

## **Business Birth-rate Strategy and Economic Development: Focus on the Microbusiness**

**Sarla Langdon, Director, Markmaid Ltd**

37 Ridgeway, Swansea SA2 7AT

Tel:01792 534792 Email: Markmaid@btconnect.com

www.markmaid.com

1. Whether public sector business support initiatives for entrepreneurs are useful and easily accessible to the microbusiness.
2. The folly of concentrating exclusively on 'high-growth' businesses (offering typically £40000 worth of consultancy support) and neglecting the microbusiness (offering less than £400 worth of consultancy)
3. Barriers to start-ups faced by microbusinesses
4. Public sector procurement policy/methods that fail/exclude the microbusiness.
5. Identifying the emerging needs of microbusinesses and examining whether government policies and strategies recognise and meet these needs.
6. Recommendations on initiatives to improve support services to microbusiness

Prior Work: This is the third in a series of practitioner papers on the microbusiness for ISBE

Approach: The method to be used in addition to standard questionnaires is to hold one-to one chats in a consistent form with target respondents about the contents of the questionnaire because microbusinesses rarely respond to standard printed questionnaires and almost never fill them out. This is a laborious and time-expensive method but yields interesting insights and new perspectives. Certainly, printed questionnaires sent to a sample of 300 or even 3000 respondents offer less information than in-depth chats with 25 targeted respondents. The study is focussed on South West Wales as a typical 'de-industrialising' area, and includes business support organisations such as Business Connect Neath Pt Talbot, Swansea Business Centre, DEIN, and Business Eye.

25 microbusinesses will be interviewed on a one to one basis and three in-depth case studies will be carried out - these will be part of the paper and the findings will provide the platform for the recommendations.

Business support agency specialist officers (e.g. export specialists, procurement specialists, innovation specialists etc) will also be interviewed for the study using the same consistent style with an appropriate questionnaire.

Results and Implications: Early findings show that start-ups and microbusiness in the study area suffer from serious neglect and are simply not considered as an issue in the formation of policy or strategy. This paper intends to put the case for highlighting the microbusiness/start-up as a major force in the future economic development of the country

Value: This paper argues the need for the microbusiness to be regarded as a high priority issue in economic development; to highlight where it is being failed by the public sector; and to offer recommendations to policy makers to ameliorate this situation.

Key1:		microbusiness
Key2:	business	support
Key3:		growth
Key4:		start-up
Key5:		economy
Key6: procurement		

## 1. Introduction

### 1.1 Definition

The term 'microbusiness' was coined by the Director of the Small Business Association (SBA, USA) in 1994 in his State of Small Business address to the then US President Clinton. In the UK the term microbusiness now generally refers to a business with fewer than 10 employees. The term SME refers to the Small to Medium-sized Enterprise, employing between 10-250 staff

### 1.2 Available Microbusiness Data for Wales (Start 1998)

These figures were kindly provided by the Welsh National Assembly Economic Development Committee in 2001

- The data shows 153,345 VAT and non VAT registered businesses at the start of 1998, employing 724000 people
- 95.1% are microbusinesses employing less than 10 employees. (UK =94.8%)
- 66% of businesses have no employees.
- 23.5% have 1-4 employees
- Micro-sized firms account for 39.9% of all employment in businesses in Wales. (UK=30.5%)

In Wales the smallest firms are a relatively more important source of employment than in the UK as a whole.

### 1.2 Size Band Analysis of Enterprises Active in Swansea 2003

Enterprises

Micro (0-9 employees) =11,100 microbusinesses

Small (10-49) =555 small businesses

Medium (50-249) =175 medium-sized business

Large (250+) =450 large businesses

Total: = 12,285

Source: SDR 69/2004, Size Analysis of Welsh Businesses 2003, Welsh Assembly Government

**Note:** This is a count of enterprises that are active in Swansea, including multi-region enterprises registered outside Swansea. The data also includes estimates for the very small businesses that operate below the VAT threshold (unregistered enterprises).

### 1.3 Difficulties In Data Collection

The official data on microbusiness start-ups is rarely entirely accurate because:

1. Most microbusinesses have turnovers below the VAT threshold and therefore do not register for VAT.
2. Microbusinesses are usually self-funded, bank records cannot offer much data
3. The arrival of a new business, particularly if it has no employees, is not detectable by the Inland Revenue till it files a tax return - which it need not do for a while following starting up, further distorting the figures.
4. A large number of microbusinesses operate from a garden shed or from home and therefore do not show up on any records of business premises rentals or purchases.

