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**UNDERSTANDING GROWTH IN  
MICROBUSINESSES**

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## **Report by**

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The views and interpretations expressed are those of the authors' alone and do not necessarily reflect those of BIS or Government.

# Contents

<b>Executive Summary</b> .....	<b>i</b>
<b>1 Introduction</b> .....	<b>1</b>
1.1 Background.....	1
1.2 Aims and objectives .....	1
1.3 Methodology .....	2
1.4 Report structure .....	4
<b>2 Baseline evidence and literature review</b> .....	<b>5</b>
2.1 The specificity of microbusinesses in relation to growth .....	5
2.2 Capacity and organisational structure.....	5
2.3 Responding to the external environment / market .....	6
2.4 Limits on owner/manager vision .....	6
2.5 Barriers to growth.....	7
2.6 Businesses with no employees.....	7
2.7 Stages of growth .....	8
<b>3 Profile of achieved sample</b> .....	<b>9</b>
3.1 Profile of businesses.....	9
3.2 Profile of owners/managers .....	13
<b>4 Growth patterns</b> .....	<b>16</b>
4.1 Growth trends amongst businesses with 0-9 employees – employment.....	16
4.2 Employment or sales growth (2010-12).....	19
4.3 Substantive growth ambitions .....	19
4.4 Characteristics of owner/manager, growth and growth ambition .....	21
4.5 Summary.....	23
<b>5 Specific obstacles to growth</b> .....	<b>25</b>
5.1 Top-level obstacles to business growth .....	25

5.2	Reasons for not wanting to grow the business in the next three years – unprompted ....	26
5.3	Specific challenges related to cashflow .....	28
5.4	Specific challenges relating to raising finance .....	31
5.5	Specific challenges related to regulations.....	34
5.6	Specific challenges related to taxation.....	35
5.7	Specific obstacles related to taking on employees .....	40
5.8	Vision constraints.....	46
5.9	Capacity constraints.....	48
5.10	Non-employing businesses with multiple owners and One Person Businesses (OPBs) .	49
5.11	Summary.....	50
<b>6</b>	<b>Categories of constrained businesses .....</b>	<b>52</b>
6.1	Introduction .....	52
6.2	Aggregated barriers .....	52
6.3	Pattern of constraints .....	55
6.4	Relationship between constraints, growth and ambition.....	59
6.5	Summary.....	60
<b>7</b>	<b>Myths commonly held by very small businesses .....</b>	<b>62</b>
7.1	Introduction .....	62
7.2	I am not a business.....	62
7.3	I can't grow in a recession .....	63
7.4	It's difficult to find the right person to employ and I haven't got time to look for them.....	64
7.5	Taking on employees is too complex and too fraught.....	66
7.6	Taking on employees is too risky and too costly.....	67
7.7	The market is too limited in my area .....	68
7.8	I need finance to grow but banks won't lend and there's no alternatives.....	69
7.9	I don't have any options to control cashflow .....	70

7.10	There's no point in networking or seeking external advice .....	72
7.11	If I grow any larger, the regulatory burden would be too heavy for me to cope with.....	73
7.12	Conclusions .....	74
7.13	Comparison of 2006 and 2013 myths .....	75
<b>8</b>	<b>Conclusions.....</b>	<b>77</b>
8.1	Policy Considerations .....	78
<b>Bibliography .....</b>		<b>80</b>
<b>Appendix 1</b>	<b>Telephone survey .....</b>	<b>84</b>
<b>Appendix 2</b>	<b>Focus Group Discussion Guide .....</b>	<b>124</b>
<b>Appendix 3</b>	<b>Myths from 2006 report.....</b>	<b>128</b>
<b>Appendix 4</b>	<b>Baseline evidence and literature review .....</b>	<b>129</b>
<b>Appendix 5</b>	<b>Explaining the construction of the constraint categories .....</b>	<b>145</b>
<b>Appendix 6</b>	<b>Defining substantive ambition .....</b>	<b>149</b>
<b>Appendix 7</b>	<b>Tables on One Person Businesses (OPBs) and non-employers with multiple owners .....</b>	<b>150</b>

# Executive Summary

## Introduction

This research report advances the evidence base on the factors that affect the performance and growth of very small businesses (those with 0-9 employees). Recent academic thinking in this area has moved beyond simple analyses of business characteristics to develop more powerful explanatory models that incorporate the values, beliefs and aspirations of business owners. Therefore, as well as describing patterns of growth and the more concrete factors that affect these this report also considers the mindsets of owners and their beliefs about growth.

## Objectives

In order to achieve its aims this research project sought to:

- i. Identify the specific obstacles to growth that affect very small businesses and consider how they differ to those experienced by larger businesses.
- ii. Assess why and how these obstacles are problematic for growth in very small businesses.
- iii. Assess the extent to which these obstacles are based on misperceptions or misinformation.

Ultimately the project seeks to identify a rationale for policy development in this area and assess any policy options that might be used to encourage and enable very small businesses to achieve higher levels of growth.

## Method

The research involved three inter-related sequential elements. A literature review informed the development of the telephone survey by showing how psychological factors can serve to limit business owners' appetite for and approaches to growth. A further key theme in the literature relates to the distinctiveness of non-employing businesses, especially one person businesses (OPBs).<sup>1</sup>

Following the literature review, a 25 minute telephone survey was conducted during October and November 2012 involving 1,000 microbusinesses; 325 with no employees, 398 with 1-4 employees and 277 with 5-9 employees. The survey collected information on business and owner demographics, growth performance and ambitions, internal capacities and capabilities as well as views on obstacles to growth faced by their business and steps taken to attempt to overcome these constraints. The information collected led to the construction of an index of 31 obstacles associated with a range of material factors as well as the mindsets of the business owners. These data were analysed to define three distinct types of constraint - Vision, Capacity and Market.

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<sup>1</sup> One person businesses are characterised by having only one owner, differentiating them from other non-employing businesses that may have two or more owners or partners working together.

Finally, eight focus groups of business owners were conducted to explore myths or misperceptions associated with growing a business. In particular, these groups were used to contrast the experiences and mindsets of businesses that had and had not grown.

## Research findings

### Patterns of growth

- This study looked at the growth history of businesses with 0-9 employees in October / November 2012. Changes in employment and turnover were gathered for four census points – the present, two years previous, five years previous and at start-up for businesses over five years old.
- The findings show that growth out of the sole trader category was very limited. Only five per cent of non-employers in 2007 increased employment over the five year period to 2012, whereas 20 per cent of 1-4 employers did so over the same period.
- Although non-employers were very unlikely to have taken on employees one in four had experienced sales growth in the five years to 2012.
- A quarter (26 per cent) of businesses with no employees in 2012 had (at some point since start-up) previously employed staff within that business.

### Specific challenges associated with growth

- The proportions of microbusinesses identifying obstacles to business *growth* were not dissimilar to the conventional obstacles to business *success* reported in the Small Business Survey (SBS) 2012 with the economy, competitions in the market, cashflow, regulations, taxation and access to finance emerging as the most prevalent.
- As the size of the microbusiness increased the more likely they were to report any of the conventional issues presented to be an obstacle to growth. This might indicate that the smallest microbusinesses do not see these issues as relevant as further evidence shows they are less likely to be actively seeking growth.
- When asked an unprompted question, very few microbusinesses not wanting to grow cited any of the 'conventional' issues mentioned above. The most common reasons for not wanting to grow the business were not enough business available and satisfaction with being the same size (around three in ten businesses in both cases).
- Non-employers were much more likely to cite specific challenges around taking on a first employee than employers considering this step in hindsight. The difference was greatest in terms of the perception that taking on staff is associated with increased risk, cost and time commitment.
- Employers and non-employers were more aligned in terms of considering that finding the right person was the biggest challenge to taking on staff (73 per cent of businesses with no employees and 62 per cent of those with 1-4 staff).
- Almost half of businesses not registered for VAT (47 per cent) considered it would be difficult or very difficult to operate their business if they crossed the VAT

threshold compared to 13 per cent of registered businesses considering this step in hindsight. Unregistered businesses also viewed the adverse effects of VAT to be excessively high.

### Businesses with no employees

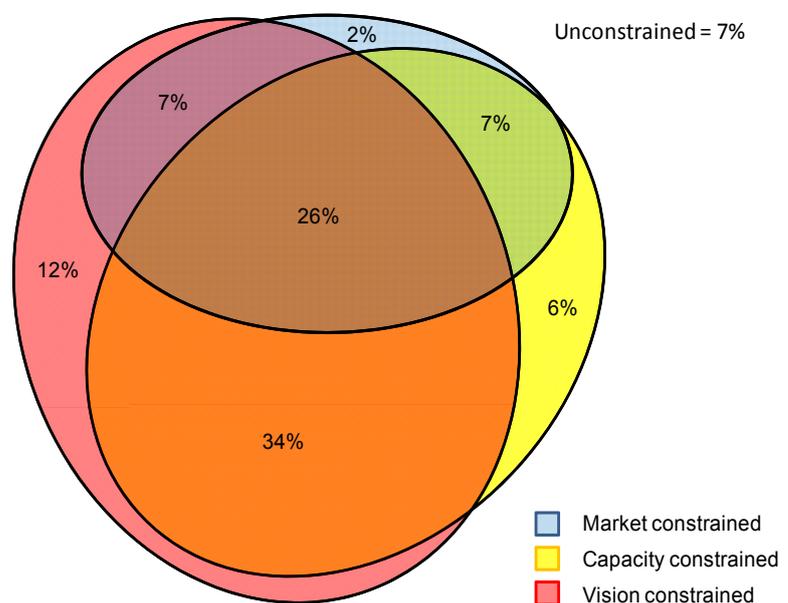
- Non-employers are a distinct category; typically more constrained with substantially lower rates of growth and growth ambition than microemployers. One person businesses (OPBs) were a subdivision of this group which reported an even greater set of obstacles and less historic growth and lower ambition.
- Non-employers typically perceive growth to be more difficult than do employers. For example, in terms of recruitment non-employers were much less likely to view the process to be very easy (22 per cent compared to 51 per cent of employers) and judged non-wage recruitment costs to be much more expensive (£17,000 versus £7,000).
- Eight per cent of non-employers report that they had tried to recruit in the previous two years.
- Non-employers were susceptible to the myth 'I am not a business'; a perception that is closely associated with a disinclination to recruit staff. A key demarcating factor between self employment and 'being a business' was the issue of responsibility for something other than their own income e.g. staff, premises, overheads.
- The literature review also showed that businesses that start for personal reasons, such as to preserve employment or exploit a skill, are generally found to be less likely to employ staff. The more 'serious' a one person business is at start-up, the more likely it is to grow (Rissman, 2006). 'Seriousness' is defined as having more assets, investment etc. and a stronger growth ambition. Désiage *et al* (2011) found that micros starting with at least one employee were more likely to grow, and the longer businesses employed no one the lower the probability of recruiting.
- Non-employing businesses were more likely to report having no obstacles to growth. However, it is clear that in large part this is because they are less ambitious and obstacles associated with growth are not relevant to them.

### Capacity, Market and Vision Constraints to Growth

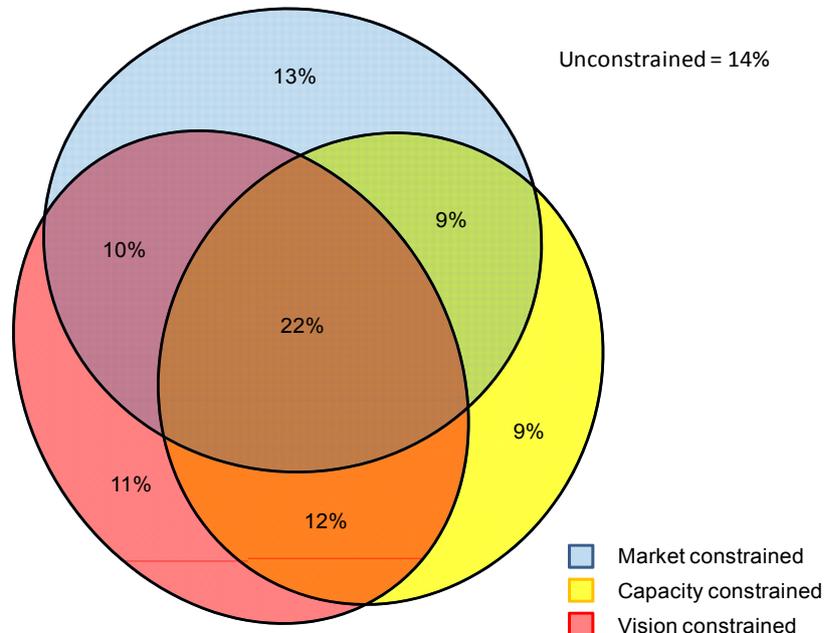
- Evidence from the review of the literature indicated that obstacles relating to the internal mindsets or vision of the business owner and their capacity to deal with external obstacles in the business environment were as important as the external factors themselves. This study confirmed this to be the case and that the mindsets of business owners are explicitly linked to their desire and propensity for growth.
- The individual obstacles considered in this research were analysed and aligned to clusters based on perceived and actual constraints to do with the **capacity** of the business to grow, the external environment including the **market** and the **vision** of the owner and their attitudes towards growth. Combining the obstacles in this way provides a better predictor of achieved growth and growth ambition than narrower measures.

- The analysis revealed that vision constraints were prevalent for 72 per cent of businesses, while capacity constraints applied to 67 per cent and market constraints to 45 per cent of micros.
- Businesses' alignment with the categories was related to business size with non-employers more likely to be subject to vision and capacity constraints; while employers (particularly those with 5-9 staff) were more likely to be subject to market constraints.
- The three categories and their interactions are described in the Venn diagrams below showing results separately for businesses with 0, 1-4 and 5-9 employees. The figures show that the smaller the business the more likely they are to be constrained by more than one category. These patterns are potentially very informative, not least because they define which businesses are multiply constrained and therefore very unlikely to achieve growth, and which only face one type of constraint and thus more likely to be capable of readily achieving growth.
- These analyses highlight limits to the effectiveness of initiatives that focus on specific factors. For example, initiatives that seek to improve businesses capacities alone are only likely to impact on the six per cent of microbusinesses that are only constrained in this area. For the remaining 94 per cent of businesses, these measures might be necessary but they are not sufficient in themselves to actually improve performance and create growth. Indeed, given the very small proportions of microbusinesses constrained in just one category, these findings suggest that effective interventions need to be holistic and multi-dimensional. Smaller businesses in particular require such compound interventions.

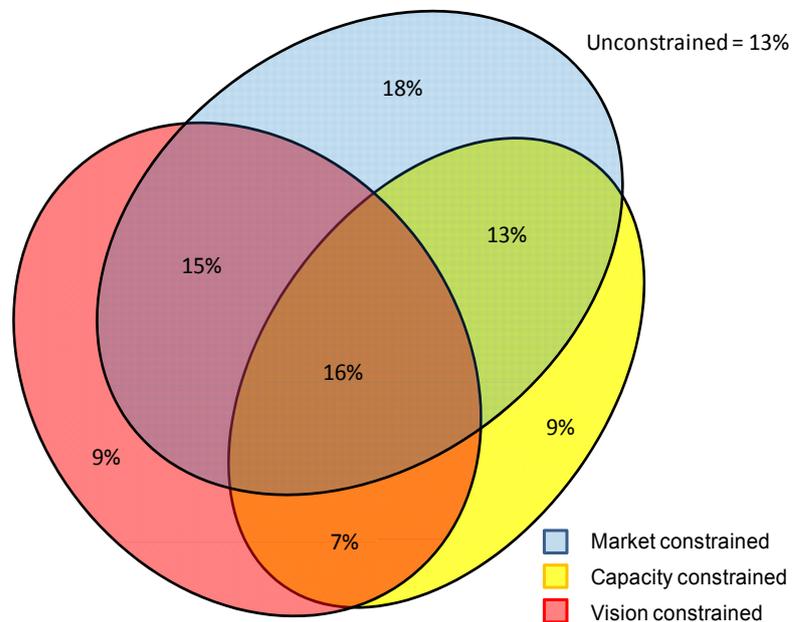
**Venn diagram of constraints – businesses with 0 employees**



### Venn diagram of constraints – 1-4 employees



### Venn diagram of constraints – 5-9 employees



## Myths

The focus groups provided an opportunity to develop a greater understanding of the perceptions and the mindsets of businesses in terms of how they view and seek growth. A set of ten myths were distilled from the evidence gathered in the focus groups. The growth of a wide cross-section of microbusinesses was being held back by these myths. The myths overlap to a certain extent and are underpinned by a reluctance to plan, strategise or develop the business and a focus on working *in* rather than *on* the business. The ten commonly observed myths were:

- *I am not a business*
- *I can't grow in a recession*
- *It's difficult to find the right person to employ and I haven't got time to look for them*
- *Taking on employees is too complex and too fraught*
- *Taking on employees is too risky and too costly*

- *The market is too limited in my area*
- *I need finance to grow but banks won't lend and there's no alternatives*
- *I don't have any options to control cashflow*
- *There's no point in networking or seeking external advice*
- *If I grow any larger, the regulatory burden would be too heavy for me to cope with*

## Policy Considerations

A number of considerations for policy development stem from the research findings, some relate to the messaging of growth and the receptivity of microbusinesses to these messages, while others relate to the mode of delivery and the sequencing of interventions.

### 1. Changing norms

A theme throughout the research, from the literature, the survey and especially the focus groups shows that the predisposition of businesses is an innate, often unconscious set of beliefs, that tends to resist growth for a variety of reasons. For many businesses progress can only be made by first shifting the present set of beliefs, in order to open the business up to improvement freed from exaggerated fears surrounding growth so that a better run business may emerge. For these businesses, growth is unlikely until these mindsets are changed. This provides an important context and commentary on the potential effectiveness of more focussed policy measures. However, it also defines a new and potentially very influential strategy for policy.

The key here is changing the focus and perspective of the owner, so that they become open to devoting time and effort to working *on* the business, rather than *in* the business. Fundamentally, changing the business owners' mindsets is the gateway to opening up further aspects of engagement and developing capacity.

- It is far from clear that simply telling business owners that their perceptions are misguided or providing them with factual information would be effective. What is needed may well necessarily be more subtle than this.
- One method of changing norms would be through messages aimed to dispel myths and create new norms. Such messages can be broadcast to microbusinesses (which may not be looking for them) through a variety of outlets including new media (Facebook, Twitter, Linked-In etc), and old media (TV, newspapers, leaflets etc).
- A further method of changing norms is through encouraging more networking and greater exposure to different perceptions and beliefs. For example, consideration could be given to automatically enrolling all businesses in their local Chamber of Commerce as is already done in some European countries. This might well provide for increased networking and engagement with growth-orientated businesses and could prove transformational for those businesses which hold innate and parochial mindsets that prejudice them against growth.
- Not least because the constrained and constraining mindsets of many business owners are innate and unrecognised, there may be considerable merit in developing a diagnostic tool that would encourage business owners to critically

review their established mindsets. Such messaging could in turn act as signposting towards mentoring support, orientated towards resolving aspects of management deficiency and providing the means to realise the idea of working on the business, rather than in it.

## **2. Delivery of management development: market segmentation**

The development of a classification scheme based on the categories defined in this research may well be more useful than one based on specific obstacles. Not least because it would highlight the common and important overlaps between different types of constraint.

Identifying and classifying the extent to which very small businesses are constrained by their vision, capacity or external environment offers a means to efficiently and accurately segment businesses for support. The analyses developed in this study indicate which constraints are likely to be most prevalent. Using these findings to target intervention more effectively can improve the efficiency of policy and make the interventions concerned more relevant and more effective.

## **3. New business start-ups**

Certain types of business are likely to be more growth-orientated from the outset than others, suggesting that efforts could be made to encourage growth amongst specific types or forms of start-up. The initial conditions and motivations for start-up can prove crucial in determining the likely growth path; the more 'serious' a start-up, the more likely it is to grow subsequently; while more informal, 'lifestyle' start-ups are likely to remain (very) small. 'Seriousness' is reflected by a larger size at the start (investment, assets etc.) and higher levels of ambition. Those starting with even one employee or in a partnership arrangement enjoy higher growth, as do owners with more management experience. The key point here is that analysis needs to go beyond conventional categorisations based simply on business demographics such as business sector.

## **4. Tax designations for small businesses and the self-employed**

The research suggests that belief in the myth that 'I am not a business' can be reinforced by interactions with government, principally HMRC. If individuals operate as self-employed under the National Insurance scheme their self-employment status aligns them more closely with employment, rather than as a business – and therefore they may be less likely to perceive themselves as running a business. At present the principal official (and perceived) identifier of a business is often the VAT number – i.e. the point at which the government is seen to regard or treat you as a business. It may be possible to reflect a different message with the intention to alter mindsets and nudge behaviour by registering all enterprises as businesses. We would advocate more research in this area.

# 1 Introduction

## 1.1 Background

BIS has commissioned this research to develop its evidence base on the factors that affect the performance and growth of very small businesses, i.e. those with 0 to 9 employees.

Although we have a good understanding of the barriers to growth in SMEs more generally, our understanding of the specific issues facing very small businesses and their motivations and capacity to deal with them is less substantial. Indeed, the broader academic literature sheds little light on the subject, especially in the area of one person businesses.

A number of BIS reports provide evidence on obstacles amongst SMEs and the ways in which these influence attitudes, ambition, business performance and growth. See for example the Small Business Survey<sup>2</sup>, English Business Survey<sup>3</sup>, Business Perceptions Survey<sup>4</sup>, Regulation Surveys<sup>5</sup> (including with micro-businesses<sup>6</sup>) and BDRC Continental's Access to Finance study<sup>7</sup>. This evidence shows that reported obstacles to business growth and their effects vary by size band. This study is intended to inform policy development in BIS by acquiring a more nuanced understanding of how microbusinesses themselves vary by size and crucially to develop a more powerful explanatory model which incorporates the motivations and mindsets of the owners of very small businesses and indeed bring owners more to the fore, rather than business characteristics. This policy development would examine whether segmentation of very small businesses is possible and whether different policies are appropriate for different audiences, in terms of the type of intervention and how they might be reached.

This work builds on a previous study undertaken for the department *Myths Surrounding Growing a Business* (BIS, 2006)<sup>8</sup>.

## 1.2 Aims and objectives

The aim of the project is to provide evidence to inform decisions about whether there is a case for policy development to encourage and support growth in very small businesses and, if so, what policy measures are likely to be appropriate and effective.

In order to achieve its aims this research project sought to:

- i. Identify the specific obstacles to growth that affect very small businesses and consider how they differ to those experienced by larger businesses.

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<sup>2</sup> [www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010](http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010)

<sup>3</sup> <https://www.gov.uk/government/organisations/department-for-business-innovation-skills/series/english-business-survey>

<sup>4</sup> [www.bis.gov.uk/assets/biscore/better-regulation/docs/b/12-p145-business-perceptions-survey-2012-report.pdf](http://www.bis.gov.uk/assets/biscore/better-regulation/docs/b/12-p145-business-perceptions-survey-2012-report.pdf)

<sup>5</sup> [www.bis.gov.uk/analysis/economics/other-economic-reports](http://www.bis.gov.uk/analysis/economics/other-economic-reports);

<sup>6</sup> [www.bis.gov.uk/assets/biscore/better-regulation/docs/l/10-1251-lightening-the-load-regulatory-impact-smallest-businesses](http://www.bis.gov.uk/assets/biscore/better-regulation/docs/l/10-1251-lightening-the-load-regulatory-impact-smallest-businesses)

<sup>7</sup> [www.sme-finance-monitor.co.uk/](http://www.sme-finance-monitor.co.uk/)

<sup>8</sup> [www.bis.gov.uk/files/file39401.doc](http://www.bis.gov.uk/files/file39401.doc)

- ii. Assess why and how these obstacles are problematic for growth in very small businesses.
- iii. Assess the extent to which these obstacles are based on misperceptions or misinformation.

Ultimately the project seeks to identify a rationale for policy development in this area and assess any policy options that might be used to encourage and enable very small businesses to achieve higher levels of growth.

### 1.2.1 Key research questions

To meet these aims the research was designed to answer some key research questions:

- To what extent do specific obstacles disproportionately affect very small businesses and inhibit growth? For example, in relation to regulatory thresholds administrative burdens, access to finance etc.
- To what extent do the constraining effects of the obstacles identified reflect (a) the nature of the obstacles themselves, (b) the limited capacity of very small businesses to deal positively with issues identified and (c) motivational drivers for surmounting those obstacles?
- To what extent and how frequently are the obstacles identified exaggerated or misunderstood by very small businesses.
- Are there distinct typologies of very small businesses that are subject to particular sets of obstacles?
- To what extent are the obstacles identified already addressed by existing policy measures (e.g. temporary increase of Small Business Rate Relief (SBRR)<sup>9</sup>).
- How might communication with SMEs be improved to help overcome both actual and perceived barriers to business growth?
- How might policy develop to meet the needs of very small businesses? Is there a rationale for policy development in this area and, if there is, what policy options are available and potentially effective?

## 1.3 Methodology

There were three inter-related and sequential elements involved in this research. Firstly, the researchers surveyed the literature concerning very small businesses and their growth and used this evidence to inform the development of the questionnaire, including the inclusion of specific questions where prior research had already established there being some relationship (e.g. size at business foundation influencing subsequent growth). Secondly, the research team conducted a quantitative survey with 1,000 businesses asking about the obstacles they faced, and the effects of these obstacles on their business. Thirdly, the researchers conducted a series of eight focus groups across England where businesses were given the opportunity to explain narratives that joined up their thinking on business growth, within the structure of questions concerning obstacles and myths indicated by the questionnaire and the literature review. The focus group evidence reported to Lord Young's policy officials to ensure the findings would inform the

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<sup>9</sup> <https://www.gov.uk/apply-for-business-rate-relief/small-business-rate-relief>

drafting of his report.<sup>10</sup> The purpose of the questionnaire was to give a more robust quantitative indication of the prevalence of obstacles, whereas the focus groups could explore and probe issues in dialogue with the businesses in a semi structured format.

### 1.3.1 Quantitative survey

Following the literature review a 25 minute telephone survey was carried out by IFF Research during October and November 2012. The questionnaire was developed using standard survey questions from BIS's Small Business Survey (SBS) to provide standard profiling metrics and reframing some of the standard obstacles questions so they related to business growth, rather than simply normal trading. Further questions were developed which unpacked some obstacles in more detail to find out more precisely why they were an obstacle, as well as what businesses had done to improve matters. Some questions emerged directly as a result of the literature review, such as those relating to the size of the business when it started, as well as the inclusion of those questions concerning mindsets. Other questions were posed so as to contrast those with little or no experience of growth, with those that had grown, in order to determine whether the lived experience differed from expectations.

The first module of the questionnaire covered business characteristics, importantly asking about the size of the business when it started, in 2007 and 2010, as well as 2012 to provide census points to measure business growth. The next section covered the growth ambitions of the business, with a view to defining those with a more substantive ambition and designed in such a way as to be compatible to the recent BIS study of growth ambitions. This was followed by a section on the internal capabilities of the business, before moving on to the obstacles to business growth and the steps taken to overcome obstacles. Respondents were then asked a series of questions about their awareness and use of measures designed to support small businesses, before concluding with sections on the motivations and mindsets and demographics of the owner. The questionnaire is shown as Appendix 1.

A total of 1,000 interviews were conducted with microbusinesses across England, with the aim of having a broadly representative sample by geography and business sector. The sample were drawn from Dun & Bradstreet data. The only criteria where there was a strict quota was with respect to size. The achieved sample is shown in Table 1.1 and shows a sufficiently large number of businesses in each category to provide some confidence of estimates produced for each of these categories. A two-way size-by sector weighting variable was then created (four size bands crossed by six sectors), so that the sample results could be converted into results more generally applicable for the microbusiness population as a whole. All results are weighted unless otherwise stated.

**Table 1.1 Age of business and size**

	<b>Sample frame</b>	<b>Weighted numbers</b>
0 employees	325	748
1-4 employees	398	196
5-9 employees	277	56
<i>Total sample</i>	<i>1000</i>	

<sup>10</sup> <https://www.gov.uk/government/publications/growing-your-business-a-report-on-growing-micro-businesses>

### 1.3.2 Focus groups

Eight focus groups were held around England, each with 8-10 participants (all business owners). Like the survey it was decided to stratify by employment size to ensure homogeneity within individual groups and better establish whether there were key differences by size. Three focus groups consisted of owners of businesses with 1-9 employees. Three groups consisted of businesses without employees. The remaining two groups consisted of owners of businesses with 10-19 employees, reflecting on obstacles to growth they faced when smaller, and how they overcame them. The eight sessions all took place in October 2012.

The discussion guide for the groups was developed in conjunction with the steering group and the development of questions was initially based on the final myths assembled as part of the 2006 *Myths Surrounding Growing a Business* report, and further informed by the literature review and quantitative survey.

The aim of the focus groups was to explore in depth business owners' views on growth, including how they conceptualise growth, perceived barriers, the consequences of growth for their business and their personal circumstances and evidence of mindsets among owners which may restrict their potential business growth. In particular, the focus groups sought to uncover 'myths': assertions about growth which were not correct and/or which served as a rationalisation or defence of their desire not to grow.

The sessions started with an introductory session exploring the view of growth in the present economic circumstances, then moved on to a set of 11 questions concerning the impact of growth on the business (business planning, investment finance, recruitment etc), followed by a set of five questions covering the perceived obstacles (risk of failure, regulation, taxes etc.). A copy of the discussion guide is attached at Annex B.

## 1.4 Report structure

Section 2 provides a review of the present understanding of the growth of very small businesses and also summarises some of the key literature in the field of explaining the growth of very small businesses. This is followed by a short section (Section 3) profiling the businesses participating in the quantitative research and a further section (Section 4) profiling the businesses and their historic growth patterns and future growth intentions. Section 5 considers the obstacles faced by very small businesses and the effects they have on business growth. Section 6 gathers together the obstacles in aggregated bundles associated with particular constraints (vision, capacity, market). Section 7 develops a new set of myths from the earlier *Myths Surrounding Growing a Business* report, based on evidence gathered in the focus groups. Section 8 presents the conclusions of the report.

## 2 Baseline evidence and literature review

A review of the literature on obstacles to growth for very small businesses was undertaken to help inform the focus of this research project. This chapter provides a summary of that review. Further detail is provided in Annex 4.

### 2.1 The specificity of microbusinesses in relation to growth

Data from the SBS (2010) indicates that smaller businesses generally tend to be less dynamic and more likely to remain the same size than larger businesses and the smaller the firm the stronger this tendency. A BIS study of growth ambition (2012) found only 22 per cent of SMEs overall had a substantive ambition to grow. The study also finds that SME owner/managers are much more likely to conceptualise growth in terms of turnover or profit (33 and 29 per cent of SMEs respectively) than employment (only 6 per cent of SMEs). In fact more than half of SMEs surveyed (52 percent) believe it is overly risky to try to grow their business by recruiting additional staff.

Despite an overall shortage of focused research, some broad themes emerge from the growth literature on very small businesses: (i) issues internal to the firm, including capacity and capability; (ii) the external environment, including the market(s) in which they operate; and (iii) limits imposed by the vision and characteristics of owner/managers – their personality, aspirations, mindset etc; and (iv) how the firm transforms itself from one stage of growth to the next, what triggers and drives growth stages and the role played in this by management structures.

### 2.2 Capacity and organisational structure

Storey and Cressy (1995) argue that very small businesses tend to be more conservative and inclined towards incremental change, utilising informal, 'mental frameworks' of plans (Kuratko et al. 1999; Wyer 1997) rather than formal, strategic planning processes (Hall 1995).

Owner-managers of very small businesses often work at management and operational levels, developing strategy and making decisions with no separation of ownership and control. The organisational structure ensures they are in a position to acquire information directly, through personal experience, rather than relying on feedback (Greenbank 2000, Brady 1995), though there is also a tendency to combine informally-absorbed information with short-cut methods, in an intuitively-based approach to decision-making. This offers potential for greater flexibility and faster responses but is highly dependent on the characteristics of an individual owner-manager - his/her outlook, capacity and expertise. An owner-manager may hinder co-operation, learning and change, through top-down dominance that is difficult to challenge (Kelliher and Reinl 2009) and based on their own limitations.

In terms of developing or growing internal capacity Ekberg and Hedell (2011) found that the time to recruit and train staff was the most frequently reported barrier to growth

amongst very small businesses. SBS (2010) found that 1 in 5 businesses with one to four employees and 1 in 3 with five to nine employees regard recruitment as a problem. Reported skill shortages follow a similar pattern, most evident in relation to managerial skills and expertise - vital when it comes to challenging thinking and developing strategy. Micro-firms tend to employ staff with generalist skill sets rather than specialists (Simpson, 2001) and to believe their businesses could not utilise graduate skills (Pittaway and Thedham 2005).

## 2.3 Responding to the external environment / market

Given the 'liability of smallness' (Carroll 1983) a lack of power over their external environment can exacerbate the sensitivity of micro-businesses to market changes, contributing to short-term planning and a reactive approach, rather than a long-term strategic vision (Whaley and Preston, 2003). However, the literature raises questions about how appropriate and effective formal planning processes would be in practice for very small businesses, and whether characterising the way micros operate and behave as 'informal' is truly representative and captures the important subtleties. Indeed Wyer et al (2000) warn of the risk of over-simplifying the discourse and failing to represent 'the real degree of complexity' facing micro-firms accurately.

Wyer et al (2000) contend that the majority of change situations confronting micros in the wider competitive environment are open-ended (rather than closed and predictable); and that for very small businesses attempting to exert some degree of strategic control, there may even be inadequacies in systematic and rational planning-based management techniques. In fact Wickham (2001) argues that, rather than smallness acting as a 'liability', it typically leads to an intuitive strategy which offers very small businesses competitive advantage, based on tacit, localised knowledge and facilitating a tailored, rapid response to the market.

## 2.4 Limits on owner/manager vision

Research on the myths preventing SME growth (Allinson et al, 2005 & 2006) shows that microbusinesses are particularly susceptible to focusing on the negative aspects of size and of associating growth with an exaggerated prospect of failure. The strength of these negative perceptions means many do not explore growth in any depth, only considering 'more of the same' - the duplication of existing practices - rather than diversification or innovation. Compared to growers, non-growers are less likely to plan, and more likely to operate within fairly short time horizons. They tend to involve staff less and place greater emphasis on their own experience and ability, believing anything which takes them away from operational activity would impact negatively on profitability. Growing SMEs meanwhile are more liable to recognise and value the input of others. The owner-manager justifies lack of growth in terms of 'rational' concepts: limited access to finance, fewer economies of scale, lack of support, limited demand etc. drawing upon business and personal reasons for not growing. A combination of owner-manager and size-related characteristics (Wyer et al 2000) can form a growth-constraining 'habitus', a matrix of perceptions, appreciations, and actions *based not so much on reason as on socially-constituted dispositions.*' (Van House and Sutton 1996).

## 2.5 Barriers to growth

Parry (2010b) identifies barriers to growth based on the 'stories' owner/managers construct about their businesses, identifying three key themes with an underlying emphasis on control: a distinction between 'management' work and 'hands-on' artisan work; internal control requirements; and externally imposed business regulations. Parry (2010a) finds that the VAT threshold is the most important tax-related barrier to growth for a microbusiness; however, in general, the smaller the business the less likely they are to report external factors as obstacles (SBS 2010). The issue seems more likely to be related to capacity: the Better Regulation Executive (2010) reported a general feeling amongst micros of unfairness, that they face similar admin requirements, often perceived to be associated with regulatory requirements, to larger businesses but without enough staff resources. Bearing this out the Business Perceptions Survey (2012) found that the majority of micros do not employ staff to deal with compliance issues, and their capacity to find out about regulations, plus the skills and knowledge to interpret them for their own situation are limited, contributing to under or over compliance and unnecessary costs. Ekberg and Hedell (2011) also find that regulation is a barrier but less so for micros using external support and that age makes a difference: for young micros the challenges are mostly internal; while from two years onwards, perceived challenges are more likely to be external.

## 2.6 Businesses with no employees

Based on the SME Statistics for the UK and Regions 2012 there are 4.8 million enterprises in the UK, an increase of 253,000 on the 2011 figures. Despite recent tough economic conditions, the number of private sector businesses in the UK has risen in each of the past 12 years. This increase has largely come about because of a rise in sole traders – either working alongside other self-employed partners but not employing staff or alone as a One Person Business or OPB: some seventy-four per cent of all enterprises have no employees (BIS 2012). Much of the existing work on One Person Businesses (OPBs) concentrates on the role of self-employment as a driver of economic growth, either as a route out of unemployment or as the creator of job opportunities. Those that start for personal reasons – e.g. to preserve employment, to gain more control over work, to exploit a personal skill – are generally found to be less likely to grow and more likely to remain as OPBs.

Some businesses were never intended to grow – or indeed to endure; in the US Rissman (2006) finds that amongst young men in particular self-employment can be a highly fluid state, with substantial churn when people return to being an employee, when an opportunity presents itself and/or the economy picks up. This is confirmed by Korunka et al. (2011) who find that the more 'serious' an OPB start-up is, the more likely it is to grow, with 'seriousness' reflected by a larger size at the start (investment, assets etc.) and by ambitions for growth. Désiage et al. (2011) found that micros starting with at least one employee were more likely to grow, and that the longer an OPB remains an OPB, the lower the probability of hiring employees. This leads to a suggestion that OPBs have a 'protection' objective, with lower levels of human and financial start-up capital and smaller business-related networks than employer start-ups. The European Commission surveyed 4,000 OPBs across Europe (2005), the most common reason given for not hiring staff was being too small, with the owner seeing no way to increase sales sufficiently to take on an employee – although this may be a justification rather than a genuine reason (Parry, 2010a). Some 27 per cent stated that they could not find a suitably qualified employee; 36 per cent cited high non-wage costs; and only 11 per cent cited regulations.

## 2.7 Stages of growth

The relationship between internal factors and the external environment is tricky and the growth trajectories of very small businesses may well 'buck the trend': Acs et al. (2009) find that the USA 'non-employer' start-up rate is three times as high as employer start-ups but, whereas employer start-ups tend to be aligned with the business cycle, OPBs move countercyclically. Garnsey et al. (2006) find that new business growth amongst very small businesses is typically non-linear and subject to interruptions and setbacks, suggesting probable scenarios for a new micro: growth followed by a collapse in development; early growth stabilising relatively quickly; or (possibly indefinitely) delayed growth. Recent research in New Zealand (Smallbone and Massey 2012) reiterates this sporadic or 'typically discontinuous' growth pattern for micros, and how this increases the difficulty of identifying growth firms. Noting that this may be partly attributable to the vulnerability of micros to external changes, other reasons suggested include the highly individualised need for a micro to take stock in order (i) to restructure or reorient the business in response to the growth catalysts – to successfully 'transform' itself; (ii) to avoid 'excessive' growth due to internal risk aversion, or (iii) as a consequent change in the personal aspirations, objectives or outlook of the owner.

The interaction of these different factors produces very specific outcomes and responses and, within very small businesses, the structure incorporates little opportunity for mitigation. Smallbone and Massey (2012) found that most of the easily verifiable characteristics used to identify and target growth firms, such as size, sector, age, and whether or not the firm is exporting and/or innovating, did not distinguish growers consistently, and that they were in fact highly heterogeneous. This leads to the tentative conclusion that only a minority of very small businesses can be conceptualised as 'growth businesses' and the majority can more accurately be seen as having 'growth periods'. Furthermore, the literature suggests that it is difficult to predict which businesses are likely to fall into which category, when a growth period may occur and what might act as triggers – with implications for efforts to prioritise or tackle barriers. Aldrich and Yang (2012) suggest that many start-ups, although inspired by the prevailing culture of encouraging entrepreneurship, do not possess the correct 'toolkit' to establish a successful business (i.e. capable of growth), leading to high variability across start-ups. Improving the quality, size and 'seriousness' of start-ups at the outset emerges as one of the most promising ways to encourage growth.

