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**Durham University Business School**

**Thesis for the Degree of**

**Doctor of Business Administration**

**Use and Perception of Small Business Support Schemes:  
A Network Perspective.**

**R J Reynolds**

**June 2011**

**Use and Perception of Small Business Support Schemes:  
A Network Perspective**

## Abstract

Small businesses are at the heart of the UK economy generating more than half of output and employing more than 60% of the workforce. It is well established that small business owners rely on their personal networks for essential backing especially during the emergent phase, but not clear why greater use is not made of other sources of available support, including public sector support. This thesis goes to the core of this question by viewing small businesses in the context of support networks.

Research interest in the small business sector has grown concomitantly with the proliferation of small businesses over the last 20 years. However, research into the small business sector has been overshadowed by a pre-occupation with the study of large businesses. This is because large businesses are easy to identify and may be considered as rational economic entities operating in a classical economic framework. In contrast, the motivations of the owners of small businesses are more closely linked to lifestyle choices than simply pecuniary reward. As such, it is more appropriate to think of them as essentially socio-economic entities. This realisation has ramifications for the way in which small firms should be studied and, in particular implies that the model of classical economics is inappropriate. Accordingly, this research adopts the economic sociology model, wherein small firms are seen as embedded in social networks which provide support vital for their survival. Researching the support environment of small forms from the perspective of network theory, a cornerstone of economic sociology, constitutes an original line of enquiry in this field.

It is a relatively straightforward task to identify key support providers. However, it is much more difficult to assess their value to small firms. This research is aimed at improving the understanding of the support environment of small firms including the use made of different providers and what small businesses think of them.

This research involved the construction and completion of a large scale survey of UK businesses using a novel on-line design. The findings of the empirical study reveal that small firms make extensive use of an inner circle of support providers and that they find the proliferation of products available from other sources confusing and frustrating. Despite recent initiatives to simplify public sector support services

including grouping products under the banner of “Solutions for Business,” small firms continue to favour use of their close personal networks over government schemes.

The application of network theory to inform this research has produced a number of valuable new insights. Notably, the findings of this research have been used to suggest a number of policy changes for the delivery of public sector support schemes and ultimately the radical re-envisioning of the entire business support structure such that the responsibility for Business Link is ultimately transferred into private ownership.

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## **Glossary of Terms and Abbreviations**

BBA	British Bankers Association
BERR	Department for Business Enterprise and Regulatory Reform
BIS	Department for Business, Innovation and Skills
BOS	Bristol On-line Survey
BCC	British Chamber of Commerce
Business Angel	A wealthy individual investing in a small firm
Business Link	The UK Governments platform for delivery of business support
BVCA	British Venture Capital Association
CBI	Formerly known as the Confederation of British Industry
CEO	Chief Executive Officer
Cluster	A concentration of similar businesses
Clustering	The tendency of similar businesses to co-locate
DTI	Department for Trade and Industry
Economic Sociology	A model of behaviour based upon a mix of social and commercial influences
EC	European Commission
ESRC	Economic and Social Research Council
EU	European Union
FSB	The Federation of Small Business
FPB	The Forum of Private Business
GEM	Global Entrepreneurship Monitor: an annual survey relating to small businesses on an international scale
HEI	Higher Education Institution
ICFC	Industrial and Commercial Finance Corporation
LEP	Local Enterprise Partnership
Medium business	A business with 51-200 employees
Micro business	A business with 5 employees or less
Modest business	A business with 11 – 50 employees
Network	The pattern of relationships between individuals and groups
Private Equity	Equity capital invested in private companies
Rational economics	A model of behaviour predicated upon rational decision making and the operation of efficient markets
Regional Development Agency (RDA)	UK government agencies with a role to promote development of specific geographical regions
Small business	A business with 6-10 employees
SBS	Small Business Service: A government research and advisory unit for small business
SME	Small and Medium Sized Enterprises
SNA	Social Network Analysis
Social Capital	The stock of goodwill built up in a society or network of relationships
Social embeddedness	The extent to which actors are involved in their environment
SPSS	A software package used for statistical analysis
Thomson	A commercially available business database
TECs	Training and Enterprise Councils
Venture Capital	Equity capital provided by a specialised institution

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## Declaration

I certify that the material contained in this thesis has not previously been submitted for a degree in this or any other university.

.....  
Robert John Reynolds

.....  
Date

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**Use and Perception of Small Business Support Schemes:  
A Network Perspective**

# Chapter 1

## Introduction and Overview

### 1.1 Introduction

This research considers small business support schemes with a view to making recommendations aimed at improving service delivery for the benefit of the users of such schemes. The requirement for research in this area was highlighted by Smallbone et al. (2001:19) who described use of small business support schemes as plagued by a “lack of understanding of the types of support available, doubts about the relevance of what was offered, confusion about which providers can best meet a firm’s needs [and] a lack of confidence and trust in those delivering support.”

This research takes a fresh look at the network of support providers for small firms with a particular focus on public sector support schemes. Support for small firms is considered important as the small business sector is a major source of innovation, employment and economic growth. This is a topical subject following announcements by the new government H M Treasury (2010) which contrast with initiatives announced in the final months of the previous government (Mandelson, 2010). Policy recommendations made herein are based upon a comprehensive review of the relevant literature combined with the collection and analysis of new empirical data.

This research draws upon seminal work relating to small businesses by Schumpeter (1934, 1942), Carland et al. (1984), Wennekers and Thurik (1999) and Carree et al. (2000). It also relies on related research by Bennett and Robson (1999a, 1999b), Curran and Storey (2000), Johnson et al. (2002, 2003), Smallbone and Baldock (2004), Reynolds et al. (2004), Mole (2004), Mole et al. (2006, 2007, 2009) and Bennett and Ramsden (2007) in respect of business support schemes. Valuable insights are also drawn from Porter (1997, 2000), Rosenbaum (2000) and Hallberg (2000) in respect of support rationales and from Granovetter (1973, 1983, 1985, 2001), Burt (1997) and Uzzi (1996, 1999) in respect of social embeddedness and network theory. Using these sources an original framework for the study of small business support services is derived. Research relating to network aspects of small business behaviour from Woolcock and Narayan (1999), Hite and Hesterly (2000), Johannison et al. (2002), Jack (2005), Evald et al. (2006), Drakopoulou-Dodd et al. (2006) and Jack et al. (2008) has also been particularly useful.

The findings from a specially commissioned large scale survey confirmed that small firms are embedded in multi-layered support networks corroborating and extending the work of these scholars. Crucially, by applying network insights, it becomes possible to conceive ways to improve small business support schemes by use of structural bridge ties first identified by Burt (1997).

## **1.2 Structure of this thesis**

The early chapters of this thesis are concerned with establishing the theoretical credentials upon which the later empirical chapters are grounded. The early narrative argues that classical economic theory applied to the study of large firms is not appropriate for the study of small businesses. Essential differences relate to the personal objectives of many small business leaders compared to the fundamentally profit based goals of large organisations. Taking the alternative path of economic sociology leads to the creation of a model for consideration of small business support schemes from a network theory perspective. This in turn leads to the development of important new insights relating to the essential nature of the small firm support environment and a re-thinking of the rationale for public sector intervention. These insights are used to develop new policy prescriptions designed to improve the efficacy of public sector support services for the benefit of the many small businesses operating in the UK plus the millions of people whose livelihoods depend on them.

The first part of this thesis, consisting of the first 3 chapters, establishes the foundations of this study by review of previous research material in the field. It also builds the theoretical platform underpinning the subsequent empirical work. The second half of this thesis presents the results of the empirical research which serves to extend the boundaries of knowledge in the field. It also provides a detailed description of the research process undertaken and an analysis of the research findings. Finally a number of conclusions are reached and recommendations made which have direct relevance to the practical application of these findings for the improvement of the small business support environment.

This first chapter outlines the scope of this research introducing a number of key topics for detailed consideration in subsequent chapters. Chapter 2 provides a summary of the small business support framework in the UK from omnipresent family members to more obscure business angels including the full range of both private sector and public sector institutions dedicated to helping small businesses. A

full and enlightening debate is opened up regarding the rationale for public sector provision of support services and an original topography for policy action is conceived and developed. The chapter concludes with a critical appraisal of existing research related to the main public sector support organisation, Business Link and a debate about the difficulties of measuring effectiveness and value for money.

Chapter 3 contains a wide ranging exposition of the key themes prevalent within network theory. It charts the evolution of the field from philosophical conception in 1973 to present day scientific rigour and analytical techniques. The development and usefulness of the concepts of social capital and social embeddedness are discussed before research related to small business networks is reviewed and assessed.

Chapter 4 presents the methodology used in this research project. It includes details of the steps taken to overcome research challenges and provides a detailed review of the research process undertaken. Chapter 4 concludes by asking a number of research questions which are designed to establish the relationship (if any) between characteristics of small firms and the use and satisfaction with the panoply of support providers.

Chapter 5 presents research findings relating to use of small business support schemes. Survey findings are used to establish significant correlations between certain human and social factors and use of business support schemes. The Support Rings Model of support providers is developed. Emergent new insights into satisfaction levels across the range of support providers are discussed. Survey findings related to Business Link are reported and compared to results of previous studies. This research represents one of the first studies to consider individual components of Business Link services following the reorganisation in 2004. Chapter 5 also collates comments made by respondents to the survey and incorporates a revealing ethnographic study of observations regarding networking, small business support schemes and Business Link.

Chapter 6 draws together the conclusions of this research presenting recommendations for policy makers to devolve ownership and operation of Business Link to the private sector to be staffed by appropriate professionals drawn from the inner circle of small firm support providers. It also highlights potential avenues for further research in this field.

Having introduced the research topic and explained the research context the next section considers the key questions underlying this research.

### **1.3 Research Questions**

This research is concerned with the way small firms use their networks to access business support. Prior research has been devoted to describing the support environment but has made little progress in understanding the dynamics of small firm support mechanisms. The first half of this thesis provides a review of these antecedents and develops the necessary theoretical basis for this research. The second half builds on this foundational work to develop new insights in the field.

This purpose of this section is simply to introduce the research questions which are considered in more detail in chapter 4 (section 4.6) and answered in chapter 6 (section 6.8). The first question relates directly to the survey results. The next two questions consider the impact on policy and the fourth question is designed to penetrate further into specific characteristics of individual firms and managers. The final question focuses explicitly on users' experience of Business Link.

#### **Question 1.**

What do small business leaders think about networking?

#### **Question 2.**

Do policy makers need to pay more attention to the network environment of small businesses in the delivery of small business support schemes?

#### **Question 3.**

Do policy makers need to re-design small business schemes taking more account of demand side factors?

#### **Question 4.**

Do the answers to the above questions depend upon individual characteristics of small businesses or small business managers?

#### **Question 5.**

What are small business' views on and experiences with Business Link and do these vary by any of the factors listed in question 4?



Having explained the developmental nature of this thesis and introduced the research questions, the next section summarises the main contributions of this research.

#### **1.4 Contribution**

This research project serves to corroborate and extend existing knowledge and makes an important contribution to the field both in terms of theory and practice. This thesis establishes and develops a theoretical foundation for the consideration of small business support themes from the perspective of network theory. This foundation is then used to describe and explain small business behaviour and is subsequently applied to the issue of policy formulation.

An important contribution of this work relates to the development of an original theoretical framework for the provision of support for small businesses based upon four core principles, namely; market gap (Mole, 2004); market development (Hallberg, 2000); socio-economic objectives (van de Walle and Nead, 1998) and cluster development (Porter, 1990, 1997, 2000). Developing this framework further, this research establishes an empirical link between network behaviour and use of small business support schemes which is used to develop the Support Rings Model based upon the level of usage of different sources of support. Using this model, a new policy agenda is constructed for the delivery of small business support schemes based upon network transivity whereby existing strong network ties to accountants and bank managers can be engaged to improve access to the small business community. Beneficial outcomes are expected to include more effective support provision and an improvement in small firm performance with consequential benefits to society.

Contribution to methodology and practice is achieved by the use of an on-line survey tool extending the range of research methods available to researchers in this field. The survey design incorporated a stratified random sample of small businesses segmented by size, sector and region derived from the Thomson database. The survey was undertaken between August 2007 and September 2008 and thus presents a new empirical dataset. Usable responses totalled 255 and results were analysed using both statistical and ethnographic methods providing insight into the network environment of small firms.

The findings emerging from the survey form the basis for the contribution to knowledge in the field of small firm support schemes. New knowledge is used to

develop a number of recommendations for the formulation of policy in this area at a pivotal time when the structure of small business support schemes is being radically re-shaped.

Having discussed the contribution of this research, the next section looks at the relevance of studies in this area explaining why it is important to have a thriving small business community.

### **1.5 Significance and relevance of research**

Small and medium sized enterprises (SME's) are a major contributor to the UK economy accounting for more than 50% of output and employing nearly 60% of the working population (BERR, 2008). Notably SBS (2003a) reported that SME's accounted for 70% of net UK job creation between 1995 and 1999.

The impact of SME's in stimulating economic growth and improving competitiveness was noted by Carree et al., (2000), Dharwan (2001), Madison (2001) and Reynolds et al., (2004). A correlation between firm size and economic growth was demonstrated by Dharwan (2001) who discovered that small firms were more productive than large firms. These findings were ascribed to the increased flexibility of SME management structures and the ability to adapt to changing conditions by exploiting niche markets. SME's were found to be more innovative than large firms by Reynolds et al., (2004). This is notable as links were established between innovation and economic growth by Madison (2001).

It is, therefore, important that small businesses can prosper in order to maintain employment and output levels but also to drive a dynamic and competitive economy. Consequently, appropriate and effective support for small firms has the capacity to improve the economic health and wellbeing of the country.

Having outlined the relevance of the research, the next section introduces the reader to the epistemological perspective and research model used in this research.

### **1.6 Epistemological perspective and research model**

The pervading theoretical perspective of business studies research is fundamentally positivist, based upon a classical economic worldview comprised of efficient markets and negligible transaction costs. However, whilst this may suit the study of large businesses, it ignores human agency and social influence and is considered deficient for the study of small businesses whose activities and

performance are intrinsically bound up with the personality and motivation of the owner-manager (Carland et al., 1984) and the social environment in which they exist (Shaw, 1999; Drakopolou-Dodd et al., 2006).

Notably, the veracity of the classical model begins to disintegrate towards the end of the twentieth century with the re-emergence of small businesses as the dominant economic form (Ross, 1996; Carree et al., 2000; Rosenbaum, 2000). Rosenbaum (2000:457) was particularly outspoken on this point commenting that single-minded pursuit of the market based model involves the “danger of ignoring the widespread existence of rival co-ordination mechanisms between economic entities, thereby failing to address the question of why markets are replaced or circumvented by other governance mechanisms such as industrial networks or co-operatives.”

Human factors have also recently been recognised as relevant to the take-up and success of small business support schemes (Bennett and Robson, 1999a; Walker et al., 1999; Mole, 2004; Reynolds et al., 2004; Tucker and Lean, 2003; Sheikh et al., 2002). However, whilst human factors may be important according to Amit et al (1993:823) they are too restrictive, and looking at the entrepreneurial process in a social context is “more comprehensive and dynamic than simple personality based theories.” This view is reinforced by Shaw (1999:31) who commented that “it is both appropriate and useful to conceive of the micro environment in which small, entrepreneurial firms are embedded as a social network of overlapping relationships.”

In fact, the importance of networks for small businesses has been noted by numerous researchers including Woolcock and Narayan (1999), Katz et al. (2004), Drakopolou-Dodd et al. (2006), and Smith and Lohrke (2008). In this context, Jack et al. (2008:125) noted “networks actually create the environment, as it is understood and operated by the entrepreneur.” Furthermore, Shane and Cable (2002) found that small businesses were able to tap into resources embedded in their networks to augment their own more modest means and Zaheer and Bell (2005) noted that involvement in networks enhanced small firm performance. Some researchers even contend that small businesses are defined by their networks and that the lines between social and business relations are blurred (Johannison et al. 2002).

However, networks should not be considered static and the dynamics of networks is a relatively new area of enquiry. In particular, it is becoming apparent that as firms grow their networks change from being close groups to more diversified, managed and calculative structures (Hite and Hesterly, 2000; Zaheer and Bell, 2005;

Evald et al., 2006). Nevertheless, throughout the evolutionary process, the entrepreneur seems reluctant to relinquish the strong personal ties that were integral during the emergent phase and which provide underlying stability (Evald et al., 2006).

The visualisation of small businesses operating simultaneously within networks of social and commercial relationships merits the investigation of small business support schemes in the same context. Consistent with this approach, this research project adopts a post positivist epistemological perspective which recognises that not all knowledge is accessible using scientifically based research methods and allows for knowledge to be transient and local, as opposed to fixed and absolute. In particular, it recognises that “no matter how faithfully the scientist adheres to scientific method, research outcomes are neither totally objective nor unquestionably certain” (Crotty 2003:40).

Having introduced the epistemological perspective and research model the next section considers the main ethical issues pertinent to this research.

## **1.7 Ethics**

This research has been conducted based upon high ethical standards. From a deontological point of view, this meant using ethical means to obtain, analyse and report data. The former involves full disclosure of the focus and purpose of the research to potential participants, including the role of the participants and the amount of the participants’ time that was involved. This was achieved with due regard to the five principles of informed consent, privacy, harm, exploitation and sensitivity to cultural differences (Cloke et al. 2004). The latter was achieved by maintaining respondents’ anonymity and confidentiality, and faithfully reporting their views.

Due regard was also given to teleological issues in terms of “benefits and costs to society” Burns and Bush (2003: 64) and the contribution to the wider research community in maintaining a high degree of quality and integrity. In particular, this research is designed to improve usage and access to small business support schemes with a view to improving individual firm performance and contribute to overall economic prosperity. It is also designed to add to knowledge relating to small businesses. From a costs standpoint, this extended to reducing the impact on the environment by use of an on-line survey aimed at reducing the carbon footprint and limiting the use of paper.

Having considered the research contribution, research perspective and main ethical considerations together with the relevance of this work, the next section describes the research issues and challenges encountered and addressed whilst undertaking this research.

### **1.8 Research issues and challenges.**

This research project encountered and overcame a number of methodological challenges. The first issue related to the lack of a standardised definition of a small business. The absence of a suitable definition has led to a lack of consistency in previous research studies and held back development of a theoretical programme for research into the small business sector. This issue was addressed by use of a modified version of the EC definition (EC, 1996). The chosen definition represents a simple and unambiguous way of thinking about small businesses.

The second major problem related to the difficulty in gathering data in this arena due the heterogeneity of the population and the absence of a comprehensive database of small businesses. This issue was compounded by the limited time and monetary resources available to the researcher. These hurdles were tackled by use of a commercially available, searchable database covering 50% of the population and the implementation of an on-line survey tool.

Thirdly, the chosen model of economic sociology and associated network theory lack fully developed operational tools with which to conduct research and analytical methods by which to assess the results. These challenges were overcome by incorporating network related questions into the established questionnaire survey based techniques in widespread use by small business researchers. Analysis was conducted using statistical methods supplemented by content analysis of respondents' written comments.

In addition to these three areas a substantial number of smaller issues were also resolved and the next section provides some further details of the research methodology which is discussed more comprehensively in chapter 4.

### **1.9 Methodology**

The large scale survey employed in this research was conducted in the fourth quarter of 2007 and first half of 2008 under the guidance of Professor Paul Robson. Consistent with previous research, the design adopted a stratified random sampling

technique based upon size (number of employees), industry sector and region (Smallbone et al., 2001; Roper and Hart, 2004; Bennett and Ramsden, 2007; Baldock and North, 2009 and Mole et al., 2009). The survey design incorporated novel use of an on-line survey tool developed by Bristol University. The questionnaire was tested in 3 pilot studies which served to refine its structure and content.

In total 270 responses were received and after cleaning for public sector and voluntary organisations, 255 valid SME responses remained providing sufficient data in each of the categories (size, sector and region) to facilitate analysis. Statistical analysis was undertaken using excel and SPSS. The questionnaire and aggregated results are contained in Appendix 1.

Having briefly considered the methodology, a précis of the key findings of this research is provided in the next section.

### **1.10 Key findings**

The survey results revealed a three tier structure of support for small businesses fanning outwards from family and friends. The importance of key relationships with close associates and trusted advisers was clearly apparent. Contact with institutional providers was much less evident and a number of these organisations seemed almost irrelevant - particularly to very small firms.

Statistical support was discovered for the use of a wide range of support providers depending upon the personal characteristics of the individual business proprietor and also certain qualities of the firm. In particular, serial entrepreneurs and portfolio entrepreneurs were found to make greater use of a broader range of services than novices. Differences in the use of support services were also noted between start up and established businesses.

Usage of Business Link services was found to be comparable to earlier studies and Business Link general information based services were quite well regarded. However, use of other more specialised services showed significant variability and noticeably lower levels of satisfaction.

In addition to the statistical analysis, content analysis of comments made by respondents revealed some particularly strongly held opinions related to networking and certain specific support providers. Some comments showed that individual experiences were capable of strongly affecting the views of certain respondents.

Policy recommendations derived from these findings lead to radical suggestions for the re-envisioning of Business Link including training and employment of accountants and bankers to act as trusted intermediaries and, ultimately, for Business Link to be privatised. The detailed findings are contained in Chapter 5 and policy implications are discussed in depth in Chapter 6.

Having introduced the research topic, the next section highlights the key elements of this chapter and links to chapter 2.

### **1.11 Conclusion**

This chapter outlined the contribution, importance and relevance of this research, as well as the epistemological perspective and research model adopted. It also contained a brief discussion relating to ethical considerations, research issues and challenges which were confronted and addressed. A précis of the methodology applied in undertaking the empirical research was provided together with an overview of the findings and some of the key policy implications.

The next chapter debates the history of research into small businesses and provides an appraisal of prior research. Notably it presents an original framework for future consideration of business support schemes within the context of 4 distinct policy rationales. This is particularly pertinent in light of recently announced changes to the support system including the dismantling of the Business Link infrastructure and the abolition of the Regional Development Agencies.

## **Chapter 2**

### **Literature Review: Small Businesses and Small Business Support Schemes**

#### **2.1. Introduction**

The main purpose of this chapter is to review the provision of public sector support services. It finds that although, the requirement for additional support for small businesses was perceived in the 1930's (MacMillan Committee, 1931), recognisable public sector support schemes have only been available to small businesses since the 1970's (Robson et al, 2009). Throughout the ensuing period, the system of support has suffered from inconsistent direction from government and frequent changes to the underlying services offered (Curran and Storey, 2000). The resultant melange has caused confusion amongst consumers and polarised debate amongst academics. This chapter discusses these issues and derives a theoretical framework for the provision of public sector support to assist future policy makers.

This chapter opens by describing the search for a suitable definition of a small business and clarifying the definition chosen for this research.

#### **2.2 The search for a definition of a small business**

For much of the twentieth century attention had been directed towards the study of big businesses. Academic interest in small business is a comparatively recent phenomenon prompting d'Amboise and Muldowney (1988:236) to note that "there is no grand management theory for small business" and "many theoretical propositions are not generalizable." Welsh and White (1981: 30-35) asserted that "a small business is not a little big business" implying that they thought that business theories based upon observation of large businesses did not necessary apply in a small business context.

One of the earliest attempts to define a small business was based upon a study commissioned by prime minister Harold Wilson in 1969. This led to the publication of the Bolton Committee Report (1971). However, the resulting definition was found to be flawed because it led to distortions between sectors, geographies and time periods and was prone to variability due to industrial structure, currency fluctuations and indexation (Tonge, 2001).

A further issue was the lack of differentiation between entrepreneurs and small business owners as Landström (2005:16) noted that "for a long time, there has been a



tendency to equate entrepreneurs with small business owners” meaning that the study of small businesses was viewed as “synonymous” with the study of entrepreneurship. Landström (2005) also observed that the study of entrepreneurship itself was confused as researchers were unable to agree a common definition of an entrepreneur. For example, Schumpeter (1934, 1942) considered such individuals to be agents for innovation and change. However, Carland et al. (1984) noted that numerous other traits were also factors, including risk taking and the desire for achievement. They concluded that not all small businesses were necessarily entrepreneurial.

An alternative way of distinguishing small firms from large firms came from agency theory. This theory distinguishes small firms from large firms by having close shareholder control and active involvement of owners in management (Ang, 1991). However, agency theory is not reliable as there are examples of large firms with similar characteristics of close shareholder control and involvement in management (Holmes and Zimmer, 1994). Another alternative was provided by the resource-based theory. This classifies firms by the resources they control including organisational, human, social, physical and financial resources (Brush et al., 1997) and the way these resources are configured (Barney, 1991). In this conceptualisation, each firm is unique due to the individual blend of characteristics of the founder, organisational structure and financial resources. In this way, it is able to compete by developing resources that are valuable, rare, imperfectly inimitable or non-substitutable (Barney, 1991) and controlled (Sillunce, 2006). Critics argue that considering each business as discrete and isolated is too narrowly focused as it “tends to exclude resources beyond the boundaries of the firm” (Zaheer and Bell 2005: 82). This last objection could conceivably be remedied by extending the theory to include resources embedded in small firm networks (Amit et al., 1993; Rosenbaum, 2000; Drakopolou-Dodd et al., 2006). This idea is discussed in more depth in Chapter 3 (section 3.5). However, Kraaijenbrink et al. (2010:356) was dismissive of this entire approach stating that “the value of a resource is too indeterminate to provide for useful theory.”

Tonge (2001) commented that it was European Commission (EC, 1996) that first used the phrase Small and Medium Sized Enterprise “SME” defining small businesses in simply terms of employee numbers. Whilst this definition has the advantage that it is unambiguous, it ignores the intrinsically human element of small businesses where the owner of a small business sees it as “an extension of his or her personality, intricately bound with family needs and desires” (Carland et al., 1984:

358). Furthermore, the EC definition seems quite arbitrary. For example, a firm with 249 employees is small but a firm with 251 employees is not. It also seems not particularly discriminating as nearly 96% of UK SME's satisfy the definition of micro-businesses (i.e. those with less than 10 employees) (BERR, 2008). Notwithstanding these issues, this definition is regarded as unambiguous and has been used as the basis for the classification system used in this thesis. Thus for the purposes of this research, small firms have been classified into four groups according to the number of employees as follows:

Micro firms:	0-5 employees,
Small firms:	6-10 employees,
Modest firms:	11-50 employees
Medium firms:	50-200 employees.

This classification system encompasses all types of small businesses including those motivated by lifestyle choices as well as those engaged in innovation, risk taking and pursuit of profit. It also avoids the difficulties of the agency model and the drawbacks of resource-based theory discussed above.

The European Commission subsequently revised the 1996 definition to add turnover and balance sheet measures (EC, 2003: Annex Article 2). This revision was not used in this research as it was considered to introduce the risk of distortion which was a criticism of the Bolton Committee Report (1971) as noted earlier in this section.

Having clarified what is meant by a small business for the purposes of this research, the next section of this chapter looks at the many of sources of support available for small firms.

### **2.3 Sources of business support**

Bennett and Ramsden (2007:49) helpfully divided support providers into four generic categories. This insight has been used to develop Table 2.1 listing providers in each category, together with examples of the type of support provided. Table 2.1 also adds a fifth category which has been labelled "inter-firm."

