

BY SARLA LANGDON for the Downing St Feedback Forum Dec 2010
THE ROLE OF THE MICROBUSINESS IN THE DEVELOPMENT OF
PROCUREMENT POLICY

Is mainstream public sector business support failing the microbusiness in the UK?

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.

1.2 Taking the Microbusiness Seriously

The microbusiness forms the wide solid base of the pyramid on which the more affluent part of the economy rests, and cannot be ignored. Forming 95% of UK business, it is a sector that would offer more reward from nurturing than the inward investor, the large dinosaur industries or the SMEs that form part of a supply chain serving dinosaur industries.

There is a tendency among business support agencies to neglect the microbusiness 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 an economist, if each micro-business in Britain employed just one person, there would be full employment. Micro-sized firms already account for 30.5% of all employment in businesses in the UK

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.

So far the microbusiness has been clubbed together with the SME, with the same business support services, funding and fiscal help being offered. Our previous study has shown 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. The same study shows that initiatives designed to work for SMEs do not work for the microbusiness.

2. Objectives

The following issues need to be examined/researched in some detail

1. The barriers to start-up and growth experienced by microbusinesses.
2. The real and underlying reasons why the microbusiness does not tender for public sector projects

3. The perceived blocks to microbusinesses co-operating in submitting joint bids for contracts. Case Studies –Barriers to tendering faced by selected microbusinesses
4. The emerging needs of microbusinesses and whether current levels of business support, both in the private and the public sector, meet these new needs.
5. Recommendations based on the findings of the above research on initiatives to encourage microbusinesses to submit co-operative bids

3. Prior Work

- *The Influence of Information Technology on the Growth of the Microbusiness*. Sarla Langdon. Paper published at 24th ISBA National Small Firms Conference: Exploring the Frontiers of Small Business
- *The Needs of New Generations of Ethnic Minority Entrepreneurs – is it time for a policy change?* Paper by Sarla Langdon presented at 2002 ISBA Conference
- *'The Consultant's Perspective'*. Talk presented by Sarla Langdon, 9.10.03 at the Welsh Development Agency's Consultant's Conference, Treforest.
- *A Realistic Review of the Efficacy of Micro PR Practitioners vis a vis the Needs of Microbusiness Clients*. Paper by Sarla Langdon for Chartered Institute of Public Relations Conference. Lincoln 2005
- *Business Birth-rate Strategy and Economic Development: Focus on the Microbusiness* Paper presented by Sarla Langdon for 29th ISBE Conference, Cardiff 2006
- *The Cyber Ceiling. A Report On Gender Imbalance In Information Technology* by Sarla Langdon for Swansea University, Computer Science Dept : IT Wales Business Club Reports: Examining the social and economic effect of ICT on Small / Microbusiness March 2007

The findings from the above papers show the following:

3.1. Barriers to microbusiness and start-ups

These comments made by a small sample of 12 microbusinesses surveyed on a one-to-one basis represent the main perceived barriers to start-ups/microbusiness 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 of small size
- 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 e.g. credit control, invoicing, dealing with suppliers etc

- Get lots of project work but not those elusive larger clients. Very difficult for the reasons above

3.2 Public sector procurement law and application to Microbusinesses

There is no specific provision (so far) under procurement law targeting the microbusiness sector, but there have been many developments in the area which will assist them. It is clear that recognition of the microbusiness as an entity separate from SMEs would be a starting point in ensuring that they have a level playing field when tendering for public sector contracts.

1. Requirement for domestic advertisement where minimum procurement thresholds are not met
2. Ability for tenders to be divided into “lots” which allow smaller enterprises to bid for the lot or lots that they can perform
3. Freedom of Information Act which allows access to the entire scoring and award process once the contract has been awarded
4. Alacatel (Standstill) periods which allow rejected tenders a standstill period before the actual award of the contract so that objections can be made to the decision to award to a particular contractor
5. State Aid rules which forbid post Invitation to Tender negotiations on price or scope of the tender
6. Financial transparency rules which force larger undertakings receiving state funds to declare this to the EU through their management accounts

Public sector procurement policy/methods that fail/exclude the microbusiness

The question of public sector procurement and micro-businesses is a very significant one ----- hence the clear need for a new study focussing mainly on this issue 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 informally by me, 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
- Increased insurance costs required – 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.

4. Methodology

The simple route of access to microbusinesses aspiring to supply private/public sector organisations by tender is via the Local Supplier Development database but in addition it is necessary to reach microbusinesses that are unaware of their services. Equally the Contract Shop already uses the databases of the Federation of Small Businesses, Chambers of Commerce etc.

It is possible proposed to add to the sources by using for example:

- High Street Banks to send out questionnaires to their microbusiness customers
- Database of Innovator's Network
- Database of PACT TV Production Association to reach creative microbusinesses i.e. cameramen, lighting companies, costume makers, set designers etc.
- Database of Music Foundations to reach digital/mastering studios, musicians/performers/ makers of customised instruments etc
- Database of Art Galleries to reach painters, artists, sculptors, framers etc
- Database of RIBA to reach architects' practices
- Database of RICS to reach Surveyors' practices
- Databases of design/print/signage shops for their microbusiness clients

5. Approach

It is ideal 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 50 targeted respondents.

Selected one/two-person microbusinesses should also be interviewed on a one to one basis. The intention is to elicit honest and well thought- out reactions rather than standard glib replies. Researchers are 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.

It is also sensible to seek the involvement of procurement officers in drawing up the questionnaire. Additionally it is advisable to seek suitable public sector officers to participate in making recommendations to improve microbusiness activity in tendering based on the findings of the survey

6. Results and Implications

Previous findings have shown that start-ups and microbusiness in the UK suffer from serious neglect and are simply not considered as an issue in the formation of procurement policy or

strategy. This study puts the case for highlighting the microbusiness as a major force in the future economic development of the country.

7. Value

The microbusiness needs to be regarded as a high priority issue in economic development; it is equally necessary to highlight where it is being failed by the public sector; and to offer recommendations to policy makers to ameliorate this situation.

Public sector officials need to examine the reasons why microbusinesses fail to tender successfully and should suggest changes in policy and new initiatives that would draw them into the mainstream of business life.

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