## 3 Profile of achieved sample

This section profiles the businesses and the owners that took part in the quantitative telephone survey. As described in the methodology section, interviews were held with 1,000 microbusinesses – 325 non-employers, 398 businesses with 1-4 employees and 277 businesses with 5-9 employees. Results have been weighted back to reflect the wider population of very small businesses. Section 3.1 describes the businesses in terms of their employment, sector, age, legal status. Section 3.2 profiles the owners of the businesses, in terms of their age, gender, ethnicity, qualifications and the hours worked in their business, as well as their drawings from the business.

### 3.1 Profile of businesses

#### 3.1.1 Non-employing businesses and one person businesses

We know from BIS population estimates that seventy-four per cent of the business population comprise of businesses without employees<sup>11</sup>. However, it should be noted that there is a distinction between those non-employing businesses that work entirely by themselves as the classic one person business (OPB) identified in the literature review, versus those working alongside other owners.

The survey revealed that 54 per cent of non-employing businesses stated that they only had one owner therefore fitted the OPB definition, although some of the co-owners or partners in the remaining 46 per cent of businesses will be sleeping partners.

As non-employing businesses represent such a large proportion of the microbusiness population then special consideration is given to the OPB subgroup, which are shown to be significantly different from those working with other owners or partners in terms of some of the resulting behaviours, growth ambition and recent performance (see section 4.2, 4.3 and 5.9).

#### 3.1.2 Employment in 2012 and Legal status

Throughout the study employment refers to the number of both full-time and part-time employees, rather than full-time equivalents, excluding owners. The report also consistently refers to employment as the snapshot of employees in businesses in 2012, while Section shows how this has changed over time.

Table 3.1 repeats a common finding that employment size is related to the legal form and that the larger microbusinesses in our sample tended to be more inclined to being limited companies and less likely to be sole proprietors. Even among those businesses with no employees the proportion of limited companies was nearly 60 per cent, increasing to 86 per cent for those businesses with 5-9 employees. The proportion of sole proprietorships fell from 32 per cent for businesses with no employees, to just 7 per cent for those with 5-9 employees.

Excluding owners and partners, sole proprietorships had just 1¼ employees on average, compared with 2.6 employees for partnerships and 3.1 employees for limited companies.

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<sup>11</sup> <http://www.bis.gov.uk/assets/biscore/statistics/docs/b/12-92-bpe-2012-stats-release.pdf>

**Table 3.1 Legal form and Employment in 2012 (%)<sup>12</sup>**

	<b>Sole proprietorship</b> <b>N=175</b>	<b>Partnership</b> <b>N=88</b>	<b>Limited Company</b> <b>N=733</b>
	%	%	%
0 employees	32	8	60
1-4 employees	13	10	77
5-9 employees	7	7	86
Average no. of employees	1.26	2.57	3.11

*Base = All microbusinesses. Unweighted data (N=996).*

As already noted, owners are not included in the figures in Table 3.1, nor are the hidden contributions from other sources, such as unpaid family staff or agency staff. Table 3.2 shows two key aspects of additional employment, revealing that additional capacity was provided by agency staff for 15 per cent of employers in the sample, but only tended to be used by 10 per cent of non-employers. Non-employers were also slightly more reliant on unpaid family members (18 per cent) than were employers (12 per cent)<sup>13</sup>.

**Table 3.2 Proportion of businesses using (additional) employment (%)**

	<b>Use family members (unpaid)</b>	<b>Use agency staff</b>
	%	%
0 employees	18	10
1-4 employees	13	15
5-9 employees	12	16

*Base = All microbusinesses. Unweighted data. (N= 1000)*

### 3.1.3 Sales turnover

Because the level of labour inputs varies between labour intensive (e.g. personal services, catering) and capital intensive (e.g. manufacturing) businesses then it is also useful to show sales turnover as an alternative picture of business size<sup>14</sup>. Figure 3.1 shows the relationship between employment size and sales turnover. It reveals that many non-employers are turning over relatively little money as a business, with nearly one quarter taking less than £25,000, compared to just 8 per cent of 1-4 employers and 2 per cent of 5-9 employers. As might be expected, for each of the lower turnover brackets a similar pattern emerges, with proportionately more non-employers represented in the lower earnings brackets and proportionately more businesses falling into the higher turnover brackets as size increases. In relation to the VAT threshold (£77,000) only 4 per cent of 5-

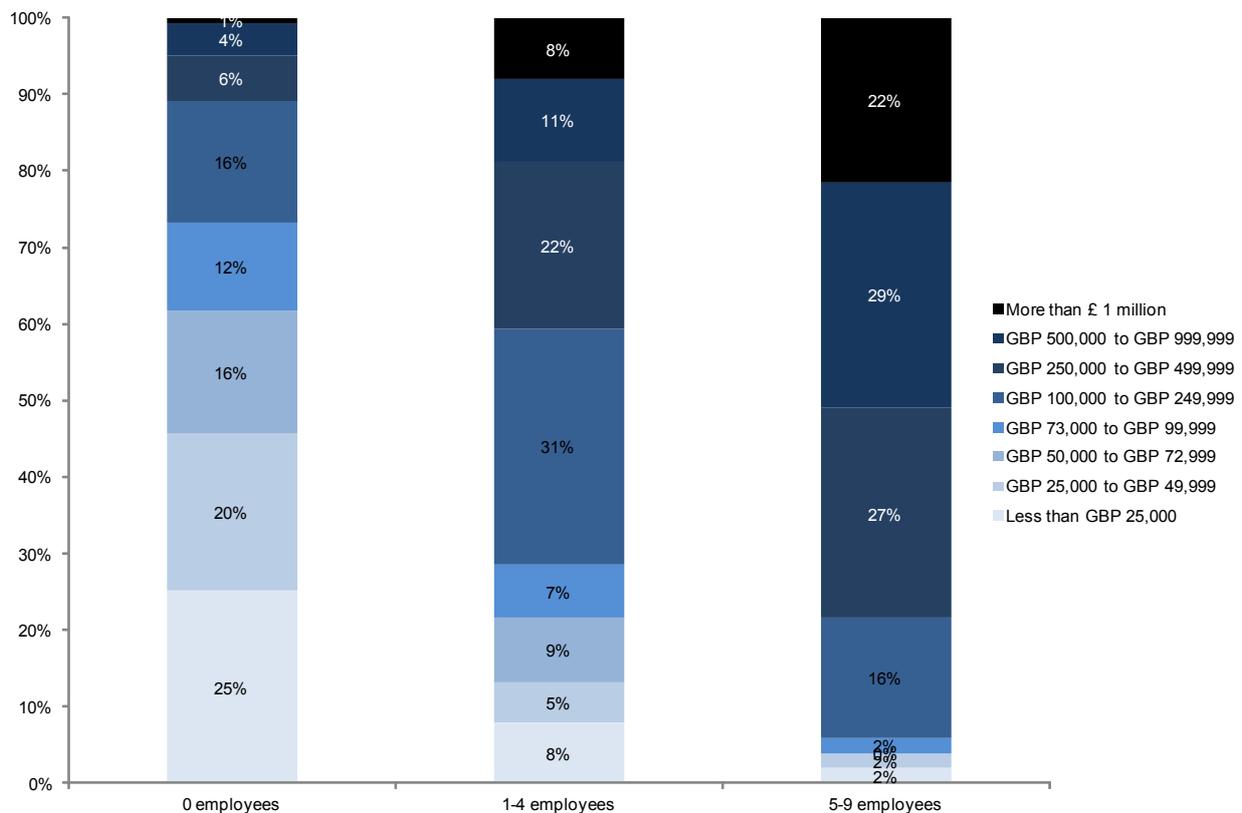
<sup>12</sup> A minority of businesses had other legal forms. Using Dun & Bradstreet data inevitably overstates the number of limited companies and understates sole proprietorships.

<sup>13</sup> Note: these figures describe the sample and present unweighted data. Weighted data representative of the microbusiness population is presented in Section 5.7.

<sup>14</sup> Notwithstanding comments about the labour intensity of businesses, focusing exclusively on employment does not account for the productivity of the workforce to generate sales. Across the analysis of employment the full-time equivalent input is not recorded, nor is the extent to which subcontractors are used to offset direct employment by the surveyed business and therefore the methodology itself may under-represent the scale of the business.

9s fall below this, compared to 22 per cent of 1-4s, and 62 per cent of non-employing businesses.

**Figure 3.1 Sales turnover and employment size band**



Base: All microbusinesses, unweighted data. (N=904)

### 3.1.4 Age of businesses

Table 3.3 shows that the size of microbusinesses increased with age. Only 26 per cent of the non-employers had been trading for more than 20 years, compared with 49 per cent of the 5-9 businesses. The relationship between size and age is statistically significant. The final row of the table shows the average age of the businesses and partly reflects the findings in Table 3.5 on the age of the owner/manager.

**Table 3.3 Age of business and size band (2012) (%)**

	Less than 3 years N=133	3 - 4 years N=69	5 - 10 years N=235	11 - 20 years N=237	More than 20 years N=326	Mean age
	%	%	%	%	%	
0 employees	14	5	27	28	26	15.4
1-4 employees	10	7	24	28	30	17.6
5-9 employees	9	4	16	22	49	26.9

Base: All microbusinesses, unweighted data (N=1000)

### 3.1.5 Start-up, inheritance and acquisition

Table 3.4 shows that most of the owner/managers started the business themselves, with a minority having either acquired the business, or been recruited or promoted into the role. Start-ups were most likely to be non-employers and the least likely to have 5-9 employees. Acquired businesses, either through inheritance or purchase, were more likely to have employees than start-up, but this is because the transfer market usually screens out smaller businesses as being unviable transfers<sup>15</sup>. Recruitment or promotion naturally also favours slightly larger businesses.

**Table 3.4 Role in start-up and size band (%)**

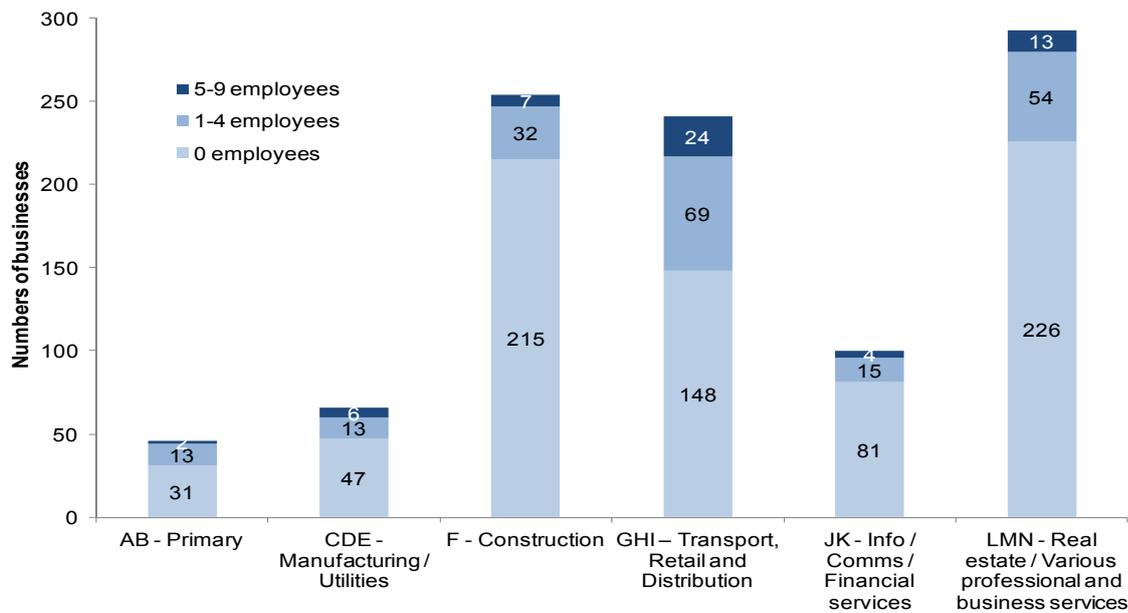
	<b>Started N=737</b>	<b>Inherited N=92</b>	<b>Bought N=136</b>	<b>Recruited/ promoted N=33</b>
	%	%	%	%
0 employees	36	29	21	6
1-4 employees	41	29	43	36
5-9 employees	23	41	35	58
<i>Mean age of the business</i>	<i>13.0</i>	<i>47.5</i>	<i>27.3</i>	<i>28.4</i>

Base: All microbusinesses, unweighted data (N=998)

### 3.1.6 Sector

Figure 3.2 shows the distribution of businesses by sector and employment, showing that the sample are concentrated in three main sectors: construction; transport, retail and distribution and real estate & professional and business services. The diagram also presents the relative proportions of employment for each sector and this shows that some sectors are more reliant on non-employers, such as construction (85 per cent of them are non-employers compared to 74 per cent across the business population), while others have few non-employers such as transport, retail and distribution (61 per cent).

<sup>15</sup> Allinson, G., P. Braidford, M. Houston, P Robson and I. Stone (2007). The operation of the SME Transfer Market, London: BERR <http://www.berr.gov.uk/files/file42653.doc>

**Figure 3.2 Number of businesses by sector and size**

Base: All microbusinesses, unweighted data (N=1000)

## 3.2 Profile of owners/managers

### 3.2.1 Gender and age of owner/manager

Overall, 21 per cent of the interviewed owners were female and 37 per cent of the businesses could be described as female owned (where 50 per cent or more of the owner/managers were women). Table 3.5 shows the age distribution of owner/managers, which varied by gender with relatively fewer females in older age-bands. Within the microbusiness population female businesses were only slightly smaller and there was no significant difference between the number of employees and male and female owner/managership. There was no significant gender difference between OPBs and non-employers with multiple owners. The pattern of age distribution reflected the fact that many mature businesses were included in the sample.

**Table 3.5 Owner/managers' age and gender (%)**

	Less than 34 N=70	Between 35 and 44 N=196	Between 45 and 49 N=154	Between 50 and 54 N=182	Between 55 and 64 N=283	Over 64 N=110	Mean age of owner
	%	%	%	%	%	%	
Male	5	17	16	19	32	11	52
Female	10	26	10	18	29	7	48

Base: All microbusinesses, unweighted data (N=995)

In terms of ethnicity, 95 per cent of interviewed owner/managers were white. Numbers of EMG businesses were too small for detailed analysis.

### 3.2.2 Owner/manager levels of qualification

Table 3.6 shows that the average level of qualification of business showed no difference across the size bands and that the relative distribution was similar for all levels of education, except for NVQ3 equivalent. There were slightly fewer non-employers with NVQ3 or equivalent than for employers.

**Table 3.6 Owner/managers' qualifications and size band (%)**

	<b>Level 4 or equivalent</b>	<b>NVQ Level 3 or equivalent</b>	<b>NVQ Level 2 or equivalent</b>	<b>No formal qualifications</b>
	<b>N=443</b>	<b>N=144</b>	<b>N=210</b>	<b>N=119</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
0 employees	50	11	24	15
1-4 employees	48	18	22	13
5-9 employees	48	17	23	12

*Base: All microbusinesses, unweighted data (N=916)*

### 3.2.3 Owner/manager's hours worked and earnings from this business

Table 3.7 shows that most owner/managers spent a considerable amount of time on their business, relatively few spent less than 30 hours on their business. Owner/managers of larger microbusinesses tended to spend slightly more time on their business, perhaps because of the management responsibility of a larger business.

**Table 3.7 Owner/managers' hours worked on business and size band (%)**

	<b>1-7</b>	<b>8-14</b>	<b>15-21</b>	<b>22-29</b>	<b>30-35</b>	<b>36-50</b>	<b>51+</b>
	<b>N=17</b>	<b>N=20</b>	<b>N=36</b>	<b>N=40</b>	<b>N=101</b>	<b>N=398</b>	<b>N=378</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
0 employees	4	3	6	4	12	41	30
1-4 employees	1	2	3	5	11	41	37
5-9 employees	-	1	1	3	7	38	50
<i>Average no. of employees</i>	<i>0.41</i>	<i>1.55</i>	<i>1.36</i>	<i>2.23</i>	<i>2.45</i>	<i>2.68</i>	<i>3.32</i>

*Base: All microbusinesses, unweighted data (N=990)*

Table 3.8 shows that larger businesses tended to result in better remuneration for their owner/managers, reflecting the additional hours shown in Table 3.7. A small number of businesses at each size revealed that they did not currently pay themselves anything, although this should be interpreted as only a transient stage and that owner/managers will eventually return to taking drawings. Non-employers tended to take the least from their businesses, 46 per cent taking £10,000 per annum or less. Remuneration increases with firm size, for example 28 per cent of owner/managers with 5-9 employers draw over £40,000 per annum from their business compared to 10 per cent of non-employing businesses.

**Table 3.8** Owner/managers' drawings and size band (%)

	<b>Nothing</b> <i>N=100</i>	<b>£5,000 or less</b> <i>N=64</i>	<b>£5,001 to £10,000</b> <i>N=133</i>	<b>£10,001 to £20,000</b> <i>N=175</i>	<b>£20,001 to £30,000</b> <i>N=152</i>	<b>£30,001 to £40,000</b> <i>N=90</i>	<b>£40,001 to £50,000</b> <i>N=66</i>	<b>£50,001 or more</b> <i>N=79</i>
	%	%	%	%	%	%	%	%
0 employees	15	10	21	21	15	9	5	5
1-4 employees	9	7	15	21	21	9	10	9
5-9 employees	10	4	8	20	14	14	12	16

*Base: All microbusinesses, unweighted data (N=859)*

## 4 Growth patterns

This section concentrates on the pattern of growth of amongst the current stock of microbusinesses. Questions were asked about employment size at four time intervals: when the business started; five years ago (2007); two years ago (2010) and now (2012). These census points provide the basis to study patterns of expansion and contraction.

It is important to note that the method used inevitably understates the growth of microbusinesses, since it shows movement within the 0-9 size range but **excludes those which have grown into businesses with ten or more employees** while including businesses which previously employed ten or more staff that have reduced their employment by the time of survey in November 2012.

### 4.1 Growth trends amongst businesses with 0-9 employees – employment

#### 4.1.1 Employment change 2010-2012

The shaded diagonal in Table 4.1 shows that the majority of businesses stayed a similar size between 2010 and 2012, driven by the smallest businesses. Ninety seven per cent of non-employing businesses were the same size in 2012 as they were in 2010, 65 per cent of 1-4s remained in the same size band in the previous two years as did 46 per cent of the 5-9s.

**Table 4.1 Comparison of size bands in 2010-12**

Size in 2010 \ Size in 2012	<b>N=319</b>	<b>N=357</b>	<b>N=216</b>
	<b>0 employees</b>	<b>1-4 employees</b>	<b>5-9 employees</b>
	%	%	%
0 employees	97	31	23
1-4 employees	3	65	31
5-9 employees	0	5	46

*Base: All microbusinesses with two years employment history, weighted results (N=926)*

Table 4.2 shows the proportion of businesses contracting and expanding between 2010 and 2012 according to age band. It shows a trend for younger businesses to be more likely to be expanding and less likely to be contracting and the reverse situation for older businesses.

**Table 4.2 Proportion of businesses changing employment by age (2010-12) (%)**

	<b>0-3 years N=69</b>	<b>3-4 years N=69</b>	<b>5-10 years N=233</b>	<b>11-20 years N=235</b>	<b>More than 20 years N=320</b>
	%	%	%	%	%
% contraction	10	4	10	20	19
% expansion	14	19	7	4	4
% same	76	77	83	75	76

*Base: All microbusinesses with two years employment history, weighted results (N=926)*

### 4.1.2 Employment change 2007-2012

The longer-term horizon, covering the period 2007 to 2012 shows a more dynamic situation, with more businesses changing size band (Table 4.3). Again, the most common occurrence is for there to be no change at all in employment size band, chiefly as a result of the non-employing businesses failing to expand (shown in shaded diagonal). Ninety seven per cent of non-employers had remained the same size over the five year period to 2012. Half of businesses with 1-4 employees remained in that size band 2007-2012 as did a third of the 5-9s.

**Table 4.3 Comparison of employment size bands in 2007-12**

Size in 2007 \ Size in 2012	N=239	N=293	N=194
	0 employees	1-4 employees	5-9 employees
	%	%	%
0 employees	97	46	30
1-4 employees	3	50	37
5-9 employees	0	4	33

*Base: All microbusinesses with five years employment history, weighted results (N=777)*

Table 4.4 records episodes of growth and contraction across *three* census points – 2007, 2010 and 2012. This shows only a minority of microbusinesses had experienced sustained employment growth in the previous five years. Sustained growth was most likely to occur amongst businesses with 1-4 employees (14 per cent). The analysis also confirms that just five per cent of non-employers had *any* experience of employment growth in the previous five years. This compares to 20 per cent per of those with 1-4 employees in 2012. Micro-employers were more likely to have contracted within the 0-9 size band from 2007 to 2012 than grown.

Further analysis shows that a substantial proportion of non-employers had contracted from formerly employing staff. Twenty six per cent of non-employers in 2012 had previously employed staff within the business at some point.

**Table 4.4 Employment change within the 0-9 size band (2007, 2010, 2012) (%)**

Change in Employment \ Size in 2007	N=239	N=293	N=194
	0 employees	1-4 employees	5-9 employees
	%	%	%
Never expanded	95	26	13
Sustained contraction	-	54	73
Sustained expansion	3	14	8
Expansion & contraction	1	6	6
Any contraction	1	60	79
Any expansion	5	20	13

*Base: All microbusinesses with five years employment history, weighted results (N=777)*

### 4.1.3 Employment change, start-up to 2012

Table 4.5 records episodes of growth and contraction across *four* census points: start-up, 2007, 2010 and 2012. Again, looking at this longer time period, the pattern concurs with other evidence that growth tends to be episodic and to be more prevalent amongst employers than non-employers. Twenty one per cent of businesses with 1-4 employees at start-up had experienced sustained growth compared to 7 per cent of those without employees at start-up. This analysis also shows that almost a quarter (23 per cent) of non-employers had gone on to employ people since they began trading, but again growth was more prevalent amongst employing microbusinesses, and just over half of (51 per cent) of 1-4 sized businesses had experienced some employment growth since start-up<sup>16</sup>.

**Table 4.5 Number of employees at start-up and employment change within the 0-9 size band (start-up to 2012) (%)**

Change in Employment \ Size at start	N=345	N=308	N=32
	0 employees	1-4 employees	5-9 employees
	%	%	%
Never expanded	77	8	7
Sustained contraction	-	41	83
Sustained expansion	7	21	3
Expansion & contraction	16	30	7
Any contraction	16	71	90
Any expansion	23	51	10

*Base: only includes businesses established in 2006 or earlier, weighted results (N=713)*

Table 4.6 shows the age of the business when they employed their first member of staff. Most employing microbusinesses (over 70 per cent) had taken their first steps towards employment within the first two years of business, although a substantial minority took longer to do so. For one in twenty businesses this was after more than 20 years in business, suggesting that time need not be a barrier.

**Table 4.6 Age of businesses when first employed staff (%)**

	Less than one year old N=273	1-2 years old N=193	3-4 years old N=69	5-10 years old N=50	11-20 years old N=24	More than 20 years old N=29
	%	%	%	%	%	%
1-4 employees	40	31	11	9	4	5
5-9 employees	44	29	10	6	6	6

*Base: Only employers in 2012, weighted results (N=638)*

<sup>16</sup> The relatively modest figures amongst the 5-9s reflects the fact that many may have tipped into the 10+ employment category and were not captured in the sample.

## 4.2 Employment or sales growth (2010-12)

So far in this section we have focused on employment growth because this measure provided the most robust data for the purpose of analysis across each census point. However, there was also good data for the period from 2010-2012 for sales turnover and this has been combined with the employment data to produce one measure of growth.

Using this measure, a higher proportion of microbusinesses are shown to have grown although patterns of growth by size persist (Table 4.7). Twenty six per cent of non-employing businesses had grown either employment or sales over the previous two years and this was higher (30 per cent) for non-employers with multiple owners. This compares to 42 per cent of 1-4 employee businesses having grown sales or employment, and 48 per cent of 5-9 employee businesses.

**Table 4.7 Businesses experiencing either sales or employment growth (2010-12) (%)**

	%
0 employees	26
<i>OPBs</i>	24
<i>1+ owners</i>	30
1-4 employees	42
5-9 employees	48
<i>All 0-9 employees</i>	30

*Base: All microbusinesses with two years employment and sales history, weighted results (N=929)*

It is important to note that although rates of growth have been lower amongst the smaller microbusiness and especially non-employers, the dominance of that population in the economy, accounting for around three and a half million businesses, means that a relatively small incremental increase could have a significant impact on the amount of growth overall.

## 4.3 Substantive growth ambitions

As well as analysing historic growth, the study considered ambitions for future growth. When asked the simple question of whether they intended to grow the business in the next three years, approximately half (53 per cent) of microbusinesses agreed. A lack of ambition was most common amongst non-employers (48 per cent compared to 62 per cent of 1-4s and 71 per cent of 5-9s). Following on from previous research<sup>17</sup> this study also attained a more complex measure of growth ambition to assess the seriousness of the businesses' intention to grow in the future. The study combined a wider set of responses on strength of personal ambition for growth, the ideal size of their business and whether they aimed for employment or turnover growth of more than 20 per cent in the next three years<sup>18</sup>.

<sup>17</sup> BIS et al (2012) Business growth ambitions amongst SMEs, *Scottish Enterprise, BIS, Invest NI and Welsh Assembly* <http://www.evaluationonline.org.uk/evaluations/Search.do?ui=basic&action=show&id=502>

<sup>18</sup> Further details on the definition used for substantive growth ambition is shown in Appendix 6.

Using this more complex measure, Table 4.8 shows the proportion of businesses with a substantive ambition to grow, as well as the proportions for each size band. Non-employing businesses are shown to hold the lowest levels of substantive growth ambition (14 per cent of all non-employing businesses) but it is higher amongst non-employers with multiple owners (18 per cent). The proportion increases among employers; from 22 per cent for 1-4 employees and 27 per cent for 5-9 employees.

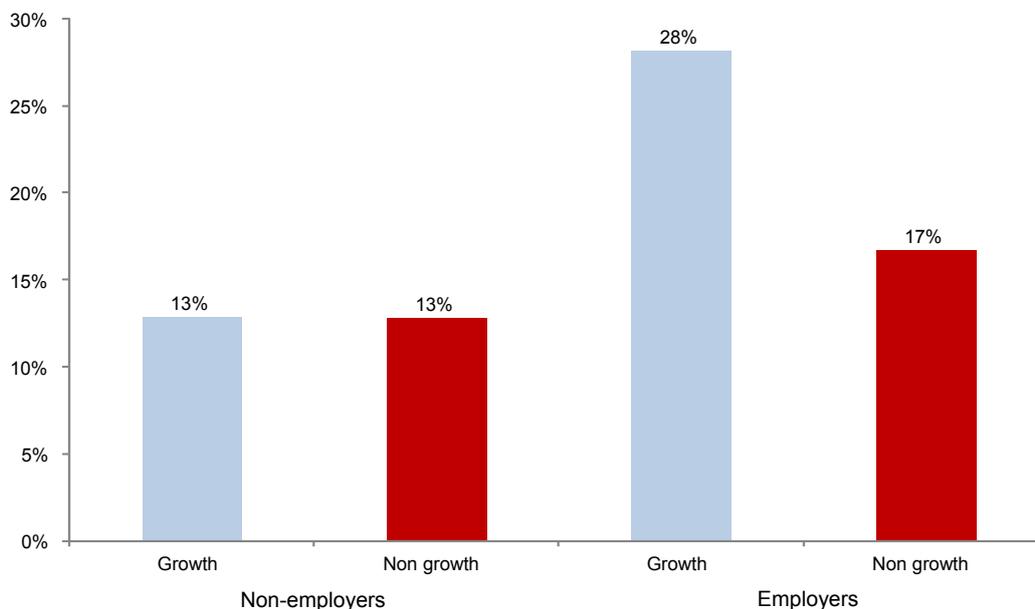
**Table 4.8 Businesses with substantive growth ambition (%)**

	% expressing growth ambition
0 employees	14
<i>OPBs</i>	12
<i>1+ owners</i>	18
1-4 employees	22
5-9 employees	27
<i>All 0-9 employees</i>	17

*Base: All microbusinesses with a measure of growth ambition, weighted results (N=845)*

The relationship between historic growth and growth ambition is considered in Figure 4.1. Non-employing businesses exhibited no differences in growth ambition between those that had grown over the last two years and those that had not. By contrast, employers showed a more distinctive pattern, with 28 per cent of growth businesses having future growth ambitions, compared to just 17 per cent of micros that had not grown, indicating a relationship between actual growth and ambition.

**Figure 4.1 Proportions of businesses with substantive growth ambition by growth history (2010-2012)**



*Base: All microbusinesses with two years of sales and employment history and classified at having substantive growth ambition, weighted results (N=765)*

Table 4.9 shows a very distinct pattern by age of the business, with decreasing levels of growth (either sales or employment) and ambition among older businesses. The more recently established businesses were much more likely to have experienced growth. Businesses aged less than five years had grown by 58 per cent, gradually falling to just 20 per cent of those businesses more than 20 years old. Growth ambition appeared to progress in a similar manner, with the younger businesses being more ambitious.

**Table 4.9 Historic growth (increased sales or employment, 2010-12) and growth ambition by age of business (%)**

		Less than 5 years	5-10 years	11-20 years	More than 20 years
		%	%	%	%
Historic growth	N=936	58	36	22	21
Growth ambition	N=821	28	17	14	12

*Base: All microbusinesses with two years employment and sales history, weighted results (N shown in Column 2)*

## 4.4 Characteristics of owner/manager, growth and growth ambition

Each of the tables shown below considers the characteristics of business owner/managers, their experience of growth over the past two years and the proportions that have substantive growth ambitions for the future.

Table 4.10 describes the patterns of growth by gender, showing that a greater proportion of female owner/managers had enjoyed growth over the previous two years, but somewhat paradoxically considerably less ambition.

**Table 4.10 Historic growth (increased sales or employment, 2010-12) and growth ambition by gender (%)**

		Male	Female
		%	%
Historic growth	N=936	28	37
Growth ambition	N=819	18	12

*Base: All microbusinesses with two years employment and sales history, weighted results. (N shown in Column 2)*

Table 4.11 shows a very distinct pattern according to the age of the owner, with decreasing levels of growth and ambition as owner/managers aged. In the very youngest category (under 35) more than half of all businesses had experienced growth, falling to 41 per cent between 35 and 49, but ultimately dipping towards 20 per cent among the oldest owner/managers. Growth ambition appeared to progress in a similar manner, with the younger owner/managers being more ambitious. These results bare a great deal of similarity to those in Table 4.9 which describes growth by age of the *business*.

**Table 4.11 Historic growth (increased sales or employment, 2010-12) and growth ambition by age of owner/manager (%)**

		Less than 34	Between 35 - 44	Between 45 - 49	Between 50 - 54	Between 55 - 64	Over 64
		%	%	%	%	%	%
Historic growth	N=933	59	41	41	26	22	21
Growth ambition	N=815	28	20	18	17	11	22

*Base: All microbusinesses with two years employment and sales history, weighted results. (N shown in Column 2).*

Table 4.12 shows the patterns for growth according to the highest qualifications held by owner/managers. There was very little to separate the performance of businesses owned by people with qualifications, but this was distinctly different from those that had no formal qualifications. The proportion of owner/managers with businesses that had grown was more than 15 percentage points higher if they held formal qualifications.

**Table 4.12 Historic growth (increased sales or employment, 2010-12) and growth ambition by qualifications (%)**

		Level 4 or equivalent	NVQ Level 3 or equivalent	NVQ Level 2 or equivalent	No formal qualifications
		%	%	%	%
Historic growth	N=831	36	35	34	18
Growth ambition	N=720	19	24	14	14

*Base: All microbusinesses with two years employment and sales history, weighted results. (N shown in Column 2)*

Table 4.13 shows the relationship between growth and management experience. Owner/managers with less management experience tended to be less likely to preside over growing businesses. For owner/managers with less than three years of experience, the proportion of growing businesses was just 19 per cent, but this gradually increased, such that for owner/managers with between 11-15 years of experience as many as 56 per cent of businesses had grown. Growth ambition also followed a similar pattern with proportions of owner/managers with substantive ambition increasing directly with increasing levels of management experience.

**Table 4.13 Historic growth (increased sales or employment, 2010-12) and growth ambition by prior management experience (%)**

		No experience	Less than 3 years	3 - 5 years	6 - 10 years	11 - 15 years	16 or more years
		%	%	%	%	%	%
Historic growth	N=938	25	19	34	43	56	27
Growth ambition	N=822	10	10	15	20	23	26

*Base: All microbusinesses with two years employment and sales history, weighted results. (N shown in Column 2)*

Table 4.14 shows the relationship between growth and the returns accrued by the owner/manager and confirms that owner/managers of growing businesses are more likely to be in the higher wage brackets; they were more than twice as likely to earn more than £30k compared to those with businesses that had not grown.

**Table 4.14 Employment growth 2007-12 and owner/managers' drawings (%)**

	<b>Nothing</b> <i>N=69</i>	<b>£5,000 or less</b> <i>N=48</i>	<b>£5,001 to £10,000</b> <i>N=97</i>	<b>£10,001 to £20,000</b> <i>N=143</i>	<b>£20,001 to £30,000</b> <i>N=125</i>	<b>£30,001 to £40,000</b> <i>N=73</i>	<b>£40,001 to £50,000</b> <i>N=56</i>	<b>£50,001 or more</b> <i>N=65</i>
	%	%	%	%	%	%	%	%
contract	13	7	14	28	16	8	9	6
growth	4	4	15	17	15	13	15	19
same	13	9	21	19	17	9	5	7

*Base: All microbusinesses with two years employment and sales history, weighted results. (N=676)*

## 4.5 Summary

- Growth out of the sole trader category was very limited between 2007 and 2012 and most growth that did occur was amongst employers. Just five per cent of non-employers in 2012 had any experience of employment growth in the previous five years, compared to 20 per cent of 1-4 employers over the same period.
- Although non-employers were very unlikely to have experienced any employment growth 2007-2012, 26 per cent had grown when both employment or sales are considered.
- A substantial proportion (26 per cent) of non-employers in 2012 had previously employed staff within the business at some point.
- Non-employers (and particularly OPBs) not only have lower rates of growth but also lower substantive growth ambition. Fourteen per cent of non-employing businesses are shown to hold substantive growth ambition compared to 22 per cent for businesses with 1-4 employers and 27 per cent for those with 5-9.
- It is important to note that although rates of growth have been lower amongst the smaller micro-business and especially the non-employers, the dominance of that population in the economy means that a relatively small incremental increase has a significant impact on growth overall.
- There was evidence of relationships between owner characteristics and historic and future growth ambition.
  - Younger owner/managers were more likely to have undergone any growth since 2007.
  - Possessing no qualifications appeared to limit ambition and growth.

- Longer periods of management experience were associated with both higher growth and a higher level of ambition.
- The relative rewards of ownership indicated that,
  - Owner/managers of larger businesses worked longer hours.
  - Owner/managers of larger businesses took more drawings from their businesses.
  - Owner/managers of growing businesses took more drawings from their businesses.

## 5 Specific obstacles to growth

A number of different surveys, such as BIS' Small Business Survey (SBS), enquire about the obstacles that SMEs face in operating their business. This section of the report examines these obstacles in the specific context of **growth** and introduces further drill-down questions exploring specifics around the reported obstacles. It also reports on steps taken to overcome obstacles and owner/managers' views on how growth would affect their business.

### 5.1 Top-level obstacles to business growth

Table 5.1 shows the top-level obstacles to business growth based on the categories asked in SBS. These relate to *any* obstacles reported by the business. Later tables drill down into the specifics associated with each obstacle. The first notable observation is that responses set out here in relation to *growth* follow similar patterns when compared with obstacles to *business success* indicated by SBS data (Table A.1).

In line with findings from SBS 2010, Table 5.1 shows that the larger microbusinesses are more likely to report each issue being an obstacle to growth. The reported proportions of businesses citing an issue as an obstacle is roughly 10-15 percentage points higher for businesses with 5-9 employees than for non-employing businesses. Overall, very few businesses indicate having no obstacles to growth, rather fewer than SBS. The larger micros in the survey were also more likely to report more obstacles in total. The final row of Table 5.1 shows non-employing businesses report 3.9 obstacles on average, compared with 4.7 obstacles for 1-4 employers and 5.3 obstacles for 5-9 employers.

**Table 5.1 Obstacles to business growth (%)<sup>19</sup>**

	<b>0 employees</b> <i>N=324</i>	<b>1-4 employees</b> <i>N=398</i>	<b>5-9 employees</b> <i>N=277</i>	<b>All 0-9 employees</b> <i>N=999</i>
	%	%	%	%
The economy	70	81	86	73
Competition in the market	46	54	59	48
Cash flow	45	56	55	48
Regulations	45	52	59	47
Taxation	39	59	66	45
Obtaining finance	41	42	48	42
Shortage of skills generally	25	28	36	26
Recruiting staff	20	27	38	22
Premises	20	29	29	22
Pensions	21	21	30	21
Managerial skills	16	20	25	18
No obstacles mentioned	6	3	2	5
<i>Av. number of obstacles</i>	3.9	4.7	5.3	4.4

*Base: All microbusinesses, weighted results. (N=999). Multiple answers allowed.*

<sup>19</sup> SBS 2010 categories are used in this table, but there were also many other additional responses, all attracting a small minority (less than 1%) of replies that are not shown in the table.

Table 5.2 shows the *main* reported obstacle to growth. Overall, the pattern was more uniform across size bands, with the exception of taxation, decreasing proportions of respondents indicated each issue as an obstacle as employment size increased.

Seven per cent of micros reported having no main obstacles to growth which was driven mainly by businesses without employees. This may simply reflect that they are less likely to be planning for growth and therefore have given less consideration to the matter, rather than actually being subject to no obstacles *per se*.

**Table 5.2 Main obstacles to business growth (%)<sup>20</sup>**

	<b>0 employees N=325</b>	<b>1-4 employees N=397</b>	<b>5-9 employees N=277</b>	<b>All 0-9 employees N=999</b>
	%	%	%	%
The economy	34	34	29	34
Obtaining finance	12	12	12	12
Competition in the market	11	10	5	11
Taxation	6	11	14	7
Regulations	7	5	12	7
Cash flow	5	6	3	5
Shortage of skills generally	5	4	3	5
Premises	2	4	2	2
Recruiting staff	1	5	3	2
Pensions	2	1	-	1
Managerial skills	-	2	2	1
Other				
No main obstacle identified	8	4	3	7

*Base: All microbusinesses, weighted results. (N=999). Single response only (main obstacle).*

## 5.2 Reasons for not wanting to grow the business in the next three years – unprompted

Just under half (47 per cent) of microbusinesses reported that they did not want to grow their business in the next three years and this was more prevalent amongst the smallest businesses (see Section 4.3). While Table 5.2 concentrates on the obstacles that may limit growth there may also be more personal and circumstantial reasons which inhibit the owner/manager's *intentions* to grow. Table 5.3 shows the unprompted reasons for this among owner/managers who did not want to grow their business.

The most commonly mentioned reason for not wanting to grow (29 per cent of microbusinesses not wanting to grow) was a belief that there was insufficient business available and 28 per cent stated that they were happy with the current size of their business. Non-employing business were more likely to be happy at their current size (29 per cent vs. 18 per cent of those with 5-9 employees) and the 5-9s were more likely to

<sup>20</sup> SBS categories are used in this table, but there were also many other additional responses, all attracting a small minority of replies that are not shown in the table

think there was not enough business available for growth (35 per cent compared to 29 per cent of non-employers).

None of the remaining answers applied to more than seven per cent of the overall sample but there were some differences by size. Regulations and red tape (i.e. the perceived additional admin burden as a result of having to comply with regulations) was given as a reason for not wanting to grow the business by six per cent of non-employers compared to less than one per cent of employers. Twelve per cent of the 5-9 employers cited not wanting to take on more finance as a reason for not wanting to grow the business compared to four per cent of smaller businesses.