### 1.3 Strengths of the microbusiness

As European employment legislation becomes more restrictive and more exacting, the benefits of downsizing and employing less than five staff have increased significantly, since most of the European and UK Employment laws do not apply to organisations of this size. The advantages are enormous (e.g. exemption from providing paternity/maternity leave) in addition to the traditional advantages of having faster response and turnaround times and of being more flexible than bigger competitors.

Below are the views of microbusinesses themselves (Survey carried out by Markmaid in 2004 see **2.6**):

- As a microbusiness I have closer contact with customers therefore I understand their needs better than my larger competitors
- I am more closely integrated with the customers' business and share their aims and objectives.
- I have worked for bigger public sector organisations, but not larger commercial companies; being my own boss is more stressful and yet also spiritually/psychologically more fulfilling
- I am free to put in as many hours as I need to
- Clients are confident that I am available 24/7 and feel secure in the knowledge that they are communicating with just one key person and not with several employees who are working on a number of accounts at the same time.
- I make decisions faster. Time is of the essence and clients do expect results very quickly. I can say with confidence that I have to do the equivalent of a five-day week in about three. The business is very reactive and I do have to make decisions very quickly.
- I am able to focus totally on the client without the distractions of office life.
- I am solely responsible so I do more, better.
- I am not restricted by having an employer.

## 2. Are public sector business support initiatives for entrepreneurs useful and easily accessible to the microbusiness?

(A senior civil servant put the following very pertinent additional questions, which are well worth answering: What about the question of perceptions v. reality? Do micro-businesses have the time (or the inclination) to find out what support is available?)

The best answers to the questions above emanate directly from the microbusinesses. We have been conducting one-to-one surveys on the experiences and attitudes of a variety of microbusiness for the past five years and present the responses here.

### 2.1 Methodology

The approach used in addition to standard questionnaires was to hold one-to-one conversations wherever possible with target respondents about the contents of the questionnaire because microbusinesses rarely respond to standard printed questionnaires and almost never fill them out. This is a laborious and time-expensive method but yields interesting insights and new perspectives. Certainly, printed questionnaires sent to a sample of 300 or even 3000 respondents offer less information than in-depth chats based on the same questionnaire with 25 targeted respondents.

Selected one/two-person microbusinesses were interviewed on a one-to-one basis. The intention was to elicit honest and well thought-out reactions rather than standard glib replies

### 2.2 Apologia

This paper will probably not bear scrutiny from academic purists because it fails their research standards on many grounds, chiefly that the intention was not to waste time with faceless responses from large sample sizes.

In my defence I have to cite the case of a senior marketing academic who presented a paper at a business conference on why advertising agencies changed their printers/print suppliers. His paper met all the research criteria – but when he presented his conclusions, a major error was evident to those of us who were marketing practitioners. The academic had missed the main reason why suppliers were changed in our industry. Certainly we selected printers on the basis of proximity, sophistication of equipment, quality of work, reliability and other obvious factors. As a 20 year veteran of advertising agencies big and small, I knew, though, that the main reason we changed printers was for cash-flow; we rotated printers till we could pay the first one – which was only possible when we had received payment

from the client. No advertising agency was going to volunteer this truth to a researcher unless asked a direct question; hands-on-experience was the only route to accurate assessment of the situation. The academic had failed to consider the possibility that he had missed relevant evidence –even with a large sample size. The methodology had obviously failed him.

I cite this example to demonstrate that an effective way to improve methodology would be to lead the research with a partnership of academic and practitioner in every possible field. Equally I am completely convinced that the contribution of an academic partner would improve any study significantly

### 2.3 Bias

Indeed in a recent report Anjana Ahuja in her column Science Notebook (Times, Comment Section 7.2.05) cites Dennis Folds of the Georgia Tech (sic) Research Institute who compiled a list of nine biases that cloud judgement and could lead to erroneous conclusions --- many of which are relevant to the issue under discussion as they are errors that could occur equally in large or small samples and which could be made by academic or practitioner.

"The biases are:

- 1) the failure to consider absent but relevant evidence;
- 2) the tendency to fall for the convenient well-rehearsed explanation;
- 3) giving undue weight to multiple reports, even if they hail from the same source;
- 4) the inclusion of discredited information;
- 5) the tendency to find a common cause for unrelated events that overlap in only a minor way;
- 6) ascribing the same significance to small sample sizes as large ones;
- 7) giving first-hand accounts more weight than indirect accounts;
- 8) linking two reports that seem superficially similar
- 9) setting too much store by exaggerated or sensationalist claims."

