

# **1. The Centre's History and Objectives**

## ***1.1 Background to the Centre, Origins and Development***

The CBR's origins lie in an active recent tradition of interdisciplinary collaboration in business research in Cambridge. This is exemplified by the work of the Small Business Research Centre (1988-1994), which brought together economists, geographers and management scientists, and by the Vertical Contracts research project (1992-1995) which involved lawyers, economists and sociologists under the auspices of the ESRC's Contracts and Competition Research Programme. Antecedents for the CBR are also to be found in work on macroeconomic policy, competitiveness and industrial policy which was carried out by a group of Cambridge economists with researchers from Harvard University in the late 1980s. The nucleus of the original CBR research team was formed through various collaborations on these earlier projects, and the subject-matter of these projects – SMEs, corporate governance, and industrial competitiveness – formed the basis for the programme of research agreed with the ESRC when the CBR was set up in 1994.

From its inception, the CBR's fundamental rationale was that interdisciplinary collaboration could achieve results in the field of business research which would not otherwise be realised. The gains to be made from bringing together industrial economists and economic geographers to study agglomeration effects among SMEs, and corporate lawyers, organization theorists and economists to study inter-firm contractual relations, were apparent from earlier work. A vital part of the case for Centre funding was that a sustained investment of resources from the ESRC would enable similar synergies to be captured across a wider range of issues. In addition, positive spill-over effects in terms of advances in the method and theory of business research could be anticipated from the bringing together of a critical mass of researchers from different disciplines.

These expectations have been reflected in the subsequent development of the CBR. The Centre's work on SMEs and in particular its biennial State of British Enterprise survey of small firm growth and development have resulted in seminal contributions to this area, bringing to fruition the work first begun in the late 1980s. A particular feature of this and related work on industrial policy, technological change, and competitiveness has been interdisciplinary collaboration between economists, sociologists and geographers. The research programme of the CBR anticipated the growth in intellectual and policy interest in the area of business services, hi-tech firms, networking clusters and agglomeration. Its international reputation in these areas is reflected in the extensive collaborative research efforts involving over a dozen countries funded beyond the original core grant. In addition, the original CBR research proposal anticipated the rise of the new interdisciplinary field of corporate governance (as an area related to but distinct from corporate finance) and the growing application, in this area and others, of the techniques of new institutional economics and the economics of law. In large part through the CBR's efforts, Cambridge now has a large concentration of corporate governance researchers and a growing worldwide reputation for work in this field.

The CBR's research profile has changed considerably over time. It began life in the autumn of 1994 with a core programme of around half a dozen projects funded by the ESRC centre grant. Within the next five years, the contribution of the core ESRC grant declined to around 60% of total Centre funding, as projects were added through successful bids to a range of external funding bodies. These were governmental bodies in the UK and overseas, including the Department of Trade and Industry, the Department for Education and Employment, the Bank of England, the Law Commission and the Low Pay Commission; transnational organizations including the European Community, the Council of Europe, the IMF and the World Bank; UK charitable foundations including the Leverhulme Trust, the Ford Foundation, the Joseph Rowntree Foundation, and the Sainsbury Trust; professional bodies including the Institute for Chartered Accountants in England and Wales and the Royal College of Midwives; and a number of individual companies, employers' associations, and trade unions. The ESRC itself was a source of extra funding through its programmes on Contracts and Competition, Media Regulation and Media Economics, the Future of Work, and Cities, Competitiveness and Cohesion. In each case, these additional projects built on the progress made in the core research programme, and would not have been possible without it. The additional projects, in turn, enriched the core programme by enabling its insights to be applied to concrete issues or problems highlighted by funding agencies. They also provided the CBR with a platform to report its results to the wider business and regulatory communities. Because key components of the CBR's work were strongly empirically grounded in detailed case study analysis and the construction and analysis of complex survey datasets, it came to be widely relied on for information and evaluation as part of the growing emphasis on 'evidence-based policy making' from the mid-1990s onwards.

The CBR's relocation from the Department of Applied Economics to the Judge Institute of Management Studies in July 2001 has been the occasion for a significant strengthening of its position. New members of the research team from a management science background have joined the Centre at a senior level, while the Director and two assistant directors currently hold chairs in the Judge Institute. The contribution of other departments, in particular Geography, Law and Social and Political Sciences, remains strong. The Centre currently benefits from a very strong 'intermediate' layer of full-time researchers leading projects in their own right, and from an energetic and active intake of post-doctoral research fellows and research students attached to projects.

The Centre's recent development has also benefited from growing international links. An EC-funded network on SMEs, dating from the mid-1990s, continues to provide valuable contacts. Close collaboration has been established in the corporate law and employment relations areas with researchers in France, Belgium and Australia, and international networks on corporate governance and mergers research have been established. The CBR is also in the forefront of collaborative research on competitiveness between Cambridge and MIT, with several projects currently in the course of construction or just beginning. Distinguished Visiting Fellows from the USA, Italy, Australia, and Austria have all spent periods at CBR working on programme related topics. The increasingly international reputation and orientation of the CBR's work, coupled with its relocation to

the Judge Institute, put it in a strong position to advance the contribution of UK social science in the field of management and business research.

## ***1.2 The Centre's Objectives***

### **The original contract**

Under the contract entered into with the ESRC at the time of the CBR's establishment in 1994, it was agreed that the CBR's scientific programme would make advances in the following areas:

- the analysis of the interrelationships between competitive manufacturing strategies, innovation, business performance and industrial policy;
- the analysis of the relationship between corporate governance structures, incentive systems, takeovers, business performance and the regulatory and legal environment; and
- the analysis of the role of agglomeration effects and cooperative activity in the growth and development of small and medium sized firms.

