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SME policy support in Britain since the 1990s: what have we learnt?

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Abstract. I examine the evolution of British government support to small and medium-sized enterprises (SMEs), using results from four waves of survey evidence in 1991, 1997, 2002, and 2004, and comparison with other analyses. Whilst government support is often based on overcoming market failures in the availability or use of supports to SMEs, I argue that successful government intervention is difficult to make effective at realistic cost – benefit ratios. The analysis demonstrates little evidence of market failure in provision or take-up of business support. If a market gap existed in the past, it is no longer apparent. Any systemic market failures that remain can influence only the start-up, very early stage growth, and/or the very smallest single-person businesses. I also find that different modes of delivery by centralised, regionalised, or localised structures have very little influence on market penetration. Decentralisation can increase take-up marginally, but this has been achieved only with tenfold increases in costs and major increases in administrative complexity. There is some marginal but significant benefit of policy delivery being in the hands of market, or near-market, agencies. But for all delivery bodies there is massive variability in use, impact, and satisfaction levels achieved. Finally, a brief analysis of gender differences suggests some significant variations in use of advice from different sources, but that government sources have some of the most adverse use levels for female-headed business, and this particularly applies to Business Link. Over the period 1991 – 2004 there is little to indicate the overwhelming success of government SME support policies, particularly at the level of cost that they now involve.

1 Introduction

Small and medium-sized enterprises (SMEs) are now 99% of all businesses in developed Western economies, and provide around half of employment and turnover. They are an important phenomenon which has to be engaged with by government. It is thus inevitable that governments in most developed economies have embarked on schemes to support or stimulate SMEs (see, for example, EC, 2003; 2004; European Observatory for SMEs, 1994; 1995; 1996). This support has the policy objectives of improving the dynamism of economies by increasing market entry and innovation, by producing a more equal spread of economic benefits, by improving competition, and increasing employment (or reducing unemployment). In general, four main strands of policy can be identified: increasing the rate of business start-up; improving the survival or growth prospects of existing SMEs; improving the general environment for all firms, but targeting effort where most benefit accrues to SMEs (eg information, skills, access to finance); and reducing the burdens, regulation, and compliance costs for SMEs (eg by various special tax and exemption requirements for SMEs). I focus on the second of these strands of policy: improving survival and growth prospects. This is usually covered in a catch-all set of programmes referred to as 'support policies'. I use Britain as an example, where a series of different policy regimes can be tracked and conclusions can be drawn which have implications for how support schemes are developed in other countries.

Britain is an interesting case study of SME support policies because considerable change has occurred over recent years. There was *no explicit* small firms policy in Britain until the early 1970s. Early initiatives, though limited in scale and ambition, followed the Bolton (1971) Report. Since the 1990s, however, both Conservative and Labour governments have sought significantly to raise the profile, detail, and ambition for the extent of intervention. The models for delivery have also changed from national and centralised to local and regional. This evolution provides the opportunity to take stock of the relative successes and failures of different approaches. I seek to do this using the results of the large-scale surveys of established SMEs (of 1 – 500 employees) by the Centre for Business Research (CBR) and its predecessor, the Small Business Research Centre (SBRC), at Cambridge University for the cross-sections of 1991, 1997, 2002, and 2004. These surveys are supplemented by drawing on the results of comparable work.

The paper is divided into five parts. First examined are the theoretical frameworks that have been used to justify why governments should engage in SME support policy. In the second part of the paper the CBR surveys are introduced and used to assess the extent of market (or expressed 'need') for governmental supports. In the third part of the paper the effectiveness of different geographical scales for government intervention is examined: central, local, and regional. In the fourth part the debate about how intervention is implemented is investigated: is policy support to SMEs best delivered by private sector contractors, by a partner, or by independent public agents? Finally, a brief investigation is made of gender dimensions of these issues. Gender has become an increasingly important policy concern and specific policy programmes have been developed to target female-headed SMEs. I seek to identify whether there are gaps in support to female businesses and also the appropriateness of existing policy initiatives that seek to fill them.

2 How do markets fail for SMEs?

Government policy actions for SMEs have usually been justified by the argument that there are market failures. Because SMEs are small they lack control of the markets in which they operate, have higher risks, or greater risk aversion, and will, therefore, underinvest. This was the central argument of the Bolton Report and has been reiterated many times since (Bannock, 2005; Bannock and Peacock, 1989; Bennett, 2006; Storey, 1994). This argument suggests a role for government as a regulator (to impose an obligation on *all* firms in specific fields) or as a supplier (eg to provide government-financed support) or to subsidise or stimulate private provision.

A specific element of underinvestment may be imperfect information, which limits the awareness by small firms of the benefits of advice, information, or other business services that are available, and/or may be more unwilling to seek them [as argued, for example, by Gibb and Dyson (1984), Storey (1994), and Mole (2008)]. As a result, suboptimal use is made of such services. These arguments can be used to justify government advice and information initiatives, particularly forms of 'taster' services provided by external advisors (Storey, 2003). Advice on government regulations themselves may also require policy-support schemes (Bennett and Robson, 1999a; Ramsden and Bennett, 2005).

In addition, SME policy approaches are also frequently framed in terms of increasing the nation's competitiveness or productivity [see, for example, Cabinet Office (1996), DTI (1998; 2003), HM Government (1994; 1995; 1996) and recent small-business policy statements—for example, SBS (2002; 2004)]. A development of this argument suggests that the enhanced performance by SMEs, as with any part of the economy, can yield positive externalities in the form of social benefits. The main focus for policy has usually been the benefits of job creation, or the broader benefits of economic growth. Storey argues that these benefits differ in policy implications from imperfect information and 'taster' services, since social benefits justify long-term rather than short-term subsidy (Storey, 2003).

A further argument used to justify government action, however, is that government itself creates some severe disadvantages for small firms, because of the cost of compliance with its regulatory and administrative requirements. For example, the costs of compliance with government procedures have been found to be between two and ten times higher for small firms than they are for large firms (Bannock and Peacock, 1989; Better Regulation Task Force, 2000; Hansford, 2003; Poutziouris et al, 1999; 2001; Sandford, 1989; 1995). This disadvantage has been found to be particularly strong for the smallest businesses (of fewer than ten employees) and tends to diminish with size. For further discussion, see, for example, Bannock (1990; 2005), Curran and Blackburn (1994), Curran and Storey (2002), DE (1989), DTI (1998; 2003), SBS (2002; 2004), Storoy (1994). Thus, government support is necessary to overcome government's unequal, or inefficient, impacts. This is an interesting and cumulative case for intervention: the more you have, the more you need. The argument has been used as a basis for special policies to help small business, ranging from subsidies that help to reduce regulatory or tax costs, exemptions from regulatory requirements, and specialised provision of advice and information to help with meeting government requirements.

These arguments for government action for small firms are, however, much more difficult to implement effectively than to propose. The existence of a market failure or 'need', even if it exists, does not mean that government is the best or only option. First, the market can be stimulated to provide for itself—for example, supposed funding gaps can be filled by helping banks to support SMEs, as with the Small Firms Loan Guarantee scheme. Second, nonmarket alternatives can be used as alternatives to government—for example, by supporting trade associations and chambers of commerce (eg through Business Links, as discussed further below). Third, attempts to overcome market failure may be subject to government or bureaucratic failures of design or implementation as a result of which governments harm small firms and reduce the overall welfare of society though diverting resources, and deflecting or impeding businesses. Fourth, the costs of intervention may exceed the benefits. Fifth, interventions rely on correctly identifying the cases where market failures occur. This is somewhat heroic since it assumes the existence of some omniscient 'magic eye' in government that can spot the main opportunities available. As a result of these limitations, identifying market-failure problems and 'needs', there are not always effective or efficient policy responses.