A team made up of academic and practitioner would ensure that a fresh element of checks and balances from both parties would improve the general quality, and more importantly the accuracy if not the veracity of the research findings. Researchers are equally bedevilled by 'questionnaire fatigue'—suitable respondents are bored by questionnaires and will not make the time to answer them even when it is an issue that affects their own industry. Academics find it difficult enough even when the writing of papers is part of their full-time jobs --- the practitioner has to run a business while trying to conduct research to arrive at a true picture of the status quo and trends.

This apologia points at the need for the development of new methodology, of new systems of extracting facts, views and experiences from reluctant respondents.

The responses below are honest and direct because most were conducted on a one to one basis.

### 2.4 Survey Results 2001. Sample of 30 microbusinesses

A survey of 30 microbusinesses in the Swansea area, which was carried out by Markmaid Ltd in Feb/ Mar 2001, revealed that only 12 respondents had used Business Connect and/or the Training and Enterprise Councils -less than 50%. Only 2 respondents had used the Enterprise Allowance Scheme and none had used the Enterprise Rehearsal training programme

### 2.5 Survey Results 2002 Sample of 20 microbusinesses

- 7 respondents had heard of Business Connect/Business Link and one had used them
- 4 respondents had heard of the local government Economic Development Unit and none had used them
- 7 respondents had heard of the Prince's Youth Business trust and 2 had used them
- 4 respondents had heard of the DTI Innovation grant/Regional Selective Assistance grant and none had used them
- 3 respondents had heard of the DTI Innovation Counsellor – none had used this service
- 7 respondents had heard of the Confederation of British Industry – none were members
- 6 respondents had heard of the Chamber of Commerce – One was a member
- 5 respondents had heard of Objective 1 – none had any more information
- 5 respondents had heard of WDA grants – none had used them
- 3 respondents had heard of the Enterprise rehearsal programme –none had used it

Business advice was received from the following sources :

- 9 respondents received business advice from the father or family and 6 found this advice useful.

- 5 respondents received business advice from the bank and four found this advice useful
- 8 respondents received business advice from friends and colleagues and four found this advice useful
- 2 respondents received business advice from Business Link and one found it useful
- One respondent received business advice from the Prince's Youth Business Trust and found it useful

## **2.6 A further twelve microbusiness were interviewed in 2004 (see page 1)**

### **2.7 Survey Results 2005 Sample of 10 start-up microbusinesses**

A further ten start-up microbusinesses were interviewed in 2005--as the most up-to date, this survey is being considered at length in detail. There was an overall mix of structures including limited companies, sole traders and partnerships.

#### **2.7 a) Asked whether they had any support from a business-support organisation when starting their business,**

- Ten respondents replied that they had.
- Four had taken start-up advice
- Three had taken general advice;
- Two had used the mentoring service;
- Three had attending training courses;
- Two had attended women only training programmes;
- Two had requested financial advice;
- Three had sought web site advice;
- One had sought marketing and PR advice;
- One had sought growth advice;
- One was pointed in the direction of the Knowledge Exploitation Fund;
- Two had been put in-touch with networking bodies

Six respondents felt the business support bodies had provided what they were looking for, two replied that they had not and two replied 'Yes and no.'

Criticism appeared to centre on poor service, advisors not getting in touch with the entrepreneurs and the entrepreneurs having to chase the advisors. Other criticism included repetition of advice and the quality of advice; one respondent stated:

"I felt that I already had lots of business experience and they simply could not add to that so it was a waste of time but they were nice people".

Another entrepreneur stated, "I saw three different people all with failed businesses behind them and they had obviously learned nothing from this because none of them knew anything about my type of business."

On the positive side one entrepreneur stated, "They pointed us in the direction of KEF for grant support and helped us over an initial marketing and business plan."

Another said, "We had free time with a HR lady who helped us put together all our employment procedures, policies, contracts and also helped us out when we were having difficulty with a colleague".

#### **2.7 b)**

When asked whether they could have started their business venture without the support of the business support organisations, all ten respondents said, 'Yes.'

Comments include: I went to them after I had started anyway

Another respondent stated: Had I had not gone I would have made more mistakes and it would have cost a lot more money. I could have damaged my business if I had not sought advice; yes I could have started but would not have had as much confidence.