A lack of growth ambition was not always the result of an obstacle *per se*. Comparing impromptu responses for not wanting to grow with the prompted obstacles set out in tables 5.1 and 5.2 very few categories overlap. Regulations were given impromptu by just five per cent of those not wanting to grow; finance by ten per cent and recruitment by five per cent. 'Not enough business available' was mentioned by 29 per cent but issues relating to cashflow and taxation were not mentioned at all as deterrents amongst those not contemplating growth. Otherwise a mix of personal reasons (stress, retirement), or outlook (happy at this size, don't want to lose control of business) prevailed.

**Table 5.3 Reasons owner/managers did not want to grow their business in the next three years (%)**

	<b>0 employees</b> <i>N=177</i>	<b>1-4 employees</b> <i>N=157</i>	<b>5-9 employees</b> <i>N=78</i>	<b>All 0-9 employees</b> <i>N=412</i>
	%	%	%	%
Not enough business available	29	25	35	29
Happy at this size	29	26	18	28
Don't need more staff for type of work done	8	8	-	7
Can't get (more) financing	6	9	6	6
Too stressful	6	8	6	6
Difficult to find the right staff	4	7	6	5
Extra regulations / red tape	6	1	-	5
Intend to retire in next 3 years	5	5	-	5
Don't want to take out (more) financing	4	5	12	4
Intend to sell/close the business	3	4	-	3
Concentrating on other work / this business not main priority	2	3	6	2
Lose control of running the business	1	4	-	1
<i>% Not wanting to grow</i>	<i>52</i>	<i>38</i>	<i>29</i>	<i>47</i>

*Base: Respondents that did not want to grow. Weighted results. (N=412). Unprompted responses.*

Therefore evidence from Table 5.3 indicates that the range of obstacles discussed in SBS and similar surveys provide only a partial explanation of the actual experience of

microbusinesses. Subsequent sections of this chapter discuss both these conventionally reported obstacles and a number of additional factors reflecting the mindsets and vision of the business owner/manager.

### 5.3 Specific challenges related to cashflow

As set out above (Table 5.1), forty-eight per cent of the sample indicated that cashflow was an obstacle to business growth. A deeper probing revealed that 86 per cent were able to report some challenge relating to cashflow when asked more specific questions solely on this topic (Table 5.4). Overall, smaller businesses were more likely to suggest that there were no obstacles related to cashflow.

The most common reported challenges were that the respondent had fluctuating income but steady outgoings (69 per cent) and late payment by customers (60 per cent). These issues were not sensitive to the size of business. Thirty nine per cent of respondents reported the need for high levels of working capital as a specific challenge and this was especially an issue for the larger employers in the sample (57 per cent of businesses with 5-9 employees). Customers expecting credit was relevant for 37 per cent of businesses and again, this was important for employers.

**Table 5.4** Specific challenges related to cashflow during growth (%)

	<b>0 employees N=103</b>	<b>1-4 employees N=116</b>	<b>5-9 employees N=104</b>	<b>All 0-9 employees N=323</b>
	%	%	%	%
Fluctuating income but steady outgoings	69	69	67	69
Late payment	60	60	57	60
High levels of working capital needed	36	45	57	39
Customers expect credit	34	44	43	37
Timing of tax payments	15	34	43	21
None	15	14	5	14

*Base: a random third of the sample. (N=323) Includes microbusinesses for which cashflow was and was not reported as an obstacle to growth in Table 5.1. Weighted results.*

#### **Steps taken to deal with cashflow**

Respondents who indicated that cashflow was a general obstacle to growth (Table 5.4) were asked if they had taken any measures to improve it in the past two years. Most businesses (94 per cent) had taken at least one form of action, and 78 per cent had taken more than one to improve their cashflow suggesting that there is not widespread complacency about the issue.

The findings reveal that the smaller the business the less likely they were to have taken each of the suggested steps to improve their cashflow with the exception of non-employers attaining quicker payment times and getting credit from suppliers. The most common type of action taken (by 52 per cent of microbusinesses) was to change suppliers to reduce

costs. Forty-five per cent had obtained credit from their suppliers, while 36 per cent had improved their payment terms. In other words, taking steps to reduce and/or stabilise outgoings were popular amongst respondents. In terms of improving income, 49 per cent achieved quicker payment from customers, and 40 per cent had managed to reduce the level of bad debts (achieved by a significantly higher proportion of those with 5-9 employees than non-employed businesses).

Notably, relatively few respondents had either used government provisions<sup>21</sup> to improve payment terms of taxes (6 per cent overall, but twice as common among 5-9s as smaller businesses), or sold invoices (5 per cent overall, but again substantially more common among 5-9s).

**Table 5.5 Steps taken to improve cashflow (%)**

	<b>0 employees</b>	<b>1-4 employees</b>	<b>5-9 employees</b>	<b>All 0-9 employees</b>
	<b>N=140</b>	<b>N=204</b>	<b>N=149</b>	<b>N=493</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Changed suppliers to decrease costs	49	60	68	52
Achieved quicker payment times	51	43	48	49
Got credit from suppliers	47	37	52	45
Reduced bad debts	37	47	55	40
Improved your payment terms with suppliers	34	38	39	36
Increased overdraft	18	22	26	20
Used government provisions to change payment schemes of taxes	5	6	13	6
Sold invoices / factoring	5	6	10	5
None of the above	7	6	-	6

*Base: Businesses reporting cashflow to be an obstacle to business growth, weighted results (N=493).*

### **Self-reported competences in dealing with cashflow**

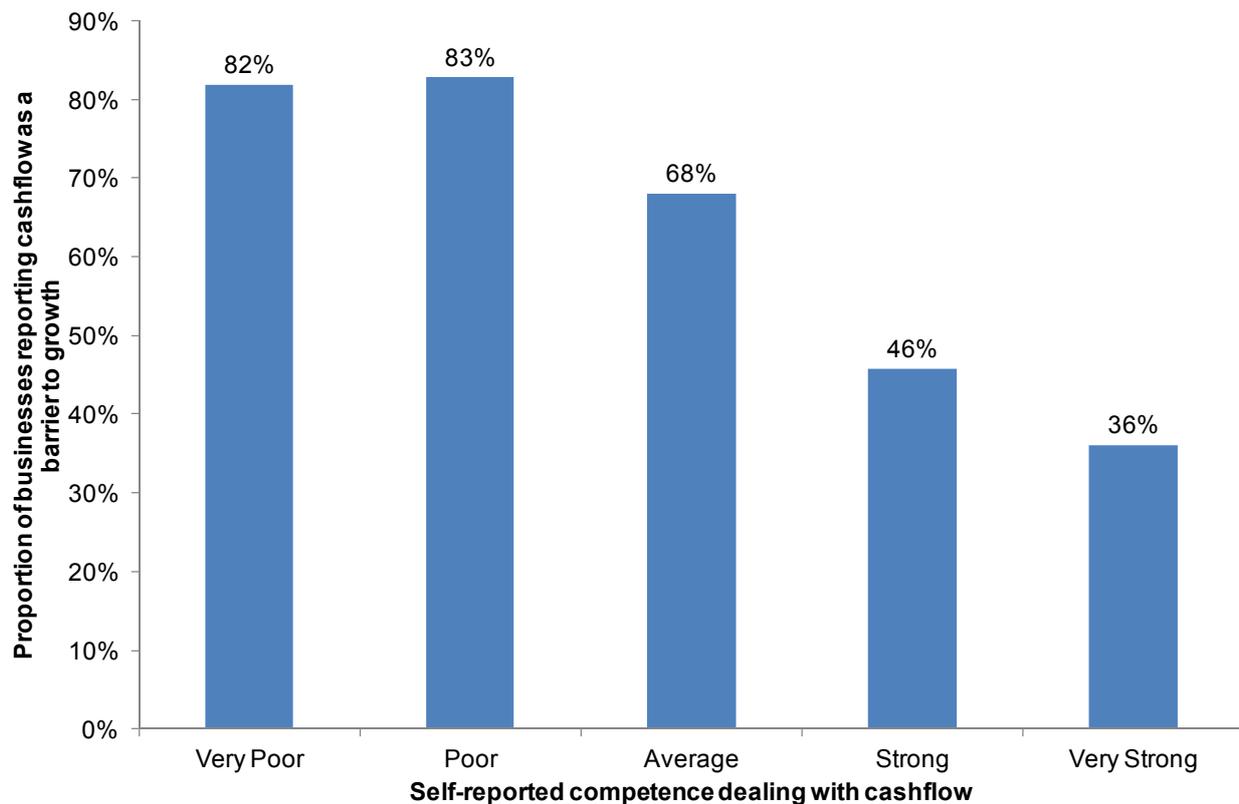
The survey also asked about the business capabilities concerning the management of cashflow (Table 5.5). There would appear to be a very clear relationship between the level of self-reported competence and cashflow being reported as an obstacle to growth.

<sup>21</sup> A number of provisions are available to make the payment of taxes easier. These include measures such as changing the timing of tax payments (improving cashflow), or cash accounting (mitigating problems with debtors and bad debt).

Annual Accounting Scheme for VAT <http://www.hmrc.gov.uk/vat/start/schemes/annual.htm>

Cash Accounting scheme for VAT <http://www.hmrc.gov.uk/vat/start/schemes/cash.htm>

**Figure 5.1 Businesses reporting cashflow as an obstacle and self-reported competence dealing with cashflow (%)**



*Base: All microbusinesses, weighted results (N=988).*

Table 5.6 sets out the top five steps taken to improve cashflow against self-reported competence in dealing with cashflow. Each cell shows the percentage of microbusinesses taking that step for each rating of competence. The table shows that some actions are taken with a similar frequency regardless of competence with cashflow, notably those dealing with outgoings, such as changing or improving terms with suppliers. However, the proportion of those reporting that they had improved their income (by achieving quicker payment times and bad debts) was higher among respondents with higher levels of self-reported competence. This suggests that competence in dealing with cashflow seems to be more defined in relation to managing income than outgoings, with the implication that businesses need more support in dealing with their customers and debtors.

**Table 5.6 Steps taken to improve cashflow and self-reported competence in dealing with cashflow (%)**

	<b>Very Poor</b>	<b>Poor</b>	<b>Average</b>	<b>Strong</b>	<b>Very Strong</b>
	%	%	%	%	%
Changed suppliers to decrease costs	53	60	56	48	50
Achieved quicker payment times	11	27	42	59	52
Got credit from suppliers	32	47	51	41	47
Reduced bad debts	16	38	33	41	46
Improved your payment terms with suppliers	50	27	22	36	43

*Base: All respondents answering both self-reported competence in dealing with cashflow and the steps taken to improve cashflow. (N=493). Each cell shows the percentage of businesses taking that step for each rating of competence. Weighted results.*

## 5.4 Specific challenges relating to raising finance

Raising finance can be an important obstacle to growth for some businesses (see Tables 5.1 and 5.2). At any given time, not all businesses are actively seeking finance. The survey shows that only 19 per cent of microbusinesses had applied for finance in the last two years. Those that had were more likely to have indicated it was an obstacle to growth (three in four applicants compared to a third of non-applicants for finance).

Table 5.7 examines specific challenges related to raising external finance. The most frequently reported challenge was that banks were not believed to be lending at all (87 per cent of microbusinesses) even though most respondents had not actually applied for finance at all. The cost of finance was considered a challenge for 62 per cent of microbusinesses, and a lack of security for 51 per cent; in both cases this was more of an issue for the smaller businesses. Thirty-five per cent of microbusinesses were not sure where to obtain finance and 32 per cent reported a lack of a track record as a business.

**Table 5.7 Specific challenges related to raising finance during growth (%)**

	<b>0 employees</b>	<b>1-4 employees</b>	<b>5-9 employees</b>	<b>All 0-9 employees</b>
	<b>N=121</b>	<b>N=159</b>	<b>N=125</b>	<b>N=407</b>
	%	%	%	%
Banks not lending	88	86	82	87
Cost of repayment	64	56	52	62
Lack of security	51	58	37	51
Not sure where to obtain finance	33	44	33	35
Lack of track record as a business	31	36	30	32
None	1	3	4	1

*Base: Includes microbusinesses which reported raising finance was an obstacle to growth (reported in Table 5.1). (N=407). Weighted results.*

### **Steps taken to prepare for applying for finance**

Table 5.8 shows the steps businesses had taken to prepare for applying for finance. Just under a quarter had undertaken none of the specified preparatory steps, with this being more likely in the smaller size bands. The most common action, albeit undertaken by fewer than half of businesses (47 per cent) was to prepare or update a business plan. Just over one quarter of businesses (28 per cent) had taken advice and 18 per cent had considered alternative sources of financing such as venture capital or crowd sourcing. The larger 5-9 employee businesses were by far the most likely size band to have taken one of these steps.

**Table 5.8 Steps taken to improve raising finance (%)**

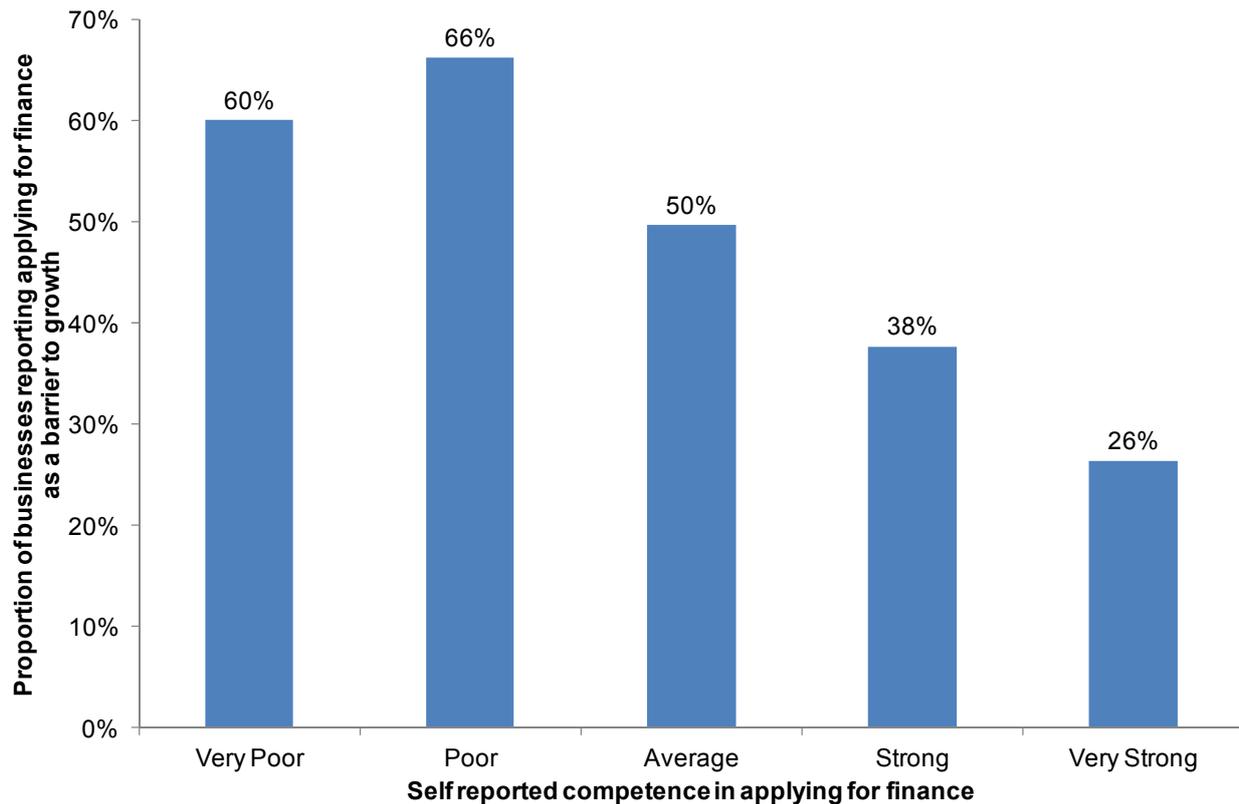
	<b>0 employees N=50</b>	<b>1-4 employees N=108</b>	<b>5-9 employees N=100</b>	<b>All 0-9 employees N=258</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Prepared or updated business plan	44	51	55	47
Took advice on applying for finance	25	34	30	28
Considered alternative sources of finance	18	15	20	18
None of the above	25	25	10	23

*Base: Businesses seeking finance in the past two years. Weighted results. (N=258)*

### **Self-reported competences in applying for finance**

Figure 5.2 shows that, generally, the higher the self-reported level of competence in applying for finance, the lower the likelihood that the respondent would see this as an obstacle to growth.

**Figure 5.2 Proportions of businesses reporting applying for finance as an obstacle and self-reported competence in applying for finance**



*Base: All microbusinesses, weighted results (N=991)*

Table 5.9 shows proportions of businesses that had taken some specific steps to raise finance by their self-reported competence in applying for finance. The cells show the percentage of business taking that step for each level of competence. Those businesses considering themselves the least competent at applying for finance were the most likely to prepare a business plan (perhaps because they were the least likely to have one). They were also more likely to consider alternatives - again, perhaps because they were less confident about raising the money from a bank, or had previous poor experience with banks. Those that rated themselves as competent were more likely than others to have taken advice on applying for finance.

**Table 5.9 Steps taken to improve raising finance and self-reported level of competence in raising finance (%)**

	Very Poor	Poor	Average	Strong	Very Strong
	%	%	%	%	%
Prepared or updated business plan	69	44	38	32	31
Took advice on applying for finance	27	22	24	38	38
Considered alternative sources of finance	25	20	12	14	6

*Base: All respondents answering both self-reported competence in raising finance and the steps taken to improve raising finance. Each cell shows the percentage of businesses taking that step for each rating of competence. Weighted results. (N=253)*

## 5.5 Specific challenges related to regulations

As shown above almost half (47 per cent) of microbusinesses report regulations to be an obstacle to growth (Table 5.1). The following table (5.10) shows the specific challenges to growth associated with regulation and captures some more general obstacles to business success, which may well be exacerbated as the business tries to grow. On almost every issue, more than half of microbusinesses agreed with the statements that regulations were too burdensome, growth would incur more regulations and greater costs, or they were unsure which regulations applied to them. Almost half of microbusinesses were unsure how to implement specific regulations. These issues tended to become less of an obstacle the larger the microbusiness with the notable exception that the 5-9 size band were more likely to think growth would mean more regulations although the difference is not statistically different.

**Table 5.10 Specific challenges related to regulation during growth (%)**

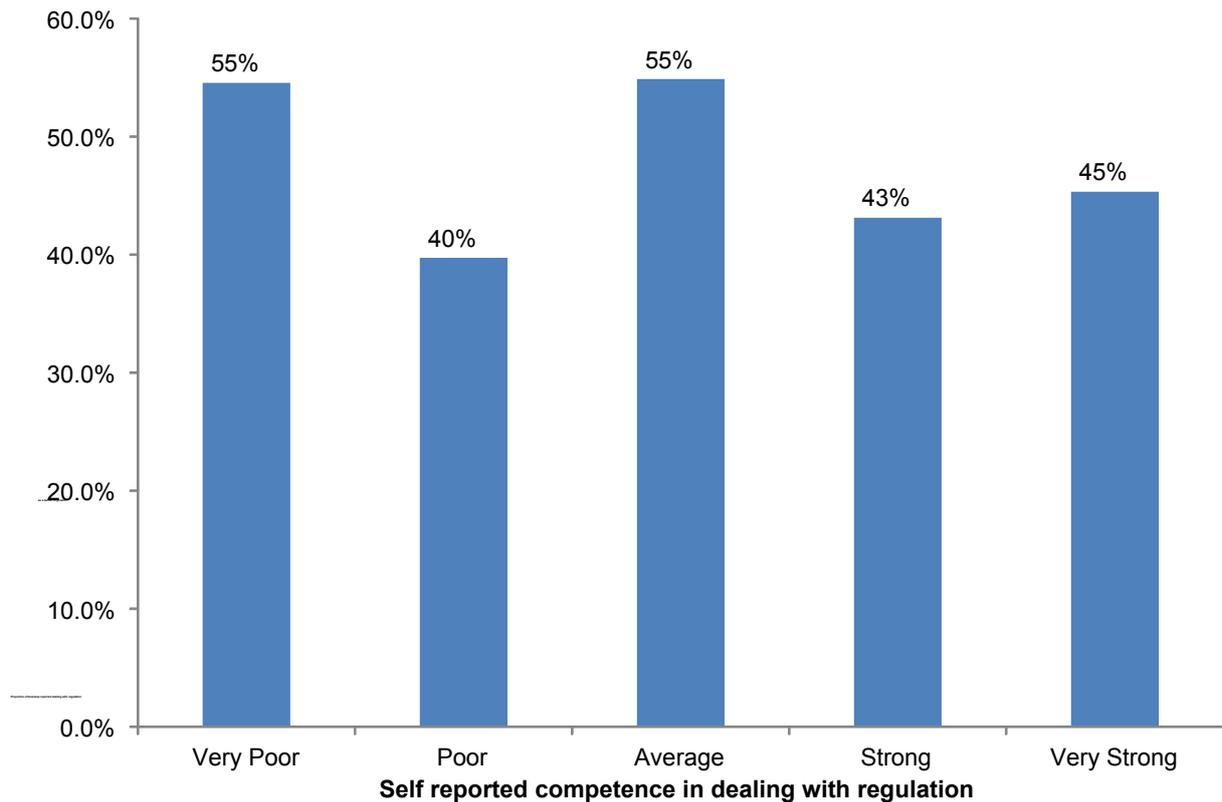
	<b>0 employees N=110</b>	<b>1-4 employees N=149</b>	<b>5-9 employees N=88</b>	<b>All 0-9 employees N=347</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Administering regulations too burdensome	73	60	50	69
Fear that growth might mean more regulations	66	61	72	65
Regulatory costs are disproportionately greater with growth	63	59	56	62
Unsure which regulations applied	56	49	50	55
Not knowing how to implement specific regulations	52	41	44	49
None	10	14	17	11

*Base: a random third of the sample. (N=347) Includes microbusinesses for which regulation was and was not reported as an obstacle to growth (reported in Table 5.1). Weighted results.*

### **Self-reported competence in dealing with regulations**

Unlike the pattern shown above in relation to cashflow and raising finance, Figure 5.3 indicates no clear relationship between self-reported competence and the likelihood of reporting regulation as an obstacle to growth. It may be that businesses perceive regulation as being outside their control, with little scope for managing the situation.

**Figure 5.3 Proportions of businesses reporting regulation as an obstacle and self-reported competence in dealing with regulation**



*Base: All microbusinesses, weighted results (N=994)*

## 5.6 Specific challenges related to taxation

Tables 5.1 and 5.2 showed that just under half of microbusinesses (45 per cent) agreed that taxation represented an obstacle to growth but was the main obstacle for just seven per cent of microbusinesses. Table 5.13 shows the *specific* challenges for growth relating to taxation. Fewer than half of respondents regarded each tax as an obstacle, with income tax and VAT mentioned by similar proportions (46 per cent and 44 per cent respectively) followed by corporation tax (39 per cent) and business rates (37 per cent). Indirect costs related to the process or timing of payments was mentioned by just under a third of respondents.

Non-employers were least likely to cite a challenge related to taxation and were less likely to cite the costs of VAT as an issue for growth in their business. These results may reflect the current position of businesses and their present exposure to tax, rather than anticipated future tax challenges under growth conditions. Further analysis comparing responses between businesses which did and did not report taxation to be an obstacle to growth showed that the specific challenges outlined below (Table 5.11) were more prevalent for those businesses for which taxation was considered to be an obstacle.

**Table 5.11 Specific challenges related to taxation during growth (%)**

	<b>0 employees</b>	<b>1-4 employees</b>	<b>5-9 employees</b>	<b>All 0-9 employees</b>
	<b>N=111</b>	<b>N=133</b>	<b>N=84</b>	<b>N=328</b>
	%	%	%	%
The costs of income tax	46	48	47	46
Costs of VAT	42	53	53	44
Costs of corporation tax	37	48	35	39
Costs of business rates	32	54	59	37
The process of administering tax payments (NI etc.)	30	39	35	32
Timing of tax payments	31	28	35	31
None	28	15	12	25

*Base: a random third of the sample. (N=328) Includes microbusinesses for which taxation was and was not reported as an obstacle to growth (reported in Table 5.1). Weighted results.*

Respondents who indicated that taxation was a general obstacle to growth were asked if they had taken any measures to improve how they deal with it in the past two years. Table 5.12 shows the most frequent response was to outsource work to another party – an accountant for example. This was most common among non-employing businesses and those with 1-4 employees. Employing someone with tax experience followed the opposite pattern, with higher representation among employers, particularly the 5-9 group. Use of tax deductions was relatively standard across different size bands and applied to 31 per cent of businesses. Only 15 per cent of businesses had undertaken any form of training to help improve dealing with taxes and this tended to be most common in the 5-9 size band. Fifteen per cent of business that reported taxation to be an issue for the growth of their business had taken not undertaken any of these steps to deal with the issue.

**Table 5.12 Steps taken to improve dealing with taxation (%)**

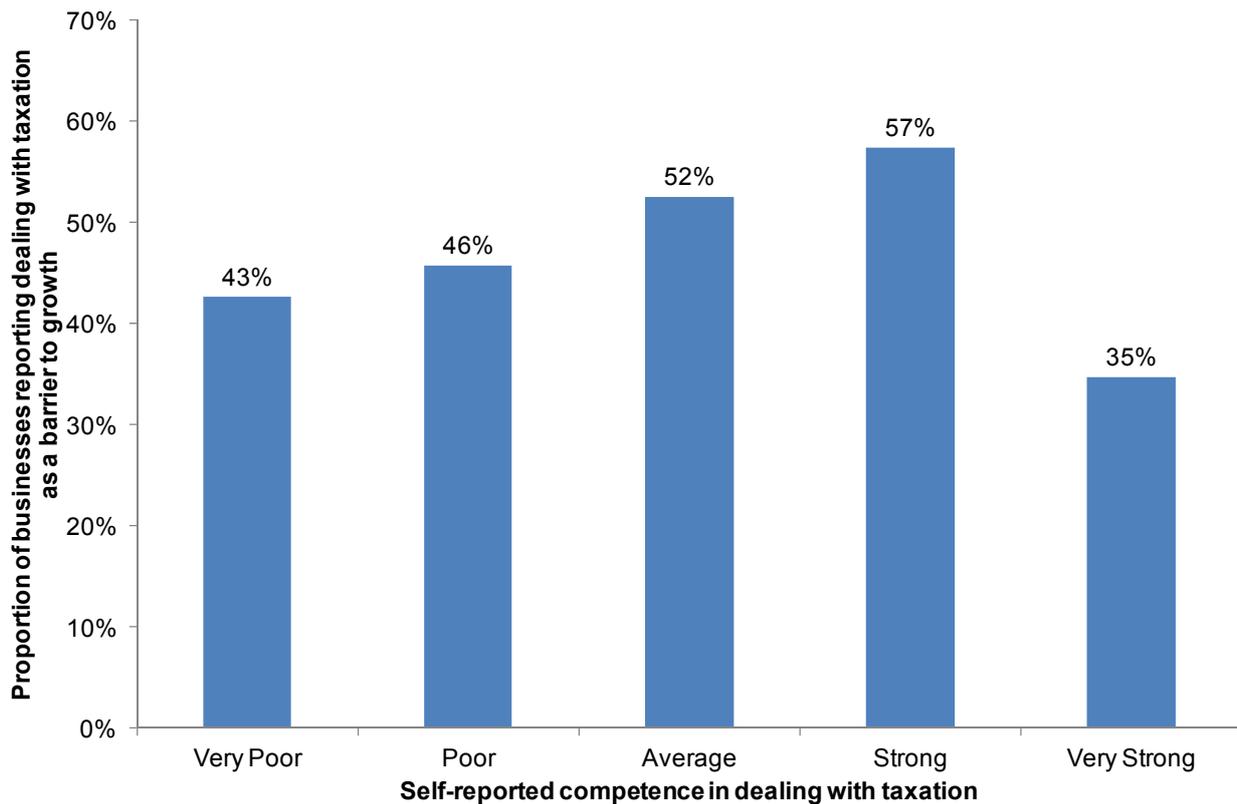
	<b>0 employees</b>	<b>1-4 employees</b>	<b>5-9 employees</b>	<b>All 0-9 employees</b>
	<b>N=140</b>	<b>N=234</b>	<b>N=175</b>	<b>N=549</b>
	%	%	%	%
Outsourced work relating to this area	52	54	43	51
Made more use of tax deductions and allowances	32	29	32	31
Employed someone with experience in this area	27	39	46	31
Undertaken training	15	11	24	15
Have not needed to	9	3	8	7
None of the above	14	15	14	15

*Base: Businesses reporting taxation to be an obstacle to business growth, weighted results. (N=549)*

### Self-reported competence in dealing with taxation

Figure 5.4 shows the self-reported level of competence in dealing with taxation and whether taxation is perceived as an obstacle to growth. Taxation is increasingly regarded as an obstacle with increasing self-reported competence, with the exception of those that consider themselves most competent, which is the group least likely to regard taxation as an obstacle. This may be because a better understanding of taxation leads businesses to a fuller appreciation of the serious impacts of tax in terms of the growth of their business.

**Figure 5.4** Proportions of businesses reporting taxation as an obstacle and self-reported competence in dealing with taxation



*Base: All microbusinesses, weighted results (N=988)*

Table 5.13 describes the relationship between self-reported competence in dealing with taxation and the steps taken to improve dealing with tax requirements. The cells show the percentage of businesses taking that step for each level of competence. Those rating themselves as most competent in dealing with taxation are more likely to have undertaken training on taxation and to have outsourced work in this area. Those most competent were also the most likely to use tax deductions and allowances.

**Table 5.14 Steps taken to improve dealing with taxation and self-reported level of competence in dealing with taxation (%)**

	Very Poor	Poor	Average	Strong	Very Strong
	%	%	%	%	%
Undertaken training	-	6	9	21	21
Outsourced work relating to this area	31	38	48	62	49
Employed someone with experience in this area	29	27	30	30	37
Made more use of tax deductions and allowances	24	23	30	38	30

*Base: All respondents answering both self-reported competence in dealing with taxation and the steps taken to improve dealing with taxation. (N=545) Each cell shows the percentage of businesses taking that step for each rating of competence. Weighted results.*

### VAT registration

The survey asked specifically about the effects of crossing the threshold of VAT registration. Table 5.15 shows that unregistered businesses are substantially more likely to regard crossing the threshold as very difficult (35 per cent) compared to registered businesses considering the event in hindsight (7 per cent). This suggests that the consequences of crossing the VAT threshold are not as difficult for the business as non-registered businesses fear.

**Table 5.15 Views on the ease of operating the business when crossing the VAT threshold and whether businesses currently pay VAT (%)**

	Pay VAT N=544	Do not pay VAT N=166
	%	%
Very easy 1	43	26
2	21	8
3	23	20
4	6	12
Very difficult 5	7	35

*Base: All microbusinesses with views on the difficulty dealing with VAT, weighted results (N=710)*

Table 5.16 shows the more specific implications of crossing the VAT threshold, again contrasting expectations of those below the threshold with the experiences of those above it. The data shows that unregistered businesses tend to exaggerate the effects of paying VAT. Nearly three quarters (73 per cent) of registered businesses reported that no changes occurred when they crossed the threshold, but just 22 per cent of unregistered businesses anticipated there would be no change. Of a list of suggested possible changes, only two attracted a high level of responses: losing customers on price and a greater burden of administration or bureaucracy. Only six per cent of those paying VAT had lost customers as a result of prices rising but 31 per cent of those not paying VAT

anticipated that this would happen. Similarly, a much higher proportion of those not paying VAT believed there would be a greater administrative burden associated with this than was reported by VAT registered businesses (28 per cent compared with 11 per cent).

**Table 5.16 Implications of crossing the VAT threshold and whether businesses currently pay VAT (%)**

	Pay VAT	Do not pay VAT
	%	%
No changes	73	22
Lose customers on price	6	31
More administration/bureaucracy	11	28

*Base: All microbusinesses with views on crossing the VAT threshold, weighted results (N=622)*

Table 5.17 crosstabulates the self-reported competence in dealing with tax and the perceived ease of crossing the VAT threshold. Among those businesses rating themselves as strong in their understanding of tax, 48 per cent of businesses indicated crossing the VAT threshold was very easy, compared with 19 per cent of businesses rating themselves as very poor.

**Table 5.17 Views on the ease of operating the business when crossing the VAT threshold and self-reported competence in dealing with tax (%)**

competence in dealing with tax Ease of crossing VAT threshold	Very Poor	Poor	Average	Strong	Very Strong
	%	%	%	%	%
Very easy 1	19	15	28	41	48
2	11	31	17	23	9
3	44	17	26	20	19
4	-	21	10	5	6
Very difficult 5	25	15	19	10	19

*Base: All microbusinesses with views on the difficulty dealing with VAT and self-reported competence in dealing with taxation, weighted results. (N=669)*

### **Small Business Rate Relief**

The survey had small number of questions related specifically to Small Business Rate Relief (SBRR) - a provision for small businesses that intended to reduce costs and thereby help survival and enable business growth. Provision was made based on the rateable value of the premises occupied, rather than on the size (employees or turnover) but naturally favours smaller businesses. In 2011/12 there was a temporary doubling of SBRR and this presented an opportunity to consider what businesses would do with such a windfall.

Table 5.18 reports how businesses used the money they would have spent on SBRR. A third of businesses used the funds for general cashflow, associated with keeping bills paid

and buying stock. Most other uses were in some respect developmental for the business (general reinvestment, premises, equipment, training staff). A very small proportion of answers related to retaining profit (two per cent), or taking higher drawings (two per cent) again confirming that the savings were for the most part retained in the business and indeed was being used to further develop the business.

**Table 5.18 Use of temporary doubling of Small Business Rate Relief (%)**

Helped with cashflow	34
Reinvested in the business	11
It was used for investing in your premises (e.g. purchasing / renting / maintenance)	8
Used for investment in equipment	7
Marketing or advertising	6
Helped with development / training of existing staff	3
Helped retain existing staff	2
Meant able to draw extra personal income from the business	2
Higher profits	2
Used in recruitment of new staff	1
None of the above	12

*Base: All respondents that report being in receipt of SBRR, weighted results (N=288)*

Businesses were also asked about how useful SBRR was in terms of business survival. Table 5.19 shows the impact was most useful for smaller businesses, although because of the size of the numbers involved the differences were not statistically significant.

**Table 5.19 Impact of receipt of SBRR on ability to continue trading by size (%)**

	<b>0 employees</b> <i>N=67</i>	<b>1-4 employees</b> <i>N=139</i>	<b>5-9 employees</b> <i>N=79</i>
	%	%	%
Significant positive impact	30	23	21
Somewhat positive impact	34	27	29
Not impact at all	36	50	50

*Base: All respondents that report being in receipt of SBRR, weighted results (N=288).*

## 5.7 Specific obstacles related to taking on employees

As already discussed, most non-employing businesses had never grown at all in employment terms. Our survey explored whether unpaid family members were used as substitutes and also whether these non-employing businesses had even considered recruitment over the last two years. A small minority (15 per cent) of non-employing businesses employed some family members in an unpaid capacity. Furthermore, the same proportion of non-employing businesses used subcontractors (compared with 30 per cent of other microbusinesses) and 10 per cent used consultants to add to management capability and capacity. Altogether, this evidence shows that for a minority of non-employing businesses there is some substitution for employees and (in the case of subcontractors or consultants) the necessary income to afford to do so. The survey also

showed that only eight per cent of non-employing businesses had tried to recruit in the last two years.

Table 5.20 shows the reasons for non-employing businesses gave (unprompted) for not employing staff. The data shows the prevalence of ‘satisficer behaviour’. The most common responses suggested that a significant proportion of non-employers believed that the size of the business was optimal: either that the business could only sustain one person (36 per cent) or that personal income - as opposed to business income was maximised working alone (27 per cent).

The third most common reason cited for not growing - the perception that dealing with regulation was too difficult or burdensome – was mentioned by substantially fewer respondents (14 per cent), with a similar proportion indicating that they did not want to supervise staff. Seven per cent explained that their business used subcontractors to complete additional work. Other concerns about growth attracted very small proportions of responses.

**Table 5.20 Impromptu reasons for not employing staff (non-employing businesses only) (%)**

Business can only sustain one person	36
I can maximise personal income by working by myself	27
Regulations are too burdensome or difficult	14
I don't want to supervise anyone	13
Other non-wage costs	10
I do use other people - but just as subcontractors	7
Can't find the right person	6
Can't afford salary	5
Increased risk	5
I'm a small subcontractor for other companies	3
Loss of control	2
Currently recruiting / planning to recruit	2
Once trained they'll leave to join a competitor or start up on their own	1
Don't understand what's involved	1

*Base: All non-employing businesses, weighted results (N=325)*

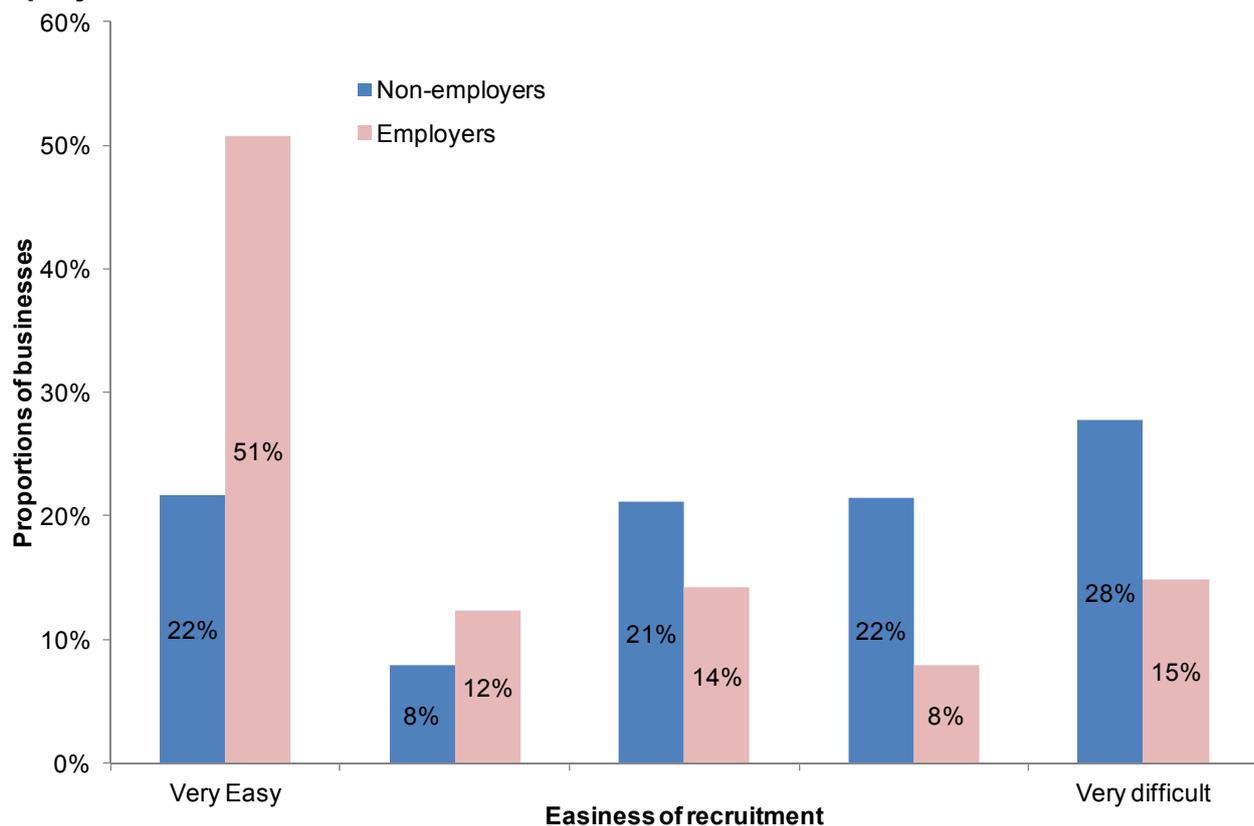
Table 5.21 shows both employer and non-employer views on the specific challenges associated with taking on the first employee, in order to contrast the views of those that have and have not successfully recruited staff. The data show that a higher proportion of non-employers reported each issue would be a challenge than had actually been the case for employers, in most cases substantially so. In the cases of increased risk and cost, this difference was greater than 20 percentage points. In most cases, the proportion of the 1-4 and 5-9 size bands reporting a challenge is similar. Also while the proportion of non-employing businesses anticipating a challenge was higher than had been the case with employers, the proportion of employers indicating that some issues had been challenging was high. For example, two-thirds of employers had difficulty in finding the right person (the area where the expectations of non-employing businesses most closely aligned with the experience of employers), and nearly half reported that their business risks had increased. Thus, the challenges are apparently real, and in this sense the issue is likely to be one of exaggeration rather than invention.

