



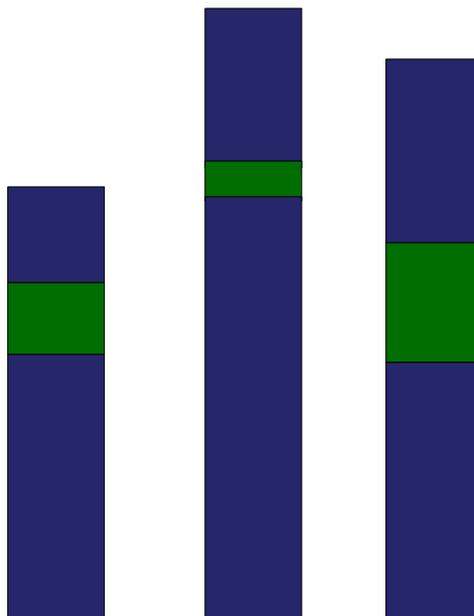
ESRC CENTRE FOR  
BUSINESS RESEARCH

## ENTERPRISE BRITAIN

*Growth, Innovation and Public Policy in the  
Small and Medium Sized Enterprise Sector  
1994-1997*

edited by  
Andy Cosh and Alan Hughes

*Executive Summary of Key Findings  
September 1998*



## **ENTERPRISE BRITAIN**

The Centre for Business Research (CBR) at Cambridge University is an interdisciplinary research institute with the study of Small and Medium-sized Enterprises as one of its core programmes. The biennial SME surveys carried out by the CBR are widely regarded as the most authoritative examination of this key element of the UK economy.

Enterprise Britain is the third report to be published on the basis of those surveys. The first published was the highly acclaimed State of British Enterprise report in 1992. The firms included were re-surveyed in 1995 with a special emphasis on their innovation activity and the results published in a second report in 1996 as The Changing State of British Enterprise.

### **Comments on previous CBR Survey Reports of 1992 and 1996**

‘The particular value of the Cambridge research lies in the number of enterprises questioned – more than 2,000 in both manufacturing and service sectors from through-out Britain. It should provide a valuable source of material for organisations which provide services to business and policy-makers in both the private and public sectors.’

*The Financial Times*

‘The most comprehensive survey of Britain’s small and medium-sized firms (SMEs) since the Bolton inquiry.’

*The Guardian*

‘...A mine of information and will serve as a valuable benchmark for future researchers...offers a unique perspective on the SME sector in the UK’.

*International Small Business Journal*

‘...A particularly stimulating report to read...All specialists in the small firms area will want a copy.’

*International Journal of Industrial Organisation*

‘The survey analysis is meticulous and professional... Like all good research which is neutral and fact-based it will provide ammunition for all sides of the debate on what is a complex subject.’

*Small Business Perspective*

## Contents

<b>Acknowledgements</b>	1
<b>Definitions</b>	2
CHAPTER ONE	
<b>Size, Age, Growth, Business Leadership and Business Objectives</b>	3
<i>Andy Cosh and Alan Hughes</i>	
CHAPTER TWO	
<b>Employment Structure, Recruitment, Labour Turnover, Training and Labour Force Flexibility</b>	5
<i>Michael Kitson and Frank Wilkinson</i>	
CHAPTER THREE	
<b>Markets and Competition</b>	7
<i>Michael Kitson and Frank Wilkinson</i>	
CHAPTER FOUR	
<b>Innovation: Scale, Objectives, and Constraints</b>	9
<i>Andy Cosh and Eric Wood</i>	
CHAPTER FIVE	
<b>Growth Objectives and Constraints</b>	11
<i>David Keeble</i>	
CHAPTER SIX	
<b>External Advice and Business Links</b>	12
<i>Robert Bennett and Paul Robson</i>	
CHAPTER SEVEN	
<b>Profitability, Finance, Investment Appraisal and Acquisition</b>	13
<i>Andy Cosh and Alan Hughes</i>	
CHAPTER EIGHT	
<b>Financing Innovation</b>	15
<i>Andy Cosh, Alan Hughes and Eric Wood</i>	
CHAPTER NINE	
<b>High-Tech Firms: Market Position, Innovative Performance and Access to Finance</b>	16
<i>Alan Hughes and Barry Moore</i>	
CHAPTER TEN	
<b>North-South and Urban-Rural Variations in SME Growth, Innovation and Networking in the 1990s</b>	18
<i>David Keeble</i>	
CHAPTER ELEVEN	
<b>Small Business Enterprises in the 1990's: The 1991 and 1997 CBR Sample Surveys Compared</b>	20
<i>Andy Cosh and Alan Hughes</i>	

