportion of higher growth businesses (15 per cent).
- SME employers trading less than three years exhibited the highest proportion with higher growth (48 per cent), followed by those trading between 3-10 years (29 per cent), with older SME employers trading over 10 years exhibiting a significantly lower proportion with higher growth (11 per cent).

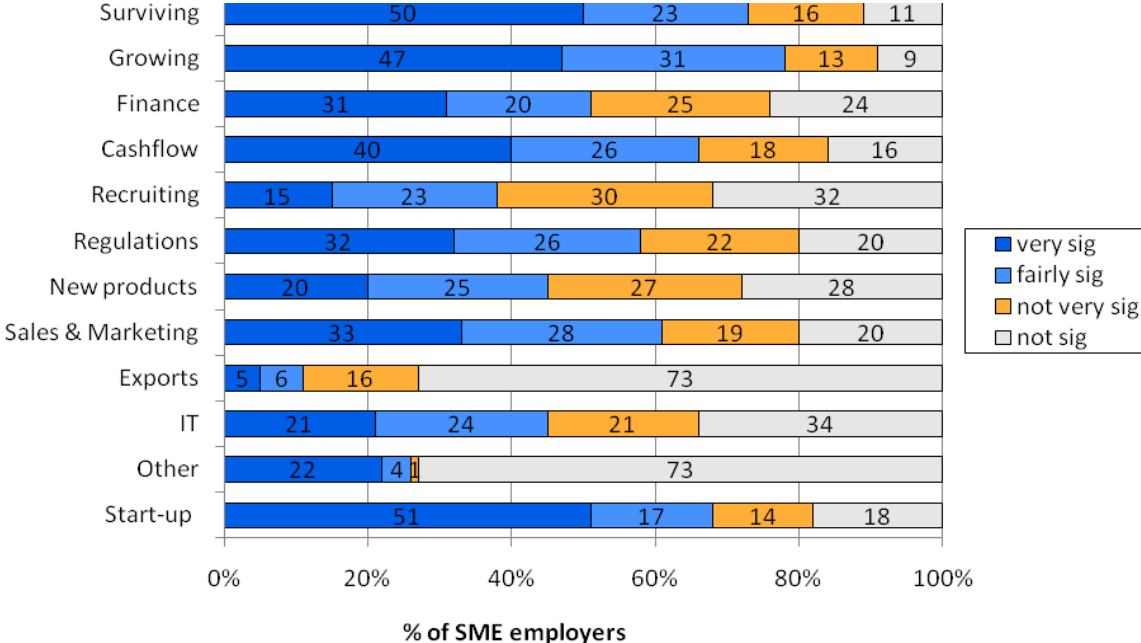
## **2.4 Challenges and problems to growth and business development**

SME employers were asked to think about the challenges that had faced their business over the last three years and to assess to what extent a range of factors had been significant concerns for their business. For those factors that had been a significant issue for the business, they were also asked whether it had been an issue in the past 12 months.

As Figure 2.3 shows:

- Developing and growing the business was the most frequently identified concern over the past three years with 78 per cent of SME employers rating it as very or fairly significant. The youngest businesses (established for less than 10 years) were significantly more likely to identify this as a very significant concern than were older businesses (53 per cent compared to 38 per cent). Moreover, a significantly greater proportion of medium sized businesses than micro businesses identified this factor as a very significant concern (57 per cent compared to 46 per cent).
- Survival was the second most frequently identified concern for the business over the past three years with 73 per cent of SME employers rating it as very or fairly significant. This was a concern for a significantly greater proportion of micro and small businesses than of medium sized businesses (51 per cent of micro and small businesses identifying survival as a very significant concern compared to 37 per cent of medium sized businesses). SME employers in the hotels/restaurants and wholesale/retail sectors were particularly concerned about survival (60 and 55 per cent of them respectively identifying survival as a very significant concern).
- Other frequently identified concerns were cash-flow (66 per cent of SME employers rating it as very or fairly significant), sales and marketing (62 per cent) and regulations (59 per cent). Raising finance was considered to be at least fairly significant by 50 per cent of SME employers.

**Figure 2.3: Significant concerns over the last three years**



Valid response base = 1037215 (sample n = 1202)

- In terms of issues faced in the last 12 months, those most frequently mentioned as very or fairly significant were: developing and growing the business (58 per cent of SME employers), surviving (53 per cent), cash-flow (51 per cent), sales and marketing (43 per cent), and regulations (40 per cent).
- When asked to what extent the business had been able to deal with these challenges, 34 per cent replied completely, 59 per cent replied to some extent and six per cent replied not at all. Unsurprisingly, those businesses stating that they had grown over the last three years were significantly more likely to say that they had completely dealt with their concerns than those businesses stating they had not grown (40 per cent of growers compared to 24 per cent of non-growers).
- Non-users of external assistance were more likely to consider that they had completely dealt with any issues they identified than those using private and/or public assistance (40 per cent of non-users compared to 27 per cent of users of support). This suggests that a significant proportion of SME employers that did not use support in the last three years considered that they were capable of dealing with problems internally.

**2.5 Conclusion**

A diverse range of SME employers in terms of business and management characteristics has been shown to have been covered by the survey, reflecting the heterogeneity found within the population of SME employers as a whole. We can therefore expect to find differences in the extent of use of formal business assistance between different types of SME employer. A distinction is also apparent between those SME employers that have been growth orientated over the last three years and achieving growth, and those that have been



more concerned with survival. The extent to which this distinction influences the use of both different types of external assistance and different kinds of provider will be examined.

### 3. OVERVIEW OF BUSINESS SUPPORT USE IN THE LAST THREE YEARS

#### 3.1 Overall usage of formal business assistance in the last three years

SME employers were asked if they had made any use of external assistance that was important to the operation of their business from public or private sector organisations during the last three years and whether this had been for:

- (i) **Transactional assistance** – defined as *information* to support the day to day operation of the business (e.g. to help complete a routine task such as filling in forms to comply with business regulations) and more than a casual conversation;
- (ii) **Transformational support** – defined as *strategic advice* to help introduce a stepped change to grow the business, be more profitable or employ more people.

As shown in Figure 3.1:

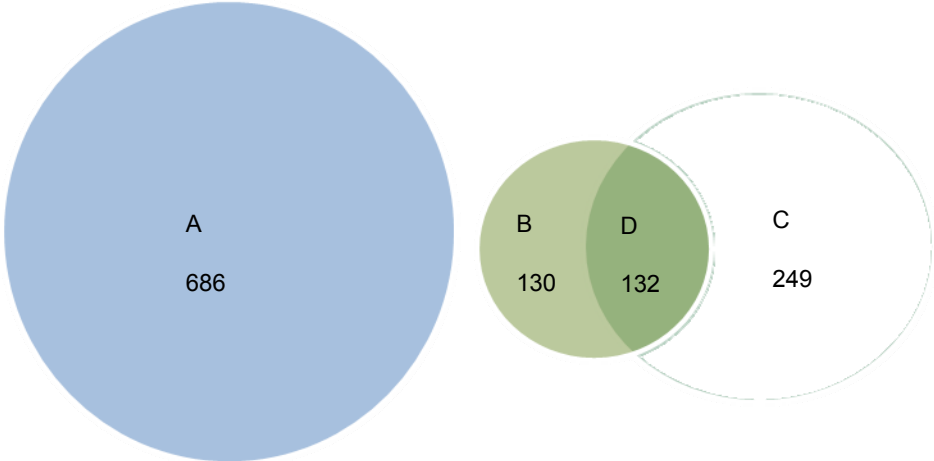
- Two fifths (40 per cent) of SME employers used formal business assistance during the last three years.
- Just under one fifth (19 per cent) of SME employers used *only* private sector assistance, just over one in ten (11 per cent) used *only* public sector assistance, and just under one in ten (nine per cent) used *both* private and public sector assistance.
- Taken together, over a quarter (29 per cent) of SME employers used private sector assistance and one fifth (20 per cent) used public sector assistance.

As shown in Table 3.1:

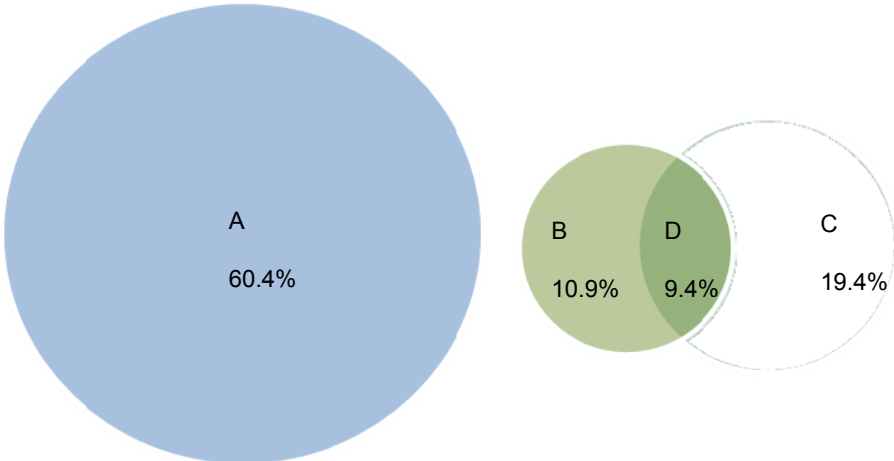
- Just over one fifth (22 per cent) of all SME employers had *only* sought information, six per cent had *only* sought strategic advice and one in eight (12 per cent) had sought *both* information and strategic advice.
- More than four fifths (86 per cent) of SMEs using formal business assistance did so to obtain *information*, with over half (56 per cent) obtaining only information and hence seeking only transactional support.
- Over two fifths (44 per cent) of SMEs using formal business assistance did so to obtain *strategic advice*, with one in seven (14 per cent) obtaining only strategic advice and hence seeking only transformational support.
- There was little difference between SME employers using *only* private sector sources and those using *only* public sector users in terms of the proportions receiving information and advice. Two thirds (62 per cent of *only* private users and 66 per cent of *only* public users) sought information only.
- Almost two thirds (60 per cent) of those SME employers using *both* private and public assistance were most likely to be seeking *both* information and strategic advice, with another third (33 per cent) seeking *only* information.

**Figure 3.1: Use of external assistance for information and strategic advice and type of support**

(a) Survey Sample



(b) Weighted Sample



A = Non users  
 B = Users of only public support  
 C = Users of only private support  
 D = Users of both public and private support

**Table 3.1: Use of private and public business assistance for information and strategic advice during the last three years**

	<b>Information only</b>	<b>Strategic advice only</b>	<b>Both information and strategic advice</b>
Percentage of all SME employers	22%	6%	12%
All users (100% n= 409384)	56%	14%	30%
Private users only (100% n= 200119)	62%	17%	21%
Public users only (100% n= 112491)	66%	14%	20%
Both private and public users (100% n= 96774)	33%	7%	60%

**3.2 Comparisons of Users (Private and Public) and Non Users**

Having considered the extent to which SME employers used external assistance from private and public providers over the last three years, we now compare the users and non users of formal business assistance in order to see whether certain types of businesses have a higher propensity to use external assistance. We are also interested in identifying whether there are any distinctive differences between the users of private sector assistance and the users of public sector assistance. As well as looking at a number of business characteristics separately, we have also used a multinomial logit model to control for various factors in order to unravel the interrelationships between different characteristics and to identify those characteristics that appear to be most significant when other characteristics are controlled for (see Technical Annex for details).

**Age of Business**

As shown in Figure 3.2:

- New SME employers (i.e. those established for less than one year) had a higher propensity to use formal business assistance than those businesses established for more than one year (47 per cent of them compared to 38 per cent).
- New SME employers had a particularly high propensity to obtain assistance from public sector sources (25 per cent of them compared to 20 per cent of other SMEs).

However, when controlling for other factors, the youngest firms were significantly less likely to use assistance from *both* public and private sources than were older firms. When seeking advice, these youngest firms tend to use either private or public sources rather than a combination of them.

**Figure 3.2: Age of SME employer and use of external assistance**



Valid response base = 1037215 (sample n = 1202)

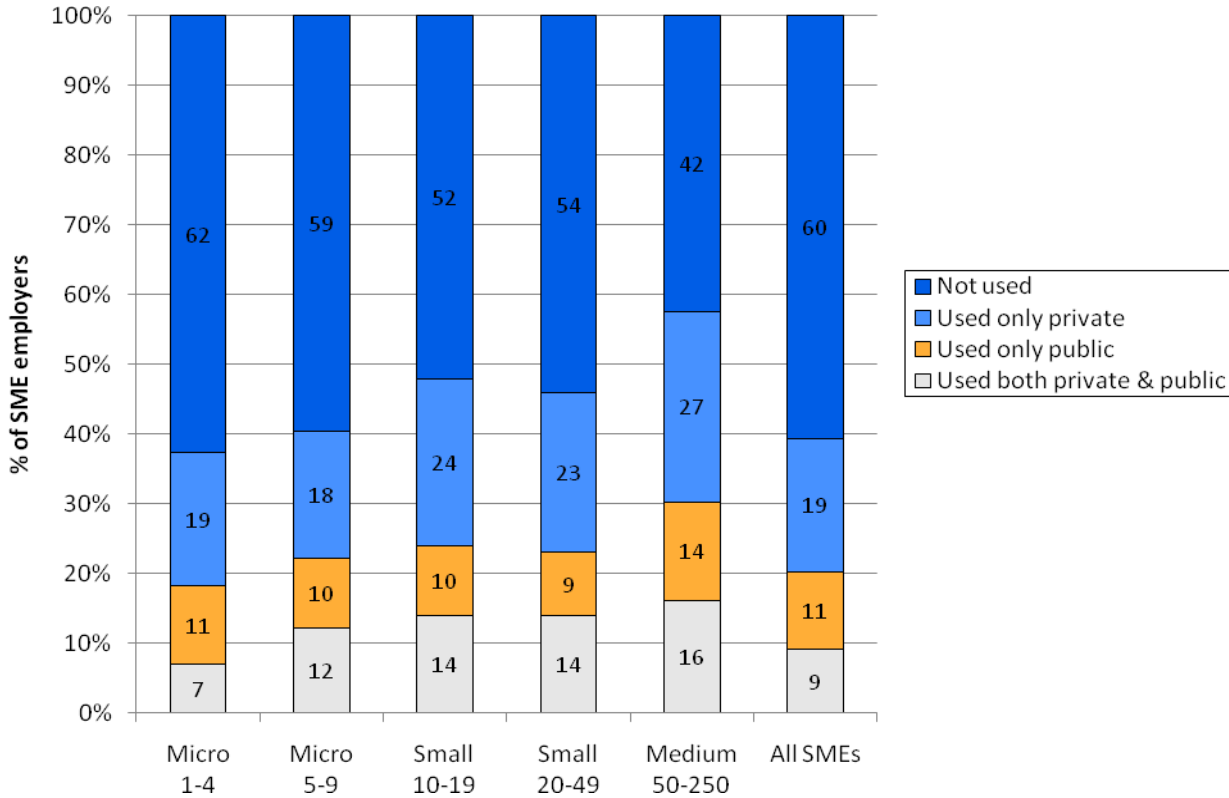
**Employment**

As shown in Figure 3.3:

- Micro businesses were significantly less likely to use formal business assistance than small and medium sized businesses (39 per cent of micro businesses used external assistance, compared to 48 per cent of small businesses and 57 per cent of medium businesses).
- Micro businesses using formal business assistance were more likely to use solely public sector assistance than small and medium sized businesses (30 per cent of those micro business receiving assistance, compared with 22 per cent of their small and 24 per cent of their medium sized counterparts).
- Medium sized businesses were significantly more likely to use only private sector sources than were micro businesses (27 per cent compared to 18 per cent).

When controlling for other factors through logit analysis, businesses in the 5-9, 10-19, 20-49, and 50-249 employment size categories were significantly more likely to take external assistance from *both* public and private sources than were businesses in the 1-4 category.

**Figure 3.3: Employment size and the use of external assistance**



Valid response base = 1037215 (sample n = 1202)

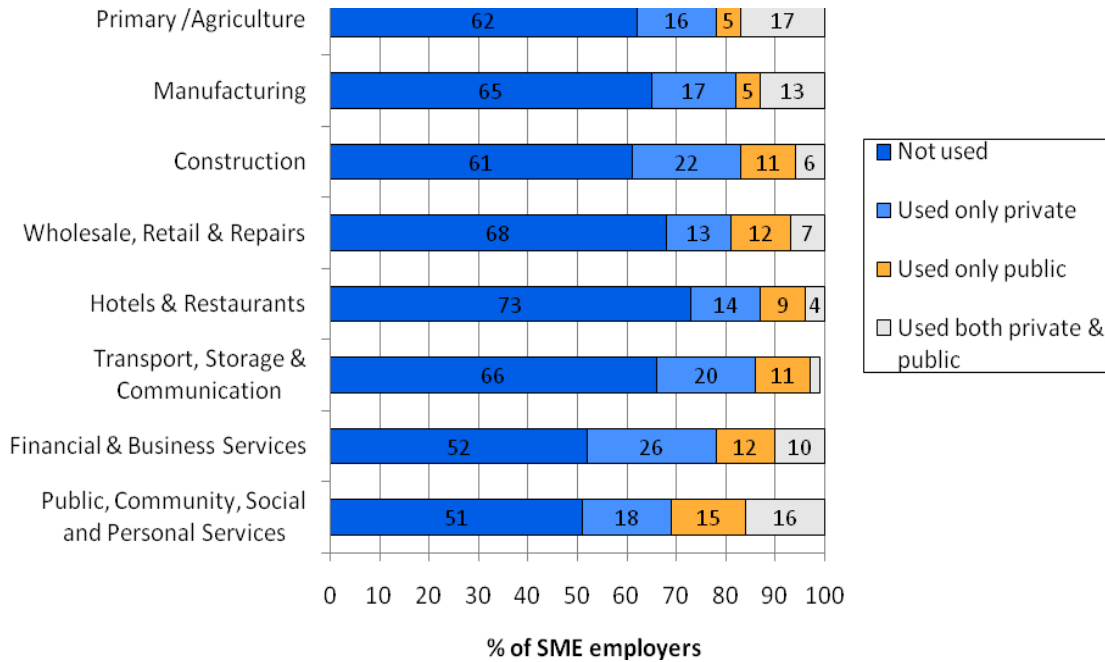
**Sector**

As shown in Figure 3.4:

- The use of formal business assistance differs markedly by sector. Almost half of SME employers in the public, community, social and personal services (49 per cent) and financial and business services (48 per cent) sectors used external assistance in the past three years, whilst just over one quarter (27 per cent) did so in the hotel, restaurant and catering sector.
- Financial and business services (36 per cent), public, community, social and personal services (34 per cent) and primary/agricultural activities (33 per cent) exhibited the highest propensity to use private sector assistance, whilst hotels, restaurants and catering (18 per cent) and wholesale, retail and repairs (20 per cent) contained the lowest proportional use of private sector assistance in the past three years. These differences were statistically significant when other factors were controlled for.
- The public, community, social and personal services sector (31 per cent) had by far the greatest propensity to use public sector assistance during the past three years, whilst the transport, storage and communication (13 per cent) and hotel, restaurants and catering (13 per cent) sectors had the lowest proportional use. The wholesale,

retail and repairs sector had a significantly lower use of public sector assistance when other factors were controlled for.