**Table 2.1 Overview of sources of small business support**

Source	Support provided
<b>Private sector</b>	
Banks and finance houses, Business angels, venture capital, private equity	Funding, management, strategy
Accountants and solicitors	Advice
<b>Social networks</b>	
Family and friends	Funding, advice, moral support
<b>Inter-firm</b>	
Competitors, suppliers, customers	Funding, product feedback
<b>Business Associations</b>	
Trade associations, CBI,	Technical assistance, representation and lobbying
Chambers of Commerce	
<b>Public Sector</b>	
Regional Development Agency, Business Link.	Information, funding, advice

After this brief introduction, the next section summarises relevant research findings relating to each category, revealing that small businesses make particularly extensive use of close networks of family and friends.

### **2.3.1 Banks**

Business assistance provided by banks includes insurance, internet banking, loans and overdrafts, telephone banking, credit cards, commercial cards, import/export, invoice financing, life insurance, credit insurance, free banking, savings and deposit services, and the small firms loan guarantee scheme (HSBC, 2008). Banks are the most important source of funds for many firms (Cosh and Hughes, 2003). In terms of advisory services, Bennett and Robson (1999b) found that banks were the second most important source after accountants. However, banking coverage of the SME sector is not uniform as there is significant variability. For example banks were found to be only the 6<sup>th</sup> most important provider of funds to start-up businesses providing just 10% of start-up funding (Irwin and Scott, 2006) and did not feature at all in respect of advice for start-up businesses (Scott and Irwin, 2007). A more recent study by Lomax (2010) found that whilst 62% of small firms reported having a good relationship with their bank, most maintain credit balances with only 20% of firms with borrowings. Of these, only 25% of small firms sought new finance from banks in 2009 with 71% simply seeking renewal of existing facilities. In fact there exists the incongruous situation where the SME sector as a whole is a net lender of funds into the banking system with deposit balances of £56 billion compared to outstanding loans of £45 billion (British Bankers Association, 2010). This circumstance supports findings by Zoppa and McMahon (2002) who noted that the pecking order theory of funding choices described by Cosh and Hughes (1994) and Brealey and Myers (1988) did not apply to small businesses corroborating Welsh and White's (1981) view that theories relating to large firms are not generalizable to small firms.

### **2.3.2 Professional firms**

Assistance provided by professional firms includes statutory services (e.g. audit) and a range of ancillary tax and consultancy services. Accountants are the single most important source of business advice for small firms servicing in excess of 80% of firms (Bennett and Robson, 1999b) and 35% of start-up businesses (Irwin and Scott, 2006). Solicitors also feature prominently in provision of advisory services to just below 60% of established businesses (Bennett and Robson, 1999b) but only approximately 5% of start-up businesses (Scott and Irwin, 2007). Solicitors provide assistance with contract negotiations, regulatory advice, risk mitigation and other

legal services. Business consultants are also included in this list because, although not supplying vital services, they are often called upon for specialist advice including IT services, finance, tax planning, strategy, marketing and acquisitions. However, Jevnaker (1996) found that business consultants were less interested in servicing small businesses due to their lower relative capacity to pay.

### **2.3.3 Family and Friends**

The pivotal role played by personal sources in supporting small business is a recurrent theme throughout the literature (Bennett and Robson, 1999b; Brereton and Jones, 2001; Lean and Tucker, 2001; Tucker and Lean, 2003; Reynolds et al., 2004; Johnson et al., 2004; Anderson et al., 2005; Irwin and Scott, 2006; Hussain et al., 2006 Scott and Irwin, 2007). Reynolds et al. (2004:84) found 99.963% of established SME's obtained investment from family and friends who were also the second most important source of funding for start-up businesses (Irwin and Scott, 2006). In terms of advice, family sources were found to be the second most important for start-up businesses after accountants (Scott and Irwin, 2007). Anderson et al. (2006) also found that the family support network also extends to family members outside the family firm who were trusted more than third parties and also provided a wide range of resources, quickly and at little or no cost. However, both Matlay (2001) and Anderson et al. (2005) warned that support from family members was not without its pitfalls, including family conflicts, difficulties with family members, distortions in the treatment of family versus non-family employees, lack of third party perspectives and sterility of resources.

### **2.3.4 Inter firm**

Research by Bennett and Robson (1999b) revealed that trade contacts provide approximately 40% of advice to established firms. Furthermore, customers are considered to have the most impact. Similarly, Roxas (2007:40) considered that "social links to local suppliers, customers and other research and development partners provides faster access to information and knowledge, lower information and knowledge costs, increased supply of information and knowledge, and improved quality of information." However, support from customers and suppliers is constrained as they do not take part in financing or advising start-up companies (Irwin

and Scott, 2006; Scott and Irwin, 2007) and competitor interaction is generally limited unless under the auspices of a trade body or business interest group.

### **2.3.5 Business Angels**

Recognising business angels for the know-how and experience that they can bring to a small firm, the European Commission (EC, 2002:9) also described business angels as a “crucial bridge between the initial investments of the entrepreneur, family and friends and the later involvement of other investors, including venture capital funds and the public sector.” This is an interesting insight and has strong resonance with network evolution theory considered in detail in Chapter 3 (see section 3.5). However, in terms of quantum of funding, the contribution of business angels is quite small. There is also contradictory evidence about angels’ impact on start up businesses with Mason and Harrison (2000) claiming that 59% of funding goes into seed, start-up or early stage businesses, whereas Irwin and Scott (2006) found that business angels were not providing any financing to start-up businesses. Additionally, although Mason and Harrison (2002b) remarked that there is untapped investment capacity, they also note relatively low penetration of angel networks representing only 19% of business angels and with only 2% of new entrepreneurs contacting a network. Mason and Harrison (2010) reported that approximately £44.9m was invested in 233 businesses by business angels through angel networks in 2008/2009. However, they found that studying the broader angel market was difficult due to the number of angel investors who are not network members and the absence of available statistics on private company fund raising. However, extrapolating the results of a survey of 153 angel investors they estimated the total size of the angel investment market to be in the region of £400m in 2008/2009. Attempting to verify this figure from other sources produced a wide margin for error of between £290 million to £622 million and the comment that “as the population of angels is unknown and unknowable we are unable to comment on the ‘representativeness’ of the sample” (Mason and Harrison, 2010:34). Although potentially an interesting topic, the contribution to 233 small business by business angels is considered small in the overall context of 4.8 million small businesses in the UK. Accordingly, business angels will not feature further in this literature review but are included in the empirical study and in the analysis of findings in Chapter 5.

### **2.3.6 Private Sector Venture Capital and Private Equity firms**

Burgel (2000:4) describes venture capital and private equity as “mechanisms of financing companies that represent an alternative to raising funds on public equity or debt markets .... where risk, uncertainty or simply the long term horizon associated with the investment deters debt providers.” In contrast, The British Venture Capital Association (BVCA) (2010b:5) makes it clear that the primary purpose of its members is “increasing the value of a company over a finite period of time, and then selling it to realise gains made.” Therefore, whilst it may be fulfilling the role of alternative source of funding as identified by Burgel (2000), it is with the specific purpose of making investment gains rather than assisting business. However, in this process, private equity necessarily has an impact as discovered by a survey of 208 investee companies (BVCA, 2010b). For example, it was found that private equity firms took an active role in financing decisions and strategic planning and were viewed by respondents as beneficial in providing access to general business expertise, networking and engagement on key issues.

In the last 25 years the number of private equity firms has proliferated as evidenced by the increase in membership of the BVCA from 50 at inception in 1984 peaking at 214 in 2007. The scale of this activity is evident from Stromberg (2007) who estimated that there have been 21,397 private equity transactions globally since 1970. However, the last three years has witnessed a dramatic reduction in activity as BVCA (2010a) reported private equity investment of approximately £2.9 billion in 987 UK companies in 2009 reduced from approximately £11.9 billion in 1,330 companies in 2007. Simon Walker, Chief Executive of the BVCA commented that “instead of making investments, the dominant theme of the last 12 months has been the even more enhanced portfolio management (BVCA 2010a: 4). The financial crisis has also taken its toll on BVCA membership which reduced by 10% to 193 in 2009. Clearly, with the average size of investment of approximately £10 million and the number of investments less than 1,000 per annum, private equity is not a significant provider of funds to small businesses. Nevertheless private equity firms are included in the empirical study and findings are discussed in Chapter 5.

### **2.3.7 Venture Capital**

BVCA (2005:2) describes venture capital as a “subset” of Private Equity covering the “seed to expansion stages of investment.” BVCA (2010a) maintains records relating to the use of venture capital funds split by age of business, purpose for the investment as well as industry sector and reported that the total value of venture capital investment in start-up and early stage businesses in the UK, in 2009 was £296m. Just £10 million was invested in only 55 start-up businesses with an average investment amount of approximately £180,000. A further £137 million was invested in 204 early stage businesses with average investment of approximately £671,000. Whilst a potentially valuable source of investment, venture capital is clearly not in widespread use when “fewer than 37 out of every 100,000 companies were backed by classic venture capital” (Reynolds et al., 2004:84).

### **2.3.8 Representative organisations**

Representative organisations are trade and industry collectives whose primary purpose is to promote the interests of their members. Bennett and Ramsden (2007) found that the predominant reason cited by firms for membership was to gain access to information followed by advice, lobbying and networking with less emphasis placed upon marketing, social status and accreditation. They also found that weightings attached to these services varied according to size of the respondent firm. Representative organisations fall into two main groupings, trade and professional associations and business interest organisations.

#### **2.3.8.1 Trade and Professional Associations**

May et al. (1998:260) described trade associations as “one of the earliest forms of collective action by business” dating back to the early 1880’s. Porter (2000:30) commented that trade associations “can command greater attention and have greater influence than do individual members, and an association or a collective body (e.g. joint research centre, testing laboratory) creates a vehicle for cost sharing.” Writing on behalf of the Trade Association Forum, the umbrella organisation for trade associations, Boleat (2003:1) identified “three essential characteristics of a trade association-

- a member-based organisation, the members being businesses not individuals....



- the ultimate governing body comprises representatives of members, and members are involved more generally in the decision making process.
- The members must have a common interest.”

Boleat (2003) also listed a fourth characteristic for some associations as representing members’ interests to government, regulators and media. This characteristic was observable particularly in the larger associations. The main organisations with this characteristic are considered in sections 2.3.8.2 -2.3.8.6.

Bennett and Ramsden (2007) reported that there were more than 3,000 trade and professional associations. Echoing Boleat (2003) Bennett and Ramsden (2007) stated that the main difference between trade associations and professional associations was that trade associations had business members whereas professional associations had individual members. However, the distinction between these categories becomes blurred with respect to SME’s which often comprise very small groups or single individuals. Bennett and Ramsden (2007) found that trade and professional associations covered 80% of the SME population. However, they also discovered that on average SME’s belong to between 1.8 and 2.0 associations. This implies that although there are approximately 4 million members of such associations there are only between 2-2.2 million unique members which is under half of the population of small firms (BERR, 2008). Thus the coverage of trade and professional associates is in danger of being overstated.

### **2.3.8.2 Business Interest Organisations**

Business Interest Organisations are representative bodies providing an interface between their members and government. For completeness this chapter includes a review of the main business interest organisations. In general, however, these organisations have very little relevance to the day to day environment of many small firms (Curran, 2000) so consideration is relatively cursory.

### **2.3.8.3 The CBI (formerly called the Confederation of British Industry)**

The CBI has its roots in the Federation of British Industry in the Midlands in 1916 (Crookham et al., 1997). It grew to a membership of 9,000 firms and 272 trade associations and was the largest of the three organisations that merged to form the

Confederation of British Industry in 1965. The CBI describes itself as “the premier lobbying organisation for UK business on national and international issues” (CBI, 2010:3) boasting membership comprised of the majority of FTSE 100 companies and over 200,000 smaller businesses employing approximately 4 million workers. ([www.cbi.org.uk](http://www.cbi.org.uk)). Thus the CBI represents less than 4% of the population of businesses and will not be considered further except in the empirical study and subsequent findings reviewed in chapter 5.

#### **2.3.8.4 The Federation of Small Businesses (FSB)**

The FSB was formed in 1974 and is the second largest business interest organisation after the CBI. In contrast to the CBI’s focus on large businesses, the FSB describes itself as “promoting and protecting” the interests of the self employed and owners of small businesses ([www.FSB.com](http://www.FSB.com)). The original conception of the FSB was as the National Federation of the Self Employed in response to the proposal at that time to increase employer national insurance contributions at the same time as VAT was being introduced. Today, its membership comprises approximately 215,000 SME’s (up to 150 employees). However, this represents approximately just 5% of the total number of UK SME’s.

#### **2.3.8.5 The Forum of Private Business (FPB).**

The FPB was established in 1977 and is focused on owner/manager businesses with approximately 25,000 members describing its objectives as “to support, protect and reassure small businesses by adding value throughout their business cycle, to represent small business views and be their voice in government, to deliver an exceptional service to our members” ([www.fpb.org](http://www.fpb.org)). Membership of FPB is tiered into four categories as follows:

1. Introductory – a free service with access to regular articles and newsletters
2. Intermediate – costing £175 per annum providing additional access to a helpline service and various discounted products as well as a representation to various policy making bodies
3. Advanced – with membership prices ranging from £425 - £1,000 per annum (depending on the size of business) additionally bringing

comprehensive business guides and business templates plus invitations to networking events

4. Expert – with membership rates available on application augmented by tailored business solutions, a dedicated business advisor and training.

As membership, equates to less than 0.5% and 5% of firms and employees respectively, the FPB is much smaller than the FSB.

### **2.3.8.6 The British Chambers of Commerce (BCC)**

The BCC was founded in 1768 (Taylor, 2007) and acts as an umbrella organisation for a network of 52 local chambers of commerce. The BCC is a not for profit organisation with the “core aim as influencing government decision makers and the shaping of policy to create the best environment for businesses” (BCC, 2008:4). Calling itself “The Ultimate Business Network” BCC (2008:3) proclaims that it has a voice at the highest echelons of government and the Monetary Policy Committee of Bank of England. This claim is reinforced by their role in advising the new government on the establishment of Local Enterprise Partnerships. Yet the local chambers of commerce appear to have little relevance to very small businesses as noted by Curran et al. (2000:138) who found “alienation and disengagement” of small business owners with the local community and “bodies such as the chamber, the local authority and enterprise agencies were seen as marginal to their activities.” This seems contrary to Bennett and Ramsden (2007: 65) who placed Chambers of Commerce second in importance for advice ranked by 16.6% of their sample after trade and professional associations with 57.1%. However, putting this in context trade associations were considered to be the most important source of advice from all providers by only 5.7% of respondents by Bennett (2004:Table 5.2). Consequently, the significance of Chambers of Commerce to small firms is considered to be relatively minor.

Greaves (2008:2) noted the continuing “fragmented, overlapping and under-resourced system of business representation” in Britain. His research provides an interesting account of proposals by Michael Heseltine, MP and others during the 1990’s to simplify the system of communication between business and government. The proposals initially included compulsory enrolment in local chambers of commerce and the formation of lead associations. The idea was that these groupings

would also become responsible for training, an area that the government felt was not being adequately addressed by business. These attempts were largely unsuccessful due to the voluntary traditions inherent in the sector and the resistance to perceived interference by government. Greaves (2008) noted however, that Heseltine's work was the catalyst for the creation of Training and Enterprise Councils (TECs) which laid the foundations for what later became Business Link, the main organ for government support of the SME sector since 1992.

Having considered the range of support available from personal and private sources, the following section focuses on public sector support services. In particular, it chronicles the evolution of Business Link from inception to the present day. The discourse then progresses to consider the merits of the arguments for and against government support. It then derives an original framework for the provision of public sector support based upon four different rationales.

#### **2.4. The Changing Face of Public Sector Support**

Despite the general acknowledgment that small firms have a significant role to play to the benefit of society, Robson et al. (2009:533) commented that "understanding of how and when governments intervene to assist entrepreneurs, and indeed which, if any, specific entrepreneurs should receive assistance in some shape or form, still has substantial gaps, and remains controversial." Having considered the sources of support available from the private sector, close associates and voluntary organisations, this section considers the role and effectiveness of public sector support schemes.

The government is profoundly interested in the prosperity of the small business community because it is a major source of employment and generator of economic output (BERR, 2008). The link between small business activity and economic growth was propounded by Schumpeter (1934) and has been corroborated by Wennekers and Thurik (1999), Carree et al. (2000), Dharwan (2001), Andretsch and Thurik (2001), Madison (2001) and Reynolds et al. (2004). In particular, Schumpeter (1942:83) considered that entrepreneurial activity was the catalyst for the "process of creative destruction" whereby innovative small firms displace older, less creative, larger firms as part of an economic cycle. However, Schumpeter's depiction of entrepreneurs as simultaneously creative and destructive agents intent on destabilisation was quickly challenged (Sweezy, 1943). In contrast, more recently,

Kirzner (1973, 1999) preferred to think of entrepreneurs as individuals seeking to restore equilibrium by discovering and exploiting opportunities caused by market imperfections rather than agents of destruction. Witt (2000) also preferred a more benign alternative to Schumpeter's antagonistic cyclical model preferring instead a model of continuous creative renewal by entrepreneurial businesses as an ongoing process. By placing Schumpeter's work into historical context, Anderson (2008) provided an interesting reinterpretation of his main treatise about the destructive role of entrepreneurs. Anderson (2008: abstract) considered that "Schumpeter thought that his evolutionary economics required a break with basic neoclassical assumptions but he tried to avoid controversy by - confusingly - presenting it as only requiring the introduction of innovative entrepreneurs into the set up of the Walrasian system." This implies that Schumpeter may have simply chosen entrepreneurs as an expedient to make his theory of economic evolution more palatable in a world where the prevailing dogma was of economic equilibrium. This, at least, provides an acquittal for entrepreneurs cast as a destructive force, and provides a partial reconciliation to the views of Kirzner (1973, 1999) and Witt (2000).

As classical organisation theory was being developed during the early part of the 20<sup>th</sup> century, it is, perhaps, understandable that it was based upon the study of large firms which had become the dominant organisational form by the 1960's (Carree et al. 2000). However, small businesses became resurgent thereafter and Ross (1996:13) noted that "the share of small companies in total manufacturing probably reached its nadir at the end of the 1960's." The reasons for the resurgence of small business activity was reported by Carree et al. (2000) as the consequence of downsizing and restructuring due to increasing liberalisation, deregulation, changing consumer demands, a shift to service based economies and increased government support for small firms.

Despite the increasing significance of the small business sector since the 1970's, is it notable that Business Link was not established until 1992. The main aim of Business Link at inception was to develop long term relationships with entrepreneurs and offer a "one stop shop" of support services delivered at a local level (Mole, 2000:3). This approach was changed in 1999, in favour of providing a predominantly referral based service. Further changes were to follow with the creation in 2001 of, the Small Business Service (SBS), whose remit was to research, recommend and implement reform to the structure in the light of myriad problems

evident at Business Link. The tenuous situation of Business Link at that time was highlighted in subsequent testimony of Mr Wyn Griffith, Chief Executive of the Small Business Service to the House of Commons (House of Commons, 2004:8). When asked “why has it taken so long to deal with what appears to be and has been for many years a major problem for small businesses accessing the support they need,” Mr Wyn Griffith , said that the system of support had become too fragmented with “many disparate suppliers of public support.” Consequently, the support structure was subject to a number of fundamental changes to simplify its operations. The result was a reduction of the national network from 89 locations to 13 regional offices under the auspices of the Regional Development Agencies (RDA’s). RDA’s are statutory organisations formed for the purpose of driving regional development programmes including investment and employment (DTI, 2005).

The new structure was supported by the publication by the government of ‘A Government Action Plan for Small Businesses: The Evidence Base’ (2004d). This Action Plan incorporated 7 key aims within Sections 1 to 8 placing emphasis on employment and regeneration whilst supporting key industries such as food production, energy, defence, transport and housing. Following the publication of the Action Plan, Business Link became a vehicle whose primary purpose was to increase employment and re-allocate resources rather than to promote wealth creation. In this context, the minutiae of the Business Link delivery mechanism, product performance or even the exact nature and success of support for individual businesses becomes secondary to macro social and economic objectives. Macro indicators relating to employment growth, educational standards and GDP/capita combined with softer measures such as appropriate training schemes and redistribution of economic activity become the underlying objectives. According to this logic, the rationale for the transfer of responsibility for Business Link to the Regional Development Agencies was apparent as these organisations had an explicit socio-political agenda.

In 2008, the Action Plan (2004) was re-packaged by the new Department for Business and Enterprise Reform (BERR) based upon consultation with 600 businesses and entrepreneurs. The 7 point Action Plan was re-stated as “five enablers” (BERR, 2008:2). These “enablers” contain essentially the same objectives as the Action Plan and are listed as culture, knowledge and skills, access to finance, regulatory framework and business innovation. The core aims of these enablers were to reduce the fear of failure, improve skills, encourage start-up and growth, reduce the

regulatory burden and encourage greater co-operation on innovation respectively. The underlying socio-economic aims were however much more overtly stated than in the Action Plan (2004) and described in terms of “wider benefits” where “the government wants to bring wider benefits of enterprise to communities in deprived parts of the country so that everyone can enjoy the fruits of a growing economy and has an opportunity to contribute through their own enterprise” (BERR, 2008a:9). In November 2008 steps were taken to replace the multitude of support schemes available from Business Link with a simplified platform of 30 schemes under the “Support for Business” banner. In a telephone survey of 950 users and 700 non-users relating to 6 of these schemes, Braidford and Stone (2010) found indicative evidence of beneficial impacts of these products. The new government subsequently announced plans to further simplify access to support services by reducing the number of Solutions for Business products from 30 to 11. In addition, it announced the creation of Local Enterprise Partnerships to replace the Regional Development Agencies which were to be phased out by 2015 (H M Treasury (2010:52). This change in direction is generally in accordance with recommendations made by Richard (2008), Crisp et al. (2009) and Jones (2010). It is also consistent with criticism of these institutions by Mr Mark Prisk MP (2010) who declared that the RDA’s had failed to deliver upon their original remit to close the output gap between the south east and the rest of the country mainly because regional boundaries were not appropriately defined. Other deficiencies included inconsistencies and wasteful duplication between RDA’s and lack of accountability and flexibility of individual RDA’s. As a consequence, Prisk (2010:4) indicated that support for small business would be fundamentally reshaped with central government taking responsibility for “promoting trade and securing inward investment; investing in R & D and innovation; nurturing high growth sectors; enabling business support; and increasing access to venture capital.” The remaining functions of the RDA’s were proposed to be delegated to the newly created Local Enterprise Partnerships (LEPs) comprised of local business leaders and civic officers to improve local co-operation and enable greater local decision making to remove barriers to growth, supply training needs, decide local transport policy and support start-ups. To complete the new landscape, the government also proposed to set up a Regional Growth Fund, invest in infrastructure, reduce small business taxes, introduce a one year national insurance holiday for certain start ups, increase business rate relief, reduce regulation, stimulate

the creation of an equity fund for established businesses, increase government procurement from SME's, establish a New Enterprise Allowance scheme, establish growth hubs for fast growing firms and create a network of Technology and Innovation centres (Prisk, 2010; BIS, 2010). In all this activity, the future role and direction of Business Link has not been clearly specified.

The blizzard of new initiatives appears to have been hurriedly compiled within the first 6 months of the new government and remains subject to further review. The LEP's proposed close links with the Chambers of Commerce have already prompted The Federation of Small Business (FSB, 2010) to express reservations. Furthermore, unlike the earlier review of the structure of business support (SBS, 2004d), these initiatives lack an empirical research base. The dangers of introducing policy changes without a thorough understanding of the issues involved were highlighted by Schopler (1987) and May et al. (1998). The proposals for LEP's seem particularly vague and raise a number of questions. For example, how will government determine that LEP's have the relevant skills and experience to assist small businesses? How will effectiveness be measured? How will government ensure congruence between the motivations of civic and business leaders? Continuity issues will also need to be carefully considered as local civic leaders are subject to periodic change. What is clear is that the latest proposals represent another significant policy shift of the sort disparaged by academics (Curran and Storey, 2000). Furthermore, the resultant fragmentation of business support risks creating greater confusion amongst small firms about the most appropriate source of support services.

Having looked at the positive economic impact of small businesses and the changing nature of government policy, the next two sections look at the arguments for and against public sector support schemes in order to distil the key issues for the benefit of academics and policy-makers.

Almost since inception, Business Link has been the subject of sustained criticism from academics including from Curran and Storey (2000), Sheikh et al. (2002), Smallbone and Baldock (2004), Westhead and Howorth (2007), and Bennett (2007b). These critics point to erratic and inconsistent policy, poor delivery and inadequate monitoring. However, other researchers are more complimentary namely Mole (2000, 2004), Roper and Hart (2003), Mole et al. (2006, 2007, 2009), Baldock and North (2009) and Cowling and Oakley (2009). However, it is perhaps pertinent to note that several of these more favourable texts were sponsored by government



departments. The next section summarises the main criticisms in the case against government intervention before detailed consideration is given to the fundamental issue of the rationale for the ongoing support of small businesses. The discourse then moves on to propose a framework for public sector support provision designed to provide a navigational aid for the development of future policy.

#### **2.4.1 The case against government intervention**

Arguments against involvement of government in the supply of support services to small businesses may be divided into seven main categories. Firstly there are doubts about the competence of government to allocate resources appropriately or efficiently. Bennett (2007a) in particular was concerned about the risk of bureaucratic failure. He believed that government is in no better a position to assess a particular situation than the private sector or a business owner. This argument rests on the premise that if the private sector does not make provision in a particular case, then it is simply allocating capital and resources efficiently for the appropriate mix of risk and return. The corollary is that if the public sector steps in, it is either trying to discover potentially successful projects that the private sector has failed to identify or is supporting unviable projects that should not be contemplated. The result may be wastage of resources on enterprises that are more likely to fail thus producing a net cost to society.

Linked to the question of competence, the second argument broached by academics relates to poor policy making. In particular, Curran and Storey (2000:9) highlighted the “overall woolliness surrounding policy” towards the SME sector and described the historical pattern of support provision as a “mix of minor, often short lived initiatives overlaid with some quite significant and fundamental policy shifts occurring roughly at the rate of one a decade.” This comment is clearly still pertinent following the radical changes to the system of support after the recent change of government as discussed in section 2.4. Sheikh et al. (2002:4) considered that such vacillation on policy has resulted in “a proliferation of services and agencies providing such support, making it increasingly difficult for policy makers to pin point well established, well proven policies and good practices for the promotion and support of SME’s.” Too large an array of support schemes also served to confuse small businesses rather than to help them (Curran and Storey, 2000; Smallbone et al., 2001; Reynolds et al., 2004; Westhead and Howorth, 2007). In particular Smallbone

et al. (2001:19) remarked upon “the lack of understanding of the types of support available, doubts about the relevance of what was offered, confusion about which providers can best meet a firm’s needs, a lack of confidence and trust in those delivering support and a low level of willingness and ability to pay.” They also reported “business owners experiencing multiple referrals, without ever having their needs actually addressed.”

Thirdly, the human cost of failed enterprises and the associated personal distress to business owners and employees is considered to be prohibitive. In particular, Parker (2005) argues against indiscriminate encouragement of business ownership, in view of the high mortality rate of small businesses and associated personal and social costs of business failure. He called for more research into the economic impact of entrepreneurial businesses and a deeper understanding of regulation combined with a better system to evaluate the effectiveness of government entrepreneurship policies.