**Table 5.21 Specific challenges associated with taking on first employee (%)**

	0 employees	1-4 employees	5-9 employees	All 0-9 employees
	N=309	N=332	N=236	N=877
	%	%	%	%
Finding the right person	73	62	65	70
Increased risk	73	48	44	67
Cost	70	48	40	65
Time	46	29	31	42
Knowing what was involved	35	22	17	32
None	1	10	10	3

Base: All microbusinesses, weighted results (N=877)

Figure 5.5 presents the contrasting opinions of the ease of recruiting between those with experience as employers and those without. The results show a stark contrast between the anticipations of high levels of difficulty by non-employers and the ease actually experienced by employers. More than half of the employers rated the experience as being very easy, compared with only 22 per cent of those that don't employ staff.

**Figure 5.5 Views on ease of recruiting first employee by employers and non-employers**

Base: All microbusinesses, weighted results (N=974)

Table 5.22 shows the responses relating to the types of additional costs which would be (or had been) an obstacle to taking on the first employee. In each case, a higher proportion of non-employing businesses anticipate that the particular cost is an obstacle, compared to the experiences of employers, which indicates that the anticipated cost of first employee tends to be exaggerated. The largest perceptual gap relates to the

administrative costs, cited as an obstacle by 70 per cent of non-employing businesses compared to 39 per cent in the 1-4 size band and 53 per cent in the 5-9 size band. The smallest perceptual gap is the cost of training, cited by approximately the same proportion of all three size bands. The most reported obstacle was non-wage financial costs, such as insurance, cited by 85 per cent of non-employing businesses compared to 63 per cent of employers.

**Table 5.22 Additional costs as an obstacle to taking on first employee (%)**

	<b>0 employees N=234</b>	<b>1-4 employees N=148</b>	<b>5-9 employees N=99</b>	<b>All 0-9 employees N=481</b>
	%	%	%	%
Non wage costs (e.g. insurance)	85	63	63	82
Administrative costs	70	39	53	65
Training	59	53	58	58
Costs of recruitment process	45	28	33	42
Cost of new premises	27	14	28	25
None	4	15	11	6

*Base: All microbusinesses indicating cost was a barrier to recruiting first employee, weighted results (N=481)*

Businesses that indicated costs would be or were an obstacle to taking on their first employee were also asked to estimate the anticipated or actual additional costs (other than wages) as an absolute figure (Table 5.23). Again, the pattern is for non-employing businesses to produce an estimate of anticipated costs which are substantially higher (in fact, more than double) the actual costs indicated by employers. This overestimate could well represent a quite considerable disincentive to taking on the first employee for some non-employing businesses.

**Table 5.23 Average estimated monetary value of taking on first employee**

	<b>0 employees N=78</b>	<b>1-4 employees N=49</b>	<b>5-9 employees N=33</b>	<b>All 0-9 employees N=160</b>
Estimated cost (£)	£17,716	£6,596	£7,320	£15,963

*Base: All microbusinesses indicating cost was a barrier to recruiting first employee and offering an estimate of costs, weighted results (N=160)*

Similarly, Table 5.24 shows the opportunity cost of recruiting the first employee, in terms of the estimated time burden for the owner. Again, non-employing businesses exaggerate the time taken, although to a somewhat lesser extent than the additional costs an employee will generate.

**Table 5.24 Estimated time anticipated to be or actually taken to recruit first employee (%)**

	<b>0 employees</b> <b>N=211</b>	<b>1-4 employees</b> <b>N=126</b>	<b>5-9 employees</b> <b>N=86</b>	<b>All 0-9 employees</b> <b>N=423</b>
	%	%	%	%
Less than 8 hours	30	48	38	32
8 - 40 hours	53	44	44	52
More than 40 hours	17	8	19	16

*Base: All microbusinesses offering an estimate of time taken to recruit first employee, weighted results (N=423)*

Respondents were asked about the impact these anticipated or actual time and monetary costs had on their attitude towards business growth (Table 5.25). Time and costs considerations are shown to matter more for non-employers – over two-thirds report they matter somewhat or significantly compared to around half of employers. This is unsurprising, considering the difference in estimates of these costs reported above.

**Table 5.25 Impact of time and costs of recruiting (%)**

	<b>0 employees</b> <b>N=220</b>	<b>1-4 employees</b> <b>N=125</b>	<b>5-9 employees</b> <b>N=86</b>	<b>All 0-9 employees</b> <b>N=431</b>
	%	%	%	%
Significantly	44	26	18	41
Somewhat	24	23	24	24
Not much	16	32	29	19
Not at all	16	20	29	16

*Base: All microbusinesses offering a view of the impact of time and costs of recruitment, weighted results (N=431)*

In addition to the specific challenges in recruiting the *first* employee respondents were asked about recruitment issues in general; for employers, some of these will inevitably concern recruitment to replace departing staff, as well as expansion *per se*. Overall, 16 per cent of businesses had tried to recruit someone in the past two years. This includes eight per cent of current non-employing businesses, 34 per cent for 1-4 businesses and 69 per cent for 5-9 businesses. Given that around just three per cent of non-employers had grown their employment 2010-2012 (Table 4.1) this indicates that around five per cent of non-employers had tried but had been unsuccessful in taking on an employee in those two years.

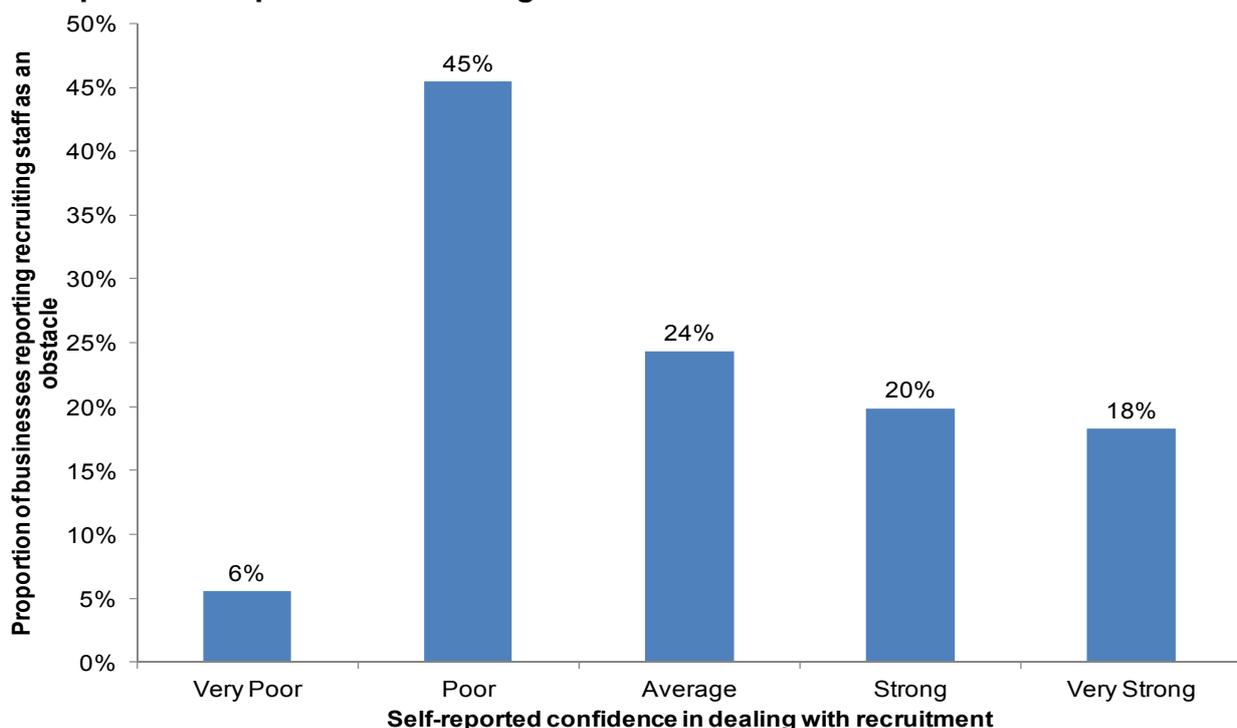
Table 5.26 shows the challenges of recruiting additional staff. Again, non-employing businesses were more likely to report any one issue as a challenge. In each case, more than half of microbusinesses report that regulations, wage and non-wage costs are obstacles to taking on (more) staff. However, uncertainty in relation to employment legislation and about the recruitment process itself are also important factors (48 and 38 per cent of microbusinesses respectively).

**Table 5.26** Specific challenges related to taking on additional staff (%)

	<b>0 employees</b>	<b>1-4 employees</b>	<b>5-9 employees</b>	<b>All 0-9 employees</b>
	<b>N=323</b>	<b>N=398</b>	<b>N=277</b>	<b>N=998</b>
	%	%	%	%
Regulations associated with employing staff	62	44	51	58
Other non-wage costs (e.g. pensions, insurance)	60	50	48	57
Costs of wages	57	53	57	56
Uncertainty about employment legislation	51	37	34	48
Costs of administration (e.g. recruitment, payroll)	41	31	21	38
Uncertainty about the recruitment process	26	17	14	23
None	13	12	13	13

*Base: All microbusinesses, weighted results (N=998)*

Figure 5.6 shows the proportions of businesses that report recruitment to be an obstacle and their own confidence in dealing with recruitment. The results show a much higher proportion of businesses which rate their business as poor in terms of dealing with recruitment are much more likely to report recruitment to be an obstacle to growth. However very few of those who consider themselves to be very poor at recruiting staff report it to be an obstacle to growth for their business, perhaps indicating that they do not consider it applies to them.

**Figure 5.6** Proportions of businesses reporting recruitment as an obstacle and self-reported competence in dealing with recruitment

*Base: All microbusinesses, weighted results (N=998)*

Many of the obstacles discussed in this Chapter (sections 5.3-5.6 related to cashflow, taxation, regulations etc) could be considered as external to the business and might be classed as market or environmental constraints. When asked specifically whether demand in their market limits their growth potential 65 per cent agreed, with little difference between size bands (Table 5.27).

**Table 5.27 Respondents views on whether their growth potential is limited by their market (%)**

	<b>0 employees</b> <i>N=320</i>	<b>1-4 employees</b> <i>N=395</i>	<b>5-9 employees</b> <i>N=276</i>	<b>All 0-9 employees</b> <i>N=991</i>
	%	%	%	%
Disagree strongly	13	14	17	14
Disagree slightly	14	14	15	14
Neither / nor	8	8	3	8
Agree slightly	20	28	25	22
Agree strongly	45	37	41	43

*Base: All microbusinesses, weighted results (N=991)*

## 5.8 Vision constraints

As well the range of obstacles that are related to the external environment and market condition, much of which has been described above, there is also a set of obstacles that relate to the limits of the owner/managers' mindsets that limit their **vision** of growth.

One measure of a lack of vision relates to views on the ideal size of the business in the longer term. Respondents were asked whether their 'ideal' size in the longer term would be significantly or slightly larger or smaller, or the same as now in terms of employment and turnover. Table 5.28 shows that the larger the microbusiness the more inclined they are to report their ideal size to be even larger in terms of employment. Non-employers were the most likely group to be consider themselves as being their ideal size already - almost half (47 per cent) of non-employers reported this.

**Table 5.28 Ideal size of business compared to now by current employment size (%)**

	<b>0 employees</b> <i>N=279</i>	<b>1-4 employees</b> <i>N=354</i>	<b>5-9 employees</b> <i>N=269</i>	<b>All 0-9 employees</b> <i>N=902</i>
	%	%	%	%
Significantly larger	17	18	23	17
Slightly larger	33	45	49	36
The same size as now	47	34	22	43
Significantly or slightly smaller	4	3	6	4

*Base: All microbusinesses, weighted results (N=902)*

In terms of sales, more of an appetite for growth can be seen amongst the smallest businesses. Table 5.29 focuses in on data for *non*-employers in terms of ideal *turnover* in the longer-term compared to now. *Non*-employers with current turnover under £25,000 were much more likely see their ideal size as significantly larger in the longer term in terms of turnover. Once that threshold is achieved, longer term turnover ambitions subside somewhat. There was no clear pattern for employers in terms of ideal turnover.

**Table 5.29 Ideal size of business compared to now – turnover (non-employers) (%)**

	Under £25k	£25-77k	£77-250k	£250k+	Total
	N=70	N=106	N=66	N=24	N=266
	%	%	%	%	%
Significantly larger	55	23	29	26	31
Slightly larger	23	48	55	52	42
The same size as now	18	23	14	19	23
Significantly or slightly smaller	4	6	2	3	4

*Base: All non-employing businesses, weighted results (N=266)*

Further indicators relating to the vision for business growth are set out in Table 5.30. The data shows that non-employing businesses are less likely than either group of employers to have undertaken activities conducive to growth. *Non*-employers were less likely to have sought external advice or taken steps to try to increase sales or attract new customers or have a desire to grow the business beyond the point where it provided a reasonable living for them. Employers were more likely to indicate their business is more aggressive than their competitors. A fear that growth would mean a loss of control over the business was most relevant for the 1-4 size band.

**Table 5.30 Vision constraints facing business (%)**

		0 employees	1-4 employees	5-9 employees	All 0-9 employees
		%	%	%	%
No desire to grow the organisation beyond providing a reasonable living	N=898	41	34	26	38
Not sought external advice or information in past two years	N=1000	39	33	24	37
Not taken any steps to try to increase sales or attract more customers	N=1000	37	24	11	33
Growth would mean I'd lose too much control of the business	N=988	27	29	20	27
My business is more aggressive than my competitors	N=960	21	30	37	24

*Base: All microbusinesses, weighted results (N shown in column 2)*

Owner/ managers across all size bands were more likely to disagree with the statement that growth was unnecessarily risky to business survival than agree with it. Overall a third

(34 per cent) of microbusinesses thought it would be overly risky. Although non-employers were more likely to agree there were no significant differences between size bands.

**Table 5.31 Owner/managers perceptions of whether growing the business would be unnecessarily risky to its survival (%)**

	<b>0 employees</b>	<b>1-4 employees</b>	<b>5-9 employees</b>	<b>All 0-9 employees</b>
	<b>N=316</b>	<b>N=395</b>	<b>N=274</b>	<b>N=985</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Disagree strongly	33	31	39	33
Disagree slightly	22	26	27	23
Neither / nor	10	9	8	10
Agree slightly	21	16	13	19
Agree strongly	14	18	14	15

*Base: All microbusinesses, weighted results (N=985)*

A further question relating to vision concerned whether owner/managers believed growing the business would mean too much time would be spent managing rather than earning, with 48 per cent of microbusinesses agreeing or agreeing strongly and 41 per cent disagreeing or disagreeing strongly (the difference is statistically significant). Businesses with 5-9 employees were more likely to disagree with the statement than smaller businesses.

**Table 5.32 Owner/managers perceptions of whether growing the business would mean too much time would be spent managing rather than earning (%)**

	<b>0 employees</b>	<b>1-4 employees</b>	<b>5-9 employees</b>	<b>All 0-9 employees</b>
	<b>N=318</b>	<b>N=393</b>	<b>N=277</b>	<b>N=988</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Disagree strongly	19	22	33	20
Disagree slightly	19	24	29	20
Neither / nor	11	13	9	11
Agree slightly	26	21	14	24
Agree strongly	25	20	16	24

*Base: All microbusinesses, weighted results (N=988)*

## 5.9 Capacity constraints

In addition to the external constraints and internal vision constraints, a third type of constraint relates to the internal capacity and capability of the business is also evident. Capacity constraints are associated with issues such as sub-optimal staff training and lack of operational and strategic planning and innovation.

Table 5.34 shows responses to seven separate questions in our survey relating to the issue of capacity. In terms of prevalence, training is the most widespread capacity constraint, an issue for 44 per cent of businesses, but over half of non-employers had not undertaken any training in the past two years compared to just nine per cent of microbusinesses in the 5-9 size band. Poor capabilities in introducing new products and

services is the second most prevalent issue applying to 42 per cent of businesses, again more applicable for non-employers than employing microbusinesses. Just over one-third lacked a formal system for maintaining customer records and a quarter of respondents did little or no business planning, the same proportion that did not undertake operational improvement. Only 17 per cent reported a shortage of managerial expertise, while just seven per cent indicated that not all staff were fully proficient. Non-employers were more likely to report they were poor or did not undertake activities conducive to building capacity for growth.

It is notable that just five per cent of non-employers consider that all their staff (i.e. themselves) are not fully proficient, compared to 11 per cent of 1-4s and 24 per cent of 5-9s. It may be the case that non-employing businesses do not fully analyse their proficiency or attempt to identify areas where they may benefit from upgrading their skills. Indeed, as shown above only half of all non-employers reported that they had undertaken any training in the past two years.

**Table 5.33 Capacity constraints facing businesses (%)**

		<b>0 employees</b>	<b>1-4 employees</b>	<b>5-9 employees</b>	<b>All 0-9 employees</b>
		%	%	%	%
Undertaken neither internal nor external training in past two years	<i>N=955</i>	51	31	9	44
Poor at or do not introduce new products/services to market	<i>N=997</i>	45	34	30	42
No formal system for maintaining customer information records	<i>N=988</i>	39	30	19	36
Poor at or do not develop/implement business plan and strategy	<i>N=1000</i>	27	19	13	25
Poor at or do not undertake operational improvement	<i>N=989</i>	28	18	13	25
Shortage of managerial skills expertise	<i>N=1000</i>	16	20	24	17
Not all staff fully proficient	<i>N=965</i>	5	11	24	7

*Base: All microbusinesses, weighted results (N shown in Column 2)*

## **5.10 Non-employing businesses with multiple owners and One Person Businesses (OPBs)**

Many of the tables shown in the preceding sections show non-employers are less likely to engage in a range of activities associated with growth, are more likely to have vision and capacity constraints and are less likely to grow or have substantive ambition to grow. OPBs are a sub-division of this group for which each of these matters are more acute compared to non-employers with multiple owners or partners. The latter category is shown to be closer to micro-employers in terms of growth, ambition, the constraints and

obstacles they face and the extent to which they undertake activities conducive to growth (See Tables 4.8 and 4.9 and appended Tables A.10 to A.14 - Appendix 7). For example, non-employers with multiple owners were much closer to businesses with 1-4 employees in terms of the extent to which they sought any external advice and whether taken any steps to increase sales compared to OPBs (Table A.13). There were also significant differences in terms of propensity to develop a business strategy, operational improvement and to introduce new products and services. Therefore for some analyses there is an important distinction amongst the non-employers themselves.

## 5.11 Summary

- Our survey found that the proportions of businesses identifying obstacles to business growth were not dissimilar to the obstacles to business success as reported in SBS 2010. Therefore although for many owner/managers business success may not be built on growth but many microbusinesses themselves recognise that being successful is a precondition for growth.
- Conventional measures of obstacles based on the **market** or external environmental factors show the smallest businesses reported the fewest obstacles to growth. However a wider analysis that incorporates wider measures of **vision** and **capacity** the evidence shows that small businesses have face more obstacles.
- Businesses expressing the view that they did not want to grow tended not to cite the conventional obstacles mentioned by SBS. Instead the most common reasons for not wanting to grow were a lack of customers and satisfaction with being the same size, cited by around a third of microbusinesses in each case.
- In terms of the **vision** of the owner/ manager, there was clear evidence that non-employing businesses were less inclined to desire and seek growth but vision grew steadily with size band. Non-employers were more inclined to report their ideal size of business to be the same as now and for their ideal turnover to remain relatively modest. Non-employers were the most likely group to neglect growth related activities such as taking external business advice, taking steps to increase sales or seek to grow their business beyond earning a reasonable income. Non-employers were also more likely to agree that growth would mean too much time spent managing rather than earning a living.
- **Capacity** constraints were also evident for the surveyed businesses. This was expressed in terms of: not having undertaken any training; not introducing new products or services and not keeping customer records. These obstacles were most evident for non-employing businesses, except for the issues of Management and Leadership and more general skills proficiency, where higher proportions of businesses with 5-9 employees reported these obstacles.
- The survey found that for both cashflow and finance reported obstacles were related to competence in dealing with these issues.
  - Business with more self-reported competence in dealing with cashflow were the least likely to report cashflow as an obstacle. Those more competent were also more likely to have taken additional action, particularly in terms of achieving quicker payment times and reducing levels of bad debts.

- Demand for finance showed a similar trend, with businesses' with high-levels of self-reported competence in dealing with finance rating 'raising finance' as less problematic than those with lower competence
- Crossing the VAT threshold was perceived to be much more difficult by non-registered businesses than those that had crossed the threshold. As well as the process being rated as being more difficult, unregistered businesses exaggerated the adverse effects, with few VAT registered businesses reporting their being any effects of losing customers on price or excessive administration costs.
- Non-employers were much more likely to view the recruitment process to be very difficult compared to employing microbusinesses and judged the non-wage recruitment costs to be much more expensive, on average estimating that taking on the first employee would cost around £17,000 compared to the £7,000 by micro employers.
- Eight per cent of non-employers reported that they had tried to recruit in the previous two years.

# 6 Categories of constrained businesses

## 6.1 Introduction

The individual obstacles considered in this research so far were analysed and aligned to clusters based on perceived and actual constraints to do with the **capacity** of the business to grow, the external environment including the **market** and the **vision** of the owner and their attitudes towards growth. Combining the obstacles in this way provides a better understanding of the relative importance of constraints on growth and provides a better predictor of achieved growth and growth ambition than narrower measures.

Analysis was undertaken to allocate respondents to one of three main categories according to whether they were identified as being constrained by (i) their **internal capacity** and capability to grow; (ii) the **external environment, including the market** in which the business operates and (iii) the psychological limits or **vision** of the owner in relation to growth. A selection of questions from our survey were identified as representing an obstacle to growth and used to allocate businesses to categories based on the number of obstacles faced within the area. Businesses could be assessed as being constrained in one or more areas while a smaller number were identified as being **unconstrained** (making up a fourth category). First we consider the extent to which businesses were faced with individual obstacles and the relationship with growth before we consider clusters of constraints.

## 6.2 Aggregated barriers

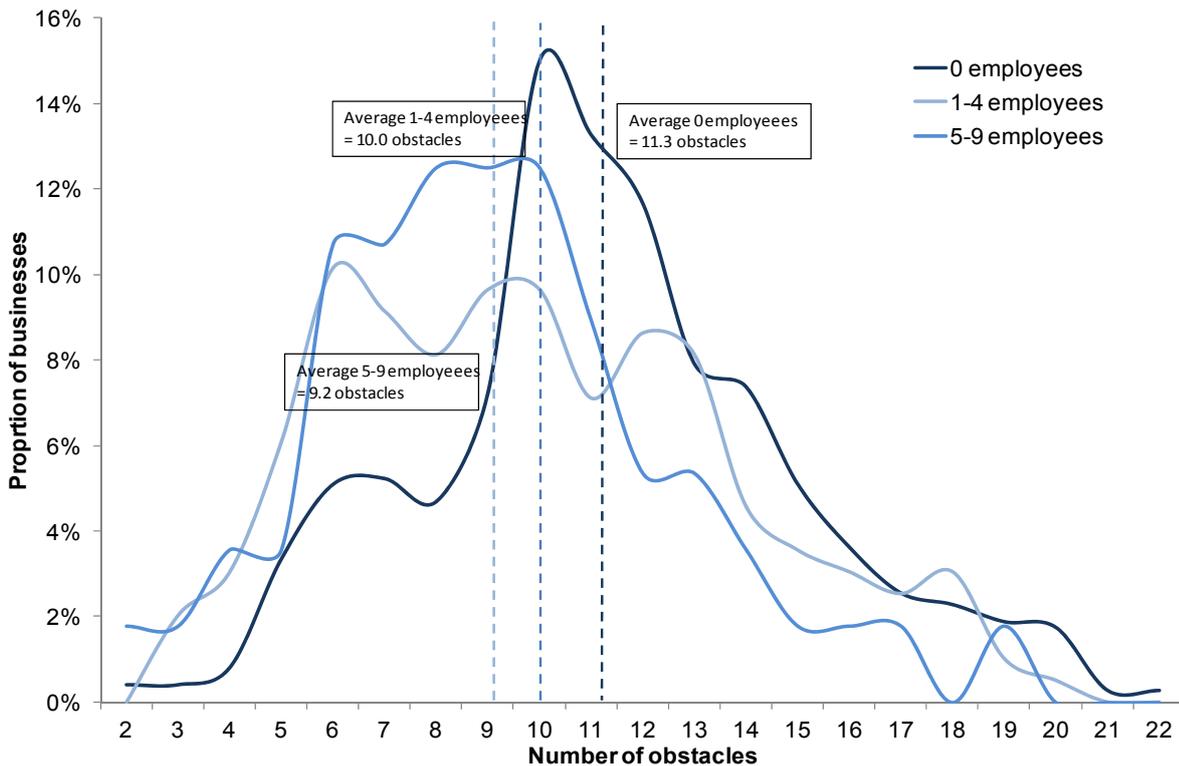
The telephone survey asked 31 questions that represented obstacles to business growth<sup>22</sup>. The lowest number of obstacles faced by any business was two – no business faced no obstacles at all. The highest number faced by any business was 21 out of the total of 31. Thus, none of the 1,000 businesses surveyed<sup>23</sup> were entirely constrained; all had at least some dimensions where they were in some respects unfettered by obstacles.

Figure 6.1 shows the distribution of obstacles for each size band. The non-employing businesses tended to have the highest number of obstacles overall, with an average of 11.3 per business (11.9 for OPBs) and a much lower proportion of businesses with low numbers of barriers than the other size bands. Businesses with 1-4 employees faced an average of 10.0 obstacles and had rather more businesses with a low number of barriers than non-employing businesses. The 5-9 employers had the lowest number of barriers (9.2 on average) and very few businesses with a high number of barriers.

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<sup>22</sup> Tables showing the questions taken from the telephone survey are shown in Appendix 5.

<sup>23</sup> All 1,000 interviews were able to provide sufficient information to receive a score and also to be included in the later constraints analysis (Section 6.3)

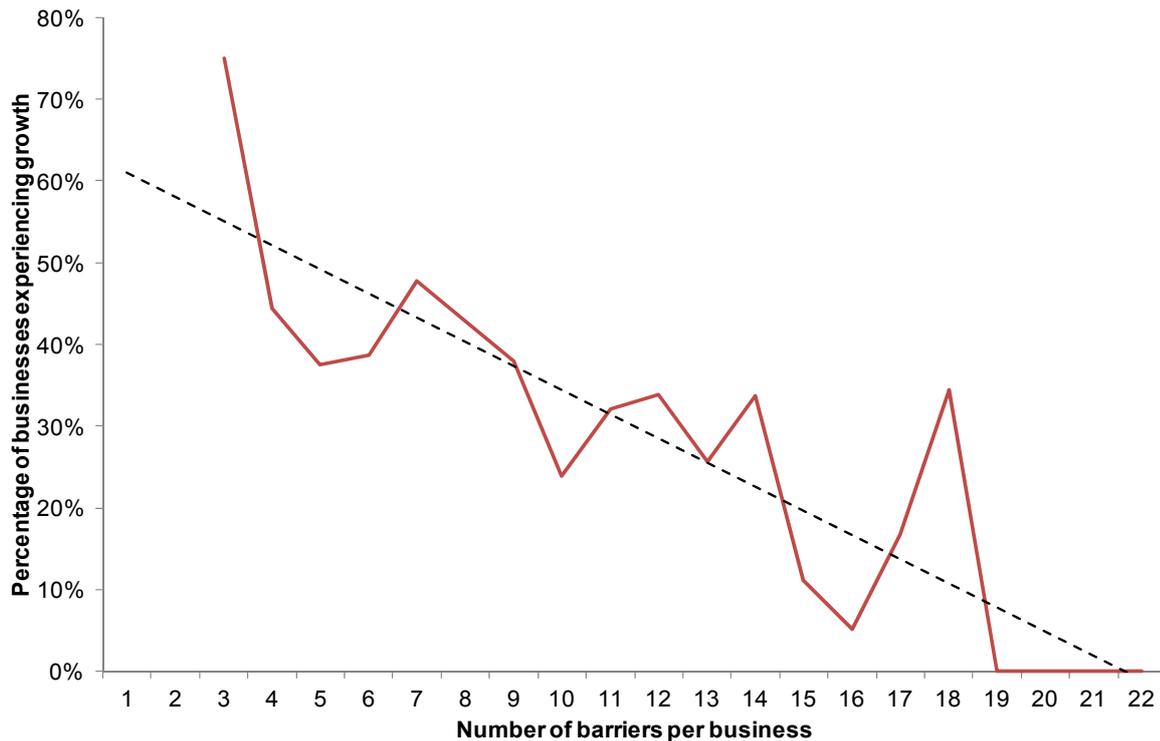
**Figure 6.1** Distribution of obstacles among businesses

Base: All microbusinesses, weighted results (N=1000)

Figure 6.2 shows the relationship between the number of obstacles and the proportion of businesses exhibiting growth over the period 2010-12. The expected relationship of more barriers being associated with fewer businesses growing is shown by the trend line<sup>24</sup>. With as many as 19 obstacles none of the businesses had grown, while some of the businesses with very few barriers were much more likely to have experienced growth. The relationship is even stronger when only considering employer businesses.

<sup>24</sup> correlation of  $-.237$  and statistically significant

**Figure 6.2 Relationship between number of obstacles and proportion of growing businesses (employment or sales, 2010-12)**



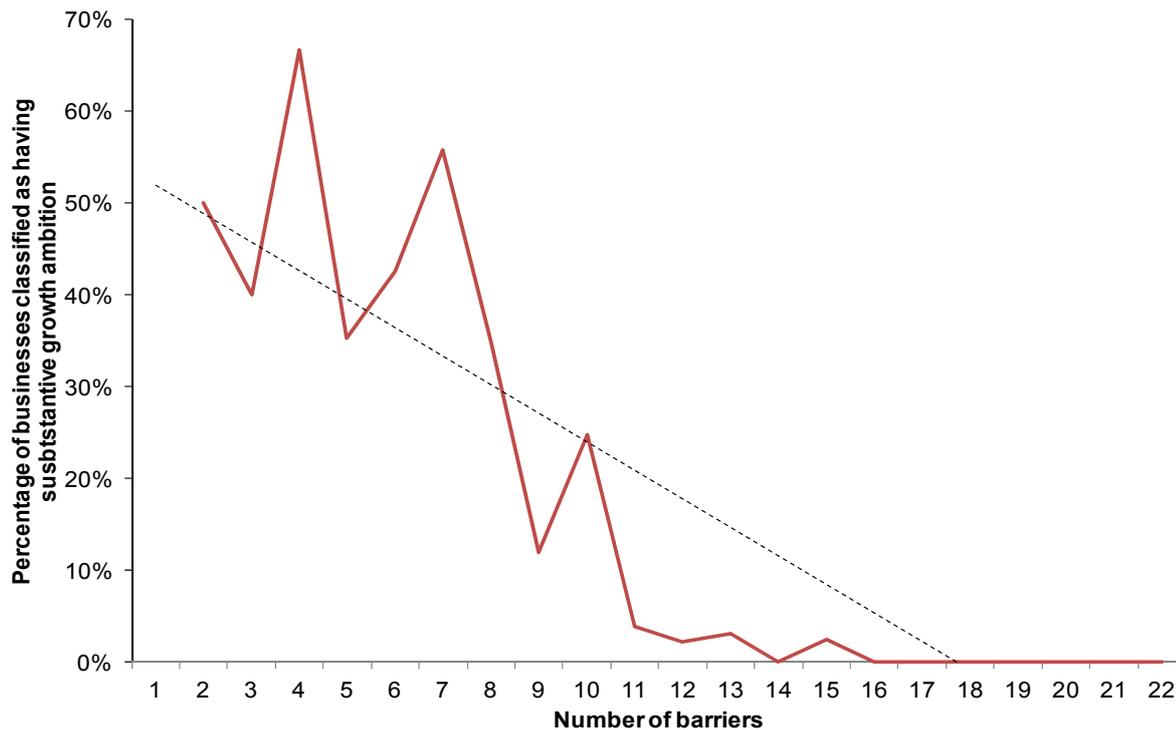
*Base: All microbusinesses with two years employment and sales history, weighted results (N=936)*

Figure 6.3 shows the relationship between the number of obstacles and proportion of businesses described as having substantive growth ambition. The graph shows a very pronounced downward trend line<sup>25</sup>. None of the businesses with 15 or more barriers were judged to have substantive growth ambition, with ambition much more concentrated in those businesses with the fewest reported barriers.

The evidence presented here shows that aggregating obstacles provides an indication of the likelihood of businesses to grow, based on the number of obstacles they face. The next section brings the obstacles together into clusters, based on types of constraint that businesses might face.

<sup>25</sup> correlation of -.441 but not statistically significant

**Figure 6.3 Relationship between number of obstacles and substantive growth ambition**



*Base: All microbusinesses with a classification of growth ambition, weighted results (N=820)*

### 6.3 Pattern of constraints

The 31 obstacles to growth identified by the survey were recombined so that each question was allocated to one of the three types of constraint (Vision, Market, and Capacity). Businesses which reported a certain minimum number of obstacles for the constraint were designated as being so constrained (see Appendix 5 for details).

Table 6.1 shows the extent to which microbusinesses are constrained by the categories outlined above. Predominantly, micros are shown to be constrained by internal vision and capacity (72 and 67 per cent respectively), a pattern driven by the constraints most commonly found amongst non-employing businesses. Forty-five per cent of microbusinesses were market constrained i.e. faced a set of obstacles in the business environment external to the business itself. Comparatively, this category affected non-employers to a lesser extent than employers. Only nine per cent of micros were classified as having none of these three constraints. Non-employing businesses are the most constrained (and OPBs more so), in terms of vision and capacity.

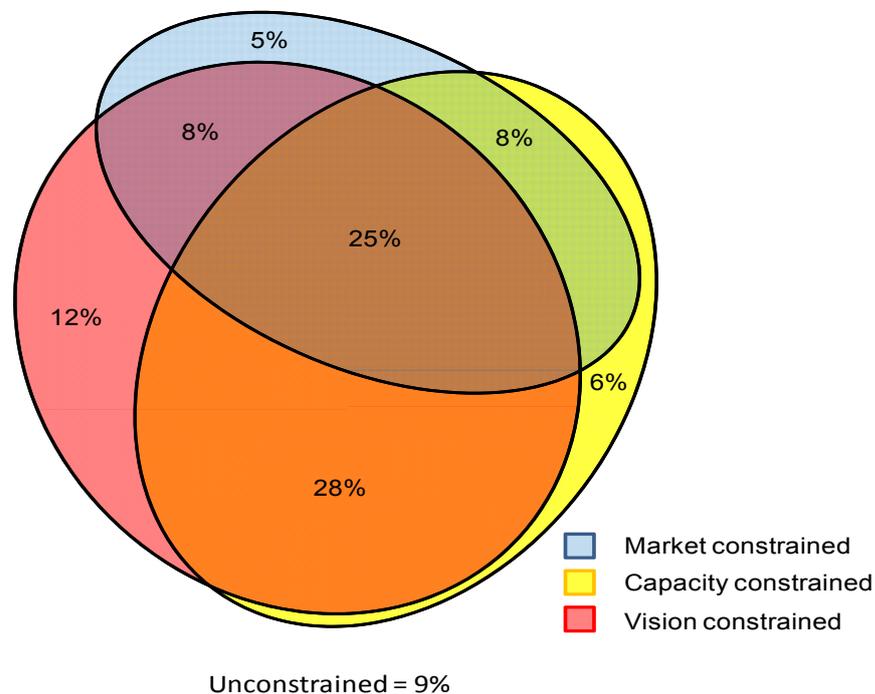
**Table 6.1 Proportion of businesses according to type of constraint (%)**

	OPBs N=122	Non- employing businesses (1+ owner) N=177	1-4 employees N=398	5-9 employees N=277	All 0-9 employees N=974
	%	%	%	%	%
Vision	84	69	55	47	72
Capacity	75	68	52	45	67
Market	40	49	55	62	45
Unconstrained	4	12	14	13	9

Base: All microbusinesses, weighted results (N=974)

A representation showing the substantial overlaps between these categories is presented at Figure 6.4. The size of each ellipse is proportional to the size of the population represented and the area of the overlap is also to scale. The figure highlights that the extent of overlap is by no means even, with just eight per cent of micros facing market and capacity but not vision constraints, while the capacity and vision constraint (but not market) accounts for 28 per cent. Relatively few micros are constrained in only one aspect (23 per cent), while 44 per cent have only two constraints and a quarter of businesses were classified as being subject to all three constraints (Table 6.2).

**Figure 6.4 Venn diagram of constraints – all microbusinesses with 0-9 employees**



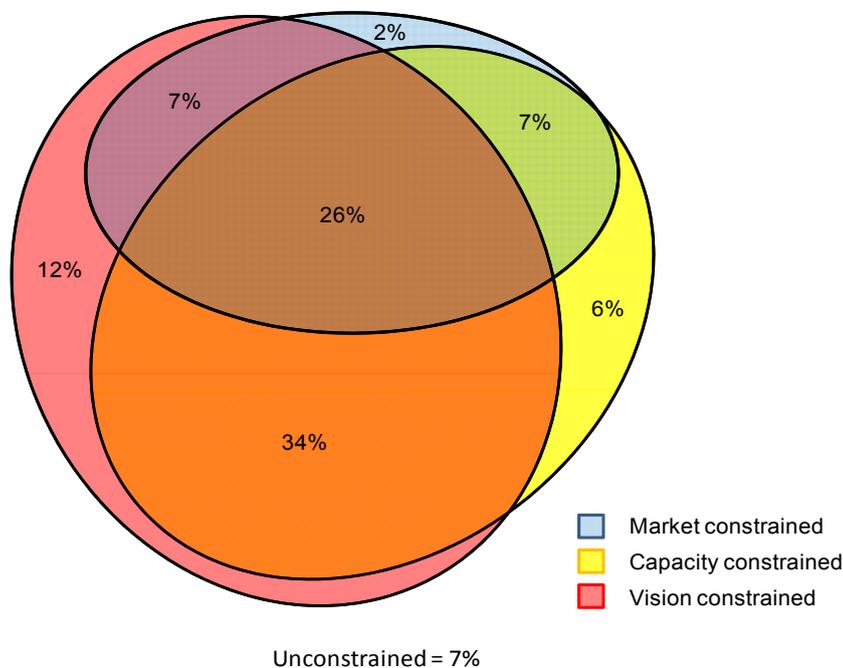
Base: All microbusinesses, weighted results (N=1000)

**Table 6.2** Proportion of businesses by number of constraints (%)<sup>26</sup>

	0 employees <i>N=325</i>	1-4 employees <i>N=398</i>	5-9 employees <i>N=277</i>	All 0-9 employees <i>N=1000</i>
	%	%	%	%
Unconstrained	7	14	13	9
One constraint	19	33	36	23
Two constraints	48	32	35	44
Three constraints	26	22	16	25

*Base: All microbusinesses, weighted results (N=1000)*

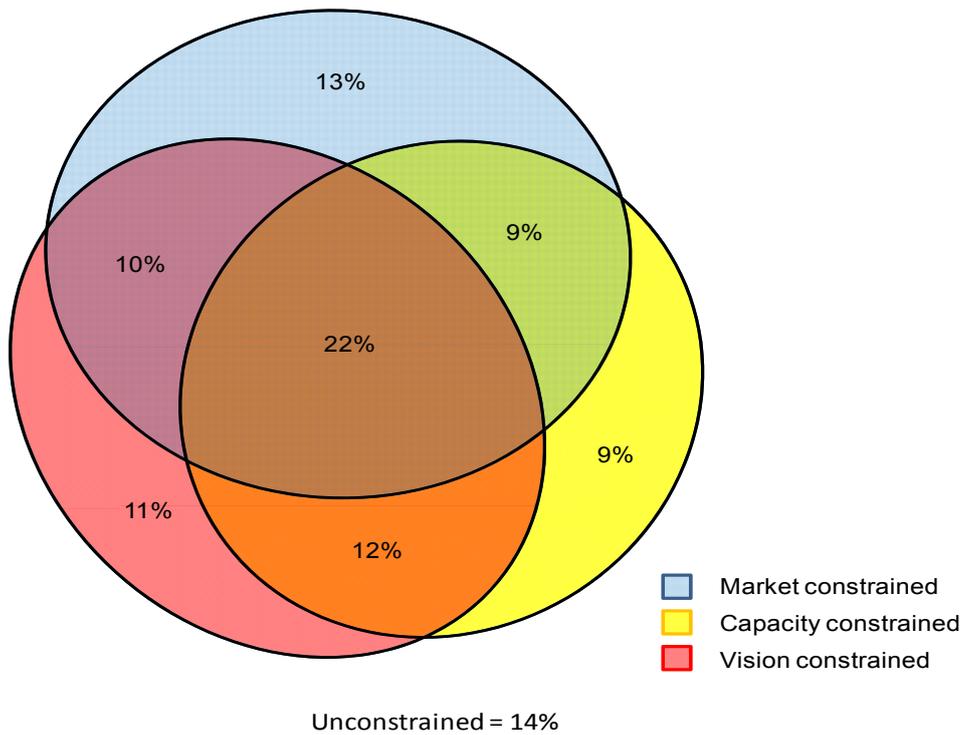
As already discussed, the proportion of businesses exhibiting each constraint is very sensitive to size band (Figures 6.5-6.7). Vision and capacity constraints appear to be more of an issue for non-employing businesses with decreasing proportions affected as business size increases. The opposite trend is evident for market constraint, where just 42 per cent of non-employing businesses are affected, compared with 62 per cent of 5-9 employee businesses. One possible explanation for the market constraint being more important for larger micros might simply be that these businesses are more closely in competition with large businesses and have greater pressure in securing sufficient sales to break even. It may also be likely that these larger micros have also to some degree resolved some of the issues surrounding the internal capability and vision in order to reach this size.

