

**BERR** | Department for Business  
Enterprise & Regulatory Reform

**BUILDING A NEW ENTERPRISE  
FRAMEWORK**

Progress Report

DECEMBER 2007 - URN 07/1724

## Foreword

I am pleased to introduce this update on our progress in refreshing the UK's enterprise policy framework to meet the challenges of the next ten years.

The *Government Action Plan for Small Business* (2004) set out what we intended to do to address barriers to enterprise. Good progress has been made in a number of key areas, for example in developing the climate for start up.

However, the next ten years will be critical for the country, not just in terms of remaining competitive but in taking advantage of the opportunities globalisation offers. We must not be complacent. It is time therefore to take stock, to consider whether our enterprise policy objectives are the right ones and see what our new goals should be – to stand the test of the next ten years.

I am determined that we should be as open as possible in going about our task of refreshing the enterprise framework. Accordingly, this autumn Stephen Timms and I have conducted a series of enterprise road shows in order to really reach out and hear what businesses' concerns are. I have been delighted by the level of response and am extremely grateful for the many extremely constructive suggestions and ideas which have been received – and for the time and effort you have all given so readily.

I am keen to keep the dialogue going and this progress report is one way of doing so. You are therefore warmly invited to send any further suggestions you may have using our dedicated website for this exercise:

[www.buildinganewenterprise.co.uk](http://www.buildinganewenterprise.co.uk)

I very much look forward to keeping in touch as we go forward towards producing a new enterprise framework in the spring.

JOHN HUTTON

## **An overview of progress**

In 2004 the Small Business Service published 'A Government Action Plan for Small Business'. The sub title was 'Making the UK the Best Place in the World to Start and Grow a Business'. As the title might suggest, this document set out a cross government plan for stimulating and supporting enterprise and helping business to overcome barriers to growth. Three years on, the Government has made good progress across a range of key drivers for economic growth, improved productivity and enterprise for all.

However, the pace of change across the world is relentless and the competition is intensifying. This country needs to consider very carefully how it positions itself in order to build and capitalise on its comparative advantages. 'New' economies are emerging and we may potentially be bypassed by fitter competitors if we do not prepare properly. Small businesses and our inherent capacity for innovation and enterprise are this country's great strengths; we need to make much more of them.

### Growth

To maximise the potential of our entrepreneurs and SMEs we need to do more to encourage SME growth. Our SMEs currently make a significant contribution to the UK economic well being. There are 4.5 million SMEs (700 thousand more than in 2000); employment in SMEs has grown by 1 million (8%) since 2000 employing 13 million (59%) of the total private sector workforce; and they contribute as much as large business to UK output (50% of Gross Value Added) and turnover (52%). Critically, we have seen that small firm productivity growth has exceeded that of large firms (1998-2004).

Clearly, SMEs' role in the UK economy and the country's overall competitiveness is vital. But despite very positive signs and good indicators of productivity growth our SMEs have more potential to realise. Setting ourselves in the context of our international competitors the UK does very well in Europe but we fall short of US levels of SME growth – specifically high growth.

For example, OECD data describing the proportion of businesses with a sustained *high growth* rate is presented in the table below. The UK has the highest rate in Europe, but this is lower than that achieved in the US.

Country	High growers (%)
France	2.09
Germany	1.23
Italy	2.43
Japan	2.24
<b>UK</b>	<b>5.80</b>
US	8.14
Source: OECD 2006	

High Growth Businesses (percentage of all businesses achieving 60 per cent turnover growth over a three year period)

Similarly, a comparison of the distribution of size of UK and US SMEs indicates that we have more to do to grow our firms. Of firms with employees, the UK has 10 per cent more in the very smallest category, but a smaller proportion in every other category.

Size distribution of businesses		
Firm size (employees)	UK % of firms	US % of firms
1-4	65	55
5-9	18	20
10-19	10	12
20-49	5	8
50-99	1.5	2.5
100-499	1.1	1.7
500+	0.3	0.4
Source: UK 2002 source: SBS SME Statistics. USA 2002 source: Final Estimates of Business Ownership for All U.S. Firms Company Summary		

Accordingly, we should aspire to meet the same level as the US's better performance in terms of SME growth, especially high growth, if we are to ensure that we close the US/UK productivity gap and, over the next ten years, strengthen our place on the global economic stage as an economic, entrepreneurial and innovative power-house.

The US is setting the benchmark for our SMEs. There is no single silver bullet that Government can offer to encourage our SMEs to grow even more, and encourage our entrepreneurs to set themselves even higher targets of business growth and success. That is why a framework of different policies will be essential.

Developing a new Enterprise Framework

With our economic interests in mind, our aim is to refresh the enterprise framework so that for the next ten years we facilitate the best possible conditions for small businesses to build their capacity and capability for growth (increasing the likelihood of firms increasing trade and taking on employees and taking informed risks). But such policy development requires active engagement with small businesses, with their representative bodies and within government.

Accordingly, over the last few months, John Hutton, Secretary of State for Business Enterprise and Regulatory Reform and Stephen Timms, Minister of State for Competitiveness, have led a series of events and 'road shows' designed to offer the SME community the opportunity to help shape policy at its earliest stages of development.