This challenge is particularly acute for *business* interventions because governments, their personnel, or their agents lack appropriate and up-to-date information, lack technical business skills, and tend to adopt targets for public policy rather than for business policy, especially as a result of policy with multiple layers of complex decision making with many and conflicting targets that are slow to adapt to changing business circumstances. Hence, overcoming any market failures for business needs is far more difficult than overcoming market failures for 'social' needs (Bannock, 2005; Bannock and Peacock, 1989; Bennett, 2006). These concerns are echoed in a recent policy evaluation by the NAO (2006).

The tension between the search to raise government's profile with SMEs and making intervention effective is examined below by seeking to address four questions:
(1) What is the current state of evidence of market failure for SMEs in the provision of, and take-up of, external advice?
(2) Does the geographical scale (national, regional, local) for delivery of government support have significant influence on its level of use or effectiveness?
(3) Can markets be stimulated: does the form of implementation influence use and effectiveness, by being closer to market delivery?
(4) Are there significant gender differences in what interventions are needed and how they operate?

3 The CBR surveys and assessed 'need' for government advisory support

The main information used in the paper derives from the surveys by the CBR. The CBR surveys for each time period, 1991, 1997, 2002, and 2004, follow a common methodology, and considerable effort has been made to balance the survey samples and representatives to achieve comparability over time. The details of each survey are given in each CBR report, and the structures of comparisons for 1991 – 2004 are given in Cosh and Hughes (2007, chapter 9 and appendix). Each is a stratified random-quota survey, with strata of manufacturing and business services, and quotas for each sector and size category from microfirms (of one employee) to large SMEs of up to 500 employees. Single-person businesses are excluded, and the sampling (drawn from Dun and Bradstreet) is of established business, so excludes start-ups. It is a mailed survey, with telephone and/or e-mail follow-up and chasing. Survey respondents number 2028 in 1991, 2547 in 1997, 2127 in 2002, and 2200 in 2004. The respondents to each survey question can vary and are given in the tables in each respective survey, where relevant. Response bias tests demonstrate the general representativeness of each survey, and comparability between surveys (see, for example, Cosh and Hughes, 2007).

In this paper it is important to understand that, whilst the sampling design and responses are generally comparable between years, the emphasis of the survey does change in depth for different questions in different years. In all years the range of business advice is assessed, but constraints of space in the survey result in some differences in emphasis. Hence, the full range of advisors to SMEs is sought only in 1997 and 2002; the single most important source is only surveyed in 2002; gender is not available in 1991. Ethnic makeup of the business and its directions has, unfortunately, not been recorded at all. There are, thus, as with any survey, limitations. Nevertheless, the CBR surveys do give an unparalleled basis for long-term comparison in many important aspects, and this is the main basis of the surveys used here.

The CBR survey is potentially most useful in evaluating how far government-support services are actually used, and how this help is evaluated by clients. In addition, for some years, the CBR survey allows government support to be compared with market alternatives where these exist. The CBR surveys of 1997 and 2002 give two large-scale surveys, which cover the main range of suppliers of business advice across the public, private, and association sectors. These surveys allow use levels to be assessed (is there a 'market' or need which is being fulfilled, how is that use evaluated by clients, and how well does it compare with alternatives?)

The use levels found for each main government and other sources of advice are shown in table 1. The list of sources differs a little between the two surveys, but together they give coverage of all the main sources of advice a SME can normally use. The key findings from this table are as follows.

First, there is no strong evidence that SMEs are not seeking external advice or that there is a general existence of a market failure of service provision. Quite the contrary. Over 90% of all SMEs have used external business advice at least once over the previous three years. The implication is that there is a complex business-services market, which is being used by almost all firms at a high level of frequency.

Second, the overwhelming quantity of advice is being provided by the private sector. The private sector sources in total provide 75% of all respondents' use. The private sector combined with the two main types of business association (which in the UK are all private-law bodies—chambers of commerce, and sector trade and professional bodies) account for 80% of all responses. The relative importance of the public sector is further explored by the listing of the single most important source of advice (table 2). The private sector (including associations) accounts for 92.5% of all the single most important sources. This rank order of service suppliers appears to be stable over

Table 1. Use of private and public sector advice sources in the last three years (percentage of respondents reporting use; multiple responses; results reweighted to reflect small and medium-sized enterprise structure of whole economy).

Advice sources	1997	2002
Accountant	81.1	76.9
Solicitor	43.8	35.4
Bank	56.2	54.2
Business friend/relative	46.2	50.3
Customers	45.4	53.2
Suppliers	34.0	37.8
Consultants	22.9	21.3
Venture-capital firm	na	1.4
Business angel/private individual	na	4.2
Chambers of commerce	17.4	13.4
Trade/professional associations	25.7	33.4
Business Link (England)	20.3	24.2
Business Shop (Scotland)/Business Connect (Wales)	14.4	16.6
Local enterprise agency	14.2	6.6
Local Learning and Skills Council (England)	16.9	2.8
Local enterprise companies/Education and Learning Wales (ELWa) (Scotland/Wales)	20.0	5.9
Regional development agency England	2.7	1.6
Scottish Enterprise/Welsh Development Agency and ELWa (Scotland/Wales)	5.9	17.6
Used any external advice	92.7	93.8
Number of firms	2440	1592

Table 2. Assessment of the single most important source of advice in 2002 (percentage of all respondents).

Advice sources	Percentage of total
Accountant	33.2
Solicitor	4.7
Bank	9.4
Business friend/relative	9.2
Customers	16.1
Suppliers	3.4
Consultants	7.2
Business angel/private individual	1.8
Trade/professional associations	5.7
Business Link	5.2
All other public and private	4.1
Number of firms	1130

long periods of time [compare summaries of other evidence in, for example, Bennett and Robson (1999a) and Storey (1994)]. It appears, therefore, that the market for business advice is large and complex and it is difficult for government agents to usefully enter in a significant way: market failures are chiefly limited to identifying specific gaps.

Third, the public sector is certainly a provider of advice, but its structure is complex. Returning to table 1, the list of the different agencies in each part of Britain is given, which differs between Scotland, Wales, and England. Together, government agencies provide about 14% of all uses, and significant multiple uses of different government agencies occur. Use is highest for Business Link and for Scottish and Welsh national/regional bodies. But this is split between a confusing range of different bodies, with different 'brands', targets, and purpose in different locations. Also, in terms of *single* most important sources, these bodies are scarcely mentioned—only Business Link exceeds 5% of respondents (table 2). The policy approaches developed, therefore, seem at best to offer only limited niche-filling opportunities and appear to do this through considerable fragmentation and agent complexity. This complexity is commented on further in later sections.