These three areas were subsequently to form the basis for the three principal research programmes of the CBR, which are described in more detail below (see section 2 of this report).

It was also agreed in the original contract with the ESRC that in making advances in the above areas, the CBR would make a significant contribution to the construction and analysis of large and complex datasets including survey and panel data. This commitment was reflected in the centre's Survey and Database Programme. This was reported as a separate programme between 1994 and 1999. The mid-term review panel agreed with the proposal to transfer substantive research projects after that date to the other three programmes, leaving a survey and database unit to provide advice and data management services across all CBR projects.

In order to achieve the objectives set out above, it was agreed in the original contract that the CBR would carry out the following actions:

- conduct an interdisciplinary research programme in Business Research;
- construct and maintain survey and related databases necessary for the conduct of Business Research;
- mount a series of workshops and seminars in Business Research;
- produce and distribute a Working Paper Series to disseminate the results of the Centre's research programme;

- maintain contact with researchers in the UK and abroad in cognate areas of research, and with potential users of the output of the Centre's research, in designing and executing the Centre's programme of research.

It was also agreed that, in making these advances, the Research Centre would make significant contributions to the following academic disciplines: a) economics, b) human geography, c) management and business studies, and d) socio-legal studies.

## **The mid-term review**

The mid-term review panel reported that the CBR 'had made a substantial contribution to the understanding of business performance in the UK and was studying topics of considerable policy interest'. Among the comments of referees whose opinion was sought, it was considered that the CBR's work on SMEs, as represented in the 'State of British Enterprise' conferences, represented 'a major success in producing a much fuller account of innovation and SMEs (and with some surprising results) as well as disseminating the results to government, business and the media'. The 'integration of socio-legal perspectives with economics and sociology in many of the studies' was said to be 'a major achievement of the Centre'. A further 'major achievement' was 'the creation of a methodology for longitudinal study of the SME sector in the UK, particularly finance'. The work of the Centre in the area of inter-firm relations and corporate governance more generally was referred to as 'excellent and very valuable'. A further comment noted that a 'particular achievement is the extremely interesting work on trust, and the role of law in generating trust, in interfirm relations'. The contribution of the Director to the development of the DTI's Performance Framework for Business Links was described as 'critical.'

The panel concluded that the CBR 'had yielded important analytic insights, also innovation in interdisciplinary research (particularly in the interface between economics and law) and results valuable to policy makers. The surveys were an important empirical contribution' (recommendation 1). The panel then recommended that 'ESRC funding for the Centre should continue to allow a similar level of activity for the next five years from the end of the current contract', that is, for the period 1999-2004, conditional upon certain changes being made to the proposed research for Programme 1 (recommendation 2). These changes were subsequently agreed.

The panel made a number of further recommendations<sup>1</sup>:

- 'An increase was needed in the input of management studies to produce more rounded research on business performance. Linkages with the Judge Institute of Management should be developed further (recommendation 3).'

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<sup>1</sup> The panel also made a recommendation that 'The ESRC should consider rationalization of surveys of companies' performance with DTI and ONS (recommendation 9).' This is not an issue for CBR action and is therefore not addressed here.

- ‘Further opportunities should be sought for drawing out methodological and theoretical insights from the Centre’s experience of empirical studies for publication in refereed journals (recommendation 4).’
- ‘With growing pressure on the Director and the resignation of one of the Programme Directors [Dr. David Keeble, whose resignation was on the grounds of retirement from his university post], more attention should be given to the development of a middle layer of experienced research staff able to be leaders in their fields (recommendation 5).’
- ‘Targets should be agreed with the ESRC for the deposition of the datasets in the Data Archive (recommendation 6).’
- ‘More resources should be devoted to further engagement with a wider variety of users of the research. Relations with policy-makers and intermediary quasi-Governmental organizations were stronger than with the private sector (recommendation 7).’
- ‘The website should be developed further to interact with users and consideration should be given to distribution of working papers via the Internet (recommendation 8).’

Each of these recommendations has since been met; details are contained in section 3 of this report (see below).

### **Modification of the original objectives**

Following the mid-term review, the objectives specified in the Centre’s scientific programme were modified by agreement with the ESRC. As a result, the objectives which correspond to the three main research programmes now read as follows:

‘Major advances are expected in these areas:

- the analysis of the interrelationships between management strategy, takeovers and business performance in an international competitive context [programme 1];
- the analysis of the relationship between corporate governance structures, incentives systems, business performance and the regulatory and legal environment [programme 2];
- the analysis of policy, entrepreneurial styles, innovation, finance, training and international activity and networking and cooperative activity in relation to the survival, growth and development of small and medium-sized firms [programme 3].’

Thus the objectives of programme 2 were not significantly changed, whilst in programme 3, the original reference to network and agglomeration effects was extended to include a wider set of factors including innovation, finance, training and the international dimension. The changes to programme 1 were modified by making additional reference to the international competitive context and by emphasizing the link between business strategy and performance. The emphasis on industrial policy which had originally been part of this programme was switched to programme 3. These changes reflect the mid-term review panel's recommendation of strengthening the input of management studies. They also reflect the reality of CBR's emphasis on industrial policy projects on smaller enterprises which were already being reported under programme 3 in the period 1995-99.

A number of programme director changes in the course of 1999-2001 were associated with these alterations of emphasis. These changes reflected the research interests of the individuals concerned, the need to implement the recommendations of the mid-term review panel relating to management studies, the replacement of David Keeble, and the easing of the administrative burden on the Director. Thus responsibility for the growing and complex survey and database activities was transferred from the Director to Andy Cosh, and Nick Oliver was appointed to take responsibility for programme 1. In addition Hugh Whittaker was appointed as David Keeble's replacement at the head of programme 3.