On the downside: "What sort of an entrepreneur would I be if I couldn't?"

#### **2.7 c)**

Respondents were now asked to award the business-support organisation they had used with an Olympic medal (Gold, Silver or Bronze) based on their own experience of the organisation

One respondent awarded the business support organisation a gold medal saying,

"As a business-support organisation they were excellent. If I had been paying for the service I would have given them a silver medal, but gold was appropriate because it was a free service. Our two advisors gave us completely separate advice on many issues, which was great because

we could then find middle ground, or realise that actually maybe our initial idea was the one to go with anyway – everyone should have more than one advisor really. They were both available at any time, both for urgent crises situations and for long-term help and support.”

Six respondents awarded their business support organisation a Silver medal stating variously:

“All the training and support we were given was very helpful to our development plans but if they *had* provided much more hands on business coaching that was tailored to my business I believe I would have reached success quicker”.

“Because a gold medal would indicate they were the best and if they were the best at supporting my business, I would be out of a job”.

“The support was very difficult to get and took a long time. They would have had a gold medal if the process had been easier”.

“Certain individuals, my mentor, gave me unlimited support and encouragement. This was down to individuals and was comprehensively available to everyone from all agencies”.

One respondent awarded a Bronze medal to the business support organisation, saying:

“It doesn’t quite do what it says on the tin! As a result there is a mismatch of expectations and for me that’s never a good starting point.

“If the label had reflected the service I would have awarded silver – it’s not what I got that was a disappointment it’s the fact that I was led to expect something quite different.”

One business support organisation was awarded a Wooden spoon:

“They failed because they assumed my company would fail”.

One very articulate correspondent was extremely critical:

“I would have given an award to none of the above as they would have been last in the race. They sent me stuffy old men who knew nothing about my area of expertise or field of enterprise. They sent me people who failed to learn from their past business mistakes and had not made a success of themselves. The one female I saw most recently had one meeting with me and I have hardly heard a word from her since.”

“This organisation’s admin is appalling; they consistently dropped me from their mailing list and I failed to get any information about their services or events that are available, let alone business advice. Last year I had to make 4-5 phone calls just to get someone to send me some information! Their administration is appalling; their staff do not have a clue about what it is like to be self employed as very few of them have ever been. All they have done is repeatedly waste my time and insult my intelligence. I started off by going it alone and I have gone back to that, it may be slow but it gets me to where I need to go, without having to wait for incompetent people who do not do what they have been asked to do”.

## 2.7 d)

The respondents were asked if they would like to make any additional comments:

“There is a lot of funding available for business start ups, the government loves figures for start ups, but the government and its organisations do not seem the slightest bit interested in what actually happens to those starts ups next. It is like we do not exist. Until we fail of course and then we end up on their statistic sheet.”

“Our advisor was a lovely chap and we enjoyed his visits. At first we thought his interest was genuine however as time passed we realised that we were merely a target figure. On occasions we would ring for information, to be told that our call would be returned. Sometimes it never was.”

“Business-support organisations are only as good as the people that they have working for them and the bond that is made between the mentor and entrepreneur. To some extent business-support should try to match the people together according to their needs and skills.”

“We were incredibly lucky to get a couple of excellent advisors, both of whom had run successful businesses before, but this a really potluck affair. I know a number of businesses that have had really awful advice from business advisors who become advisors because their businesses failed. I think all the agencies need to merge together and it is essential to be incredibly strict with vetting procedures for advisors.”

“I don’t think anyone should become an advisor unless they can demonstrate that they have been there and done it (and made money). As a final point, it might also be worth mentioning that the most successful businesses I know are generally the most disgruntled with support agencies, and the businesses that are barely lifestyle businesses are usually quite happy with them.”

“It is of paramount importance that business-support and advice should only come from business people who have first hand experience of launching and maintaining a business. Day

to day business advice on basic business skills should not be confused with entrepreneurial skills. There is a place for both when dealing with fledgling businesses.”

## **2.8 The following four 2006 case studies offer further and up-to-the-minute insight into the experiences of microbusinesses**

### **2.8 a) Case Study One**

Profile :

Name of Company: Britannia Overseas Property Ltd

Number of Employees: Five

Premises: 1000sq ft rented offices in Mumbles

Nature of Business: Britannia is a sales and marketing agency for properties in Bulgaria

Chronology: Britannia Overseas Property is a start-up set up in January 2006 by rugby celebrity Andy Moore and Swansea business man Nigel Hole. In the six months since they started they have exceeded their sales target of 30 properties and have in fact sold 90 properties.