Next there is concern that public sector intervention creates market distortions such as “displacement” (i.e. the negative effects on other firms that did not use the scheme) (Curran and Storey, 2000). There is a growing body of opinion (Ross, 1996; Reynolds et al., 2004; Bennett, 2007a; Cressy, 2007) that there is no discrimination against small businesses in the marketplace and consequently any support provided to one firm may indeed cause displacement by putting other firms at a relative disadvantage. Such effects make it difficult to assess the overall effectiveness and value of relevant support schemes. The broader issue of measurement of effectiveness is developed as the fifth area of debate.

The absence of formal evaluation systems within Business Link meant that it was impossible to measure outcomes against expectations (Curran and Storey, 2000; Bennett, 2007b; Mole et al., 2006) or to assess value for money. However, this is a weak line of argument. Although the lack of appropriate measurement is clearly lamentable, it does not necessarily mean that support schemes are ineffectual. Furthermore, there is little prospect that this issue will be resolved, due to the high degree of subjectivity of the recipients (Bennett, 2007b), the existence of extraneous factors (Mole et al., 2006), the heterogeneity of the services and beneficiaries thereof (Smallbone and Baldock, 2004), and the longitudinal nature of the supply (Bennett, 2007b). Despite these impediments, there is a gulf of opinion concerning the overall financial merits associated with Government spending in providing support schemes.

On the one hand Mole et al. (2006:13) determined that support schemes represent “good value for money.” On the other, Bennett (2007a:21) considered that government support schemes were costly to operate and that “real consideration should be given to reducing this level of expenditure and returning some or all of the money to the business sector as a tax cut.”

The sixth objection is largely of an operational nature but also pertains to the question of government competence in delivery of support schemes to the market place. Here there is broad consensus amongst researchers that government has failed in its objective of providing support, evidenced by the low usage rate of Business Link services (Bennett and Robson, 1998; Sheikh et al., 2002; Bennett and Robson, 2003; SBS, 2004d; Mole, 2004).

Finally public sector support schemes were found to have low impact on target firms (Bennett and Robson, 1999a, 2000; Reynolds, 2004). However, this finding appears to contravene the displacement argument. Logically, both conditions cannot be true for if support schemes have low impact then non-assisted firms are not being materially disadvantaged.

Although the arguments against public sector support are clearly articulated, there is a paucity of empirical data to substantiate many of the claims relating to competence, market distortion and value for money. This is probably a function of the difficulty in assessing the impact of the support schemes on target firms on a longitudinal basis and the inevitable sample bias of firms that failed either because they did not get adequate support or did not survive even after being provided with support. Having considered the case against public sector support, the next two sections debate the arguments in favour.

#### **2.4.2. The case in favour of government intervention: Policy Rationales**

The predominant justification for public sector support is based upon compensating for market failure which assumes that small firms suffer from restricted access to funding, information and advice compared to large firms. Whilst the market failure view still pervades much of the literature (Cressy and Olafsson, 1995; Lean and Tucker, 2001; Mole, 2004; SBS, 2004; Irwin and Scott, 2006), many researchers are less unequivocal (Bennett and Robson, 1999b; Chell and Baines, 2000; Brereton and Jones, 2001; Tucker and Lean, 2003; Reynolds et al., 2004, Johnson et al., 2004; Bennett 2007a) as they doubt that market failure exists. Moreover, Rosenbaum

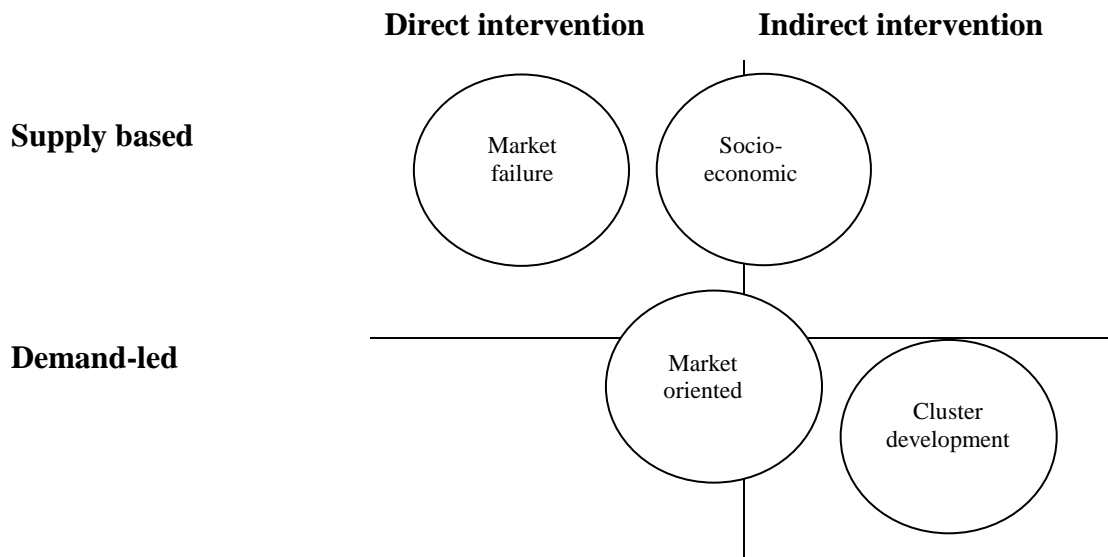
(2000), Spies-Butcher (2003) and Drakopoulou-Dodd et al., (2006) consider that the classical rational belief in market driven behaviour is a particularly inappropriate model in the context of small businesses. This topic is debated in detail in section 2.4.2.1.

An alternative view maintains that government should support small business in order to stimulate employment, fuel regeneration and protect key industries (A Government Action Plan for Small Businesses: The Evidence Base, 2004) as well as seeking to mitigate deprivation through enterprise creation BERR (2008a). These goals are manifestly presented as part of a socio-economic policy agenda. Two further but less well developed theories for public sector intervention are based upon the tenets of market development (Hallberg, 2000) and cluster development (Porter, 1997, 1998, 2000). However, these latter theories have not been fully researched, tested or debated in the small business literature.

This section draws these disparate themes together for the first time to construct a theoretical framework of public sector support for consideration by researchers and policy-makers. In the following topology (figure 2.1), theories are firstly categorised into supply based or demand-led and secondly classified as representing either direct or indirect support. In this context, Hallberg (2000) considered that a supply driven system is one where providers make assumptions about what users want rather than finding out what they need. In contrast, demand-led services are created in response to requirements after discussion with the relevant audience. The importance of demand-led support services was recognised by Westhead and Matlay (2006:118) who recommended that Higher Education Institutions should “liaise with their local business communities to ensure that all students obtain a broad range of skills required by SMEs.”

Direct intervention is characterised by support provided to individual firms whereas indirect intervention is provided on a generalised basis (e.g. education and transport infrastructure).

**Figure 2.1 Topology of UK government policy support for SME's**



There follows an exposition of each of the rationales for public sector support for small businesses. Market failure theory is found to be either inappropriate in the social commerce context of small businesses or anachronistic having been overtaken by changed circumstances since being first promulgated in the 1930's.

The latest proposals from the coalition government represent a change of emphasis within this framework. In particular, it is apparent that the focus of initiatives on employment growth and redistribution of wealth of the last government are planned to change to a mix of market development and cluster driven initiatives designed to foster business creation and development.

Having introduced the four alternative rationales, the following sub-sections contain a critical appraisal of each in turn.

#### **2.4.2.1. Market failure theory**

Market failure theory has a long tradition emanating from the work of the Macmillan Committee (1931) which identified The Macmillan Gap and resulted in the establishment of a number of institutions including the Special Area Reconstruction Association (1935) and Industrial and Commercial Finance Corporation (ICFC). Explanations for market failure include the prevalence of asymmetric information (Cressy and Olafsson, 1995; Lean and Tucker, 2001), the regressive effect of regulation (SBS, 2004 a,b,c,d) and lack of purchasing power of small businesses (Nordhaug, 2004).

Market failure theory is superficially appealing with the state as a benefactor providing direct financial support or other subsidised services to help disadvantaged small firms to compete and the Business Link mission statement (SBS 2004d: 5-6) clearly specifies four areas for intervention to correct for market failure. However, this statement betrays an imperfect grasp of the issues involved. For example, the idea that small businesses are able or willing to provide full and transparent information to finance providers presumes that such information is willingly available and that finance providers have the time and expertise to assimilate it.

It is also naïve because it assumes that the government does not want anything in return. On this topic, supporters of market failure theory point to good value for money as well as additionality and multiplier benefits (Mole et al., 2006). This issue is largely intractable though, as noted by Mole et al. (2006) who encountered profound difficulties in quantifying these effects. Other problems include the risk of creating a dependency culture amongst small businesses and the crowding out by government of other financial institutions thereby perpetuating the original market failure (Hallberg, 2000).

Market failure theory is under further assault from two different camps. The first camp finds that there is little actual evidence of market failure (Ross, 1996; Bennett, 2007b). However, these findings may simply be evidence that government intervention has been successful in eliminating market failure in the past. However, it is the second camp which disputes the very existence of the market environment for small firms (Rosenbaum, 2000) that presents the greater challenge to market failure theory. Rosenbaum (2000) described markets in terms of the extent of 4 factors: voluntariness, specificity, regularity, typification, and competition. Voluntariness relates to the existence of willing buyers and willing sellers and the ability for either party to withdraw. Specificity concerns the ability to determine the particulars of the products or commodities being exchanged. Regularity refers to the sustainability of the key features of an exchange over a period of time. Typification pertains to the standardisation of exchanged items across exchanges. Competition means the degree to which there are competing buyers and sellers and includes the level of interaction between buyer and seller. Rosenbaum (2000) identifies types of exchange based upon the prevalence of these characteristics in table 2.2.

**Table 2.2: Characteristics of markets (Rosenbaum (2000:475))**

	Market	Firm/ organisation	Central planning	Bargaining	Casual Gifts	Exchange
<b>Voluntarity</b>	Yes	Yes	No	No	Yes	Yes
<b>Specificity</b>	Yes	No	Yes	Yes	Yes	No
<b>Regularity and typification</b>	Yes	Yes (mostly)	Yes (mostly)	No	No	No
<b>Competition</b>	Yes	No	No (or very limited)	No	Yes	No

Rosenbaum (2000:476) considered that market factors “exclude forms of exchange that are motivated by reasons which have to do with the identity of trading partners rather than the opportunity for exchanges he or she offers (the latter aspect also excludes familial relations from the province of the market)”. As discussed in section 2.3.3 the predominant source of small company support derives from family and friends and prima facie appears not to be based upon market terms. The contention that small companies do not operate within conventional market structures is reinforced by Spies-Butcher (2003:198) who commented that “the debate surrounding social entrepreneurs has also moved away from emphasising the need for appropriate market structures towards emphasising the role of entrepreneurial ‘agents’ at the local level.” Similarly Drakopoulou-Dodd (2006:45) noted that “the market is the network, and it is made real through the mechanisms of structure (who connects to who), content (what is exchanged) and process (how and when do these transactions take place)”.

In summary, the idea that public sector support is provided to compensate for market failure is under attack. Accordingly, the next three sub-sections look at the other possible rationales commencing with the socio-economic perspective.

#### **2.4.2.2. The socio -economic perspective**

Under the socio -economic perspective, intervention in the SME sector is seen as a lever for fiscal or monetary policy to deliver socio-economic objectives whether these are wealth re-distribution, employment, innovation and competition or in terms of co-ordination and planning. At the heart of the socio-economic debate is the belief that one of the government’s main roles is to increase the general level of prosperity in society. This tenet was encapsulated by van de Walle and Nead (1998:285) who

saw government's "main function in industrialized countries as directed towards redistributive objectives" which are designed to alleviate poverty and create a fairer society. More tangibly Ross (1996:1) commented that "the commitment of additional resources from the public purse" was justified by the "externalities" that public support of the small business sector might promote including increased competition, innovation and job creation. Thus the encouragement of business start-ups amongst young unemployed people and initiatives to promote entrepreneurial activity amongst older people is aimed at "solving problems of social exclusion" (Curran and Storey, 2000:7) with the ancillary advantages of reducing claims on the benefit and pension systems. Similarly, tax incentives for businesses to be located in deprived areas are based upon core social objectives of regeneration whilst maintaining community cohesion. The case that government should act as the planner and co-ordinator of business activity is based upon the realisation that individual business managers focused upon their specific activities lack the necessary purview or consensus to shape overall policy which is thus the domain of government (Bennett 2007a).

Whilst supporters of the socio economic case cite the ideals of a fairer and more prosperous society there are some dissenting views. For example, Ross (1996:15) doubted whether small firms could be considered a tool for socio economic policy as "small firms should not, simply on grounds of size, be assumed to be dynamic, entrepreneurial forces for industrial restructuring." With similar disdain, Hallberg (2000) considers socio economic policy to be misdirected, as she considers that the capacity of the SME sector to influence the targeted societal outcomes has been overstated. This is largely because SME owners are generally not from the poorest sections of society so no redistribution benefits are being created by the provision of subsidies.

### **2.3.2.3 Market development theory**

Market development theory considers government as an enabling influence ensuring that relevant ambient conditions exist to foster business development. This includes the provision of an efficient transport system, an up to date IT infrastructure, relevant skills training programmes and a supportive legislative framework.

The awareness of the capacity of government to stimulate entrepreneurial activity and the effect of external factors on business performance was noted by Davis and Henrekson (1997), Woolcock and Narayan (2000), Carree and Thurik (2002),



Stevenson and Lundström (2001) and Johnson et al. (2002). Woolcock and Narayan (2000: 11) considered that firms' "performance is linked to levels of general trust, rule of law, civil liberties and bureaucratic quality." Similarly, Stevenson and Lundström (2001) identified 25 factors governing the level of entrepreneurial activity including central and regional support structures, access to capital, flexible labour markets, moderate non wage costs, and tax policy. These themes were consolidated in the work of Hallberg (2000) under the umbrella of market oriented interventions. Her table illustrating the way in which government could affect the business environment, financial services and other business development services is reproduced as table 2.3.

Whilst elements of Hallberg's (2000) work are apparently supported by other research (See Carree and Thurik, 2002 and Stevenson and Lundström, 2001), the resultant theoretical assemblage appears indistinct, contradictory and confused. For example, Hallberg (2000) advocates open access to markets whilst simultaneously recommending protected status for small firms. Furthermore, Hallberg's treatise does not appear to have found support from the academic community as there are no citations of her work in EBSCO nor any references to Market Development Theory or Market Oriented Theory.

The fourth rationale concerns the promotion of inter-firm co-operation and the ideas behind cluster theory and is considered in the next sub-section after Hallberg's (2000) table.

**Table 2.3 Market-Oriented SME Interventions**

	Open access to Markets, Accelerate market Development	Invest in public goods, build institutional capacity	Reduce and rationalise traditional public interventions
Business environment	Competition policy Licensing and registration requirements, administrative fees Commercial transactions Intellectual and commercial property rights Tax, labour legislation, Government procurement Flexibility in the implementation of regulations	Infrastructure (transport, ports, market facilities, communications, information technology) Information (markets, standards, technologies) Monitoring of SME performance and impact of policies and interventions Public/private partnerships at local level to improve business environment	Reconsider policies that reserve certain sectors for small scale enterprises or grant them special protection Seek greater neutrality across firm sizes in tax and labour legislation
Financial services	Financial sector competition policy Collateral legislation Prudential regulation and supervision Interest rate ceilings Regulations governing leasing venture capital, equity markets	Innovation in loan products, lending methodologies, delivery mechanisms, (e.g. credit scoring) Credit bureaus, registries Training for financial institutions serving SME's	Reduce direct lending through public financial institutions Reduce SME lending (portfolio) requirements on financial institutions Eliminate subsidized credit lines and credit guarantee schemes
Business Development Services	Target subsidies for market development to specific market failures Information on service providers, impact of services Enforce competition in service markets.	Innovation in products (especially for the smallest firms), delivery mechanisms Development of performance and impact indicators Training for private BDS providers Limit long term subsidies for BDS to public goods (e.g. information, labour and management training)	Increase in cost recovery for publicly provided or subsidized services Improve management and cost control in public BDS institutions Condition budgetary allocations to the achievement of impact Reduce duplication across agencies in services provided Use the private sector to deliver services Privatise service providers when financially sustainable.

**Source Hallberg (2000:17)**

#### **2.4.2.4. Cluster development theory**

Maskell and Kebir (2009:5) noted the “tendency for related firms to co-locate at certain places over prolonged periods of time.” Cluster development theory is based upon the observation that firms co-operating in close proximity can achieve more together, by the sharing of information and resources, than they can in isolation. In this way clusters of small firms are able to compete more effectively against larger firms.

The cluster development approach to business support is credited to Porter (1997, 1998, 2000). In particular, Porter (2000:26) considered that one of government’s five key roles is “to facilitate cluster development and upgrading .....to allow an economy to move beyond factor cost competition.” This is a radical departure from traditional thinking and contrasts with the conventional view that differences in relative economic performance are derived from inherent topographical (e.g. mineral, locational or labour) features. Porter’s view is that economic performance can be stimulated by government focus on four interlinked advanced factors. These factors include competition between firms, demand conditions, related support industries (i.e. clusters), and specialised factor conditions (i.e. skilled labour, capital and infrastructure).

Cluster development theory is a contentious area. Critics include McDonald et al. (2007:47) who concluded that “policies targeted at promoting specific industries for cluster development are often not effective because regions can lack the correct type of locally based assets and organisational/institutional structures necessary for good performance” and furthermore “current Porter-type views on cluster policy may not be sufficient to create even the bedrock conditions that would permit clusters to provide a good basis for attaining regional development objectives.” Challenging the definition of cluster, Johansson and Quigley (2004) argued that network ties between firms can create exactly the same effects as clustering and that information can be obtained without the prerequisite of spatial proximity. Similarly Kent (2007) considered that only labour of Porter’s advanced factors has continuing relevance. Finally, Maskell and Kebir (2009:13) felt that “the theoretical underpinning of the recent deluge of cluster studies is often less than totally clear” and that “in order to be convincing, a theory of cluster must do more than provide even a very compelling account for the particular benefits of co-location (i.e. the existence argument). It must also include an explanation for the balance of forces that prevent unconstrained

cluster growth (i.e. the extension argument) and for the conditions that may lead to a decline or extinction of the cluster (i.e. the exhaustion argument).” Thus, it seems the prescription for supporting businesses from a cluster theory perspective requires further development.

Having considered the arguments against government help for small firms and subsequently considered the four theoretical rationales of government intervention, the next section presents research findings in favour of public sector support.

#### **2.4.2 Research findings in favour of government support**

The research case in favour of government support relates mostly to specific initiatives particularly The Development Fund for Rural Renewal (Social Research Associates 2004), Business Link Health Checks (Cowling and Oakley, 2009), user experience of the interaction with Business Link (Baldock and North, 2009) and user satisfaction with the support provided (Sheikh et al., 2002; Bennett and Robson, 2003; Small Business Service, 2004; Cowling and Oakley, 2009 and Baldock and North, 2009). This is supported by statistical data charting the development of the small business sector since the creation of Business Link in 1992. Notably, this period witnessed an increase in the number of SME's by 22% and the SME workforce by 890,000 (SBS, 2006). In addition, total revenue of all firms in the UK increased by 55% during the same period and aggregate productivity increased by 40% from £83,211 sales / employee to £116,681 sales/ employee. More significantly, SME productivity exhibited almost 34% improvement to £103,000 sales per employee. Similarly positive outcomes were recorded in GDP per capita which increased by nearly 200% (Oxford Economics, 2008) and employment which went up 10% to 22.4 million (SBS, 2006). Notably, UK GDP per capita passed that of the USA for the first time since the 19<sup>th</sup> Century (Oxford Economics, 2008). Clearly, it is not possible to determine what would have happened naturally and also difficult to establish cause and effect, but it is clear that there has been substantial progress in the SME sector in recent years.

The following sections look at the issues of penetration, satisfaction, impact, evaluation and value for money. It is apparent that there is a wide diversity of opinion on these topics and that some areas are relatively under-researched.

### 2.4.3.1. Penetration rates and satisfaction levels

The case against public sector support for small firms partly rests upon the low level of usage of such support schemes as evidence that such schemes are not needed. In mitigation, Baldock and North (2009:1) reported that “Business Link nationally has consistently increased its customer base year on year; in the 12 months to 31<sup>st</sup> December 2008 it helped 45,600 start ups and 679,500 established businesses, and 215,600 pre-start ups.” However, Baldock and North, 2009 omit to put these figures into the context of the total population of small businesses in the UK which weakens their argument. Thus the case in favour of public sector support must defend low penetration rates whilst emphasising the high levels of satisfaction achieved by Business Link. This section debates this topic after opening with table 2.4 which compares penetration rates and satisfaction levels derived from a variety of studies.

**Table 2.4 Penetration rates and satisfaction levels for Business Link**

Source	Penetration rate	Satisfaction level
Sheikh et al (2002)	25%	81%
Bennett and Robson (2003)	38.6%	-
SBS (2004d)	18.5%	84%
Baldock and North (2009)	-	70%

The contention that public sector support is not wanted based upon low utilisation rates may be flawed as there are a number of alternative explanations for low utilisation rates. For example, the calculation is not uniform as it differs between sources and is therefore potentially unreliable. Furthermore, Business Link services were found to have different penetration rates by industry sector (Bennett and Robson, 2003; Johnson et al., 2003), firm size and stage of development (Bennett and Robson, 1999a; Sheikh et al., 2002), gender of owner/manager (Sheikh et al., 2002; Mole et al., 2007; Bennett, 2007) and ethnicity (Smallbone et al., 2001). Penetration rates were also found to vary according to the level of interaction intensity between Business Link and the customer as noted by Mr Wyn Griffith (House of Commons, 2004).

SBS (2004d: 33) reported that “there are weaknesses in the demand for and the provision of business support” by small businesses which was attributed to a “perception that advice was not needed, or would not be sufficiently specialised to meet their needs, for example being focused on bigger businesses. Other reasons included an unwillingness to pay when people in their own networks will do it for free.”

Further explanations for low penetration rates include; business owners exercising lifestyle choices, for example pursuing self actualisation aims or other non-pecuniary objectives which do not require assistance (Walker et al., 1999; Mole, 2004; Reynolds et al., 2004). Otherwise there was found to be reluctance on the part of business owners to allow access, intrusion or interference into their affairs (Tucker and Lean, 2003).

In support of public sector support schemes, researchers point to high satisfaction levels by users of Business Link services (Sheikh et al., 2002; Bennett and Robson, 2003; SBS, 2004d; Baldock and North, 2009). However, this is not conclusive evidence as numerous difficulties arise when trying to assess satisfaction levels which may be affected by the initial level of expectation of the user or conditioned by his/her prior experience (Bennett, 2007b). Satisfaction findings also vary quite considerably depending upon the location, service provided and the intensity of interaction between the service provider and the recipient (Bennett and Robson, 1999a; Bennett et al., 2000; Bennett et al., 2001; Bennett and Robson, 2000; Bennett and Robson, 2001; Mole et al., 2007; Bennett, 2007b), by size of firm, gender of the owner manage, phase of development, quality of service delivery and by country (Sheikh et al., 2002). However, some researchers do report dis-satisfaction with public sector support particularly regarding customer service (Caniels and Romijn, 2005) and individual schemes (Smallbone and Baldock, 2004).

In summary, research indicates that although penetration rates are quite low satisfaction levels are high. In the eyes of the supporters of public sector interventions, high satisfaction levels are evidence that public sector support services are being successfully delivered to consumers. However, opponents of public sector support schemes cite low effectiveness levels and inconclusive evidence of value for money as reasons to reject public sector support. On this latter point, the data is contradictory. Proponents of public sector support would argue on the basis of good

value for money and beneficial multiplier effects. Opponents claim poor value for money exacerbated by negative displacement effects.

The next section sets all of these issues into perspective whilst recognising that the debate is far from conclusive.

#### **2.4.3.2. Impact and effectiveness, ancillary effects and value for money**

The terms impact and effectiveness appear to be used inter-changeably in the literature. For the purpose of this research, impact is considered to be the effect that an intervention has on an individual business whereas effectiveness is a measure of whether the scheme achieved its original objective.

Research findings that government support schemes have low impact (Bennett and Robson, 1999b; Robson and Bennett, 2000; Reynolds et al., 2004) are used as an argument against public sector support provision. However, Bennett and Robson (1999b) found that assistance provided in respect of staff recruitment was found to be an area in which Business Link did have an impact. Furthermore, Roper and Hart (2003:2) found evidence that Business Link was having “some, albeit tentative” positive impact on productivity growth, and a “positive but statistically insignificant” effect on turnover and employment growth. Mole et al., (2006) found similarly positive outcomes in respect of certain specific programmes including Business Link’s contribution to employment growth.

Drawing conclusions from effectiveness studies presents inherent challenges which researchers are struggling to overcome. Issues include poor initial specification of objectives and the intrinsically personal quality of the service provided compounded by its unique and intangible nature (Bennett and Robson, 1999a). A further issue relates to the reliability of the impact assessment itself particularly as this is a subjective process. To try to overcome this Bennett (2007b) recommended that respondents should be asked to assess impact based upon their prior expectations going into a scheme and whether those expectations were met. However, this introduced a further area of difficulty as respondents may have high or low expectations based upon earlier experiences or their own predispositions toward optimism or pessimism. Thus the respondent’s personality may have an influence which introduces a high degree of variability. Other difficulties include choosing which criteria to measure, how to measure them and over what time frame (Mole et al., 2007). A natural way of measuring effectiveness from the point of view of market

failure would be to research the particular market failure and to analyse whether a given scheme addresses this problem. Chittenden et al. (2007) called for policy to be based upon robust evidence that proves the existence of market failure but this is seldom forthcoming in practice. This makes it difficult to perform appropriate research. Some academics go further by calling for a formal evaluation scheme to be instituted so that the effectiveness of different programmes can be assessed (Bennett, 2007b). Other researchers are sceptical about the overlay of more bureaucracy highlighting that the current system is already too complex and a previous initiative to establish an oversight structure in the form of the Small Business Service resulted in failure (Caniels and Romijn, 2005). Thus, the debate about the effectiveness of public sector support is ongoing

Opponents of public sector support argue that market distortions are created by the uneven allocation of support. Proponents of public sector intervention counter-balance this argument with reference to “additionality” (i.e. the direct positive effect) and multiplier or spillover effects (Mole et al., 2007) to support their argument. However, both of these effects are difficult to measure directly or even to estimate in view of other external factors.

The value for money question has been largely overlooked by the research community until very recently. This is not surprising given that little progress has been made to date in evaluating impact or effectiveness. Even among the limited number of research papers written to date, there is a pronounced divergence of opinion about the cost and value for money of the government support structure. Whilst some research suggests that Business Link represents good value for money (Mole et al., 2006) other research disputes this (Curran 2000, Bennett, 2007b; Richard, 2008) and that the money could be better deployed in tax rebates or tax cuts in favour of small businesses (Bennett, 2007b). To reach their conclusions, Mole et al. (2006) generalise their findings from a small sample of respondents receiving intensive assistance and their work makes certain assumptions about additionality which are not substantiated. The method used by Mole et al. (2006) to calculate value for money is based upon the cost of running Business Link itself which is estimated at just £150 million over the 6 month research period rather than on the cost of providing the support (e.g. funding provided). Mole et al. (2006) also do not allocate costs according to the extra amount of time taken to provide intensive assistance rather than simple non-intensive support. Bennett (2007b) reached the opposite conclusion to



Mole et al. (2006) about value, calculating that the actual amount spent on SME support is £2.5 billion (after receipt of money from the EU and the opportunity cost of various tax incentives). However, he ignored the contribution of SME's in maintaining employment levels and their broader role in society.