Fourth, the market for advice as a whole is supportive, rather than, in most cases, critical, to the business. Table 3 gives the impact assessment of each source of advice in 2002. Impact is assessed by respondents on a five-point scale ranging from none (1), to little (2), moderate (3), important (4), and crucial (5). The average impact rating of all sources is between little and moderate. Only private sector sources are moderate or important, among which business angels, friends/relatives, customers, and accountants rank most highly. Only venture capital firms and chambers of commerce rank below public sector suppliers in impact. The public agents range from just above 'little', downwards. Business Link in England, enterprise agencies, and regional bodies in England have the greatest impacts among government agents. The generally 'soft' nature of all these supports, chiefly to improve managerial information and capacity, is confirmed in more detailed studies (eg Ramsden and Bennett, 2005). An important qualification here is that there may be different types of support being given by the public sources, but detailed analysis of the 2002 survey by Bennett and Robson (2003) found no significant differences in types of advice between public and the aggregate of private suppliers.

Table 3. Assessment of the impact of private and public sector advice sources in the last three years (2002 mean response scores; multiple responses allowed; results reweighted to reflect small and medium-sized enterprise structure of the whole economy).

Advice sources	All 2002 mean
Accountant	3.0
Solicitor	2.4
Bank	2.7
Business friend/relative	3.1
Customers	3.1
Suppliers	2.7
Consultants	2.9
Venture capital firm	1.3
Business angel/private individual	3.6
Chambers of commerce	2.2
Trade/professional associations	2.7
Business Link	2.4
Business Shop/Business Connect	1.3
Local enterprise agency	2.4
Local Learning and Skills Council (LLSC) (England)	1.6
LLSCs Education and Learning Wales (ELWa) (Scotland/Wales)	1.1
Regional development agency (England)	2.4
Scottish Enterprise/Welsh Development Agency and ELWa (Scotland/Wales)	1.6
All	2.6

Fifth, more detailed multivariate analysis of the impact and use of advice demonstrates that different types of firm experience different impacts from different suppliers (Robson and Bennett, 2000). Firm size effects decrease with size for family and friends, but increase for other sources, and there is an inconsistency in direction of influence between sources. This again suggests a complex market in which different sources are used in different proportions by different suppliers and their impacts are variable in different ways. Suppliers rather than types of advice are also the main significant factors. This confirms more the complexity and sophistication of the market, rather than its failure to supply, and, therefore, that there is no particularly strong systemic need for government intervention, although there may nonetheless be some market gaps and exceptions for some categories of businesses.

Sixth, the very variable influence of different SME characteristics, and their use and impact levels, suggest that government attempts to target its policy interventions on particular types of firm will be difficult or ineffective. Targeting has been used in many government programmes since it supports the idea of looking for the exceptions: the areas of market failure or 'need'. But the CBR surveys give little evidence of systemic or strongly focused market gaps that can be filled by closely targeted public intervention.

Further analysis of the CBR survey suggests two other implications. First, there is little evidence of the value of geographical targeting. A detailed analysis of the 1997 CBR survey of use and impact of different sources of support to SMEs by Bennett et al (2001) demonstrates that very few location factors influence take-up or impact for different sources of supply. The exceptions to this are that friends and/or relatives are much more likely to be used where they are in close proximity in agglomerations and by service firms, and that impact is also higher in these locations. Impact is also higher for advice received from accountants in similar locations. Whilst this supports ideas that agglomerations and 'clustering' may provide some benefits, in general there appear to be few systemic geographical gaps in provision, and if there are gaps these are chiefly in peripheral rural areas. This is a contrast to other interpretations of CBR surveys, and is the result of, firstly, fully controlling for the characteristics of the sample, particularly sector differences in sample concentration in different locations, and, secondly, controlling for localised geographical differences rather than examining regional patterns. However, by contrast, many government sources *are* influenced by location, and these chiefly result from policies of targeting (particularly rural policy and EU structural funds and assisted areas policies). Comparing government provision with the general market assessment, however, it is not clear that this targeting is filling any significant gap in supply from other sources. Rather, government is, quite validly, targeting certain places for reasons of social or regional policy objectives, not because they have different business needs. Hence, government support may be merely serving particular businesses who develop dependency and clientalism in these places, recognised as a general downside danger of government intervention [see also Oc and Tiesdell (1999), who argue that businesses seeking government support are often self-selecting—looking for a last resort].

Second, there are also few gaps in supply in terms of helping SMEs to grow. In an analysis of firm growth measured by employment, turnover, or profitability using the 1997 CBR survey (Robson and Bennett, 2000), the only highly significant influences of sources of advice on growth were on employment growth, and this was only for the case of solicitors, SME supply chains, and trade and/or professional associations. No significant influence of public sector support on growth is evident, and in the case of Business Link the relationship was negative (though not significant), indicating that policy targeting was either focusing on declining businesses, or helping to influence decline by encouraging dependency. The growth findings also suggest that, in common with most other studies, there are few or no reliable indicators of growth. SME growth, particularly very high growth, is a very rare phenomenon, and is very difficult to target by government or other interventions.

The overall conclusion from this research is, therefore, that there is at best only very limited evidence of market failures that provide opportunities from government to enhance supply. If market failures are present, there is only meagre evidence to suggest that any specific types of business are in special categories of 'need' that would benefit from targeting. There may be some gaps for the very smallest firms (and for the self-employed single-person businesses that are excluded from the CBR surveys) but there is no systemic evidence of market failures or gaps for particular types of firms or locations. Any policy intervention has, therefore, to respond to a situation in which 'need' is not easily predictable on simple policy targeting criteria. This in turn means that, to be effective, government supports should chiefly focus on broad supports, such as infrastructure, transport, energy availability, skills, education, and stable financial environment. Any specific firm-by-firm policy has to be amenable to being highly tuned to each individual business's specific requirements, and will not easily meet need by being forced to follow top-down targets and specifications. This has the consequence that any government-provided firm-by-firm support is difficult to justify and has to have very effective client-handling systems. In addition, marketing of government firm-level interventions has to be very appropriate (not to raise false expectations), and it has to be very effectively marketed to have any chance of success. These are very considerable challenges. We turn to aspects of these issues further below.

4 Does the geographical scale of delivery improve public sector performance?

One approach that has been deployed by the British government to improve the effectiveness of performance of its SME interventions has been to decentralise previously centralised programmes. This policy change has had two distinct periods of development. From 1993 in England and Wales a decentralised network of Business Link local agencies was created which replaced a previously centralised system (called Business Connect in Wales). Initially, there were 85 such local agents with over 200 satellites. This was restructured in 2001 to reduce the number and scale of bodies to 45 across England and 6 in Wales.

In Scotland, in the 1990s, local decentralisation was also developed through 'Business Shop'. But even in this period the local Business Shops remained strongly interconnected at the regional level to two larger bodies, Scottish Enterprise and Highlands and Islands Enterprise. After 1997 in Scotland, and after 2001 in Wales, the local level became further integrated with the regional/national level into, respectively, delivery systems of the Small Business Gateway and Business Connect/Welsh Development Agency. Since 2006, in England, regional integration of local delivery has also been sought by devolving power for SME business support from the Department of Trade and Industry (DTI) and the Small Business Service (SBS) to regional development agencies (RDAs).

As a result of this evolution, different parts of Britain at different time periods provide opportunities to assess whether differences in the geographical scale of delivery have any influence on performance. Fortunately, the period of time that the CBR/SBRC surveys cover, and their format, allows very useful commentary on, and assessment of, these scale effects.