**Figure 6.5** Venn diagram of constraints – non-employing businesses

*Base: All businesses with no employees, weighted results (N=325)*

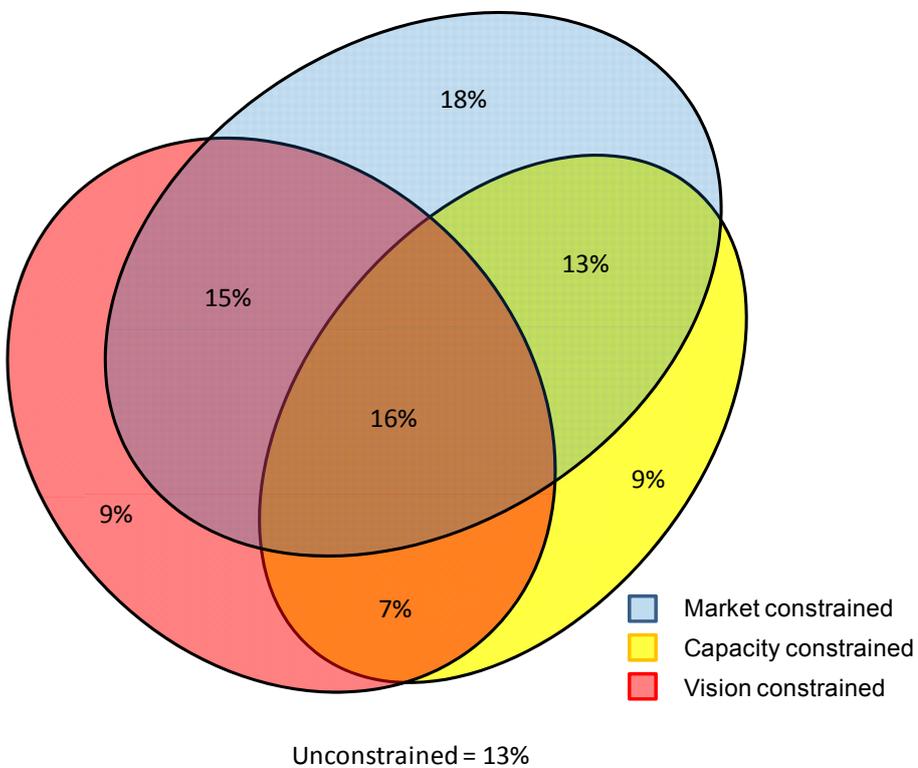
<sup>26</sup> The differences between OPBs and other non-employing businesses was negligible, with slightly more vision and capacity constrained businesses compensating for fewer market constrained businesses.

**Figure 6.6 Venn diagram of constraints – 1-4 employees**



*Base: All microbusinesses with 1-4 employees, weighted results (N=398)*

**Figure 6.7 Venn diagram of constraints – 5-9 employees**



*Base: All microbusinesses with 5-9 employees, weighted results (N=277)*

## 6.4 Relationship between constraints, growth and ambition

In this section we consider the extent to which constraints are linked to historic growth and growth ambition. Intuitively one would expect having fewer constraints to be associated with higher growth and ambition and the data shows that this appears to be the case.

### 6.4.1 Historic growth (sales or employment 2010-12)

Table 6.3 shows the proportion of businesses increasing either employment or sales over the period 2010-12 and the number of constraints they face. The proportion of micros with three constraints which grew either employment or sales was just 25 per cent, similar to the proportion among those with two constraints. The proportion of singly constrained businesses which grew was 36 per cent and 45 per cent of unconstrained businesses grew. This pattern is very much as expected, but there is a difference in growth according to the type of constraint (Table 6.4), with those market constrained far more likely to report growth than those affected by either of the other two constraints. Of those only affected by a single constraint, those which were market constrained were most likely to report growth (48 per cent), compared to 32 per cent of those affected by only the capacity constraint and 33 per cent of those only vision-constrained.

**Table 6.3** Proportion of businesses growing (2010-12) by number of constraints (%)

	<b>0 employees N=302</b>	<b>1-4 employees N=371</b>	<b>5-9 employees N=256</b>	<b>All 0-9 employees N=929</b>
	%	%	%	%
No constraint	39	51	59	45
Any single constraint	33	43	46	36
Two constraints	26	43	51	28
All three constraints	20	29	37	25

*Base: All microbusinesses with two years employment and sales history, weighted results (N=929)*

**Table 6.4** Proportion of businesses growing (2010-12) by type of constraint (%)

	<b>0 employees N=55</b>	<b>1-4 employees N=126</b>	<b>5-9 employees N=88</b>	<b>All 0-9 employees N=269</b>
	%	%	%	%
Capacity only	20	41	63	32
Vision only	32	45	54	33
Market only	60	42	32	48

*Base: All microbusinesses with two years employment and sales history and facing a single constraint, weighted results (N=269)*

### 6.4.2 Anticipated growth

Table 6.5 shows the proportion of businesses with substantive growth ambition and the number of constraints they face. The pattern here is similar to but stronger than for growth

history, which might suggest that owners' views concerning growth are more synchronised with the obstacles they perceive than the actual growth they experience. More than half of businesses with no constraint could be classified as having substantive growth ambition, which fell to 10 per cent for two constraints, 30 per cent for a single constraint, and just 1.5 per cent for all three constraints.

Vision proved to be the more important barrier to ambition, with only 16 per cent of vision constrained micros having substantive growth ambition, compared to over 40 per cent of those with capacity or market constraints.

**Table 6.5 Proportion of businesses with substantive growth ambition by number of constraints (%)**

	<b>0 employees</b> <i>N=257</i>	<b>1-4 employees</b> <i>N=346</i>	<b>5-9 employees</b> <i>N=242</i>	<b>All 0-9 employees</b> <i>N=845</i>
	%	%	%	%
No constraint	41	33	67	52
Any single constraint	24	31	60	30
Two constraints	8	13	15	10
All three constraints	1	-	11	2

*Base: All microbusinesses with a classification of their growth ambition, weighted results (N=845)*

**Table 6.6 Proportion of businesses with substantive growth ambition by type of constraint (%)**

	<b>0 employees</b> <i>N=257</i>	<b>1-4 employees</b> <i>N=346</i>	<b>5-9 employees</b> <i>N=242</i>	<b>All 0-9 employees</b> <i>N=845</i>
	%	%	%	%
Capacity only	39	41	40	43
Vision only	15	10	20	16
Market only	36	41	30	41

*Base: All microbusinesses with a classification of their growth ambition, weighted results (N=845)*

## 6.5 Summary

- Using an index of 31 obstacles, the most obstacles faced by any of the 1,000 surveyed businesses was 21, indicating that no businesses are fully constrained.
- Under this scheme of classification, on average, the larger the microbusiness the fewer barriers they faced. This is in contrast to the pattern shown by the 'conventional' list of (mainly external) obstacles presented by SBS which the smallest business may not view as being as relevant as the slightly larger ones as they are less likely to be actively seeking growth
- The fuller classification of obstacles in this study is able to reconcile patterns of growth exhibited by microbusinesses of different sizes. The evidence presented

shows that the number of obstacles faced is inversely related to both growth and growth ambition, with fewer obstacles being correlated with higher growth during 2010-12 and with substantive levels of growth ambition.

- Combining obstacles into associated clusters revealed that the *vision* of the business was a limiting constraint for 72 per cent of microbusinesses, while *capacity* constraints applied to 67 per cent, and *market* constraints to 45 per cent of micros.
- Microbusinesses were rarely constrained in only one of these three dimensions. Two-thirds (68 per cent) of microbusinesses were subject to more than one type of constraint.
- There was a relationship between the number of constraints and the growth of microbusinesses. A greater proportion (45 per cent) of unconstrained businesses had grown, whereas fewer businesses subject to all three constraints had (25 per cent).
- Non-employing businesses were subject to the most constraints, with 74 per cent being subject two or more constraints, compared with 54 per cent of 1-4 employers and 51 per cent of 5-9 employers.
- The type of constraint is also specific to business size. The non-employing businesses were considerably more likely to be subject to capacity and vision constraints, but reported lower proportions of businesses with market constraints, compared to employers, particularly those with 5-9 employees.
- These findings suggest that work should occur on more than one front to help businesses overcome one or more constraints - interventions need to be holistic and multidimensional and the smallest businesses are more likely to require such compound interventions.

# 7 Myths commonly held by very small businesses

## 7.1 Introduction

Eight focus groups were held around England, each with 8-10 participants (all business owners). Three groups consisted of owners of businesses with 1-9 employees. Three groups consisted of businesses without employees. The remaining two groups consisted of owners of businesses with 10-19 employees, reflecting on obstacles to growth they faced when smaller, and how they overcame them.

The aim of the focus groups was to explore in depth business owners' views on growth, including how they conceptualise growth, perceived barriers, the consequences of growth for their business and their personal circumstances and evidence of mindsets among owners which may restrict their potential business growth. In particular, the focus groups sought to uncover 'myths': assertions about growth which were exaggerated, not correct and/or which served as a rationalisation or defence of their desire not to grow. As noted in the literature review, asking owners about their lack of growth may prompt a defensive response, or a justification for remaining small, rather than simply admitting that they would rather remain small. This did occur, although some did express the preference for remaining small as well. The point of this part of the research is not necessarily to persuade an owner to pursue growth when they would rather not, but to uncover systematic beliefs and biases which may prevent owners pursuing a growth strategy when they otherwise have the potential and inclination to do so. This process allows the development of a response, derived from the views of other owners, surveys, official data etc., which demonstrate that the obstacles to growth are not as high as may have been believed, or that the anticipated negative consequences of growth (e.g. a higher regulatory burden) have been exaggerated.

It should be noted that none of the following myths are absolute i.e. they do not apply to all microbusinesses. Several are most relevant to businesses who have not yet taken on their first employee; others are more relevant to employers, or those in particular sectors.

## 7.2 I am not a business

If a sole trader is simply working to earn their own living, they may not believe that they are a 'business' and it is less likely they will seek to recruit staff. A key demarcating factor between simple self-employment and 'running a business' was the issue of *responsibility* for something other than one's own income - for staff, premises, overheads, even supporting a family

*I'm self-employed, I don't have a shop that I have to be worried about, mine isn't necessarily a business, it's just whatever services I provide. (Accountant)*

*Self-employed is me as an individual. If you have to service your business - premises, upkeep, rates, electricity, overheads - **that's** when you're a business. (Electrical repair)*

A related point was the issue of ambition and planning for the future – a business was considered to be a long-term developing entity, as opposed to a sole trader making a day-to-day living. The ‘self-employed’ undertake tasks that need doing to earn that living (working **in** a business) and often lack the time and/or inclination to strategise future developments (working **on** a business).

*I see myself as a business – it’s about intention and having a goal, not one step in front of another, one project after another ‘til you retire. (Architect)*

*I’m spending too much time **in** my business doing it, doing it and not enough time working **on** it (PR)*

### 7.2.1 Response

A sole trader without employees is a business, even if they do not see themselves as such; approximately 75 per cent of all businesses in the UK consist of only one person. Many former non-employing businesses have successfully grown; this study found that 23 per cent of businesses founded as non-employing businesses subsequently grew to employ staff. Korunka et al (2011) found that just over half of the one-person start-ups in their small sample had added at least one employee over the course of their eight-year study. They also noted that ‘seriousness of intent’ is a good predictor of growth, including growth intentions and turnover being higher at start-up. This ‘intent’ is crucial; encouraging non-employing businesses to analyse their business and develop their planning ability is important – even if they do not eventually recruit an employee, upgrading their skills will improve the business. In addition, there is a potential disjuncture between the way the owner conducts business (i.e. by themselves, as a self-employed contractor), and the image they would like to project for marketing reasons. Being *seen* as a ‘business’ – as opposed to an individual working for themselves – is a way to win new orders, by projecting a more professional image.

*Josephine Bloggs from Wycombe wouldn’t have much impact – I’m trying to sell them an idea so I have to appear bigger and like an organisation more than a person. (Events promoter)*

Ultimately, this myth may be important for the way in which messages aimed at ‘businesses’ are conveyed. If a sole trader does not think of themselves as a business, they may miss messages and support which would be applicable and useful for them.

## 7.3 I can’t grow in a recession

Many focus group participants noted a high level of uncertainty over how long the recession might continue and whether it might worsen (rather than just current market conditions per se, although this is also clearly an issue). This led many to defer growth plans i.e. remain steady rather than taking the risk of recruiting staff they may have to lay off (to meet unexpected demand, temporary or agency staff were typically used). Investment plans were often deferred due to the risk that turnover would not rise concomitantly to cover the additional costs.

*It’s been about retention, hanging on to what you have and looking after your clients – we certainly haven’t shrunk, but what has fallen off the end of a cliff is virgin new business... and as far as retaining clients it’s all about saving them money now. (Insurance broker).*

Owners in some sectors felt that they had been hit particularly hard due to consumers cutting back on some areas of spending.

*I'm just working harder. People are not having as many big weddings, they're cutting back – and cutting us out. (Wedding organiser)*

### 7.3.1 Response

The current recession has been 'lumpy': there is evidence that the 'middle' has been hit hardest, with those competing on price (e.g. Poundland) or on more expensive but high quality products/services (e.g. Waitrose) continuing to perform well. In some sectors – e.g. white goods, CD retail – business models have been transformed, often linked to the rise of online trading, exacerbated by the recession. Thus, while growth may be difficult, it is by no means impossible, but may well require careful analysis of the market, the business's comparative advantage and how this can be best exploited in a fluid situation (especially if other businesses prefer a more cautious strategy). A number of participants had grown by taking advantage of specific opportunities which had arisen *because* of the recession – for example, undercutting other businesses, or winning work from larger companies cutting costs by outsourcing. However, the *quality* of their work had to be as good as larger businesses (especially in terms of personal service). Some diversified as their market changed, seeking niche areas or a new customer base where they could compete more effectively. With suppliers also competing for business, it would equally be a good time for businesses to lower costs by reviewing their purchasing strategy; or to take advantage of low property prices to invest in new premises.

*Being a sole trader has been a benefit: firms are looking at their budgets, asking if they need to spend £3-4k per month on a big firm. So it's providing opportunities – get in a freelancer, who'll come into our business, understand us, become part of the team. (PR)*

I've diversified the company in little pockets where there's a profitable area rather than compete in business cards; look at different areas where you can make money (printer)

Evidence from larger-scale business surveys confirms that micros are able to grow during difficult economic conditions: 12 per cent of microbusinesses recorded growth during the 18 months prior to a 2011 survey, and 55 per cent had retained the same employment level<sup>27</sup>. One quarter of micros had increased their turnover during the recession. In June 2012, 28 per cent of micros had increased employment compared to 12 months earlier (the same as small businesses and nearly twice as many as mediums), with only 14 per cent having decreased employment<sup>28</sup>.

## 7.4 It's difficult to find the right person to employ and I haven't got time to look for them

Many owners felt they 'had to do it all themselves' and could not afford the opportunity cost of planning and business development, instead merely reacting and 'firefighting'. Conceptions of potential recruits were limited: for many, a new employee would be a full-timer replicating the owner's activities (with associated high costs), rather than differentiated functions or relieving some of the owner's workload.

<sup>27</sup> Cowling and Liu (2011), *Business Growth, Access to Finance, and Performance Outcomes in the Recession*, BIS

<sup>28</sup> BIS (2012) *Business Barometer*, June

*We could grow but we'd need more staff ... at the minute we are kind of stuck. We are so busy working in the business, we haven't got a lot of time to work on the business.*  
(PR)

Some participants did not trust other people to be as competent as them, or that their clients would not accept work being done by someone else. Owners may believe they have special knowledge or skills, or a trust relationship with clients, neither of which would be sustainable if employees were hired to do the job. This was linked with the idea that employees were a net drain – in particular, those with the high level skills needed would cost more than the additional income generated (i.e. the business could not afford to pay the wages of the 'right' staff). Some indicated they did not trust that staff would be as committed to the business as was necessary.

*I'm really busy. I've wanted to expand but wondering who you're going to get, who'll do the work like I do? The buck stops with me, I'm afraid others wouldn't get it right.*  
(Book-keeper)

*Clients want to talk to me [and won't] see anybody else.* (Accountant)

*You can't find people who will work as hard and diligently as me and not cost a fortune. I don't want to take the risk; I turn work away rather than employ someone who'll let me down.* (Events manager)

*I'm not big enough to offer competitive job opportunities. I could pay around £16k; it just isn't enough to compete with the lure of what they could get elsewhere.* (Events manager)

### 7.4.1 Response

Among larger businesses, recruiting or delegating more to existing staff would often happen at a crisis point. This limited options, leading to sub-optimal changes compared to those stemming from strategic planning. Owners often regretted not trusting their employees more, and not seeing the potential for differentiated staff roles. There are thus gaps in vision for characteristics and roles of potential recruits; few owners articulated strategies for expansion such as: (i) recruitment for 'lower order' or very specific tasks; (ii) recruitment of part-time employees; (iii) outsourcing tasks; (iv) recruiting to inject 'new blood'. The owner's conception that only they can run the business may need to be challenged i.e. 'letting go' may be good for the business. Owners did not consider other solutions to being time-poor – e.g. more effective ICT usage (e.g. accounts software) or promotion (e.g. upgrading their online presence).

*You get to a stage where you don't understand how a sole businessman can run and be a business owner and do everything on their own effectively* (media group)

*[The time you delegate] is when you can't remember your kids' names.* (Office supplies)

*I have a problem with being a control freak, I find it really hard.. so I would have to overcome that [to recruit] but there are good people out there.* (Baby goods retailer)

*I was chief cook and bottle washer – now I've got good staff, I trust them massively and they trust me so I will [delegate], definitely, so I can do what I'm better at.*  
(Printer)

## 7.5 Taking on employees is too complex and too fraught

Many participants assumed that taking on their first employee would mean having to deal with a plethora of regulations immediately, significantly increasing the compliance burden. Similarly, some wished to not cross the threshold of five employees, with a widespread belief that this would also trigger qualifying for many new regulations.

*There's a lot of business I could have, but I wouldn't take someone on because with sick pay, maternity pay, everything like that, I could suddenly end up in trouble (accountant)*

*I know someone, she's taken on lots of people, her business is bigger than mine but she takes hardly anything out of it and it runs her. I just don't want to be in that position: I'd rather scale back the work. (Events promoter)*

Exacerbating this, an owner may also feel responsibility towards their staff, or develop emotional ties. Some envisaged that would make them reluctant to make redundancies if necessary, to the extent that they would rather not hire in the first place.

*There is a problem with responsibility. If you employ full time staff, and there's a downturn, it's not pleasant to let them go, especially when you get to know them very well. (Pet store)*

### 7.5.1 Response

While there are many regulations connected with employment, most either do not necessarily impose an immediate burden, or the burden is not large, especially for micros. There are five basic things needed when employing staff for the first time. Before they start, an owner must (i) decide on the pay rate (above the minimum wage); (ii) check if they can legally work in the UK; and (iii) get employment insurance. When they start, the owner must (iv) register with HMRC as an employer, pay the employee and give them a payslip (within 30 days); and (v) provide them with a written statement of employment (within two months). The Government has provided a tool on 'Employing staff for the first time' on Gov.uk helping direct prospective employers to what they need to do<sup>29</sup>.

There are options to reduce the burden, such as outsourcing payroll (which is cheap, and can be accomplished through an accountant or bank), or using basic software packages. There are also templates which guide the owner through constructing a written statement of responsibilities for employees<sup>30</sup>. A probationary period can be specified and, even after that, employees do not acquire protection against unfair dismissal or redundancy rights until they have been employed for two years. In those first two years, the redundancy notice period is a minimum of just a week, and the employee is not eligible for compulsory redundancy pay.

Furthermore, while the owner may develop emotional ties, participants noted that they have to remember that running a business, inevitably involves making hard decisions

<sup>29</sup> <https://www.gov.uk/employing-staff>

<sup>30</sup> For example <https://www.gov.uk/government/publications/employment-particulars-written-statement-form>

(several indicated that they would not ‘mix business and pleasure’ by recruiting existing friends). Owners have to be realistic, and ensure that they know why they are recruiting, including developing projections of turnover and the state of the market, including plans in the event that the business under-performs, and to be prepared to take hard decisions if necessary.

*[It's a big step to take on an employee], but you have to start somewhere... you know it's going to be tough at first... and [if the business does not perform] the staff would have to go, they haven't got a leg to stand on before first two years anyway!*  
(Baby goods retailer)

## 7.6 Taking on employees is too risky and too costly

Some participants indicated that the cost of recruiting (both direct and indirect) was too high for it to be worthwhile – particularly in the case of the first employee, which may involve major changes (e.g. moving into premises, buying equipment, setting up payroll) i.e. the ‘infrastructure’ of being an employer. Owners foregrounded and gave higher priority to costs while downplaying the potential higher income, failing to visualise how the business may develop as it grows. Infrastructure costs are seen to be partially unrecoverable in the case of downsizing, leading some to assert that only taking on a large number of staff would be cost-effective, even though that was not feasible. The link between being larger and requiring more effective management skills in order to extract greater profits from the business, was not generally made.

*I'd have to move somewhere more professional - I can't see anyone else coming to work in my kitchen. I would need proper premises, that means much bigger overheads. Once you've got one employee it's easier – to get that first one, you need the infrastructure.* (PR)

*[You're not doubling in size when you take on an employee] you're **halving** the size of your business, when you take into account wages and everything else – you have to double your income: first, you generate the business, then take on the employee.*  
(Electrical repair)

*[To recruit] you have to have **vastly** more work... the thought of taking someone on horrifies me - if the market shrinks you're stuck with offices, staff etc. I've seen people who've grown and then are stuck with the costs.* (Online learning provider)

Taking on staff was also considered financially risky in other ways; for example, recruits leaving and taking business with them, or (most commonly) the potential costs of redundancy: redundancy pay, the burden of implementing correct procedures, the costs of a possible tribunal.

*I just had to make someone redundant who was totally incapable of doing the job, the only way I could do that was redundancy and it's cost me £40,000.* (Asset management)

### 7.6.1 Response

Employing staff is not necessarily this risky or costly, especially considering potential financial benefits (which are often underestimated). Expansion makes the business appear more ‘professional’ and can create economies of scale, as long as the owner plans effectively for how the business might change as it grows – including delineating precise roles for new staff, and how to use them to attract additional business.

*I would always need more than one person for it ever to be a success: if anything ever happened to someone who was on their own, every client just gets cut off.*

(Accountant)

*There's no way with one little shop you can ever make a living, that's inconceivable – you have to open another one, you have to speculate to accumulate.* (Baby goods retailer)

Tribunals are also not as common, nor as potentially expensive, as many owners believe. According to Ministry of Justice figures<sup>31</sup>: in 2011-12, of the 186,000 claims taken to employment tribunal, only 12 per cent were successful at hearing. Some 40 per cent never made it to a hearing or settlement. Among successful unfair dismissal cases, the median amount awarded to employees was £4,560 (with a median of £1,730 in costs awarded to employers). In contrast to some of the beliefs expressed about the balance of regulation in favour of employees, relatively few employers were aware of the full extent of their rights, as laid out in the Employers Charter<sup>32</sup>, which clarifies entitlements in terms of making redundancies, maternity and sick leave etc.

## 7.7 The market is too limited in my area

Some owners stated that the nature of demand in their locality restricted their margins (e.g. high deprivation or an extremely high degree of competition from many similar businesses) and thus their ability to add extra employees or sales.

*Here, everyone wants something for ten bob. If they're outside the area, if you ask for £135, they pay £135 – if you told [someone from here] it was £135, they'd want to know where the airport was and have the cases packed for 2 weeks holidays* (electrical repair)

Some thought their growth was restricted by cut-price competitors which appealed now that budgets were tight, with online selling facilitating their success; some also cited 'fly-by-night' or 'illegal' businesses (evading tax, selling unsafe products etc.). Many thought that there was no way to compete with such sellers, dismissing greater use of the internet, and casting doubt on the capacity of micros to sell beyond their local market.

*Someone doesn't give a damn, their product looks the same, but undercuts you, even though it burns the house down. That's a sale you can't make - by you doing it right, it'll be dearer but it'll do the job better – people have stopped shopping on quality and are now so price-driven.* (Asset management)

### 7.7.1 Response

Participants themselves often dismissed claims about competitors as exaggerated, noting that it was the way the market operated, and that quality-driven strategies can be effective.

*The market should judge, as it has done for many years – good plumbers survive, bad ones fall by the wayside, that's the way it has always been.* (Lettings agent)

<sup>31</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/163472/employment-trib-stats-april-march-2011-12.pdf.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/163472/employment-trib-stats-april-march-2011-12.pdf.pdf)

<sup>32</sup> <https://www.gov.uk/government/publications/managing-staff-what-employers-can-and-cant-do>

*Competing on price is pointless: someone will always be cheaper than you, you have to aim higher, you have to adapt and change, it's how you service your customers.*  
(Printer)

Strategies which allow effective competition against low-cost competitors require planning, vision and long-term commitment: e.g. differentiating your business from competitors, competing on customer service or flexibility.

*You try and grow, you initially grab work wherever you can, then you strive to work for a better customer, you deliver a better service, you can charge more money.*  
(Media group)

*It's our ability to change small things quickly and introduce new things which has been advantageous to us – the flexibility.* (Security equipment installer)

An online presence does not have to be costly and complicated: several had found a simple, straightforward website more effective than an expensive one with 'bells and whistles'. Many noted that it was now essential to be online. This is not limited to selling (indeed, many could not sell online), but encompasses promotion through a wide range of channels (dedicated website, social media, building an 'e-reputation' through sites such as Mumsnet or Tripadvisor).

*That's where we're going to diversify - by not just selling online but setting up businesses which are purely internet based. For many people the internet is the High Street.* (E-tailer)

*For small business owners, Facebook is superb: 290 people on mine. A lot of my customers are in their early 20s, they use it. B2B Twitter's good as well.* (Baby goods retail)

*There are myths about websites – the costs, what people think it will do for them – it's **not** for more business, it's to lend credibility, to look like you didn't set up yesterday, not the be-all and end-all for growth.* (Website designer)

*A lot of people say I'll get you a fantastic website, 3 or 4 grand, really it's totally useless because you can't change it, but sometimes the simplest ones are best*  
(hairdresser)

For many micros, 'exporting' also encompass selling to the rest of the UK. Businesses can explore selling online or through distributors, or developing a franchise model for an innovative business concept. There is also substantial support for international selling (e.g. UKTI).

*As long as I'm doing the important stuff like writing the tasting notes, I could franchise the idea – I don't see why it couldn't grow that way, and I could drop into the background – I like the idea of swallowing my hubris and saying my business would do quite well without me* (specialist off-licence)

## **7.8 I need finance to grow but banks won't lend and there's no alternatives**

Some participants had been discouraged from approaching banks due to their feelings about current lending policies. However, it was often difficult to disentangle such assertions from a more general negative attitude towards investing in the current climate, regardless of the source of funds, given the high level of uncertainty about potential returns. These two attitudes compounded and exacerbated each other, with some clearly

using bank policies as a scapegoat or rationalisation for their unwillingness to grow. There were a number of specific issues cited, including (i) the need for personal guarantees and (ii) over-cautiousness.

*Banks want everything – your house, your mortgage, charge you extortionate amounts. We naturally hate the banks, they're evil, they're thieves.* (Design & print)

*Now, even sensible business propositions don't go through.... It's a difficult climate, I will stick with the business as it is until someone is prepared to lend money at the right rate on my terms – I don't need to prostitute myself for stupid rates.* (Specialist off-licence)

If external funds were necessary, banks were the first and, usually, the only source considered or approached.

*If you 'fix' the banks, we wouldn't need to go to business angels or any of the rest of them because the banks would do it.* (Music promoter)

### 7.8.1 Response

There was evidence that those seeking finance had spent time preparing a good business case, but the majority had not sought finance at all. In addition, among both groups, there was little evidence of more proactive research into non-bank finance, with only one participant (out of more than 60) mentioning CDFIs, none mentioning crowd-sourced funding and scepticism about the relevance of equity finance or business angels. The overwhelming majority simply stuck to what they knew and had used in the past (loans, investments from family and friends etc). There is clear evidence that owners should be encouraged to take time to explore sources of funding other than banks. In addition, many seemed overly sceptical about their chances of obtaining funding from banks: according to the June 2012 *Business Barometer*, over half (55 per cent) of micros that applied for finance in the previous twelve months had no difficulty obtaining all the finance they required from the first source they approached. There is also a clear correlation between the preparation of a business plan and obtaining the finance, with micros the size band least likely to do so, and least likely to obtain finance. There is also a role for managing cashflow more effectively in being able to secure investment finance (see Myth 7.9).

There are tools available to support business owners in choosing the appropriate finance option (e.g. [www.gov.uk/business-finance-support-finder](http://www.gov.uk/business-finance-support-finder) and [www.businessfinanceforyou.co.uk](http://www.businessfinanceforyou.co.uk)) and to guide them through the necessary steps to apply for finance. The government's Enterprise Finance Guarantee scheme can also help banks fund loans if it meets certain conditions.

## 7.9 I don't have any options to control cashflow

Many owners prefer to use savings to invest than external finance, and, before embarking on growth, have a stable cashflow position. This would also aid in obtaining investment finance. Many in the fairly common situation of poor or unpredictable cashflow believed they lacked options to control this; some were concerned that a stable position could easily deteriorate.

*The biggest issue is cashflow, people paying bills on time. Major problem. The worst ones are big organisations, they don't give a monkeys.* (E-tailer)

*One client is a fifth of my work and asked me to tender for more, which means taking on an employee. If he went bust I'm stuck with the staff – even though cashflow is not an issue, all it takes is for one or two clients to struggle, it puts you in trouble as well.* (Accountant)

Some argued that a specific cashflow issue (e.g. seasonality of business) was insurmountable, as outside agencies (e.g. banks) were unsympathetic, moreso during the recession.

*Where there's people struggling, the banks very quickly withdraw. Even if they're working within a facility but not going over it's just the fact that they're using an overdraft, when it comes to renew in 12 months time, [the banks] don't want to renew.* (Accountant)

Some methods of dealing with cashflow difficulties were considered as potentially garnering the business a bad reputation.

*There's a stigma about factoring: oh, they're selling their invoices, they must be going bust – it's always an issue, who wants to give away 10% of their profits?* (Media group)

### 7.9.1 Response

While factoring is not suitable for all, the wider range of options now available have extended its applicability. It may still require careful explanation of its potential benefits to businesses to overcome stigma. Participants had used debt collection agencies in the past, and found them useful, but prefer to chase debts in-house, which can be highly successful.

*When you ask them for the money, they say, 'don't you want my business anymore?' We said right, those that want to bugger off can bugger off, if you don't pay within 30 days, we'll go to court. We got it all, and didn't lose a client.* (Asset management)

Some initiated demanding (part) payment upfront and often found that clients were prepared to meet this demand, as they valued the business's work. In other words, if the business has a proven track record, this strategy is more likely to be effective. Those which worked for 'blue-chip' customers or in more buoyant sectors also tended to receive prompt payment.

*On our [repeat] accounts, we have the problem of 30 days terms – you think others **won't** pay upfront, but they **will** pay if they're asked.* (design & print)

*The larger ones have supported us. They pay on the nose (in 14 days) and the [positive] change in our cashflow with the quality of customer is unbelievable.* (Media group)

Banks rejecting overdraft requests or imposing harsh terms was not a universal problem. Approaching the bank in good time with a business case including seasonality or unpredictability of income often gained the necessary support. This involves engaging in longer-term planning and cashflow forecasting. Similarly, reviewing costs to identify savings can improve cashflow.

*My balance is all over the place: times when I've had a lot, and times when there's not been much. The bank has been fine, there's always **something** coming in.* (events promoter)

## 7.10 There's no point in networking or seeking external advice

Use of externally provided information and advice was not common. The majority received advice informally, from friends, other business owners, or trusted sources such as accountants. Use of online advice and support was increasing, particularly when accessing factual information (e.g. guidance on health & safety, compliance with regulations). Those who had used Business Link (either in person or online) generally had positive opinions, and some regretted that it had been disbanded. However, a number of participants indicated that either the external advice or events they had attended had been of little use, or the sort of advice and support they desired was not available, especially given the high opportunity cost of attending. In particular, networking events were criticised as unsuitable (as a high pressure selling event rather than a learning experience), as was the difficulty of finding a suitable business mentor: case studies of growth businesses, widely available online, were useful but limited, and the opportunity to talk to such subjects (or similar business people) to get more detailed advice would be welcomed.

*I've tried networking – it takes up a lot of time and everyone is there looking for the same thing, everyone there is struggling.* (Graphic designer)

*Business Link was pointless – I needed business mentors – not people who had read the book, seen the video, I needed to talk to people who have grown their business and excelled.* (Consultant)

### 7.10.1 Response

Given the number and diversity of sources of support available, the difficulty here may actually lie in signposting owners towards support that meets their specific needs, either locally, nationally or online, rather than a lack of suitable support *per se*. For example, there were a range of organisations cited by focus group participants which provided appropriate and relevant support, including advice directly from government agencies and departments (e.g. HMRC), Businesslink helpline, online videos and training providers and local networking organisations.

*When I did photography, I paid to do online training, not just about physical photography, but running your own business as well. It was good, those skills about managing a business are transferable, stuff I've used in the cake business.*  
(Cakemaker)

Businesses benefit from seeking advice or support, but owners may need to be convinced that it is worth sacrificing part of their working day (or leisure time) to attend an event of unknown value to the business or to themselves, especially when that value may only be realised in the longer term (as with the online training example above). This entails convincing owners of the value of upgrading their skills and management ability proactively rather than only seeking help in a crisis (i.e. persuading them that 'they don't know everything'), and the worth of transformative as well as transactional support, so that they contact a signposting organisation (e.g. Business Link helpline, a local business organisation).

Mentoring was the most commonly advocated form of support desired, but knowledge of sources such as MentorSME.gov.uk (the service for matching business owners to mentoring organisations) and similar services was limited, and opinions on their effectiveness mixed: some preferred a local business owner they knew and trusted to an

'unknown' match. Others, though, noted that they had found a paid mentoring relationship to be beneficial.

*I have a mentor, I find it really helpful. I attended seminars and found someone I really liked, I pay for the support now and we meet monthly. They're not in my line of business but it's really helpful for thinking about the business (architect)*

## 7.11 If I grow any larger, the regulatory burden would be too heavy for me to cope with

Attitudes towards regulation varied, from resignation to outright hostility. On the whole, however, focus group participants did consider that the burden was not only heavy but heavier on micro than larger businesses; and (less commonly) that there were benefits to remaining small in order to prevent the burden growing any heavier. The key difficulty was felt to be that the burden of compliance fell entirely on the owner, that they would not be able to delegate any of this as employment in the micro grew (unless it grew very substantially), and that growth would lead to a disproportionately large increase in the time and effort expended on the regulatory burden. There was fear and suspicion of the administration commonly perceived to be associated with regulation involved and, more specifically, uncertainty about the precise increase in compliance activity that expansion would entail - such that they did not want to expand in the current economic climate without knowing the scale of the burden. It had also proven difficult to discover information on regulation, leading to an exaggeration of the possible burdens. However, only a minority cited specific examples of regulations (as opposed to generic catch-alls, such as 'health and safety'), with concerns expressed in general terms (most commonly, wanting to remain below five employees).

*Employment law, pensions, restrictions from mortgage lenders, regulation of the profession is designed for big businesses. A sole practitioner has to fill out the same lengthy documentation and appoint a legal compliance officer to report himself as a large business. (Lawyer)*

*We absolutely keep below [five employees]... when I started, my requirements were enormous for Health & Safety... the same as for a larger business. It's a very heavy load which is easily absorbed in a massive corporation... we have to do it ourselves, and it's hard (off licence)*

*You take on x number of employees and you have to do certain things... you've now got to have a first aider in, if you've got more than five you've got to have two qualified to cover for holidays, you've got to think about health and safety regulations. As you get bigger the legislation gets more, you fall into the next category and the next which puts more rules and regulations around your business. (Gift shop)*

### 7.11.1 Response

Business regulation in the UK is relatively light by international standards – the UK is ranked 7th out of 185 in the World Bank's Ease of Doing Business Index - and the government is committed to reducing the overall burden of regulation through initiatives such as: the one in, one out rule on new regulations; the Red Tape Challenge committed to reducing the number of regulations on businesses by around a half; and by introducing a three year freeze on new UK regulations for microbusinesses in 2011 (the 'microbusiness moratorium'). Nonetheless, regulatory obligations are real and can fall relatively heavily on microbusinesses – the myth is concerned with the exaggeration of this

burden, especially in terms of potential increases as the business grows, and the lack of specific knowledge and information about which regulations apply or will apply with growth. Thus, businesses desired more straightforward delivery of information than they perceived was currently the case, in order to help them comply more effectively and to reduce unnecessary burdens stemming from over-compliance<sup>33</sup>.

*I don't really know what that regulatory burden is – proper information would help - if you take someone on tomorrow I want someone to tell me THESE are three things you need to know. (Video production)*

## 7.12 Conclusions

It is clear that the growth potential of a wide cross-section of microbusinesses and non-employing businesses without employees is being held back by the misperceptions outlined above. It is also clear that the myths overlap to a certain extent and are underpinned by a reluctance to plan, strategise or develop the business, for a variety of reasons – the concepts of working on versus working in the business were recurrent across the focus groups in a variety of areas.

This raises the issue that the myths are connected by virtue of being a product of a particular 'habitus' common among microbusiness owners – that is the mindset, values, preferences etc. of the owners which have been formed by a set of common experiences and activities. It could be argued that the non-growth-oriented microbusinesses form a 'group' which has particular standards, success definitions etc, which are not the same as among larger businesses or among microbusinesses oriented towards growth. The habitus of this group is characterised by a predisposition to remain small, but, given that society is seen to value business growth, this disposition is discussed by owners via an appeal to more 'rational' concepts to 'explain' why they have not grown: access to finance, economies of scale, lack of support, limited demand etc.