#### **2.4.4. Summary of the cases for and against public sector support**

In view of the unreliability and ambiguity of research findings relating to the impact and effectiveness of public sector support schemes, arguments for and against government intervention based on these parameters are inconclusive. Consequently, the case against public sector support relies almost exclusively upon the question of competence of government when intervening in the market. This claim appears irrefutable on the basis of prior research and confounds proponents of public sector intervention based solely upon the idea of market failure. However, it loses tractability when government intervention is viewed through the prism of broader socio-economic objectives. The theoretical framework developed in this chapter is designed to assist researchers and policy makers to focus on these broader issues.

Having debated the pros and cons of public sector support, the next section looks at the choices available to policy makers when designing public sector support schemes. Existing research findings based on the concept of market failure are extended to include consideration of the other perspectives included in the theoretical framework.

#### **2.4.5 Choices available to government for delivery of support schemes.**

The structure and extent of government intervention differs quite considerably in different countries. This raises the question concerning the most appropriate or most effective structure for public sector delivery programmes. In a review of 8 countries, Mole (2004) derived a helpful framework based upon four core tenets to assist policy-makers when establishing support services.

**Table 2.5 Choices for policy makers (compiled from Mole, 2004)**

Administration	Rationale	Rationing	Programme delivery
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Specific organisation	Rationalising supply side	Sector specific	Regulated
Public body		Targeted	minimum
National	Seeking to improve quality	Time bound	competence
Monopoly	Regulate consultants	Spatial constraints	Direct delivery
		Multiple treatments	E-based
		Free at the point of delivery	Holistic
		Cost bounded per intervention	General
		Subsidised	Standardised
			Access conditions
			Relationship
			Followed up
			Volunteers
			Paid or unpaid

There are clearly many possible permutations generating substantial debate and difference of opinion amongst academics regarding the most appropriate support structure. For example, when considering spatial constraints (including physical infrastructure), some researchers suggest that services should be provided at a local level (Porter, 1998; Bennett et al., 2000a; Bennett et al., 2001). Indeed local delivery seems to be favoured by small businesses where 67% of small businesses expressed a preference for local contact (Sheikh et al., 2002). However, Bennett (2007b) is more ambivalent due to cost considerations and Richard (2008) favours a centralised organisational structure for the reasons of low cost, tight control, clarity and ease of access.

In terms of programme delivery, some researchers call for a narrow focused interactive approach whilst others prefer a remote, largely non-interventionist route. The case for employing highly skilled advisers with suitable accreditation to build relationships is favoured by Bennett and Robson (1999a) and Mole et al. (2006) whereas Richard (2008) envisages an IT driven platform providing standardised products with no relationship and minimal human interface. From the point of view of the small business owner, there is a strong preference for face to face contact at the location of the enterprise (62%) followed by telephone or fax (42%) and face to face at the office of the service provider (26%) or via the internet (26%) (Sheikh et al., 2002) (Note multiple answers were permitted in Sheikh et al's survey). At inception,

Business Link provided direct face to face contact with small businesses through its network of Business Advisors (Mole, 2000) but this activity was subsequently de-emphasised and ultimately discontinued.

Mole's (2004) policy prescriptions are not without challenge. His recommendations were based upon the rationale for intervention from a market failure perspective only. It is predominantly of a descriptive nature based upon a literature review augmented with communication with academics drawn from a number of countries. This work lacked empirical data and contextual information relating to the small business environment in each country which could have conceivably been derived from Kwaak (2002) and Reynolds et al. (2004). The research also lacked an assessment of the effectiveness of the different schemes and provided no penetration or satisfaction data.

To overcome some of these issues, Table 2.6 uses Mole's (2004) framework to review existing UK support provision and extends it to include the other rationales for public sector support. It also includes a summary of the perspectives including an assessment of the current state of research.

**Table 2.6 Summary of public sector support for Small Business adapted from Mole (2004)**

Theoretical perspective	Market failure	Socio-economic policy	Market Development	Cluster Development
Administration	Specific organisation	No specific organisation	No specific organisation	No specific organisation
Rationale	Rationalisation of supply side	Macro-economic development	Seeking to improve demand conditions	Seeking to improve competitiveness
Explicative rationale	Small firms are disadvantaged	Re-distribution of wealth and small businesses lack purview	Businesses will benefit from appropriate investment	Country will benefit from improved productivity
Rationing	Targeted, subsidised, local	General, central	Sector specific, regional	Cluster based, geographic
Programme delivery	Direct delivery, e-based. Information, diagnosis and brokerage	General	General	General
Advantages	Policy can be set centrally and implemented locally Can be specifically targeted to individual firms Can be tailored to individual needs	Efficacy, speed and flexibility of design	Policy can be set centrally and applied re Adaptive to local conditions Minimises displacement effects	Pro-active approach Goes beyond conventional thinking Works with established business structure
Disadvantages	Difficult to access individual firms Costly Difficulty in pin-pointing market failure Can take a long time to implement Difficult to measure effectiveness Risk of substitution of bureaucratic failure. Direct subsidies have adverse consequences on non subsidised firms	Remoteness Tackles symptoms not causes Difficult to target accurately	Prone to budgetary constraints and competing spending priorities Susceptible to inefficiencies of local government Does not necessarily engage local business	Difficult to identify cluster participants Difficult to design appropriate policies Difficult to implement Difficult to measure effectiveness
Status of academic enquiry	Most advanced field of study but research agenda still evolving.	No specific research into implications for small business	Relative lack of empirical research	Questions about theoretical foundations. Little empirical research.

Having concluded that the debate about the desirability of public sector support for small firms hinges on the competence of government to intervene in the market on one hand and its wider socio-economic agenda on the other, the next section considers the research gaps that are unveiled by the revelation of the theoretical framework.

## **2.5. Research Gaps**

In relation to the supply of public sector support schemes, the majority of research to date has been focused on the model of government intervention based upon the assumption of the existence of a market gap. There is considerable debate about the validity of this approach when used in isolation. In particular, there is doubt that the market view is relevant to small firms at all and questions raised about the competence of government to deliver effective interventions. There is also very little empirical research relating to socio-economic, market development and cluster development theories and further work is required to progress aspects of the theoretical framework developed in this thesis.

With the comparatively recent realisation that small businesses represent a field of study distinct from the study of either large firms or entrepreneurial firms, it is apparent that more work is required to synthesise various theories concerning small businesses (e.g. pecking order theory, resource-based theory, agency theory, market theory and network theory) to reach a common theoretical platform for the study of small businesses. After this step there is then a need to link new knowledge about the behaviour of small businesses with the provision of support services.

Business Link has evolved from being a personal service to a largely web based delivery model. Under the latest proposals it will inevitably become a centralised and more remote service. In the process a number of research findings are at risk of being ignored or forgotten. One of these relates to the findings of Bennett and Robson (1999a:26) that “stronger intensity of interaction increases the tailoring of a service to SME needs, therefore improving its quality and potential impact.”

## **2.6 Conclusion**

This chapter discusses the important role that small businesses play in the economy. It notes that academic research has been largely focussed on the study of large firms to date and that only comparatively recently are researchers developing theories to understand small business behaviour. This chapter finds that small businesses typically operate in a non-market environment and discovers alternative policy perspectives to challenge the traditional view that business support should be on the premise of market failure. The notion is derived that seeing business support in terms of these alternative perspectives might help to dispel some of the controversy surrounding the appropriateness of the existence of any form of government support on the grounds of competence.

The conclusion of this chapter is that support for small business is a necessary component of a thriving small business sector which brings with it a number of broader economic and social benefits. However, understanding of the role and impact of small business support schemes is still evolving.

The next chapter considers network theory insights relating to small business activities and the potential for policy intervention from a network theory perspective. The framework developed in this chapter is transformed into network theory terminology and converted into a usable research tool. Accordingly, Chapter 3 presents a thorough review of the current status of research into network theory and its application for both the design and study of small business support schemes.

## Chapter 3

### Literature Review: Network Theory

#### 3.2 Introduction

Chapter 2 found that key support for small businesses was forthcoming from a variety of providers but that family and friends were the most prominent source cited by 99.9% of respondents to a survey conducted by Reynolds et al. (2004). One of the key themes discussed in Chapter 2 was that theories based upon studies of large businesses were not applicable to small businesses. More generally, chapter 2 challenged the efficient market hypothesis claiming that it was not valid in the context of small firms. This chapter continues this discourse by proposing an alternative to the rational economic worldview. This is represented by the economic sociology model where behaviour is conditioned on interconnecting networks of personal relations. In contrast to the classical model, economic sociology accepts that information is not perfect and posits that transactions are based upon negotiation, trust and reciprocity rather than simple market price. The study of personal relations is at the root of this model and network theory is used to underpin it.

In the context of small businesses, Shaw (1999:31) asserted that “it is both appropriate and useful to conceive of the micro environment in which small, entrepreneurial firms are embedded as a social network of overlapping relationships.” There can be no doubt that networking is integral to the activities of small firms with Drakopolou-Dodd et al. (2006) noting that European entrepreneurs spend between 33% and 50% of their working time in networking activities. Network theory thus has the potential to bring fresh insight into the study of small businesses. This point was emphatically made by Amit et al. (1993:823) who commented that “network theory implies that the entrepreneurial process can be explained in the context of broad social processes which are more comprehensive and dynamic than simple personality based theories.” Similarly, Katz et al. (2004:327) also felt that network theory “has a great deal to offer small group researchers.”

This chapter develops several themes introduced in chapter 2. It builds the case for the study of small businesses from a network theory perspective and updates the theoretical framework for the delivery of support services consistent with the principles of economic sociology. In doing so, it provides a bridge between earlier studies relating to small business support schemes and this research.

This chapter is structured into eight sections including this introduction. The next section considers the model of economic sociology and associated concepts of social embeddedness and social capital. The third section presents a review of network theory including ideas relating to network ties, structure and flow. The fourth section explores the more prosaic but equally important topic of social network analysis. Section five debates the application of network concepts to the study of small businesses and section six extends the concepts to the examination of business support policies. Previous network research studies are compared in section seven. Finally section eight concludes by summarising the key themes of this chapter.

Having debated the flaws in the rational economic model and the grounds for consideration of small business in terms of economic sociology, the following section surveys the history of the development in this area and introduces key concepts derived from seminal writers including Granovetter (1973, 1983, 1985, 2002), Burt (1997) and Putnam (1993, 2000, 2004). The next section also highlights certain deficiencies in the formulation of these concepts and a number of issues relating to their use in practice.

## **3.2 Economic Sociology**

### **3.2.1 Economic sociology as an alternative to rational economics**

The fallacy of rational economics was clear to Granovetter (1985:162) who stated that when “classical and neo classical economics assumes, rational, self interested behaviour affected minimally by social relations it is operating on a false premise.” He was also scathing of those that believed otherwise, commenting that “the behaviour and institutions to be analyzed are so constrained by ongoing social relations that to construe them as independent is a grievous misunderstanding.” Platteau (1994:535) was able to make the same point in a less belligerent manner by stating succinctly that “the social fabric and the culture of human societies matter a great deal.”

In the model of economic sociology, the rational market player is replaced by an ego in a social network. In this alternative paradigm, human behaviour is not driven just by wealth and profit maximisation, but is also influenced by social and personal considerations such as self actualisation, reputation, status, power and health. Similarly, the idea of efficient markets determining prices is replaced with the idea of



a series of negotiated exchanges based upon repeated interaction where asymmetric information is compensated for by the build up of trust. Transaction cost theory replaces the notion that transactions involve negligible cost and network relations are viewed as a way of reducing such costs.

However, economic sociology falls into the category of grand theory where the “level of abstractness is likely to be so great that the researcher would find it difficult to make the necessary links with the real world” Bryman (2004:5). This causes frustration for empiricists and middle-range network theory has been developed to facilitate specific research projects. Network theory is considered in detail in section 4 but first this section continues with an exposition of the core concepts of economic sociology, namely social capital and social embeddedness.

### **3.2.2 Social capital**

Social capital was defined by Bourdieu (1985:249) as “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintance or recognition” and Coleman (1988:598) as a “social structure that facilitates certain actions of actors within the structure.” These conceptual threads were consolidated by Portes (1998:6) as “the ability of actors to secure benefits by virtue of membership in social networks or other social structures” and more succinctly by Putnam (2004:14) as “social networks have value. They have value to people in the networks” and “can be a powerful asset, both for individuals and for communities.”

Putnam’s focus has been on the larger social benefits of social capital asserting that there is “a very strong affinity between social connectedness and altruism” (Putnam, 2000:7). This view was endorsed by Lochner et al. (1999), Spies-Butcher (2003), Walker (2004), Ottebjør (2005) and McLaren and Baird (2006) who all noted beneficial outcomes of greater social capital in terms of child welfare, public health, crime reduction, increased life expectancy and increasing prosperity. Putnam (1993) is also well known and influential outside the academic community due to his treatise about the relative success of communities in Italy and more recent highly publicised article about the decline of social capital in the USA (Putnam 2000). Putnam’s populist approach has been instrumental in promulgating social capital but his research methods have been challenged by the research establishment and his conclusions undermined. For example, Portes (1998:19, 20) noted “logical

circularity” and “elitist” bias in his research methods and Onyx and Bullen (2000:25) considered that social capital was not just there to be observed but it “requires the active and willing engagement of citizens within a participative community.” Fischer (2001:9) also had doubts about the interpretation of data by Putnam (2000) arguing that it could indicate that “social connectedness has *changed* rather than *declined*. We still await empirical support for this argument.” Putnam also appears naïve next to the work of Burt (1997), Portes (1998), Lin (1999) and Borgatti and Foster (2003) who looked at manipulative behaviour of individuals within networks to gain access to power, wealth and other resources without regard to social consequences. This point is forcefully made by Blackshaw and Long (2005:239) who commented that “the seduction of the ‘niceness’ of Putnam’s formulation of social capital not only misses the grimness of some people’s lives but it also pays little attention to Bourdieu’s point that poorer community groups tend to be at the mercy of forces over which they have little control.” (The work of these scholars is considered in more detail later in this chapter as part of the debate about network theory). In order to grasp the essential qualities of social capital, several attempts have been made to classify its features by identifying core characteristics. In this respect, Woolcock and Narayan (2000) identified four categories of social capital (see table 3.1).

**Table 3.1 Four views of social capital: Key actors and Policy Prescription**

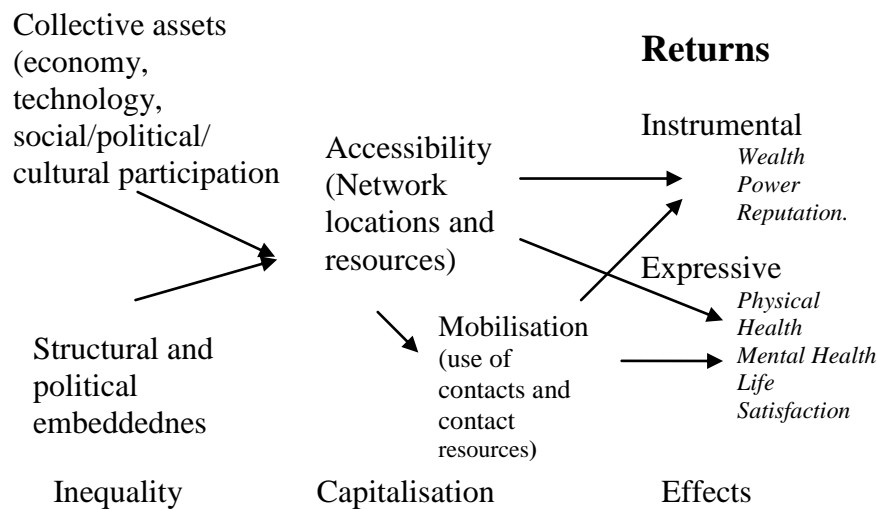
Perspective	Key actors	Policy prescriptions
<i>Communitarian view</i> Local associations	Community groups Voluntary sector	Small is beautiful Recognise social assets of the poor
<i>Networks view</i> Intra (bonding) and inter (bridging) community ties	Entrepreneurs Business groups Information brokers	Decentralization Creation of enterprise zones Bridging social divides
<i>Institutional view</i> Political and legal institutions	Private and public sector	Grant civil and political liberties Accountability and transparency
Synergy view Community networks and state-society relations	Community groups Civil society Firms and states	Co-production Complementarity Participation Linkages Scaling up local organisations

Source: Woolcock and Narayan (2000:18)

The communitarian view reflects a profoundly optimistic case which perceives only positive outcomes to public welfare of involvement in associations, clubs and civic groups congruent with Putnam (1993, 2000, 2004). The networks view considers relations between people as either bridging or bonding and also incorporates negative aspects of social capital akin to Granovetter (1973, 1985), Burt (1997) and Portes (1998). However, Woolcock and Narayan (2000) considered that the networks view failed to take account of the affect of macro level institutions and thus the institutional view corrects for this. Picking up the dynamic view of Onyx and Bullen (2000) the institutional perspective proposes that social capital is a dependent variable crucially affected by the political, legal and institutional structure of society where supportive structures foster the growth of social capital and lead to more productive economies. More darkly, it recognises that the converse may also be true where “rampant corruption, frustrating bureaucratic delays, suppressed civil liberties, vast inequality, divisive ethnic tensions and failure to safeguard property rights (to the extent they exist at all) are increasingly recognised as major impediments to generating greater prosperity” (Woolcock and Narayan, 2000:12). Finally recognising that “social capital is about more immediate and personal connections between people” (Onyx and Bullen, 2000:37) and that the institutional case lacked sufficient local inputs, the synergy case attempts to overcome these deficiencies whereby public sector and private sector work together and public officials build bridging ties to local businesses and communities. Woolcock and Narayan (2000) identified the key actors involved in each perspective and listed policy implications in each case as shown in table 3.1.

Lin (1999, 2006) differentiated the concepts of human and social capital from economic capital (in the Marxian conceptualisation) labelling them “neo-classical theories” (Lin, 2006:6). Lin (2006) describes the development of the concept of human capital from the 1960’s recognising that the individual can increase his/her personal value as a result of education, development of technical skills and acquisition of knowledge. Similarly an individual can increase his/her value by building social capital through instrumental actions aimed at obtaining resources not already owned by the actor and expressive actions designed to maintain resources already in his/her possession. The dual nature of this conceptualisation is represented in Figure 3.1.

**Figure 3.1: Modelling a theory of social capital.**



Source: Lin (2006:21)

Despite attempts to categorise social capital, academics remain sceptical about the usefulness of social capital theory. In particular, Spies-Butcher (2003:184) identified a number of practical difficulties associated with the operationalisation of social capital, explaining that social capital is “generally held to refer to aspects of the social structure that facilitate trust and collective action such as norms, networks, and social relations: however what this means in theoretical or operational senses remains vague and contested.” Woolcock and Narayan (2000:25) commented that research into social capital is “still in the early stages” and in particular identified a number of challenges concerning its measurement not least relating to its multidimensional usage (national, community and individual), its changing nature over time and the lack of empirical data. Ottebjør (2005:29) remarked that “the definitions of social capital in themselves offer little or no practical suggestions for increasing social capital.” More bluntly, Haynes (2009) listed multiple deficiencies of social capital theory, observing that it is not measurable despite attempts to describe social phenomena in economic terms. Secondly, he was concerned that social capital does not constitute usable theory because it is an agglomeration of a number of disparate ideas stating that “by treating the concept as though it were a coherent whole and separated from the themes

through which its meaning is derived, researchers will fail to explain how the specific mechanism of trust, community, reciprocity, interpersonal relationships and network impact on the features they are investigating” (Haynes, 2009:8). Finally, echoing Portes (1998), he was concerned that it was not easy to distinguish cause and effect. On a different note, Anderson et al. (2007:4) thought that use of the word “capital” was potentially misleading as “social capital is more akin to a key, rather than the resource itself” and should be more appropriately conceived as a “social condition” determined by the norms, values and culture of society. This interpretation is consistent with Coleman (1988) and Onyx and Bullen (2000) and serves to fuse the network and institutional views described by Woolcock and Narayan, 2000. It is a useful re-conceptualisation because it allows researchers to conceive of social capital as the enabler of social interaction rather than the result of it.

In summary, social capital is an idea that has been stretched so that it is “applied to so many events and in so many different contexts as to lose any distinct meaning” (Portes, 1998: 2). The result is that “each time the term is used one needs to question what message lies under the rhetoric; to what purpose the advocacy of social capital is aimed” (Hawe and Shiell, 2000:874).

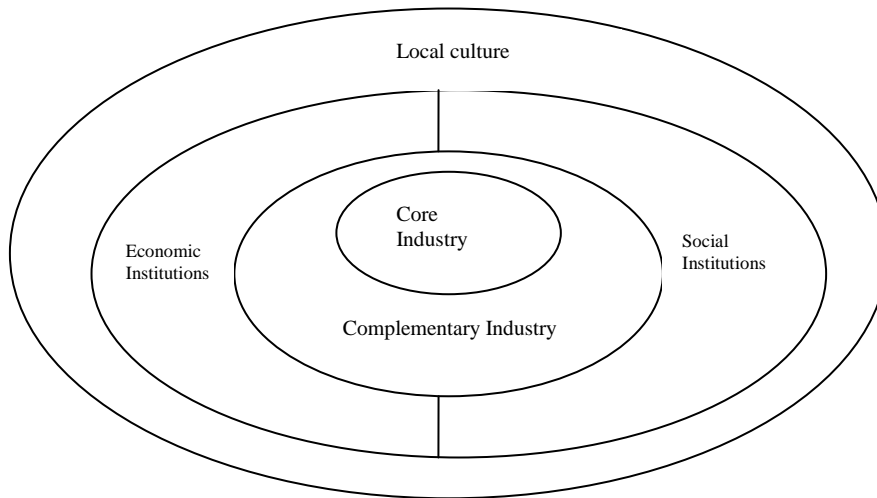
### **3.2.3 Social embeddedness**

In formulating the concept of social embeddedness, Granovetter (1985:165) conjectured that people “do not behave or decide as atoms outside a social context nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are, instead, embedded in concrete, ongoing systems of social relations.” However, Granovetter (1985) omitted to provide a definitive account of social embeddedness which has hampered development of subsequent research. In particular, even according to Uzzi (1996:674), Granovetter’s pupil, “the core statement – that economic action is embedded in social relations which sometimes facilitate and at other times derail exchange - is conceptually vague.” Without the filial connection, Beckert (2003:770) was even more critical noting that “the unfolding of the theory of embeddedness did not lead to much theoretical progress in the development of a theory of action which could provide an alternative to the rational actor model of economics” and “the notion of embeddedness does not provide a theory of intentionality and strategy agency of its own.”

Prior to Beckert's (2003) remarks and despite his own apparent misgivings, Uzzi (1999:481) looked at the benefits of embeddedness relative to non-embeddedness finding "that firms that embed their commercial transactions with their lender in social attachments receive lower interest rates on loans. At the network level, firms are more likely to get loans and to receive lower interest rates on loans if their network of bank ties has a mix of embedded ties and arm's-length ties." However, a cautionary note is appropriate here as Uzzi (1999) based his research on interviews with only a small sample of 26 lending officers at 11 banks in the Chicago area and consequently his findings may not be generalisable. Nevertheless, similar conclusions were reached by Rooks et al. (2000:123) who derived three dimensions of social embeddedness: i) temporal embeddedness referring to previous transactions ("the shadow of the past") or expected future transactions ("the shadow of the future"); ii) network embeddedness consisting of voice (reputation) and exit (alternative buyer choice) considerations; and, iii) institutional embeddedness as the sanctioning environment which serves to moderate behaviour. Using a novel vignette study, Rooks et al. (2000:135) found that "while managing a transaction, purchase managers take not only economic characteristics into account but also 'social' characteristics." The vignette study involved presenting 40 purchase managers with a number of hypothetical situations. Once again a note of caution is due as it is possible that creating the vignettes may have involved a priori knowledge.

Applying the concept of social embeddedness specifically to small firms, Johannisson et al. (2002:299) noted that "the organizing context is a collectively enacted environment where the firms interactively co-create i.e. socially construct and actualize, their own development conditions." In order to illustrate their ideas, Johannisson (2002) developed the following schematic (figure 3.2).

**Figure 3.2 Economic, institutional and cultural embeddedness.**



Source: Johannisson et al. (2002:310)

The main outcome of Johannisson et al.'s (2002) work was a differentiation between substantive embeddedness (referring to network contents) and systemic embeddedness (relating to network structure) and the main contribution was to derive a model of embeddedness based upon three levels of interaction: 1) directly with other firms (inter-firm), 2) directly with local institutions (institutional), and 3) indirectly with other firms through local institutions (holistic) (see table 3.2). It was noted that first order networks were very dense (i.e. a high proportion of possible ties existed) and reciprocal whereas second order and third order interactions were less dense and consisted only of unidirectional ties. The main criticism of this representation is that it ignores the immediate and extended family environment who have been shown to provide significant support (Reynolds et al., 2004). The assumption that the personal and business networks of owner managers are synonymous could have been responsible for this blind spot. Furthermore, it should be noted that the Johannisson et al. (2002) concept of institutional embeddedness is very different from that of Rooks et al. (2000) notion of institutional embeddedness.

**Table 3.2 Alternative images of social and institutional embeddedness.**

Embeddedness	First order Inter-firm networking	Second order Firm/institutional networking	Third order Holistic networking
Descriptions	Business to Business	Firm to social/economic institutions	Links between small firms through institutions
Systemic (Economic)	Commercial relations	Business acquiring services, joint projects	Indirect potential business exchange through interacting economic and social institutions
Substantive (Social)	Personal business relations	Business leaders as association members	

Source: Johannisson et al. (2002:301)

As a result of their work, Johannisson et al. (2002) recommended that economic institutions should improve firm learning capabilities by providing factual data, hosting meetings and brokering contacts. These recommendations echo the policy recommendations emanating from the synergy view of social capital proposed by Woolcock and Narayan (2000). These recommendations also resonate with ideas of the role of the public sector in supporting small businesses expounded by the cluster development and market oriented rationales discussed in Chapter 2.

The debate regarding the value of network resources (social capital) and socialised patterns of activity (social embeddedness) is illuminating and intuitively appealing but as noted above these concepts do not provide the researcher with very much ammunition for the conduct of empirical research. In contrast, research concerning network structure as a determinant of network behaviour is potentially more rewarding as “from a network perspective it is the structure of the network and how the structural properties affect behaviour that is informative, not simply the characteristics of the network members” (Hawe et al., 2004:971). Accordingly, the following section looks at the way research into network structure and network analysis can potentially overcome operational challenges in social capital and social embeddedness thinking.



### 3.3. Network structure

Granovetter's seminal works (Granovetter, 1973, 1983, 1985) laid the foundations for the subsequent development of network theory and the idea that there is value in network activity. Granovetter's achievement was to perceive the significance of connections between groups as an important source of information and a determinant of social structure. In summary, Granovetter posited that the strength of the links between unconnected parties is an important factor in the diffusion of information between otherwise independent groups. In particular, he noted that "individuals with few weak ties will be deprived of information from distant parts of the social system" and that "social systems lacking in weak ties will be fragmented and incoherent" (Granovetter, 1983:202). Portes (1998:12) considered Granovetter's "idea was original because it ran contrary to the common sense notion that dense networks such as those available through family circles would be most effective in finding jobs." However, subsequent researchers have identified three main areas of deficiency in Granovetter's work relating to issues of definition, context, omission and inconsistency.