“Yes, we did try to get some help from all these bodies who say they are here to help businesses start up,” says 31 year old managing director Andy Moore.

“Our experience was that we were sent from pillar to post, from one business help agency to another. And everybody wanted us to sign a form to say we had made an enquiry.

“We certainly got no grant aid, no help with funding, and no management and marketing help -- -- which is what we are looking for.

“Yes, there was one organisation that made a bit more sense, called Entrepreneurial Action – but the truth is we simply did not bother to pursue it, it was taking more time than we could afford.

“It would have been marvellous to have some help in the beginning. Now we are too busy to make the effort.

“I want excellence. I want to do everything in the most professional way, and I would have been grateful for help from these business centres.”

### **2.8 b) Case Study Two**

Profile:

Name of Company: Life Health and Fitness Club Ltd

Number of Employees: Nine

Premises: 10,000 sq ft rented premises on two floors in the Enterprise Park, Llansamlet

Nature of Business: Life Health and Fitness Club was set up in November 2005 as a gym, hairdresser and nail parlour by 25 year old Daniel Madge

Chronology: Daniel Madge gained his expertise in running a gym during his tenure as gym manager at the local Glamorgan Racquet and Tennis Club in Llandarcy. Daniel has doubled his business plan target and now has of 792 members. Daniel employs ten full timers and 8 free lance instructors. The hair dressing concession has had to take on more staff as well.

“I’ve had to finance myself with the help of a bank loan and the small firms loan guarantee scheme –I got no grant funding of any sort. I had some advice from BOS at Menter a Busnes and they introduced me to Venture Wales who helped me get a loan from Finance Wales.

"I applied to the Knowledge Exploitation Fund but the amount of work involved in the application was endless and I gave up trying. Equally I have applied for a WDA business support grant and six months later I am still waiting

"I have been told that I am not eligible for some other grants and I have not understood why as I certainly meet the criteria. I have not even received a small grant to help with management and marketing consultancy. I do still keep trying.

"I have invested a large amount of money in this venture at considerable personal risk The lack of financial support is bad enough, but I could have really used help in paying for expert advice in management, marketing, human resource .. there is no reality in all this publicity.

"You have to chase these agencies all the time and I do it when I can, but time is my most expensive investment"

### **2.8 c) Case Study Three**

#### **Profile :**

Name of Company: NetBop Technologies Ltd

Number of Employees: Three

Premises: Home office in Swansea

Nature of Business: Information Technology software packages and support; web design, e-commerce development

Chronology: 25 yr old Andrew Downie set up NetBop in 2003.

"As a graduate of Swansea University I was eligible for the 'Wales Spin-out' programme, operated by UWS Ventures, which offered a 100% marketing grant. This could be spent on various business development and marketing materials. This was not a start-up grant as it could be applied for within 5 years of graduation but did require links to a University department. I did look into similar grants from the WDA (50%) and the local authority (35%) but these compare unfavourably because I would have had to incur costs and commit to quite a lot of costs before the business was ready to generate income.

"Because of this help, I was able to develop my BopSpam product which has won me huge national and international media coverage and nominations for several innovation and business awards. It has guaranteed my future success.

"I hope that I will be eligible for help in the future with my growth plans."

### **2.8 d) Case Study Four**

#### **Profile:**

Name of Company: Stylish Life Ltd

Number of Employees: Two

Premises: Home office in Gwaun -cae-Gurwen, Swansea Valley

Nature of Business: Stylish Life Ltd is an online showcase of high quality, high design objets d'art, jewellery and ornaments for the home and/or the office.

Chronology: 31 yr old Jonathan Thomas is a qualified product and graphic designer who has worked in this field before setting up Stylish Life in 2005. He also helps out on the family sheep farm whenever possible. Jonathan continues to take on free-lance web and graphic design jobs when possible.

"I first approached BOS Menter a Busnes Neath Port Talbot which is an enterprise agency for start-ups. They were helpful with advice and got me a very small grant for marketing consultancy.

"I also applied for a £4000 Knowledge Exploitation Fund grant. To qualify for this, I had to do a NVQ Level 3 in Business Start-up and had to prepare a business plan. I am still waiting for this grant."