Owners may not be consciously aware of this process, however, leading to the myths above being a mixture of correct information, incorrect information, incorrect processing of correct information and rationalisations of (possibly unconscious) desires - to remain small, or in complete control of their business, or to continue in their chosen occupation rather than become a manager, and so on. For some owners, therefore, the preference to remain very small or not to recruit is a rational decision, underpinned by analysis of the perceived relevant variables, their own skills, market conditions etc. For many others, this preference is not reached in such a rational way, but swayed by (a) poor or incomplete comprehension of relevant information, or incorrect processing of that information, possibly due to a lack of time to do so (i.e. 'bounded rationality'); and (b) the more unconscious influence on their behaviour which derives from the theory of habitus i.e. their information processing may be affected by unconscious biases or beliefs about the nature of the world which they may not be aware they hold.

For this latter group, not only do the 'real' barriers posed by the problem of bounded rationality need to be addressed (e.g. providing a more complete information set, training

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<sup>33</sup> Other BIS research also indicates that businesses that view employment law as burdensome often did so because of a lack of understanding of the law. <https://www.gov.uk/government/publications/a-research-paper-on-employer-perceptions-and-the-impact-of-employment-regulation>

in business planning and forecasting) but also the unconscious perception of the ‘rules of the game’ needs to be shifted (revising their rationalisations for remaining small). Correcting incorrect beliefs is certainly part of a solution, but such messages need to be carefully composed in order to ‘nudge’ microbusiness owners and non-employing businesses towards a growth-oriented mindset, using principles derived from behavioural psychology (such as the MINDSPACE framework<sup>34</sup>). Even if they did not grow, challenging their beliefs in this way may well lead them to take action which would improve their business in other ways. In other words, a proportion of businesses, which have the potential to grow or to improve and develop their businesses, would shift from the field of non-growth-oriented to growth-oriented.

### 7.13 Comparison of 2006 and 2013 myths

Of the 13 myths from the 2006 report (see Appendix 3 for the full list), only one did not map onto the current myths at all (*I’m too small to try for work with the public sector*). This was not a specified topic for discussion in the focus groups, and only rarely came up during discussions.

Three directly map onto the myths in the current report with virtually no change:

- *My growth potential is limited by the market that I serve and I can’t do anything about it*
- *I don’t have enough working capital to accommodate growth, and there’s no way for me to improve it*
- *The costs of regulatory compliance would be too high if I grew any more.*

Four 2006 myths appear in a slightly different form in 2013, or have a slightly different emphasis, or their implications have been incorporated into myths along similar lines:

- *Getting larger means business as usual, only more of it* This belief now underpins several others, expressed in the form of a lack of vision i.e. the business owner cannot see how business operations could be changed as the business grows or to facilitate growth in the first place.
- *Changing my HR practices wouldn’t change the result, there are just too few suitable staff out there.* Issues connected with staff and recruitment form an important part of several myths, especially the notion of ‘suitable staff’, although the current study emphasises owners not being prepared to visualise how staff may fit into the business, rather than on the lack of suitable candidates *per se* or deficiencies in the recruitment process. The current study sees this as a matter of strategic vision, rather than simply reforming operational processes.
- *Growing means I’d have to become a manager, it’s not what I’m good at and if I’m managing I’m not earning. The management costs of a larger business are disproportionately greater, in particular the amount of my time that would be needed.* These issues were not necessarily mentioned directly, with the burden of

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<sup>34</sup> Dolan P, Hallsworth M, Halpern D, King D and Vlaev I (2010) *MINDSPACE: Influencing behaviour through public policy*, Institute for Government, London

regulatory compliance (i.e. part of the management costs) figuring more prominently in the focus groups. Nonetheless, these views remain a highly important component underlying many of the myths connected with taking on staff and the vision of how staff could complement the owner.

- The myth about the business support process (*The business support system is only useful at start-up, not during the growth process* in 2006) was similar in 2013, although complaints about support were more general, and focussed more on not being able to find any suitable support rather than it not being useful for growth (indeed, it was more likely that owners would say it was not suitable at all, or there was no support there).

Two 2006 myths were directed at banks (*Internal finance is the only option, because external funders want too much control; I can't use a bank because they only sell me what they want to sell me.*). Given the change in the financial situation between the two reports, the focus of complaints about bank behaviour has changed somewhat, but the *underlying* issue remains extremely similar, namely that banks are not serving the business to the extent desired or in the manner desired.

The issue of planning arose as a separate and specific myth in 2006 (*I would only be bothered to prepare a business plan to obtain finance, not to understand my growth potential nor plan for growth*). In the current study, the issue of planning and strategy has been reconceptualised so that it underlies most of the myths i.e. one of the core issues is thought to be that microbusiness owners do not have the vision to plan effectively, but may rationalise this and articulate it in different ways, which (partially) gives rise to the myths.

The remaining 2006 myth is *Pursuing a growth strategy increases my chances of failure*. This reappears in the current study in a different form: *'You can't grow in a recession'*. In other words, pursuing a growth strategy *at the moment* is difficult, if not impossible. Respondents were not put off a growth strategy by the increased risk of business failure *per se*, since many assumed that pursuing growth was simply not possible given the external conditions. The challenges that faced businesses to simply remain steady in the face of falling demand loomed larger in their mind.

## 8 Conclusions

This report is premised on the idea that while business growth will not occur for every microbusiness, more can aspire to grow and successfully change their behaviour to do so (or indeed, simply perform more effectively) through the removal of a range of constraints, both 'real' and psychological/behavioural. The evidence in this report shows that the more (self-reported) obstacles a microbusiness faces (or believes it will encounter), the less likely it is to demonstrate sales or employment growth. However, these self-reported obstacles may – at least partially, and in many micros – be a self-fulfilling prophecy, justifications or excuses which are believed to be true, rather than the product of experience, or of rational, informed analysis of the business and its market position. Engaging the microbusiness owner on issues of growth must take account of how they see good business practice themselves – i.e. appealing to a business case, but with sensitivity to the personal outlook of the owner, how they see their business and their role in it, including issues of work-life balance and 'lifestyle' measures of success. The pursuit of business growth may necessitate shifting an owner/manager to new 'subject positions', integrating business and personal success measures, rather than viewing them as antithetical and placing them in opposition.

Non-growers are found to be less likely to plan, and to react to situations rather than anticipating them. Bounded rationality means that owners process information in ways that are subjective and sub-optimal, and often intuitive 'shortcuts' are made. Those shortcuts may be further distorted by unconscious misperceptions about both their business and the wider market environment. Altering this 'matrix of perceptions, appreciations and actions' could enable businesses to achieve better outcomes. However, this would entail shifting the 'habitus' – the unconscious influences and set of beliefs – of microbusiness owners in order to open up possibilities to improve and for them to better work 'on' the business.

The report draws together some common 'myths' which can act as disincentives to growth or provide explanations or justifications for the lack of growth. Possible responses to prevailing myths have been offered, refutations where beliefs are based on misinformation or prejudices and/or how other businesses think and act differently. Thus, an imagined obstacle may become a real obstacle through the owner doing nothing about it. The survey for example found that in some instances (e.g. cashflow and access to finance) reported obstacles were related to a lack of competence or knowledge in dealing with particular issues. Also, perceptions about crossing the VAT threshold was considered to be more difficult and more costly by some of the very small businesses who had not yet done so, compared to the actual experience of those that had.

Non-employing businesses report the fewest 'conventional' obstacles to growth but also account for the lowest proportion of growing businesses – though this paradox may well be the result of not seeking growth and therefore being less likely to encounter difficulties. For larger businesses, which by definition have already experienced some growth, the 'external' market constraints appear to loom larger than internal issues, although there is still some evidence that many owners have psychological limits which constrain their potential growth ambitions.

This study groups 31 obstacles into three constraints, related to: (i) internal capacity and capability to grow; (ii) the external environment, including the market in which the business

operates; and (iii) the 'vision' of the owner in relation to growth. Very few businesses were completely unconstrained i.e. subject to none of the constraints (nine per cent) but 68 per cent were found to be constrained in more than one area ('multiply constrained'). One in four microbusinesses (25 per cent) were found to be constrained in all three areas and they may be thought of as a *hard to help* group, in that they require support to address capacity, market and vision and have the lowest levels of past growth and future ambition. Given the existence of these relationships, the removal of any one constraint might be expected to move businesses into a less constrained category, where both growth and the ambition to grow become more likely.

## 8.1 Policy Considerations

A number of policy considerations stem from the research findings, some relate to the messaging of growth and the receptivity of microbusinesses to these messages, while others relate to the mode of delivery and the sequencing of interventions.

### 1. Changing norms

A theme throughout the research, from the literature, survey and the focus groups shows that the predisposition, or habitus, of businesses is an innate, often unconscious set of beliefs that resists growth for a variety of reasons. For many businesses progress can only be made by first shifting the present set of beliefs, in order to open the business up to improvement, freed from exaggerated fears surrounding growth so that a better run business may emerge. For these businesses, growth is unlikely until these mindsets are changed. This provides an important context and commentary on the potential effectiveness of more focussed policy measures. However, it also defines a new and potentially very influential strategy for policy.

The key here is changing the focus and perspective of the owner, so that they can devote time to working *on* the business, rather than *in* the business. Fundamentally, changing the business owners' mindsets is the gateway to opening up further aspects of engagement and developing capacity.

- It is far from clear that simply telling business owners that their perceptions are misguided or providing them with factual information would be effective. What is needed may well necessarily be more subtle than this.
- One method of changing norms would be through messages which aimed to dispel myths and create new norms. Such messages can be broadcast to micro businesses (which may not be looking for them) through a variety of outlets including new media (Facebook, Twitter, Linked-In etc), and old media (TV, newspapers, leaflets etc).
- A further method of changing norms is through encouraging more networking and greater exposure to different perceptions and beliefs. For example, consideration could be given to automatically enrolling all businesses in their local Chamber of Commerce as is already done in some European countries. This might well provide for increased networking and engagement with growth-orientated businesses and could prove transformational for those businesses holding innate and parochial mindsets that prejudice them against growth.

- Not least because the constrained and constraining mindsets of many business owners are innate and unrecognised, there may be considerable merit in developing a diagnostic tool that would encourage business owners to critically review their established mindsets. Such messaging could in turn act as signposting towards mentoring support, orientated towards resolving aspects of management deficiency and providing the means to realise the idea of working *on* the business, rather than in it.

## 2. Delivery of management development: market segmentation

The development of a classification scheme based on the categories defined in this research may well be more useful than one based on specific obstacles. Not least because it would highlight the common and important overlaps between different types of constraint

Identifying and classifying the extent to which very small businesses are constrained by their vision, capacity or external environment offers a means to efficiently and accurately segment businesses for support. The analyses developed in this study indicate which constraints are likely to be most prevalent. Using these findings to target intervention more effectively can improve the efficiency of policy and make the interventions concerned more relevant and more effective.

## 3. New business start-ups

Certain types of business are likely to be more growth-orientated from the outset than others, suggesting that efforts could be made to encourage specific types or forms of start-up. The initial conditions and motivations for start-up can prove crucial in determining the likely growth path; the more 'serious' a start-up, the more likely it is to grow subsequently; while more informal, 'lifestyle' start-ups are likely to remain (very) small. 'Seriousness' is reflected by a larger size at the start (investment, assets etc.) and growth ambitions. Those starting with even one employee, for instance, enjoy higher growth, as do owners with more management experience.

## 4. Tax designations for small businesses and the self-employed

Belief in the myth that 'I am not a business' may be reinforced by interactions with government, principally HMRC. If individuals operate under the national insurance scheme, it may be that their self-employment status aligns them more closely with employment, rather than as a business – and therefore they may be less likely to perceive as a business. At present the principal official (and perceived) identifier of a business is often the VAT number – i.e. the point at which the government is seen to regard or treat you as a business. It may be possible to reflect a different message with the intention to alter mindsets and nudge behaviour – by registering all enterprises as businesses. We would advocate more research in this area.

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# Appendix 1 Telephone survey

## Private & Confidential Obstacles and Support Needs of Very Small Businesses

### Screener

*ASK TO SPEAK TO OWNER / PROPRIETORS / MANAGING DIRECTOR / OTHER SENIOR DECISION MAKER*

S1 **Good morning / afternoon. My name is XXX and I'm calling from IFF Research. We are an independent research company and we're doing some work on behalf of the Department for Business, Innovation and Skills (BIS).**

**I would like to ask your opinion about a range of issues concerning small businesses; it will take about 15 to 20 minutes, depending on your responses.**

**The government are interested in finding out from small businesses why some would like to grow their business and why some would like to remain at the same size.**

**The results of the survey will be fed back to government and will be used to inform government policy on small business.**

**Is now a convenient time to talk?**

Continue	1	CONTINUE
Transferred to another respondent	2	
Hard appointment	3	MAKE APPOINTMENT
Soft Appointment	4	
Refusal	5	THANK AND CLOSE
Not available in deadline	6	
Needs Reassurances	7	DISPLAY REASSURANCES THEN RETURN TO S1

## REASSURANCES TO USE IF NECESSARY

- Your co-operation will ensure that the views expressed are representative of all small businesses
- Whether or not you like the government's actions, this is your chance to influence them – everyone's views will be taken into account
- The results will be available in early 2013 and will be posted on the Department for Business, Innovation and Skills website [www.bis.gov.uk](http://www.bis.gov.uk)
- All information collected will be treated in the strictest confidence. Responses will not be attributed to any individual or company. Results will be reported in the form of aggregated statistics.
- We work strictly within the Market Research Society Code of Conduct
- Contacts at IFF Research are Sam Morris or Lydia Fellows if you would like to find out more about the survey (020 7250 3035)
- Contact at Department for Business, Innovation and Skills is Janette King, tel: 0114 207 5155

## ASK ALL

S2 **Can I just check, are you the most senior person in day-to-day control of the business?**

Continue	2	CONTINUE
Transferred to another respondent	2	
Hard appointment	3	MAKE APPOINTMENT
Soft Appointment	4	
Refusal	5	THANK AND CLOSE
Not available in deadline	6	
Needs Reassurances	7	DISPLAY REASSURANCES THEN RETURN TO S2

S3 **How many employees does your business currently employ across all sites, excluding owners and partners?**

- EXCLUDE SELF-EMPLOYED
- EXCLUDE OWNERS/PARTNERS
- INCLUDE DIRECTORS
- INCLUDE FULL AND PART TIME
- INCLUDE TEMPORARIES/CASUALS, BUT NOT AGENCY STAFF

ENTER NUMBER (0-999)
Don't know

THANK AND CLOSE IF 10+ EMPLOYEES OR DON'T KNOW

## S3 QUOTA

Quota cell	Definition	Number of interviews to achieve
0 employees	S3 = 0	400
1 – 4 employees	S3 = 1-4	300
5 – 9 employees	S3 = 5-9	300

S3A **And can I check, excluding you, how many other people are owners, partners or proprietors in the business?**

ENTER NUMBER (0-999)
Don't know

## S3ADUM

Works alone	S3=0 AND S3A=0	1
Does not work alone	S3>0 OR S3A>0 OR S3A=DK	2

S4a **And how many years has this firm been trading? This includes under all ownerships and all legal statuses.**

INTERVIEWER: IF TRADING FOR LESS THAN A YEAR – ENTER '0'

ENTER NUMBER (0-999)
Don't know
Refused

S4 IF DK PROMPT WITH RANGES:

SINGLE CODE. PROMPT IF NECESSARY.

Less than one year	1
1 - 2 years	2
3 - 4 years	3
5 – 10 years	4
11 – 20 years	5
More than 20 years	6
Don't know / refused	7

S4a/S4DUM – whether a business startup

Startup business	S4a = 0-2 OR S4=1-2	1
Not a startup business	S4a=3+ OR S4a = REF or S4=3-7	2

## A Company Profile / Performance

ASK ALL

A1 DELETED

ASK IF TRADING FOR AT LEAST 3 YEARS (S4A = 3+ OR S4=3-6) OTHERS GO TO A4

A2 **You said that your business currently employs [S3 RESPONSE] people, excluding owners and partners. How many people did the business employ two years ago?**

- EXCLUDE SELF-EMPLOYED
- EXCLUDE OWNERS/PARTNERS
- INCLUDE DIRECTORS
- INCLUDE FULL AND PART TIME
- INCLUDE TEMPORARIES/CASUALS, BUT NOT AGENCY STAFF

ENTER NUMBER (0-999)
Don't know
Refused

IF DK AT A2 ASK

A2a **Do you know if you employed more people than now, less than now or about the same?**

More than now	1
Less than now	2
About the same as now	3
Don't know	4

ASK IF TRADING FOR AT LEAST 5 YEARS (S4A = 6+ OR S4=4-6), OTHERS GO TO A4

A3 **And how many people did the business employ five years ago?**

- EXCLUDE SELF-EMPLOYED
- EXCLUDE OWNERS/PARTNERS
- INCLUDE DIRECTORS
- INCLUDE FULL AND PART TIME
- INCLUDE TEMPORARIES/CASUALS, BUT NOT AGENCY STAFF

ENTER NUMBER (0-999)
Don't know
Refused

*IF DK AT A3 ASK*A3a **Do you know if you employed more people than now, less than now or about the same?**

More than now	1
Less than now	2
About the same as now	3
Don't know	4

*ASK ALL*A4 **How many people did the business employ when it was first established?**

- EXCLUDE SELF-EMPLOYED
- EXCLUDE OWNERS/PARTNERS
- INCLUDE DIRECTORS
- INCLUDE FULL AND PART TIME
- INCLUDE TEMPORARIES/CASUALS, BUT NOT AGENCY STAFF

ENTER NUMBER (0-999)
Don't know
Refused

*IF DK AT A4 ASK*A4a **Do you know if you employed more people than now, less than now or about the same?**

More than now	1
Less than now	2
About the same as now	3
Don't know	4

A5 **And, can I check, did you start up this business yourself, inherit or buy it?**

PROMPT AS NECESSARY. SINGLE CODE

Started business myself / with others	1
Inherited business / started by family	2
Bought business	3
Refused	4
None of the above / recruited to the position / promoted within the ranks.	5

A6 *DELETED*

*ASK ALL*

A7 **At the moment are your work premises also your home?**

Yes	1
No	2
Refused	3

*ASK IF S3 >= 1*

A8 **And how many years old was your business when it took on its first employee?**

SINGLE CODE. PROMPT IF NECESSARY.

- EXCLUDE SELF-EMPLOYED
- EXCLUDE OWNERS/PARTNERS
- INCLUDE DIRECTORS
- INCLUDE FULL AND PART TIME
- INCLUDE TEMPORARIES/CASUALS, BUT NOT AGENCY STAFF

ENTER NUMBER (0-999)
Don't know
Refused

IF DK PROMPT WITH RANGES:

Less than one year old	1
1-2 years old	2
3 – 4 years old	3
5 – 10 years old	4
11 – 20 years old	5
More than 20 years old	6
Don't know / refused	7

A9 DELETED

A10 DELETED

ASK ALL

A10A In terms of staffing do you....

READ OUT. CODE ONE PER ROW.

	Yes	No	Don't know
<b>Employ any family members in an UNPAID capacity</b>	1	2	3
<b>Employ any family members but PAY THEM</b>	1	2	3
<b>Regularly use agency or temporary staff</b>	1	2	3

A11 **Can you please tell me the approximate turnover of your business in the past 12 months?**

INTERVIEWER NOTE: If necessary, remind respondent that all the information they give us is absolutely confidential; no third party will have access to this information. We can accept an estimate.

SINGLE CODE. PROMPT IF NECESSARY.

Less than £25,000	1
£25,000 to £49,999	2
£50,000 to £72,999	3
£73,000 to £76,999	4
£77,000 to £99,999	5
£100,000 to £249,999	6
£250,000 to £499,999	7
£500,000 to £999,999	8
£1m to £1.49m	9
£1.5m to £2.8m	10
£2.81m to £4.99m	11
£5m - £9.99m	12
£10m - £14.99m	13
£15m - £24.99m	14
£25m or more	15
Don't know	16
Refused	17

ASK IF S4=2-6 OR S4A=2+

- A12 **Comparing the situation now with two years ago, would you say the turnover of your business has increased, decreased or stayed roughly the same?**

SINGLE CODE. PROMPT AS NECESSARY.

Increased	1
Decreased	2
Roughly the same	3
DO NOT READ OUT: Don't know	4
DO NOT READ OUT: Refused	5

ASK IF S4=4-6 OR S4A=5+

- A13 **Now looking further back, comparing the situation two years ago with the situation five years ago, would you say the turnover of your business increased, decreased or stayed roughly the same during that time?**

SINGLE CODE. PROMPT AS NECESSARY.

Increased	1
Decreased	2
Roughly the same	3
DO NOT READ OUT: Don't know	4
DO NOT READ OUT: Refused	5

ASK ALL

- A14 **Taking into account all sources of income in the last financial year, did you generate a profit or surplus?**

SINGLE CODE.

Yes	1
No	2
Don't know	3
Refused	4

ASK IF A14 = 1

A15 **Can you please tell me what the approximate net profit of your business was in the last financial year?**

INTERVIEWER NOTE: If necessary, remind respondent that all the information they give us is absolutely confidential; no third party will have access to this information. We can accept an estimate. SINGLE CODE. PROMPT IF NECESSARY.

Less than £1,000	1
£1,000 - £4,999	2
£5,000 - £9,999	3
£10,000 - £24,999	4
£25,000 - £49,999	5
£50,000 - £74,999	6
£75,000 - £99,999	7
£100,000 - £249,999	8
£250,000 - £299,999	9
£300,000 - £499,999	10
£500,000 - £999,999	11
£1m - £2.499m	12
Over £2.5m	13
Don't know	14
Refused	15

A16 DELETED

ASK ALL

A17 **Approximately what percentage of your turnover comes from exports?** SINGLE CODE. PROMPT AS NECESSARY.

0% / Don't export	1
0.1% to 9%	2
10% to 24%	3
25% to 49%	4
50% to 74%	5
75% or more	6
Don't know	7
Refused	8

## B Growth Ambitions

ASK ALL

- B1 **Do you plan to grow the organisation over the next three years?**  
SINGLE CODE

Yes	1
No	2
Don't know	3

ASK IF B1=2-3

- B1A **Why have you decided not to grow your business over the next three years?**

INTERVIEWER PROBE (BUT DO NOT PROMPT): **AND ARE THERE ANY OTHER REASONS?**

INTERVIEWER INSTRUCTION: If respondent intends to retire/sell business – check if this is in next 3 years. ONLY USE CODES 1 & 2 IF RETIRING / SELLING WILL BE WITHIN NEXT 3 YEARS

DO NOT READ OUT. CODE ALL THAT APPLY

Intend to retire in next 3 years	1
Intend to sell / pass on the business in next 3 years	2
Not enough business / work available (in the area) to grow the business	3
Don't need more [IF S3DUM=1: than one person; IF S3DUM=2-3: than the number of people we have] for type of work done	5
Difficult to find the right staff	6
Lose control of running the business	7
Unable to offer same quality of products / services	8
Don't want to take out (more) financing	9
Can't get (more) financing	10
Extra regulations / red tape	11
Too stressful	12
Happy at this size	13
Other (PLEASE SPECIFY)	14
Don't know	15
Refused	16

- B1B **Do you believe this business could grow if you wanted it to?**

Yes	1
No	2
Don't know	3
Refused	4

ASK IF B1 = 1

- B2 **Do you plan to grow the organisation over the next three years in terms of employment? IF YES: by approximately what percentage?**  
SINGLE CODE

ENTER PERCENTAGE (0-100)
No
Don't know
Refused

IF DON'T KNOW AT B2

**Might you be able to say roughly by how much? Would it be...**  
READ OUT. SINGLE CODE

By up to 20%	1
By between 20% and 50%	2
By more than 50%	3
DO NOT READ OUT: Don't know	4
DO NOT READ OUT: Refused	5

ASK IF B1 = 1

- B3 **Do you plan to grow the organisation over the next three years in terms of turnover? IF YES: by approximately what percentage?**

ENTER PERCENTAGE (0-100)
No
Don't know
Refused

IF DON'T KNOW AT B3

**Might you be able to say roughly by how much? Would it be...**  
READ OUT. SINGLE CODE

By up to 20%	1
By between 20% and 50%	2
By more than 50%	3
DO NOT READ OUT: Don't know	4
DO NOT READ OUT: Refused	5

ASK ALL EXCEPT THOSE WHO PLAN TO RETIRE CLOSE BUSINESS IN NEXT 3 YEARS (B1=1 OR B1A NOT 1 - 2)

- B4 From your personal perspective, what is the ideal size of your business in the long term - i.e. beyond the next three years - in terms of turnover?  
READ OUT. SINGLE CODE

Significantly larger than its current size	1
Slightly larger	2
The same size as now	3
Slightly smaller	4
Significantly smaller	5
DO NOT READ OUT: Don't know	6

- B5 From your personal perspective, what is the ideal size of your business in the long term - i.e. beyond the next three years - in terms of employment?  
READ OUT. SINGLE CODE

Significantly larger than its current size	1
Slightly larger	2
The same size as now	3
Slightly smaller	4
Significantly smaller	5
DO NOT READ OUT: Don't know	6

- B6 On a scale of 1 to 10 (with 1 being not at all and 10 being very strongly), how strongly do you as an individual desire business growth now?  
SINGLE CODE

Not at all					Very strongly				
1	2	3	4	5	6	7	8	9	10
Don't know									11

- B7 Do you have a desire to grow the organisation beyond the point where it is able to provide you with what you would define as a reasonable living?  
SINGLE CODE

Yes / Already does	1
No	2
Don't know	3
Refused	4

ASK IF B1 = 1

B8 **Which of the following are you currently doing to grow your business?**

READ OUT. MULTICODE.

<b>Introducing new or significantly improved products and/or services</b>	1
<b>Diversifying into new markets OR seeking out new opportunities or new customers</b>	2
<b>Recruiting additional staff</b>	3
<b>Investing in job role specific training for existing staff</b>	
<b>Seeking to acquire other businesses</b>	4
<b>Developing your marketing strategy</b>	5
<b>Developing export markets</b>	6
<b>Anything else? (PLEASE SPECIFY)</b>	7
DO NOT READ OUT: Nothing / Not sure yet (SINGLE CODE ONLY)	8
DO NOT READ OUT: Don't know / Refused (SINGLE CODE ONLY)	9

B9 *DELETED*

## C Internal Capacities and Capabilities

ASK ALL

- C1 I'd now like to turn to the range of tasks that you might need to do when running a business, and for you to tell me how capable you think your business is at doing them.

I'm going to read out a list of business activities and I'd like you to rate your business from 1 to 5, where 1 is rated as very poor and 5 as very strong. If, for any of the following, you are not able to answer as your business has not done any of the below please let us know

You can include in your assessment any external expertise you use to achieve the task.

How capable would you say your business is at...

READ OUT. REMIND RESPONDENT OF CODES AS NECESSARY.

DP: ROTATE STATEMENTS.

	Very Poor	Poor	Average	Strong	Very Strong	Don't know	NA –No experience of
[IF S3dum=2:] <b>People management, such as recruitment and delegation</b>	1	2	3	4	5	6	7
<b>Developing and implementing a business plan and strategy</b>	1	2	3	4	5	6	7
<b>Using formalised business systems such as customer information records</b>	1	2	3	4	5	6	7
<b>Entering new markets</b>	1	2	3	4	5	6	7
<b>Introducing new products or services to the market</b>	1	2	3	4	5	6	7
<b>Accessing external finance</b>	1	2	3	4	5	6	7
<b>Operational improvement - e.g. adopting industry best practice</b>	1	2	3	4	5	6	7
<b>Taking decisions on regulation and tax issues</b>	1	2	3	4	5	6	7
<b>Managing cashflow</b>	1	2	3	4	5	6	7

ASK ALL

- C2 **If you have a written business plan has it been reviewed in the last 12 months?**  
SINGLE CODE

Have a business plan AND reviewed in last 12 months	1
Have a business plan BUT NOT reviewed in last 12 months	2
No – Do not have a written business plan	3
DO NOT READ OUT: Don't know	4
DO NOT READ OUT: Refused	5

ASK IF C2 = 1-2

## C3 Which of these elements does the business plan contain?

READ OUT. MULTICODE.

<b>Sales forecast</b>	1
<b>Cashflow forecast</b>	2
<b>Analysis of your competition</b>	3
<b>Identification of strategies for growth</b>	4
<b>Measurable goals</b>	5
DO NOT READ OUT: Don't know	7
DO NOT READ OUT: Refused	8

C4 TO C7B DELETED

ASK ALL

## C8 Do you have a business bank account?

SINGLE CODE

Yes	1
No	2
Don't know	3
Refused	4

ASK ALL

## C9 Do you have formal business systems for maintaining records on any of the following?

IF NECESSARY: By formal, we mean written or computerised systems

SINGLE CODE. READ OUT.

	Yes	No	Don't know
<b>Customer information</b>	1	2	3
<b>Business accounts to help control and manage your finances</b>	1	2	3
<b>Human Resources or wages</b>	1	2	3

## C10 Do you use any external agents (such as accountants or consultants) to carry out any of the procedures I just mentioned on your behalf?

MULTICODE. PROMPT IF NECESSARY

Yes – customer information	1
Yes – business accounts	2
Yes – Human resources or wages	3
No – for none of the above	4
Don't know	5
Refused	6

*IF C9B = 1 - 2*

- C11 **On a scale of 1 to 5, where 1 is very easy and 5 is very difficult, how difficult [IF C9B = 2: do you believe it would be to begin maintaining formal systems to help control and manage your business accounts?][IF C9B = 1: did you find it to start using formal systems to help control and manage your business accounts?]**

SINGLE CODE

Very easy			Very difficult		
1	2	3	4	5	
Don't know / Can't remember					6

## D Obstacles to Success / Growth

*Now we are going to ask some questions about the challenges facing businesses as they grow.*

ASK IF S3 = 0

D1 **You mentioned earlier that your business does not have any employees. Why have you opted not to recruit employees?**

DO NOT READ OUT. MULTICODE.

INTERVIEWER NOTE: If respondent is vague (e.g. "don't want to", "no need", "not useful", "not good for business") then PROMPT AS NECESSARY: **What problems do you think you might have if you did? What disadvantages might there be?**

Currently recruiting / planning to recruit	1
I can maximise personal income by working by myself	2
I don't want to supervise anyone	3
Business can only sustain one person / at its optimum size	4
If I train an employee, they'll leave to join a competitor or start up on their own	5
Regulations are too burdensome / difficult	6
I do use other people - but just as subcontractors	7
I'm a small subcontractor for other companies	8
Don't understand what's involved	9
Other non-wage costs	10
Loss of control	11
Increased risk	12
Can't find the right person	13
Other (PLEASE SPECIFY)	14
DO NOT READ OUT: Don't know / Can't remember	15
DO NOT READ OUT: Refused	16

ASK ALL

- D2 **IF DO NOT INTEND TO GROW IN NEXT 3 YEARS (B1=2-4): I know you said earlier that you do not intend to grow your business in the next 3 years, but we're still interested in what sort of difficulties you might face if you did want to grow.**

ASK ALL

**I am going to read you a list of issues, and for each I would like you to tell me which, if any, represent obstacles to your business growing.**

READ OUT. MULTICODE.

DP: RANDOMISE CODES 1 TO 12

<b>The economy</b>	1
<b>Obtaining finance</b>	2
<b>Cash flow</b>	3
<b>Taxation, VAT, PAYE, National Insurance, Business Rates</b>	4
<b>Recruiting staff</b>	5
<b>Regulations</b>	6
<b>Availability / cost of suitable premises</b>	7
<b>Competition in the market</b>	8
<b>Shortage of managerial skills / expertise</b>	9
<b>Shortage of skills generally</b>	10
<b>Pensions</b>	11
<b>Are there any other obstacles? (PLEASE SPECIFY)</b>	12
DO NOT READ OUT: No obstacles (SINGLE CODE ONLY)	14
DO NOT READ OUT: No opinion (SINGLE CODE ONLY)	15
DO NOT READ OUT: Refused (SINGLE CODE ONLY)	16

ASK IF 2 OR MORE ANSWERS AT D2

D3 **So currently which represents the biggest obstacle to your business growing?**

READ OUT. SINGLE CODE.

DP: SHOW ONLY CODES MENTIONED AT D2, PLUS CODES 13, 14.

<b>The economy</b>	1
<b>Obtaining finance</b>	2
<b>Cash flow</b>	3
<b>Taxation, VAT, PAYE, National Insurance, Business Rates</b>	4
<b>Recruiting staff</b>	5
<b>Regulations</b>	6
<b>Availability / cost of suitable premises</b>	7
<b>Competition in the market</b>	8
<b>Shortage of managerial skills / expertise</b>	9
<b>Shortage of skills generally</b>	10
<b>Pensions</b>	11
[VERBATIM ANSWER AT D2: ANY OTHER OBSTACLES]	12
DO NOT READ OUT: No opinion (SINGLE CODE ONLY)	13
DO NOT READ OUT: Refused (SINGLE CODE ONLY)	14

ASK ALL

D4 IF B1=2-3: **Which of these do you think you would find a specific challenge if you tried to take on additional staff?**

IF B1=1: **Which of these do you think you would find a specific challenge when taking on additional staff?**

READ OUT. MULTICODE.

DP: RANDOMISE CODES 1 TO 6. MULTICODE

<b>Uncertainty about the recruitment process</b>	1
<b>Uncertainty about employment legislation</b>	2
<b>Regulations associated with employing staff</b>	3
<b>Costs of wages</b>	4
<b>Costs of administration (e.g. recruitment, payroll)</b>	5
<b>Other non-wage costs (e.g. pensions, insurance)</b>	6
<b>Other (PLEASE SPECIFY)</b>	7
DO NOT READ OUT: None of the above / Not a problem for growth	8
DO NOT READ OUT: Don't know (SINGLE CODE ONLY)	9
DO NOT READ OUT: Refused (SINGLE CODE ONLY)	10

D5 DP: CREATE DUMMY VARIABLE, ALLOCATE VALUES AT RANDOM

Group 1	1	33.3% chance
Group 2	2	33.3% chance
Group 3	3	33.3% chance

*ASK GROUP 1 (D5 = 1)*D5A **Which of the following would be specific challenges associated with cashflow during growth for your business?**

READ OUT. MULTICODE.

DP: RANDOMISE CODES 1 TO 5

<b>High levels of working capital required by business</b>	1
<b>Income tends to fluctuate while outgoings are steady</b>	2
<b>Customers expect you to offer credit</b>	3
<b>Late payment by customers</b>	4
<b>Timing of tax payments</b>	5
<b>Anything else? (PLEASE SPECIFY)</b>	6
DO NOT READ OUT: None of the above / Not a problem for growth	7
DO NOT READ OUT: Don't know	8
DO NOT READ OUT: Refused	9

*ASK GROUP 2 (D5 = 2)*D5B **Which of the following would be specific challenges associated with dealing with regulations during the growth of your business?**

READ OUT. MULTICODE

DP: RANDOMISE CODES 1-5

<b>The process of administering regulations would be too burdensome</b>	1
<b>Being unsure of which regulations applied to your business</b>	2
<b>Regulatory costs are disproportionately greater with growth</b>	3
<b>Not knowing how to implement specific regulations</b>	4
<b>The fear that if the business grows it might be subject to more regulations</b>	5
<b>Anything else? (PLEASE SPECIFY)</b>	6
DO NOT READ OUT: None of the above / Not a problem for growth	7
DO NOT READ OUT: Don't know	8
DO NOT READ OUT: Refused	9

ASK GROUP 3 (D5 = 3)

D5C **Which of the following would be specific challenges associated with tax during growth for your business?**

READ OUT. MULTICODE.

DP: RANDOMISE CODES 1 TO 6.

<b>The process of administering tax payments (NI etc.)</b>	1
<b>The costs of income tax</b>	2
<b>Costs of corporation tax</b>	3
<b>Costs of VAT</b>	4
<b>Costs of business rates</b>	5
<b>Timing of tax payments</b>	6
<b>Anything else? (PLEASE SPECIFY)</b>	7
DO NOT READ OUT: None of the above / Not a problem for growth	8
DO NOT READ OUT: Don't know	9
DO NOT READ OUT: Refused	10

ASK THOSE WHO FIND OBTAINING FINANCE AN OBSTACLE(D2=2)

D5D **Which of the following would be specific challenges related to raising finance during growth for your business?**

READ OUT. MULTICODE.

DP: RANDOMISE CODES 1 TO 5.

<b>Not sure where to obtain finance</b>	1
<b>Lack of security</b>	2
<b>Banks not lending</b>	3
<b>Lack of track record as a business</b>	4
<b>Cost of repayment</b>	5
<b>Other (PLEASE SPECIFY)</b>	6
DO NOT READ OUT: None of the above / Not a problem for growth	7
DO NOT READ OUT: Don't know	8
DO NOT READ OUT: Refused	9

D6 **Moved down to D6NW**

ASK THOSE WITH APPROX TURNOVER UP TO £499,999 (A11<=7)

D7 **On a scale of 1 to 5, where 1 is very easy and 5 is very difficult, how difficult [IF A11 <= 3: do you believe it would be to operate your business if you went over the VAT threshold?][IF A11 >= 4-7: have you found it to operate your business above the VAT threshold?]**

SINGLE CODE

Very easy			Very difficult		
1	2	3	4	5	
				Don't know	6

D8 *MOVED TO SECTION C*

D9 *DELETED*

*ASK THOSE WITH APPROX TURNOVER UP TO £499,999 A11<=7*

D15N **What [IF A11 >= 3: would be][ IF A11 >= 4-7: has been] the effect on your business [A11 <= 3: if][ IF A11 >= 4-7: when] you crossed the VAT threshold?**

DO NOT READ OUT. MULTICODE.

DP: CODES 1, 6 AND 7 SINGLE CODE ONLY.

No changes	1
Lose customers on price	2
Improves business reputation / credibility / attracts customers	3
More administration / bureaucracy / red tape	4
Other (PLEASE SPECIFY)	5
Don't know	6
Refused	7

*ASK ALL*

D6n **On a scale of 1 to 5, where 1 is very easy and 5 is very difficult, how difficult [IF S3 = 0: do you believe it would be to take on an employee?][IF S3 <> 0: did you find it to take on your first employee?]**

SINGLE CODE

Very easy			Very difficult		
1	2	3	4	5	
				Don't know	6

*ASK IF ALL*

D10 **What [IF S3 <> 0: were the][IF S3 = 0: would be the] key challenges associated with taking on your first employee?**

READ OUT. MULTICODE.

DP: RANDOMISE CODES 1 TO 5.

<b>Cost</b>	1
<b>Time</b>	2
<b>Not understanding what was involved</b>	3
<b>Increased risk</b>	4
<b>Finding the right person</b>	5
<b>Anything else? (PLEASE SPECIFY)</b>	6
DO NOT READ OUT: Don't know	7
DO NOT READ OUT: Refused	8

ASK IF D10 = 1

D11 **Other than the direct cost of wages, what additional costs [IF S3 => 1: were][IF S3 = 0: would be] obstacles to your business in taking on its first employee?**

READ OUT. MULTICODE.

DP: RANDOMISE CODES 1 TO 5.

<b>Costs of recruitment process</b>	1
<b>Cost of new premises</b>	2
<b>Non wage costs (e.g. insurance)</b>	3
<b>Administrative costs</b>	4
<b>Training</b>	5
<b>Any other costs? (PLEASE SPECIFY)</b>	6
DO NOT READ OUT: No costs	7
DO NOT READ OUT: Don't know	8
DO NOT READ OUT: Refused	9

ASK IF ANY OF D11\_1 TO D11\_6 = 1

D12 **And approximately how much do you think the cost of that [IF S3 => 1: was][IF S3 = 0: would be] to your business? You can give your response either in terms of pounds or as a percentage of turnover.**

ADD IF NECESSARY: **You should include costs such as those involved in recruitment, administrative costs, training, insurances, cost for new equipment**

READ OUT. SINGLE CODE.