Engagement began in earnest with a meeting to discuss enterprise policy at Number 11 Downing Street. The Chancellor of the Exchequer Alistair Darling, John Hutton, Stephen Timms and twenty of the UK's successful business entrepreneurs attended to consider a discussion paper on enterprise and growth which explored the current economic context (a copy is available on the BERR website at: <http://www.berr.gov.uk/bbf/enterprise-smes/enterprise-framework/index.html>).



*Picture: Meeting of entrepreneurs with John Hutton, Secretary of State for Business Enterprise and Regulatory Reform, Chancellor of the Exchequer Alistair Darling, and Stephen Timms, Minister of State for Competitiveness – No 11 Downing Street, 20 September 2007*

There followed a series of regional events, one in each of the nine English Regional Development Agency areas. In addition we are holding similar

events focussing on women, the disadvantaged, young people and social enterprise. And there are plans to engage with Scotland, Wales and Northern Ireland.

So far Ministers have met over four hundred small and medium sized business owners and budding entrepreneurs and a range of useful ideas and suggestions has been received. Among the more resonant themes have been:

- Business support – specifically the need for simplification and coherence;
- The importance of ‘better regulation’;
- The importance to SMEs of having access to appropriate forms of finance;
- The importance of fostering an enterprise culture among young people in schools and universities;
- The challenges faced by businesses wishing to expand into international markets;
- How government R&D contracts can help firms grow – a point picked up in Lord Sainsbury’s recent report on Government Science and Innovation policies;
- The need to promote business mentors, networking and knowledge transfer with other entrepreneurs, with universities and with investors;
- Realising the potential of women entrepreneurs, and others currently under-represented in terms of starting and growing their own businesses.



*Picture: Young Peoples’ Enterprise Workshop – London, November 2007*

Having completed the round of meetings with business we are now involved in a detailed consideration of the output from the road shows. In parallel, to

guide this work, we have also been examining the detailed economic and statistical evidence base to inform policy development.

### **The importance of enterprise**

Entrepreneurship, whether expressed through start-up activity or the dynamism and growth of established businesses, plays a central part in the UK's economic success.

There are clear signs that the UK's small business sector is more dynamic than it was seven years ago and that this has been important in narrowing the productivity gap with our international competitors.

Cultural attitudes to enterprise and business start-up are improving, especially amongst young people. All businesses, large and small, have benefited from a degree of economic stability that is envied by our international competitors.



*Picture: Bryan Gray Chair NWDA, Iqbal Patel Executive officer, Secretary of State John Hutton, Qassim Afzal Vice Chair EMBF NW, Yvonne Sampson Executive Office NWDA – Manchester 2007*

However, despite some positive developments, further progress in breaking down barriers to the growth of UK businesses and reducing disparities in entrepreneurial activity will be vital in ensuring that the UK maintains and

builds its competitiveness in the face of changes in both the intensity and composition of international competition.

## **Towards the new policy framework**

Evidence on enterprise issues, whether drawn from academic or statistical sources or the views of businesses across the country contributing to the recent road show events, offers some clear steers on where enterprise policy might be focused in the next 10 years.

A resounding message from the businesses attending the road shows was that government should be primarily concerned with creating an environment conducive to business success.

Currently, the United Kingdom is ranked number 6 out of 178 economies by the World Bank for the ease of doing business. Business would like this relatively good position maintained and improved upon in some areas. Key issues of concern to business include:

- Assistance available to support those looking to start and grow businesses involving new innovations, high tech sectors or in emerging markets;
- The importance of business support being easily accessible and appropriate to the various stages of business growth;
- A fair and transparent regulatory environment;
- The access to finance market and how it is operating to enable start-up and growth.

Despite the growing contribution to the economy from many new and small businesses, there are several areas where more progress might be made. There was widespread support from businesses we consulted for policies concerned with developing a more entrepreneurial culture. There was also a realisation of the potential contribution of those groups currently under-represented in terms of enterprise. Particular issues highlighted were:

- The importance of culture for enterprise across the UK in terms of business performance.
- Women's enterprise as a source of closing the enterprise gap with the US.

## **Next steps**

In order to develop our policy further, we are now reflecting carefully - weighing the evidence and the views expressed by business at the road shows.

Given the cross cutting nature of enterprise, in developing the new framework, BERR is working closely with other government departments and agencies, for example the Treasury, Department for Innovation Universities and Skills (DIUS), Department for Communities and Local Government (DCLG), Department for Work and Pensions (DWP) and the Regional Development Agencies (RDAs). Other Departments are bringing forward strategies (for example DIUS is preparing an innovation strategy) or are involved in reviews (such as the Business Support Simplification programme, the joint review of sub-national economic development and regeneration led by HMT, DCLG and BERR) and it is essential that we engage in 'joined up' government in order to achieve the maximum policy impact and coverage.

We anticipate bringing forward the new Government framework for enterprise policy in the spring. In the meantime, if you have any comments or suggestions you are invited to post them on the website [www.buildinganewenterprise.co.uk](http://www.buildinganewenterprise.co.uk).

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