### 3. Some additional comments by microbusinesses

- The service given by the public business-support organisations was reactive and not proactive
- Had to chase their mentors/advisors whenever they wanted support - - proved frustrating.
- Having to deal with a business-support organisation with a low level of service was unacceptable.
- This frustration sometimes escalated into anger.
- Microbusinesses felt they were not given an opportunity to discuss their frustrations
- Entrepreneurs who were starting a small/lifestyle business were often made to feel unimportant by their advisor.
- Many respondents linked the Welsh Assembly Government's (WAG) continual drive towards supporting only high-growth businesses to their advisor's negative attitude.
- Several entrepreneurs were not happy with their advisors although they had not made any movements to change to another advisor.
- Only advisors who have a successful track record should be employed

**4. The folly of concentrating exclusively on 'high-growth' businesses**\_(offering typically £40000 worth of consultancy support) and neglecting the microbusiness (offering less than £400 worth of consultancy).

(Note: A senior civil servant comments, 'I think saying that WDA/WAG concentrated on high-growth businesses "exclusively" would be a misrepresentation')

#### 4.1 The need for consultancy advice

All the local enterprise agencies in our study area are reeling under the swingeing cuts to funding for start-ups imposed by the Welsh Assembly Government in 2006. This has been accompanied by the issue of start-up targets for Wales by the end of 2006 which require enterprise agencies to increase the rate of women, young entrepreneurs and retired people in the field of business start-ups viz:

- 43,000 start-ups (SME's) assisted
- 3,700 given financial support
- 46,000 gross new jobs

The microbusiness start-up appears to be of no interest to the Welsh Assembly Government. The growth company has been the focal point for UK public policy throughout the 1990's. More recently high growth businesses have become the centre of WAG'S attention and the Department of Enterprise Innovation and Networks' (DEIN) High Growth programme is an example of this. The programme offers £40,000 worth of support to new businesses that reach £1million annual turnover, or can prove (in their business plan) that they can reach this amount over three years.

The awareness that specialist business advice and consultancy is necessary to ensure successful growth for the start-up has been driven home since the 1980s to the business community by public sector bodies like the DTI, Small Business Service, WDA, by Business Connect and the Enterprise Agencies. This is unprecedented in the UK's business history and has created a new wave of very demanding small- and micro- businesses

Consultancy advice used to be a luxury for large companies only; as a result most consultants come from large practices and need to adapt to the micro-client. The small independent consultant is as much a result of the changing economic profile of Wales as the microbusiness itself. Today the availability of grants has introduced smaller companies to the consultant culture.

The prohibitive cost of consultancy advice was a major factor in deterring smaller firms from using consultants. The DTI broke the ice with their 50% consultancy grant which was still aimed at larger companies; the real changes came about with the local grants for consultancy support for small business in the early 1990s. These grants are now widely used locally in Wales and are administered by DEIN, enterprise agencies, local authority Economic Development Units and other public sector bodies.

We have seen from the results of the above surveys that this help is not easily accessible, and is rather too bureaucratic in operation -- but ideally it opens the possibility for the

microbusiness to professionalise itself and to aim for excellence by tapping into sources of expertise at affordable prices

The situation faced now by specialist consultants is that the majority of the clients are microbusinesses employing less than 10 staff. This reflects the figures for the Welsh economy viz 95% of all Welsh business employs less than 10 staff.

Many microbusinesses, though their principals have worked in large companies, have not been aware of the function of departments other than their own and are alarmed to discover how much more than their own particular skill goes into the running of a successful business - no matter how big or small. They did not realise how many hats they would be required to wear and are in a constant state of uncertainty.

The strategy of offering a sort of catch-all blanket training programme for all start-ups is a cheap option that is quite worthless. It creates confusion and wastes time precious to the microbusiness by overloading the client with information s/he is not going to use.

The modern specialist has to be able to teach, reassure and empower the client - far more is required of the consultant than with large clients where there is enough in-house expertise

As a result, consultants today have to be of the highest possible calibre, highly qualified specialists in their field, because the microbusiness depends on them for more than some specific advice on a specific problem

This makes it obvious that the microbusiness start-up needs more and not less consultancy funding to ensure survival

The microbusiness demands much more of the modern consultant because edges are blurred in a microbusiness between marketing, management, HR and financial consultancy but the level of expertise required is higher than ever before - the consultancy advice could make or break a small business. Each specialist consultant needs to be aware of the scope of other disciplines so that clients can be signposted accurately where necessary

Signposting needs to be done with care so that the client is given what s/he can comfortably deal with, as against everything they ought to know. As clients grow smaller the consultant needs to be better informed.