Table 4. Users of government-support agencies for small and medium-sized enterprises, 1991–2004 (percentage of users at each scale; multiple responses) (source: 1991 and 1997 from Bennett and Robson, 2003).

	1991	1997	2002	2004
Centralised agents				
Small Firms Service	6.7	-	-	-
Enterprise Initiative	34.0	-	-	-
Total central	36.6	28.5[a]	49.3[a]	na
Localised agents				
Enterprise agencies	7.3	24.6	8.1	9.5
Business Link (England)	-	26.6	32.6	38.6
Small Business Gateway (Scotland) and Business Connect (Wales)	-	13.2	23.4	17.9
Training and Enterprise councils/Local Learning Skills Councils	-	22.6	6.1	9.9
Total local	7.3	38.5	35.6	42.0
Regional agents				
Regional bodies and regional development agencies (England)	2.8	4.7	3.6	7.1
Scottish Enterprise/Highlands and Islands Enterprise/ Welsh Development Agency/Welsh Assembly	5.5	7.9	41.4	37.5
Total (all public agents)	40.4	48.6	37.2	44.5
N	1777	2153	2130	2137

[a] For 1997 and 2002 a different question sought information on a range of central government advice and financial assistance schemes; the results given here are not strictly comparable with other parts of the table, and some elements are delivered through local and regional agents shown in the lower part of the table; the figures are not included in the overall total at the bottom of the table except for 1991 where the survey structure was different and suggests the figures can be aggregated.

The main pattern of take-up of the different agents over time is shown in table 4. This divides the agents into three levels: central, local, and regional. It also separates England and Scotland and Wales, although because of small sample sizes it aggregates Scotland and Wales together.

Taking first the centralised initiatives, in 1991 there were two main aspects of SME support for the whole of Britain: first, the Small Firms Service (SFS) set up in response to the Bolton Committee and established in 1973; and, second, the Enterprise Initiative launched in 1988. These were the only major government SME policy initiatives of this period. At local level there were enterprise agencies, which received substantial government grants in 1991, but which also gained considerable sponsorship from local firms and local government. At regional level there was some activity by the Rural Development Commission and the regional government offices in England, and for inward investors there was additional specialised support in England as well as in Scotland and Wales. But, in general, government policy was focused at the national level. Indeed, table 4 shows that the vast majority of all experiences by SMEs of government supports was centralised, and chiefly derived from the Enterprise Initiative. The level of use that was achieved was high: 36.6% of businesses used central support, of which the Enterprise Initiative delivered most (34%). The local and regional level added only another 3.8% after eliminating overlaps in services resulting in multiple responses.

Overall in 1991, 40.4% of established SMEs had used some form of government agent. Compared with 2004, this shows that only small overall uplifts in market penetration have been achieved by subsequent policy development at various levels of local and regional decentralisation.

Localised systems chiefly developed after the launch of training and enterprise councils (TECs) from 1991, and Business Link from 1993, and their equivalents in Scotland and Wales. These delivered some increases in overall market penetration by government agents. Table 4 shows that use increased to a range of 44–49% of established SME businesses. Within that increase, it appears that the 1997 market penetration was highest and reduced in 2002 and 2004 mainly as a result of the abolution of the TECs and restructuring of Business Link in 2001, plus some influence of reduced penetration by enterprise agencies. The marked reduction in market penetration in 2002 shows how change in the system itself causes difficulties, with the other partners unable immediately to make up for the 2001 loss of support from the TECs. Nevertheless, the 2004 penetration levels still slightly exceed those achieved in 1991 from a purely centralised system. So it appears that both centralisation and decentralisation can work to achieve similar results, and decentralisation may offer some marginal benefits of market penetration by government agents.

However, the decentralisation effects are entangled with several other influences. The major of these is the significant increase in government expenditure on SME supports. It is not easy to estimate the expenditure flowing from government specifically to business support because the agents involved [especially the TECs and subsequent Local Learning and Skills Councils (LLSCs)] also have a very large training budget, part of which is generic education in addition to more specific vocational skilling, and this is only partially integrated with business-support services. But, however expenditure is measured, there is no doubt that expenditure on business supports massively increased after the early 1990s. The SFS and the Enterprise Initiative were modest schemes costing only a few hundred million pounds per year. The subsequent structures had budgets of closer to £2 billion per year in the 1990s rising to over £3 billion after 2004. Much of these budgets is programme money (particularly for further education college training), but there is no doubt that the administrative infrastructure and costs also massively increased. A few dozen administrators supported SFS and the Enterprise Initiative, plus many outside consultants. Administrative staff in the business-support arena now number approximately 4000 (in Business Link, LLSCs, and RDAs and in the equivalents in Scotland and Wales), again plus many outside consultants. Thus, although full-cost comparison cannot easily be attempted, it is clear that the cost per unit of contact per SME has risen very significantly in real terms (probably at least tenfold) between the former centralised and subsequent decentralised structures, whilst the market penetration has been increased by only about 4%. In value-for-money terms, therefore, it must be doubted that the system has improved.

A further consequence of decentralisation has been a significant increase in the complexity of the delivery structure. Where a few Britain-wide agencies operated in 1991 with some regional and local additions, through the 1990s the range of local and regional bodies has massively increased. Moreover, their brand names, responsibilities, funding levels, eligibility criteria for assistance, policy targeting, and areas of geographical coverage differ between each other, and have each been modified several times over the period. This has made it inherently difficult for SMEs to maintain understanding of where to go for government support, and what is on offer. The result has been what recent reports have referred to as ‘chaos’, a ‘labyrinth of initiatives’, and a ‘muddle’ (Audit Commission, 1999; HM Treasury, 2002; PIU, 2000). The Better Regulation Task Force (2002):

> "struggled with the justification for so many bodies active on the ground .... Our stakeholders struggled too ... it will take more than protocols or pieces of paper to ensure close working" (page 43).

A further review of government support to reduce this complexity was announced in mid-2007 (DTI, 2007). Given this complexity it has to be strongly questioned whether government is filling any real market-failure gap effectively; and if it is doing so, whether it is doing so at anything that reflects a reasonable cost (see also NAO, 2006).

HM Treasury (2002, figure 2 et sequentes) (see also update by NAO, 2006; SBS/PACEC, 2006) estimated that a total of £8 billion per year was spent by central government on various SME initiatives. Although this is certainly an underestimate, we can take this number as a datum to question policy effectiveness. Of the £8 billion, £2.8 billion is derived from the EU Common Agricultural Policy (CAP) and £2.75 billion is tax incentives (which is income foregone rather than direct expenditure). These are obviously major policy costs in themselves, and have a massive impact on favouring some businesses rather than others (particularly agriculture) and introduce huge market distortions. But focusing for the moment on the remainder of the government support of SMEs, excluding tax measures and CAP production subsidies leaves a total support expenditure of approximately £2.5 billion. If this £2.5 billion is compared with the total population of British businesses, this reflects a cost of about £600 per business per year for all businesses (using the total of 4.3 million for *all* businesses in 2005), or about £2100 per business per year for established businesses with at least one employee (which numbered 1.2 million in 2005). Given the opportunity to choose the alternative of a subsidy of £600 or £2100 per business per year (or an equivalent tax cut which could be even higher after removing tax administration and business compliance costs), it is unlikely that many SMEs would choose the present structure of business support over a direct cost cut or tax benefit. The high costs are likely to exceed by orders of magnitude the economic impact of any market-failure gaps that exist. If positive benefits are received by individual SMEs, or any social benefits achieved (externalities), these must be far outweighed in macroeconomic impact by the costs. Hence, it is likely that the overall contribution of government support must be negative to total economic growth and national welfare. Where the subsidies are ever higher, as in agriculture, the impact of a dependent and clientilist sector are all too evident. The effects of the other supports are smaller, more diffuse, and more subtle, but it must be strongly questioned how far the distortions they introduce should be defended unless they serve a major noneconomic social purpose. Ram (1998) has made that case for ethnic-minority business support, for example. But if this is the policy motive, then the case needs to be more explicit, rather than relying on more generalized market-failure arguments.