**Figure 3.4: Use of external assistance by sector**



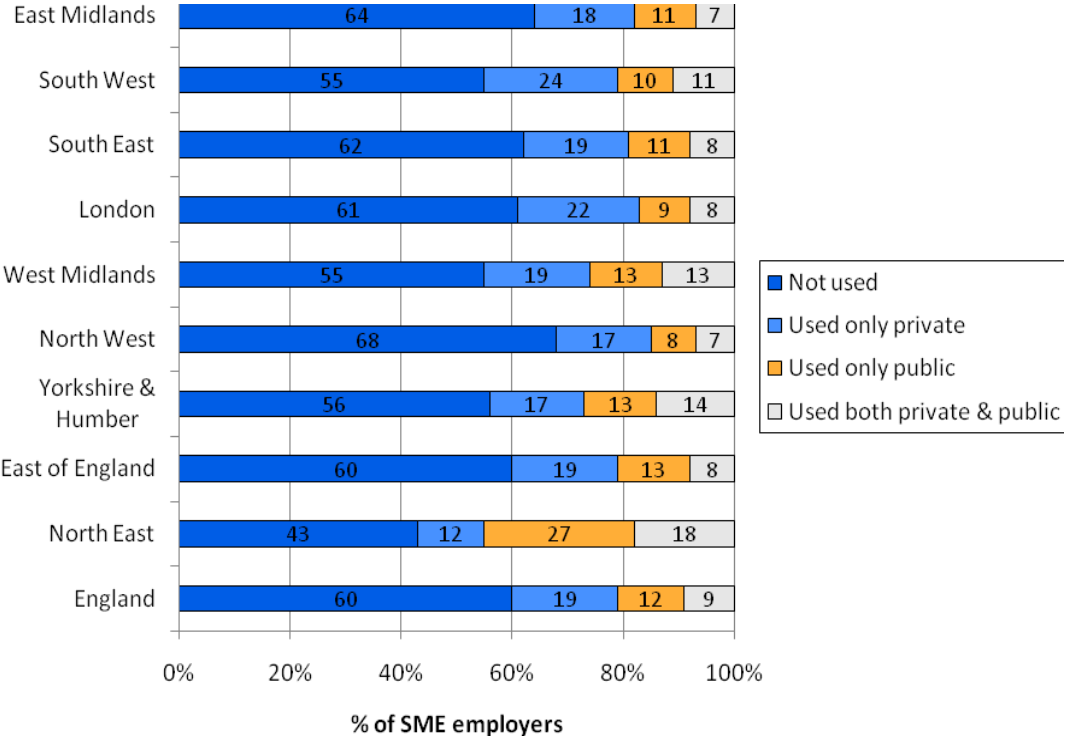
Valid response base = 1037215 (sample n = 1202)

### Regional differences

As shown in Figure 3.5:

- There are some marked regional differences in the proportion of SME employers that used formal business assistance over the last three years. Compared to England as a whole where 40 per cent of SME employers used business assistance, the level of use was highest in the North East (57 per cent) and South West (45 per cent) and lowest in the North West (32 per cent) and East Midlands (36 per cent).
- Compared to England as a whole where 29 per cent of SMEs used assistance from private sector sources, the level of use of private sources was significantly higher in the South West (35 per cent), West Midlands (32 per cent), and London (30 per cent) and lowest in the North West (24 per cent) and East Midlands (26 per cent). These differences remained significant when other factors were controlled for.
- Compared to England as a whole where 21 per cent of SMEs used assistance from public sector sources, the level of use of public sources was particularly high in the North East (45 per cent) and above average in Yorkshire and Humberside (27 per cent) and the West Midlands (26 per cent), but lowest in the North West (15 per cent) and London (17 per cent).

**Figure 3.5: Use of external assistance by region**



Valid

response base = 1037215 (sample n = 1202)

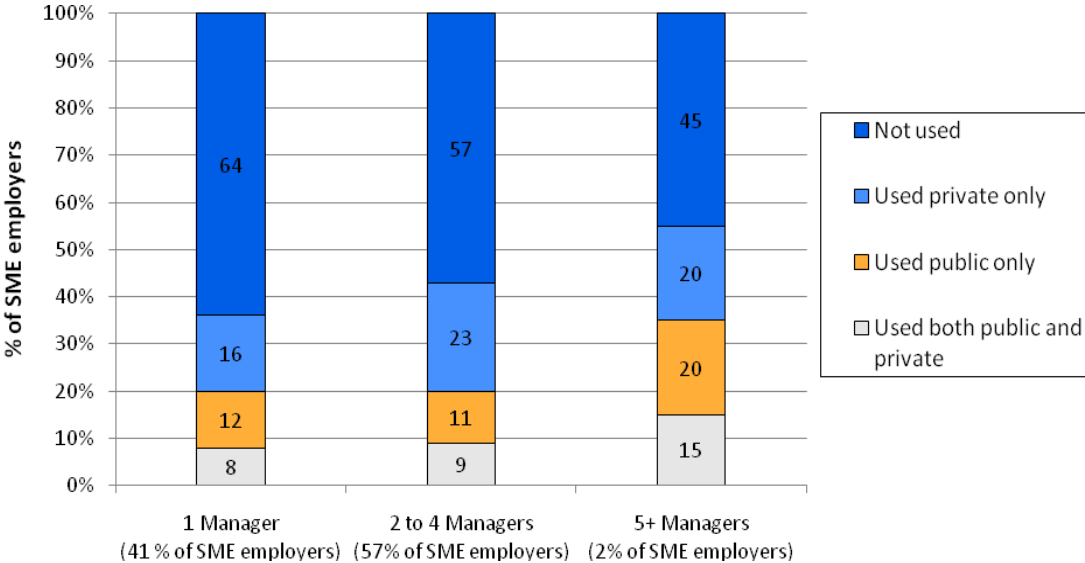
**Management characteristics**

As shown in Figure 3.6:

- The use of formal business assistance during the last three years was proportionally greater amongst the surveyed SME employers with larger management structures (more than half of SME employers with five or more managers, compared to just over one third of those with one manager).
- Amongst the SME employers using business assistance, those with five or more managers had the highest proportion using public sector assistance (almost two-thirds of them, compared to less than half of those with 2-4 managers).
- Amongst the SME employers using business assistance, those with 2-4 managers exhibited the highest proportional use of private sector assistance (three-quarters of them).



**Figure 3.6: Number of managers in the business and use of external assistance**



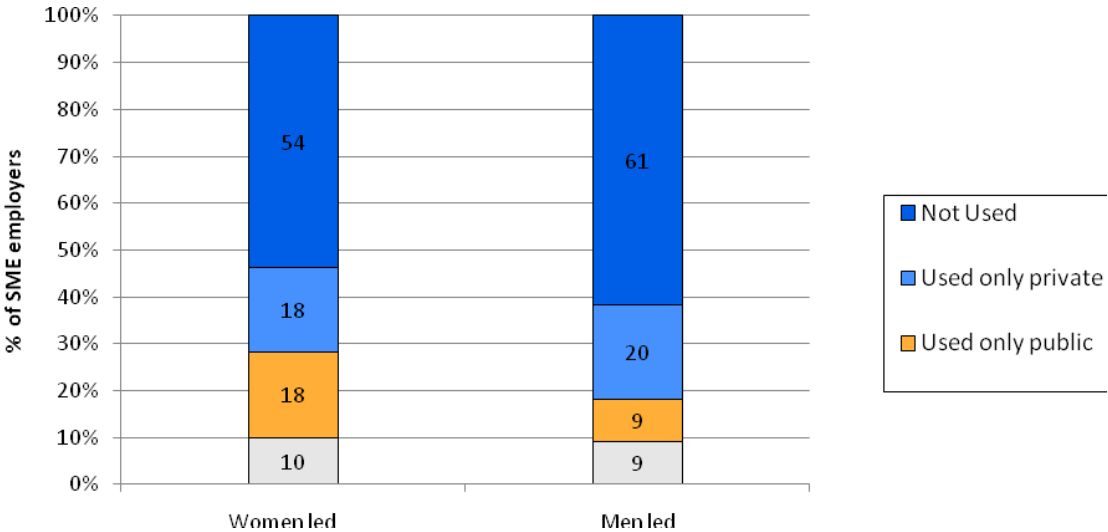
Valid response base = 1037215 (sample n = 1202)

**Women led businesses**

As shown in Figure 3.7:

- Those SME employers where more than half of the business was owned by women were more likely to use formal business assistance than their male run counterparts (46 per cent compared to 39 per cent). Those women-led businesses using business assistance were significantly more likely to have used public sources than male-led businesses (28 per cent of them compared to 18 per cent).

**Fig 3.7: Women led businesses and use of external assistance**



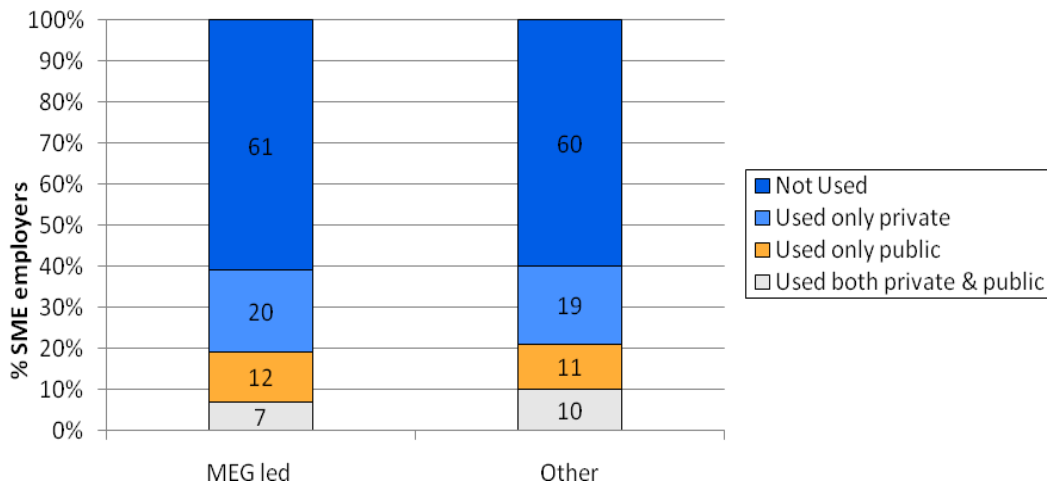
Valid response base = 1037215 (sample n = 1202)

## Ethnic Minority-led businesses

As shown in Figure 3.8:

- A similar proportion of Minority Ethnic Group (MEG) led SME employers used formal business assistance during the past three years to that of their counterparts (39 per cent of MEG led compared to 40 per cent of their non MEG counterparts). Similar proportions also used the various sources of assistance.

**Figure 3.8: MEG led businesses and use of external assistance**



Valid

response base = 1037215 (sample n = 1202)

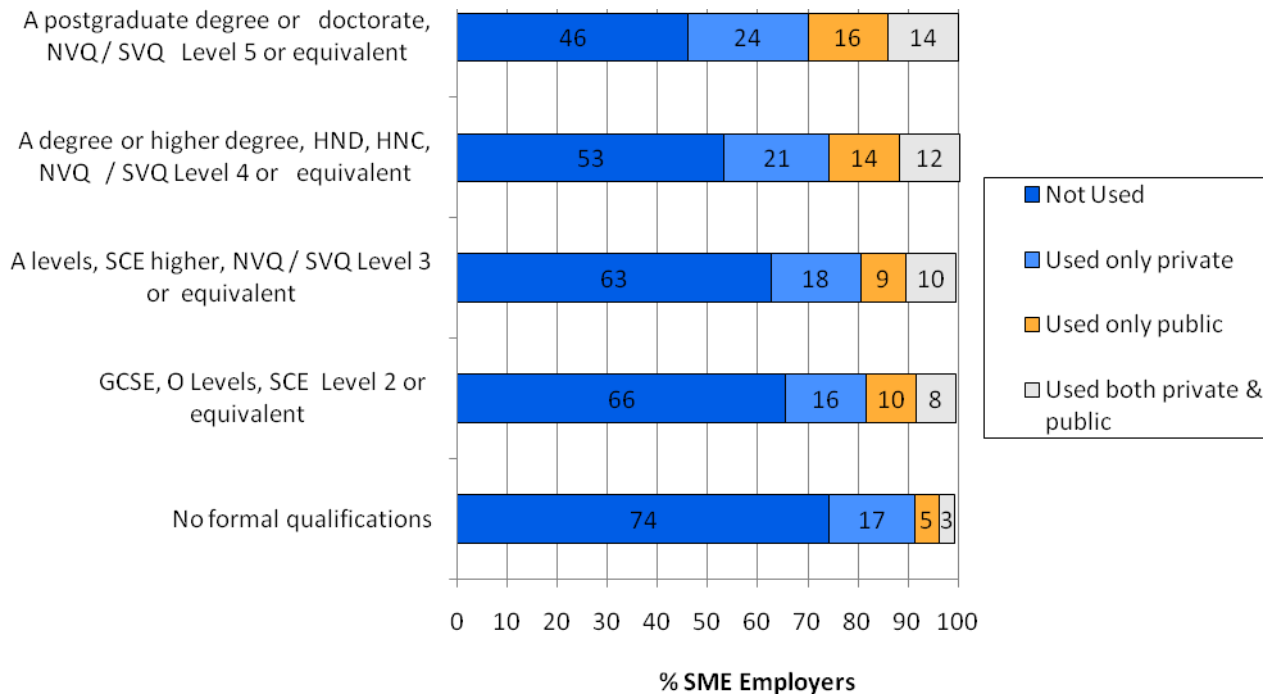
## Qualifications of business owners

As shown in Figure 3.9:

- Those businesses where managers had a degree level qualification or post graduate qualification were more likely to use formal business assistance (47 per cent and 54 per cent respectively) than those where managers had lower level qualifications (36 per cent of them) or no formal qualifications at all (26 per cent of them).
- Overall, the use of both private and public sector assistance increased proportionally with the increased levels of formal qualifications held by the SME employers.
- A higher proportion of those businesses using business assistance that were run by the most qualified managers used public sector sources than was the case where managers had lower level or no formal qualifications (54 per cent of those run by managers with postgraduate qualifications compared with 28 per cent of those with no qualifications).

We might expect that better educated managers would be more comfortable dealing with professional advisors in the private sector and this is confirmed by the results of the logit analysis.

**Figure 3.9: Qualifications of interviewed manager and use of external assistance**



Valid response base = 1037215 (sample n = 1202)

**Age of owner manager**

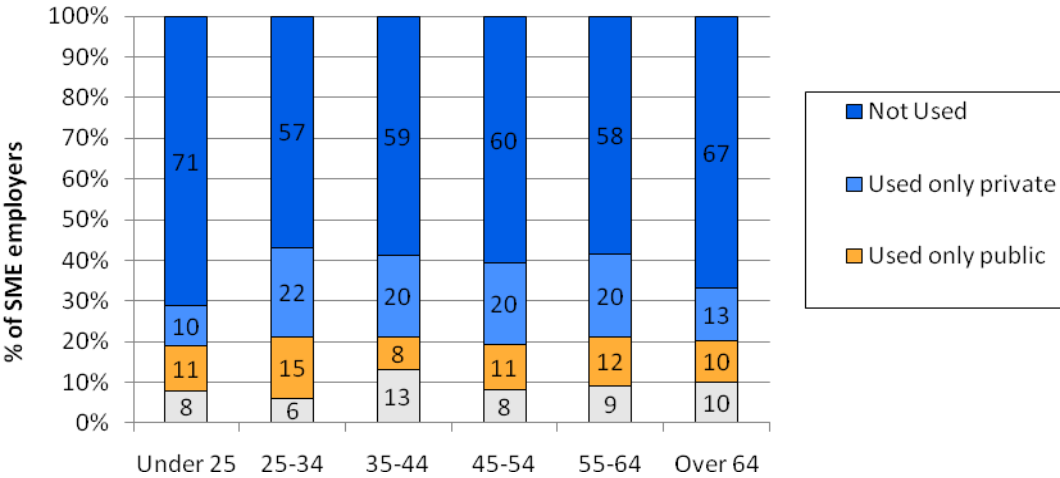
As shown in Figure 3.10:

- SME employer businesses with respondent managers aged under 25 and those aged over 64 made the least use of formal business assistance (29 per cent and 33 per cent respectively), whilst in other age categories at least two-fifths used business assistance.
- Where SME employers used formal business assistance in the last three years, younger managers aged under 25 were more likely to use public assistance than their older counterparts and less likely to use private assistance.

The age of the owner-manager has been used in previous research to denote entrepreneurial ability with ‘middle age’ being the ‘best’ when ambition and experience combine.<sup>8</sup> The logit analysis indicates one instance of this being significant with middle aged owner-managers taking more advice from both private and public sources.

<sup>8</sup> Cressy, R. 1999. Small Business Failure: Failure to Fund or Failure to Learn? In *Entrepreneurship, Small and Medium Sized Enterprises and the Macroeconomy*, eds. Z. Acs, B. Carlsson & C. Karlsson, 161-185. Cambridge: Cambridge University Press.