#### **4.2 Inward investment fails to deliver**

In recent years the attention of economists and business support services in Wales has been drawn to the microbusiness for several reasons viz

The drive for inward investment, regarded as a panacea for all of Wales' problems has been disappointing. Some foreign companies have closed down - most recently the Korean heavy engineering firm Halla; some have used vast sums of grant funds and been non-starters - eg the electronics giant Lucky Goldstar, also of Korean origin. It has become clear that the tendency is for foreign head offices to peripheralise their Welsh branches: they show no hesitation in closing them down at the first sign of problems. This disillusionment has made it necessary for even the Welsh Development Agency, now DEIN, that champion of foreign investment, to view the nurturing of indigenous companies as a matter of survival. All public sector strategists now must recognise that the vast majority of indigenous businesses employ less than 10 staff and therefore have to be included in any plans or strategies for the local economy.

#### **4.2 SMEs falter**

WAG intends to take seriously only that part of indigenous business that falls into the Small and Medium-sized Enterprise category, ie between 10 and 250 employees. Unfortunately these are mostly links in a supply chain serving dinosaur industries such as coal, steel, petrochemicals etc and are threatened by the steady decline of these industries. Others serve the highly volatile automotive and aeronautical industries and are totally at the mercy of international market variables they have no control over. It ought to be clear to all policy makers and strategy planners that the microbusiness seems very stable in comparison. It is a sector that would offer more reward from nurturing than the inward investor, the dinosaur industries or the SMEs that form part of a supply chain serving dinosaur industries.

### 4.3 What price growth?

A senior civil servant challenged the issue by asking, "What proportion of micro-businesses are 'lifestyle businesses' that don't want to expand?" The answer is that such microbusinesses that do not intend to grow are perfectly legitimate and have an economic validity that is entirely their own.

These microbusinesses form the wide solid base of the pyramid on which the more affluent part of the economy rests, and cannot be ignored. The trend continues as a stream of expensive new employment regulations from the EU forces companies across the board to keep staffing levels to the minimum. Growth in terms of manpower has ceased to be a measure of business performance and down-sizing has become an ongoing objective, resulting in an increase in the number of microbusinesses.

There is a tendency among WAG/DTI-led business support agencies to treat the microbusiness with contempt because it does not appear to create wealth and does not visibly provide employment. The fact is that each microbusiness

- provides an income for the proprietor
- takes him/her off the dole
- creates a vacancy in the job market
- supports other local businesses by using their services.
- often provides at least one part-time job

According to Brian Jackson, Welsh Assembly Member for Islwyn, if each micro-business in Wales employed just one person, there would be full employment in Wales

### 4.4 Conclusions:

It is essential that these comments are taken note of and acted upon. There is no virtue in clinging to tired old strategies and setting unworkable targets for dwindling business sectors. The Welsh Assembly Government has to lead the way in accepting that

- Seeking inward investment in Wales is a failed strategy
- SMEs (10 -250 employees) are weak links in a supply chain of dying heavy industry
- 'High Growth' companies are a tiny minority in the economic landscape of Start-ups in Wales and are quite capable of succeeding without government help
- The microbusiness is the true growth industry accounting for 98% of all start-up businesses in Wales. Economic strategy must and should focus on this, the business sector of the future.
- Funding should be directed at the microbusiness sector

## 5. Barriers to start-ups faced by microbusinesses (2004 Survey see 2.6)

These comments made by 12 microbusinesses surveyed, represent the main barriers to start-ups fairly accurately:

- Unable to get bank finance
- Fear of losing home
- Lacking confidence
- Under-funded
- Feeling of isolation
- Cash-flow fears
- Not taken seriously because I am too small
- Never enough time
- In an SME you are part of a team and have resources to hand. Working as an independent you have to be an all rounder and be able to improvise by sourcing and sub contracting many services.
- Invoicing, VAT and TAX returns are a nightmare.
- Have to do everything myself – slows me down (if it were easier and not so expensive to find suitable and affordable office space I would have employed at least one other person by now)
- Realise I lack some business skills eg credit control, invoicing, dealing with suppliers etc
- Get lots of project work but not those elusive retainer clients. Very difficult for the reasons above

## 6. Public sector procurement policy/methods that fail/exclude the microbusiness

To the comment that the question of public sector procurement and micro-businesses is a very big one – possibly too big to incorporate into this piece of work, the only possible response is that we have to make a start somewhere. There is no dearth of official comment on the subject – the intention here is to ask the microbusinesses directly what their problems are and what help they would like to see provided.