5 Does the delivery partner for government support influence outcomes?

Just as the level and scale of British government intervention with SMEs have changed over time, so has its form in terms of delivery. Taking Business Link as an example, the way in which the government advice structure for SMEs was implemented can be examined using the resources of the CBR survey. The most recent survey, 2004, is used as the example.

Business Link had had two phases of development prior to 2006 when its format was changed again within the RDAs. The first government approach to Business Link structures (1993–2001) was to rely on a network of local partners to put forward bids to the DTI to run the local agency. These partners varied considerably and sometimes were complex groups of local bodies, chiefly local government, enterprise agencies, chambers of commerce, the former TECs, and development agencies. Sometimes local partnerships, in effect, relied on one of these agents to provide the service. This resulted in a 'partnership' or 'hosting' approach to the initiative whereby existing local agents were seen as a resource and an advantage to the system. This approach thus sought to overcome market failures by working with existing market and nonmarket suppliers. Indeed, in its early conceptualisation, the aim had been to use the Business Link initiative to draw local bodies together to reduce the level of confusion of multiple bodies, already noted above, and in its launch phase Business Link was referred to as a 'one-stop shop' initiative (DTI, 1992). This was an early and rather specific form of 'brokered' service.

In practice, in this early phase of development the partnerships varied greatly in structure. In 1997, 48% were independent companies, 22% were subsidiaries of TECs, 18% were operating divisions of TECs, and 12% were subsidiaries of chambers of commerce. In some cases, TECs and chambers themselves had merged, so that some of the TEC partnerships included chambers as managing partners.

There were a number of criticisms of this approach (see Bennett and Robson, 1999b; 2000). The main concern of the DTI was that direct managerial accountability was undermined by the complex structures of many partnerships. In effect, the partnership or brokerage of services made it often difficult to identify which partner was responsible. Moreover, no local partners disappeared as a result of introducing Business Link, except where TECs and chambers merged. Thus, the complexity remained: a 'one-stop shop' was seldom achieved. In addition, within each Business Link many other subsidiary 'satellites' existed which supplied parts of the service. These numbered over 200 in 1998. The local strategy and targeting pursued was highly varied (Priest, 1999). From a manager's perspective, as well as a client's perspective, the result was often confusing, accountability for service quality was unclear, the overall quality of the system was found to be very unequal, and there was significant variability in client experiences both between areas, and between the advisors or advisor bodies used with areas. Moreover, whilst Business Link was being developed, many other DTI and central government schemes continued to be delivered by DTI and other bodies, including central government itself. This meant that, although aimed at reducing confusion, considerable confusion and fragmentation of government support to SME continued (House of Commons Trade and Industry Select Committee, 1996; IoD, 1996; NAO, 2006; Priest, 1999) and indeed was acknowledged by government ministers (eg Roche, 1997). It continues to be acknowledged by government as a problem (see, for example, DTI, 2007) and is a source of criticism by opposition political parties (eg Richard, 2007).

The second phase of Business Link development was initiated in 2001. This followed a budget announcement by the then chancellor, Gordon Brown, in 1999 to launch an SBS within which Business Link was to be operated as a national brand with local 'franchises' (DTI, 1999). The franchise structure was an attempt to attack the problem of variable quality of local partners and hosts, enforcing a national corporate structure for Business Link in which each local outlet had to be a separate body, independent of local interests from a management perspective, although continuing to work with local partners for direct referrals but at 'arms length'. The franchisee also had to have this contract as its *only* line of business. However, despite the use of the terminology of franchising, this was far from a normal franchise model: services continued to differ between areas, local management structures differed, the role of advisors varied, the emphasis on fee targets locally varied, and, despite the 'arms-length' structure, the interrelations with local bodies continued in many cases and was strongly varied between areas.

To understand something of the local detail, analysis of the structure of the other directorships held by those responsible for managing the local franchises (through

Companies House records of directors) was used by Bennett and Robson (2003; 2004) to classify franchises. This shows that, whilst 55.8% of franchises were fully independent bodies, 23.3% were de facto subsidiaries or an 'arms-length' operation of chambers of commerce, 16.3% were subsidiaries or on 'arms-length' operation of some other body (chiefly local government, enterprise agencies, or partnership bodies), and 4.7% were private companies (run by one company, A4E).

A third phase of development began in 2006, when the structure was changed again with RDAs taking over responsibility for Business Link. This third phase of Business Link evolution retains some similar characteristics to earlier models, with some RDAs, or some parts of RDAs, relying on chambers of commerce and other bodies, some trying to draw on independent structures, several taking over management and delivery themselves, and some continuing to try to involve the private sector. But the main innovation has been from the SBS to demand that Business Link develops a model as 'brokered service provider'—that is, the model that failed in the 1990s.

The CBR surveys allow assessment of the first two phases of development and some indications about how phase three of Business Link should develop after 2006. Attention here chiefly focuses on the results of the 2004 survey, but before presenting this it is useful to summarise what is already known about the influence of local delivery structures.

First, the general influence of the local delivery regime has usually been found to be quite limited. In the first phase of Business Link development, using the 1997 CBR survey, Bennett et al (2001) demonstrate, through multivariate analysis of SME levels of use, impact, and satisfaction, that there was very little influence of different types of Business Link operation on performance. Only a limited range of explanatory variables related to operation were found to be significant. One of the most significant of these was the age of the local operation. The initial establishment of Business Link was phased over several years, with the earliest local outlets beginning in 1993 and the last not established until 1996. Age was found to be a very significant positive effect in explaining different use levels in 1997. This suggests the advantages of not restructuring support systems frequently, since any change takes several years to settle down. Other variables, of less significance in explaining differences in performance, were the number of local outlets (satellites) which increased use levels, the number of different services operated which increased impact levels, and the scale (of income resources) of outlets which increased impact levels. For some service fields, satisfaction was slightly increased by number of outlets, range of services, and the number of intensive advisory staff available locally.

Second, after the restructuring of the system to a network of local franchises in 2001, using the 2002 CBR survey, Bennett and Robson (2003) found some evidence that chamber of commerce subsidiaries significantly increased the level of use of grants, the use of advice, and the take-up of advice when combined with intensive advisor support (through personal business advisors). However, they found no significant differences in satisfaction by franchise type for different service fields. A more detailed examination of the performance of each franchise type by Bennett and Robson (2004) for the 2002 CBR survey shows that the lack of significant differences found between franchise types is largely due to the very high variability of performance of each type of franchise. Thus, whilst, in terms of mean performance levels, chambers of commerce have the highest impact levels, and the second highest use and satisfaction levels, and the private sector franchises have the highest use and satisfaction levels, these and the other organisations have a wide range of performance around the mean. Business Link in 2002, therefore, as in 1997, was characterised as much by its variability as by any dominant systematic explanation of why performance differences occur.