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As editors we are grateful to our colleagues for responding to a tight timetable and to ESRC for funding the research on which this volume is based.

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Andy Cosh and Alan Hughes  
*Editors*

## Definitions

### Types of Business

Micro	Businesses with less than 10 employees in 1996/97.
Small	Businesses with between 10 and 99 employees in 1996/7.
Medium	Businesses with between 100 and 499 employees in 1996/97.
Newer	Businesses formed in 1986 or later.
Older	Businesses formed in 1985 or earlier.
Manufacturing	All manufacturing industries (SIC (1992)).
Services	Advertising, Management, Technical and Professional Consultancy and Telecoms Services (SIC (1992) principally industry headings 6411-20, 7220-60, 7310-20, 7412-50, 7481-84).
Stable/Declining	Businesses with zero or negative employment growth during last three years.
Medium growth	Businesses with employment growth greater than 0% and less than 40% during last three years.
Fast growth	Businesses with employment growth of 40% or greater during last three years.
Innovators	Firms which introduced a product or process innovation.
Non-innovators	Firms which did not introduce any innovation
Survey period	July-October 1997
Response rate	25.4%

## **Chapter 1 - Size, Age, Growth, Business Leadership and Business Objectives**

Andy Cosh and Alan Hughes

- The sample consists of about 2,500 firms with about 58% from manufacturing and 42% from business services.
- Micro and small firms each account for about 44% of the sample and service sector firms have a disproportionate share of the micro firms group.
- About two-thirds of the firms had been formed since 1980 and 44% were formed in 1986 or later.
- Although there is a strong link between size and age, 41% of our micro firms were formed before 1986 and 24% of those formed in 1986 or later had 100 or more employees in 1997.
- Examining employment growth over the years 1994-97 we find 18% of firms had declined and a further 25% did not change in size, but 16% grew by 75% or more.
- 42% of the sample were exporters and 10% had achieved exports in excess of £1m. The average ratio of exports to sales for exporters was 15%.
- Manufacturing, older, larger and innovating firms were more likely to be exporters.
- About two-thirds of our sample began life as a new business start-up and spin-offs from another business represented a further 19%.
- Newer businesses were less likely to have been formed by a new start-up with only 59% formed this way compared with 67% for businesses formed before 1986.
- 40% of the firms gave actual or potential unemployment as a motive for their firm's formation and this proportion is higher for newer and micro firms and for those formed through a management buy-out.
- 80% of the sample gave the desire to run one's own business as a motivation for its formation.
- The desire to exploit an idea or invention and the ambition to become wealthy were given as factors in the formation of the business by about 40% of our firms in each case.
- Business leaders were 50 years old, had been with their firms for 12 years and had led it for 10 years on average. Indeed 75% of them had founded the business and a further 9% of them were relatives of the founder.
- The proportion of business leaders who founded their business declines markedly with the size and age of the firm.
- Fast growth and newer businesses had significantly younger business leaders.