Microbusinesses who attended three Procurement guidance seminars held by the Swansea Business Centre in 2006 were asked, after they had listened to the presentations, whether they would now try to tender for any public sector projects. None of them dismissed the idea completely, but put forward their reservations as below.

- Paperwork too daunting
- The deadlines create too much pressure
- Need increased insurance –not really viable
- Details of management team are required—don't have one
- Tender opportunity came to my attention too late
- Don't know where to find advance info. The OJEC/ OJEU contracts are too large for my company
- Tried. Never succeeded. Now can't be bothered
- Job always goes to larger companies

One of the presenters, a procurement specialist, carefully suggested that the microbusinesses could join together to form a consortium to tender for a job. The microbusinesses commented privately that it was a very good idea basically, but they had serious reservations to it as reported below

- Wouldn't know where to find co- bidders
- Afraid my competitors will be part of the consortium
- Needs one leader to put it together
- The logistics are too complicated
- Paperwork would be even more in a consortium

The procurement officers in the study area are sincere in their wish to find a solution to this problem and very keen to improve the success profile of the microbusiness delegates by making public sector business opportunities accessible to them.

### 6.1 Recommendation:

My view is that the initiative has to be taken by the Business Centre in an interventionist manner thus: -- the procurement officer should select a project, pick a microbusiness leader and then hold the procurement seminar aimed at relevant microbusinesses on their database. The idea has to be refined and made practicable but it is the only viable approach to this particular issue.

## 7. Identifying the emerging needs of microbusinesses and examining whether government policies and strategies recognise and meet these needs.

The business advice being offered at the moment is possibly adequate for SMEs who can call upon in-house expertise to augment and ameliorate where necessary - it simply does not work for the microbusiness. Contrary to expectations, microbusinesses need a higher quality of advisor with a higher level of expertise, experience and qualifications than SMEs because they do not have the manpower or the time to sift through the dross. It is recommended that serious steps be taken to ensure that

- Stringent vetting procedures are introduced for trainers, advisors and consultants. If required salaries should be suitably upgraded.
- Training is offered on a one to one basis following an analysis of the precise training needs of each microbusiness.
- Grant assistance needs to be revised. At the moment most grants require 50% match funding and by the time the microbusiness has paid his/her share, he/she has no funds left to implement the strategy or business plan or feasibility study that has been produced. It is a common complaint from microbusinesses that their consultancy

documents lie gathering dust on a shelf. This terrible waste of public resources can be avoided if the consultancy grant is awarded at 100% with proof of implementation as the match-funding element.

### **7.1 Intervention is the key**

When the quality of advisors and consultants is improved the next step is for business support organisations to take a more interventionist stance. What is anathema to the big business is manna to the microbusiness. Intervention is not only inevitable it is welcomed for the reasons already made obvious above.

## **8. Recommendations on initiatives to improve support services to microbusiness**

Recommendations and conclusions have been offered at relevant points in this study. In general, this paper points out that good consultancy advice can not only increase the potential for growth in the number of microbusinesses but can also increase the potential for their commercial viability and increase their already substantial contribution to the local economy. To consolidate and ensure their success and survival it can be concluded that a radical change in economic strategy is called for.

So far the microbusiness has been clubbed together with the SME, with the same business support; funding and fiscal help being offered. This study shows that the microbusiness is a separate entity with needs of its own. It is a wealth creator in its own right and shows growth in all aspects of business except employment; yet it is the only business sector that has the potential for creating full employment. Our study clearly shows that initiatives designed to work for SMEs do not work for the microbusiness.

### **8.1 Excellence, the new buzz word**

It is recommended that there is a complete rethink on the needs of the microbusiness. The vision should be that microbusinesses are the business sector of the future and as such the new buzzword should be excellence. The word 'Excellence' should replace 'High Growth' in DEIN's lexicon and the focus should be on helping the Welsh microbusiness to excel in all business /professional issues and to meet international benchmark standards no matter how small the business. Whatever the microbusiness does, it should be encouraged to do better than anywhere else in the world. Excellence is the new competitive edge for Welsh business.

## **9. Acknowledgements**

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