The conclusion to be drawn is that advisor differences are the most important causes of quality variation, and not differences in the type of firm or the form of franchise; however, near-market delivery (private sector and chamber of commerce subsidiaries) do slightly, but significantly, increase performance at the margin.

The story in 2004 can be assessed from tables 5, 6, and 7. In each case, care must be exercised in interpreting these results because of small sample sizes. Table 5 shows the levels of use by franchise type. Note that care must be taken in interpreting the private sector franchises because the sample size is small (only two areas, Durham and the Humber). In terms of average use levels, chambers of commerce and the private

Table 5. Business Link services used by Business Link type, 2004 (percentage of firms using each type of service in each Business Link; *N* in each case is the total users of services in each franchise type).

Business Link service used	All	Independent	Subsidiary of other organisation	Subsidiary of a chamber	Private
General business information	55.1	52.9	66.7	55.8	68.2
Diagnostic assessment	16.0	18.0	6.5	16.0	18.2
Personal business advisor/consultant	27.7	29.1	16.1	28.8	22.7
Sales and marketing advice	23.5	24.0	18.3	27.6	9.1
Export advice	21.4	18.7	23.7	28.2	18.2
Finance and account advice	8.3	8.5	2.2	10.3	4.5
Training/Investors in People	42.1	44.1	36.6	39.7	45.5
Product/service design advice	5.1	4.8	1.1	8.3	9.1
Innovation and technology advice	13.5	11.5	7.5	21.2	9.1
Educational and university links	13.1	12.7	10.8	14.7	18.2
Grants	44.7	45.0	28.0	48.1	63.6
Overall average	24.6	24.5	19.7	27.2	26.0
N	739	433	93	156	22

Table 6. Satisfaction of expectations by Business Links service used by Business Link type, 2004 (percentage of firms whose expectations were fully met for each type of service in each Business Link; *N* in each case is the total users of services in each franchise type who responded to the expectations question).

Business Link service used	All	Independent	Subsidiary of other organisation	Subsidiary of a chamber	Private
General business information	38.1	34.8	35.6	44.6	42.9
Diagnostic assessment	35.7	36.4	16.7	34.8	25.0
Personal business advisor/consultant	43.2	41.9	42.9	50.0	20.0
Sales and marketing advice	33.1	30.4	31.3	31.6	50.0
Export advice	42.9	50.0	28.6	33.3	75.0
Finance and account advice	40.0	33.3	50.0	43.8	0.0
Training/Investors in People	49.7	50.3	36.7	58.2	40.0
Product/service design advice	21.2	33.3	0.0	9.1	0.0
Innovation and technology advice	30.2	20.8	57.1	38.7	0.0
Educational and university links	37.9	35.8	40.0	34.8	100.0
Grants	40.9	36.8	25.0	57.7	28.6
Overall average	39.9	38.6	34.2	44.4	38.7
N	394	224	59	83	14

Table 7. Satisfaction and impact of Business Link experience by franchise type, 2004. Satisfaction is the percentage of those satisfied or very satisfied. Impact is assessed separately using five criteria (multiple responses) using a five-point scale ranging from 1 'no impact' to 5 'crucial'.

	All	Independent	Subsidiary of other organisation	Chamber of commerce	Private
Impact					
Improved productivity	1.9	1.9	1.7	1.9	2.1
Increased profits	1.9	1.8	1.7	1.9	2.2
Increased turnover	1.8	1.8	1.8	2.0	1.7
Increased ability to manage	2.3	2.3	2.5	2.3	2.2
Other impact	1.9	2.1	1.6	1.8	2.0
N	1206	326	64	122	18

sector franchises continue to perform best. There is varied use by service field. But only in the case of personal advisors and training/Investors in People (IiP) for independent franchises, and for general business information for other subsidiaries, does the performance of other franchises appear particularly strong. In terms of meeting expectations, there are some constraints of small sample sizes for some franchise types, and not all respondents gave expectations. However, table 6 shows that chambers of commerce are the strongest, and this is particularly strong for grants, training/IiP, and personal advisors. The results of tables 5 and 6, taken together, suggest that market penetration and delivery are, on average, better in near-to-market operations, but a not-for-profit body near to market such as a chamber of commerce may have specific advantages compared with other bodies in managing client expectations. Despite this generalisation, it is the case in 2004 as in the 2002 CBR survey that variability for all franchise types remains high. Hence, advisor and local management systems continue to vary strongly, independently of franchise type.

Table 7 shows impact and satisfaction levels by franchise type. Although there is variation depending on what measure is used, and small sample sizes for some franchise types remains a problem, it is clear that chambers of commerce again perform best in terms of satisfaction levels. However, the private sector is best in terms of the 'hard' impact criteria (productivity and profit), chambers of commerce are best in terms of turnover, whilst the other types of franchise are better in terms of increased ability to manage and some of the wide range of 'other' criteria, self-nominated by respondents. There is thus some indication in these results that private sector (or near-private sector in the case of chambers of commerce) provide superior performance on 'hard' criteria which directly affect the bottom line, whilst other franchises can perform as well or better where 'soft' management development is the chief impact sought. This variation in performance is confirmed in a smaller scale but more intensive telephone survey with different respondents in 2002 reported in Ramsden and Bennett (2005), for the same range of 'hard' and 'soft' criteria by supplier type, and reported in a more detailed assessment of expectations – satisfaction – impact linkages by Bennett (2007). There is some possibility that self-selection by clients of Business Link services means that they are used as a last resort (Oc and Tiesdell, 1999). This may colour their satisfaction and impact assessment. The results here cannot control for this influence, but since most Business Link users have also used many other sources of advice (Bennett and Robson, 1999b; 2000), this is unlikely to have a major effect.

Tables 5 – 7 are not the results of multivariate analysis, although they certainly give an accurate indication of franchise outcomes for SMEs. However, a more detailed analysis of Business Link operator types has been made by Mole (2006) who reused the Bennett and Robson typology of franchise types, as outlined above. Mole found few differences between Business Link types for perceived impacts or growth impacts of advice. However, some influence on employment growth of Business Link type was found by Mole for intensively assisted firms, where the two private sector franchises had no influence but the three other franchise types had a positive influence (which is greatest for independents).

Mole (2006) has developed a different classification of franchises based on their institutional environment, intensity of services, sources of finance, and the sort of relationships they aim to foster. Four types of franchise are identified: light-touch brokerage, managed brokerage, pipeline forcing, and managed pipeline forcing. Most Business Links are light touch (31) which tend to have high penetration but low intensity. Managed brokerage (8 franchises) uses active account management to give assistance and follow-up. Pipeline forcing has only four examples, where trigger points are used to identify firms that may be amenable to more intensive assistance, and active management is used to increase this number. Two franchisees push this model further by managed pipeline forcing, which requires high levels of funding per assisted firm. Using this typology, Mole (2006) found differences in service emphasis, as is to be expected by the way in which the typology is defined. In terms of impact, managed brokerage and pipeline forcing were significantly more important as sources of change in financial sourcing and training. In terms of growth, Mole found mixed results for different models, including both positive and negative effects of each type of franchise.

