

Management Capability, Business Support and the Performance of Micro-businesses in the UK

Research Paper 68

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The report is specifically concerned with the impact of business planning, support and advice on performance outcomes in micro-businesses. Analysis is based on waves 1 and 2 of the UK Longitudinal Small Business Survey. Performance is captured by indicators of innovation propensity, exporting propensity and intensity and turnover per employee (productivity) and in turn innovation and exporting are conceptualised as feeding into productivity performance.

Key findings

This report focusses on the subsample of sole-proprietorships and micro-businesses (less than 10 employees) in the LSBS comprising 3,882 businesses. The main findings are as follows.

- Firstly, micro-businesses that innovate are more likely to have formal business plans, use external advice or information and have awareness of business support available from the government.
- Secondly, these factors do not have a directly discernible impact on exporting activity, but may affect export performance indirectly through a link from innovation to improved exporting.
- Thirdly, micro-businesses appear to benefit indirectly from a learning effect via exporting which in turn supports improvements in productivity.

Business planning and support activities ought therefore to focus in particular on supporting innovation activity in micro-businesses, but may achieve little direct traction if focused towards the other business performance outcomes.

Micro-business performance

Over the past decade, since the global financial crisis, the UK has seen a sharp growth in microbusinesses and in particular in the numbers of sole-trader businesses operated by the self-employed. Despite concerns that rising self-employment may reflect the growth of the so-called 'gig economy', available data suggest that over 75% of the self-employed are business owners rather than freelancers or subcontractors. Businesses rarely start life as fully-formed small organizations employing others. In fact, growing self-employment has also coincided with a fall in the proportion of microbusinesses who create jobs.

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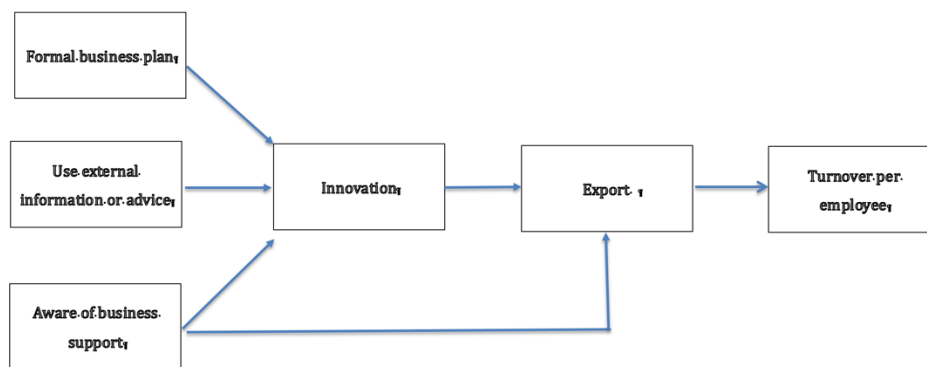
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The growth in the numbers of microbusinesses who stay small or as sole-traders gives grounds for concern in terms of overall performance of the small business sector in the UK and may play a part in explaining the current poor UK productivity performance. In turn this raises important policy questions concerning the nature and effectiveness of small business support and the extent to which microbusinesses, in particular, are positive about capability to improve business performance and are able to access appropriate advice and support to achieve it.

Figure 1 provides a summary of the significant relationships we identify between business support, business planning and our measures of business performance in micro-businesses.

Figure 1: Significant relationships between business support and performance



Policy and practice implications

Micro-businesses who have formal business plans, use external advice or information and have awareness of governmental business support are more likely to be innovative, but not necessarily directly more internationalised or productive. Micro-businesses do however appear to benefit indirectly from business planning and support awareness and activity from a learning effect on to exporting behaviour which in turn is associated with improvements in productivity.

We conclude from this that business planning and support activity for micro-businesses requires careful targeting, with particular focus on innovation as a route to business growth. The case for targeting depends on two particular issues – firstly that overall the proportion of innovate micro-businesses is small, and secondly that the quantitative impact of business planning or use of external advice as ‘treatments’ are also small in absolute size, perhaps raising the likelihood of innovating by between 4 and 13 percentage points. Nevertheless careful targeting of support could see quantitatively significant indirect effects through to higher business productivity performances in particular micro-businesses.

Full paper link:

<https://www.enterpriseresearch.ac.uk/our-work/publications/>