- The average shareholding of the chief executive of companies in our sample is over 50% and the board holding averages 83%.
- The board of directors hold 100% of the shares in 60% of our sample companies.
- Larger firms have more dispersed shareholdings with only 36% of medium-sized firms with board holdings of 100%.
- In companies in which the largest shareholding represents 50% or more of the shares, the chief executive holds these shares in 89% of the cases and off-board majority holdings represent less than 3% of our sample.
- The importance of non-board holdings is far greater for medium-sized companies.
- Firms with women as their leaders are located disproportionately in non-innovating, slower growing newer, service, micro firms.
- Female business leaders are younger and have less experience than their male counterparts and they give less emphasis to wealth creation as a motivation for business formation.
- Service sector firms have higher proportions in both the highest and the lowest growth categories, but do not differ in their average growth of employment from manufacturing firms.
- Newer firms grow faster on average than do older firms, but the micro firms in our sample grow more slowly on average than larger firms.
- About 2,000 of the sample provided information about their employment in both 1994 and 1997. These firms created 13,970 new jobs over these years. About 30% of these came from the 4% of firms in the largest size group in 1997.

## **Chapter 2 – Employment Structure, Recruitment, Labour Turnover, Training and Labour Force Flexibility**

Michael Kitson and Frank Wilkinson

- For all firms in the survey providing detailed employment statistics: 42% of employees were manual, slightly less than half of whom were skilled; 20% were clerical and administrative staff; 10% were lower, and 12% higher qualified technical and professional staff; and 16% were managers.
- Service firms had a higher concentration of white collar workers, proportionately more managers and fewer manual worker than manufacturing firms.
- The major difference between innovating and non-innovating firms is that the former employed a higher proportion of professional and technical staff, especially those with the higher qualifications.
- Half of all the firms reported difficulties in recruiting one or other of the skill categories they employed.
- Significantly greater recruiting difficulties were experienced by manufacturing than service firms; medium and small than micro sized firms; growing than stagnant/declining firms; older than newer firms and innovating than non-innovating firms; and the most important differences were between micro and larger sized firms.
- There were wide variations in recruitment difficulties between categories of skills. Recruitment difficulties were relatively low for clerical and administrative, managerial and semi-skilled and unskilled manual staff; and relatively high for technicians and lower professionals, technologists and higher professionals, and skilled manual workers.
- In general, the firms in the survey reported low rates of labour turnover which were not obviously linked to recruiting problems. There is therefore little in these results to support the idea that recruitment problems result from excessive churning in the labour market.
- The highest rates of labour turnover were for unskilled and semi-skilled workers, skill categories for which a relatively small percentage of firms reported recruitment difficulties.
- Formal training was provided by 57% of the firms. There was a positive relationship between the size of firms and the proportion of firms providing training; older firms were more likely to provide training than newer firms; and more manufacturing than service sector firms trained. The survey also revealed positive links between training and innovation and growth.
- The firms in the survey most frequently used their own staff to train skilled manual workers, clerical and administrative workers, technical and lower professional and, particularly, unskilled and semi-skilled workers. Outside training was used most frequently for technical and professional workers, especially the highest qualified.

- For nearly half of those firms that trained, expenditure on training was 1% or less of their total labour costs.
- Service, newer, fast growing and more innovative firms spent more of their labour costs on training than did the manufacturing, older, slow growing and non-innovating firms. Nevertheless, only around 20% of the fast growing firms and innovating firms spent 3% or more of the labour costs on training.
- Private trainers and training consultants were used by the largest proportion of the training firms, followed by further education training providers, equipment suppliers, professional association, higher education, trade association and voluntary organisations.
- The firms in the survey were generally satisfied, if not very satisfied, with external training providers.
- Methods of achieving numerical flexibility include employing self-employed workers, casual workers and workers on fixed term contracts; such methods were used, respectively, by 32%, 23% and 15% of the firms in the survey.
- The most active types of firms introducing non-standard employment contracts are the small and medium-sized firms, growing and innovating firms.
- Functional flexibility is achieved through the use of human resource management: quality circles were used by only 13% of the firms, but 30% or more used total quality management, performance related pay and multi-skilling and job rotation.
- Levels of use of employment practices to increase functional flexibility, and increases in these practices, are both greater for larger, growing and innovating firms.
- In general, the more dynamic firms were taking the lead in introducing flexible employment practices to make more effective use of their existing workforces. This demonstrates the importance of organisational as well as technical and product innovation in the process of economic growth.