Mole's classification is tested further in table 8. This retabulates the 2004 CBR survey main results of tables 5–7 above, using Mole's typology. The evidence for the benefits of the more active and intensive Business Link brokerage models is again scant or equivocal. In terms of use levels, more active brokerage (Mole's types 2, 3, and 4) records both high and low market penetration. Satisfaction is also both high and low for types 2, 3, and 4 compared with 'light touch'. Impact assessments generally decline with intensity of brokerage for the one 'hard' criterion analysed (improved turnover). In comparison, the 'soft' criterion of increased ability to manage, records both the highest and the lowest impact for the more intensive models 2, 3, and 4. The chances of expectations being met are by far the lowest in the most intensive models (3 and 4).

Putting Mole's own findings together with the CBR results suggests that an actively managed (ie intensive) advisory structure, targeting financial support and grants on SMEs that have potential, can increase employment growth. However, Mole's classification does not appear to be particularly useful as a way of differentiating use, satisfaction, impact, or meeting of expectations, when applied to the CBR data.

Table 8. Performance of different Business Link franchises using Mole's (2006) classification, from Centre for Business Research 2004 survey respondents.

	1 'light touch'	2 'managed brokerage'	3 'pipeline forcing'	4 'Managed pipeline forcing'
Use (%)	41.5	50.9	37.9	52.6
Satisfaction (% satisfied or very satisfied)	83.2	78.8	88.5	50.0
Impact				
Improved turnover	2.3	2.2	2.0	2.1
Increased ability to manage	1.6	2.0	2.5	1.0
Meeting expectations (% fully met)	41.2	45.9	36.7	31.6

Indeed, intensity of support and different brokerage models appear to have little systematic relation to client evaluation. Hence, whilst Mole's conclusion, that financial subsidy can stimulate employment growth, may be a desired policy outcome, this finding must be balanced by broader evaluation. There is no formal evaluation of the deadweight element in Mole's findings (what would have happened anyway), nor assessment of how far the employment is sustainable once the government funding is withdrawn. There are also likely to be displacement effects as employment and output in aided businesses are captured from other businesses. In summary, the effects found by Mole may suggest some positive outcomes of active brokerage, but only where combined with subsidy; this approach thus has the highest risk of market distortion. As with earlier discussion in this paper, there is little evidence in Mole's findings, or in its application to the CBR data, that a major market gap is being filled by Business Link or that its overall impact is particularly positive, even for its intensive, specialised, and highly subsidised services. Thus, finding the 'exceptions' that satisfy market-failure gaps, and filling those gaps, remains challenging!

In general, the discussion suggests that differences between franchise types have only small effects on customers through market penetration, impact, and growth. However, the differences are almost submerged in high variability that results in how advisors operate, what clients want, and how SMEs respond. Whilst there is some evidence of greater use, impact, and satisfaction from market and near-market provision, employment growth may be stronger from more interventionist approaches (managed brokerage and pipeline forcing). Overall, then, whilst variability swamps other statistical effects, there is some limited room for conclusions about effectiveness of different franchise models, which suggests that market and near-market approaches are superior.

With respect to development of a greater emphasis on brokerage, which is being sought from the 2006 restructuring of Business Link, there is very little evidence to suggest that more intensive support can produce more strongly positive outcomes. Negatives are almost as frequent as positives, and only in a few cases are the most intensively brokered models effective. Where effective, the outcomes have not been compared with costs, deadweight, or displacement. But it is reasonably clear that the few firms that find significant benefits must be compared with those that do not, and with the total costs of the system as a whole.

6 Gender differences

A number of recent policy initiatives have focused on stimulating female-headed SMEs. For example, the SBS (2003) published *A Strategic Framework for Women's Enterprise*, which was followed by *Promoting Female Entrepreneurship* (SBS, 2005). These set a target to raise the proportion of businesses that are majority female owned from 15% to 18 – 20% by 2006 (compared with 30% in the USA). Men are more than twice as likely to start up a business than women. The SBS (2003; 2005) argues that women have different ways in which they can benefit from business support because of family commitments and a greater fear of financial or debt problems, leading to larger use of informal finance. They also tend to have businesses of lower turnover. More detailed work by Marlow and Carter (2005) suggests that this is as much a result of gendered differentiation of society as a whole, rather than anything specific about femininity (see also ACCA, 2005; Carter et al, 2001). In overcoming this differentiation, the SBS and Marlow and Carter have argued that more detailed, and longer duration, advice may be required. Also the role of intermediaries, such as accountants or Business Link advisors, may be critical in helping to formulate the most appropriate financial plans.

Table 9. Use of advice sources by gender: 1997, 2002, and 2004.

Advice source	1997 survey				2002 survey				2004 survey			
	male		female		male		female		male		female	
	number	%	number	%	number	%	number	%	number	%	number	%
Accountant	1853	83.1	152	80.9	1109	80.4	141	78.8				
Solicitor	1266	56.7**	91	48.4	739	53.6**	67	37.4				
Bank	1386	62.1	106	56.4	820	59.4	95	53.1				
Business friend/relative	827	37.1**	88	46.8	560	40.6**	89	49.7				
Business angel/private individual					85	6.2	13	7.3				
Customers	1061	47.6	80	42.6	799	57.9	102	57.0				
Suppliers	818	36.7	60	31.9	587	42.5	80	44.7				
Consultants	718	32.2**	47	25.0	433	31.4**	36	20.1				
Local chamber of commerce	517	23.2	39	20.7	336	24.3**	27	15.1				
Trade/professional association	702	31.5	59	31.4	509	36.9**	52	29.2				
Local enterprise agency	327	14.7	23	12.2	116	8.4	12	6.7	187	9.8	8	6.1
Local TEC or Scottish Enterprise	511	22.9	39	20.7								
Business Link/Business Shop/ Business Connect	569	25.5	47	25.0	456	33.0**	42	23.3	711	37.1	42	31.8
Regional Development Council or Regional Agency	107	4.8	6	3.2								
Scottish Enterprise/RDA					95	6.9	11	6.1	192	10.0	9	6.8
Venture capitalist					80	5.8	5	2.8				
Local Learning and Skills Council					94	6.8	7	3.9	187	19.8	16	12.1
Export advice									227	11.9	8	6.1
Other									111	5.8	10	7.6
Used any external advice	2125	95.2	174	92.6	1319	95.4	170	94.4	946	49.4*	55	41.7
Number of firms	2231		188		1380		179		1912		132	

Note: Scottish Enterprise was put together with local training and enterprise council (TEC) in the 1997 survey and with regional development agencies (RDAs) and Welsh Development Agency/Education and Learning Wales in 2002 and 2004.
** Male/female differences significant at $p \geqslant 0.05$; * significant at $p = 0.1$.

The CBR surveys allow a limited analysis of gender differences, which have not been analysed before and which give some preliminary indications. In 1997 and 2002 the CBR surveys allow an assessment of whether there are gender differences across all the main groups of suppliers of advice. But in 2004 this assessment can be carried forward only for public sector advisors. These comparisons are shown in table 9.