Firstly, perhaps Granovetter's most significant lapse was a failure to adequately define his central idea of tie strength. This led Evald et al. (2006:13) to exclaim that it made "it almost impossible to compare research results" from different researchers as each used a different interpretation of the term. Explicit definitions have since been formulated by scholars in the emergent field of Social Network Analysis (Hawe et al., 2004; Hanneman and Riddle, 2005; Izquierdo and Hanneman, 2006; Reid and Smith, 2009) substantially overcoming this deficiency for subsequent researchers. Other terms have also been more scientifically defined and these are listed in section 3.4 below.

Secondly, in relation to context, Platteau (1994:555) noted that "Granovetter's analysis applies better to situations where business people interact among themselves rather than to those where the large public is involved." However, Platteau's own work may be at fault because it betrays a lack of understanding of the context of Granovetter's insight which was essentially of a social nature rather than an economic one. Other researcher's comments, though, are perhaps more accurately targeted. For example, Lin (2006:27) observed that Granovetter's theory was not capable of being generalized as in the case of "preserving or maintaining resources (i.e. expressive actions) denser networks may have a relative advantage .....On the other hand,

searching for and obtaining resources not presently possessed (e.g. instrumental actions), such as looking for a job or a better job, accessing and extending bridges in the network should be more useful.”

Thirdly, issues of omission and inconsistency were noted by Platteau (1994:560) who felt that Granovetter had neglected the “political factor” and Burt (1997) who felt that consideration of issues of power, trust and motivation were absent. Elaborating on his views, Burt (1997) hypothesised that actors who deliberately set out to create bridges can influence the network in which they operate. In this way they are able to gain advantage over other participants in the network. Burt (1997) was thus able to reconcile the apparent inconsistency in Granovetter’s work relating to the lack of trust inherent in weak ties (effectively implying that such ties were of less value than strong ties) by the visualisation of the role of active brokers spanning structural holes in the network. The crux of Burt’s (1997) argument was that it is the position and action of the individual broker exploiting opportunities across structural holes to gain personal advantage that determines network cohesion rather than the passive presence or absence of weak ties. In other words, it is how people behave within network structures rather than the structures themselves that determine how networks operate. Burt (1997) also believed that Granovetter had omitted to consider negative aspects associated with dense networks. These are described by Portes (1998:15) as “exclusion of outsiders, restrictions on group members, restrictions on individual freedom and downward levelling norms”; and, by Woolcock and Narayan (2000:8) as “ridicule towards efforts to study and work hard, or siphoning off hard-won assets .... and outcomes that may be attained at another groups expense, that given outcomes may be sub-optimal or that desirable outcomes attained today may come at the price of significant costs tomorrow.” Using much more expressive imagery, Borgatti and Foster (2003:994) described these negative aspects as “social ties (which) imprison actors in maladaptive situations or facilitate undesirable behaviour.”

Helping to clarify emergent themes between Granovetter’s diffusion views and Burt’s social capital ideas (“explanatory goals”) and further categorising network studies into those that privilege network structure over network content (“explanatory mechanisms”), Borgatti and Forster (2003) derived a 4 x 4 schematic (figure 3.3).

**Figure 3.3: Typology of research on consequences of network factors**

	Social capital (performance variation)	Diffusion (social homogeneity)
Structuralist (topology)	Structural capital	Environmental shaping
Connectionist (flows)	Social access to resources	Contagion

Source: Borgatti and Foster (2003:1004)

Borgatti and Foster (2003:1002) describe the social capital perspective as “evaluative” and “manipulative” with actors purposefully seeking to exploit network opportunities in contrast to the diffusion view where attention is focused on the process through which practices spread through a system. The essential difference is that the social capital view is that an actor derives opportunity from his environment whereas the diffusion view is that the actor is constrained within his environment. This at least provides a reconciliation of the differing views of institutional embeddedness articulated by Johannison et al. (2002) and Rooks et al. (2000). Along the axis of explanatory mechanisms, thinkers are divided into two categories: 1) those that believe that network structure is most important, and 2) those that consider network content is paramount. For structuralists, two nodes occupying a similar position in the network will experience similar outcomes irrespective of any other factors. The contrasting connectionist view is that an actor is “successful because she can draw on the resources controlled by her alters” (Borgatti and Foster, 2003:1002).

However, there is no consensus regarding the dynamics of network structure. For example, Portes (1998) presented an alternative topology based upon four types of network. Firstly, internalized norms (e.g. security, trust); secondly, the expectation of reciprocal returns from other group members; thirdly, group identity derived from common interest (i.e. labour unions); and fourthly, the benefits of being part of a group as a guarantor of individual members. In contrast, Hawe et al. (2004:972) distinguished network structures by order of modality where a one mode network involved “relations among a single set of similar actors,” a two mode network involved “relations among two different sets of actors,” socio-centric or complete networks consisted of “relational ties among members of a single bounded community” and ego-centric or personal networks were “defined from a focal actor’s perspective only.” Once again the problems of specificity and use of imprecise terminology is highlighted since Hawe et al.’s (2004) concept of modality is different from Hanneman and Riddle’s (2005) concept of modality where actors are nested in sequential layers of embedded relationships.

This section has reviewed the genesis and evolution of network concepts and discovered a number of practical difficulties in their implementation in the field. The next section considers the vital contribution of the relatively new field of social network analysis (SNA). SNA serves to overcome a number of the operational challenges, most particularly by developing standardised definitions for key terminology which are tabulated in the following section.

### **3.4 Social network analysis**

Reid and Smith (2009:49) described a network as “comprised of people and/or organisations that are connected with each other through the exchange of information, ideas, business transactions and knowledge.” This definition captures the essential ingredients of networks including parties (actors or nodes), connections (ties, links or edges), exchanges (flow) and resources (content). Social network analysis (SNA) uses mathematical tools to model these factors in order to derive cartographical depictions of network structures. Theoretical insights are drawn from mathematics, geography, computer science, physics, electronics, game theory and biology with increasingly quantitative measures bringing more precision to earlier sociologically derived concepts. Computer programmes (e.g. Mathematica, Ucinet, Sioconet, Inflow, Pajek)

have been developed to facilitate the analysis and understanding of large networks that hitherto would not have possible by traditional methods.

Social network analysis (SNA) provides the means to represent network data providing a “quantitative and graphical description of the relationships or interactions among a defined group of people or organizations” (Reid and Smith, 2009:51). SNA, allows networks to be shown by means of socio-grams or in matrix format providing an easy to understand visual format. Polites and Watson (2009:599) argued that SNA “also allows the researcher to identify central, prestigious, or otherwise influential network and subgroup members”, and also has more dynamic uses including being able to “indicate corrective actions (network weaving) that can be taken to address weaknesses highlighted by the analysis” (Reid and Smith, 2009:54). Maeno (2009) also considered that SNA could be used to facilitate identification of spoof, fake or covert nodes which may have an unseen or malignant influence (e.g. handlers of terrorist cells).

The main contribution of SNA to date has been to clearly specify meanings for core network terminology the absence of which had hitherto been impeding development of research. In order to demonstrate this point and also to assist with the understanding of this text, Table 3.3 provides a summary of key terminology noting that many of the definitions are more than 30 years after Granovetter’s original seminal treatise on tie strength.

**Table 3.3 Summary of network terminology**

Anchorage/Ego	The focal actor
Alter	A third party (not ego)
Actors	Individuals, groups or organisations
Nodes	Ego/alter/actor
Dyadic	A bi-lateral tie (between 2 nodes)
Structure	“spatial characterisation (meaning the location of the nodes) including consideration of whether the network is horizontal (i.e. local) or vertical (i.e. not local) or mixed (i.e. containing elements of both)” (Goudis and Skuras, 2001:16-19)

Connectivity	“the nature of flows through the network (e.g. products and services, information or employment)” (Goudis and Skuras, 2001:16-19)
Length	“The number of nodes involved in the transfer process” (Goudis and Skuras, 2001:16-19)
Geodesic distance	“the minimum number of edges that it takes to go from one actor to another” (Izquierdo and Hanneman, 2006:10)
Eccentricity	“an actors largest geodesic distance – a measure of how far an actor is from the furthest other” (Izquierdo and Hanneman, 2006:10)
Network strength	The importance of the network to the member (Goudis and Skuras, 2001:16-19)
Density	“The total number of relational ties divided by the total possible number of relational ties” (Hawe et al., 2004: 972)
Clustering	“where the density of local neighbourhoods of many large networks tends to be much higher than we would expect for a random graphs of the same size” (Izquierdo and Hanneman, 2006:23)
Clique	“a sub group of actors that are more closely tied than other actors in the network” (Polites and Watson, 2009:605)
Reachability	An actor is reachable if there exists any set of connections by which we can trace from the source to the target (Hanneman and Riddle, 2005:97)
Cohesion	“the number of nodes that would have to be removed in order for one actor to no longer be able to reach another” (Hanneman and Riddle, 2005:98)
Cutpoint	“The idea that there are certain ties (referred to as cut points) that, if removed, would cause the structure to be divided into unconnected blocks” (Polites and Watson, 2009:605)
Network weaving	“the process of strategically connecting people with common interests or goals and who can assist them” (Reid and Smith, 2009:54)
Range	“the number of alters in direct contact with anchorage and the social heterogeneity of these alters” (Shaw (1999: 27)
Contact type	Either formal (based on contract) or informal (based on trust or friendship) (Goudis and Skuras, 2001:16-19)
Content	“meanings which people attach to relationships and the understandings they have about the implications which their involvement in particular relationships have for their actions and behaviours in respect to those relationships” (Shaw, 1999:28)

Tie strength	<p>“the strength of a tie is a (probably linear) combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services that characterise the tie” (Granovetter, 1973:1361)</p> <p>Key elements of Granovetter’s original conceptualisation have been formalised into standard measures of tie strength by Hanneman and Riddle (2005) – see below.</p>
Bridge ties	<p>“a bridge is the only route along which information flows or influence can flow from any contact of A to any contact of B and consequently from anyone connected <i>indirectly</i> to A or anyone connected <i>indirectly</i> to B” (Granovetter, 1973:1364)</p>
Local bridges	<p>“Ties between two persons that are the shortest (and often the most plausible) route by which information might travel from those connected to one to those connected to the other” (Granovetter, 1983:217)</p>
Structural equivalence	<p>Network members with similar characteristics (Polites and Watson, 2009:599)</p>
Status	<p>A measure of the number of alliances with powerful alters in terms of their network position (Hagedoorn and Duysters, 2002: 9)</p>
Efficiency	<p>“the number of non-redundant contacts” (Hagedoorn and Duysters, 2002: 9)</p>
Redundant contacts	<p>In Hagedorn and Duysters’ (2002: 9) view, the potentiality of such contacts cannot be ignored claiming that “in a dynamic environment, characterised by technological change and openness of markets, continuous learning, even through seemingly redundant network contacts, is to be preferred to efficiency-based behaviour.”</p>
Transitivity	<p>“the tendency of one’s friends’ friends to become one’s friends as well” (Granovetter, 1983:218)</p>
Centrality	<p>“the extent to which an actor is visible in a network because of their extensive involvement in relations” (Polites and Watson, 2009:603)</p>
In degree centrality/ prestige centrality	<p>Determined by the number of ties directed toward the actor (Izquierdo and Hanneman, 2006:23). “A measure of centrality that looks at asymmetric as opposed to symmetric relationships” (Polites and Watson, 2009: 603).</p>
Out degree centrality	<p>Determined by the number of ties directed towards others. “Actors with a high out-degree centrality are often called influential actors” (Izquierdo and Hanneman, 2006:23)</p>

Closeness centrality	Determined by the distance from each actor to all others where “actors who are able to reach other actors at shorter path lengths or who are more reachable are in favoured positions” (Izquierdo and Hanneman, 2006:24)
Betweenness centrality	The concept of betweenness centrality is important because of the benefits derived from its position in the network as described by (Izquierdo and Hanneman, 2006:27) “being in between actors makes you powerful because you may be able to control the flow (e.g information, resources, gossip) between them”

Paramount amongst the benefits derived from SNA has been the formulation of standardised measures for tie strength, the historical absence of which was remarked upon by Evald et al. (2006). Consistent with the ground breaking work by Granovetter (1973), Hanneman and Riddle (2005) considered that tie strength involves a combination of factors including frequency of interaction, emotional intensity, multiple types or contexts of relationships and reciprocity. Measurements of tie strength include binary measures (which record presence or absence of a tie), multiple category nominal measures (where respondents specify the type of relationship from a given list), grouped ordinal measures (where tie factors are graded 1, 0,-1), full rank ordinal measures (where tie factors are graded in rank order of strength from weakest to strongest), interval measures (where tie strength is graded accorded to the strength of each relationship). However, they noted that social network analysis has only been designed to use binary data and it is necessary to create binary data in order to proceed with SNA based research.

Despite the clear attractions of SNA to visualise networks, there are also a number of weaknesses with this technique as it was designed to be used with full network data and consequently “network approaches tend to study whole populations by means of census, rather than sample” (Hanneman and Riddle, 2005:6). This means that in practice some nodes may be missed invalidating the technique and collecting data is both time consuming and expensive. It also means that findings are specific to the network being studied and in the absence of probability sampling are not generalizable to larger populations and unsuitable for hypothesis testing.

Further the SNA technique has been labelled by Cloke et al. (2004:299) as ‘non-representative’ where “some geographers have turned to a mode of thought



which explicitly rejects any search for an underlying causal process.” SNA should therefore be viewed as more of a descriptive technique than a prescriptive tool. Further drawbacks were noted by Hanneman and Riddle (2005) noting that SNA was capable of analysing only relatively simple networks rather than complex embedded networks and that few studies have tried to analyse two modes simultaneously. In conclusion, although SNA is a useful way of perceiving and describing networks and may grow in importance as computer technology gets more powerful, its main contribution to date has been in categorising and refining network terminology.

Chapter 2 demonstrated that small businesses are typically supported by a network of family and friends, professionals and institutions supplying a range of support services including funding and advice. It was also established that the market based view of small business activity needed to be supplemented or even replaced by consideration of another model. This led to the consideration of economic sociology as an alternative model and the underlying ideas of network theory discussed in the earlier part of this chapter.

Having reviewed network theory and touched upon the emergent power of social network analysis, the next section provides strong validation for the use of network theory for the study of small businesses.

### **3.5 Relevance to the study of small businesses**

Networks are seen as constituting the micro environment in which small firms exist and operate. Crucially, networks are viewed as a source of opportunity but can also represent an area of potential risk if they are dysfunctional.

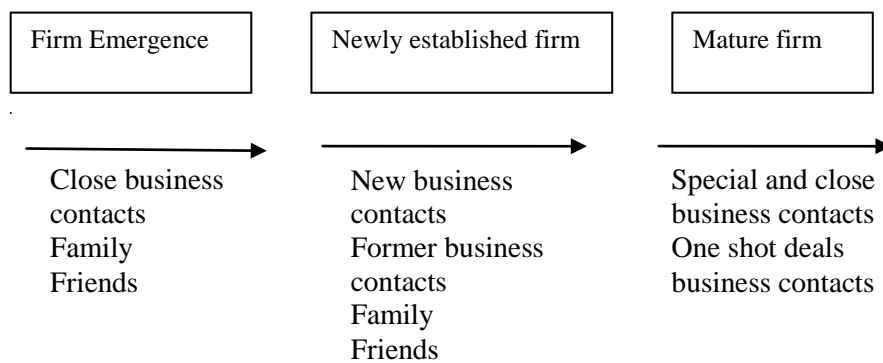
Drakopolou-Dodd et al. (2006:45) noted that “the market is the network, and it is made real through the mechanisms of structure (who connects to who), content (what is exchanged) and process (how and when do these transactions take place).” Jack and Anderson (2002) noted that engagement with the social environment affected the firm’s ability to identify and exploit opportunities. Anderson et al. (2007:16) went slightly further by stating that “opportunity was actually created by and in the interaction” with network contacts. More profoundly, Jack et al. (2008:125) regarded networks as quasi-primordial concluding that “networks actually create the environment, as it is understood and operated by the entrepreneur, and that consequently the networking process is the enactment of the environment.”

Evidence of the benefit of network activity was provided by Woolcock and Narayan (2000), Drakopoulou-Dodd et al. (2006), and Smith and Lohrke (2008). Conversely, evidence of the impact of the absence of network activity was supplied by Curran et al. (2000) who discovered that those businesses where the entrepreneur lived outside the business locality or had no time for networking produced disengagement and alienation from the local community.

Network structure is found to vary according to the stage of development of a small firm. For example, in the early phase of business formation, Smith and Lohrke (2008) noted that close networks provided essential support when other sources of support were not available due to the lack of track record and absence of trust. Regrettably, they omitted to draw a distinction between new ventures created by first time entrepreneurs and those created by serial entrepreneurs. Even after the start up phase, networks continue to be important as “the mechanism for not only dealing with the environment and the conditions for entrepreneurship but also for coping with change” (Drakopoulou-Dodd et al., 2006:43).

Interestingly, as firms grow their networks are also observed to change from being small, identity-based, informal groups to more diversified, managed and calculative structures (Hite and Hesterly, 2000; Evald et al., 2006; Drakopolou-Dodd et al., 2006; Jack et al., 2008). In fact, Evald et al. (2006) envisaged the development of network activity in three phases as shown in figure 3.4, noting that networks contain changing proportions of strong and weak ties during the life cycle of the firm.

**Figure 3.4 : The conceptual framework – Strong and weak ties’ importance throughout the entrepreneurial process: Evald et al. (2006:17)**



Drakopoulou-Dodd et al. (2006:26) explained that entrepreneurial networks appeared to be centred “around three nodes along a continuum of relationship-intensity” where relationships with family members were most intense, business contacts were quite intense, and suppliers, customers and competitors were less intense. This clearly conforms to the idea of degrees of social embeddedness expounded by Uzzi (1999) and orders of social interaction developed by Johannison et al. (2000).

The life cycle model was endorsed by Jack et al. (2008:151) who found that it provided “good explanations” for the patterns of network development observed. However they noted that it was limited by its inherent chronological linearity and that a “hybrid theory of entrepreneurial networking” incorporating ideas of deliberate action on the part of the small business owner could potentially provide more “helpful” insight.

Looking at the life-cycle model in more detail, Smith and Lohrke (2008:317) found that personal trust was important for the emergence stage of business because “cognitive trust, (where) individuals choose to trust based upon evidence of trustworthiness” (e.g. from repeated interactions) was not present. To explain the continuing importance of maintaining strong ties to family and friends even as the business grows, Evald et al. (2006) speculated that weak ties would be unlikely to deliver sensitive information in an expeditious timeframe. It is noteworthy here that Jack (2005), proposed a reinterpretation of Granovetter’s (1973) original conception of the strength of weak ties in the context of small firms, arguing that although small firms are embedded in networks of predominantly strong ties, these ties also serve as conduits to the weaker ties of alters. This could be viewed as compensating for the over-dependence of small businesses on close networks.

After the emergence phase Evald et al. (2006) found that network combinations started to change from predominantly strong personal contacts, through development of strong business-related ties during the growth phase, and finally to weak business-related ties in the mature phase. A feature of this was observed by Hussain et al. (2006) who found that as firms mature their initial dependence on family and friends diminished as more reliance was placed on external sources of support. Nevertheless, throughout each part of the process, Evald et al. (2006) found that the entrepreneur never loses the strong personal ties that were integral during the emergent phase and which provide underlying stability. Jack (2005:1233) also

noticed this and contended that, contrary to Granovetter (1973), strong ties do not necessarily involve high frequency of interaction but can “remain latent and dormant within the network.” A similar feature was also observed by Roxas (2007: 42) noting that close “relationships had longevity that lasted over many project cycles and changes in the formal organizational structure.”

For larger/mature organisations Zaheer and Bell (2005:810,820) commented that “network structure construed as access to structural holes rather than closure boosts firm performance” indicating that they thought that larger firms adopt a more manipulative approach to network behaviour. More succinctly, they found that “a favourable network structure is consequential to performance” and also that “internal firm capabilities are enhanced by network structure.” Furthermore firm network activity seems to boost performance by providing small businesses with additional resources embedded in their networks as “social ties provide a mechanism by which investors obtain information, thereby allowing entrepreneurs without high capital endowments to obtain resources to pursue business opportunities” (Shane and Cable, 2002:380).

This section leads to the vision of small firms from the point of view of an expanded version of resource-based theory. This envisages that the small firm possesses not only conventional human, physical and organisational resources but also has access to resources embedded in networks of relationships. However, in accordance with Burt (1997), Borgatti and Forster (2003), Lin (2006) and Jack et al. (2008), these should not be considered as passive resources but it is also necessary to consider the small business manager as purposeful actor in the network consciously engaged in manipulative activities. This observation resonates particularly with Lin’s (2006) ideas of instrumental and expressive actions.

This section serves to highlight manifest shortcomings in the conventional approach to resource-based theory implying that a re-consideration of this theory is overdue. Such a re-consideration would not only bring in external resources embedded in small firm networks but treat such resources as pliable in the hands of small business leaders.

In summary, business network theory is still evolving but there is clear evidence emerging that not only do small firms engage in network activity, but it is also beneficial for them to do so. Accordingly, Chaston and Mangles (1999) recommend that government adopts a programme to stimulate participation in

networks and Woolcock and Narayan (2000) prescribe a number of policy initiatives to achieve this as discussed above. This aspect of network theory corresponds to certain government policy rationales debated in Chapter 2 (see section 2.3).

To put this into context, the next section discusses the use of network theory in the provision of small business support schemes and develops an enhanced theoretical framework relating to rationales for public sector support schemes.

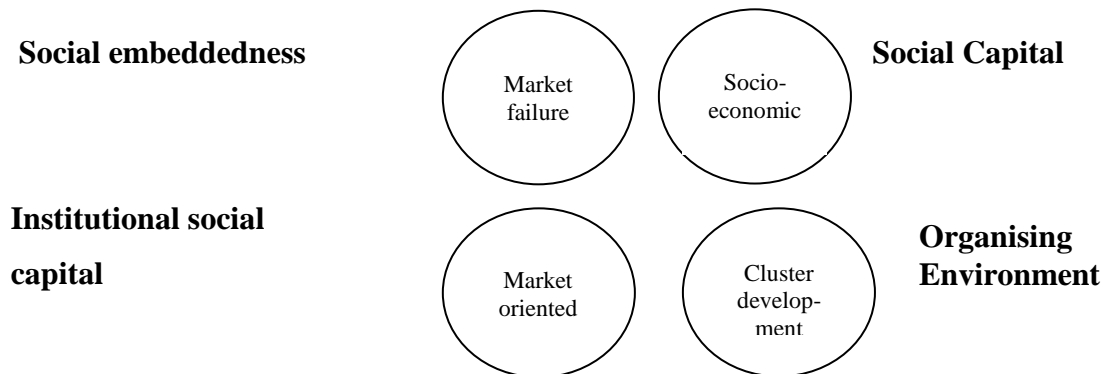
### **3.6 Policy implications**

There is strong evidence that small firms benefit from participation in networks and that these networks are of a dynamic nature. How then to stimulate formation and participation in networks as part of small firm policy intervention?

Chapter 2 discussed the rationale for government support of small businesses envisioned from four distinct perspectives. These comprised socio-economic policy, support for the development of clusters, compensating for market failure and stimulation of the market environment. This section describes how each of these rationales can be re-cast in terms of network theory.

Firstly, re-conceptualising small firms in terms the principles of the economic sociology model provides an antidote to the market failure hypothesis (Granovetter, 1985; Burt, 1997; Uzzi, 1999; Rooks et al., 2000). Next, the socio-economic rationale which considers the benefits accruing to society including alleviation of poverty, increased employment, and redistribution of wealth can be conceived in terms of social capital (Putnam, 1993, 2000; Serageldin and Grooaert, 2000). Similarly, the development of agglomerations (clusters) can be re-cast in the context of the organising environment as envisioned by Johannisson et al. (2002), Crevoisier (2004) and Boshuizen and van der Veen (2007). Finally, the institutional view of social capital perceived by Woolcock and Narayan (2000) and second order embeddedness described by Johannisson et al. (2002), resonate with the market oriented policy perspective of Hallberg (2000). Figure 3.5 illustrates this re-conceptualisation.

**Figure 3.5 Network theory perspectives on the rationales for public sector support**



Keen to put their ideas to work, Woolcock and Narayan (2000:25) recommended that policy makers “cannot wait until we know all there is to know about social capital before acting. Rather to foster further our knowledge and understanding of social capital, we should adopt a learning by doing stance” and proceed to implementation of suggested policy initiatives. However, Hawe and Shiell (2000:879) were much more reticent stating that “new players with a social capital agenda might do more harm than good” and Ottebjør (2005:27) pointed out that “intervention studies of how social capital can be increased are still lacking.”

Portes (1998:21) was also quite cautious about the viability of extension of the broader applicability of social capital and especially of the potential for consequential effective policy formulation stating that “there is little ground to believe that social capital will provide a ready remedy for major social problems, as promised by its bolder proponents.”

The dangers of policy experimentation based upon incomplete knowledge are clearly evident. For example, Schopler (1987) discovered that mandated groups (i.e. required participation) promoted group development processes but a policy prescription based upon such coercion is clearly the antithesis of an agenda to promote social capital. Similarly, an idea to use representative organisations to deliver policy was propounded by Heseltine (1993). However, this amounted to effective subversion of these organisations and as noted by May et al. (1998: 275) the idea that “trade associations.....might take on a wider spectrum of state functions .....had not advanced very far” in practice.

Thus, the final step in the development of a valid and usable theoretical perspective is to express the conceptual framework in terms of the more concrete language of network theory (see table 3.4).

**Table 3.4 Network theory gateway to small business support schemes**

<b>Support rationale</b>	<b>Social capital concept</b>	<b>Network theory terminology</b>
Market failure	Social embeddedness	Network strength Tie strength Network content Network connectivity Network density
Socio-economic	Social capital	Network structure, Reachability, Bridge ties, Network range Network transivity
Market orientated	Institutional social capital	Connectivity Between-ness centrality Network weaving
Cluster development	Organising environment	Clustering Structural equivalence.

Network theory is found to provide a gateway into each of the rationales and represents a way of bringing cohesion to the framework. For example, market failure seen in terms of social embeddedness equates to the strength of the network (i.e. the importance of the network to the firm); tie strength which describes the degree of affinity between network contacts; network content which comprises the meanings that participants bestow on their network relationships; network connectivity defined as the flows between nodes and network density describing the extent of network closure are all proxies for the ability to access necessary resources. Similarly, the socio-economic rationale translated into social capital, can be expressed in terms of network structure (i.e. whether there is both horizontal and vertical connections); reachability which describes how easy it is to contact someone; bridge ties which determine how effectively otherwise unconnected members are linked; network range

which deals with social heterogeneity and network transivity which is concerned with the transmission of friendship ties throughout the network. Considering market oriented rationales as equivalent to institutional embeddedness allows access via network connectivity, bridge ties and network weaving which relates to the deliberate process of connecting network members who are otherwise unconnected. Also pertinent in this context is between-ness centrality which describes the position of the actor in the network and determines the ability to control flows between nodes. Finally, clustering has a direct counterpart in the lexicon of network theory where it describes the circumstance of higher levels of network density than would normally be expected. Combining this with structural equivalence (i.e. network members with similar characteristics) completes the transcription.

This section is important as it has synthesised research related to business support schemes into network theory parameters. This provides an effective gateway for consideration of small business support schemes from the perspective of network theory. Having thus established the relevance of network theory in this context, the next section describes how the research methodology was designed in order to access the small business community and to investigate the network behaviour of small businesses when seeking support.