### **Chapter 3 – Markets and Competition**

Michael Kitson and Frank Wilkinson

- In general the firms in the survey, particularly smaller firms, rely on relatively few customers.
- Around 50% of the firms in the survey carried out work on a subcontracted basis.
- The smaller the firm the greater the likelihood that its competitors will be larger – over half of micro firms and a third of small firms compete exclusively with larger businesses.
- Most firms in the sample lack a large number of competitors: 75% of firms had less than 10 serious competitors and 9% believe that they have no serious competitors.
- The lack of competitors is greater for smaller firms; 78% of micro firms had less than 10 serious competitors compared to 73% of small firms and 67% of medium-sized firms.
- There is an inverse relationship between the number of competitors and growth performance.
- The extent of overseas competition is limited: 70% of the firms believed that they did not have any serious overseas competitors.
- The extent of foreign competition is greater for manufacturing firms; it also increases with firm size; and stable and declining firms are less likely to face foreign competition compared to faster growing firms.
- Innovating firms are more likely to face foreign competition – 48% of innovating firms had serious overseas competitors compared with only 14% of non-innovating firms.
- 65% of firms that have overseas competitors, compete with them in both home and overseas markets, although there is a significant contrast between manufacturing and service firms; with the former far more likely to face competition in both markets compared to the latter.
- Personal attention to client needs, product quality and established reputation were the most important competitive factors.
- Competitive factors, which had a consistently low overall rating, include cost advantage, price and marketing.
- The sources of competitive advantage vary by growth category: the better the growth performance of the firm, the more likely it will stress the importance of flair and creativity, product design and marketing; and the less likely it will stress established reputation and speed.
- There are also significant competitive differences between innovating and non-innovating firms – the former stress the importance of higher-order qualitative factors which require investment in skills and technical capability.

- A third of the firms in the sample had entered into formal or informal collaborative agreements or partnership agreements during the last three years.
- Collaborative arrangements were more widely used in the service sector than in manufacturing, reflecting the importance of networking in the business services sector.
- The likelihood of entering into a collaborative agreement increases with firm size which suggests that larger firms are more likely to have the infrastructure and logistics to network successfully.
- Fast growth firms were more likely to enter into collaborative agreements, suggesting that such arrangements may improve business performance and growth.
- Innovating firms are also more likely to enter into collaborative agreements – 41% of innovating firms entered into collaborative arrangements compared with only 19% of non-innovating firms.
- The most common collaborative partners were firms in the similar areas, customers and suppliers.
- Service firms are more likely than manufacturing firms to collaborate with firms in similar lines of business; whereas forward and backward linkages, with customers and suppliers, are more important for manufacturing firms (as is collaboration with higher education establishments).
- Faster growing firms are more likely to use vertical linkages and less likely to use horizontal linkages compared to slower growing firms.
- Innovating firms are also more likely to use vertical linkages compared to non-innovating firms. Additionally, innovating firms are far more likely to enter into partnership with higher education establishments compared to non-innovating firms.
- The firms in the survey undertook collaborative arrangements for a variety of reasons, with the most important being: to help expand the range of expertise and products; to assist in the development of specialist services and products required by customers; to provide access to UK markets; to improve financial market credibility.
- To the extent that technology and innovation are important for long-term growth of firms, and the economy as a whole, the evidence in this chapter indicates the importance of recognising that competitiveness comprises a wide range of factors, not simply prices and costs. Additionally, the enhancement and creation of collaborative structures may help to produce a more competitive and prosperous economy.