**Figure 3.10: Age of interviewed manager by use of external assistance**



Valid response base = 1037215 (sample n = 1202)

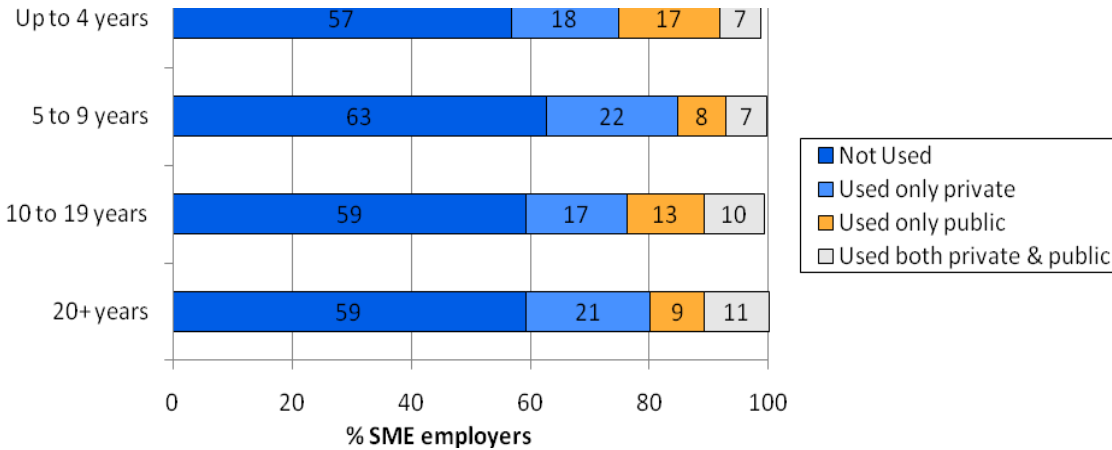
**Experience of owner manager**

As shown in Figure 3.11:

- There is little difference in the proportional use of formal business assistance between SME employers with respondent owner-managers of different levels of business experience. The least experienced managers, with less than five years business experience, were slightly more likely to use business assistance (43 per cent) than their more experienced counterparts (40 per cent).

When other factors are controlled for, there appears to be a u-shaped relationship between years of experience and the taking of private sector advice, those owner-managers with the least and the most experience being more likely to take private advice.

**Figure 3.11: Business experience of interviewed manager by use of external assistance**



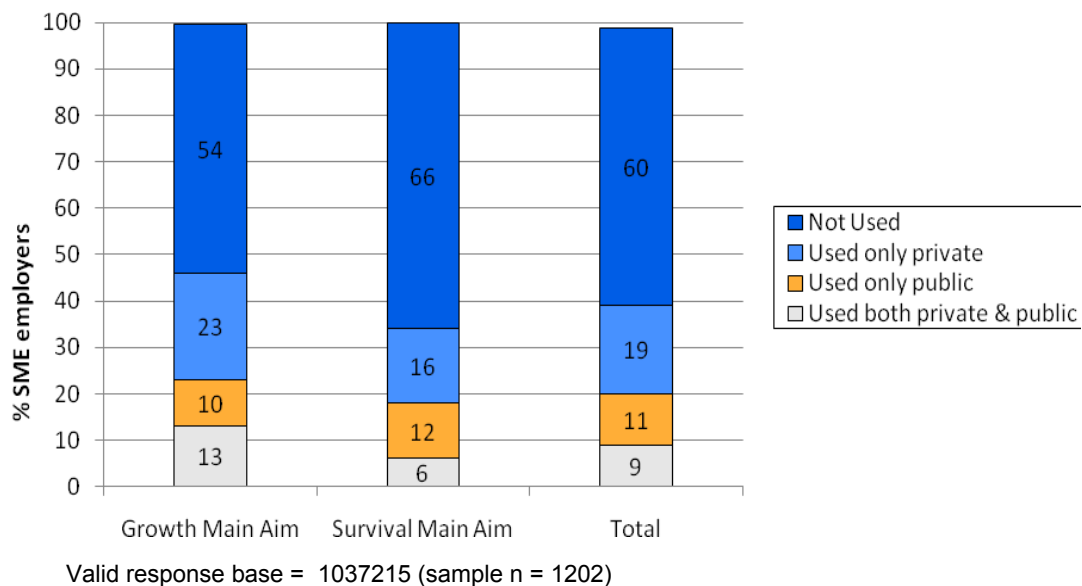
Valid response base = 1037215 (sample n = 1202)

## Main Business Objectives

As shown in Figure 3.12:

- SME employers with a growth aim as their main business objective over the past three years exhibited a higher propensity to use formal business assistance during this period than their counterparts aiming for survival (46 per cent of growth seeking compared to 34 per cent of survival seeking).
- SME employer businesses with a growth aim priority during the past three years exhibited a far higher proportional use of private sector assistance during this period than their survival counterparts (36 per cent compared to 23 per cent), as well as a higher proportional use of public sector support (23 per cent compared to 18 per cent). In fact, a significantly higher proportion of growth orientated businesses used public sector support when other factors were controlled for.
- Only a slightly higher proportion of survival orientated businesses seeking support used public sector assistance than was the case with growth orientated businesses (53 per cent of them compared to 50 per cent).

**Figure 3.12: Business where growth or survival main aim in the past three years by use of external assistance**



## Growth of business

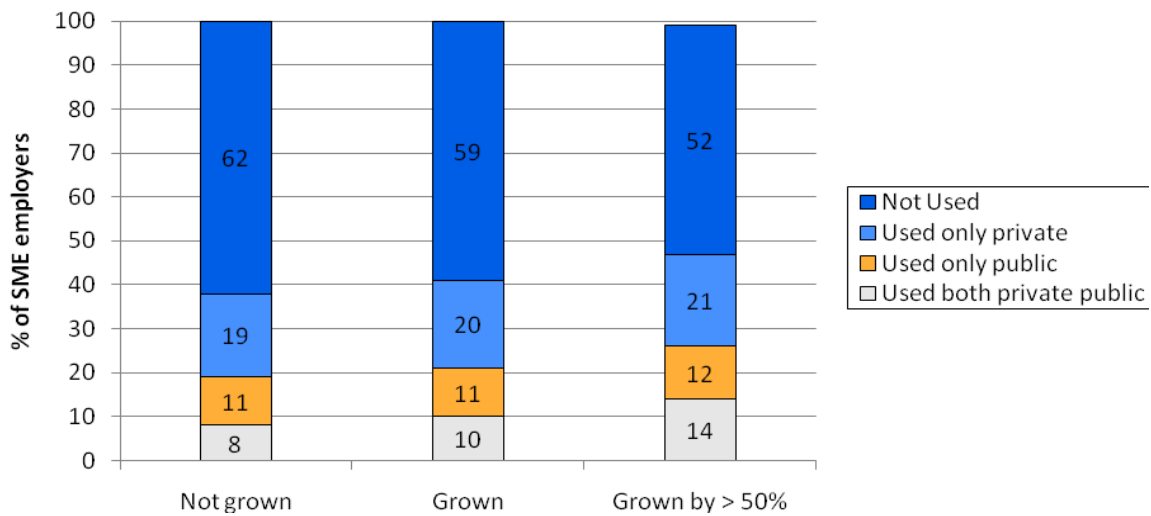
As shown in Figure 3.13:

- There was only a slight difference in terms of the use of formal business assistance between SME employers that said they had grown over the last three years (or since established in the case of new businesses) and those that said they had not grown (41 per cent of growers and 38 per cent of non-growers).

- However, SMEs that said they had grown by more than 50 per cent were more likely to have used business assistance (48 per cent of them), with higher proportional use of both private (36 per cent) and public (27 per cent) sector providers amongst the fast growers.

The logit analysis shows that a significantly higher proportion of these fast growing businesses used *both* private and public support, when other factors are controlled for. This shows that fast growing businesses tend to actively seek support from various sources and supports the idea that growth pushes managers to seek advice.<sup>9</sup>

**Figure 3.13: Has the business grown in the last 3 years/since established by use of external assistance**



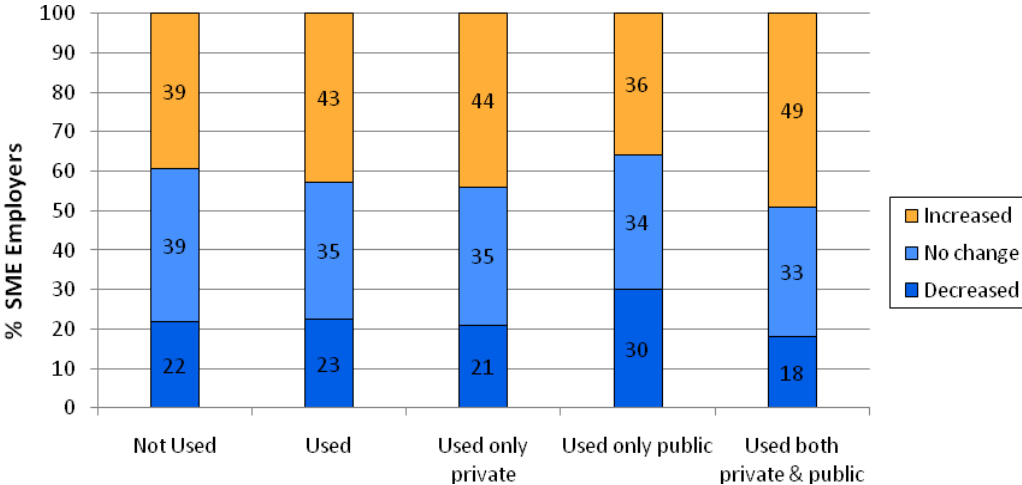
Valid response base = 761992 (sample n = 883)

As shown in Figure 3.14:

- Overall, two-fifths (41 per cent) of SME employers had increased their sales turnover during the last 12 months, with just over one fifth (22 per cent) experiencing declining sales turnover.
- A higher proportion of SME employers using formal business assistance increased their sales turnover during the past 12 months (43 per cent of users compared to 39 per cent of non users), whilst there was little difference between users and non users with regard to proportions experiencing declining sales turnover (23 per cent of users and 22 per cent of non users).
- Users of private sector assistance were more likely to have experienced sales turnover increase in the past 12 months than public sector users (46 per cent of private sector users compared to 42 per cent of public sector users) and less likely to have experienced declining sales turnover in this period (20 per cent of private sector users compared to 24 per cent of public sector users).

<sup>9</sup> Johnson, S., Webber D.J., and Thomas W. (2007) 'Which SMEs use external business advice? A multivariate subregional study', *Environment and Planning A*, 39, 1981-1997

**Figure 3.14: Percentage of business sales turnover change in the last 12 months by use of external assistance**

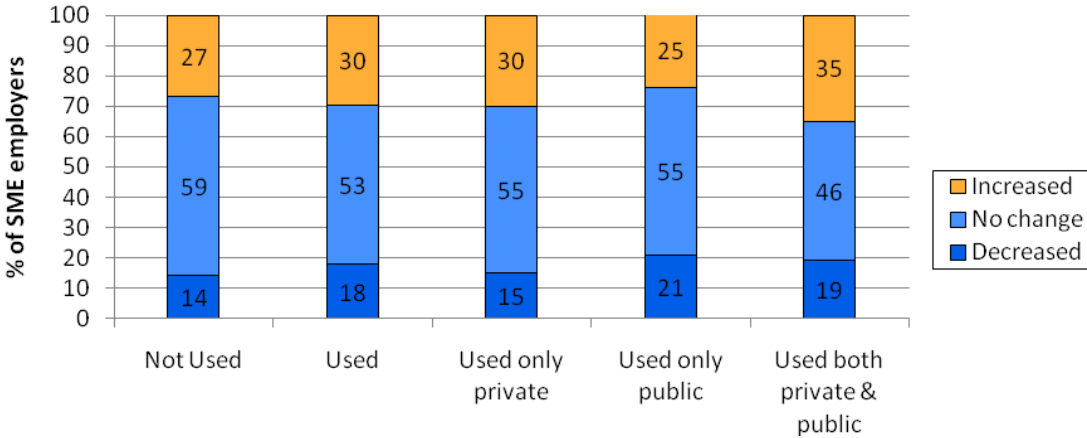


Valid response base = 991992 (sample n = 883)

As shown in Figure 3.15:

- A slightly higher proportion of SME employers that had used formal business assistance had increased employment during the past 12 months than was the case with non users (30 per cent compared to 27 per cent). There was little difference in the proportion of users of private (31 per cent) and public (30 per cent) business assistance experiencing employment growth.
- At the same time however, a slightly higher proportion of SME employers using business assistance experienced declining employment during the past 12 months than their non-user counterparts (18 per cent of users compared to 14 per cent of non users). A higher proportion of users of public sector business assistance experienced employment decline than those using private sector assistance (19 per cent of public sector users compared to 16 per cent of private sector users). This would seem to indicate that public sector support providers were assisting a somewhat higher proportion of struggling, survival seeking businesses.

**Figure 3.15: Business employment change in the last 12 months by use of external assistance**



Valid response = 846843 (sample n = 891)

**3.3 Types of private and public providers used**

SME employers were asked which private and public sector organisations they had obtained support from during the past three years. This support was defined as being either *transactional* i.e. information to help in the day to day operation of the business, or *transformational* i.e. strategic advice to introduce a stepped change to help grow the business. As Table 3.2 shows:

- Just under a quarter (24 per cent) of SME employers had received *information* from *private sector sources*, with accountants (13 per cent of all SME employers), consultants (six per cent), banks (six per cent) and solicitors (six per cent) being most frequently mentioned.
- Just under one fifth (18 per cent) had received *information* from *public sector providers*, with Business Link being the most frequently mentioned provider, either via the website (six per cent of all SME employers) or through other delivery methods (i.e. email, telephone, or face to face meeting) (nine per cent). Local authorities assisted four per cent of SME employers with their information needs and other public sources (including HMRC, UKTI, and the HE/FE sector) assisted five per cent of SME employers.
- One in seven (13 per cent) SME employers had received *strategic advice* from *private sector organisations*, with consultants (five per cent of all SME employers) and accountants (four per cent) being most frequently mentioned.
- One in twelve (eight per cent) SME employers had received *strategic advice* from *public sector organisations*, with Business Link face to face, telephone and email being used by four per cent of them, Business Link website by three per cent, and a range of other public sources (including local authorities and UKTI) being used by five per cent of SME employers.



**Table 3.2: Private and public providers of business information and strategic advice during the past three years**

<b>Provider</b>	<b>Information</b>	<b>Advice</b>
	% of SME employers	% of SME employers
<b>Private</b>		
Accountant	13.4	4.3
Bank	5.6	1.7
Solicitor	5.5	1.6
Sector/Trade Assoc	3.4	0.9
Membership	3.5	1.7
Enterprise Agency	0.7	0.6
Consultant	6.1	5.3
Trainer	3.9	1.4
Buyer/supplier	3.3	1.8
Network group	2.1	0.7
Voluntary Sector	0.5	0.1
Other	1.0	0.6
Total (Private)	23.9	12.8
<b>Provider</b>	<b>Information</b>	<b>Advice</b>
	% of SME employers	% of SME employers
<b>Public</b>		
BL website	6.3	2.8
BL other	8.7	4.1
UKTI	1.0	0.7
HE/FE	1.6	0.4
Local Authority	3.8	1.6
Train2Gain	0.7	0.3
Government organisations / websites	0.6	0.3
HMRC	1.1	0.4
Other	2.9	1.0
Total (Public)	17.7	7.9

Valid response base = 1037215 (sample n = 1202)

In terms of the characteristics of the businesses using the different types of provider:

- Micro businesses (1-4 employees) were significantly less likely than larger businesses to receive *information from private sector sources* (21 per cent of micro businesses compared to 34 per cent of medium sized businesses), whereas businesses that had grown by more than 50 per cent were significantly more likely than those that had not grown by 50 per cent to have done so (28 per cent compared to 20 per cent).
- Micro businesses (1-4 employees) were also significantly less likely than larger businesses to receive *information from public sector sources* (16 per cent of micro businesses compared to 26 per cent of medium sized businesses), whereas businesses that had grown by more than 50 per cent were significantly more likely

- Micro businesses (1-4 employees) were significantly less likely than larger businesses to receive *advice from private sector sources* (11 per cent of micro businesses compared to 24 per cent of medium sized businesses), whereas businesses that had grown by more than 50 per cent were significantly more likely than those that had not grown by 50 per cent to have done so (17 per cent compared to 11 per cent). Also, businesses in the manufacturing and financial and business service sectors (17 per cent of each of them) were significantly more likely to obtain advice from private sector sources than businesses in other sectors.
- Businesses that had grown by more than 50 per cent were significantly more likely than those that had not done so to obtain *advice from public sector sources* (11 per cent compared to five per cent).

### 3.4 Informal business support users

- Almost half (47 per cent) of SME employers had used informal assistance during the past three years from friends, family or business acquaintances, of which half had also used formal assistance in this period. Those businesses that used informal assistance were more likely to have also used formal assistance from private sector sources (36 per cent of them did so) and public sector sources (28 per cent) than those businesses that made no use informal sources (22 per cent of whom used private sector sources and 13 per cent public sector sources).
- Young businesses (those established for less than three years) were significantly more likely to use informal sources than older businesses (those established for more than 10 years) (58 per cent compared to 39 per cent).
- Growing businesses were significantly more likely to use informal sources than non growth businesses (51 per cent compared to 39 per cent).

### 3.5 Conclusion

Over the last three years, two fifths of SME employers (an estimated 409,384 SME employers) used formal business assistance. Of these, just under half (49 per cent) used *only* private sector assistance; just over a quarter (27 per cent) used *only* public sector assistance, and a further quarter (24 per cent) used a combination of private and public sector assistance.

The majority (86 per cent) of those SME employers using formal business assistance sought transactional support i.e. information to support the day to day operation of the business. However, this was often in combination with transformational support i.e. strategic assistance to introduce a stepped change in business performance. Over two fifths (44 per cent) of those SME employers using formal business assistance sought transformational support, although only 14 per cent of users only sought strategic advice.

The main provider of transactional support in the private sector was accountants, followed by consultants, whereas their ranking was reversed with respect to transformational support. The main provider of both transactional and transformational support in the public sector was Business Link, particularly using email, telephone, and face to face delivery methods. Other public sector sources were only used by a small minority of businesses.