### **3.7 Research methods**

Researchers have used a variety of different research techniques to investigate network behaviour. For example, Rooks et al. (2000) used an interesting vignette study to model the behaviour of a group of buyers in various hypothetical situations. Relationships with suppliers were gauged according to level of investment required, level of product knowledge, size of transaction, historic experience, future expectation, reputation, availability of alternative suppliers and location of the supplier. In contrast, Jack and Anderson (2000) based their research upon extensive interviews with a small group of rural entrepreneurs over a three year period. Transcripts were analysed using ethnographic methods in light of the socially constructed nature of social relationships.

Shane and Cable (2002) helpfully provided a template for the investigation of network related variables in the context of small business research encompassing a mixed methods approach and a clear statement of the way in which network attributes were to be examined. Mixed methods were also employed by Drakopoulou-Dodd et



al. (2006) who added a longitudinal case study. However, Johannisson et al. (2002) employed a quantitative survey to derive measures of relationships including awareness, acquaintance, talk, exchange or transaction, professionalism, joint working, received referrals, gave referrals, children in the same class, problem solving, membership, family and trust. They used this data to develop their theory of levels of social embeddedness using the social network analysis modelling programme UCINET V.

The survey method was also adopted by Zaheer and Bell (2005) who measured the level of innovation amongst Canadian investment firms. Respondents were asked to score firms using a 5 point Likert scale. Zaheer and Bell (2005) also captured firm age as a control variable and compiled data from published information regarding cross board representation and cross management activities (one firm managing another's funds) as a way of assessing the level of network activity. Results were analysed using hypothesis testing and statistical methods.

Onyx and Bullen (2000) also used a statistical survey to derive and test the significance of 8 factors of social capital. Survey questions related to membership of clubs and associations, pro-activity in engaging in social interaction, trust, participation in the local community, frequency of visits with family and friends, tolerance, value in society and participation as a team member at work. Anderson et al. (2007) interviewed 10 chosen small business people to derive insights relating to network connectivity, individual credibility (or reputation), network benefits to help create and identify opportunities and the nature of network contacts.

In contrast, Boshuizen and van der Veen (2007) used published data relating to patent registrations as a proxy for informal relationships and gathered data relating to membership of professional clubs. Similarly Kirchmaier and Stathopolous (2008) performed desk research to determine the correlation between firm performance and the number of cross-directorships. Table 3.5 summarises the research to date including field of research interest and choice of research methods.

**Table 3.5: Summary of network research relating to small firms**

<b>Researcher</b>	<b>Date</b>	<b>Topic of research</b>	<b>Sample and method</b>
Rooks et al.	2000	Social embeddedness	Statistical hypothesis testing using a 40 sample vignette study
Jack and Anderson	2000	Social embeddedness	Ethnographic study based upon interviews with 7 rural entrepreneurs over 3 years
Shane and Cable	2002	Access to venture capital	50 companies 202 seed investors
Johannisson et al.	2002	Social embeddedness	Quantitative survey of 20 firms, 20 economic associations, 49 social associations
Zaheer and Bell	2005	Performance enhancement	Quantity survey of third party panel Desk research
Drakopoulou-Dodd et al	2006	Entrepreneurial networks	68 telephone surveys 12 in-depth interviews 3 longitudinal case studies
Kent	2007	Clusters	20 semi structured interviews 50 sample questionnaire
Anderson et al.	2007	Entrepreneurial social capital	Purposeful sample 10 in-depth interviews
Boshuizen and van der Veen	2007	Clusters	Semi structured interviews Desk research
Onyx and Bullen	2009	Social Capital	1200 participant questionnaire Statistical analysis
Kirchmaier and Stathopoulos	2008	Impact of CEO networks	Regression analysis based on desk research on performance of 363 sample companies correlated with CEO board appointments

### **3.8 Conclusion**

This chapter reviewed network theory and contrasted the power of Granovetter's original conceptualisation with acknowledged weaknesses in his specification of key terms. The contested nature of key concepts, such as social capital has distracted researchers and meant that development of empirical studies has been delayed. However, new impetus has been granted by the use of computer-assisted,

mathematically based techniques associated with social network analysis but these techniques also have limitations.

Extension of network theory to the study of small businesses has brought fresh insight to the understanding of these enterprises. By re-casting the theoretical framework of the rationale for the provision of public sector support schemes into a model based on economic sociology, this thesis opens up another avenue for consideration of small business support distinct from the hegemony of the efficient market hypothesis.

Previous research findings indicate that small firms are embedded in social networks which play an important part in the development and success of their enterprise. Fascinating parallels emerge when comparing factors affecting network development and use of business support schemes as shown in table 3.6.

**Table 3.6: Commonalities between network development and use of support services**

<b>Factors affecting network development</b>	<b>Factors affecting use of support schemes</b>
Importance of small dense networks	Family and friends
Level of education	Level of education
Level of trust	Level of trust
Development of communication system	Physical proximity and level of interactivity
Level of prosperity	Size of firm
Level of bureaucratisation	Growth rate of firm
Granovetter (1983)	Bennett and Robson (1999a,b) Bennett et al. (2000)

Research design using network theory concepts has developed mixed methods approaches including identification of proxies for network attributes. The next chapter discusses the research process undertaken in this research to assess small firm network influences in the context of access and use of small firm support schemes and develops a number of research hypotheses and research questions designed to explore the correlation between network theory and small business research.

## **Chapter 4**

### **Research Methodology**

#### **4.1 Introduction**

The preceding 3 chapters reviewed previous research into the support environment of small firms, culminating in the development of a framework for the study of small firm support from the perspective of network theory. The next 3 chapters extend this work by investigating how small firms interact with their support providers. This chapter presents the research methodology. Findings of the empirical research are contained in chapter 5 and conclusions are presented in chapter 6.

This chapter is divided into 10 sections including this introduction. The next section looks in more detail at the ethical research issues first introduced in section 1.6. Section 3 debates the choice of epistemological perspective for this research. Section 4 identifies research challenges and reviews research methodologies adopted by prior studies, presenting a critical assessment of their strengths and weaknesses. Section 5 continues with a discussion of the major research challenges identified and addressed by the chosen research methodology. The research process is described in section 6 including a thick description of the use of an on-line survey tool. Section 7 provides specific details of the construction of the sample frame using the Thomson database, the sample selection process and deployment techniques adopted. The validity of the responses received is assessed and discussed in section 8. The research questions and hypotheses are articulated in section 9 and section 10 concludes by summarising the main themes to be taken forward for investigation in the findings and conclusion chapters 5 and 6 respectively.

#### **4.2 Ethical statement**

According to Burns and Bush (2003:63) “ethics may be defined as a field of enquiry into determining what behaviours are deemed appropriate under certain circumstances as prescribed by codes of behaviour that are set by society.” This definition implies that ethical behaviour may not be necessary be legally prescribed and is also not endogenously appraised but is judged by the mores and standards of society as a whole. This means that ethics may change over time and there may also be differences between cultures. Nevertheless there are a number of guiding principles to assist researchers in maintaining high ethical standards. These are

enunciated by Bryman (2004:509-514) as obtaining informed consent; maintaining privacy, confidentiality and anonymity; avoiding negative consequences for both the research subjects and more generally and avoiding exploitation and deception. There are also higher order teleological principles relating to the impact of the research on society (Burns and Bush, 2003). Cloke et al. (2004:167-168) also discussed the relationship between participant and researcher which necessarily involves the researcher behaving with sensitivity to the position of the research participant from both a gender and cultural perspective but also the recognition that the relationship may change over the course of the research. Thus issues of reflexivity and dialogics should also be considered. This means that research cannot be a purely objective exercise and researchers should be attuned to the impact that the research is having not only on the subjects of the research but also on the researchers themselves.

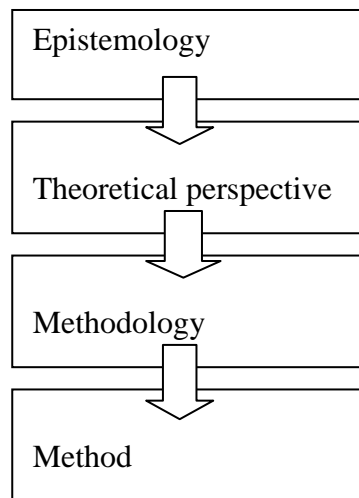
This research has been conducted based upon high standards of research ethics. Due regard has been given to the wider research community in maintaining a high degree of quality and integrity. Ethical considerations have also included using ethical means to obtain, analyse and report data. The former involved full disclosure of the focus and purpose of the research to the participants, including the role of the participants and the amount of the participants' time that was involved. The research design included use of a cover letter explaining the purpose of the research, the way in which the candidate was selected and the expected time it would take to participate. The letter was concise and polite, thanking the candidate for their participation. The introduction to the on-line survey welcomed the respondent and reiterated these points. The personal objectives of the researcher were disclosed (i.e. in this case the fact that the research is part of a doctoral programme). Ethical research principles also meant that participation was entirely voluntary. There were considered to be no concerns regarding health and safety, legislative or regulatory issues since none of the research involves physical danger to the participants or to the researcher, and there were no conflicts, or illegal or unprofessional actions. Participants were treated with appropriate courtesy and with respect for their entitlement to privacy and their right to change their mind or withdraw. Issues of confidentiality (including inter alia between research participants) were also strictly observed and respondents were assured that their responses would be kept confidential. No inappropriate language was used in correspondence or interviews, and questionnaires were sensitivity phrased, in order not to cause offence or distress. Ethical considerations extended beyond the

collection of data to the analytical process itself, to the accurate recording, interpretation and reporting of the research findings. Cognisant of responsibilities to the academic community, this research makes a contribution to knowledge and process and was designed to protect the reputation, and assist the work of researchers in the future. The purpose of undertaking this research was to understand the network structures of small businesses with a view to finding ways in which the take up of business support schemes could be improved. Thus the objective of this research is of benefit to the needs of the subjects of the research, the small business community in general, the academic community and to society at large. Furthermore, extensive field notes and data records were maintained in an organised and structured way to promote efficiency of reference and replicability.

### **4.3 Epistemology, research design and research process**

The purpose of research is to “generate findings which can be evaluated to provide conclusions” (Cloke et al., 2004:3). In this way, researchers contribute to knowledge based upon enquiry of observed phenomena with the intention of developing insight and understanding. Knowledge is thus conditioned by the epistemological perspective of the researcher which crucially affects the manner of enquiry (methodology); method of data collection; analysis of results and interpretation of the findings. According to Cloke et al. (2004) there are three types of knowledge. The first type of knowledge emanates from a search for definitive and generalised statements of fact. The second type of knowledge is concerned with identifying value and meaning. The third type of knowledge is essentially about personal experience. Epistemology therefore affects the way in which researchers access and understand their environment and has a fundamental bearing upon how research is conducted (Crotty, 2003). Thus, the researcher is obliged to articulate his epistemological stance in order for his research to have value and meaning (Morgan and Smircich, 1980). The research process is illustrated by the following schematic developed by Crotty (2003:9).

**Figure 4.1: Epistemology and Research Process**



Source: Crotty (2003:9)

Researchers are concerned with identifying patterns and regularities to explain observed phenomena (Alverson and Deetz, 2000; Bryman, 2004; Silverman, 2010) to develop theories in order to build models to represent the world (Hatch, 1997). However, such models rely on the validity, generalisability and sustainability of the underlying theories which may be either localised or ephemeral in nature (Alverson and Deetz, 2000; Bryman, 2004). It is therefore incumbent on researchers to both explain and test their theories for both applicability and relevance. In this context Silverman (2004) and Bryman (2004) both added an iterative element to Crotty (2003) where findings are fed back into method, methodology and hypothesis. This is a more powerful approach since it combines a deductive approach (i.e. a theory driven research process) with a partial inductive approach (i.e. theory is at least partially arrived at from the data). Bryman (2004:8) noted that this process is one where “the researcher infers the implications of his or her findings for the theory that prompted the whole exercise. The findings are fed back into the stock of theory and the research findings associated with a certain domain of enquiry.”

Small businesses studies seldom include an explicit epistemological statement and small business research lacks a unified theory (d’Amboise and Muldowney, 1988). Similarly, it is rare to include epistemological statements in network research and there is an absence of a theoretical framework (Platteau, 1994; Portes, 1998; Beckert, 2003; Haynes, 2009). This means that researchers need to take cognisance of the implicit epistemological assumptions embedded in prior research in order to appropriately integrate previous findings into their own work. It is apparent that

researchers have approached their work from different perspectives. Positivist researchers including Smallbone (2004), Bennett and Robson (1998, 1999a, 1999b, 2000a, 2000b, 2003), Mole (2000, 2004), Mole et al. (2006), Mole et al. (2007), Burt (1997), Lin (2006), Hanneman and Riddle (2005) and Reid and Smith (2009) consider that key aspects of small businesses and networks are definable and measurable. On the other hand, social constructionists consider that human agencies are integral to both small businesses and networks (Granovetter, 1985; Uzzi, 1999; Putnam, 2000; Jack and Anderson, 2000; Rooks et al., 2000; Johannisson et al., 2002) whereby “emphasis is on a social rather than an economic view of organizational activities” (Alversson and Deetz, 2000:33).

This research project takes a post positivist approach. Post positivism propounds that knowledge is accessible using scientifically based research methods but also allows that knowledge is transient and local as opposed to fixed and absolute. Particularly, it recognises that “no matter how faithfully the scientist adheres to scientific method, research outcomes are neither totally objective nor unquestionably certain” (Crotty, 2003:40). Whilst this perspective is the dominant perspective adopted in this research, the admonition from Hatch (1997:8) that “adopting multiple perspectives reduces the chances that you are ignoring something important” is noted.

Having discussed how the research philosophy influences the research design and process, the next section considers how the research philosophy was incorporated into the research methodology. Opening with a review of the difficulties encountered by previous researchers in this field it proceeds to describe how these issues were overcome in the conduct of this research.

#### **4.4 Methodological issues**

According to Bryman (2004) research must be reliable, replicable and valid. This means that it must be capable of being repeated by other researchers with the same results and the same conclusions. Problems encountered with researching small businesses in the past have included difficulties in identifying and accessing the population and difficulties in establishing generalised findings. This section discusses the numerous methodological challenges encountered by previous researchers and discusses the methodological solutions proposed by this research design to address these challenges.



#### **4.4.1 Visibility, accessibility and data issues**

The relative lack of visibility and poor quality of available information concerning small firms has created problems for researchers. In particular, many small firms fall below the threshold to deliver VAT returns and consequently do not appear on the Inter Department Business Directory used by the UK government. Furthermore as many small firms are unincorporated, there is no comprehensive central registry of small businesses and they are also exempt from the requirement to publish accounts. Moreover, those small firms that do file accounts are not required to furnish comprehensive details of their activities in the manner of larger organisations. A further barrier arises as small firms' commercial activities are often intertwined with the personal lives of their owners and consequently there is often a reticence to disclose private information resulting in low response rates to surveys. This inevitably makes accessing the population of small firms more difficult and the collection of usable data particularly challenging.

#### **4.4.2 Difficulties associated with heterogeneity and generalisability**

Resource-based theory maintains that each small firm comprises a unique bundle of resources. The expanded version of resource-based theory propounded in Chapter 3 (see section 3.5) adds an additional dimension to this concept by including resources embedded in external networks. The resultant heterogeneity of the small business population causes difficulties when attempting to derive generalised statements from research data.

#### **4.4.3 Previous research methods**

Survey designs in the field of small business research differ quite markedly. At one end of the spectrum, Lean and Tucker (2001), Zoppa and McMahon (2002), Atkinson and Hurstfield (2004) SBS (2004) and Reynolds et al. (2004) have all chosen large scale surveys involving in excess of a thousand respondents. In contrast, Anderson et al. (2005) surveyed just 68 individuals following up with 20 in-depth interviews and at the other extreme, Brereton and Jones (2001) provided a narrative based upon personal experience.

Other design differences relate to whether the research is cross sectional or longitudinal in nature. Most research has been cross-sectional and therefore only

pertinent to a point in time. Nevertheless, some research has been of a longitudinal character such as Zoppa and McMahon (2002), Roper and Hart (2003) and more notably Reynolds et al. (2004) whose research is part of an international initiative of annual surveys designed to measure changes in the level and other qualities of entrepreneurial activity. The additional burden of supplementing direct research with third party data has been shouldered by only few researchers. One of these is Reynolds et al. (2004) who interviewed a panel of 800 experts to triangulate interviews with 100,000 people in 31 countries. This was possible because of the large scale resources available to Reynolds' team.

It is debatable whether such large surveys, which consume significant resources, generate proportionately more insight or value compared to smaller surveys that may still nevertheless satisfy relevant criteria for statistical analysis. Numerous researchers have therefore preferred to research this field using fewer resources and smaller surveys (Chell and Baines, 2000; Nordaug, 2004; Anderson et al, 2005; Bennett and Ramsden, 2007; Cowling and Oakley, 2009; Baldock and North, 2009; Mason and Harrison, 2010). However, notwithstanding the improved economy of such surveys it is lamentable that many of these studies contain noticeable limitations and deficiencies. For example, Cowling and Oakley (2009) were very narrowly focussed on Business Link clients only. Their research would have benefited from inclusion of a control group as described by Roper and Hart (2003). Bennett and Ramsden (2007) failed to include businesses with no employees which account for 75% of all firms. The survey design adopted by Baldock and North (2009) used a novel "mystery shopper" design where participants were not told that they were participating in a research project. However, this approach raises serious questions about the lack of informed consent and the withholding of information from research participants. Mason and Harrison (2010) had difficulties recruiting respondents and expressed doubts about the representativeness of their sample. The study by BVCA (2010b) used an interesting on-line survey to generate 203 responses. However, the report did not put the sample into the context of the population and was not based upon a random sample. Consequently no statistical analysis was possible and none performed. Had such techniques been used they may have strengthened the research findings. This research notes the dangers presented by these perils and adopts a rigorous approach to sample selection and survey design.

As an alternative to survey design some studies have been based upon personal accounts of researchers in individual circumstances (Walker et al, 1999; Brereton and Jones, 2001). However, whilst contributing rich contextual insights these accounts do not result in generalised theories. They are also prone to sample bias and reflexivity as the researcher becomes part of the subject firm for a short period of time. Other researchers have not undertaken direct empirical research themselves, but have used existing research material (Johnson et al., 2003; Headd, 2003; Parker, 2004). The difficulty here is that the research design may not be tailored for the purpose to which it was subsequently used.

Research methods also vary quite considerably from ethnographic and phenomenological techniques to descriptive and predictive statistical techniques. Some researchers are intent on establishing patterns and trends to explain observed phenomena (Headd, 2003; Reynolds et al., 2004) whilst others are interested in reviewing individual cases to describe specific behaviour (Walker et al., 1999). Several studies have combined quantitative and qualitative research methods in order to benefit from the power of statistical analysis but also to gain insight from the richness of small scale interviews (Mole, 2000; Anderson et al., 2005).

Research objectives also differ depending on the area of interest of the researcher. Some researchers are concerned to assist in formulation of policy (Mole, 2000), or to reinforce existing policy (SBS, 2004) whilst some are intent on criticising policy (Smallbone et al., 2001). Other researchers have been more interested in exploring topics relating to motivation and personal goals (Reynolds et al., 2004). Table 4.1 provides a comparison of previous studies in this field.

**Table 4.1: Small Business Research and Support Services**

Author	Date	Research methodology
Walker et al	1999	Convenience sample. Semi structured interviews with 11 owners of micro businesses Exploratory. Qualitative.
Mole	2000	29 semi structured interviews with PBAs Focus group of 10 business advisors in West Midlands Survey of 175 PBAs. Phenomenological basis and comparison of interviews, focus group and survey responses.
Chell and Baines	2000	104 owner-manager survey 34 critical incident interviews Mixture of quantitative and qualitative research
Brereton and Jones	2001	Personal account of Brereton Qualitative research
Lean and Tucker	2001	20 interviews, Pilot survey 1000 questionnaire survey Statistical analysis
Matlay	2001	6000 telephone survey randomly chosen from Yellow Pages, 600 semi structured interviews 120 matched case studies
Smallbone et al.	2001	Construction of database Stratified sampling Control group Telephone survey Statistical analysis.
Zoppa and McMahon	2002	Longitudinal survey of 6400 small businesses Statistical analysis
Headd	2003	Secondary data analysis US BITS survey data with 12,185 data points Statistical analysis
Johnson et al.	2003	Secondary use of stratified sample undertaken by Policy Research Institute in South Yorkshire. Telephone survey of 2000 employers not specifically designed for the purpose of research. Statistical analysis
Roper and Hart	2003	Longitudinal survey of 333 companies including 137 users of Business Link and 196 controls
Atkinson and Hurstfield	2004	Survey of 8,693 SME's Descriptive statistical analysis
Small Business Service Household Survey	2004	Telephone interview of 10,002 individuals Statistical analysis
Reynolds et al.	2004	Representative sample of adult population (100,000 interviews in 31 countries). 800 interviews of national experts on entrepreneurship. 10 page questionnaire completed by experts. Secondary data from various international research organisations. Statistical analysis.
Parker	2004	BHPS face to face questionnaires with sample of 700 entrepreneurs Qualitative research
Nordhaug	2004	Telephone survey of 320 firms Statistical analysis
Anderson et al	2005	68 owner-manager survey 12 in depth interviews Mixture of quantitative and qualitative analysis
Hussein et al	2006	Semi structured telephone survey of 2 sets of 32 matched SME's in UK and China
Bennett and Ramsden	2007	194 telephone survey drawn from Dunn and Bradstreet database. Statistical analysis
Cowling and Oakley	2009	Telephone survey of 456 users of Business Link Health Check
Baldock and North	2009	Pilot study followed by "mystery shopper" survey of 159 users of Business Link
Mason and Harrison	2010	Survey of 153 business angels. Descriptive analysis.
BVCA	2010	On-line survey of 208 private equity investee companies. Qualitative descriptive analysis

Since this research project is concerned with network aspects of small business behaviour, it is pertinent to review the way in which facets of network theory are revealed and network phenomena have been accessed in previous research. The next section looks at the differences in research approach and research methodologies employed in these distinct fields as an explanation for the synthesised research methodology used in this research programme. Table 4.2 illustrates the wide range of methods employed by network researchers.

**Table 4.2: Network theory research techniques**

Researcher	Date	Topic of research	Sample and method
Rooks et al	2000	Social embeddedness	Statistical hypothesis testing using a 40 sample vignette study
Jack and Anderson	2000	Social embeddedness	Ethnographic study based upon interviews with 7 rural entrepreneurs over 3 years
Shane and Cable	2002	Access to venture capital	50 focal companies 202 seed investors
Johannisson et al	2002	Social embeddedness	Quantitative survey of 20 firms, 20 economic associations, 49 social associations
Zaheer and Bell	2005	Performance enhancement	Quantity survey of third party panel Desk research
Kent	2007	Clusters	20 semi structured interviews 50 sample questionnaire
Boshuizen and van der Veen	2007	Clusters	Semi structured interviews Desk research
Kirchmaier and Stathopoulos	2008	Impact of CEO networks	Regression analysis based on desk research on performance of 363 sample companies correlated with CEO board appointments
Jack et al.	2008	Network changes over time	Longitudinal semi structured interviews with 3 participants and ethnographic analysis.

Prior research has mainly relied upon small scale surveys and in depth interviews to access aspects of relationships between people. This contrasts with the predilection for use of large scale surveys and statistical methods for small business studies. The difference in approach is considered to be the quantitative nature of the classical economic model compared to the more qualitative nature of the social economic model. However, both sets of researchers use a cross-sectional approach as the main technique and only rarely do longitudinal studies feature bearing in mind the additional resources needed to undertake longitudinal research.

The methodology implemented by Shane and Cable (2002) was viewed as providing a suitable template for the crossover of network research and small business research. This was because it encompassed a mixed methods approach and a clear statement of the way in which network attributes were to be examined. The approach consisted of interviews with 50 start-up businesses to inform design of a subsequent quantitative survey of 202 seed investors (including venture capital and angel investors). Survey questions were developed using a 5 point Likert scale to measure tie strength (based upon measures of trust, referral, speed of information flow and cost); reputation (prior experience, referrals, references) and depending upon industry sector, size of business (measured by size of investment and business profitability), use of IT, quality of the business plan. The results of the survey were analysed using statistical methods (LISREL 8). Having discussed the research methods chosen by previous research projects the next sections set out the thought process and rationale for the choice of research methods adopted by this research.

#### **4.4.4 Establishing the research foundations – addressing the methodological challenges**

The first issue concerns the definition of a small business as discussed in Chapter 2 (see section 2.1). For clarity and simplicity, this research project adopts the small business classification system based on number of employees as promulgated by EC (1996). This definition is then augmented to include two sub-categories of micro businesses comprising 0-5 and 6-10 employees, respectively, for consistency with the classification system of small firms contained within UK published government statistics. This definitional approach is considered to be advantageous as it is unambiguous and also provides benefits in terms of verification and replication.

The second challenge relates to obtaining a suitable sample especially in view of the heterogeneity of the underlying population of small businesses. Small businesses are unique and the extent of their individuality is in part due to the nature of the personal involvement of the owner/managers. Other differences relate to size, age, location, legal form, type of activity and business objectives. Heterogeneity poses difficulties because “variability around an average is likely to be so large and indeterminate that notions of a typical or average firm are virtually meaningless” (Curran and Storey, 2000:15) and it is therefore difficult to generalise research

findings (d'Amboise and Muldowney, 1988). This issue is compounded by the absence of a suitable sampling frame (Curran and Storey, 2000) combined with a high level of churn (i.e. rapid changes in underlying population due to start ups and failures) (Headd, 2003). The absence of a suitable sampling frame makes it difficult to claim that any sample is representative of the population. Churn means that collected data degrades very quickly because populations change and samples can cease to be representative over time. Further complications arise due to low response rates which can produce size and sector bias as Bryman (2004:88) noted "the problem with non-response is that those who agree to participate may differ in various ways from those who do not agree to participate. Some of the differences may be significant to the research question or questions." To overcome the problem of the absence of a sampling frame, this research adopted the technique employed by Smallbone et al. (2001) who constructed their own database of small businesses using commercially available directories, trade associations and business networks together with yellow pages directories from which they constructed a stratified sample. To tackle the problems of heterogeneity and low response rates, Bryman (2004:99) recommended the use of a large sample size stating that "the greater the heterogeneity of a population the larger the sample will need to be." Accordingly, the research methodology adopted by this research project was based on a large scale survey segmented into a number of smaller sample segments each individually designed to be of sufficient size to permit statistical analysis. The research design enabled the identification of a large but discrete population and provided the ability to continue to sample from this population until sufficient responses had been received.

The third challenge arose due to difficulties in gauging the impact of business support services. This was due to the existence of extraneous factors (Mole et al., 2006) combined with the heterogeneity of the services available (Smallbone and Baldock, 2004) and the subjectivity of recipients themselves (Bennett, 2007b). Furthermore it has been recognised that there are inherent difficulties in researching intangible products such as services (Mills and Margulies, 1980; Clark, 1995; Caniels and Romijn, 2005). The lack of formal evaluation systems within Business Link (Curran and Storey, 2000; Bennett, 2007b; Mole et al., 2006) was also unhelpful. These issues were addressed by straightforward questions relating to satisfaction levels using a Likert scale.