## **Chapter 4 – Innovation: Scale, Objectives and Constraints**

Andy Cosh and Eric Wood

- The proportion of firms who had introduced a product innovation was greater the larger the firm – 47.5% for micro, but 74.1% for medium-sized firms.
- About 34% of firms had introduced a product innovation which was new to their industry.
- The pattern of novel product innovation mirrored that for all product innovation.
- Fewer firms had introduced a process innovation – about 48% of the sample had innovated, with about 20% of these having introduced a process innovation new to their industry.
- Larger firms and faster growing firms were more likely to be process innovators.
- Logistics innovations, particularly those new to the industry, were far less common than other types of innovation. The size and growth of firms were again positively associated with this form of innovation.
- In general, manufacturing firms were more likely to have innovated in some way than service firms in our sample.
- Although larger firms in our sample had higher innovation activity, a greater proportion of their sales derived from mature products or services.
- Similar proportions of firms to those who had innovated in the past intend to innovate in the future.
- About 85% of past innovators intend to innovate again in the next three years.
- 75% of the sample regard gaining market, or market share, to be a very significant or crucial objective of innovation.
- Improving product quality, product range and increasing flexibility are more significant objectives than production cost reductions.
- Although micro firms generally regarded all objectives as less important than larger firms, the relative importance of the various objectives of innovation was much the same across the size groups.
- Sample firms regard internal sources of information as the most important source of innovation.
- Clients, customers and suppliers are also regarded as important sources.
- Consultancy firms, the education sector and government are rarely regarded as significant sources.
- The relative importance of these sources of information for innovation is similar across the size groups.

- The most significant barriers to innovation are the availability of finance, the length of the pay off period and the cost of innovation – judged to be very significant or crucial by about one-third of sample.
- Micro firms are more concerned about finance and cost constraints, but less troubled by organisational rigidities, or lack of skilled personnel.
- Non-innovators are more concerned by organisational rigidities and lack of technological opportunities than innovators. They are also more likely to see no need to innovate due to earlier innovation.
- The sample is divided equally between those which continuously, those which occasionally and those which never engage in R&D activity.
- The proportion of firms engaging in R&D rises with firm size and growth. It is also significantly greater for manufacturing firms and for innovators.

## Chapter 5 – Growth Objectives and Constraints

David Keeble

- Despite a more difficult environment for SMEs in the 1990s, most firms (58%) reported that their business objective was to grow moderately over the next three years, with a significant minority (23%) planning to grow substantially. This suggests the possibility of vigorous and widespread SME growth in Britain over the next few years, given stable macro-economic conditions.
- However, one-fifth of the SMEs surveyed were not planning to grow, perhaps reflecting the severe problems faced by many small firms during the 1990s.
- The desire to grow rapidly was most frequent among firms which had already achieved rapid growth in recent years, and among larger, newer and more innovative SMEs.
- The two most serious constraints on their recent business performance reported by firms were increasing competition, and availability and cost of finance for expansion. This suggests that SMEs are facing intensified competitive pressures in the 1990s, and that a significant minority of small firms still regard raising finance for expansion as very difficult, notwithstanding recent policy initiatives and lower interest rates.
- The third most highly rated constraint was marketing and sales skills, perhaps suggesting a need for government policy assistance to small firms, with their limited financial resources, in this specific area.
- Manufacturing firms report greater constraints on growth in most areas than business service firms, as do larger (medium) SMEs compared with micro firms.
- A particularly striking finding is that larger (medium) SMEs rate inadequate management skills – and to a lesser extent, marketing and sales skills – exceptionally highly as a constraint on meeting their business objectives. Again, this may suggest a particular need for policy assistance for this category of firms.
- Newer and fast-growing firms both rate financial constraints on expansion as being particularly serious, with fast-growers also rating inadequate management skills and shortages of skilled labour more highly as limitations on their growth. This perhaps indicates continuing problems with British capital markets as far as new and fast-growth small firms are concerned.
- Innovating firms report higher levels of constraints of all kinds than non-innovators, although differences are less than those between different SME growth and size groups.