<b>Pounds</b>	1
<b>% of Turnover</b>	2
<b>Don't know</b>	3
<b>Refused</b>	4

ASK IF D12 = 1

D12A INTERVIEWER: TYPE IN AMOUNT OF MONEY IN £

DP: ALLOW £0 - £999999

ENTER AMOUNT OF MONEY (£)
Don't know / Refused

ASK IF D12 = 2

D12B INTERVIEWER: TYPE IN PERCENTAGE OF TURNOVER IN %

DP: ALLOW 0 - 100%

ENTER PERCENTAGE OF TURNOVER (%)
Don't know / Refused

DP: TRANSFORM % OF TURNOVER TO £ USING ANSWER TO A11, IF A11 = 16 OR 17 CODE AS DK

ASK IF ANY OF D11\_1 TO D11\_6 = 1

- D13 **And approximately how much time do you think you [IF S3 <> 0: spent][IF S3 = 0:would spend] on recruiting your first employee? Would you say...?**  
 READ OUT. SINGLE CODE.

<b>Less than 8 hours</b>	1
<b>8 – 40 hours</b>	2
<b>More than 40 hours</b>	3
DO NOT READ OUT: Don't know	4
DO NOT READ OUT: Refused	5

ASK IF ANY OF D11\_1 TO D11\_6 = 1

- D14 **And how much do these costs in time or monetary terms affect your attitudes to growing the business?**  
 READ OUT. SINGLE CODE.

<b>Significantly</b>	1
<b>Somewhat</b>	2
<b>Not much</b>	3
<b>Not at all</b>	4
DO NOT READ OUT: Don't know	5
DO NOT READ OUT: Refused	6

## E Steps taken to overcome obstacles

ASK ALL

E1 In the last 2 years have you applied for external finance for this business?

Yes	1
No	2
Don't know	3

E2 *DELETED*

ASK IF HAVE SOUGHT FINANCE (E1=1)

E3 And before putting in your application for finance what if anything did you do to prepare? ROTATE ORDER OF READING CODES 1-5. PROMPT IF NECESSARY. MULTICODE.

<b>Drew up a business plan or updated your existing plan</b>	1
<b>Took advice on applying for finance</b>	2
<b>Considered alternative sources of finance (for example venture capital or crowd sourcing)</b>	3
<b>Anything else?</b> (please specify)	4
DO NOT READ OUT: None of the above	5
DO NOT READ OUT: Don't know	6
DO NOT READ OUT: Refused	7

ASK ALL WHO SAY CASHFLOW IS A PROBLEM FOR THEIR BUSINESS (D2=3)

- E4 Which of the following steps, if any, have you taken in the last 2 years to improve your business's cashflow? Have you...

READ OUT. MULTICODE. RANDOMISE CODES 1-8.

<b>Sold invoices / factoring</b>	1
<b>Reduced bad debts</b>	2
<b>Used government provisions to change payment schemes of taxes</b>	3
<b>Improved your payment terms with suppliers</b>	4
<b>Achieved quicker payment times from customers</b>	5
<b>Got credit from suppliers</b>	6
<b>Changed suppliers to decrease costs</b>	7
<b>Increased overdraft</b>	8
<b>Anything else?</b> (please specify)	9
DO NOT READ OUT: Have not needed to	10
DO NOT READ OUT: None of the above	11
DO NOT READ OUT: Don't know	12
DO NOT READ OUT: Refused	13

ASK ALL WHO SAY TAXATION IS A PROBLEM FOR THEIR BUSINESS (D2=4)

- E5 And which of the following steps, if any, **have you taken in the last 2 years to improve how your business deals with taxation requirements - for instance relating to managing requirements relating to VAT, PAYE, National Insurance, business rates)?** Have you...

READ OUT. MULTICODE. RANDOMISE CODES 1-4.

<b>Undertaken training</b>	1
<b>Outsourced work relating to this area</b>	2
[IF S3DUM=2:] <b>Employed someone with experience in this area</b>	3
<b>Made more use of tax deductions and allowances</b>	4
<b>Anything else?</b> (please specify)	5
DO NOT READ OUT: Have not needed to	6
DO NOT READ OUT: None of the above	7
DO NOT READ OUT: Don't know	8
DO NOT READ OUT: Refused	9

ASK ALL

- E6 In the last 2 years have you tried to recruit employees?

Yes	1
No	2
Don't know	3

ASK IF HAVE TRIED TO RECRUIT (E6=1)

E7 **And how did you go about trying to recruit these employees?**

PROMPT IF NECESSARY. MULTICODE.

Advertised vacancy – in jobcentre	1
Advertised vacancy - elsewhere than jobcentre	2
Engaged a recruitment consultancy or agency	3
Contacted a temping agency	4
Other (SPECIFY)	5
Don't know	6
Refused	7

ASK ALL

E8 **IF DOES NOT WORK ALONE [SDUM=2]: For the past 2 years would you say that all of your staff have been fully proficient in their job roles? By that I mean did they have the necessary qualifications for their job role or sufficient on the job experience?**

**IF WORKS ALONE [SDUM=1]: For the past 2 years would you say that you have been fully proficient in your job role? By that I mean did you have the necessary qualifications for your job role or sufficient on the job experience?**

Yes – all fully proficient	1
No	2
Don't know	3

ASK ALL

E9 **IF DOES NOT WORK ALONE [SDUM=2]: What, if any, of the following steps have you taken to improve the skills of your workforce in the last 2 years? Have you...**

**IF WORKS ALONE [SDUM=1]: What, if any, of the following steps have you taken to improve your skills for this job role in the last 2 years? Have you...**

READ OUT. MULTICODE.

<b>[IF S3DUM=2:] Undertaken internal training</b>	1
<b>Undertaken external training</b>	2
<b>Used external agency staff / subcontractors to fill in skills gaps</b>	3
<b>Conducted a skills audit of your business</b>	4
<b>[IF S3DUM=2:] Recruited new staff</b>	5
<b>Anything else?(SPECIFY)</b>	6
DO NOT READ OUT: Have not needed to	7
DO NOT READ OUT: None of the above	8
DO NOT READ OUT: Don't know	9
DO NOT READ OUT: Refused	10

ASK ALL

- E10 **What, if any, of the following steps have you taken in the last 2 years to free up your time to concentrate on managing the business?**

READ OUT. MULTICODE. RANDOMISE CODES 1-6.

[IF S3DUM=2:] <b>Delegated work to a trusted employee</b>	1
[IF S3DUM=2:] <b>Taken on more employees</b>	2
[IF S3DUM=2:] <b>Improved HR practices or the way staff are managed</b>	3
<b>Upgraded / bought in new software to help with managing the business</b>	4
<b>Subcontracted / outsourced some areas of your work</b>	5
<b>Used consultants to help manage the business</b>	6
<b>Anything else (SPECIFY)</b>	7
DO NOT READ OUT: Have not needed to	8
DO NOT READ OUT: None of the above	9
DO NOT READ OUT: Don't know	10
DO NOT READ OUT: Refused	11

- E10A **In the last 2 years have you taken any steps to try to increase the amount of sales you are making or attract more customers?**

Yes	1
No	2
<b>Don't know</b>	3

ASK ALL WHO HAVE TAKEN STEPS TO INCREASE SALES (E10A=1)

- E11 **Which of the following steps have you taken?**

READ OUT. MULTICODE. RANDOMISE CODES 1-6.

<b>More advertising</b>	1
<b>Employed a dedicated sales person or marketing manager</b>	2
<b>Devised a new marketing strategy</b>	3
<b>Approached new customers</b>	4
<b>Undertaken training in marketing or sales</b>	5
<b>Anything else (SPECIFY)</b>	6
DO NOT READ OUT: None of the above	7
DO NOT READ OUT: Don't know	8
DO NOT READ OUT: Refused	9

C

## F Awareness, use, value of government assistance for small businesses

ASK ALL

- F1 In the last 2 years have you sought external advice or information from any of the following on matters affecting your business?

READ OUT. MULTICODE 1-3 OK.

A formal source such as a business mentor, accountant, bank	1
Business groups, networks or associates	2
Friends and family	3
DO NOT READ OUT: No none of the above	4
DO NOT READ OUT: Don't know	5

F2 *DELETED*

F3 *DELETED*

ASK ALL

- F3N In the past 2 years has your business received a reduction in its business rates bill from the Small Business Rates Relief scheme (SBRR)?

Yes	1
No – heard of SBRR but do not receive it	2
No – and never heard of SBRR	3
Don't know / Unsure	4

F4 DELETED

F5 DELETED

ASK THOSE WHO RECEIVED SBRR IN 2011-2012 FINANCIAL YEAR (F3N=1).

F6 **And how did your business use the savings as a result of the temporary doubling in SBRR relief?**ADD IF NECESSARY: **How, specifically, did you use the money retained?**

DO NOT READ OUT. MULTICODE.

Helped with cashflow	1
Helped retain existing staff	2
Helped with development / training of existing staff	3
Used in recruitment of new staff	4
Used for investment in equipment	5
It was used for investing in your premises (e.g. purchasing / renting / maintenance / )	6
Marketing or advertising	7
For starting / continuing to use external services such as accounting, legal advice, IT or consultants	8
Meant able to draw extra personal income from the business	9
Other (specify)	10
None of the above	11
Don't know	12
Rather not say	13

F6a **And has receiving the SBRR relief had any impact on your ability to continue trading? Would you say..?**

READ OUT. CODE ONE ONLY

<b>Yes – significantly</b>	1
<b>Yes -somewhat</b>	2
<b>No</b>	3
Don't know	4

ASK IF AGED &lt;1 YEAR (S4a=1+ or S4=2-6)

F7 **Can I just check, is your business eligible for the National Insurance Contribution (NIC) Holiday scheme?**

Yes	1
No	2
Never heard of NIC holiday	3
Have heard of NIC holiday – Don't know whether eligible currently	4

F8 *ASK ALL EXCEPT THOSE WHO HAVE NEVER HEARD OF THE NIC HOLIDAY (F7 NOT 3)*  
**Has your business ever used the National Insurance Contribution (NIC) holiday scheme?**

Yes	1
No	2
Don't know	3

F9 *ASK THOSE WHO HAVE USED THE NIC HOLIDAY IN THE PAST (F8=1).*  
**And how did the money retained as a result of the NIC holiday help your business?**

ADD IF NECESSARY: **How, specifically, did you use the money retained?**

DO NOT READ OUT. MULTICODE.

<b>Helped with cashflow</b>	1
<b>Helped retain existing staff</b>	2
<b>Helped with development / training of existing staff</b>	3
<b>Used in recruitment of new staff</b>	4
<b>Used for investment in equipment</b>	5
<b>It was used for investing in your premises (e.g. purchasing / renting / maintenance / )</b>	6
<b>Marketing or advertising</b>	7
<b>For starting / continuing to use external services such as accounting, legal advice, IT or consultants</b>	8
<b>Meant able to personal income from the business</b>	9
<b>DO NOT READ OUT: Other (specify)</b>	10
DO NOT READ OUT: None of the above	11
DO NOT READ OUT: Don't know	12
DO NOT READ OUT: Rather not say	13

F9A **And has receiving the NIC holiday had any impact on your ability to continue trading? Would you say..?**

*READ OUT. CODE ONE ONLY*

<b>Yes – significantly</b>	1
<b>Yes -somewhat</b>	2
<b>No</b>	3
Don't know	4

## G Motivations and mindsets

G1 *DELETED*

G2 *DELETED*

G3 *DELETED*

G4 **Now thinking about your business specifically how far do you agree or disagree with the following statements about what growth means or would mean for your business?**

READ OUT. CODE ONE PER ROW.

	Disagree strongly	Disagree slightly	Neither / nor	Agree slightly	Agree strongly	Don't know
<b>Growing my business would be unnecessarily risky to its survival</b>	1	2	3	4	5	6
<b>Growing my business would be too costly</b>	1	2	3	4	5	6
<b>The potential loss of government concessions I receive as a small business would put me off expanding the business</b>	1	2	3	4	5	6
<b>Growth would mean too much time would be spent managing rather than earning.</b>	1	2	3	4	5	6
<b>Growth potential is limited by the market I am in.</b>	1	2	3	4	5	6
<b>[IF S3DUM=2:] My business has inspirational management</b>	1	2	3	4	5	6
<b>Growth would mean I'd lose too much control of the business.</b>	1	2	3	4	5	6
<b>I am prepared to invest my own money to grow the business</b>	1	2	3	4	5	6
<b>My business is more aggressive than competitors</b>	1	2	3	4	5	6

G5 *DELETED*

## H Demographics

*We are almost at the end of the survey. I would like now to ask a few short questions about your business, just so we can group similar businesses together for analysis purposes...*

- H1 **I have the following as a general description of your business [INSERT DESCRIPTION BASED ON SIC CODE ON SAMPLE] as a general classification of your organisation's principal activity. Bearing in mind this is a general classification only, does this sound about right?**

Yes	1
No	2

*ASK IF DISAGREES WITH DESCRIPTION (H1=2).*

- H2 **What is the principal activity of your organisation?**

PROBE AS NECESSARY:

- **What is the main product or service of this organisation?**
- **What exactly is made or done at this organisation?**
- **What material or machinery does that involve using?**

PROBE FULLY. RECORD DETAILS AND CODE BELOW

--

*ALLOW DK AND REF*

*ASK ALL*

- H3 **Is your business a family owned business? (A family business is majority owned by members of the same family) SINGLE-CODE**

Yes	1
No	2
Don't know	3

*ASK IF FAMILY BUSINESS (H3=1).*

- H4 **And for how many generations has the business been in the control of your family? SINGLE-CODE**

1	1
2	2
3	3
4	4
Other [PLEASE SPECIFY]	5
Don't know	6
Unwilling to answer	7

H5 *DELETED*

H6A *DELETED*

H6B *DELETED*

ASK IF S3A&gt;1

H7A **How many of your [RESPONSE TO S3a] owners / partners are women?**

ENTER NUMBER (RANGE=0 to value given at S3a)

ALLOW DK AND REFUSED

ASK IF S3A=1

H7B **Is your business partner or the other business owner male or female?**

Male	1
Female	2
Don't know	3
Refused	4

ASK IF S3A &gt;1

H9A **Can I ask which ethnic group the majority of the owners or partners of your business would be in?**

PROMPT AS NECESSARY. MULTICODE OK (IF NO MAJORITY AND SPLIT EVENLY).

<b>White</b>	
English/Welsh/Scottish/Northern Irish/British	1
Irish	2
Any other White background	4
<b>Mixed / multiple ethnic groups</b>	
White and Black Caribbean	5
White and Black African	6
White and Asian	7
Any other Mixed / multiple ethnic background	8
<b>Asian/Asian British</b>	
Indian	9
Pakistani	10
Bangladeshi	11
Chinese	12
Any other Asian background	13
<b>Black / African / Caribbean / Black British</b>	
African	14
Caribbean	15
Any other Black / African / Caribbean background	16
<b>Other ethnic group</b>	
Arab	17
Any other ethnic group (specify)	18
DO NOT READ OUT: Don't know	19
DO NOT READ OUT: Refused	20

ASK IF S3A = 1

H9B **Can I ask which ethnic group your business partner or the other business owner is in?**  
 PROMPT AS NECESSARY. SINGLE CODE.

<b>White</b>	
English/Welsh/Scottish/Northern Irish/British	1
Irish	2
Any other White background	4
<b>Mixed / multiple ethnic groups</b>	
White and Black Caribbean	5
White and Black African	6
White and Asian	7
Any other Mixed / multiple ethnic background	8
<b>Asian/Asian British</b>	
Indian	9
Pakistani	10
Bangladeshi	11
Chinese	12
Any other Asian background	13
<b>Black / African / Caribbean / Black British</b>	
African	14
Caribbean	15
Any other Black / African / Caribbean background	16
<b>Other ethnic group</b>	
Arab	17
Any other ethnic group	18
DO NOT READ OUT: Don't know	19
DO NOT READ OUT: Refused	20

ASK IF SOLE TRADER (S3A=0 – 1 OR DK)

H9C **Can I ask which ethnic group you are in?**  
PROMPT AS NECESSARY. SINGLE CODE.

<b>White</b>	
English/Welsh/Scottish/Northern Irish/British	1
Irish	2
Any other White background	4
<b>Mixed / multiple ethnic groups</b>	
White and Black Caribbean	5
White and Black African	6
White and Asian	7
Any other Mixed / multiple ethnic background	8
<b>Asian/Asian British</b>	
Indian	9
Pakistani	10
Bangladeshi	11
Chinese	12
Any other Asian background	13
<b>Black / African / Caribbean / Black British</b>	
African	14
Caribbean	15
Any other Black / African / Caribbean background	16
<b>Other ethnic group</b>	
Arab	17
Any other ethnic group	18
DO NOT READ OUT: Don't know	19
DO NOT READ OUT: Refused	20

H8A *DELETED*

H8B *DELETED*

H10 **What is the legal status of your organisation?**

READ OUT AS NECESSARY. ALLOW MULTICODE ONLY IF 'OTHER' MENTIONED

INTERVIEWER NOTE: IF BUSINESS NAME CONTAINS 'LTD' OR 'LIMITED' THEY ARE USUALLY A LTD. COMPANY (CODE 3).

<b>Sole proprietorship</b>	1
<b>Partnership</b>	2
<b>Limited Company (LTD)</b>	3
<b>Other (specify)</b>	4
Don't know	5
Refused	6

H11 **Is your business VAT registered?**

SINGLE CODE

Yes	1
No	2
Unwilling to answer	3

*Just to finish off I'd like to ask a few questions about you, again this would just be for classification purposes....*

ASK ALL

H12 **Can I ask your age please?**

ENTER NUMBER (ALLOW 16 – 99)
------------------------------

ALLOW DK AND REF

ASK IF DK / REFUSED AT EXACT AGE QUESTION (H11= DK OR REF)

H13 **Would you be able to tell me if you are ...?**

READ OUT. SINGLECODE.

<b>Under 25</b>	1
<b>Between 25 and 34</b>	2
<b>Between 35 and 44</b>	3
<b>Between 45 and 49</b>	4
<b>Between 50 and 54</b>	5
<b>Between 55 and 64</b>	6
<b>Over 64</b>	7
Refused	8

ASK ALL

H14 **About how many hours a week would you say you work on this business at the moment?  
Would you say it is....**

READ OUT. SINGLECODE.

<b>1-7 hours</b>	1
<b>8-14 hours</b>	2
<b>15-21 hours</b>	3
<b>22-29 hours</b>	4
<b>30-35 hours</b>	5
<b>36-50 hours</b>	6
<b>51 hours or more</b>	7
Don't know / varies too much to say	8
Rather not say	9

ASK ALL WHERE BUSINESS IS MORE THAN 12 MONTHS OLD (S4A 1+ OR S4=2-7)

- H15 **About how much personal income would you say you derive annually from the business you are currently running?**

READ OUT. SINGLECODE.

<b>GBP 0</b>	1
<b>GBP UP to 5K</b>	2
<b>GBP 6K – 10K</b>	3
<b>GBP 11K – 20K</b>	4
<b>GBP 21K – 30K</b>	5
<b>GBP 31K – 40K</b>	6
<b>GBP 41K – 50K</b>	7
<b>GBP 51K or more</b>	8
Don't know / varies too much to say / worked at business for less than a year	9
Rather not say	10

- H16 *DELETED*

ASK ALL

- H17 **Can I ask if prior to running this business you had any management experience with other businesses or organisations?**

Yes	1
No	2
Don't know	3

ASK IF HAD PREVIOUS MANAGEMENT EXPERIENCE (H17=1)

- H18 **About how many years of management experience did you have prior to running this business? ...Did you have...**

<b>Less than a year</b>	1
<b>1 – 2 years</b>	2
<b>3 – 5 years</b>	3
<b>6 – 10 years</b>	4
<b>11 – 15 years</b>	5
<b>16 or more years</b>	6
Don't know	7
Rather not say	8

ASK ALL

- H19 From the following list I am going to read out, can you tell me when we come to a qualification that you hold?

READ OUT. SINGLE-CODE

A postgraduate degree or doctorate, NVQ / SVQ Level 5 or equivalent	1
A degree or higher degree, HND, HNC, NVQ / SVQ Level 4 or equivalent	2
A levels, SCE higher, NVQ / SVQ Level 3 or equivalent	3
GCSE, O Levels, SCE standard, NVQ / SVQ Level 2 or equivalent	4
Other [PLEASE SPECIFY]	5
No formal qualifications	6
DO NOT READ OUT: Unwilling to answer	7

ASK

- H20 DELETED

ALL

- H21 INTERVIEWER CODE GENDER OF RESPONDENT

Male	1
Female	2

ASK ALL

That is the end of the interview, thank you once again for your time.

- H22 For the next stage of the research we will be holding some discussion groups with business managers about issues that affect small businesses such as yours. The focus groups would be in October in the region where you live.

Would you be interested in participating in a discussion group? We would contact you nearer the time to double check you are still interested and were available at the time, we would just like to gain an idea of interest at this stage.

Yes – interested	1
No – not interested	2
Unsure	3

ASK ALL

H23 **Would it be possible for BIS to link your responses to other information that you have provided previously to the Government? By this data linkage, BIS can reduce the burden of our surveys on your business and can improve the evidence that it uses.**

**Data will only be used to inform research on businesses in aggregate - we will never release information that identifies any individual business - and your survey responses remain strictly confidential. Do you give your consent for us to do this?**

Yes	1
No	2

THANK RESPONDENT AND CLOSE INTERVIEW

I declare that this survey has been carried out under IFF instructions and within the rules of the MRS Code of Conduct.

# Appendix 2 Focus Group Discussion Guide

## Preamble

- *Who we are, why we're here (about the research)*
- *Explain about focus group aims/methodology – guidelines/ground rules*
  - *This focus group is one of eight sessions around the country. There has also been a large (1000) phone interview survey. The phone survey allows us to say something about the numbers with greater accuracy, but these focus groups will help us understand **why** businesses have these views.*
  - *There are no right or wrong answers. We want to hear from everyone. Everyone comes from different sectors, with different paths to growth.*
  - *We don't need to know your life story, we want to hear the story of your business.*
  - *The session should last 90 minutes.*
  - *We have a prepared question guide and we'll need to stay on track with that.*
  - *The session will consist of (a) views on what growth means to them (50 mins) and (b) perceived barriers. Mindsets dealing more with issues around how to grow and Barriers relating to the consequences of growth*
  - *Confidentiality is guaranteed. Evidence will be anonymised and you won't be identified, so feel free to be open and frank.*
  - *The sessions will be audio recorded*

## A Introduction/context

*(10 minutes)*

Post-it note/flip chart exercise

- (a) What factors do you believe constrain growth in small businesses? (Generally, rather than under prevailing conditions)
- (b) Which of these is most important in your business?

Prevailing economic conditions

*(New Q) It's too risky to grow the business now*

- Are the prevailing economic conditions more (or less) risky to be growing a business? Are there any advantages to the present situation? (e.g. wider pool to talent to choose new employees from)
- How **confident** do you feel about business in your sector? Do you know about total sales volumes – are they up/down, is it just a finger in the air? Is the level of competition you face increasing/decreasing?

Is growth on the agenda for your business?

## B Views on impact of growth on your business (45 minutes)

### 1 Conception of growth

(Testing Myth 1 2006) *'It's just business as usual, just more of it' – testing the idea of vision to see their business differently – in a different configuration/scale etc.*

- What would business growth look like in your business? If you were to double in size would you be doing anything else differently? Think about whole business (e.g. sales, production, back office, formalising more of their processes)

### 2 Stop-start growth

(New Q) *'My business just stopped growing' – testing the idea that the owner had successfully grown the business, but then applied the brakes limiting further growth.*

- When you've grown the business in the past has there been episodes of stop and start growth? Thinking back to the growth – what made you grow and what made you stop/downsize?

### 3 Market-limited growth

(Testing Myth 11 2006) *'Growth potential is limited to the market that I'm in' – if geography is a barrier why not move? if competition is too intense why not diversify? Testing the vision of a dynamic business.*

- Do you believe that you operate in a limited market? How fierce is the competition? Could you export?
- Is there anything you could do to change things?

### 4 Business Planning

(Testing Myth 4 2006) *'The only reason for a business plan is for funders, it's not of any use to me'*

- How much business planning do you do for your business? How often? What form does it take? Why do you do it? What benefits do you get from it (if any)?

### 5 Improving working capital

(Testing Myth 5 2006) *I can't improve my working capital for growth? Testing the willingness of the business to make changes to their benefit*

- Is working capital a barrier for growth? How exactly does this affect growth?
- What have you done to improve cashflow? Would could you do? (with debtors, creditors, bank overdraft etc)

### 6 Securing investment finance

(New Q) *'You can't get any money to invest in making the business grow' - Testing the views of whether businesses believe money is available.*

- Have they needed finance and have they applied in the last two years? Have they had difficulties raising finance or are the perceived difficulties putting them off applying?

### 7 Recruitment practices

(Testing Myth 9 2006) *I've looked and I can't get the right staff - Testing the willingness of the business to make changes to their benefit*  
(exploring recruitment practices)

- If you were to recruit, how difficult is it to find the right staff?
- How do you go about finding new staff? How could you change recruitment to better identify people with the skills you need? Would it make any difference?
- Are the issues of skills more important?

b) *It's not worth the effort / risk to employ more staff* (too much responsibility / cost / bureaucracy).

- What about barriers – is it too complicated to follow all the legislation? Do you need to know all the legislation?
- To what extent are you worried by the negatives (e.g. employment tribunals) or more focused on the positives?

## 8 Only I can manage the business

(Testing Myth 10 2006) *'Only I can manage the business' – if I delegated responsibility nobody else could manage as well as I do (overstating own competence and relegating others different skillsets as 'second class')*

- To what degree do you delegate or contract out tasks within your business? What type of tasks are they? At what level is it necessary to bring in a professional manager?
- Is there value in utilising skills of others that you don't have? How might you unlock those in your staff? Or find new people?

## 9 Losing control

(New Q) *'I don't want to lose control' – tests for the extent to which their ego is a barrier, rather than competence at No.7 above*

- How would you react if other people were to be given control over parts of your business? Would you be willing to let control pass over to them?

## 10 Time management

(New Q) *'There's too little time to do everything' – is time management an issue (and therefore planning and delegation are important)*

- How able do you feel to do everything within an allotted working day? How good is your worklife-balance? How sustainable is your current effort?
- Could you manage your time better? What assistance would help you do that?

## 11 Help and advice

(New Q) *'I don't need any advice and won't benefit from it, not all of it is good and I don't know who to trust' – are messages about business support reliable and who do businesses trust?*

- Where do you get information and advice from to help run your business? What are the best sources and why (explore formal and informal sources)? Have you paid for advice? Is paid advice better?

# C Perceived barriers (35 minutes)

## 1 Management costs

(Testing Myth 2 2006) *'Management costs are disproportionately greater with growth'*

- What happens to management (non-productive) costs as the business grows – are they proportionate to growth? (Unpacking) What extra functions get taken on? Are the extra costs embodied in a new staff member? Is all of this non-productive time?

## 2 Risks of failure

(Testing Myth 3 2006) *'Pursuing a growth strategy increases the chance of failure' – growing a business poses additional risks (cashflow etc) and it's safer to stay at the same size.*

- Is growing a business more likely to lead to business failure? Why might that be, what is behind your thinking? What factors are relevant here?

## 3 Productivity and profitability

(Testing Myth 10 2006) *Productivity and or profitability is maximised when smaller – there are different returns to scale - and staying small means I can make the most money for the least effort/risk.*

- What level of business do you believe would yield the highest level of profitability or personal income?
- Why do you believe that? What actually happened as you've grown your business?

## 4 Regulatory costs

(Testing Myth 12 2006) *regulatory costs are disproportionately greater with larger businesses – belief that regulation stifles growth.*

- What do you believe happens to the amount of regulation you have to deal with as you grow? Does the level of growth offset these extra burdens – or does it not make growth worthwhile? Why do you hold these beliefs?
- Do you have the internal capacity to deal with regulation? How could this be improved?
- Do you have to know about the regulations before you do something new or can you just go ahead and live with consequences later on?

## 5 Tax changes and growth

(New Q) *Tax breaks don't help growth, tax increases are worse still*

- What happened in your business with the last increase in VAT? Was there any change in business volumes? What would / did crossing the VAT threshold mean for your business? (actual and anticipated effects)
- What happened with the SBRR rebate? Have you taken advantage of the NIC holiday? What did you do with the cost savings? Are you able to say with any certainty whether these changes make any difference or would you just be speculating? Do the benefits encourage you to stay small?

# Appendix 3 Myths from 2006 report

- Myth #1      Getting larger means business as usual, only more of it.
- Myth #2      The management costs of a larger business are disproportionately greater, in particular the amount of my time that would be needed.
- Myth #3      Pursuing a growth strategy increases my chances of failure.
- Myth #4      I would only be bothered to prepare a business plan to obtain finance, not to understand my growth potential nor plan for growth.
- Myth #5      I don't have enough working capital to accommodate growth, and there's no way for me to improve it.
- Myth #6      I can't use a bank because they only sell me what they want to sell me.
- Myth #7      Internal finance is the only option, because external funders want too much control.
- Myth #8      I'm too small to try for work with the public sector.
- Myth #9      Changing my HR practices wouldn't change the result, there are just too few suitable staff out there.
- Myth #10     Growing means I'd have to become a manager, it's not what I'm good at and if I'm managing I'm not earning.
- Myth #11     My growth potential is limited by the market that I serve and I can't do anything about it.
- Myth #12     The costs of regulatory compliance would be too high if I grew any more.
- Myth #13     The business support system is only useful at start-up, not during the growth process.

# Appendix 4 Baseline evidence and literature review

## The specificity of micro businesses in relation to growth

Two issues of note emerge from the literature on the growth of very small businesses: (i) the shortage of explicit research, and (ii) the intrinsic differences between micro-businesses and larger ones. Pointing out some of the deficiencies, both Grant and Perren (2002) and Parry (2010b) characterise extant research on small firm growth as predominantly functionalist or positivist – i.e. seeking to ‘explain’ growth through regressions of the chosen growth variable against a relatively small range of other variables, related to the characteristics of the business, the owner and/or the external environment – rather than focusing on why growth does not occur. Meanwhile Gilbert et al. (2006) note that many studies on new business growth largely ignore *how* growth occurs – i.e. have little focus on the internal processes and practices of the business and how these interact with the external environment to hinder or facilitate growth. They cite a lack of appropriately-focused studies, arguing that the evidence which is available demonstrates that micro-firms are ‘intrinsically different in their organisational characteristics and approach to business problems’. In their review of studies of micro-firm management practice, Kelliher and Reintl (2009) echo these conclusions, calling for more research on very small businesses to improve understanding and inform policy. They also contend that management processes within micro-firms are unique and that their behavioural responses to issues differ fundamentally from those of larger firms (see also Kelliher and Henderson, 2006; Whaley, 2003), therefore requiring greater, focused scrutiny.

Having sought to establish the need for specific research, the literature suggests a number of themes that might be usefully pursued. Kelliher and Reintl (2009) identify three topic areas or themes in particular: (i) the internal characteristics of micro-firms; (ii) capacity and underlying resource poverty (Phillipson et al, 2004); and (iii) the wider competitive environment (Wyer, 1997). The same themes are reflected in the current study, re-classified in terms of constraints emanating from (i) internal capacity and capability to grow; (ii) the external environment, including the market in which the business operates and (iii) the psychological limits or vision of the owner in relation to growth. In the case of the latter, despite recent interest (see for instance Parry 2010b; Doern 2009; Doern and Goss 2012) psychological, social and emotional approaches to the conceptualisation and desire for growth among micro-business owner-managers remain under-represented in the literature, yet this strand of research could well prove beneficial in explaining how the owner-managers of micro-businesses perceive and respond to barriers to growth.

Micro business survival – and, ultimately, growth – may be dependent upon making appropriate responses: keeping up with or ahead of the market and the external operating environment, customer demands, regulation, new products etc. (Alstrup 2000). For micro-firms external developments, detected and correctly understood, may actually be more effective at triggering change (and therefore growth) than internal dynamics and expertise. However, if the signals are not successfully detected and incorporated into the business’s strategy (Kelliher 2007) – the ‘liability of smallness’ (Carroll 1983) can prove problematic; as ‘the micro-firm’s underlying unique competitive advantage is centred on their capacity to learn at a faster rate than the rate of change in their environment’ (Kelliher and Reintl 2009, p529). A micro business must (i) become aware of a suitable growth opportunity; (ii) have

the internal skills and knowledge to take advantage of that opportunity (including, for example, leadership skills as well as vocational skills); and (iii) be operating in an external environment which can facilitate that growth – for example, able to access the finance required, recruit appropriately skilled new employees etc. Given that all these processes are often likely to be undertaken or controlled by one person, the owner-manager, the capacity alone to take stock, along with working at management and operational levels, has implications – even before considering the predisposition of that individual towards growth.

## Internal capacity and organisational structure

The merging of ownership and management in the micro-firm means a one-person centred organisational structure, with minimal internal management levels and a wide span of control (Simpson 2001). Greenbank (2000) points out that there is often no divorce of ownership and control, because micro-businesses are either unincorporated or shares are held only by the directors. Second, owner-managers frequently work at both the management and operational level. This can be a positive attribute: owner-managers are therefore in a position to acquire information about the market and the way the business is functioning directly, through personal experience, rather than relying on feedback from other sources (Greenbank 2000). This can facilitate greater closeness to customers and the possibility of unfiltered information (Brady 1995), rather than dependence on feedback mechanisms – though it is also dependent on the perspective and receptivity of the individual, how far they may only find what they expect to find.

Looking at how the information that is acquired is subsequently processed, Greenbank finds a tendency amongst owner-managers to combine informally absorbed information, heuristics and other short-cut methods in an intuitively-based approach to decision-making. Internal organisation and decision-making are both centred upon and emanate from the owner-manager. This simple structure has the potential for greater flexibility, faster responses and adaptation to change – but its characteristics and effectiveness are highly dependent upon those of the individual owner-manager, their outlook, capacity and expertise.

### Building capacity via recruitment

In order to increase that capacity and facilitate a strategic approach to business growth, the recruitment of expertise is clearly an option. However, it is unlikely that micro-firms will have the resources to employ specialists; they tend instead to employ staff with generalist skill sets (Simpson, 2001). An owner may also be reluctant to delegate, perceiving it as a threat to his or her control, particularly if the employee has greater skills and qualifications than themselves (Parry 2010a).

Pittaway and Thedham (2005) found that both graduate recruitment and perceptions of the usefulness of graduate skills were highest among those firms intending to grow. In a sectorally-based study amongst SMEs and micros in leisure, hospitality and tourism Pittaway and Thedham (2005) found that size and growth orientation were likely indicators of graduate employment. Firms employing fewer than ten people dominated the study, coinciding with the number of micro businesses in UK business and sector profiles. Micro business owners tended to believe that their businesses were not appropriate for graduate employment and that they could not utilise graduate skills. The data also supports the view that SMEs have a 'gap' in leadership and managerial skills. As firm size increased, the readiness to recruit graduates increased, plus owner-managers with professional

qualifications were more likely to recruit graduates; meanwhile smaller firms meanwhile placed greater emphasis on the ability of the graduates to 'fit' within the business.

Growth orientation was assessed; those business owners who did not want their business to grow had a lower view about the value of training and were more likely to be self-employed or micro-businesses. Business owners who were growth-orientated were more likely to have a positive orientation to employing graduates: along with possessing the necessary resources and requisite challenges for graduate employees, owner-managers of growth-orientated businesses were more likely to believe they would be comfortable employing graduates and that their business needed graduate skills. The data showed a significant relationship between perceptions about the usefulness of graduates and business size. Micro-businesses employing fewer than 11 employees (and by definition the self-employed) generally had a negative perception towards graduate recruitment; while small businesses (11-50 employees) had a somewhat neutral view of graduate recruitment and medium sized businesses (51-200 employees) a more positive view.

Pittaway and Thedham's study (2005) focuses more on where graduates are likely to find employment than on questioning the rationale of the owner-managers of smaller firms. The failure to recruit specialist or higher skills may not be solely the result of the choices of micro-businesses: there can be a lack of career path for specialists in this size of organisation, and as a result micro-firms often experience marginal labour markets (Kelliher and Reinl, 2009), limiting their recruitment options. This has knock-on effects in a number of ways, while generalists may add to the capacity for flexibility and adaptation, specialists are likely to offer a business greater potential for the development and adoption of a strategic approach, while also being more able to challenge the thinking of an owner-manager.

## Responding appropriately to the external environment

Storey and Cressy (1995) argue that in pursuing growth, very small businesses tend to be more conservative than larger SMEs and inclined towards incremental change, utilising informal, 'mental frameworks' of plans (Kuratko et al. 1999; Wyer 1997) rather than formal, strategic planning processes (Hall 1995). Lack of power over their external environment can serve to exacerbate the sensitivity of micro-businesses to market changes, contributing further to short-term planning and a reactive approach, rather than the development and fulfilment of a long-term strategic vision for growth (Whaley and Preston, 2003).

As planning is frequently seen as the default prescription for small businesses, the extant literature raises questions about how appropriate and effective a formal planning process might actually prove for micro-firms, and whether the current 'informal' characterisation accurately captures the nuances of the operating environment and behaviour of very small businesses. Wyer et al (2000) warn of a risk of over-simplifying the discourse and failing to accurately represent 'the real degree of complexity' facing micro-firms. The argument that growth paths can largely be attributed to chance (see e.g. Storey, 2011) is refuted by Garnsey et al. (2006) with suggestions instead that the processes of growth are complex and dynamic, the result of systemic feedback and difficult to capture using standard or conventional statistical methods.

Constructing a 'tentative conceptualisation' of the small business strategic learning process, Wyer et al (2000) contend that the majority of change situations confronting firms in the wider competitive environment are open-ended (rather than closed and predictable)

and that, for very small businesses attempting to exert some degree of strategic control, there may be inadequacies in systematic and rational planning-based management techniques. Given very small businesses have little power to shape their external environment, Wickham (2001) argues that it is typically an intuitive strategy which offers micro-businesses competitive advantage, based on tacit, localised knowledge and facilitating a tailored, rapid response to the market. This further reinforces the point that what may be appropriate stratagems for SMEs may not be most appropriate for micros and the need for further, focused research.

## Myths around growing a business

In 2005 the Small Business Service published a report on the 'Myths surrounding starting up and running a business' (Allinson et al, 2005), followed in 2006 by a focus group study of 'Myths surrounding growing a business'. The aim of both was to provide evidence and a better understanding of systematic misperceptions or 'myths' concerning business start-up and growth and the obstacles they present to SMEs, in relation to starting a business or pursuing an active growth strategy. Owners of non-growth businesses were found to place more emphasis on their own experience and ability than owners of growing businesses, to involve their staff to a lesser extent and to be less likely to engage in in-house training, group meetings, one-to-one guidance and external courses. Thus, their own perceptions were likely to remain unchallenged. Non-growers were also less likely to plan, and to react to situations rather than anticipating them, thereby weakening their growth potential.

In the 2006 'Growth myths' study many small and micro business owners believed that planning and strategy formation were 'beyond them', preferring to operate to fairly short time horizons in many aspects of their business. This was demonstrated (especially in micro businesses) by a reluctance to conduct extensive formal business planning processes. The growth orientation of most owner/managers was to improve efficiency, thereby increasing profits and margins, rather than for growth in the 'traditional' sense (output, employment and assets). Owner-managers were generally averse to the idea of being 'larger' because they held negative views about the consequences of such an increase in size, and (to a lesser extent) the negative implications of the dynamic processes of achieving growth, which they perceive to be excessively risky and associated with an exaggerated prospect of failure. In general, however, many businesses had simply not explored the consequences of growth in any depth, because of the strength of these negative perceptions.

The key myth preventing growth was the attitude of owner-managers towards their personal input into their business. A majority regarded themselves as primarily 'earners' rather than managers — that is, the business was built on their personal skills and knowledge, and any change which took them away from operational activity of this sort would impact negatively on profitability. Many believed the success of the businesses was dependent upon their personal touch, and greater concentration on a managerial role would damage relationships with customers and/or suppliers, impacting negatively on profits. Non-growers were more likely to place greater emphasis on their own experience and abilities than growing businesses, which were more liable to recognise the input and value of others, including staff and external sources.