The fourth challenge related to difficulties in operationalising social capital (Haynes, 2009) and measuring network variables such as tie strength, connectivity and flow (Evald et al., 2006). Furthermore, using social network analysis to study the whole population of 4.3 million small businesses is clearly not feasible. More significantly, social network analysis does not provide a base for hypothesis testing. The technique adopted to overcome issues of network relationships was to develop proxies for various network attributes in accordance with prior research (Bennett and Robson, 1999; Rooks et al., 2000; Shane and Cable, 2002). In particular, the survey undertaken in this research adopted the template of Shane and Cable (2002) by including questions relating directly to the importance of networking from the respondents perspective as well as the time spent on network activity.

Overcoming these challenges created others particularly relating to resource constraints as discussed in the next section.

#### **4.5 Design Constraints**

Consistent with much of the previous research into small business support schemes a large scale survey design was chosen. Clearly, the resources required to undertake large scale telephone or mail surveys on an international scale (Reynolds et al., 2004) differ significantly from resources needed to conduct a small series of interviews (Walker et al., 1999) or undertake desk research (Headd, 2003). Whilst continuing to maintain high quality standards, the research methodology of this research project was required to match the available resources of the research team. In this case, the research project was being undertaken on an individual basis whilst the researcher was also in full time employment. Accordingly the research design needed to be flexible enough to encompass a large scale survey within a condensed timeframe on a limited budget and without administrative support.

So far, this chapter has been concerned with explaining the research agenda for this project and reviewing prior research methodologies. However, Crotty (2003) contends that the research methodology needs to be tailored to the individual circumstances and specific objectives of the particular research being undertaken. The next section describes the way in which modern technological tools were used to compensate for these limited resources by streamlining the design and deployment of the survey and improving the collection and analysis of data.



#### **4.6 Research process**

The research process was split into four distinct phases which are quickly summarised here and discussed in detail below. The first phase involved a high level literature review to identify emergent themes and uncover research gaps. The second stage comprised drafting the questionnaire and testing it with an exploratory study amongst a small number of respondents. This served to form some initial impressions and to trial the questionnaire design. The third phase involved the development and testing of an on-line questionnaire using two further pilot studies. Next the sample frame was constructed and finally a large scale survey was conducted.

After the completion of the survey, a comprehensive literature and theory review was completed. This was followed by an analysis of the findings of the survey using SPSS augmented by content analysis in relation to additional comments made by respondents to the survey. Research questions and hypotheses were addressed. Research findings were then fed back into the process in an inductive loop to assess their impact on theory. The research process concluded with the writing up of the findings and presentation of this dissertation. Each phase of the research process is now considered in detail.

##### **Phase 1: Preliminary literature review**

A high level literature review was undertaken to identify key emergent themes in the spheres of small business research, small business support schemes and network theory. A transfer document was submitted to the faculty for approval and supervisors assigned to oversee the subsequent research project. The transfer document comprised 15,000 words and encompassed an outline research design and timetable. After approval of the research plan, a number of meetings were held with the main supervisor to agree certain milestones and the ultimate shape and scope of this thesis. Minor modifications to these plans were discussed and agreed as required during the period of the research. Regular dialogue was maintained with the supervisor including detailed input to the design of the questionnaire and sampling techniques.

##### **Phase 2: Early questionnaire design and first pilot study**

The research questionnaire was designed to investigate the link between network structures of small businesses and usage of business support services. Thus questions were designed to be interlocking so that correlations between variables

could be discerned. The dependent variable was determined to be the use made of business support schemes by small businesses. Based upon the preliminary literature review the independent variables were assessed to include:

- Age of firm
- Type of business (sector, form, ownership structure)
- Age of owner
- Experience of owner
- Size of firm (employee numbers and turnover)
- Growth rate compared to prior year (employee numbers and turnover)
- Predominant source of start up funding
- Predominant source of ongoing support
- Predominant source of business support
- Level of trust and interaction with existing funders and advisors.
- Urban versus rural location
- Educational attainment
- Level of export activity
- Frequency of contact with support providers
- Length of relationships
- Level of innovation
- Export activity
- Level of awareness of business support schemes

Consistent with prior research designs, the main survey was taken the form of a cross sectional, self administered questionnaire consisting of approximately 40 questions designed to test whether there are causal relationships between the identified dependent and independent variables. Constructed using a variety of pre-designed question formats with BOS (see below), the questionnaire made extensive use of Likert scale questions and free format responses to elicit both nominal and ordinal data for subsequent analysis using computer based statistical tools and ethnographic analysis of responses.

The pilot study survey was sent to 13 small business people known personally to the researcher. The pilot survey was conducted over 2 months in the summer of

2006. Respondents were told what the survey was for and then asked whether they would be willing to participate. Questionnaires were deployed personally by the researcher or via mail depending upon proximity. For questionnaires distributed by mail, respondents were given a stamped addressed envelope for returning the completed questionnaire. The design of the questionnaire comprised 58 questions divided into 4 categories relating to personal data (10 questions), network activities (11 questions), use of support schemes (10 questions) and firm data (27 questions) followed by a free format section where the respondent was invited to make additional comments on a voluntary basis. The format of questions varied with some questions seeking specific data (e.g. age of respondent) whilst others were multiple choice (e.g. sources of support) and questions relating to assessment of support services used a 5 point Likert scale to gauge the strength of the respondents preferences. Altogether, 11 responses were received. The results of the pilot study were presented at the DBA Colloquium in October 2006. Pilot study responses were used to modify the design of the questionnaire including simplification of the wording of some questions, an increased use of multiple choice categories and the inclusion of a question relating to mentoring. A question related to reasons for non-use of support schemes was also added as well as improvements to questions relating to the use of IT.

### **Phase 3: On-line questionnaire design and subsequent pilot studies.**

The IT department at Durham University were contacted in January 2007 regarding the best way in which to make use of communications technology to conduct a large scale survey. Two software packages were supported by the IT department namely Formic and Bristol On-Line Surveys (BOS). The Formic system was not recommended and therefore rejected in favour of the BOS package. The main drawback of Formic was that it remained largely a paper based system where completed questionnaires were required to be scanned into a software programme. This was reported to have led to difficulties in processing text and especially handwritten replies. In contrast, BOS used web-based technology whereby respondents entered their data directly into the on-line questionnaire. The advantages in terms of time and cost savings in conducting the survey using BOS were also considerably enhanced by the knowledge that data capture would be accurate. BOS also provided a sophisticated questionnaire design programme including the possibility of on-line collaboration with the project supervisor. From the respondents

perspective it was easy to use and confidential. BOS also had the advantage of monitoring and adapting the survey in real time as responses were received. In practice, this meant that the wording of the invitation letter to potential participants was changed very early on to include a modest monetary incentive to reply after very low initial response rates were observed. It also meant that respondents could be targeted in batches and invitations directed to those segments of the population which in the final stages were evidencing insufficient aggregate numbers of replies.

A key benefit of BOS was the functionality built into the questionnaire design module which significantly improved the efficiency of the design process and the professional appearance and appeal of the final survey (the output of the survey is attached at Appendix 1). In particular, BOS offers a choice of question types to suit the requirements of the researcher. These are Selection List, Multiple Choice, Multiple Answer, Single Line, Multiple Lines and Date. The survey can be compiled over time and divided into separate sections. During composition, questions may be edited or split into sub-questions. Replies can be made to be either optional or compulsory. At launch each survey is given a dedicated website and a specific time for responses which may be extended at the option of the researcher. During the chosen research period responses can be viewed on screen and simple statistical analysis performed. Use of BOS is subject to licence terms and payment of a licence fee (currently £500). Durham University was the licence holder and payer of the fee. Subsequent use of the software was free of charge however access was restricted to postgraduate researchers and use of the system was required to be endorsed by the project supervisor.

The main limitations of BOS were that it did not include a means by which the survey could be deployed directly into the population and if certain compulsory questions were not answered the response was rejected. Furthermore, it provided only limited statistical analysis capabilities. An alternative solution was devised to overcome the first of these deficiencies using Thomson Database and Windows Mailmerge (see below). The second limitation was resolved by exporting the survey data from BOS into excel and re-importing it into SPSS.

On 10 June 2007 a prototype of the on-line survey was launched and a second pilot group of 12 business people known to the researcher were emailed to invite them to test the survey. In particular, the aim was to check the ease of access to the website, navigation through the questionnaire and time taken to complete the survey.

After completion of the questionnaire respondents were asked to submit the reply which was captured on the web page for access by the researcher. Respondents were also asked to comment by email on any difficulties they had encountered with the questionnaire making suggestions for improvements. By the expiry date of 30<sup>th</sup> June 2007 no responses had been received and it was evident that there were some significant flaws in the design of the questionnaire. Respondents found it time consuming, difficult to follow and frustrating to complete. In particular, it was not possible to submit the completed questionnaire if the respondent had not completed all compulsory questions. This feedback resulted in substantial changes to the questionnaire design including a reduction in the number of questions and a reduction in the number of compulsory responses required. A further pilot study was launched to 9 people on 1 July 2007 and by 30 July 6 responses had been received on website address [www.survey.bris.ac/durham/networks](http://www.survey.bris.ac/durham/networks). This final pilot study determined that the on-line survey was functioning but that the questionnaire needed further simplification. One respondent highlighted a syntactical error in one of the questions.

Further work was subsequently undertaken on the questionnaire design in co-operation with the project supervisor to ensure that no significant dilution of the value of the questionnaire was being made whilst it was being re-designed. The evolution of the shape and size of the questionnaire during this period is illustrated in table 4.3. The upshot was that the final questionnaire was much simpler and easier to operate than the earlier versions.

The main survey was launched on 8<sup>th</sup> August 2007 and respondents were invited to participate by letter of introduction directing respondents to go to web address [www.survey.bris.ac/durham/yourviewcounts](http://www.survey.bris.ac/durham/yourviewcounts). Having reviewed the questionnaire and survey design process, the next section considers the most appropriate choice and method of construction of a suitable sampling frame and selection of the sample.

**Table 4.3. Evolution of Questionnaire Design**

	Pilot 1	Pilot 2	Pilot 3	Main survey
<b>Section 1- Personal data</b> Gender Age Education Type of business Business role Prior experience	10	12	13	14
<b>Section 2 - Networking Activity</b> Personal club memberships Business club memberships Personal networking activity Business networking activity Time spent on networking Importance attached to networking Formal business alliances Joint ventures	10	22		
<b>Section 3- Access to business support</b> Start up support On going support Type of support Satisfaction with support provider Frequency of contact with support provider Likelihood of re-using Referral processes Level of trust Length of relationship Contact and experience with Business Link	17	22	9	9
<b>Section 4 - Firm data</b> Business activity Business environment Location Age of firm Shareholder composition Number of employees Number of previous and planned employees Turnover Previous and planned turnover Profitability Previous and planned profitability Use of IT Export activity Level of innovation	31	42	25	19
Number of questions	68	98	47	42
Comments				
Comments about networking				
Comments about Business Support Services				
Comments about the questionnaire				

#### **Phase 4: Constructing a sample frame and choosing a sample**

As discussed above, there are a number of potential problems when seeking to research small businesses. These include:

- Absence of comprehensive database of UK businesses
- Churn rate (rapid changes in underlying population due to start ups and failures)
- Heterogeneous population due to differing geography, activity and size of business making statistical analysis difficult.

These issues are compounded by inherently low response rates and potentially lower response rates from on-line surveys due to spam filters. In order to overcome these difficulties the research methodology followed the path of Smallbone et al. (2001) to construct a suitable sampling frame using commercially available databases and the recommendation of Bryman (2004) to compensate for issues of non-response and heterogeneity by obtaining a large enough sample. This was determined in conference with the project supervisor to be approximately 40 names for each sub-category of small business sampled (see below) which was deemed sufficient to facilitate statistical analysis. To construct a sample frame, a number of commercial databases containing large numbers of SMEs were reviewed. Key features of these databases are tabulated in Table 4.4.

Cosh et al. (1998) described a procedure developed by the Economic and Social Research Council (ESRC) of selecting a population from the Dun and Bradstreet database and telephoning a random sample of this population to check veracity and eligibility. However, the Dun and Bradstreet database is designed as a credit referencing system and captures only those businesses for which Dun and Bradstreet maintain records with the expectation that firm turnover would be in excess of £250,000 and employee numbers greater than 5. Accordingly, it represented a relatively small database equating to less than 15% of the small business population and was considered not to capture micro enterprises or start up businesses.

**Table 4.4: Constructing a sample frame.**

Database	Database size	Inclusion criteria	Cost	Other features
D & B	680,000	Companies with turnover > £250,000 and employees >5	Item charge	Produces usable database. Verified data.
Inter Department Business Register	2.1 million	VAT registrations (companies with turnover > £61,000)	Free	Statistical records only.
Companies House	2 million	Incorporated businesses	Small subscription charge	Document copy service No database search function
Yell	1.7 million	Advertisers with Yell	Free	Searches largely by region or name
Thomson	2 million	Advertisers with Thomson	Subscription and tem charge	Provides verified named contact and email follow up service.
Scout	2 million	Advertisers with Scout	Free	Search by sector or name only



The Inter Department Business Register is used by government to compile statistics. However, it was not considered suitable for this research as it captures only those companies who are registered for VAT. The SBS (2003a) survey utilised VAT registration and deregistration records. However, whilst this captures more firms than Dun and Bradstreet, it still omits very small businesses which are not registered for VAT and the database itself is restricted to statistical information only and does not provide contact information. The SBS (2004d) acknowledged that the Inter Departmental Business Register contained incomplete data regarding the very smallest businesses.

Companies House has an extensive database of registered companies which are each obliged to file certain statutory information which is then made available to the public. The content of this information is prescribed by law and often audited and can therefore be expected to be relatively accurate and up to date. However, data is only maintained for corporate entities and unincorporated businesses are not included. Furthermore, Companies House provides data only in individual reports per company and not in a database format which does not facilitate choosing the sample frame or efficient use of the data.

The Yell, Scoot and Thomson databases comprise those small businesses who advertise with Yellow Pages, Scoot and Thomson Directories respectively. The advantage of these databases is that they contain a significant proportion of UK small businesses. The disadvantage is that they exclude those businesses that do not advertise through these publications. On review the search capabilities of Thomson Directory was considered to be superior to either Scoot or Yell as it enabled sample selection by region, size and business activity whilst Scoot and Yell had much more limited search functionality restricted to company name and either business activity or location. Thus, Thomson was regarded as the best source from which to construct the sample frame in view of the large size of the database search functionality. In particular, the Thomson database was able to provide validated business details and contact names. As these details were already verified, there was no need to pursue the checking procedures adopted by Cosh et al. (1998). It was also helpful that the selected data was available in excel format which facilitated data analysis and questionnaire deployment.

The Thomson database is available at [www.Businesssearch.co.uk](http://www.Businesssearch.co.uk). Users are required to purchase a licence to use the system for a year. Current licence rates are

£249 plus VAT for a standard licence and £349 plus VAT for a privileged licence. In order to obtain named contact details it is necessary to buy a privileged license. Users must also acquire each item of data and this is done either using credit points acquired from Thomson or by credit card. The item data charge is approximately 50 pence each.

Limitations of the Thomson system included the incomplete coverage of the UK small business population although the potential population was still substantial. Other inadequacies included not being able to attach the Durham University logo or to allocate a unique serial number to each questionnaire when sending the questionnaires by email. There were also some scheduling issues within Thomson which meant that it was difficult to know when emails had been sent as smaller batches of questionnaires received lower priority than larger mailings being undertaken by other Thomson clients. Accordingly, a postal solution was devised.

Having described the research process, the next section comprises a detailed exposition of the sampling process.

#### **4.7 Sampling from the Thomson database**

The Thomson database facilitates the construction of a sampling frame and subsequent selection of a sample. This section describes how a stratified random sample was selected for use with the BOS on-line survey. Firstly, the Thomson database was accessed using a number of search parameters to compile lists of names based upon the size of enterprise, business sector and location. The following classifications were used:

- Employee numbers, (micro (0-5), small (6-10), modest (11-50), medium (51-200))
- Sector (Wholesale/retail, Factories and Manufacturing, Services, Other (excluding public sector))
- Location (London, North, South, East, West).

The database was searched on 8 July 2007 and the following sample frame consisting of 1,189,036 small businesses in 80 different sub-categories was derived (see table 4.5). This is equivalent to approximately 25% of the entire population of small businesses in the UK (SBS 2008).

**Table 4.5 Outputs from Thomson Database Search 8<sup>th</sup> July 2007**

**Overall totals**

Size	Totals	Sectors	Totals
Micro	799,166	Wholesale/Retail	498,370
Small	180,861	Manufacturing	87,854
Modest	181,521	Services	331,791
Medium	27,488	Other	271,021
<b>Total</b>	<b>1,189,036</b>		<b>1,189,036</b>

**0-5 employees (micro)**

Region/ Total	Wholesale/retail	Manufacturing	Services	Other
London	43,577	2,144	26,422	21,451
North	88,049	14,317	41,445	57,776
South	85,364	15,677	57,219	86,312
East	53,256	10,378	33,098	47,725
West	47,024	12,138	23,977	31,817
<b>799,166</b>	<b>317,270</b>	<b>54,654</b>	<b>182,161</b>	<b>245,081</b>

**6-10 employees (small)**

Region /Total	Wholesale/retail	Manufacturing	Services	Other
London	11,683	931	9,518	1,464
North	24,602	3,092	14,258	3,641
South	26,500	3,101	17,727	4,899
East	15,917	2,775	10,895	2,942
West	12,971	1,972	9,405	2,568
<b>180,861</b>	<b>91,673</b>	<b>11,871</b>	<b>61,803</b>	<b>15,514</b>

### 11 – 50 employees (modest)

<b>Region / Total</b>	<b>Wholesale/retail</b>	<b>Manufacturing</b>	<b>Services</b>	<b>Other</b>
London	11,050	1,266	12,331	1,240
North	20,215	4,636	17,040	2,321
South	21,709	4,011	18,887	2,883
East	13,138	3,592	11,876	1,705
West	11,662	3,417	17,040	1,502
<b>181,521</b>	<b>77,774</b>	<b>16,922</b>	<b>77,174</b>	<b>9,651</b>

### 51-200 employees (medium)

<b>Region / Total</b>	<b>Wholesale/retail</b>	<b>Manufacturing</b>	<b>Services</b>	<b>Other</b>
London	1,263	179	1,914	126
North	2,399	1,524	2,712	222
South	2,592	1,022	2,966	208
East	4,154	863	1,648	112
West	1,245	819	1,413	107
<b>27,488</b>	<b>11,653</b>	<b>4,407</b>	<b>10,653</b>	<b>775</b>

On consideration of the small number of firms in the population for “other” it was determined to discard this category as it was unlikely to yield sufficient responses to create meaningful comparisons assuming approximately 10% response rate. This reduced the number of names by 271,021 to 918,015 and the number of sub-categories to 60. Thus the sample frame equates to approximately 20% of the population spread across all ranges of firm size, location and activity.

In order to be explicit about the categorisation of firms by sector and region the following Thomson categories were aggregated to obtain the relevant business groupings (Table 4.6)

**Table 4.6: Definitions from Thomson Database**

<b>Categories</b>	
<b><u>Sector</u></b>	<b><u>Thomson Premises Type</u></b>
Wholesale / Retail:	Shops & Other retail plus Warehouses & Wholesalers
Manufacturing:	Factories & Manufacturing
Services:	Offices and administration, sports, leisure, entertainment, holiday activities
Other:	Business at home, Transport, Unknown, Workshops and repair centres
<b><u>Regions</u></b>	<b><u>Thomson Regions</u></b>
London:	London
North:	Merseyside, North East, North West, Yorkshire and Humber
South	South East, South West
East	East Midlands, Eastern
West	West Midlands, Wales

#### **4.7.1. Sampling from the sample frame**

Names in the sample frame were captured in the Thomson database and downloaded in batches on a random basis from each category. Delivery of the chosen sample was received from Thomson in excel format by email.

Subsequent contact with chosen participants was made using a personalised letter inviting them to access the website and fill in the survey. The format and content of the invitation letter was designed to inform recipients how they were selected and to explain the objectives of the survey. They were encouraged to respond so that their opinions could be recorded. Permission was obtained to use the Durham University logo on the letterhead and to refer to the DBA Administrator in case of query. This was aimed at adding credibility and authenticity to the letter as it was from a recognised academic institution. The wording of the letter was courteous and concise taking care to inform recipients that the objective of the survey was to generate greater understanding of network activity in connection with small firm business support schemes as part of an academic research project. The letter was

personally addressed to a named individual and individually numbered using the Thomson reference number. The Thomson excel file was converted to .txt format to facilitate use of Windows mail merge software. Letters were printed on 90g weighted bonded white paper and posted by first class mail in bonded white window envelopes. The intention of using high quality stationery was to create a good impression and to avoid the letters being discarded without being opened or read.

The letters were sent in batches with the intention of generating approximately 40 responses in each sub category. Batches were numbered so that they could be identified upon receipt of the excel database from Thomson. The initial batch of 3,000 letters elicited 38 responses. At the suggestion of the research supervisor a £10 Marks & Spencer's voucher was offered as an incentive for subsequent invitations. The invitation letter was amended accordingly. This offer increased the response tally by 226. Response rates were lower in London amongst retail businesses and an additional 200 letters were sent to members of this sub-category to build the response rate to the desired level of approximately 40 responses for each sub-category. In total invitation letters were sent to 10,338 identified small eliciting 270 replies including 6 replies from the third pilot study. Marks and Spencer's vouchers were sent to respondents as displayed on the BOS website with a personally addressed hand written "thank you" note within 5 days of receipt of the completed questionnaire. The survey was closed having attained the requisite number of responses in each sub-category and the website closed on 30 September 2008.

Prior to commencing the statistical analysis of the survey responses that are presented in Chapter 5, the next section provides the outputs of testing for non-response bias. It also tabulates survey responses by gender, sector, size and location and checks for reliability by assessing consistency with prior research.

#### 4.8 Summary of responses and non-bias testing

This section validates the survey results by checking for non-response bias reliability, and compatibility with prior research. It establishes that survey data are consistent with statistical data related to SME's at the time the survey was undertaken (SBS, 2008) and broadly compatible with prior research findings.

##### 4.8.1 Testing for non-response bias

Tables 4.7 – 4.11 show the results of Chi-Square tests for non response bias based upon type of ownership, age of firm, size of firm (measured by number of employees) and regional location. There was found to be no non-response bias by ownership, age, size or location but there was evidence of modest non-response bias by sector.

**Table 4.7 Type of Ownership**

Type of Ownership	Non-Responding Firms		Responding Firms		Chi-square Statistic	Sig. Level
	No.	%	No.	%		
					2.125	0.346
Limited Company	6576	65.5	160	67.2		
Partnership	713	7.1	21	8.8		
Proprietor	2758	27.5	57	23.9		
All	10047		238			

There is no evidence of response bias between respondents and non-respondents at the 0.10 level or better by the type of ownership structure of the firms.

**Table 4.8 Age of Firms**

Age of firm	Non-Responding Firms		Responding Firms		Chi-square Statistic	Sig. Level
	No.	%	No.	%		
					0.91	0.763
Young	4054	41.8	95	40.8		
Old	5654	58.2	138	59.2		
All	9708		233			

Notes: Older firms were aged 5 years or more, and younger firms were up to 4 years old

There is no evidence of response bias at the 0.10 level or better between respondents and non-respondents by the age of the firms.

**Table 4.9 Number of employees**

Firm size	Non-Responding Firms		Responding Firms		Chi-square Statistic	Sig. Level
	No.	%	No.	%		
					1.667	0.644
Micro	2537	25.1	66	27.7		
Small	2548	25.2	59	24.8		
Modest	2614	25.9	54	22.7		
Medium	2401	23.8	59	24.8		
All	10100		238			

Notes: Micro = 0-5 employees, small = 6-10, modest = 11-50, medium = 51-200

There is no evidence of response bias at the 0.10 level or better between respondents and non-respondents by the number of employees / size of the firms.

**Table 4.10 Sector**

Sector	Non-Responding Firms		Responding Firms		Chi-square Statistic	Sig. Level
	No.	%	No.	%		
					6.621	0.036
Manufacturing	3000	29.7	76	31.9		
Services	4632	45.9	121	50.8		
Wholesale/retail	2468	24.4	41	17.3		
All	10100		238			

There is evidence at the 0.05 level of response bias between respondents and non-respondents by the sector of the firms. This was attributable to the response rate of the wholesale sector being less than the manufacturing and services sectors.

**Table 4.11 Regions**

Location	Non-Responding Firms		Responding Firms		Chi-square Statistic	Sig. Level
	No.	%	No.	%		
					3.084	0.379
East	2412	23.9	47	19.7		
London	4108	40.7	100	42		
North	1777	17.6	41	17.3		
West	1803	17.8	50	21		
All	10100		238			

There is no evidence of response bias at the 0.10 level or better between respondents and non-respondents by the regional location of firms.



After testing the results for non-response bias, the next section tabulates responses according to a variety of characteristics to provide an overview of the data that will be analysed in detail in Chapter 5.

#### 4.8.2 Analysis of responses

This section provides details of the number of responses received classified into a variety of categories as illustrated in tables 4.12-4.16.

**Table 4.12: Responses by gender, age and firm size**

	Micro (0-5)	Small (6-10)	Modest (11-50)	Medium (51-200)	Average Employees
Male	34%	15%	27%	23%	36
Female	33%	22%	29%	16%	24
< 2 years	3%	1%	0.4%	1%	18
3-5 years	5%	1%	1%	1%	21
6-10 years	8%	3%	5%	3%	27
> 10 years	19%	11%	21%	18%	38
N	86	42	68	57	253

More men than women were sampled and responses approximate to the proportion of women in business reported by Alexander and Stone (2009:11). Table 4.12 shows the number of responses according to gender, age and number of employees in the firm. Micro firms (employing 0-5 employees) represented the single largest response group representing 34% of usable responses. Whilst this is sufficient for the purposes of this research as the absolute level of responses is capable of statistical analysis, it is below the 91% of the total of micro firms in the UK population (SBS, 2008).

The average number of employees in respondent firms was 34. The average size of female-controlled businesses was a third smaller than male controlled businesses. Noticeably, a much smaller proportion of medium sized businesses were controlled by women and the average number of employees in female led businesses is lower. These results are consistent with Alexander and Stone (2009).

Table 4.12 also shows that firms aged 10 years or older represented 70% of usable responses. This indicates a potential age bias in the Thomson database regarding younger firms but this did not create any non-response bias in the survey responses (see table 4.8). On average, older businesses are larger businesses as measured by employee numbers.

Table 4.13 shows the average age of respondents was 48 years and the average age of female respondents was 7 years younger than male respondents. The average age of female-led firms at 21 years was 11 years less than male-led firms.

**Table 4.13: Responses by gender and age of respondent and firm**

	Average age of respondent	Average age of firm
Male	50	32
Female	43	21
Overall average	48	30
N	254	255

Table 4.14 indicates that the survey successfully targeted individuals with significant management control over their organisation with 89% of males in dominant positions and 69% of women. Women tend to have less prior business experience than men. This may be as a consequence of the younger average age of women in business. It is consistent with Alexander and Stone (2009:13) who reported that the number of men with prior business experience was 1 in 3 and the number of women with prior business experience was 1 in 4.

Educational achievement is high with 63% of the sample having degree qualifications. This is higher than the UK population as a whole which is estimated to contain 16.3 % educated to degree or equivalent standard (Office for National Statistics (2003: table 4.14). Men are more likely to be educated to degree standard than women with 65% of men possessing a degree or professional qualification compared to 55% of women.

