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# Foreign firms do matter but small business is our real backbone

## ECONOMY WATCH

By Andrew Webb

**T**he announcement that Michelin (*right*) is closing its Ballymena plant shocked us all and was followed by a series of bad news stories for our manufacturing sector that saw 1,000 jobs lost in a fortnight. Announcements such as those we have read recently always shock me when I think of the livelihoods affected and the impact on families.

The frequency of the announcements lately and the scale of job losses has prompted many questions about whether Northern Ireland can be a successful location for manufacturing and whether or not foreign direct investment (FDI) companies are worth pursuing.

Until recently, I worked in FDI consulting, advising governments on which sectors and which markets to look at to stand the best chance of attracting that 'next big win'. It is amazing how far into that bubble one can disappear — in so many walks of life 'the big money signing' is trumpeted beyond home grown talent.

This is true in economic development. We

seem to have geared our policy makers up to believe that we need lots of inward investment, that it is the be all and end all. Look at how we judge Invest NI — 'Which investors are you speaking to?'

'how many FDI projects did you secure?' 'why aren't you sending inward investors to our council area?'

I'm treading a fine line here, as I do not wish it to seem like I have had a Road to Damascus moment and suddenly see a futility in chasing new inward investors. I haven't. I do believe that inward investment brings many benefits to an economy, such as new skills, new, more efficient business practices and higher wages (I accept that is hard to believe, given some of the recent high profile investments

that offer salaries well below the NI average).

But, it is small, home grown businesses that form the backbone of our economy. That is why Small Business Saturday on December 5 is such a welcome initiative. One which serves as a reminder of the importance of our small business sector. The statistics bear out just how important our small businesses are. Recent

research by the Ulster University and the Federation of Small Business (FSB) found that there are close to 120,000 businesses in the small and medium sized businesses sector in Northern Ireland.

Collectively, SMEs make the majority contribution to Northern Ireland. Small and medium-sized companies and self-employed people, together, provide 75% of employment, 75% of turnover and 81% of Gross Value Added (GVA) in NI's private sector.

SMEs actually employ more people than NI's large companies and the public sector combined.

Over the next five years, it is expected that nine in every 10 new private sector jobs (19,500) will be created by an SME.

Given their importance to our economy, do we nurture our SMEs sufficiently? The evidence is mixed on this point.

When FSB members were recently asked which barriers or obstacles had impacted most on the success of their business

in the past 12 months, a range of factors was cited. The top 10 issues raised by respondents were:

- Getting paid on time
- Profit taxes/Vat
- Competition
- Business rates
- Marketing/promotion costs
- Compliance and regulations
- Employment taxes
- Energy costs

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- Availability of skilled staff
- Lack of suitable business support.

You can read the full results of the FSB's work through their website. The 'lack of suitable business support' point is an interesting one. Around one in four respondents cited this as a significant barrier.

On the flip side of the coin, we are absolutely saturated when it comes to providing business support. Recent estimates suggest that approximately 200 organisations are offering around 2,000 separate forms of support. That is mind boggling, especially when viewed in the context that one in ten small businesses does not know where to turn to seek support. Have we lost touch with the needs of our small businesses or are we just not advertising its availability?

Whatever the answer to that

question, there are many reasons to be upbeat about Northern Ireland's small business environment. In preparing this article, it was encouraging to learn that more small firms in Northern Ireland reach £1m in revenues within their first three years in business than anywhere else in the UK.

Across Northern Ireland, the number of start-ups reaching a £1m turnover between 2011 and 2014 is 10%, compared to 6% in England according to a report from the independent UK based researchers in the Enterprise Research Centre.

Surely that can't be a fluke – local policy seems to be making a difference.

So, in light of all the recent woes from some of our large inward investors, it could be time to look for more local solutions and move away from the cult of 'attract and retain' in terms of foreign direct investment.

The probability that an outside company will come riding to the rescue of any community, delivering on its promises of jobs and investment and staying around indefinitely is

slim. All the evidence I have seen suggests that nurturing local small businesses makes a more significant impact.

In next week's Economy Watch, we hear from Angela McGowan of Danske Bank