Retention and motivation of good staff formed a 'critical bottleneck' in the growth process, only overcome by the development of the owner-managers' skills and beliefs. Owner-managers needed to develop competencies in leadership, coaching and management, in

order to build an efficient business and delegate responsibility. Small businesses tended to prefer informal methods of recruitment, within a closed system or a limited pool of contacts. The study found once again that there is often an emphasis on staff's ability to 'fit in', socially or with the idiosyncratic working practices of a small firm. 'Core' staff are able to continue producing at the same level indefinitely, but those who fail to 'fit in' leave. This places limits on growth in productive capacity, is unlikely to challenge the status quo, and provides little reinvigoration by new blood, which could drive productivity growth. In general, small businesses were found to overstate the relative scale of recruitment difficulties and to believe there is nothing they could do to alter the situation and facilitate the recruitment, retention and motivation of better workers, and to doubt that a change in practice would facilitate growth. This may be a self-fulfilling prophecy but nonetheless there remains an issue of competitive salaries — larger businesses do tend to pay their employees more than smaller ones.

Some very small businesses in the study believed their growth potential was restricted by the markets they serve and that they were unable to do anything to counter this (denied by larger firms which had grown). Micro businesses seemed particularly susceptible to focusing on negative aspects of their present size, and to lack the capacity necessary to explore alternatives, only considering duplication of their existing practice, rather than growth through diversification or innovation. Many seemed unable to accept or conceive that there could be benefits from growth – beyond what they were personally able to contribute. For very small businesses, especially those with no employees, the issue of costs, or more particularly staying small to minimise costs, was reported to act as a fundamental constraint on growth, and many owners considered that pursuing an active growth strategy was likely to increase the chances of business failure. Alongside these attitudes was a common desire to stay small, to remain within a "comfort zone", to avoid exposure to additional, higher costs. In particular, study participants wished to avoid costs associated with regulatory compliance. However, many owner/managers of small businesses held somewhat nebulous conceptions of when and how they would actually be affected by regulatory thresholds.

## Belief systems constraining growth

Just as the ambition for growth influences strategy, management practice and outcomes so the mindset and internal belief system of an owner-manager may determine how much traction growth constraining 'myths' are able to gain. The inherent paradox is that the key role of the owner-manager may actually hinder co-operation, learning and change, through the top-down dominance of communication which is difficult to challenge, particularly given the size and structure of micro-firms (Kelliher and Reini 2009). Without a separation of ownership and control, a micro-firm's culture and capacity is likely to be determined (and therefore potentially limited) by the motivations, values, attitudes and abilities of the individual owner/manager (Greenbank, 2000). Wyer et al (2000) suggest that for very small businesses potential problems may be highly individual, though their common origins may result from a combination of owner-manager and size-related characteristics. Furthermore, not only may an owner possess personal and subjective business objectives, these objectives may be tacitly held, rather than explicitly expressed or understood (Simpson 2001; Phillipson et al. 2004) yet still form an ineluctable part of the overall operating context.

This raises the notion of a growth-constraining 'habitus' amongst a proportion of micro business owners, a 'matrix of perceptions, appreciations, and actions' (Van House and

Sutton, 1996), formed by common experiences and activities. This may give the appearance of rationality and intentionality to behaviour that in reality is less than fully conscious or self aware.

*How individuals interpret a situation and the actions that they consider possible are unconsciously constrained by their habitus. Action guided by habitus has the appearance of rationality but is based not so much on reason as on socially-constituted dispositions.'* (Van House and Sutton, 1996, p140).

The 'habitus' of non-growers may be different from that of larger businesses or of growth-oriented micro-businesses, contributing to a predisposition to remain small, but characterised by owner/managers in terms of 'rational' concepts: limited access to finance, fewer economies of scale, lack of support, limited demand etc. This may lead to the suboptimal identification and processing of information and self-fulfilling justifications of why they need to remain small - to stay close to customers, to maintain complete control, to deliver personally rather than manage, and therefore the setting aside or failure to consider arguments to the contrary. In order to facilitate growth amongst this group or field, this habitus would need to be shifted, in order that owner/managers become alert to the belief system they are perpetuating and the limitations it imposes.

Parry (2010b) uses discourse analysis to identify barriers to growth among well-established artisan micro businesses. This is based on the 'stories' that the owner managers construct about their businesses. Given that growth is often seen as the mark of a 'successful' business, questioning non-growers on this topic may lead to defensiveness and the construction of a justification for a lack of growth, which can be analysed for misperceptions and deliberate or unconscious interpretations of the reality of business ownership and growth. Parry identifies three key themes, with an underlying emphasis on control of the business: a distinction between 'management' work and 'hands-on' artisan work; internal control requirements; and externally imposed business regulations that prompting control responses. Control is framed as such an important aspect of running a business, that the business should not and cannot be expanded if it would mean that control would suffer, which managers often expressed in 'allegorical tales' – for example, growth would lead to the manager being unable to watch his workers, as he has insufficient time to both undertake 'hands-on' work and supervise more employees.

*Lack of such substantial growth is easier to defend than a lack of growth achieved gradually through taking on extra employees one at a time over an extended period. Second, such substantial growth is far more likely to take the owner-manager away from his preferred 'hands-on' work. By using this two-fold argument, the owner-manager justifies the lack of growth, drawing upon both a business perspective (there are good business reasons for not growing) and a personal perspective (there are good personal reasons for not growing)'* (Parry 2010b, p387).

This justification for lack of growth points towards the concept of a 'micro business mindset', where the owner-manager either cannot picture the business as larger than it is, or sees this eventuality as transforming the business beyond recognition, a situation an owner may be unwilling to countenance, as their self-identity is bound up with the business's identity (*I am the business*). This implies in turn that responses to research questions about more 'conventional' barriers (poor access to finance, lack of demand in the economy) may – to a degree – be untrustworthy, since justification is repeatedly being sought for the business remaining small. Hence, we need to examine more closely the

meaning of growth to owner managers: how they perceive it, and what those perceptions might mean in terms of the appropriateness and relevance of intervention (Doern 2009).

## Barriers to growth

**Table A.1 Obstacles associated with business success by size of business (%)**

	None N=763	1-4 N=941	5-9 N=587	10-19 N=766	20-49 N=764	50+ N=759	Total N=4580	Chi squared p-value
The economy	74	78	82	81	82	84	80	0.000
Competition in the market	50	55	57	57	56	63	56	0.000
Regulations	35	44	46	50	54	57	48	0.000
Taxation	34	48	52	53	46	40	45	0.000
Cashflow	43	46	51	49	41	35	44	0.000
Obtaining finance	28	37	43	47	45	42	40	0.000
Recruiting staff	12	20	32	30	32	37	27	0.000
Shortage of skills generally	12	21	27	29	29	30	24	0.000
Premises	18	22	21	21	20	16	20	0.036
Managerial skills	10	14	17	20	23	26	18	0.000
Pensions	9	13	11	11	12	14	12	0.047
No obstacles	7	5	2	3	2	2	4	0.000

*Data source:* SBS 2010. Analysis forms part of current study.

The proportions of respondents which report recruiting staff as an obstacle to success increase more or less as business size increases. As would be expected, only around 1 in 8 of businesses without employees finds recruitment to be an issue, this proportion increases to 1 in 5 for those with between one and four employees – then as an obstacle for roughly 1 in 3 businesses for those with five or more employees. Reported difficulties with skill shortages follow a similar pattern.

Quite predictably this difference is even more evident when considering shortages of managerial skills and expertise: 1 in 10 owners of businesses without employees report this as an obstacle, around 1 in 8 of those with four or fewer employees, and 1 in 6 of those with between five and nine employees. For small businesses with ten or more employees between 1 in 5 and 1 in 4 found the lack of managerial skills to be an obstacle to success – but they were obviously much less likely to be referring to themselves.

Parry (2010a) argues that the VAT threshold is the most important tax-related barrier to growth for a micro business. This is due to the nature of the inputs, often dominated by labour, rather than purchases of good or service. This means that the price to the purchaser rises, but the business can only offset a limited amount of that increase through reclaiming VAT on inputs. Achieving savings relies on economies of scale, which are unlikely to be realisable in the short term. Thus, the VAT threshold acts as a particular barrier for micro businesses, aside from the costs of compliance.

Similarly, hiring an extra employee involves an immediate increase in fixed costs, which will take some time to be recouped through increased sales. A lack of formal accounting

procedures to help accurately project the likely time horizon for this recouping may well contribute to reluctance to recruit. Parry (2010a) reports that the relationship between micro business – in particular those without employees – and their accountant is highly important, since the manner in which they conceptualise accounting may hinder growth. The micro business owner is likely to reject more abstract forms of accounting for a more direct method, seeing accounting as an activity rather than a way of conceptualising business performance. In addition, Parry argues, accounting may be associated with a position of power within the business by the owner as, by implication (although Parry does not state this) could other delegated roles suggesting that psychological barriers interact with other ‘real’ barriers to hinder growth in the micro enterprise and among sole traders. If, for example, access to finance is genuinely more problematic than for other SMEs, it will be more difficult for a micro to grow than it should be. It is evident from the literature that barriers can either be real or perceived, or a mix of the two, where owner-managers exaggerate an actual barrier as more problematic than it is, through lack of information, wrongly processed information or as part of a justification for remaining small.

Regarding ‘actual’ barriers, there is relatively little research distinguishing micro businesses from SMEs in general. In a survey of Swedish businesses, Ekberg and Hedell (2011), report that time is the most frequently mentioned barrier to growth, mainly in terms of time to recruit and train, and time to simplify a typically complex business structure. However, this applies to both to both micros and SMEs. Barriers more specific to micros include marketing and market acceptance, which are generally not present in the SMEs studied. They also find that regulation is a barrier, but less so for micros that use external support. For young micros, they find that the challenges are mostly internal; while from two years onwards, the challenges become more external in nature.

## Regulation

In the UK context, research has been undertaken on whether micro businesses find regulation a barrier to growth. The Better Regulation Executive (2010) consulted 500 micro businesses and a range of stakeholders, and reported a general feeling of unfairness due to a commonly held perception that they face the same or similar paperwork as larger businesses, without the personnel to deal with it effectively. This creates a cumulative burden which falls entirely on the owner, with an average estimate of 1-2 days per fortnight spent on paperwork. In addition, consulted owners report numerous small fees to be paid which reduce profitability, plus complexity in employment law and regulation which hinders recruiting. Micro business owners express a strong desire to comply where required. However, their capacity to find out about both existing and – more particularly – new or changed regulation, and their skills and knowledge to interpret it for their own particular situation are limited. This can lead to under or over compliance with regulations and unnecessary costs, further hindering growth.

Analysis of data from the 2012 Business Perceptions survey, which mainly concerns how businesses perceive regulation and their dealings with regulators, show that there is relatively little difference, in general, between the perceptions of micros<sup>35</sup> and larger businesses. The survey gauges the extent to which regulation is a pervasive barrier by asking respondents which of six factors is seen as the greatest challenge affecting their business (Table A.2). For the majority of questions, there is no significant difference in the responses of micro and larger businesses. However, there are some specific areas where perceptions differ.

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<sup>35</sup> The survey only covers employers i.e. it excludes sole traders without employees.

Most common, for both micros and non-micros, is the attraction and retention of customers. However, it is seen as the greatest challenge for a significantly higher proportion of micros (46 per cent) than non-micros (37 per cent). The second most commonly cited challenge for non-micros is access to finance (24 per cent), significantly higher than among micros (14 per cent, and very similar to regulatory compliance and tax). It may be that a lower proportion of micros than larger business find accessing finance difficult; alternatively, a lower proportion of micros may have a current demand for finance than larger businesses (the survey does not distinguish reasons in this area). Other than in these specific areas, the results for micros and larger businesses are similar, with 14 per cent of both groups noting that regulation (the focus of the remainder of the survey) is the greatest challenge and 15 per cent of both citing the level of tax.

**Table A.2 Greatest challenge affecting respondent's business (%)**

<b>Greatest challenge</b>	<b>Micros (n=1,978<sup>36</sup>)</b>	<b>Non-micros (n=316)</b>
Access to finance	14	24
Complying with regulation	14	14
Level of tax	15	15
Staff recruitment and/ or retention	6	8
Staff redundancies	-	2
Attracting and retaining customers	46	37
Other	-	-
Don't know	4	1

*Source: Business Perceptions Survey 2012*

The Business Perceptions survey also facilitates the identification of barriers to growth that are specific to micros, albeit indirectly, through the implication that certain aspects of dealing with regulation are more burdensome for micros than other businesses. Overall there is a great deal of commonality in perceptions of the pitfalls and effectiveness of government regulation between micros and others.

Examining general attitudes to regulatory compliance, it is clear that most positive aspect, valued by owners, is that compliance supports their reputation with customers, i.e. a compliant business is a 'good' business, which attracts and retains custom. For micros, however, this reputation effect is perceived as less strong: 84 per cent of larger business strongly agreed or tended to agree that 'It matters to my business that our customers know that we invest in compliance', while over two-thirds but a significantly lower proportion of micros (69 per cent) agreed with the proposition.

In terms of the government's approach to regulation, the only significant difference in perception between micros and larger firms is in terms of clarity (Table A.3). Some 53 per cent of micros agree with the statement 'Generally it is clear what the purpose of regulation is', compared with 64 per cent of larger businesses. The most negatively perceived aspects, across both size groups, is a perceived lack of understanding of business on the part of government impairing the ability to regulate, and a failure to consult sufficiently before introducing or changing regulation. In both instances this is reported by around two-thirds of all correspondents.

<sup>36</sup> All figures and proportions in this section are based on weighted data.

**Table A.3 Government approach to regulation (%)**

		<b>Micros</b>	<b>Others</b>
Generally it is clear what the purpose of regulation is	Disagree	32	31
	Neither	16	5
	Agree	53	64
It is straightforward to understand what you are required to do to comply with regulations	Disagree	45	47
	Neither	15	14
	Agree	40	39
It is easy to comply with regulations	Disagree	47	50
	Neither	19	15
	Agree	34	35
Most regulation is fair and proportionate	Disagree	37	36
	Neither	22	18
	Agree	42	47
The Government/Local Government understands business well enough to regulate	Disagree	62	64
	Neither	17	15
	Agree	21	22
The Government consults well with business before any new regulation, or change to an existing regulation, is introduced	Disagree	64	68
	Neither	19	16
	Agree	18	17
Government informs businesses of regulatory changes clearly and with sufficient warning	Disagree	49	47
	Neither	19	16
	Agree	32	36

N – Varies by question

As would be expected, the majority of micros (78 per cent) do not employ any staff to deal specifically with compliance issues, compared with almost half (49 per cent) of larger businesses. In terms of the time commitment, the proportion of firms where staff spend a day or less per month on compliance is similar for both groups (30 per cent in micros, 29 per cent in others). There is widespread agreement amongst two-thirds of both micros and larger businesses that the length of time spent on the process of compliance is a burden. Predictably, the more days spent complying, the higher the proportion regarding the time commitment as a burden. It is also clear that staff in micros spend less time in total dealing with regulation than larger businesses. Some 39 per cent report spending 'no time at all' (compared with 18 per cent of other businesses). However, a high proportion of those reporting that staff spend 'no time at all' complying with regulation still regard it as burdensome: 57 per cent of owners of micros fall in this category, and 49 per cent of larger businesses.

Considering other aspects of compliance, approximately 60-65 per cent report the following aspects are burdensome: keeping up to date with new or changing regulations; compiling paperwork, (providing the same information multiple times); and finding appropriate guidance and information. Micros differ significantly from larger businesses in two areas: higher proportions cite finding information about which regulations apply to their business is a burden and, to a lesser extent, finding advice which explains compliance. Micros are more likely than larger businesses to report that they are not well informed about regulation, although the differences are not significant.

Overall, proportions agreeing that the overall level of regulation is an obstacle to their success do not differ significantly for micros (54 per cent) and larger businesses (59 per cent). However, the proportion which *strongly* agree with this proposition is significantly lower for micros (23 per cent) than larger businesses (31 per cent). Similarly, just under half of both groups think that the balance of regulation (in terms of costs of compliance against benefits) is about right, with most of the remainder considering there is too much regulation.

A recent literature review also specifically looked at regulation and growth, with some specific points about SMEs, although not micros in particular (Frontier Economics 2012). Regulation that increases the administrative costs of market entry can have a particularly strong impact on entry of small businesses as they are likely to be more credit constrained. Environmental regulation can have a net positive impact on growth if they stimulate innovation which leads to improved business performance, greater than the associated direct costs of regulation. This may particularly benefit SMEs which are less likely to profit-maximise due to a lack of time or expertise (Ambec and Barla 2010). Finally, employment protection legislation may have a stronger impact on SMEs than larger businesses, as they are less able to substitute capital for labour due to credit constraints.

A study conducted on behalf of the Welsh Assembly (Peck et al., 2010) reported that SMEs were supportive of the Welsh implementation of Small Business Rate Relief (SBRR). Some see it as a small monthly reduction in costs, others as a large annual grant. In particular, it can make up a sizeable proportion of the costs of the smallest businesses, especially those in rural areas. Any reduction or removal would hit such businesses hardest, and restrict their growth and viability in the current climate. In other businesses, removing SBRR would be of more marginal benefit. Peck et al note however, that the costs and administrative burden of making SBRR 'means-tested' would be likely to outweigh the benefits of keeping it open to all qualifying businesses. IFF Research Ltd (1995) comes to similar conclusions, with rates mainly representing no more than 2% of turnover. The exceptions businesses with a turnover under £100,000, where the negative impact of business rates payments was greater.

There is common agreement in much of the literature that regulation is more burdensome for micros and sole traders than other businesses, due to its fixed cost nature, lower efficiency in dealing with it and a lack of specialist personnel. However, the *extent* to which this is found may depend on the wording of the question and may partly be a function of personal outlook and reason for remaining a small business rather than objective truth – although it is most likely that the burden is influenced elements of both factors, the 'real' and the 'psychological'.

Recently published BIS research on midcap business (Jamieson et al, 2012) found that several interviewees asserted that there were general difficulties in accessing finance for similar businesses, although they themselves had little difficulty, and could access the finance required. This suggests the role played by the media in guiding opinion, possibly discouraging businesses from trying to grow or seek finance in the first instance.

## Sole traders

Within the micro size band, sole traders comprise a distinct group. As with research on micro-firms as a whole, both the shortage of studies is reported and the lack of appropriate focus. Korunka et al. (2011) note, 'scholarly work on the conditions for OPB [one-person business] growth at the individual enterprise level is still in its fledgling stages' (p448), and

much of the existing work concentrates on the role of self-employment as a driver of economic growth, either as a route out of unemployment or as the creator of subsequent job opportunities for others. As such, the predominant theme in the research is the macro level impacts, with less focus on psychological aspects or management practices and the influence they may have on growing sole traders. In turn, psychological research has tended to concentrate on the traits and circumstances associated with starting up as a sole trader, rather than those which might lead to growth, while research based on management practices often lacks empirical work supporting and generalising its conclusions (Korunka et al. 2011).

The latter body of research, however, produces a number of stylised facts about OPBs relevant to the current study. In particular, reiterating the points outlined above, the identity of the business is essentially that of the entrepreneur, entangling business and personal objectives and preferences, and making them flexible but vulnerable to the weaknesses of the founder. This leads to a biographical embeddedness, such that decisions about growth, among other things, can only be interpreted and understood in the context of the particular life circumstances of the entrepreneur.

Therefore, analysing the conditions for growth in a one-person start-up is inherently difficult, since they are unique and personal to that business. This leads Korunka et al. (2011) to analyse start-ups in general (since many are OPBs initially) and conditions for growth. In the 48 empirical studies analysed by the authors, five predictors of growth can be discerned: personal traits, resources, strategy, industry and organisational structures. Applying these as the basis for a model using pan-European data, they find that the best predictors of one-person start-up growth are the gender of the founder (women-owned businesses are less likely to grow), the initial capital requirements and the founder's human capital. They conclude that this implies that the more 'serious' an OPB start-up is, the more likely it is to grow subsequently; more informal, 'lifestyle' OPB start-ups are likely to remain as OPBs. 'Seriousness' is reflected by a larger size at start (in terms of investment, assets etc.) and growth ambitions. It is possible that other measures of 'seriousness' may be useful predictors in this context, which will be explored by our survey. The authors also note that personality traits, such as the internal locus of control, a need for achievement and risk propensity are not good predictors of subsequent growth. They hypothesise that these traits are an important factor in the initial self-selection into entrepreneurship rather than subsequent growth decisions, implying that most OPB owners are similar in terms of these traits, simply by virtue of having the personality to choose self-employment in the first place. This suggests that the more nuanced approach to self-identity discussed above is a more worthwhile avenue to pursue than metrics based on personality trait measurement, in terms of the drivers of growth.

The conclusions of Korunka et al. (2011) are broadly supported by other recent research. Echoing the finding about larger start-up sizes, Désiage et al. (2011), in a study of French businesses, find that businesses which started with at least one employee were more likely to grow subsequently than those which started as OPBs. The longer an OPB survives as an OPB, the lower the probability of hiring at least one employee. After seven years, those which started as non-OPBs still have a greater likelihood of adding additional employees than those which started with none. In other words, there is a clear 'one-employee threshold' effect, although the effects are not absolute. For example, of the 188 OPB start-ups observed by Korunka et al. (2011), approximately half exhibited some growth during the eight-year observation period, at which point the mean number of employees per business was 1.33.

Similarly, research by Davis et al. (2007) demonstrates that most OPBs are small (in terms of turnover, assets etc) and never become employers. The authors note that the differentiation between employers and non-employers is linked to the reasons why people become self-employed in the first place. Much research distinguishes between those who merely wish to secure a job for themselves (often a push motive, relating to unemployment) and those whose ambitions extend further, to creating a proper business (e.g. Désiage 2010; Acs et al. 2009; Hurst and Pugsley 2011). In particular, there is a concentration on the push into self-employment from unemployment – for example, Acs et al. (2009) find that the USA ‘nonemployer’ start-up rate is three times as high as employer start-ups, but also that the former tend to move countercyclically, whereas employer start-ups tend to be more aligned with the business cycle. Using French data, Désiage (2010) distinguishes between the ‘protection’ motive and the ‘developing’ [a business] motive for start-up, and notes that the former group have lower levels of human and financial start-up capital and smaller business-related networks than the latter, who more closely resemble the ‘classic’ entrepreneur.

Aldrich and Yang (2012) approach this issue from a different angle. They note that entrepreneurship has been increasingly positively portrayed, and its adoption in a wider variety of spheres by a greater range of the population encouraged, and by a variety of institutions (government, media etc.). However, business failure rates – particularly among nascent businesses – remain high. They theorise that many start-ups, although inspired into entrepreneurship by the prevailing culture, do not possess the correct ‘toolkit’ or ‘blueprint’ to establish a successful business (i.e. one that is capable of growth), and that there is a gap in the literature concerning *how* businesses emerge. The range of ‘imperfect, broken, corrupted, fragmented, and otherwise incomplete sets of routines produce high variability across start-ups’. The initial conditions and motivations for start-up can prove crucial in determining the likely growth path of the enterprise. Improving the quality, size and ‘seriousness’ of start-ups emerges as one of the most promising ways to encourage growth. Those that start for personal reasons – e.g. to preserve employment, to gain more control over work, to exploit a personal skill – are less likely to experience growth and more likely to remain as OPBs.

Similarly, Rissman (2006) analyses the duration of self-employment among young men in the USA, on the basis that a high proportion of those who choose this route are likely to be discouraged wage workers. She finds that self-employment can be a highly fluid state, with substantial turnover. For many young males, self-employment duration is short – in many cases, the first spell of self-employment lasts for under a year. As such, it is clear that self-employed people in a similar position may well choose to return to being an employee, rather than take on extra employees themselves when the economy picks up and their initial reason for moving into self-employment becomes less relevant. ‘Businesses’ such as these were never intended to grow; rather they provide a temporary stopgap between spells of waged employment and their ‘closure’ cannot be deemed a failure.

On an instrumental level, some large-scale surveys have been undertaken about specific barriers to growth and/or hiring the first employee among one-person businesses. In particular, the European Commission (2005) surveyed 4,000 OPBs across Europe. The most common reason for not hiring was the business being too small, with the owner seeing no way to increase sales to the extent that they could take on an employee – although, following the line taken by Parry (2010a), this may simply be a justification rather than a genuine reason. The most common underlying reasons for not being able to grow the business were the size of the market and competition. A quarter of respondents preferred to work alone and/or keep full control of the business, which returns to the theme of self-identity and control set out above. Similarly, underlying reasons provided for this

preference resemble the business justifications above: they have special knowledge or skills, or have a trust relationship with their customers, neither of which would be sustainable if employees were hired. In terms of their relationship with the external environment, 27 per cent stated that they could not find a suitably qualified employee; 36 per cent cited high non-wage costs; and only 11 per cent regulations (with few citing specific regulations as a barrier).

## Scoping the issue: proportions likely to be affected

In the current study our statistical interest in business growth focuses on the proportions of businesses changing size, rather than an absolute measure of the size of change. Statistics on business growth are highly time sensitive and reflect prevailing economic conditions; the aim here is to gain an impression of the extent of change.

Table A.4, developed from data in SBS 2010 shows smaller businesses tend to be less dynamic and more likely to remain the same size than larger businesses – particularly those with fewer than ten employees, and more so for those with no employees or between one and four. The proportions of businesses undergoing change, growing or contracting, were smaller for micro businesses but proportions of both increased as the size of business increased. Another trend was that across 2009 a greater proportion of micro businesses reported employment growth than contraction, whereas for larger SMEs, the proportions of businesses contracting tended to outweigh the number of growing businesses.

**Table A.4 Proportions of businesses experiencing employment change 2009-10**

Size in 2009		% Contracting	% The same	% Growing
None	N=766	4	90	7
1-4	N=888	12	72	16
5-9	N=556	20	60	20
10-19	N=762	29	49	22
20-49	N=747	25	52	23
50+	N=759	28	47	26

*Data source:* SBS 2010. Analysis forms part of current study.

Table A.1 shows the obstacles associated with business success, as reported by businesses of different size bands<sup>37</sup>. Some distinctive differences are detectable between micro businesses and small and medium businesses; each obstacle in the table records a significant difference according to size. For each obstacle the trend tends to be towards higher prevalence as the size band increases, corresponding with the fact that larger businesses report more obstacles.

Differences in perceptions appear greatest between businesses with no employees and the rest, with smaller businesses, particularly those without employees generally reporting fewer obstacles – though it must be borne in mind this may be affected by how ‘business success’ is conceptualised by respondents and whether growth forms a part of that concept.

<sup>37</sup> Our survey repeats this question, rephrasing it as obstacles associated with business growth, and the results are quite similar.

In general the smaller the business the less likely they are to report external factors –such as the economy or competition in the market - as obstacles. Regulations are reported as an obstacle by almost half of all businesses with employees, while for those with no employees just over one-third report regulations to be an obstacle. While cash flow issues are reported as an issue relatively evenly by around 40 per cent of all businesses in each size band, obtaining finance is less frequently reported as an obstacle by businesses with no employees than for larger businesses. However, this may be a reflection of proportions in each size band seeking finance – if the business is not growing this is less likely to be the case.

## Engaging with micro-firms on growth

Garnsey et al. (2006) find that new business growth is typically non-linear and subject to interruptions and setbacks, suggesting that the most probable scenarios for a new micro business are: growth followed by a collapse in development; early growth which stabilises relatively quickly; or (possibly indefinitely) delayed growth. Smallbone and Massey's recent research in New Zealand (2012) reiterates this sporadic or 'typically discontinuous' growth pattern for micro businesses and the difficulty of reliably identifying growth firms. From 2007 to 2009, only 10 per cent of their sample firms (over half of which were micros) recorded sales growth across all three years, and only 2.5 per cent recorded increased sales and profits. This could be partly attributable to the marked vulnerability of micro-firms to external changes, but other reasons suggested include the need for a micro to take stock after a period of growth (i) to restructure or reorient the business in response to the growth catalysts; (ii) to avoid 'excessive' growth due to internal risk aversion, or (iii) as a consequent change in the personal aspirations, objectives or outlook of the owner.

Smallbone and Massey (2012) found that most of the easily verifiable profile characteristics used to identify and target growth firms, such as size, sector, age, and whether or not the firm is exporting and/or innovating, did not distinguish growth firms consistently and that they were in fact highly heterogeneous. This leads to the tentative conclusion that only a minority of very small businesses can be conceptualised as 'growth businesses' and the majority can more accurately be seen as having 'growth periods'. Furthermore, it is difficult to predict which businesses will fall into which category, and when or in response to what a growth period may occur. Engaging the micro business owner on issues of growth must take account of how they themselves see good business practice – i.e. appealing to a business case, but with sensitivity to the personal outlook of the owner, how they see their business and their role in it, including issues of work-life balance and 'lifestyle' measures of success. In this juxtaposition, 'business success' may even be redefined by the owner as a lack of growth – seen as protecting or preserving the business by trying to keep it the same size. The pursuit of business growth may necessitate shifting an owner manager to new 'subject positions', integrating business and personal success measures, rather than viewing them as antithetical and placing them in opposition. This can be conceptualised as the micro business owner not running a business but being in business i.e. the owner themselves is the business. The identification of the owner with the business lends itself to a longer planning horizon (e.g. in terms of lifetime returns) than the standard accounting period dictated by reporting requirements. The same owner/business blurring may also lead to hostility towards debt-based forms of finance based on perceived riskiness (Parry 2010a), thereby placing limits on growth potential. As such, the owner of a micro business requires advice and support from an accountant to interpret and explain financial information, more so than a small business would.

Smallbone and Massey (2012) consider whether policy makers require more effective and long-term assessment of government programmes and/or that the heterogeneity of those enterprises able to achieve growth points towards a principle of self-selection. Their conclusions point towards a need to make more explicit the implications of actions and non-actions by entrepreneurs in relation to growth. As well as mitigating problems associated with the identification of growth firms, this 'making explicit or conscious' may serve to address issues associated with business objectives which are tacitly held, rather than explicitly expressed and understood (Simpson 2001; Phillipson et al. 2004). However, Greenbank (2000) does not advocate that more formalised and comprehensive forms of decision-making should be adopted by very small firms, but rather that intuitive decision-making methods may well be the most appropriate. Instead he suggests that it may be more important to place emphasis on reducing the types of bias inherent in more intuitive approaches to decision making (which links to the earlier discussion of habitus, which partially forms the basis for analysis of myths about growth in Section 7).

# Appendix 5 Explaining the construction of the constraint categories

Using the survey, 31 questions were identified as representing obstacles to business growth. Crucially these obstacles go beyond the usual barriers to growth, as used for example in the SBS survey, and include indicators of a lack of vision, capacity and external or market constraints to growth. These 31 questions were clustered in alignment with each of these three constraints and businesses needed to meet a minimum number of criteria to be aligned within these categories. Businesses could be allocated to one or more of the constraint categories.

## Capacity Constraint

There were 10 questions determined as relating to capacity constraints (Table A.5). A score of 10 was therefore possible, but few businesses were so acutely constrained to record the higher scores. Matching three of these ten criteria represented a good indication that the business was capacity constrained and using this definition 67 per cent of microbusinesses were shown to be capacity constrained (weighted figure).

**Table A.5 Capacity related obstacles**

Survey Question	Qualifying criteria	Proportion of sample qualifying
For past 2yrs would you say that all of your staff (YOU if sole trader) have been fully proficient in job role E8	No (2)	12%
What have you done to improve skills of your workforce in the last 2 years? E9	(combining E9 (1) and E9 (2) - no training)	34%
Which, if any, represent obstacles to your business growing ... (9) Shortage of managerial skills / expertise D2 (i)	agree	17%
How difficult is it / would it be to operate your business over the VAT threshold? D7	(4 or 5 on 5-point scale)	23%
How capable is your business at... introducing new products or services to the market C1(e)	(poor, v poor or don't do this: 1,2 or 7)	35%
How capable is your business at... developing and implementing a business plan and strategy C1 (b)	(poor, v poor or don't do this: 1,2 or 7)	21%
How capable is your business at... operational improvement - e.g. adopting industry best practice C1 (g)	(poor, v poor or don't do this: 1,2 or 7)	20%

Do you have formal business systems for maintaining records on any of the following... (1) Customer information C9(a)	if no (2) to C9a	27%
If you have a written business plan has it been reviewed in the last 12 months C2	No (2)	55%
Approx what % of your turnover comes from exports? A17	0% / Don't export (1)	83%

## Market / external constraint

There were 8 questions determined as relating to market constraints (Table A.6). A score of 8 was therefore possible but few businesses were so acutely constrained to record the higher scores. Matching three of eight criteria represented a good indication that the business was market constrained and using this definition 45 per cent of microbusinesses were considered to be market constrained (weighted figure).

**Table A.6 Market related / external obstacles**

Survey Question	Proportion of sample qualifying
Which represent obstacles to your business growing...(h)Competition in the market (D2 (h))	52%
Why have you decided not to grow your business over the next three years?... (3)Not enough work available (in the area) B1A(3)	12%
Growth potential is limited by the market I am in. G4 (e)	33%
Do you believe this business could grow if you wanted it to B1B	9%
Which represent obstacles to your business growing...(2)Obtaining finance D2 (b)	41%
which represent obstacles to your business growing...(4)Taxation, VAT, PAYE, NI, Bus Rates D2 (d)	55%
which represent obstacles to your business growing... (6)Regulations D2 (f)	51%
Why have you opted not to recruit employees?... Regulations D1 (f)	4%

## Vision constraint

There were 13 questions determined as relating to vision constraints (

Table A.7). A score of 13 was therefore possible, but few businesses were so acutely constrained to record the higher scores. Matching five of the 13 criteria represented a good indication that the business was vision constrained. Using this definition, 72 per cent of microbusinesses were assessed as being vision constrained (weighted figure).

**Table A.7 Vision related obstacles**

Survey Question	Qualifying criteria	Proportion of sample qualifying
In last 2yrs have you sought external advice or information from any of the following? F1(d)	None of the above (4)	31%
In last 2yrs have you taken any steps to increase sales or attract more customers?	NO (2)	23%
what is the ideal size of your business in the long term (turnover) B4	same or smaller than now (3,4,5)	20%
what is the ideal size of your business in the long term (employment) B5	same or smaller than now (3,4,5)	34%
Do you have a desire to grow the organisation <u>beyond</u> providing you with a reasonable living? B7	yes/ already does (1)	30%
Why have you decided <u>not</u> to grow your business over the next three years?...Happy at this size B1A (m)	agree (13)	10%
Do you plan to grow over the next three years (employment) B2	(any %<20 or 'no')	65%
Do you plan to grow over the next three years (turnover) B3	(any %<20 or 'no')	54%
Growing my business would be unnecessarily risky to its survival G4 (a)	Agree, strongly agree (1 or 2)	30%
I am prepared to invest my own money to grow the business G4 (h)	disagree, strongly disagree (4 or 5)	19%
Growing my business would be too costly G4 (b)	Agree, strongly agree (1 or 2)	61%
Why have you opted not to recruit employees?... (4) this business can only sustain one person D1 (d)	agree (4)	13%
Growth would mean too much time would be spent managing rather than earning. G4 (d)	Agree, strongly agree (1 or 2)	39%

Table A.8 shows the total number of individual obstacles that microbusinesses were subject to. Although the body of the report suggests that some were unconstrained, having not qualified for any of the three types, it was certainly not the case that they were not subject to any obstacles at all. The table shows that all the businesses were subject to at least two or more individual obstacles and only four businesses managed as few as four. At the top end of the scale the most obstacles recorded was 21 so any

microbusiness was not fully constrained in every aspect. Overall the pattern of the frequency distribution is similar to the normal distribution, with low numbers towards the start and end, with higher numbers in the middle, the median number of barriers was 10.

**Table A.8 Total number of individual obstacles per business**

Total no. of individual obstacles	Frequency	Cumulative frequency (%) (Weighted)
0	0	.0
1	0	.0
2	4	.4
3	8	1.3
4	16	2.9
5	37	6.6
6	76	14.2
7	68	21.1
8	61	27.2
9	99	37.1
10	143	51.4
11	133	64.7
12	86	73.2
13	85	81.8
14	47	86.4
15	41	90.5
16	34	94.0
17	32	97.2
18	11	98.2
19	10	99.2
20	6	99.8
21	2	100.0

# Appendix 6 Defining substantive ambition

Substantive growth is a definition developed in the 2012 BIS study *Growth ambitions amongst UK SMEs*<sup>38</sup>. There are five qualifying questions to identify a business as having substantive ambition (shown below).

This report uses this same method of discriminating between businesses with substantive growth ambition (low ambition was not analysed for this report). The qualifying list of questions for growth ambition in our questionnaire (Appendix 1) corresponds with the list shown below: Q33 corresponds with B1; B2 corresponds with Q35 (turnover); B3 corresponds with Q35 (employment); B4 corresponds with Q13a and B6 corresponds with Q14a.

**Table A.9 Process for calculating substantive ambition**

Characteristic	Substantive ambition	Low ambition	Low ambition
Do you intend to grow the organisation over the next three years?	Yes	No	Any
Do you plan to grow the organisation by at least 20% over the next three years in terms of turnover?	Yes	No	Any
From your personal perspective, what is the ideal size of your business in the long term (beyond the next three years) in terms of turnover?	Significantly larger than its current size	No higher than 'Slightly larger than its current size'	Any
How strongly as an individual do you desire business growth now? (rating scale 1-10)	10	1-7 inclusive	1-5 inclusive
Do you have an ambition to grow the business beyond a point where it is able to provide you with what you would consider to be a reasonable income?	Yes	No	Any

Source: *Business growth ambition amongst UK SMEs (TBR 2012)*

<sup>38</sup> <http://www.evaluationsonline.org.uk/evaluations/Search.do?ui=basic&action=show&id=502>

# Appendix 7 Tables on One Person Businesses (OPBs) and non-employers with multiple owners

**Table A.10 Respondents ideal size of business, in terms of employment, compared to current size (%)**

	<b>OPBs N=106</b>	<b>Non-employers (1+ owner) N=153</b>	<b>1-4 employees N=354</b>	<b>5-9 employees N=269</b>
	%	%	%	%
Significantly larger	21	20	18	23
Slightly larger	27	39	45	49
The same size as now	54	35	34	22
Significantly or slightly smaller	4	5	3	6

*Base: All microbusinesses, weighted results (N=882)*

**Table A.11 Specific challenges related to taking on (additional) staff (%)**

	<b>OPBs N=122</b>	<b>Non-employers (1+ owner) N=177</b>	<b>1-4 employees N=398</b>	<b>5-9 employees N=277</b>
	%	%	%	%
Uncertainty about employment legislation	59	49	37	34
Costs of wages	60	51	53	57
Uncertainty about the recruitment process	29	25	17	14
Regulations associated with employing staff	64	67	44	51
Costs of administration (e.g. recruitment, payroll)	41	46	31	21
Other non-wage costs (e.g. pensions, insurance)	63	63	50	48
None	12	10	12	13

*Base: All microbusinesses, weighted results (N=974)*

**Table A.12 Sales turnover for OPBs and businesses without employees but with multiple owners (%)**

	Under £25k N=79	£25-77k N=117	£77-250k N=63	£250k+ N=18
	%	%	%	%
OPBs	33	45	20	2
1+ owners	16	41	27	17

Base: All non-employing businesses, weighted results (N=277)

**Table A.13 Vision constraints facing businesses (%)**

	OPBs	Non-employers (1+ owner)	1-4 employees	5-9 employees
	%	%	%	%
Not sought external advice or information in past two years	43	30	33	24
Not taken any steps to try to increase sales or attract more customers	45	31	24	11

Base: All microbusinesses, weighted results (N=1000)

**Table A.14 Capacity constraints facing businesses (%)**

		OPBs	Non-employers (1+ owner)	1-4 employees	5-9 employees
		%	%	%	%
Poor at or do not introduce new products/services to market	N = 997	44	31	34	30
Poor at or do not develop/implement business plan and strategy	N= 1000	32	22	19	13
Poor at or do not undertake operational improvement	N = 984	31	22	18	13

Base: All microbusinesses, weighted results (N shown in Column 2)

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