The SME employers making the greatest use of formal business assistance comprise:

- New and young businesses – they had a relatively high propensity to obtain assistance from *public sector sources*.
- Medium sized businesses - they had a relatively high propensity to obtain assistance from *private sector sources*.
- SME employers in the public, community, social and personal services sector – they had a relatively high propensity to obtain assistance from *public sector sources*.
- SME employers in the financial and business services sector – they had a relatively high propensity to obtain assistance from *private sector sources*.
- SME employers with better qualified managers – they had a relatively high propensity to use a combination of *private and public sources*.
- SME employers achieving fast growth – they had a relatively high propensity to use a combination of *private and public sources*.

Having presented an overview of the use of formal business assistance in this section, the next two sections focus specifically on the survey evidence relating to the use of information and strategic advice respectively.

## **4. USE OF BUSINESS SUPPORT INFORMATION IN THE LAST THREE YEARS**

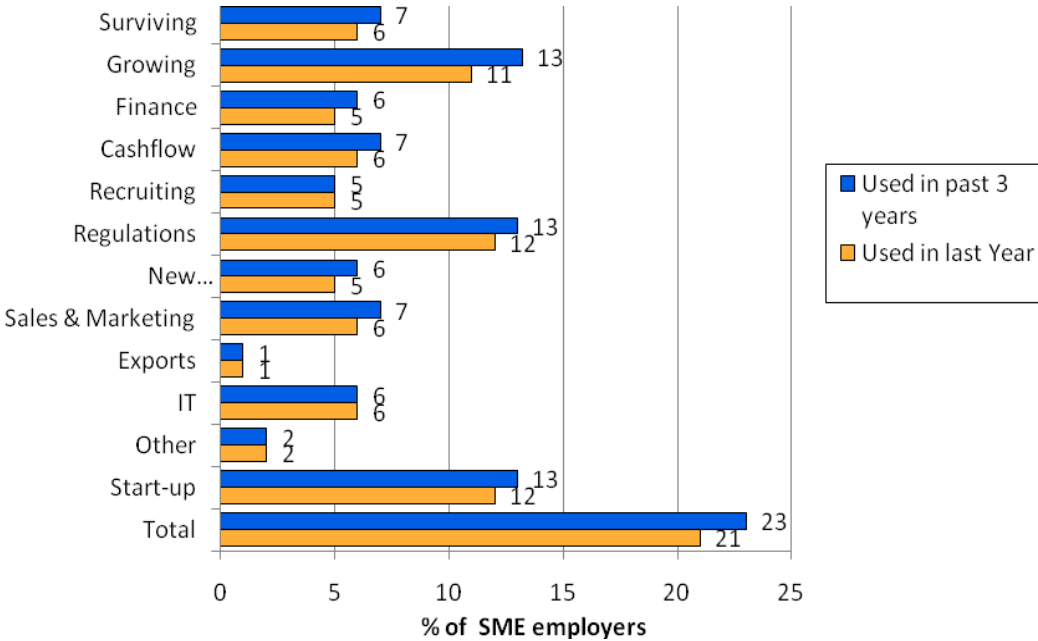
### **4.1 Types of information used and frequency of use**

SME employers were asked about the reasons for obtaining business information during the past three years, the frequency with which these types of assistance were received during this period and whether they had been received during the past 12 months.

Figure 4.1a shows that:

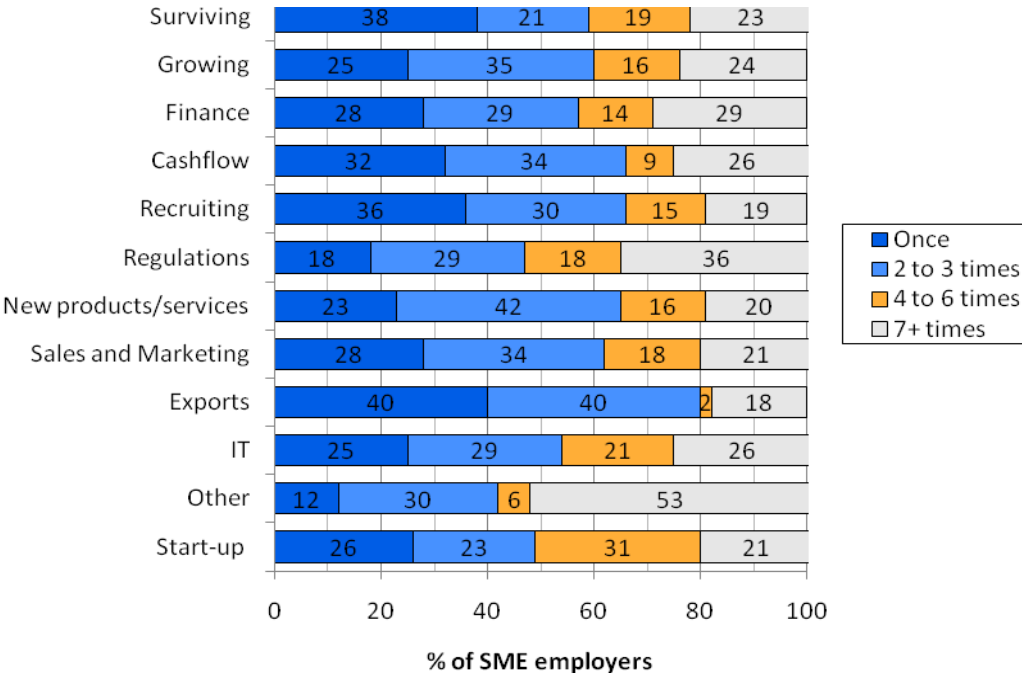
- Just under a quarter (23 per cent) of SME employers had sought information from formal sources in the last three years with the majority (more than four fifths) of them last obtaining information in the last 12 months.
- The most frequently mentioned reasons for obtaining information received during the past three years were to assist with business development and growth and business regulations (including tax and compliance issues) (both 13 per cent of SME employers). These were followed by information to assist with survival, sales and marketing, and cashflow (each seven per cent of SME employers).
- The most frequently mentioned types of information used in the last 12 months related to regulations (12 per cent of SME employers) and business development and growth (11 per cent).
- In the case of those businesses that had started trading in the past three years, 13 per cent had used start-up information from formal sources, with 12 per cent last obtaining this information in the last 12 months. This was a highly intensive type of information with regard to its high frequency of use (more than half of them using information sources at least four times and nearly a quarter of them more than ten times).
- Those businesses that used information from formal sources typically used these sources several times over the three year period (Figure 4.1b). This applied particularly to information relating to regulations and developing IT systems and websites.

**Figure 4.1a: Types of business information requested during the past three years and last 12 months**



Valid response base = 1037215 (sample n = 1202)  
 Start-up valid response = 280147 (sample n = 253)

**Figure 4.1b: Frequency of use of business information during the past three years**



Valid response base = 1037215 (sample n = 1202)  
 Start-up valid response = 280147 (sample n = 253)

## 4.2 Provider of main priority information

SME employers that had received more than one type of business information assistance during the past three years were asked to prioritise which had been the *most important* to the needs of their business.

- Information relating to dealing with regulations, tax and compliance issues was identified as the most important by a quarter (26 per cent) of the SME employers receiving more than one type of information assistance. This was followed by information relating to business development and growth (18 per cent) and business survival (18 per cent).

Respondents were asked which organisations had been the providers of the information that they had prioritised as most important to their business. As Table 4.1 shows:

- The most frequently mentioned private sector providers of priority information were accountants (25 per cent of SME employers identifying main type of information received), consultants and banks (each seven per cent).
- The most frequently mentioned public sector providers of priority information were Business Link, via telephone, face to face, and workshop channels (11 per cent of SME employers identifying main type of information received) and via the website (six per cent), followed by local authorities (five per cent).
- In 86 per cent of cases the provider of priority information was the organisation first contacted.
- Three quarters (75 per cent) of information users found the provider of priority information themselves, with the rest being referred by someone else.
- The vast majority (88 per cent of information users) found it either 'very easy' or 'fairly easy' to obtain priority information, with only four per cent stating it was 'very difficult' and seven per cent 'fairly difficult'. There was little difference in the ease of finding sources between those using private and public sources (although 43 per cent of all private users stated it was 'very easy' compared to 39 per cent of all public users).

**Table 4.1: Provider of main priority information**

Priority Provider	Information
	% of those receiving priority information
<b>Private</b>	
Accountant	24.8
Management/Business Consultant	7.0
Bank	6.8
Sector/Trade Assoc	4.6
Training Provider	4.6
Membership organisations	4.4
Solicitor	3.4
Buyer or Supplier	2.9
Network group	1.5
Other Private	0.4
Chamber of Commerce	0.2
Voluntary Organisations	0.1
<b>Public</b>	
BL other	10.6
BL website	5.9
Local Authority	4.5
Other Public	4.1
HE/FE	0.9
Manufacturing Advisory Service	0.5
UKTI	0.4
Don't Know	13.1

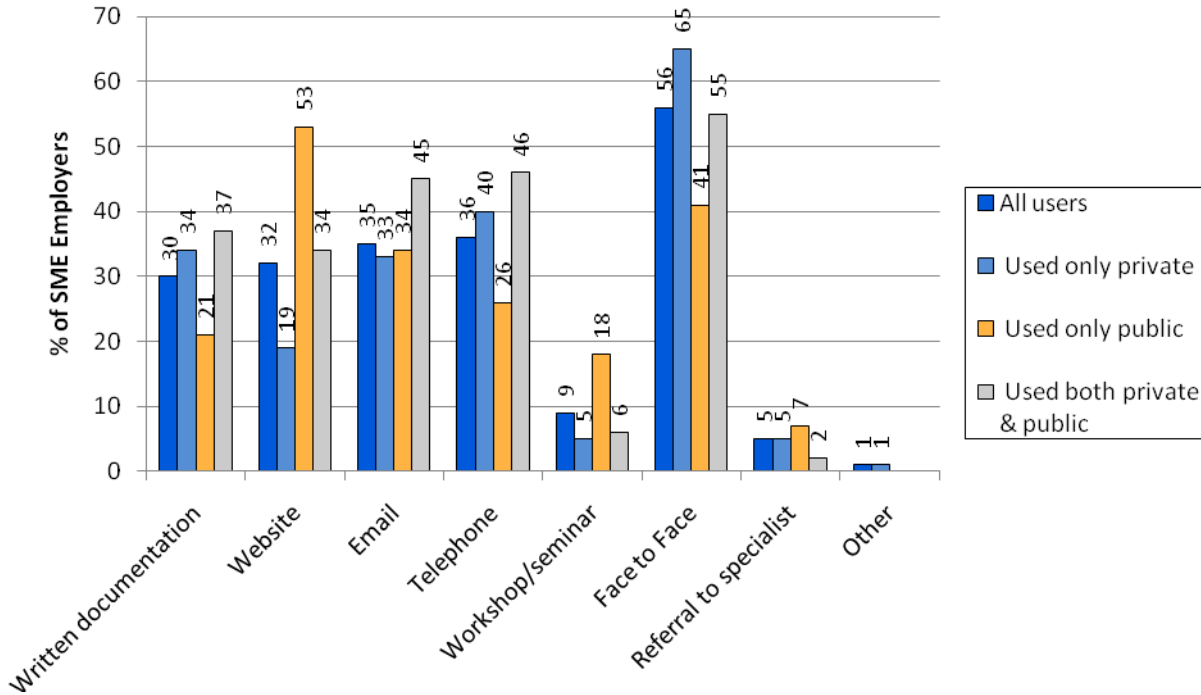
Valid response base = 231077 (sample n = 286)

### 4.3 Format of delivery of main priority information

SME employers were asked in what format the main priority information was provided to the business. As shown in Figure 4.2:

- Overall, the most frequently mentioned format was face to face (56 per cent), followed by telephone (36 per cent), email (35 per cent), and information from a website (32 per cent).
- In the case of businesses using *only* private providers, information was more likely to be received via face to face (64 per cent) or telephone (40 per cent) contacts than in the case of businesses using *only* public providers where website (53 per cent) and workshop/seminar methods (18 per cent) were often used.

**Figure 4.2: Format of priority information received**



Valid response base = 231077 (sample n = 286)

**4.4 Extent to which information addressed business needs**

SME employers were asked to what extent the most important information that they had received met their expectations. The results show that:

- Over two-thirds (68 per cent of information users) reported that the priority information received had fully met their expectations, with 27 per cent stating ‘partially’ and five per cent stating ‘not at all’.
- A significantly higher proportion of those businesses using *only* private sources said that the information had fully met their expectations (76 per cent of them) compared with those using *only* public sources (59 per cent) or *both* private and public sources (59 per cent).
- The proportion stating that the information had not met expectations was slightly higher for those using *only* public sources (seven per cent) than those using *only* private sources (four per cent) or *both* private and public sources (five per cent).

**4.5 The impact of information on business performance**

SME employers were asked to assess the impact that the most important information had made on the performance of their business, particularly whether it led to significant improvements in performance.

Almost half (47 per cent of information users) mentioned that priority information received had improved their business performance, with 16 per cent stating that this was a significant improvement, whilst 12 per cent were unsure mainly because it was too early to tell. Just

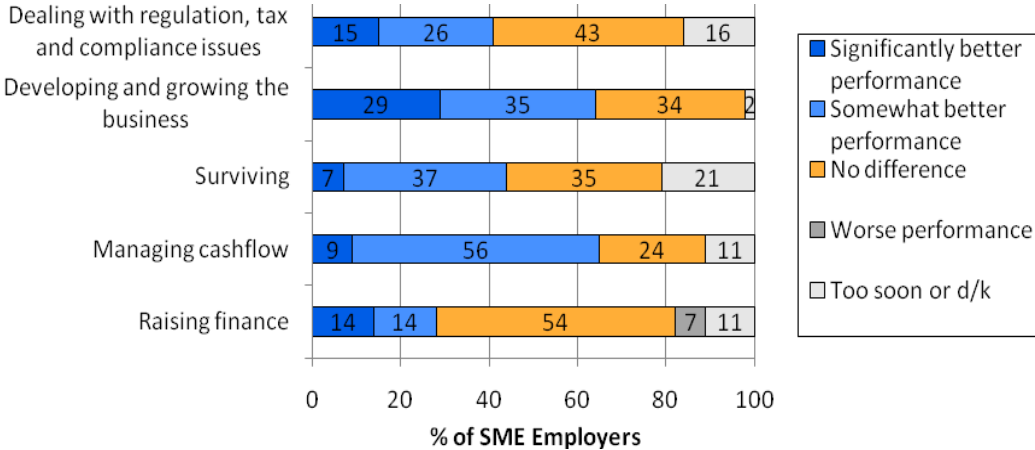


- A significantly higher proportion of those businesses using *only* private sources or *both* private and public sources considered that the business was performing 'significantly better' (18 per cent and 22 per cent respectively) than those businesses using *only* public sources (nine per cent).
- Of those identifying an improvement in business performance, 46 per cent stated that it had enabled survival of the business, 33 per cent that it had led to improvements in profitability, and 31 per cent that it had led to a re-evaluation of the business. Over a third (36 per cent) said that it had affected performance in other ways (including compliance with regulations).
- A significantly higher proportion of private users said that it had led to improvements in profitability (37 per cent of them) and an increase in sales turnover (36 per cent) than was the case with public users (23 per cent and 20 per cent respectively).
- Those using public sources were significantly more likely to state that the information led to a greater awareness of the need to comply with regulations (20 per cent of public users compared to nine per cent of private users).

Further analysis of the most important types of information identified by the SME employers and the extent to which they led to improved business performance shows that:

- More than half of the information received relating to business growth and development (64 per cent) and managing cashflow (65 per cent) had made at least some impact on improving business performance (Figure 4.3).
- Information relating to business development and growth made a significant impact on the performance of almost a third of the businesses receiving the information.
- The most significant impacts appear to be associated with the intensity of assistance in most types of information. A high level of intensity of contacts (in terms of frequency of contacts over a three year period) is a distinguishing feature of those businesses obtaining information relating to regulation, tax and compliance issues where there has been significantly improved performance, but less so with regard to assistance relating to survival.
- Accountants appear to be the most frequently used private sector providers of information resulting in significant improvements, except for raising finance which most frequently involved management/business consultants.
- Business Link was the most frequently mentioned public service provider of information that produced significant improvements, particularly in relation to raising finance and business survival. The Businesslink.gov website was the most frequently mentioned public sector source of information relating to regulation, tax and compliance issues.
- SME employers for whom the information produced significant improvements were typically more likely to receive it face-to-face than those for whom information was transactional.

**Figure 4.3: Main priority information by extent of impact**



Valid

response base = 231077 (sample n = 286)

**4.6 Conclusion**

It would appear from the survey evidence relating to the most important information that SME employers obtained that the most frequently mentioned reasons for obtaining information were to assist with developing and growing the business and with regulations and compliance issues. The former reason indicates that information can by itself contribute to the transformation of businesses whereas the latter reason is more likely to be associated with transactional purposes.

For the majority of businesses, obtaining the information was not a one off event, but involved several contacts with one or more sources of information over the three year period. This applied particularly to information relating to regulations, finance, and IT. The findings also show that personal contact remained an important means of conveying information, especially for private sector sources. Information provided by private sector sources was most frequently conveyed face to face or by telephone, whereas information provided by public sources was most frequently conveyed via websites as well as face to face.

Overall, the survey showed a high level of satisfaction amongst the users of information, with two thirds considering that it fully met their expectations, just over a quarter that it did so partially, and only one in twenty saying that it had not. The highest level of satisfaction appeared to be amongst the users of private sources. Moreover, nine out of ten businesses did not experience any difficulty in obtaining the information, most of them finding the provider of information themselves.

A key finding is that almost half of information users considered that their business performance had improved as a result of the most important information that they had received, with one in six identifying a significant improvement. Significant improvements in performance were especially noted by users of private sector information sources. This finding shows that whilst information might be regarded as essentially transactional support, it can nevertheless help achieve improvements in business performance and in that sense contribute to transformational outcomes. The most frequently mentioned improvements related to enabling survival, improving profitability, and a re-evaluation of the business.