On average, male-headed SMEs are more likely to use almost all forms of advice in all years. However, the average differences are small and not significant in 1997 and 2002; 95.2% compared with 92.6% for using any source of advice for male and female-headed businesses, respectively, for 1997; and 95.4% compared with 94.4% in 2002. In 2004 the average differences by gender are significant but the analysis is confined to the public sector sources.

Comparisons between sources of advice show important contrasts. In 1997 female-headed SMEs are significantly more likely to use friends and/or relatives, but are significantly less likely to use solicitors or consultants. In 2002 this pattern of results continues, with the addition that female-headed SMEs are also less likely to use the two types of business associations (chambers of commerce and trade and professional associations).

These results confirm SBS and other assessments that there is greater reluctance to use, and/or more off-putting characteristics of, some suppliers than others. In line with earlier studies, more informal sources (such as family/friends, angels/private individuals) are more likely to be favoured by female-headed SMEs. This is also confirmed in a large-scale survey of take-up of Scottish business-support services by Robson et al (2008).

Concerning public sector sources, female-headed SMEs were less likely to use all sources in 2002, but in 2004 the LLSCs and 'other' sources recorded higher use by female users. Of these differences only the lower use of Business Link in 2002 is statistically significant for an individual government source, though in 2004 the composite use of all public sector sources was significantly lower for female than male businesses. These results should be worrying for the SBS and government policy makers. They show that the key advisors that are targeting female-headed businesses are failing to achieve a priority of market penetration, and for 2004 the public sector advice system as a whole is significantly adverse to female use, achieving only 41.7% for female-headed SMEs, compared with 49.4% for male-headed SMEs. In turn, this confirms concerns of earlier discussion, that, if one of the most important adverse effects on SMEs in general is how government operates, the impact of government help to female-headed businesses is least successful in overcoming barriers to their access.

7 Conclusion: the lessons of experience

The development of government policy of business supports to SMEs in Britain in the 1990s and 2000s offers important empirical insights into the value and effectiveness of different policy approaches. In effect, the various periods of development have offered empirical lessons on what is, or is not, valued by SMEs, and whether different delivery models influence the policy outcome. The main lessons to be drawn from the CBR surveys have considerable relevance to other countries, although the constraints of the surveys have to be borne in mind in interpreting the results. First, there is little evidence of major market failures in terms of gaps in existing provider support in Britain, or willingness of SMEs to use advice. Almost all SMEs use business supports, and almost all find their most important sources outside of the public sector. If there were gaps of supply or unwillingness to use it when Gibb and Dyson (1984) and Storey (1994) argued that important market gaps did exist, then these gaps have now been largely filled and reluctance has been overcome. Indeed, it would be more surprising to find the reverse: the private sector and trade-association market for supply of support to SMEs is large and differentiated. There also appears to be a very fully supported structure of informal sources, such as family and friends, business angels, or other private individuals. These informal sources are used by one half of SMEs and are particularly important for female-headed SMEs. If a major gap did exist, there now appears to be a large and buoyant market of advisors ready to fill it, and a wealth of informal sources to act as back-ups and gap fillers.

But, second, there may be some specific difficulties and gaps in supply for a few specific types of SMEs. This may be for the very small businesses and for start-ups (and for single-person businesses excluded from the CBR survey). These cannot be assessed fully in this paper since the CBR survey focuses on established SMEs of 1 – 500 employees. However, if there are indeed gaps in supply or reluctance to access it, then it is only in this type of business that it will be prominently found.

Third, government sources of supply have been demonstrated to be a supplement to other sources and rarely act as a chief source of government sources; Business Link has established the most important role amongst government sources, but even this achieves only a 5% rating as the single most important source.

Fourth, differences in the geographical scale at which delivery of government support occurs seems to make very little difference to market penetration or effectiveness. There is some limited evidence of increased market penetration from a decentralised system in 2004, but this is at a maximum of only 4% greater than the highly established system of 1991. All the changes that have occurred in the meantime seemed to have offered little more than marginal improvement. Moreover, the small increases in market penetration that have been achieved in 1997 – 2004 have been gained with massive increases in expenditure and considerable increases in administrative complexity.

Fifth, and related to this conclusion, change itself and the frequent restructuring of government sources has a negative influence on take-up and effectiveness. Business Link took some time to settle down in the mid-1990s, such that age was a significant influence on performance in the 1997 survey results. In 2002 a significant drop in use and effectiveness of Business Link occurred as a result of the restructuring of the system to introduce a franchising model in 2001 (evident for the 2002 survey in table 4). Further change to regionalise business support under RDAs in 2006 is likely to have caused further disruptions. An important lesson of this assessment is the need to use methods to continuously improve client management, personnel delivery, and marketing rather than to continually restructure. Radical restructuring is a good way to set back management systems and quality for periods of one to three years. Overcoming the negative effects of policy instability remains a major challenge for government-support systems.

Sixth, there is some evidence that delivery of government supports to SMEs by private sector or near-market bodies such as chambers of commerce can marginally improve market penetration and effectiveness. Partly contrary evidence from Mole (2006) chiefly suggests that employment growth of SMEs may benefit from a more finance-driven interventionist forced brokerage; but this positive effect of forced brokerage seems to be very small. Hence, if increases in performance are sought, as they should be, different approaches are needed. Obvious solutions are to hand the delivery fully to reliable partners, or to design a simpler and less ambitious service objective, perhaps nearer to the former SFS.

Seventh, the results for different delivery models are, however, swamped by the high level of variability of the Business Link system, which in turn reemphasises the need for overall improvement of client handling, client management, and marketing. What is clear is that providers need to be left alone to develop their delivery, rather than being continuously pressured to adopt new delivery models and targets. Instability itself is a major cause of poor performance in government-support policies.

Eighth, the complexity of delivery of the government sources in England has tended to increase, not to decrease. The shift to a stronger emphasis on RDAs has as many chances of increasing complexity as reducing it, and it has a very real danger of leading to needless reinvention of the wheel in strongly varied ways in each region.

Ninth, on gender differences, there do appear to be some important and significant variations in how female-headed businesses access support. But the most remarkable finding is that it is government services themselves, particularly Business Link, that are some of the major sources of unequal access. There can be few better demonstrations of how identification of a possible market 'gap' is not matched by an effective government delivery. As said at the outset, not all market-failure problems and 'needs' necessarily have an effective government policy response.

Finally, the question of cost-effectiveness: HM Treasury estimates of the cost of SME support policies, excluding agricultural and tax benefits, suggest this was £2.5 billion per year in 2002. This is £600 per business per year, or £2100 per established business of at least one employee. The complexity of the structure of delivery, and the weak evidence of filling a market need, suggest that real consideration should be given to reducing this level of expenditure and returning some or all of the money to the business sector as a tax cut. Perhaps in this way more can be done to support SMEs than by the panoply of existing agencies. Alternatively, if SME policy meets effective social goals, which is another argument not evaluated here, then this needs to be transparent and subjected to is own cost – benefit analysis. The announcement by the Chancellor in the March 2006 Budget, of a further review of small-business support to be undertaken by the DTI (which was reinitiated in June 2007) (DTI, 2007), suggests that there is a major opportunity to tackle some of these difficult questions and to more fully address where business support is most needed in Britain.

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