## **Chapter 6 – External Advice and Business Links**

Robert Bennett and Paul Robson

- Advice on taxation and financial management and computer services are the fields used by more than half of the respondents.
- All fields of external advice increase in their level of use with firm size, apart from advertising.
- Medium and fast growth firms are more likely to seek external advice than stable/declining firms.
- Innovating firms have a higher level of general use across all external advice fields.
- The impact of advice is primarily influenced by the size, innovativeness and growth rate of businesses.
- The specialist professionals (accountants, banks and solicitors) are the most widely used sources of advice.
- The private sector, of professionals, customers, suppliers, business friends and business associations, accounts for 86% of all external advice sought.
- Business Links are the most widely used government source of advice, used by 25 per cent of respondents accounting for 5% of advice sought.
- The most popular BL services are general business information, grants, specialist advice, and training/liP.
- The satisfaction of customers with most services provided by BL indicates that the majority of clients are satisfied, but there is wide variation between client experiences.
- The number of firms who seek financial assistance or advice from central government business support schemes is very low.
- However, on average, users of central government business support schemes are more inclined to satisfaction than dissatisfaction, and in almost all cases have higher satisfaction levels than users of BL services.

## **Chapter 7 – Profitability, Finance, Investment Appraisal and Acquisition**

Andy Cosh and Alan Hughes

- The median profit margin for the sample in 1997 was 10.6%.
- Profit margins were found to be significantly higher for newer, micro and service sector firms – results which match those of our earlier surveys.
- Non-innovators also continue to be found to be more profitable than innovators.
- 952 (39%) of our sample firms sought about £430m of new finance and obtained about 80% of this.
- On average, the amount of external finance sought approximately equalled the level of capital expenditure by our sample firms.
- A higher proportion of manufacturing firms sought external finance. They also sought more on average and obtained a higher percentage than service firms.
- Fewer older firms sought finance, but they sought more on average and were more successful in obtaining it than newer firms.
- Innovators and fast growing firms are more likely to seek external finance. They also seek more, but are not more successful in obtaining it than non-innovators and slower growing, or declining firms.
- Larger firms are more likely to seek external finance. They seek larger amounts (absolutely, but not relative to their capital expenditure), and are more likely to obtain it than smaller firms.
- Less profitable firms, which have less internally generated finance, seek more external finance and their success in obtaining it is not significantly different from their more profitable counterparts.
- Banks and HP or Leasing firms remain the most often approached sources.
- Venture capital firms and private individuals are approached by less than 10% of SMEs.
- These sources of finance exhibit higher failure rates (in the sense of raising any money) than all other sources.
- Micro firms are less likely to approach sources of finance and exhibit higher failure rates.
- Of those who sought finance, over two-thirds received bank finance and about half obtained HP/Leasing finance.
- Micro firms are more dependent on individuals and much less likely to get either banking or HP/Leasing finance.
- Although banks and HP/Leasing firms continue to provide about three-quarters of the total finance obtained, the importance of the banks has diminished.

- Venture capital and private individuals (other than working owners) provide only 5-6% of the total finance raised.
- Newer firms raise over 10% from these sources and are less reliant on banks and HP/Leasing firms.
- Venture capital support rises with firm size but the opposite is true for support from private individuals.
- Less profitable firms gain less bank support but greater support from venture capital and factoring.
- Although borrowing by SMEs is dominated by banks, the relative importance of overdraft finance is declining.
- Borrowing was greater for older, larger, less profitable, growing and innovative firms.
- Fast growth, less profitable and larger firms were more likely to have increased their borrowing.
- 46% of the sample used the payback method of investment appraisal, whilst less than 10% used discounted cash flow techniques.
- The average length of the payback period was three years.
- About 8% of the firms had made at least one acquisition in the previous two years.
- The motives for acquisition were primarily to gain size both in terms of market share and for economies of scale.
- 17% of the sample had been the subject of a takeover bid or merger proposal within the last two years.
- The bidders for these firms were typically larger and UK-based.
- The larger SMEs in our sample were both more likely to be a target and more likely to be a bidder.