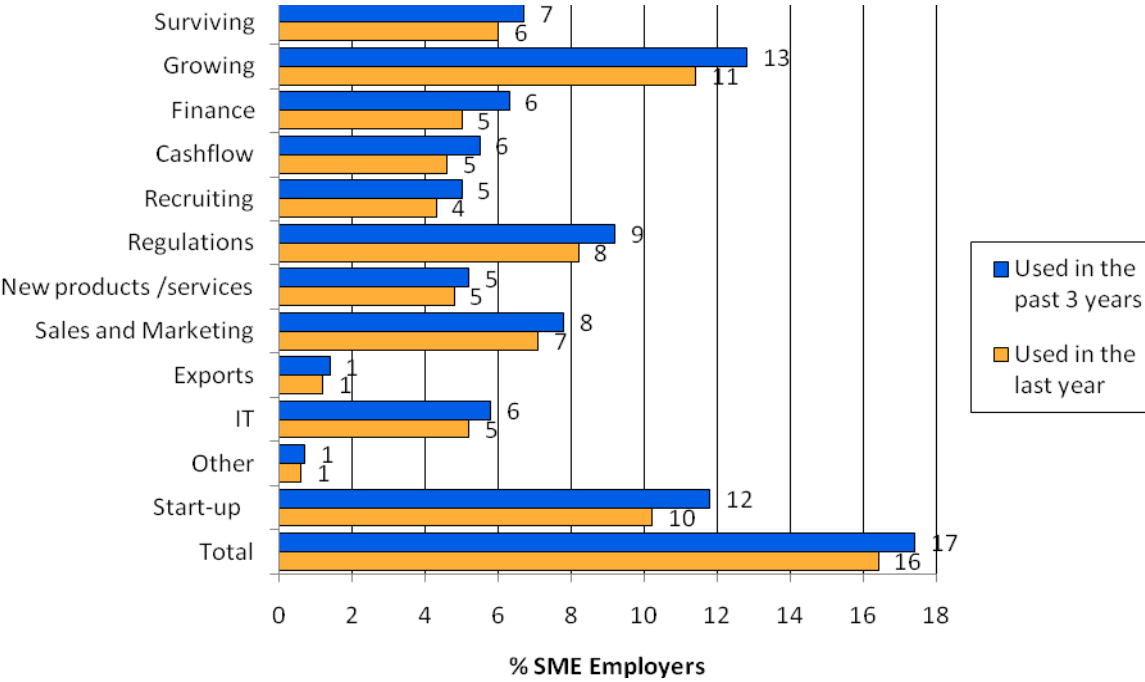
## **5. USE OF BUSINESS SUPPORT ADVICE IN THE LAST THREE YEARS**

### **5.1 Types of advice used and frequency of use**

SME employers were asked about the reasons for obtaining strategic advice to introduce a stepped change to help grow the business during the past three years, along with the frequency with which these types of assistance were received during this period and whether they had been received during the past year. As Figure 5.1a shows:

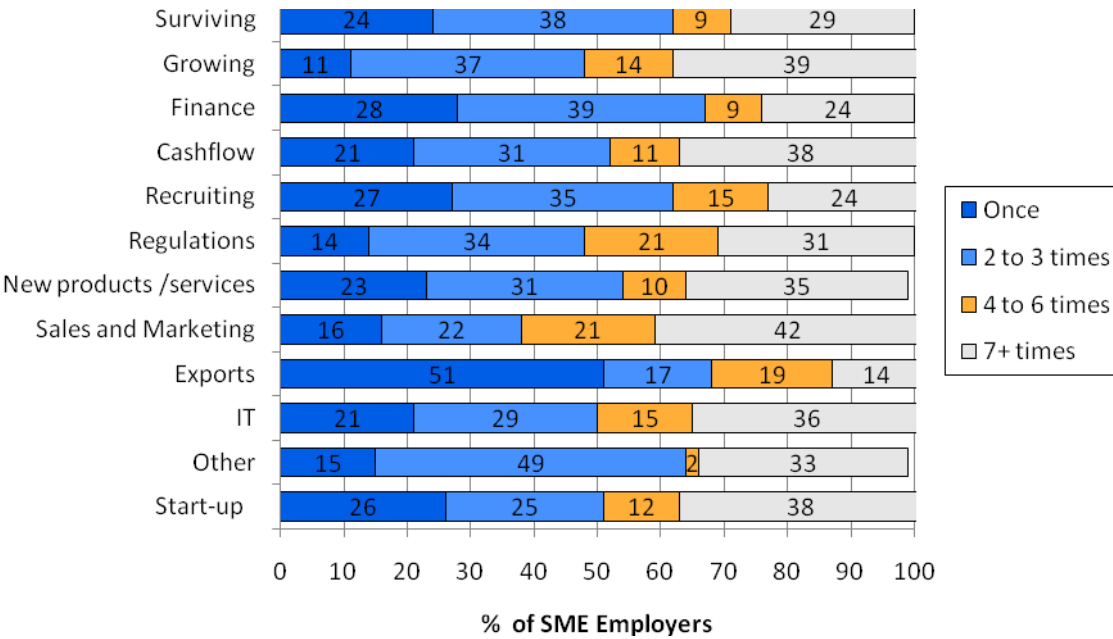
- Just under one fifth (17 per cent) of SMEs had sought strategic advice from formal sources in the last three years with the majority (more than four fifths of those receiving each type of advice) last obtaining advice in the last 12 months.
- The most frequently mentioned reasons for obtaining advice during the past three years have been to assist with business development and growth (13 per cent of all SME employers) and business regulations (including tax and compliance issues) (nine per cent). These were followed by advice to assist with sales and marketing, survival, finance, and IT systems and websites.
- The most frequently mentioned types of advice used in the last 12 months related to business development and growth (11 per cent of SMEs), regulation (including tax and compliance issues) (eight per cent), and sales and marketing (seven per cent).
- In the case of those businesses that had started trading in the past three years, 12 per cent had used start-up advice from formal sources, with 10 per cent last obtaining this advice in the last 12 months. This type of advice had a high frequency of use (more than half of them using information sources at least four times and nearly a quarter of them more than ten times).
- The frequency distribution of advice (Figure 5.1b) is typically 'U' shaped with a high proportion receiving three or fewer contacts relating to each type of advice, but with around one third of those receiving advice mentioning seven or more contacts and one quarter mentioning ten or more contacts during the past three years. More than half of the businesses seeking advice relating to sales and marketing, regulations and developing and growing the business did so at least four times over the period.

**Figure 5.1a: Types of business advice requested during the past three years and last 12 months**



Valid response base = 1037215 (sample n = 1202)  
 Start-up valid response base = 280147 (sample n = 253)

**Figure 5.1b: Frequency of use of business advice requested during the past three years**



Valid response base = 1037215 (sample n = 1202)  
 Start-up valid response base = 280147 (sample n = 253)

## 5.2 Provider of main priority type of advice

SME employers that had received more than one type of strategic advice during the past three years were asked to prioritise which had been the *most important* to the needs of their business.

- Advice relating to business growth and development was identified as the most important by just under a third (31 per cent) of the SMEs receiving more than one type of advice. This was followed by advice relating to survival (15 per cent), sales and marketing (nine per cent), and regulation, tax and compliance issues (eight per cent).

Respondents were asked which organisations had been the providers of the strategic advice that they had prioritised as most important to their business. As Table 5.1 shows:

- The most frequently mentioned private sector organisations providing priority advice to SME employers were consultants (providing priority advice for 23 per cent of businesses receiving advice) and accountants (16 per cent).
- The most frequently mentioned public sector organisations providing priority advice to surveyed businesses were Business Link, particularly using telephone, face to face, and workshop methods (providing priority advice for 13 per cent of those receiving business advice, with Businesslink.gov providing the main source of advice for an additional four per cent), and local authorities (three per cent).
- For four-fifths (80 per cent) of users of advice, the provider of priority advice was the organisation first contacted.
- Almost three quarters of users of advice (74 per cent) found the provider of priority advice themselves, with the rest being referred by someone else.

**Table 5.1: Provider of main priority advice**

Main Provider	Advice
	% of those receiving advice
<b>Private</b>	
Management/Business Consultant	22.3
Accountant	15.9
Buyer/Supplier	7.4
Membership Organisation	5.7
Training Provider	3.7
Bank	3.4
Sector/Trade Association	1.6
Enterprise Agency	1.5
Other Private	1.4
Network Group	1.0
<b>Public</b>	
Business Link other	13.2
Businesslink.gov website	4.1
Local Authority	2.8
UKTI	1.9
Other Public	2.4
Don't Know	11.7

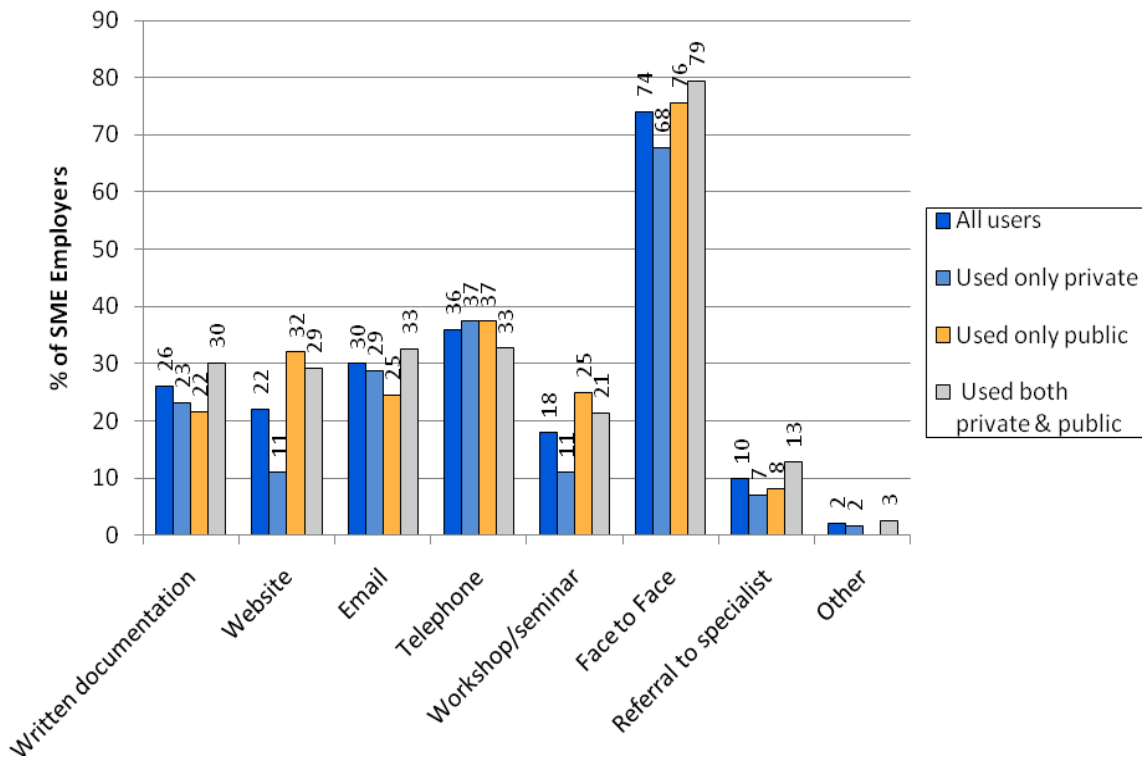
Valid response base = 180770 (sample n = 228)

### 5.3 Format of delivery of main priority advice

Respondents were asked in what format the main priority advice was provided to the business. As Figure 5.2 shows:

- The most frequently mentioned format of priority advice delivery was face to face (74 per cent of users of advice).
- Over a third of businesses taking advice received their main priority advice by telephone (36 per cent) and just under a third through email (30 per cent).
- Just over one quarter (26 per cent) received priority advice from written documentation and just under a quarter (22 per cent) via websites.
- Advice from public sector sources was significantly more likely to be obtained from websites (32 per cent of users of *only* public advice) or attending workshops/seminars (25 per cent) than that from private sector sources (11 per cent in each case for users of *only* private advice).

**Figure 5.2: Format of priority advice received**



Valid response base = 180770 (sample n = 228)

### 5.4 Respondents' assessment of impact of advice received

- Nearly three fifths (58 per cent) of businesses receiving strategic advice stated that it had improved the performance of their business, with 20 per cent stating that the business was performing significantly better. A third (33 per cent) considered that the

- Overall, a much higher proportion of SME employers that were *both* private and public users considered that the strategic advice had led to improved business performance than was the case with those that had used *only* public sector assistance (80 per cent compared to 45 per cent of those respondents able to assess the impact on business performance).
- A significantly higher proportion of those businesses using private sources considered that the business was performing ‘significantly better’ (24 per cent of them) than those businesses using only public sources (five per cent). However, 15 per cent of only public source users considered it was too early to tell compared with less than one per cent of private source users.
- A significantly greater proportion of users of advice that were businesses aged between three and 10 years old considered that they were performing ‘significantly better’ than businesses established for more than 10 years (25 per cent compared to 12 per cent).
- A significantly greater proportion of those businesses that used *only* private sector sources (42 per cent of them) or *only* public sector sources (46 per cent of them) considered that the advice ‘made no real difference’ than was the case for businesses using *both* private and public sources (16 per cent of them).
- Of those identifying an improvement in business performance, 46 per cent stated that it had led to increased sales, 41 per cent to improved profitability, and 33 per cent said it had enabled the survival of the business. Users of public sector advice were somewhat more likely to state that it had enabled business survival than users of private sector advice (37 per cent compared to 32 per cent) and less likely to state that it had led to growth in sales turnover (44 per cent compared to 50 per cent).

Further analysis of the most important types of strategic advice identified by the SME employers and the extent to which they led to improved business performance shows that (see Figure 5.3):

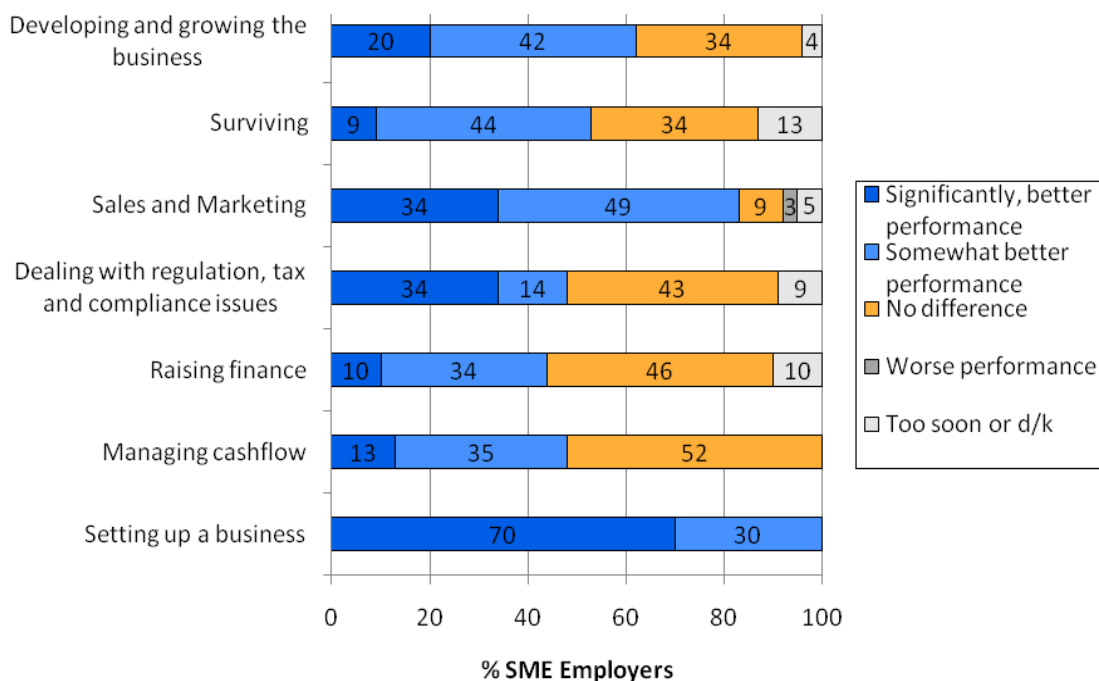
- All of the advice received for setting up a business had made a positive impact, with 70 per cent of the SME employers receiving this type of assistance stating that it had made a significant impact on their new business.
- Advice received for sales and marketing (83 per cent), developing and growing the business (62 per cent) and survival (53 per cent) had led to at least some business improvement for the majority of the SME employers receiving these services.
- Advice relating to sales and marketing and regulation, tax and compliance appeared to make the most impact since it led to just over a third of businesses performing ‘significantly better’.

Further analysis shows that:

- Where advice had made a positive impact, it typically involved more frequent and more intensive levels of contact than where the advice made either no impact or a negative impact. For example advice relating to survival, developing and growing the business, raising finance, and managing cashflow was more likely to involve an

- The main private sector providers of advice making a positive impact were accountants (particularly for regulatory and financial matters) and management/business consultants (particularly for business development and growth, raising finance, regulatory matters and sales and marketing).
- The main public sector sources of positive impact advice were Business Link (particularly for raising finance, sales and marketing, business development and growth, and start-up), the Businesslink.gov website (particularly for start-up and survival) and local authorities (particularly for regulatory and business development advice).
- SME employers receiving advice leading to improved business performance were more likely to receive it face-to-face than those where advice made no difference to business performance. For example, 94 per cent of the businesses obtaining sales and marketing advice that led to improved performance did so on a face to face basis, as against 54 per cent of those receiving this advice but without it leading to improved performance.

**Figure 5.3: Main priority advice by extent of impact**



Valid response base = 180770 (sample n = 228)



## 5.5 Amount paid for advice

- More than two-fifths (43 per cent) of users of advice had paid for their main priority advice, but this ranged from 52 per cent of those using *only* private sources and 46 per cent of those using *both* private and public sources to just 18 per cent of those using *only* public sources. For those businesses that knew and were willing to say how much they paid (just under half of those that paid), the median payment level was approximately £50 per hour and a modal value was more than £100.
- Three quarters (77 per cent) of those paying for advice considered it was good value for money, but one in eight (12 per cent) considered that it was not. The rest did not know.

## 5.6 Business reviews

Those SME employers receiving business advice during the last three years were asked if the organisation providing advice had undertaken a review of the business in order to explore its needs and potential more widely.

- One third (34 per cent) had received a detailed business review, of which the vast majority (85 per cent of them) received from their main priority advice provider. In the minority of instances where other organisations provided a review, these included accountants, Business Link, business membership organisations, and consultants.
- Of those receiving a business review, 43 per cent stated that it had definitely identified new issues that had not previously been considered and a further 32 per cent said that it had done this to some extent. Just under a quarter (24 per cent) considered it had not done so.
- More than half (58 per cent) appeared to have received the review free of charge, this being particularly the case with those that used *only* public sector sources for advice (89 per cent of them).
- Of those paying for a review, less than half (46 per cent) considered it was definitely good value for money although a further third (33 per cent) thought it was 'to some extent'. Less than a fifth (18 per cent) considered it was not good value for money (the remaining three per cent saying they did not know).

Respondents were asked whether the business review had involved brokerage referral to other appropriate sources of business assistance.

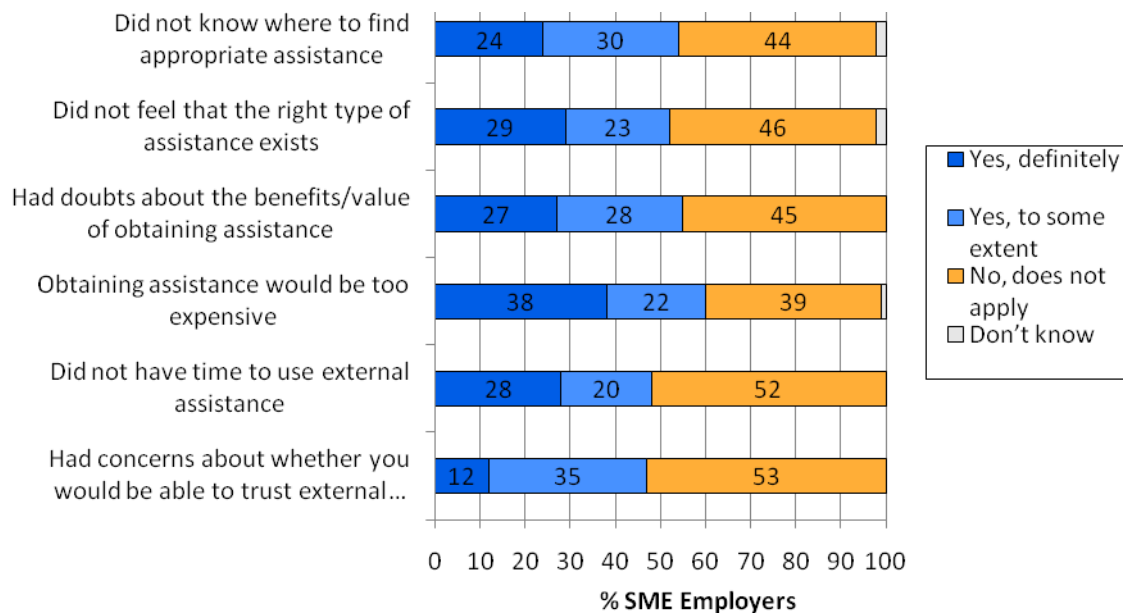
- Of those receiving a business review, 60 per cent stated that it had referred them to sources that were right for their business needs and a further 34 per cent said that it had done this to some extent. Only five per cent felt that it had not done so.

### 5.7 Where further formal external assistance was not used

The interviewed SMEs that had used formal external assistance were all asked whether during the past three years they had any other important information or advice needs for which they had not received external assistance.

- Almost one in ten (nine per cent) of users mentioned that they had further information or advice requirements for which they had not received formal external assistance. This was particularly the case for users in manufacturing (17 per cent of them), public, community and personal services (16 per cent), and construction (15 per cent of them). It was also significantly more commonly found amongst businesses that were less than ten years old (12 per cent of them) than those established for more than ten years (five per cent).
- The main reasons for not seeking information or advice (Figure 5.4) were that: it would be too expensive (38 per cent of them saying ‘definitely’); that the right type of assistance did not exist (29 per cent saying ‘definitely’); that they did not have time to use external assistance (28 per cent saying ‘definitely’); and that they had doubts about the benefits/value of obtaining assistance (27 per cent saying ‘definitely’).
- Where respondents mentioned that they did not know where to find appropriate assistance, only one quarter were confident that they could find this assistance if they had to, with more than half stating that this would not be possible (53 per cent) and a further four per cent stating ‘don’t know’.

**Figure 5.4: Users’ reasons for not using further assistance during the past three years**



Valid response base = 36927 (sample n = 42)

## 5.8 Conclusion

As was the case with the users of information, the two most frequently mentioned reasons for obtaining strategic advice were to do with business development and growth and with regulations (including tax and compliance issues). Strategic advice relating to business growth and development was most frequently identified as the most important advice received, followed by advice relating to the survival of the business.

Obtaining strategic advice about an issue typically involved firms having numerous contacts with providers over the three year period, with the most frequent contacts relating to strategic advice about sales and marketing, regulations, and developing and growing the business.

Differences were evident in the way in which strategic advice was conveyed by private and public sector providers, with face to face delivery being most common in the case of private sector providers but greater use of both website and workshop/seminar methods in addition to face to face methods being found amongst public sector users. This could reflect the focus of much of the public provision on younger and smaller businesses.

Most of the strategic advice that SME employers identified as being most important appears to have resulted in transformational effects, as three fifths of users considered that it had improved business performance, with one in five stating that the business was performing 'significantly better'. On the other hand, a third considered that the strategic advice had made no real difference to business performance. Where strategic advice was having a positive impact it typically involved more frequent and more intensive levels of contact than where the advice made no impact.

A key finding is that a significantly greater proportion of users of *both* private and public sector assistance considered that the advice had led to improved business performance than was the case with those that had *only* used public sector assistance. Moreover, it was the users of private sector strategic advice that appeared to be performing significantly better. This suggests that transformative outcomes are more likely to be achieved from private sector providers, either working alone or together with public sector providers.

Although increased sales turnover was the most commonly identified benefit identified by both users of private advice and public advice, a somewhat higher proportion of users of strategic advice from public providers identified the benefits as enabling business survival than was the case with users from private providers. This is consistent with the finding that there is tendency for survival orientated businesses to seek support from public sector sources.

## **6. NON USERS OF FORMAL EXTERNAL ASSISTANCE**

### **6.1 Introduction**

In this section we turn our attention to the three fifths (60 per cent) of surveyed SME employers that did not make any use of formal external assistance over the last three years. We start by summarising the distinctive characteristics of non-users (as identified in section three of the report), before making a comparison between those non users that considered using external assistance and those that did not. A key focus will be on the reasons that the interviewed owner-managers gave for not using external assistance.

### **6.2 Characteristics of non users**

The analysis showed that businesses with the following characteristics were significantly more likely to be non users of formal business assistance:

- Micro businesses (1-9 employees) (61 per cent were non users compared to 43 per cent of medium sized businesses).
- Businesses in the hotel, restaurant and catering sector (73 per cent were non users) and the wholesale, retail and repairs sector (68 per cent were non users).
- Businesses with just one manager (64 per cent were non users).
- Businesses where owner-managers had no qualifications (74 per cent were non users) and low level qualifications (64 per cent were non users).
- Businesses that were survival seeking (66 per cent were non users).
- Businesses that were not achieving growth (62 per cent were non users compared to 52 per cent of businesses achieving high growth).

### **6.3 Non users considering using formal business assistance**

Non users were asked whether there had been any occasions in the last three years (or since established for young businesses) when they seriously thought about obtaining information and/or strategic advice. The findings show that:

- One in seven (14 per cent) non users did seriously consider using external assistance for *information* relating to the day to day running of their business.
- Just over one in ten (11 per cent) non users did seriously consider using external assistance for *strategic advice* that could have helped lead to a stepped change to grow the business (e.g. in sales turnover, profit or employment).
- In terms of business characteristics, those non-users that were less than three years old were significantly more likely to indicate that they seriously considered using external assistance than older businesses. For example, 23 per cent of these younger businesses said that they seriously considered using external assistance to provide information and 16 per cent to provide strategic advice, compared to 10 per cent and eight per cent respectively of businesses aged between three and 10 years.
- Women-led non-user businesses were significantly more likely to indicate that they seriously considered using external assistance to provide strategic advice than their male led counterparts (19 per cent of them compared to nine per cent). Also, minority

ethnic led non-user businesses were significantly more likely to indicate that they seriously considered using external assistance to provide strategic advice than their non minority ethnic led counterparts (20 per cent compared to nine per cent).

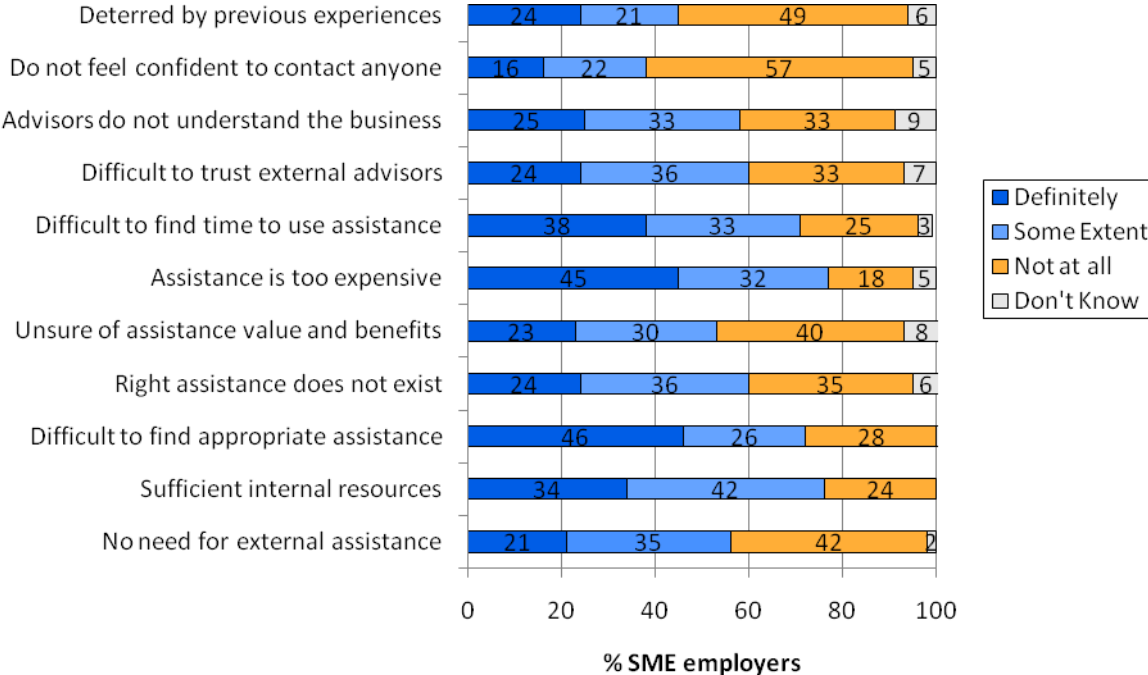
#### **6.4 Reasons for not using formal business assistance**

The non users indicating that they had *seriously considered* using formal business assistance during the past three years were asked to rate a series of statements as to why they had not done so. Similarly, those non users that had *not considered* using formal external assistance were asked to respond to a similar set of statements.

As shown in Figure 6.1:

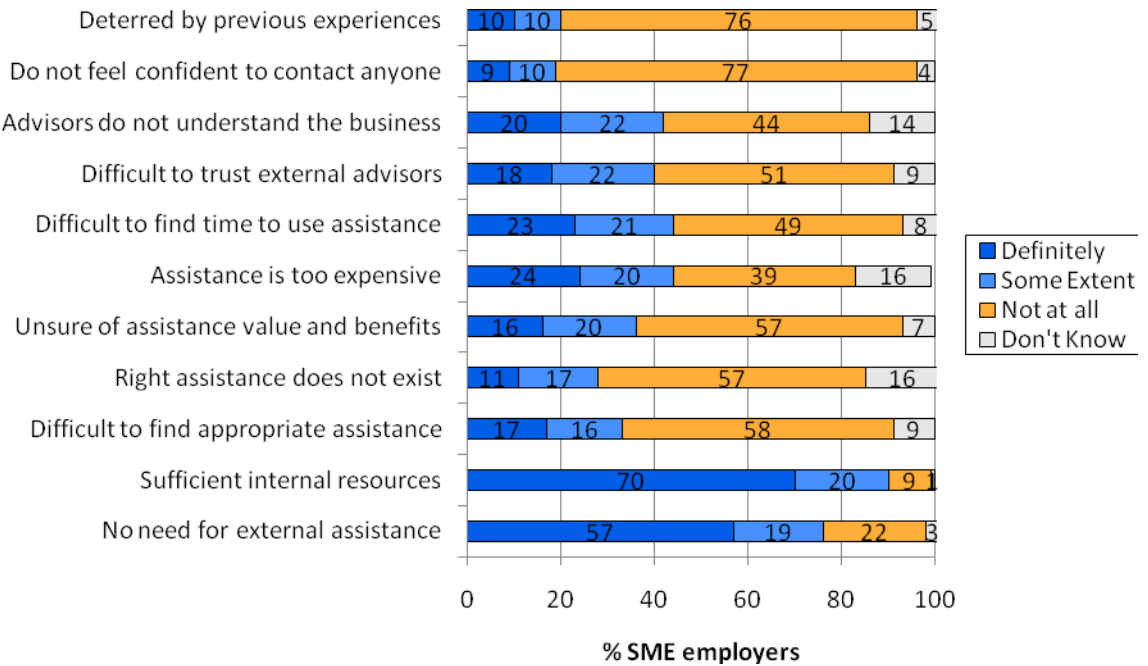
- There is a clear distinction between the responses of those seriously considering using external assistance and those that did not consider using external assistance.
- Those SME employers seriously considering using external assistance were far more likely to indicate, at least to some extent, that: obtaining assistance is too expensive (77 per cent of them); it is difficult finding time to use external assistance (71 per cent); and it is difficult to find appropriate assistance (72 per cent) than was the case with those non users that did not consider using external assistance.
- Non users that did not consider using external assistance were far more likely to indicate, at least to some extent, that they had sufficient internal resources (90 per cent of them) and no need for external assistance (76 per cent) than those businesses that seriously considered using external assistance. These businesses appeared to be confident in their ability to tackle their problems and challenges without resorting to formal business assistance. These reasons applied particularly to those businesses that had grown over the last three years and increased sales turnover over the past 12 months.
- Of the other reasons mentioned by the non-users for not considering external assistance, the most frequently mentioned were that: assistance would be too expensive (44 per cent); it would be difficult finding the time to use external assistance (44 per cent); and advisors would be unable to understand the business (42 per cent). In particular, those businesses that had not grown over the last three years and had experienced a decrease in employment or sales turnover over the last 12 months were significantly more likely to consider assistance to be too expensive.

**Figure 6.1a: Reasons for not using formal business assistance given by those non users that seriously considered external assistance during the last three years.**



Valid response base = 67248 (sample n = 74)

**Figure 6.1b: Reasons for not using formal business assistance given by those non users that did not consider using external assistance during the last three years.**



Valid response base = 541567 (sample n = 596)

## 6.5 Possible benefits of external assistance from hindsight

Non users were asked to look back and consider the issues that they had identified as being a concern for the business during the past three years and indicate whether they now thought that their business could have significantly benefitted from external assistance.

- Just under one fifth (19 per cent) of non user businesses indicated that they now thought that they could have benefitted from external assistance.

As Table 6.1 shows:

- The most frequently mentioned types of assistance that non users believed they could have benefitted from related to the development and growth of the business, raising finance, survival, regulation and sales and marketing – all identified by at least a quarter of non-users.

Non users were asked if they required external assistance, how confident they would be to easily find appropriate assistance.

- Half (49 per cent) were very confident, 25 per cent were fairly confident, just under a quarter (23 per cent) were not at all confident and a further four per cent were unsure.

Non users were also asked whether they would be willing to pay for external advice that might help the business to grow.

- Half (50 per cent) of non users indicated that they would be willing to pay for external advice and of those that were able to say how much they would be willing to pay for an advisor's time, a third (35 per cent) said up to £25 per hour and a further 18 per cent said between £26-50 per hour. Only one in ten (11 per cent) said they would be willing to pay £75 per hour
- or more. However, almost a third said that they did not know how much they would be willing to pay.
- Businesses that had grown in the last three years were significantly more willing to pay for advice than those that had not grown (54 per cent of them compared to 43 per cent). Those that had experienced an employment increase in the last 12 months were more willing than those that had experienced employment decrease (62 per cent compared to 40 per cent).

**Table 6.1: Types of assistance where non user businesses think they could have benefitted**

Assistance Type	% of non users identifying a potential benefit
Surviving	30
Developing and growing the business	41
Raising finance	33
Managing cash flow	26
Recruiting and developing staff	12
Dealing with regulations, tax and compliance issues	28
New products /services	15
Sales and marketing	32
Export markets	2
IT systems and website	13
Start-up	6
Other	1
None in particular	10

Valid response base = 113940 (sample n = 121)

## 6.6 Benefit of an independent review

All businesses that had not received an independent review (users and non users) were asked if they thought that their business could benefit from an independent review of their business operation – effectively a short business health check.

- Overall, one tenth of user and non user businesses that had not received an independent review during the past three years, definitely believed that this could benefit their business, with a further quarter stating ‘perhaps’ (Table 6.2).
- Users (41 per cent) were more likely to indicate at least some interest in a business review/health check than their non user counterparts (31 per cent).
- Businesses in the transport, storage and communication sector (19 per cent of them), manufacturing sector (14 per cent), and public, community and personal service sectors (12 per cent) showed the greatest interest, as did businesses that had not achieved sales turnover growth over the last 12 months.

**Table 6.2: Views on whether an independent review of the business could be beneficial, by business support users and non users that have not received such checks in the past three years**

	Non Users	Users	Total
	%	%	%
Yes, definitely	7	14	10
Yes, perhaps	24	26	25
Not at all	65	56	62
Not sure	4	4	3
Total	100	100	100

Valid response base = 976748 (sample n = 1120)



## **6.7 Conclusion**

Whilst non users of formal business assistance were found amongst all types of SME employers, they were most likely to be found amongst micro businesses, particularly in the hotel, restaurant and catering, and wholesale, retail and repairs sectors, and businesses run by single owner-managers who had no or low level qualifications. They also tended to be survival rather than growth orientated businesses.