## **Chapter 8 – Financing Innovation**

Andy Cosh, Alan Hughes and Eric Wood

- Innovators tend to score the financial barriers to innovation more highly than do non-innovators.
- Although micro firms generally regard the lack of finance constraint to be the greatest, it is amongst small firms that we find a distinction between innovators and non-innovators – with the former regarding this constraint as more significant.
- Older innovators regard the financial constraint to be higher than older non-innovators, but both are less than the significance of this constraint perceived by newer firms.
- Those who sought finance were more likely to score the financial constraint on innovation highly.
- Those who regarded the financial constraint as significant had obtained a lower proportion of the finance they sought.
- Innovators were more likely to have sought external funds than non-innovators.
- Taking all sources of finance together there is little difference in the success of raising finance.
- The exception here is for process innovation, where innovators were significantly more successful than non-innovators.
- Innovators were less likely to approach banks for financial support, but this was not due to a higher rejection rate. Indeed process innovators had a significantly lower failure rate with bank finance than did non-innovators. The same is true for HP/leasing finance.
- Venture capitalists were significantly less likely to reject process innovators than those which had not introduced a process innovation.
- Innovators draw a somewhat lower proportion of the finance obtained from banks and from factoring businesses.

## **Chapter 9 – High-Tech Firms: Market Position, Innovative Performance and Access to Finance**

Alan Hughes and Barry Moore

- High-tech sector firms are more likely to face a smaller number of competitors than conventional sector firms and this is consistent with their greater orientation towards niche markets.
- There is a higher share of serious overseas competitors for high-tech sector firms in both manufacturing and business services by comparison with their conventional counterparts.
- High-tech sector firms show a greater propensity to collaborate than conventional sector firms and they are particularly prone to do so with customers. The main purpose of collaboration is to share R&D and to develop specialist products and services. Importantly high-tech business service sector firms show a higher frequency of collaboration for the purpose of accessing overseas markets than conventional business service sector firms.
- For high-tech sector firms in both the manufacturing and business service sectors the main sources of competitive advantage are product design and specialised expertise.
- High-tech sector firms give a greater emphasis to overseas markets in their business objectives than conventional firms.
- Employment growth from 1994 to 1997 was greater in high-tech manufacturing and business services than in their conventional counterpart sectors and superior growth in turnover is also found in high-tech services compared with conventional business services.
- Marked differences in profitability between high-tech and conventional sectors are not apparent. The perception of greater risk associated with high-tech firms may be more closely linked to the higher proportion reporting losses than to their average rate of return.
- Innovation is greater in high-tech sectors than in conventional sectors and the difference is particularly marked in product innovation in the business service sector.
- A higher proportion of high-tech firms are limited in achieving their business objectives by marketing and sales skills compared with conventional firms
- High technology sector firms do not report significant financial limitations on meeting their business objectives any more frequently than conventional sector firms. However, they generally seek higher amounts of finance and obtain a lower proportion of what they seek. They are in particular less likely to succeed in obtaining any finance from venture capital firms, whom they are also more likely to approach than conventional firms.

## **Chapter 10 – North-South and Urban-Rural Variations in SME Growth, Innovation and Networking in the 1990's**

David Keeble

- On the basis of the CBR survey results, Britain's small towns (less than 150 thousand inhabitants) now contain more SMEs than its giant conurbations, and its rural areas more SMEs than large towns (more than 150 thousand inhabitants), reflecting the shift of business activity from big cities over the past three decades.
- There are marked regional variations in the sectoral, size and age structure of the surveyed SMEs. The South East sample has a majority of business and professional service enterprises, many of which are relatively small, while the Industrial Heartland (West Midlands, North West and Yorkshire) sample is dominated by manufacturing firms. The latter also tend to be larger and older than SMEs elsewhere, while Peripheral (Scottish, Welsh and Northern England) SMEs tend to be younger and smaller.
- Urban-rural variations in these characteristics are less marked: but conurbation firms are larger than those elsewhere, and like the large town sample, contain a somewhat higher share of business and professional service firms. Rural firms are smaller than those elsewhere, and contain a somewhat higher proportion of manufacturing and younger firms.
- Employment growth in Peripheral (especially Scottish and Welsh) SMEs has been significantly poorer in the last three years than elsewhere, notably the Industrial Heartland.
- The employment performance of rural SMEs over the last three years has been significantly poorer than that of urban SMEs, in contrast to earlier trends. This seems to suggest that Britain's rural SMEs may have lost in the 1990s the dynamism which characterised their counterparts in the 1980s.
- South East SMEs are significantly more export-oriented than firms in Scotland, Wales and Northern England.
- There are no significant regional or urban-rural differences in innovation rates. Again, this is in line with the thesis of diminished rural SME dynamism in the late 1990s, given findings from other studies of significantly higher rural firm innovativeness in the 1980s. But rural SMEs do nonetheless engage in more R&D than firms elsewhere.
- Scottish, Welsh and Northern firms are significantly less likely to engage in R&D than firms elsewhere in Britain, but those that do seem to invest in it particularly heavily, suggesting that these regions contain a minority of particularly technologically-focussed SMEs.
- There are marked differences in workforce skill composition between SMEs in South East England and the Industrial Heartland, with the former employing higher proportions of highly-qualified professionals, the latter higher proportions of semi-skilled and unskilled manual workers.