Although the majority of non users did not consider using formal business assistance in the last three years, mainly because they felt they had sufficient internal resources to deal with the issues facing them, a minority (one in six) of non users did seriously consider using external assistance but in the end did not go ahead. They were mainly deterred by concerns about the cost of obtaining assistance and finding the time to use it, as well as the difficulty of finding appropriate assistance. Young businesses, and both women-led and minority ethnic led businesses were particularly likely to have seriously considered using external assistance.

The next section will take this analysis further by assessing the extent to which there is a latent demand for formal business assistance and evidence of the existence of various types of market failure.

## 7. EVIDENCE OF LATENT DEMAND AND MARKET FAILURES

### 7.1 Introduction

In this section we aim to bring together the evidence from the survey of SME employers which demonstrates the scale of latent demand for external assistance during the past three years and then to assess the types of market failures that have taken place which explain why this demand has not been taken up.

In assessing whether there is market failure in the provision of formal business assistance it is important to recognise that not making use of formal business assistance does not necessarily indicate the market has failed as some SME employers are able to fully address their needs through using their internal resources and expertise, as indicated in the previous section.

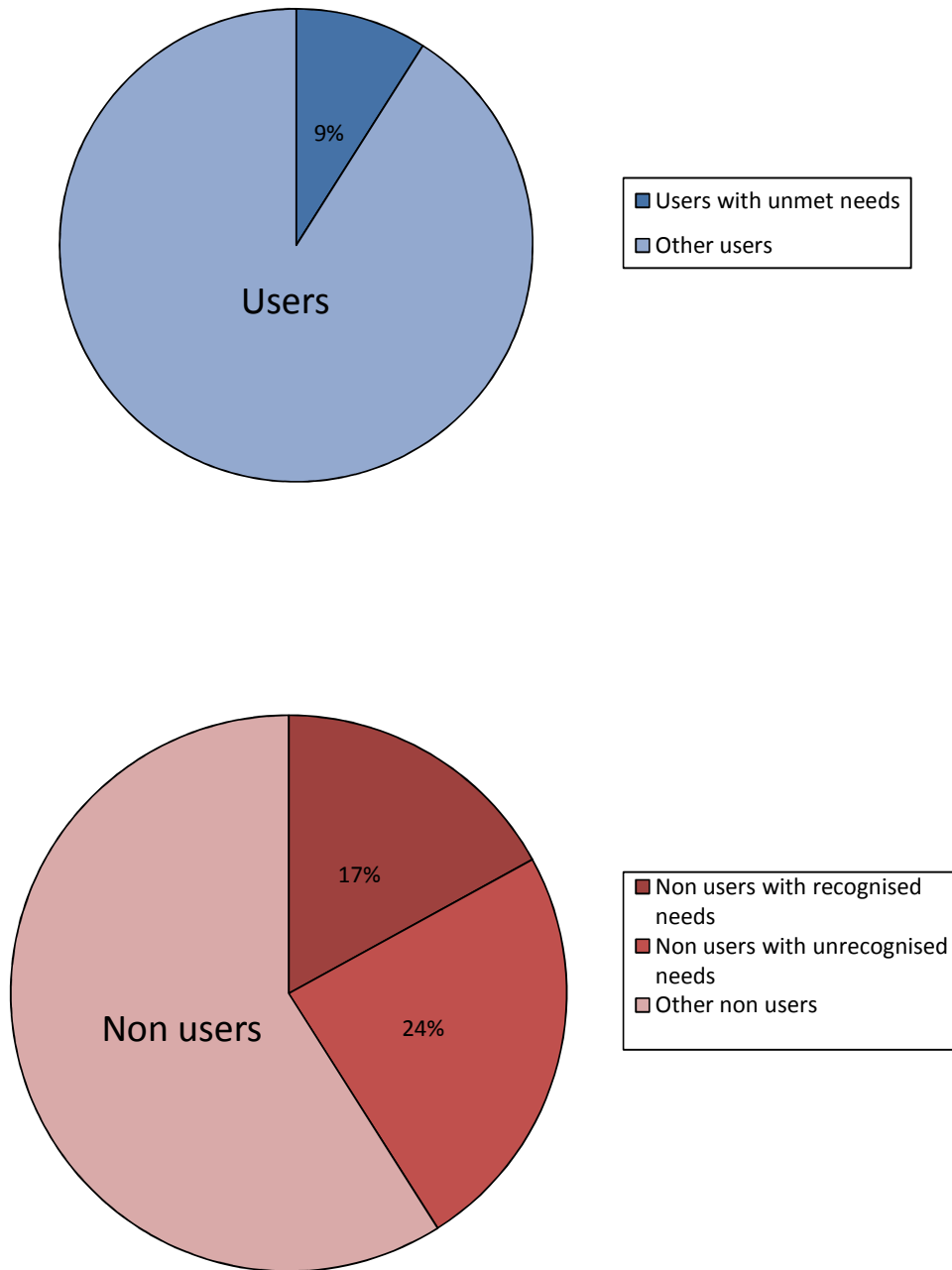
### 7.2 The scale of latent demand

**The overall scale of latent demand for using formal business assistance during the past three years is estimated to be 28.2 per cent of SME employers (292,361 SME employers).** This figure is derived from three types of latent demand for formal assistance during the past three years that are evident from the SME employer survey:

- (i) Users of formal business assistance during the last three years that had a recognised need for assistance with another issue during this period, but did not seek it (see section 5.7): **3.6 per cent of all SME employers (36,927 SME employers).**
- (ii) Non users of formal business assistance during the past three years that seriously considered obtaining formal assistance during this period (i.e. they had a *recognised need* for formal business assistance), but did not go ahead (see section 6.2): **10.4 per cent of all SME employers (107,614 SME employers).**
- (iii) Non users who did not seriously consider obtaining formal business assistance, but had at least one concern about running their business during the past three years which they were unable to deal with fully (i.e. they had an *unrecognised need* for formal business assistance): **14.2 per cent of all SME employers (147,790 SME employers).**

These three categories of latent demand are shown in Figure 7.1.

**Figure 7.1: Types of latent demand for formal business assistance**



### 7.3 Latent demand requirements

As stated in section 6.5, just under a fifth (19 per cent) of non user businesses indicated that they now thought that they could have benefitted from formal business assistance over the last three years. These were equally divided between non-users that had a *recognised need* and those that had an *unrecognised need* for external assistance. In terms of their assistance requirements (Table 7.1):

- More than two fifths mentioned assistance with developing and growing the business.
- Around one third mentioned raising finance, sales and marketing and survival.
- Over one quarter mentioned regulation issues and managing cashflow.
- Almost one fifth of younger SME employers trading for less than three years mentioned start-up assistance.

**Table 7.1: Latent demand requirements of non users**

External Assistance Requirements	% of non users identifying a benefit
Developing and growing the business	41
Raising finance	33
Sales and marketing	32
Surviving	30
Regulation and compliance	28
Managing cashflow	26
Starting a business (n=326)	19
New products and services	15
Recruiting staff	12
IT systems or websites	12
New export markets	2
Other	1

Note: Valid response base 113940 (132)

### 7.4 Characteristics of SME employers exhibiting latent demand

When compared to other non users, the non users exhibiting a latent demand for external assistance were significantly more likely to be:

- Younger businesses trading for less than three years (34 per cent of them compared to 24 per cent of other non users).
- In public, social and personal services (15 per cent compared to nine per cent).
- Survival oriented (56 per cent compared to 47 per cent).
- Non growers (41 per cent compared to 33 per cent).
- Women led businesses (25 per cent compared to 19 per cent).
- Minority ethnic led businesses (21 per cent compared to 16 per cent).
- Owner-managers with less than five years business experience (19 per cent compared to 11 per cent).

## 7.5 Market failure

Having established the scale of latent demand, we will now examine the reasons why these SME employers did not use any formal business assistance. Three categories of market failure will be described before examining the extent to which both the users and non users with a latent demand for external assistance were affected by them. We will then examine to see whether there were any differences in the market failures experienced by those SME employers with a *recognised need* and those with an *unrecognised need*.

### Market failure categories

The types of market failure identified previously in section one can be broadly grouped into the following three main categories:

- (1) **Concerns about access to information and advice:** where there are expected difficulties in accessing information or advice and perceived gaps in the formal business service provision. This comprises two of the survey responses: (i) cannot find suitable assistance; (ii) do not believe that suitable assistance exists.
- (2) **Doubts about the benefits and value of assistance:** where there are concerns about the cost of services and the time required to access and use them. This comprises three of the survey responses: (i) assistance is too expensive; (ii) difficult to find time to use assistance; (iii) unsure of the potential value and benefits of assistance (i.e. where benefits are not clear or immediate).
- (3) **Relationship issues:** where there are concerns that the business owner-managers have about the competence and trustworthiness or approachability of external information or advice. This comprises four of the survey responses: (i) difficult to trust external advisors; (ii) advisors do not understand the business (i.e. the sector, operational process, or markets relating to the business); (iii) do not feel confident to approach external assistance; (iv) deterred by previous experience, either directly to the business or via the referrals of others.

### Relative importance of different market failures

In order to identify the reasons for not using formal business assistance, business owner-managers were asked to rate a series of statements as to why they had not done so, enabling the identification of the proportion of SMEs that definitely thought that a particular statement applied to them. As some businesses definitely considered more than one reason as applying to them, they were also asked to identify their main reason for not using external assistance. This analysis was undertaken for all those SME employers that had a *recognised* or *unrecognised* need for external assistance that was not met over the three year period (i.e. all those businesses identified above as having a latent demand for formal business assistance). In this way it is possible to assess the relative importance of the various categories of market failure for those businesses that had a latent demand for formal business assistance.

Table 7.2 summarises the non user and user market failure responses in relation to both the *main reason* that business owner-managers gave for not using formal external assistance and also the proportion of owner-managers who *definitely considered* that each reason applied to them.

Taking each of the above categories in order of importance:

### **Doubts about benefits and value**

- Over one quarter (26 per cent) of those *non users* identified as having a latent demand for external assistance gave doubts about the value and benefit of formal external assistance as their *main reason* for not using it, with over half (55 per cent) citing this as a *definite reason*.
- Almost half (48 per cent) of those *users* that had further unmet needs for external assistance mentioned doubts about the value and benefits of formal business assistance as a *definite reason*.

In terms of the specific reasons:

- *The view that assistance was too expensive* was the *main reason* identified by 16 per cent of non users and a *definite reason* by 37 per cent of them. It was also a *definite reason* for 38 per cent of the users with unmet needs. Concerns about the expense of assistance applied particularly to non user businesses in the hotel, restaurant and catering sector and financial and business services sector. They also tended to be businesses that had achieved less growth.
- *Difficulty in finding time to use assistance* was the *main reason* identified by seven per cent of non users and a *definite reason* by 34 per cent of them. It was also a *definite reason* for 28 per cent of the users with unmet needs. Over half of those non user businesses that could not find time to use formal business assistance were survival oriented.
- *Being unsure of the benefits of assistance* was the *main reason* given by only three per cent of non users, but 21 per cent thought this was a *definite reason*, as did a quarter of those users with unmet needs. This was disproportionately more of a problem for businesses in the retail and distribution, financial and business services, and manufacturing sectors.

### **Relationship failures**

- One in seven (14 per cent) of those non users identified as having latent demand gave relationship failure as their *main reason* for not using formal business assistance, with over two fifths (44 per cent) indicating that this was a *definite reason*.
- Only one in eight (12 per cent) of the users with unmet needs identified relationship failure as a *definite reason* for not using assistance.

In terms of the specific reasons:

- *Lack of trust in advisors (e.g. confidentiality issues)* was given by only three per cent of non users as their *main reason* but almost one quarter (23 per cent) said that this was a *definite reason*. This was most evident amongst businesses in the retail and distribution, construction, and hotel, restaurant and catering sectors, and especially amongst those businesses concerned with survival.
- *Lack of advisor understanding of the business* was the *main reason* for five per cent of non users, with almost one quarter (23 per cent) considering that this was a *definite reason*. This was proportionately most likely to be a concern for businesses in the retail and distribution sector and also older established businesses trading more than ten years.
- *Lack of confidence to approach professional advisors* was given by only one per cent of non users as their *main reason*, with just over one in eight (13 per cent) considering that this was a *definite reason*. This was more likely to affect young businesses in their first year of trading, less experienced owner-managers, businesses in the hotel, restaurant and catering sector, and both women led and minority ethnic group led businesses.
- *Being deterred by previous experiences* was given by five per cent of non-users as their *main reason*, with just over one in six (17 per cent) citing this as a *definite reason*. This disproportionately affected businesses in the retail and distribution sector and older aged owner-managers.

### **Concerns about access to information and advice**

- Eleven per cent of those *non users* identified as having a latent demand for external assistance gave these concerns as their *main reason* for not using formal business assistance, with over one third (35 per cent) indicating that these were *definite reasons*.
- Two fifths (41 per cent) of *users* with unmet needs mentioned information failure as a *definite reason*.

In terms of the specific reasons:

- *Difficulty in finding appropriate assistance* was the most frequently mentioned reason with nine per cent of non-users identifying this as their *main reason* and almost one third (31 per cent) stating that this was a *definite reason* for not using external assistance. Also, a quarter of users with unmet needs said it was a *definite reason*. This was disproportionately more of a problem for businesses in the retail and distribution, and hotel restaurant and catering sectors and also for women led and minority ethnic group led businesses.
- The feeling that *the right assistance did not exist* was given by only two per cent of non-users as their *main reason* and 17 per cent stated that it was a *definite reason* for not using external assistance. Also, 29 per cent of users with latent demand for formal assistance doubted whether appropriate assistance could be found.

**Table 7.2 Market failure categories by types of latent demand**

	Main Reason		Definite Reason
	All non user latent demand firms	All non user latent demand firms	User latent demand market failure
	%	%	%
No need for external assistance	23	38	n/a
Sufficient internal resources	22	52	n/a
<b>Concerns about accessing information and advice</b>	<b>11</b>	<b>35</b>	<b>41</b>
Difficult to find appropriate assistance	9	31	24
Right assistance does not exist	2	17	29
<b>Doubts about benefits and value</b>	<b>26</b>	<b>55</b>	<b>48</b>
Unsure of assistance value and benefits	3	21	27
Assistance is too expensive	16	37	38
Difficult to find time to use assistance	7	34	28
<b>Relationship failures</b>	<b>14</b>	<b>44</b>	<b>12</b>
Difficult to trust external advisors	3	23	12
Advisors do not understand the business	5	23	N/A
Do not feel confident to contact anyone	1	13	N/A
Deterred by previous experiences	5	17	n/a
Other Reasons	4	1	n/a

Note: Valid response n= 414006 (479) for users; n=36927 (43) for user latent demand; n=255404 (296) for non user latent demand

## 7.6 Comparison of recognised and unrecognised latent demand market failures

We now turn to compare those SME employers that had a *recognised* latent demand for formal business assistance over the three year period (10 per cent of SME employers) and those that had an *unrecognised* latent demand (14 per cent of SME employers).

In terms of their characteristics:

- SME employers with *recognised* latent demand were overrepresented by businesses in the retail and distribution and public, community and personal services sectors, younger businesses trading for less than three years, growth oriented businesses, women-led and minority ethnic led businesses, and younger aged and less experienced managers.
- SME employers with *unrecognised* latent demand were overrepresented by businesses in the construction, retail and distribution, and hotels, restaurants and catering sectors, micro businesses, older businesses (around half had been trading



more than ten years), survival oriented businesses, and those with less well educated and older aged managers.

Table 7.3 reveals some marked differences in the reasons for not using external assistance between SME employers with recognised latent demand and those with unrecognised latent demand:

- SME employers with *recognised* latent demand were far less likely to indicate that they had sufficient internal resources than their counterparts with *unrecognised* latent demand, both as a main reason (19 per cent compared to 25 per cent) and as a definite reason (34 per cent compared to 65 per cent). The suggestion is that those with unrecognised latent demand largely felt confident in their ability to tackle the challenges and problems that they faced internally and therefore felt no need for external assistance rather than being aware of experiencing particular market failures.
- SME employers with *recognised* latent demand exhibited a higher propensity than those with *unrecognised* latent demand to cite doubts about the benefits and value of assistance as their main reason (31 per cent compared to 21 per cent) and as a definite reason (79 per cent compared to 48 per cent). This was particularly with regard to the expense of and the time to use assistance.
- Information failures were far more of a factor for those with *recognised* latent demand, with more than one fifth giving these as their main reason for not using formal business assistance compared to just three per cent of those with *unrecognised* latent demand. Difficulties in finding assistance was the main reason for not using assistance for almost one fifth (18 per cent) of SME employers with *recognised* latent demand compared to just two per cent of those with *unrecognised* latent demand.
- Relationship failures were also more frequently mentioned by SME employers with *recognised* latent demand with almost one fifth (18 per cent) giving this as their main reason compared to one in ten of those with *unrecognised* latent demand.

**Table 7.3 Market failures identified by businesses with recognised and unrecognised needs for formal business assistance**

	Main Reason		Definite Reason	
	Recognised	Unrecognised	Recognised	Unrecognised
	%	%	%	%
No need for external assistance	7	35	21	51
Sufficient internal resources	19	25	34	65
<b>Concerns about accessing information &amp; advice</b>	<b>21</b>	<b>3</b>	<b>60</b>	<b>26</b>
Difficult to find appropriate assistance	18	2	46	21
Right assistance does not exist	3	1	24	12
<b>Doubts about benefits and value</b>	<b>31</b>	<b>21</b>	<b>79</b>	<b>48</b>
Unsure of assistance value and benefits	5	1	23	20
Assistance is too expensive	18	14	45	30
Difficult to find time to use assistance	8	6	38	31
<b>Relationship failures</b>	<b>18</b>	<b>10</b>	<b>61</b>	<b>40</b>
Difficult to trust external advisors	4	2	24	22
Advisors do not understand the business	4	5	25	21
Do not feel confident to contact anyone	3	0	16	11
Deterred by previous experiences	7	3	24	12
Other Reasons/no main reason	4	5	3	0

Note: Recognised valid response base 107614 (125); Unrecognised valid response base 147790 (171)

## 7.7 Conclusion

This analysis has shown that there is a substantial latent demand for formal business assistance, with an estimated 28 per cent of SME employers (292,361 businesses) demonstrating an unmet need for assistance. Fourteen per cent of SME employers have been shown to be businesses that did not recognise their need for assistance, even though they experienced challenges and problems over the last three years that they were unable to deal with fully. In addition, ten per cent of SME employers did recognise their need for external assistance but did not go ahead with obtaining it. And a further four per cent of SME employers that had used formal business assistance over the last three years recognised that they had further needs which they did not seek assistance with.

There were some noticeable differences between those SME employers that recognised their need for formal business assistance and those that did not. Whereas those with recognised needs tended to be younger businesses that were growth orientated and run by younger aged and less experienced managers, those with unrecognised needs tended to be older businesses that were survival orientated, run by less well educated and older managers.

With regards to the various categories of market failure, doubts about the benefits and value of assistance in relation to its cost appeared to be the most common form of market failure experienced by both those businesses that recognised their need for assistance and those that did not. There were concerns particularly relating to the expense of and time involved with taking up formal business assistance. These owner-managers therefore need convincing that the benefits to the business of obtaining external assistance make the cost and time involved worth it.

Relationship failures such as not being able to trust external advisors or concerns about whether they would understand the business appeared to be the second most common form of market failure, particularly for those businesses with a recognised need. Concerns about being able to access appropriate assistance emerged as the third most common form of market failure, but again applying mainly to those businesses that recognised their need for external assistance.

## 8. SUMMARY CONCLUSIONS RELATING TO KEY RESEARCH QUESTIONS

In this final section, we summarise the key findings from the survey of SME employers in relation to the main research questions that were set out in section one of the report.

### What proportion of businesses accessed support over the previous three years?

- Two fifths (40 per cent) of all SME employers (an estimated 409,384 SME employers) used formal business assistance over the last three years. Over a quarter (28 per cent) used private sector support and one fifth (20 per cent) used public sector support.
- Almost one fifth (19 per cent) of SME employers used *only* private sector assistance, just over one in ten (11 per cent) used *only* public sector assistance, and just below one in ten (nine per cent) used *both* private and public assistance.
- Just over one fifth (22 per cent) of all SME employers had sought *only* information, one in eight (12 per cent) had sought *both* information and strategic advice, and just over one in twenty (six per cent) had sought *only* strategic advice.
- There was little difference between SME employers using *only* private sector sources and those using *only* public sector sources in terms of the proportions receiving information and strategic advice. Two thirds (62 per cent of *only* private users and 66 per cent of *only* public users) sought information only.
- Almost two thirds (60 per cent) of those SME employers using *both* private and public assistance were most likely to be seeking both information and strategic advice.
- Almost half (47 per cent) of SME employers had used informal assistance (e.g. from friends, family and business acquaintances) over the past three years. Businesses using informal assistance were more likely to also use formal assistance than those not using informal assistance, indicating a readiness by these owner-managers to take advice from various sources.

### What are the characteristics (including the growth potential/aspirations) of (a) non-users of business support, (b) users of private sector support and (c) government sponsored support services?

- SME employers that had growth as their main aim over the past three years had a higher propensity to use formal business assistance than those that had survival as their main aim (46 per cent of growth seeking businesses compared to 34 per cent of survival seeking ones).
- There was little difference in the propensity to use formal business assistance between SME employers that said they had grown over the last three years (or since established in the case of new businesses) and those that stated they had not grown (41 per cent of growers and 38 per cent of non growers).
- Fast growing businesses were more likely to have used external assistance (48 per cent of those growing by more than 50 per cent in the last three years) and significantly more likely to have used support from both private and public sources. This confirms that fast growing businesses actively seek support from a range of sources.

- In terms of their actual performance, SME employers that had used formal business assistance exhibited a slightly higher proportion increasing their sales turnover over the past 12 months (43 per cent of users compared to 39 per cent of non users) as well as increasing their employment (30 per cent compared to 27 per cent). However, users also exhibited a slightly higher proportion experiencing declining employment over this period (18 per cent of users compared to 14 per cent of non users), indicating that some users that were survival seeking may have ended up reducing employment.
- In terms of age of the business, new businesses (i.e. those established for less than one year) had the highest propensity to use formal business assistance (47 per cent of them compared to 39 per cent of all other SME employers). SME employers established for between six and 20 years had the lowest propensity to use external assistance (37 per cent of them).
- Looking at the size of the business, medium sized businesses had the highest propensity to use external assistance (57 per cent of them did so compared to 39 per cent of micro businesses). Moreover, a higher proportion of micro businesses used solely public sources (30 per cent of micro businesses receiving assistance) than did their small and medium sized counterparts (22 per cent and 24 per cent respectively).
- SME employers in the 'public, community, social and personal services' and the 'financial and business services' sectors had the highest propensity to use formal business assistance (49 per cent and 48 per cent of them respectively), whilst SME employers in the 'hotel and catering' sector had the lowest propensity (27 per cent).
- The use of formal business assistance was proportionately greatest amongst SME employers with larger management teams and amongst more highly qualified managers.
- Women-led businesses were significantly more likely to use public sector sources than their male run counterparts (28 per cent of women-led businesses using assistance compared to 18 per cent of male-led businesses using assistance).

**What organisations have provided this support and what proportions of the support received relate to (a) transactional (simple information needs or related to standard business operation) and (b) transformational (particularly strategic advice in relation to growth or productivity)?**

**Information:**

- Just under a quarter (24 per cent) of SME employers received information from private sector sources, with accountants being the most frequently mentioned provider (13 per cent of all SME employers), followed by consultants, banks and solicitors (each six per cent).
- Just under one fifth (18 per cent) received information from public sector providers, with Business Link being the most frequently mentioned provider: nine per cent of all SME employers received information from Business Link via email, telephone and face to face methods and six per cent via the website.

- The most frequently mentioned reasons for obtaining information from external sources were to assist with developing and growing the business (13 per cent of all SME employers) and with regulations, tax and compliance issues (also 13 per cent).
- Those businesses using information from formal sources typically used these sources more than once over the three year period, with information relating to regulations, finance, and IT being obtained several times.
- Information provided by private sector sources was most frequently conveyed face to face (in 64 per cent of cases) and/or by telephone (40 per cent) whereas information provided by public sources was most frequently conveyed via websites (53 per cent of cases) as well as face to face (41 per cent).

### **Strategic Advice:**

- One in seven (13 per cent) SME employers received strategic advice from private sector organisations, with management/business consultants being the most frequently mentioned provider (five per cent of all SME employers), followed by accountants (four per cent).
- One in twelve (eight per cent) SME employers had received strategic advice from public sector organisations, with Business Link being the most frequently mentioned: four per cent of all SME employers received strategic advice from Business Link via email, telephone and face to face contacts and three per cent via the website.
- As with information, the most frequently mentioned reasons for obtaining strategic advice were to assist with developing and growing the business (13 per cent of all SME employers) and with regulations, tax and compliance issues (nine per cent).
- Those businesses using advice services typically used them more than once over the three year period, with a third of them having seven or more contacts (particularly in relation to sales and marketing, developing and growing the business, and cashflow).
- Strategic advice was most frequently conveyed face to face (in 74 per cent of cases), although that received from public sector sources was significantly more likely to be obtained from websites (32 per cent of cases) or attending workshops/seminars (25 per cent) than was the advice from private sector sources (11 per cent for both).

### **What has been the impact of the information and advice received on the performance of the business?**

#### **Information:**

- With respect to the most important information received over the past three years, over two thirds (68 per cent) of information users considered that it had fully met their expectations, with just one in twenty stating that it had not. A greater proportion (76 per cent) of users of only private sector information sources considered that the information had fully met expectations than users of only public sector information sources (59 per cent).
- Almost half (47 per cent) of information users considered that their business performance had improved as a result of the most important information they had received, with 16 per cent identifying a significant improvement. Just over a third (37

- A significantly greater proportion of users of only private sources or both private and public sources (18 and 22 per cent respectively) considered that the business was performing significantly better than users of public sector information sources (nine per cent).
- In terms of the nature of the improvements, the most frequently mentioned related to enabling survival, improving profitability, and a re-evaluation of the business. Businesses using private sector sources were more likely to identify improvements in profitability, whereas those using public sector sources were more likely to identify a re-evaluation of the business.

### **Strategic Advice:**

- With respect to the most important strategic advice received over the past three years, nearly three fifths (58 per cent) of users of advice considered that it had improved the performance of their business, with one in five stating that the business was performing 'significantly better'. A third considered that the advice had made no real difference to business performance.
- A significantly greater proportion of users of private sector advice (24 per cent of them) considered that the business was performing 'significantly better' than users of only public sources (five per cent).
- In terms of the nature of the improvements, the most frequently mentioned related to increased sales turnover, improved profitability, and enabling survival. Users of only private sector advice were more likely to identify sales turnover growth, whereas users of only public sector advice were more likely to state that the advice enabled business survival.

### **Relationship between Information and Advice and Transformational Assistance:**

- The findings on the impact of information and strategic advice on business performance indicate that there is no simple distinction between the provision of straightforward 'transactional' information and strategic advice that is seen as 'transformational' support. Whilst receiving strategic advice was more likely to lead to improved business performance than obtaining information, the difference was not as great as might have been expected; for example, strategic advice led to 'significantly better' performance for 20 per cent of advice users whereas information led to 'significantly better' performance for 16 per cent of information users.
- In practice, transactional and transformational types of support are invariably interlinked, such that a request for information can quickly lead to advice being given by the provider, especially when it is delivered on a one to one basis.

**How large and how significant is latent demand (unrecognised or unmet demand)? What proportions of latent demand relates to (a) transactional (simple information needs or related to standard business operation) and (b) transformational needs (more strategic or intensive support)?**

- Amongst *non-users*, one in seven (14 per cent) indicated that during the last three years they had seriously considered using formal business assistance for information about the day to day running of their business i.e. transactional support. Also, just over one in ten (11 per cent) indicated that they had seriously considered using external assistance for strategic advice to help introduce a stepped change i.e. transformational support. These non-users therefore had a *recognised but unmet need* for formal business assistance and represent 10 per cent of all SME employers.
- Also amongst *non-users*, just under a quarter (24 per cent) did not seriously consider using formal business assistance but nevertheless had experienced at least one significant concern during the last three years which they had been unable to deal with completely. These non-users therefore had an *unrecognised and unmet need* for formal business assistance and represent 14 per cent of all SME employers.
- Amongst *users*, almost one in ten (nine per cent) mentioned that they had further information or advice requirements over the last three years for which they had not received external assistance. These users therefore had a *recognised but unmet need* for formal business assistance and represent four per cent of all SME employers.
- When the above three types of latent demand are combined, it would appear that 28 per cent of all SME employers (estimated at 292,361 SME employers) had a latent demand for formal business assistance. Most of this comes from the recognised and unrecognised needs of non-users, although there is a smaller element of unmet demand amongst users.
- The non-users with recognised needs tended to be younger businesses that were growth orientated and run by younger aged and less experienced managers. In contrast, the non-users with unrecognised needs tended to be older businesses that were survival orientated and run by less well educated and older managers. Women-led and minority ethnic group led businesses were significantly more likely to report having an unmet need for strategic advice than other businesses.

**How widespread are the market failures and how do they differentially affect different segments of the business population? To what extent is the value of advice and support not recognised and to what extent do businesses not know where to access support?**

- Given the overall scale of latent demand, it would appear that more than a quarter (28 per cent) of SME employers experienced barriers to the take up and use of formal business assistance.
- Of the three main categories of market failure identified, *doubts about the benefits and value of assistance in relation to the expense and time involved* appeared to be the most common form of market failure experienced by both those businesses that recognised their need for assistance and those that did not. Over half of them (55 per



- Concerns about the expense of external assistance most commonly applied to businesses in the hotel, restaurant and catering, and financial and business services sectors, and to businesses that were not growing. The difficulty of finding the time to use assistance applied particularly to survival orientated businesses.
- *Relationship failures such as not being able to trust external advisors or concerns about whether advisors would understand the business* appeared to be the second most common form of market failure, with over two fifths (44 per cent) of those businesses with a recognised or unrecognised need for assistance identifying this as a definite reason and one in seven (14 per cent) as the main reason.
- A lack of trust in advisors was most evident amongst businesses in the retail and distribution, construction and hotel, restaurant and catering sectors, and especially amongst survival orientated businesses.. Lack of confidence to approach professional advisors was particularly evident amongst young businesses in their first year of trading, less experienced owner-managers, and women led and minority ethnic group led businesses.
- *Concerns about being able to access appropriate assistance* appeared to be the third most common form of market failure, with a third (35 per cent) of those businesses with a recognised or unrecognised need for assistance identifying this as a definite reason for not seeking assistance and just over one in ten (11 per cent) as the main reason. These concerns applied particularly to those businesses with a recognised need for external assistance
- Concerns about accessing support were most commonly found amongst SME employers in the retail and distribution, and hotel, restaurant and catering sectors, and also amongst women led and minority ethnic group led businesses.
- The majority of non-users were confident that they would be able to find appropriate external assistance, should they need it, although just under a quarter (23 per cent) were not at all confident.
- Half of non users would be willing to pay for external advice that might help the business grow. Of these, a third said they would be willing to pay no more than £25 per hour, and a further fifth up to £50 per hour. A third said that they did not know how much they would be prepared to pay. Very few would be willing to pay more than £50 per hour, even though most users paying for external assistance paid at least this much.

In conclusion, this study of the take up and use of business support has shown that SME employer businesses are heterogeneous, with different segments of the market exhibiting different assistance requirements and sensitivities which can impact on the selection and non selection of business assistance providers. In order to optimise the take up of formal business assistance, the new business provision framework will need to be promoted and delivered flexibly in ways which will be attractive and appropriate to different market segments.

## TECHNICAL ANNEX

### Survey Design

A CATI telephone survey of the owner-managers of 1202 employer SME (1-249 employees) businesses in England was undertaken in March 2011 by BMG Research. The survey was mainly quantitative, collecting additional qualitative information for unspecified categories and took on average 20 minutes to complete. The survey sample was designed to provide statistically robust evidence of recent business use and non use of external business support services, differentiating between private sector and public sector sources of information and advice.

The interviews focused on the last three years (or since established in the case of new businesses) and collected data on: (i) basic characteristics of the business; (ii) challenges and problems to growth and business development; (iii) the use of external sources of information and advice over the last three years including the types and sources of information/advice; (iv) the impact of information/advice on business performance; (v) the reasons for not seeking external assistance; (vi) and the growth performance and ambitions of SME employers.

### Sampling

The survey aimed to produce a broadly representative sample of English SME employers and used a random stratified sample from the national Experian database from which quota sampling was adopted in order to capture sufficient numbers of businesses across key categories (which were not mutually exclusive). The initial business sample was *10 times* the required survey target with businesses sampled from five employment size bands: 1-4 employees; 5-9; 10-19; 20-49; and 50-249, with half the sample being assigned equally to each band and the other half proportionately according to business size structure (BIS SME statistics<sup>10</sup>). The aim of this was to achieve a sufficiently robust sample of larger SMEs. Interviews with larger SMEs then had to be weighted so that the achieved survey data was representative of the employer SME population and that the views of larger SMEs were not over-stated. Non-interlocking quotas by industry and region were applied in order to ensure that the sample was broadly representative of the business population by industry and region. A further quota was applied by the age of the business to ensure that the sample was appropriately balanced to include the views of young and more established employer SMEs (i.e. less than three years old and more than three years old).

### Weighting technique

Data presented (unless otherwise stated) has been weighted by size band in order to correct for over-sampling amongst larger SMEs. 'Grossing up' has been undertaken in order that each interview represents a number of SMEs based on their share of the employer SME population, so that the sample total becomes the total number of employer SMEs in the population and statistics are given as percentages and as the number of employers that they represent.

---

<sup>10</sup> Inter Departmental Business Register (IDBR) for employer business population estimates

## **Sample Error margin**

The number of interviews conducted with a group is a key indication of the statistical reliability of findings for that group. As with all quantitative research, the sample size is subject to a level of statistical reliability at various levels.

Statistical reliability also increases, the nearer the statistic measured is to 0% or 100%. It is at its greatest for a statistic of 50% (where the sample is effectively divided in its opinions). For example, a finding of 50% on a base size of 1202 interviews has a confidence interval of +/-2.8% at the 95% level. That is to say that if the survey returns a finding of 50% for a particular question there is a 95% probability that the 'true' figure (amongst the total SME employer population) will lie within +/-2.8% (i.e. between 47.2% and 52.8%) of that finding. If the survey finding is 90%, the range is reduced to +/-1.7%, giving a 95% probability that if the survey was conducted across the entire SME employer population the result would lie between 88.3% and 91.7%.

## **Multivariate modelling**

In order to unravel the interrelationships between different business and management characteristics, a multinomial logit model was applied to the data, this being a technique for modelling categorical data. The modelling of the characteristics of users and non-users involved a categorical binary dependent variable, which holds the value of either 1 or 0. This approach lends itself to particular models that estimate the likelihood of a case being in either of these categories.

Essentially the model examined the probability that a case will be categorised as either 1 or 0. The case is categorised using a set of explanatory variables. We are interested in the significant explanatory variables that jointly determine whether a case is categorised as 1 or 0. One of the ways to assess the models is the extent to which they can correctly classify the data. The models themselves are tested through a chi-square statistic and all are highly significant. A pseudo r-squared statistic that gives some indication of the proportion of the variation that is explained by the model. In these models the partial effect depends on holding all the other variables constant. The sign of the co-efficient tells us whether the variable had a positive or negative effect. To understand the magnitude of the effect then we have to estimate it at its mean with all the other variables held constant.

Three logit models were applied to the data relating to the 1202 surveyed SME employers: a base model showing the impact of sector, region, and firm size on the use and non use of assistance; a second model adding more business and management characteristics, including the age of the business and the qualifications of managers; and a third model adding the attitudes and views of respondent managers, such as their growth ambitions and whether they had taken informal advice.