- A significantly higher proportion of South East firms than Scottish, Welsh or Northern SMEs wish to achieve “substantial growth” over the next three years. If this happens, it could contribute to a widening north-south gap in employment growth and resultant inflationary pressures. However, fewer rural firms are planning for “substantial growth” than urban firms, again hinting at diminished rural SME dynamism.
- SMEs in southern England generally appear to face a much fiercer competitive environment than those in northern Britain, as measured by numbers of serious competitors, with South East firms also facing greater foreign competition.
- South East SMEs rate “specialist expertise”, “flair and creativity” and “marketing skills” significantly more highly as competitive advantages than firms in Scotland, Wales and Northern England, who instead stress “price” advantages.
- South East firms also reveal a significantly higher propensity to engage in collaborative and networking relationships than SMEs elsewhere.
- There is a clear north-south differential in the frequency with which SMEs seek external business advice on financial management and taxation, with South East firms being apparently more willing to access external know-how in this area.
- South East firms more frequently obtain external advice from customers, whereas firms in Scotland, Wales and Northern England are relatively biased towards obtaining advice from private consultants.
- There is a remarkable north-south difference in SME use of advice from Enterprise Agencies and Training and Enterprise Councils, with far higher proportions of Scottish, Welsh and Northern England firms seeking and using such advice than with South East SMEs. Peripheral region SMEs also rate the advice they received from Enterprise Agencies significantly more highly than their counterparts elsewhere.
- A significantly higher proportion of SMEs in the West Midlands, North West and Yorkshire report using Business Links and Chambers of Commerce for advice than do firms elsewhere, though an above-average proportion of Peripheral region firms also report using business advice from Chambers of Commerce.
- There is no urban-rural variation in frequency of use of Business Links, but Chambers of Commerce appear to be less effective in providing advisory services to rural and small town SMEs than to their conurbation and large town counterparts.

## **Chapter 11 – Small Business Enterprises in the 1990's: The 1991 and 1997 CBR Sample Surveys Compared**

Andy Cosh and Alan Hughes

- This chapter compares some key characteristics of the CBR 1991 and 1997 surveys which involve over 4500 SMEs in total.
- The macroeconomic background was more favourable for the 1997 survey.
- There was a notable decline in the proportion of firms established by new business start-up.
- Lower proportions of the 1997 micro firms sample engaged in innovation or training compared with 1991.
- Small and medium-sized firms showed a higher proportion of exporters in 1997 than in 1991.
- Micro firms exhibit much higher profitability in 1997 compared with the earlier period, particularly for service firms.
- Small firms also show improved profitability, but there was no change for medium-sized firms between the two surveys.
- The micro firms grew less fast on average over the previous three years to 1997 compared with the equivalent period in 1991.
- There is little difference between the two periods in the growth achieved by the other two size groups.
- The growth objectives of our two samples changed little between 1991 and 1997, with the exception of improved optimism amongst manufacturing SMEs.
- In terms of constraints on their growth, financial constraints appear to have diminished in the 1990s, whilst lack of management skills appear to be increasingly recognised as a constraint.
- There was little change in the competitive market structures facing our sample firms, despite their perception that competition was becoming more intense.
- The 1997 survey firms were more successful in raising the finance they sought, but less likely to obtain it from banks.

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