**Table 4.14: Responses by educational background, prior experience and role**

	Degree educated		Previous experience		Significant Management Role		
	Number	%	Number	%	Owner/ Manager	Direct or / partner	%
Male	133	65%	65	32%	76	107	89%
Female	27	55%	9	18%	16	18	69%
Total	160	63%	74	29%	92	125	85%
N	255		255			255	

As illustrated in table 4.15, the majority of businesses surveyed were not planning to increase employees in the following year with less than one third of businesses planning to increase the number of employees. Furthermore, the number of businesses expecting to grow in the future is less than the number of businesses reporting growth in the past. This finding may be related to the uncertain economic conditions subsisting at the time of the survey (2007-2008). In general, male led businesses tend to exhibit greater propensity for growth than female led businesses. This applies to both historic growth and expected future growth.

**Table 4.15: Responses by historic and expected future growth (by employee number)**

	Historic Growth		Expected Future Growth	
	Number	%	Number	%
Male	77	38%	64	31%
Female	15	31%	13	27%
Total	92	36%	77	30%
N	255		255	

Table 4.16 shows that more than half (54%) of male-led businesses engage in international trade compared to less than 40% of female-led businesses. A significant majority of all businesses considered innovation important with male-led businesses again outnumbering female-led businesses.

**Table 4.16: Responses by export activity and innovation**

	International trade		Innovation considered important	
	Number	%	Number	%
Male	110	54%	181	88%
Female	19	39%	38	78%
Total	129	51%	219	86%
N	255		255	

This section has established that there was no non-response bias in the survey responses except in relation to sector. It also demonstrated that the range of responses mapped to published statistics relating to the small business population and also broadly consistent with prior research.

The survey also found that the majority of respondents considered network activity to be important for their business. This topic is explored in greater detail in Chapter 5 where the correlation between network attributes, firm characteristics and use of business support is considered.

This chapter has considered the research philosophy, design, methodology and process. It has presented a detailed exposition of the research methods used and provided a preliminary analysis of the responses received. The next section considers the key questions that this research is intended to address and develops a number of hypotheses which are to be tested in the next chapter.

#### **4.9 Research Questions and Research Hypotheses**

This section explores the questions which motivate this research. A number of research hypotheses are then formulated and debated. The research questions are consistent with the economic sociology model where behaviour is conditioned on a mix of social as well as economic influences.

##### **4.9.1 Research Questions**

There are five questions which form the basis of this enquiry. These are presented below and follow a sequential pattern. The central thrust of these questions relates to whether greater cognisance of the network environment of small businesses should be taken when formulating policy. The first question relates directly to the

survey results. The next two questions consider the impact on policy and the fourth question is designed to penetrate further into specific characteristics of individual firms and managers. The final question focuses explicitly on users' experience of Business Link.

Question 1.

What do small business leaders think about networking?

Question 2.

Do policy makers need to pay more attention to the network environment of small businesses in the delivery of small business support schemes?

Question 3.

Do policy makers need to re-design small business schemes taking more account of demand side factors?

Question 4.

Do the answers to the above questions depend upon individual characteristics of small businesses or small business managers?

Question 5.

What are small business' views on and experiences with Business Link and do these vary by any of the factors listed in question 4?

These questions serve to focus this research on the key issues. They are linked to earlier studies which discovered small firms' evolution and behaviour is affected by network related factors (Hite and Hesterly, 2000, Johannison et al., 2002, Evald et al., 2006). Consistent with the essentially human qualities of small firms described by Carland et al. (1984) and personal dimensions of networks as observed by Granovetter (1973), Burt (1997) and Uzzi (1999), this research adopted a post positivist research perspective. Thus the research design used a mixed methods approach combining a large scale survey and statistical analysis with an ethnographic study designed to interpret meaning from respondents' comments. Accordingly, this research represents an exploratory investigation into these questions with an emphasis

on discovering relationships rather than a scientific examination of the underlying phenomena. With this in mind, the next section outlines several research hypotheses which are debated in Chapter 6 (section 6.8).

#### **4.9.2 Research Hypotheses**

Three hypotheses are presented in this section. The key hypothesis is that there is a link between network activity and usage of business support schemes. The second hypothesis suggests that use of support schemes is linked to certain characteristics of business leaders and the small firm itself. The third hypothesis relates to Business Link having failed to develop a network based approach to small businesses.

1. There is a link between small firm network activity and patterns of use of small business support schemes
2. There are significant differences in use of support schemes depending upon age, size, activity, legal form, location, growth and growth aspirations, export orientation and innovative style of small firms
3. Business Link has failed to develop effective network referral mechanisms

Prima facie support for these hypotheses includes the reliance of small businesses on close associates for early funding and advice. Justification for Hypothesis 1 emanates from the literature relating to usage of support schemes and network research where common themes such as the importance of trust, the level of interaction and the effect of proximity are all observable. Prior research also provides fragmentary evidence for Hypothesis 2 as use of business support schemes change as firms mature (Bennett and Robson, 1999a; Hite and Hesterly, 2000; Evald et al., 2006).

Hypothesis 3 explores the support provided for small businesses by the main UK public sector support provider, Business Link. The rationale for inclusion of this hypothesis is to investigate the extent that Business Link is engaged in networking activity as a way of reaching its audience.

#### **4.10 Conclusion**

This chapter knits together the prior work of researchers in the fields of small business research and network theory and describes how the research methodology was developed to be consistent with the chosen research model building upon established techniques used in prior research. Choices and decisions made during the research process have been laid out for the scrutiny of subsequent researchers. Weaknesses and limitations associated with the chosen methods have been highlighted. Techniques used to overcome data collection challenges and resource constraints have been described and explained. Detailed descriptions of the use of the BOS on-line survey and sampling process using the Thomson search directory have been provided as these represent relatively new research techniques.

The previous chapters of this thesis surveyed the literature relating to small business and network theory. This chapter elaborated on the research perspective first introduced in section 1.5 and described the methodology employed providing thick descriptions of a number of the steps. The next chapter presents the findings of the survey and further develops the framework for business support derived in sections 2.3 and 3.6, updating it with the results of this research.

## **Chapter 5**

### **Findings**

#### **5.1 Introduction**

The purpose of this research is to gain a better understanding of the provision of small firm support services. Previous studies of the patterns of use of support service suggest that small firms approach family members and close associates for assistance before institutions and specialist providers (Zoppa and McMahon, 2002; Reynolds et al., 2004; Anderson et al., 2005). This chapter provides fresh empirical evidence on the provision of small firm support services and also investigates the network related effects behind it.

Chapter 2 presented a summary of prior research into small business support schemes. Chapter 3 reviewed network theory summarising recent research into networking behaviour of small businesses. Synthesizing these research streams, this chapter presents the findings of a large scale survey of small businesses looking particularly at how network behaviour affects access and use of small business support services. This study represents the first time network theory has been used to investigate the use of small business support schemes.

This chapter is divided into six sections including this introduction. The next section provides general usage statistics broken down according to type of support accessed and characteristics of respondent firms. It develops a three tier model of business support usage before exploring factors affecting access to business support. The third section summarises reported satisfactions levels and establishes correlations to attributes of the firm. Findings are generally summarised in narrative style with accompanying data presented in tabular format. Section 5.4 presents an ethnographic study of comments made by respondents accompanying their responses to the survey. Section 5.5 presents findings related specifically to Business Link including a breakdown of usage and satisfaction of individual Business Link services. Section 5.6 augments the responses from users of Business Link with responses from non-users. Section 5.7 presents an ethnographic review of comments made about Business Link. The final section contains a summary of the key findings and concludes with a discussion of the results.

Having briefly outlined the contents of this chapter, the next section looks specifically at the main outcomes from the empirical study finding grounds for splitting support providers into 3 separate camps. This finding is seen to closely



mirror the conceptualisation of small business seen as embedded in layers of network relationships already discussed in Chapter 3 (see figure 3.2).

## **5.2 The use of business support in the previous 12 months and at start-up**

### **5.2.1: Use of business support services – The Support Rings model**

Figure 5.1 shows that small firm usage of support services over the previous 12 months can be broken down into three distinct tiers. Tier 1 (the inner circle) consists of those suppliers with more than 70% usage. Tier 2 (the second ring) comprises those suppliers with less than 70% usage but more than 50% usage and tier 3 those with less than 50% usage.

Tier 1 is dominated by support from non-professional sources including family and friends, business associates, customers and suppliers collectively accounting for a third of all support. Accountants and bank managers are also in tier 1 with accountants being the single highest source with 86% of respondents citing them.

Tier 2 is headed by solicitors with more than 60% citations followed by Business Link and Trade/ Professional Associations each achieving nearly 60% penetration.

Tier 3 (the outer circle) consists of those sources used only sporadically. This group is led by the Small Business Service but most accounting for less than 30% utilisation. Least used suppliers are Regional Venture Capital Funds, Business Angels, The Forum of Small Business, Venture Capital Trusts and the CBI all with 20% or less citations and accounting for only between 2-3% of total sources.

These findings correspond to expectations discussed in Chapter 2 (see section 2.3). However, they are not flattering for either the FSB or the FPB who claim to represent small businesses.

**Figure 5.1: The percentage of all business advice provided by each of the private and public sources of advice**

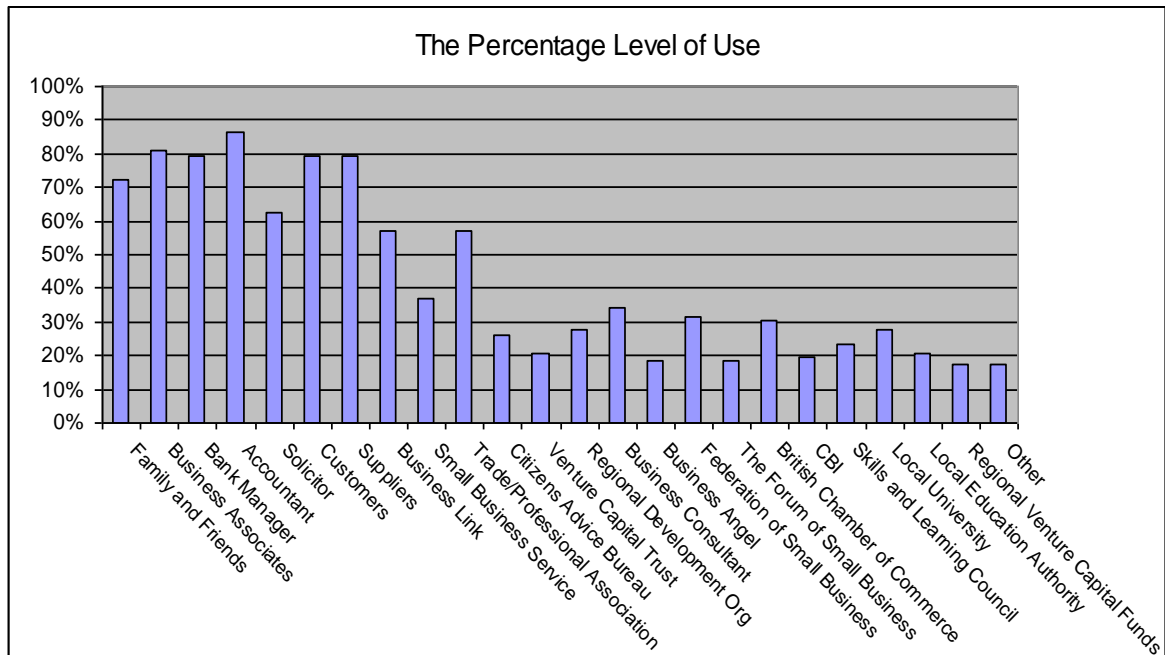


Figure 5.2 re-characterises the three tier conceptualisation of the use of small business support services in pictorial format in the Support Rings Model.

**Figure 5.2 Tiers of business support – The Support Rings Model**

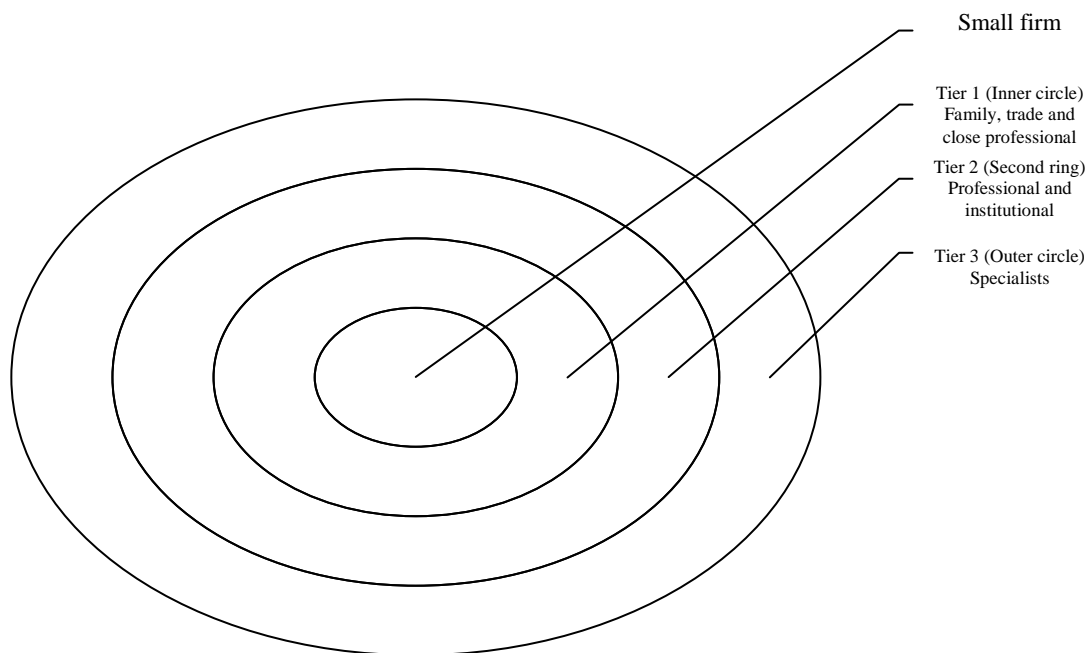


Figure 5.2 is remarkably similar to the representation of small firms embedded within strata of local industry and social and economic institutions (Johannisson et al. 2002:310) reproduced at figure 3.2. By representing support providers in the Support

Rings model it is quite transparent that Business Link needs to become part of the inner circle of trusted advisers in order to stimulate greater take-up of its services.

Having highlighted some macro aspects of the findings, the next section looks in detail at the results of the survey.

### 5.2.2 Use of business support services – detailed findings

This section provides a series of tables providing breakdowns of usage of support providers according to characteristics of respondents. The findings are analysed in a cross-sectional design highlighting themes and determining statistical associations. The first such breakdown considers the overall usage of support services and the influence of the gender of the business leader.

Table 5.1 shows that the substantial majority of firms (ca. 84%) access some form of support when starting up their businesses. This level increases after the start up stage with 90% of females and 92% of males accessing support to help run their businesses. This is consistent with previous research (Reynolds et al. 2004). Female-led businesses are marginally less likely to access support than male-led firms although there was no statistically significant difference by gender in respect of use of *any* business services either at start up or during operation of the business.

**Table 5.1: Responses by usage of business services by gender**

	Use of start up support	%	Use of on-going support	%
Female	41	83.6	44	89.7
Male	173	83.9	190	92.2
Total	214	83.9	234	91.7

Table 5.2 focuses upon the use of business support in the previous 12 months and shows that SME's access support from 7 main sources accounting for more than 50% of all support services provided. Business Link is located in tier 2 and ranks 8<sup>th</sup> on the list of most cited sources of support, alongside trade and professional associations, accounting for 6% of total assistance provided. The Small Business Service is located in tier 3 being cited by only 37% of respondents.

**Table 5.2: The percentage of all business advice provided by each of the private and public sources of advice in the previous 12 months**

Source	N	The Percentage Level of Use	The Percentage of All Business Advice	Cumulative Percentage of all advice
Family and Friends	185	73	7	7
Business Associates	207	81	8	15
Bank Manager	202	79	8	23
Accountant	220	86	8	31
Solicitor	160	63	6	37
Customers	202	79	8	45
Suppliers	202	79	8	53
Business Link	146	57	6	58
Small Business Service	94	37	4	62
Trade/Professional Association	145	57	6	67
Citizens Advice Bureau	66	26	3	70
Venture Capital Trust	52	20	2	72
Regional Development Org	70	27	3	75
Business Consultant	88	35	3	78
Business Angel	47	18	2	80
Federation of Small Business	81	32	3	83
The Forum of Private Business	47	18	2	85
British Chamber of Commerce	77	30	3	88
CBI	50	20	2	90
Skills and Learning Council	60	24	2	92
Local University	71	28	3	95
Local Education Authority	53	21	2	97
Regional Venture Capital Funds	44	17	2	98
Other	44	17	2	100
N	2613		100%	

Table 5.3 reports the results of running logit models of the likelihood of using each of the sources of advice. Table 5.3 illustrates that manufacturing sector businesses were more likely to use suppliers, Business Link and business consultants; but, were less likely to use business associates, consultants, the British Chamber of commerce, The CBI, local education authorities and regional venture capital funds

Rural firms tend to use business support services more than urban and city firms. In particular, rural businesses compared to those located in urban areas are

more likely to use accountants, Business Link, the Small Business Service, trade and professional associations, the Federation of Small Business, and local education authorities. Firms located in urban areas compared to those in city locations tend to be more likely to use solicitors, Business Link, the Small Business Service, trade and professional associations, regional development organisation, business consultants, the Forum of Private Business, The CBI, and regional venture capital funds.

Interestingly, Table 5.3 finds results which show that in a multivariate regression context the size of business is not related to any of the sources of advice. Young firms are invariably more likely to use business support services than older firms, and statistically significant differences at the 5% level were found for the Small Business Service, and the citizen's advice bureau; and, at the 1% level for family and friends, bank managers, accountants, solicitors, customers, trade and professional associations, and venture capital trusts. Differences between genders were found in six models, with men more likely than women to use customers, business angels, The Forum of Private Business, The CBI, a local university, and regional venture capital funds. Older people were less likely than younger people to use family and friends, bank managers, accountants, solicitors, customers, The Small Business Service, trade and professional associations, the citizen's advice bureau, and venture capital trusts

Table 5.3 illustrates greater likelihood of those business leaders with degree standard qualifications having used business associates, customers, Business Link, trade and professional associations, venture capital trusts, regional development organisations, business consultants, business angels, The Federation of Small Business, and local universities. In contrast business leaders with degree standard qualifications were less likely to have used an accountant, and also a bank manager. Differences between exporters and non exporters were found in six of the models. Exporters were less likely than non-exporters to have used Family and Friends and The Federation of Small Businesses; and exporters were more likely to use Solicitors, Customers and Trade/Professional Associations and local universities. In preliminary cross tabulation analysis the Portfolio business-leaders made greater use of most sources of business support than either novice or serial managers. However, in the multivariate analysis shown in Table 5.3 the portfolio dummy variable was only statistically significant at the 10% level or better in four models. Portfolio business-leaders were more likely than novice business-leaders to have used bank managers, accountants, solicitors and The Small Business Service. Serial business-leaders are

more likely than novice business-leaders to use many of the sources of advice including solicitors, accountants, and Business Links.

Firms with a greater focus on research and development (R&D) by expenditure (and also when the models were re-run with registration of patents) exhibit comparatively few statistically significant differences compared to their counterparts spending less money on R&D. Thus, in a multivariate context, whether or not a firm spends a little or a great deal on R&D does not significantly influence the likelihood of a business having used most of the sources of advice. The two exceptions were the use of The Forum of Private Business, and local education authorities which were less likely to be used by firms spending heavily on R&D compared to those businesses spending less money on R&D.

**Table 5.3: Logit models of the likelihood of using business advice in the last 12 months by source. (The odds ratios of the likelihood of using sources of advice with standard errors in parentheses).**

Source	Family & Friends	Business Associates	Bank Manager	Accountant	Solicitor	Customers	Suppliers	Business Link	Small Business Service	Trade/ Prof Assoc	Citizens Advice Bureau	Venture Capital Trust
Size	0.997 (0.239)	0.997 (0.803)	0.997 (0.790)	0.995 (0.766)	1.001 (0.253)	0.996 (0.603)	0.998 (0.309)	0.998 (0.545)	0.999 (0.443)	1.000 (0.766)	1.003 (0.802)	1.000 (0.250)
Sector	1.013 (0.316)	<b>0.578</b> <b>(0.021)<sup>a</sup></b>	1.394 (0.484)	1.223 (0.500)	0.810 (0.230)	1.227 (0.431)	<b>1.620</b> <b>(0.056)<sup>a</sup></b>	<b>1.523</b> <b>(0.043)<sup>a</sup></b>	1.054 (0.303)	0.928 (0.258)	0.835 (0.266)	0.882 (0.306)
Exporter	<b>0.622</b> <b>(0.020)<sup>a</sup></b>	0.892 (0.329)	1.084 (0.393)	1.057 (0.446)	<b>1.548</b> <b>(0.167)<sup>a</sup></b>	<b>1.499</b> <b>(0.055)<sup>a</sup></b>	0.822 (0.291)	0.908 (0.265)	1.051 (0.313)	<b>1.499</b> <b>(0.043)<sup>a</sup></b>	0.692 (0.231)	0.965 (0.352)
R&D	1.100 (0.499)	1.573 (0.900)	0.917 (0.464)	1.753 (0.785)	0.879 (0.378)	1.314 (0.750)	1.446 (0.803)	1.252 (0.531)	1.452 (0.604)	1.531 (0.652)	1.537 (0.700)	1.305 (0.622)
City	1.376 (0.511)	1.477 (0.655)	1.375 (0.565)	1.317 (0.621)	<b>0.564</b> <b>(0.185)<sup>c</sup></b>	0.966 (0.387)	1.015 (0.405)	<b>0.716</b> <b>(0.030)<sup>a</sup></b>	<b>0.627</b> <b>(0.007)<sup>a</sup></b>	<b>0.525</b> <b>(0.169)<sup>b</sup></b>	0.618 (0.234)	0.814 (0.328)
Rural	1.031 (0.377)	0.956 (0.390)	0.968 (0.387)	<b>1.732</b> <b>(0.101)<sup>a</sup></b>	1.332 (0.467)	1.115 (0.469)	0.934 (0.385)	<b>1.857</b> <b>(0.644)<sup>c</sup></b>	<b>1.510</b> <b>(0.049)<sup>a</sup></b>	<b>1.377</b> <b>(0.046)<sup>a</sup></b>	0.969 (0.357)	0.980 (0.400)
Gender	1.060 (0.433)	0.879 (0.421)	1.076 (0.475)	0.676 (0.370)	1.099 (0.399)	<b>1.863</b> <b>(0.076)<sup>a</sup></b>	1.030 (0.435)	0.971 (0.342)	1.189 (0.430)	0.799 (0.283)	1.421 (0.563)	1.601 (0.731)
Age	<b>0.971</b> <b>(0.066)<sup>a</sup></b>	0.988 (0.418)	<b>0.974</b> <b>(0.001)<sup>a</sup></b>	<b>0.983</b> <b>(0.002)<sup>a</sup></b>	<b>0.977</b> <b>(0.001)<sup>a</sup></b>	<b>0.976</b> <b>(0.001)<sup>a</sup></b>	0.996 (0.017)	0.993 (0.454)	<b>0.771</b> <b>(0.014)<sup>b</sup></b>	<b>0.799</b> <b>(0.001)<sup>a</sup></b>	<b>0.962</b> <b>(0.016)<sup>b</sup></b>	<b>0.973</b> <b>(0.001)<sup>a</sup></b>
Degree	0.908 (0.298)	<b>1.627</b> <b>(0.052)<sup>a</sup></b>	<b>0.555</b> <b>(0.051)<sup>a</sup></b>	<b>0.738</b> <b>(0.080)<sup>a</sup></b>	1.041 (0.316)	<b>1.550</b> <b>(0.059)<sup>a</sup></b>	<b>1.567</b> <b>(0.051)<sup>a</sup></b>	<b>1.682</b> <b>(0.503)<sup>c</sup></b>	1.223 (0.362)	<b>1.401</b> <b>(0.041)<sup>a</sup></b>	1.216 (0.393)	<b>2.309</b> <b>(0.790)<sup>b</sup></b>
Serial	0.975 (0.374)	1.039 (0.466)	1.176 (0.492)	<b>2.239</b> <b>(0.218)<sup>a</sup></b>	<b>1.721</b> <b>(0.062)<sup>a</sup></b>	1.375 (0.607)	1.371 (0.599)	<b>1.526</b> <b>(0.042)<sup>a</sup></b>	1.203 (0.438)	0.877 (0.305)	<b>1.586</b> <b>(0.014)<sup>a</sup></b>	<b>1.464</b> <b>(0.026)<sup>a</sup></b>
Portfolio	1.577 (0.653)	1.355 (0.641)	<b>1.889</b> <b>(0.089)<sup>a</sup></b>	<b>4.837</b> <b>(0.369)<sup>a</sup></b>	<b>2.660</b> <b>(0.027)<sup>a</sup></b>	1.376 (0.621)	1.675 (0.777)	1.396 (0.500)	<b>1.730</b> <b>(0.060)<sup>a</sup></b>	1.114 (0.389)	1.149 (0.449)	1.354 (0.566)
Log likelihood	-147.81	-151.76	-169.85	-151.27	-155.60	-157.23	-160.22	-161.17	-157.12	-163.16	-156.15	-149.11
Likelihood Ratio	<b>40.37<sup>a</sup></b>	<b>39.73<sup>a</sup></b>	<b>40.06<sup>a</sup></b>	<b>45.99<sup>a</sup></b>	<b>-45.74<sup>a</sup></b>	<b>39.67<sup>a</sup></b>	<b>36.53<sup>a</sup></b>	<b>46.71<sup>a</sup></b>	<b>43.77<sup>a</sup></b>	<b>43.94<sup>a</sup></b>	<b>43.63<sup>a</sup></b>	<b>44.26<sup>a</sup></b>
Nagelkerke R <sup>2</sup>	0.093	0.0876	0.090	0.131	0.098	0.089	0.077	0.099	0.092	0.091	0.098	0.107

n=242 <sup>a</sup> p>0.01; <sup>b</sup> p>0.05; <sup>c</sup> p>0.10 Excluded comparisons: Geographic location – urban; Business-leader experience, novice business-leaders;

**Table 5.3: Logit models of the likelihood of using business advice in the last 12 months by source. (The odds ratios of the likelihood of using sources of advice with standard errors in parentheses).**

Source	Reg Dev Org	Bus Cons	Business Angel	Federation of Small Business	The Forum of Private Business	British Chamber of Commerce	CBI	Skills & Learning Council	Local University	Local Education Authority	Regional Venture Capital Funds
Size	1.000 (0.396)	1.002 (0.430)	1.002 (0.332)	0.999 (0.430)	0.999 (0.243)	0.997 (0.279)	0.997 (0.338)	0.999 (0.290)	0.996 (0.292)	0.998 (0.354)	0.996 (0.393)
Sector	0.764 (0.240)	<b>1.411</b> <b>(0.013)<sup>a</sup></b>	1.008 (0.360)	1.225 (0.362)	0.605 (0.219)	<b>0.615</b> <b>(0.018)<sup>a</sup></b>	<b>0.613</b> <b>(0.021)<sup>a</sup></b>	0.676 (0.215)	0.662 (0.202)	<b>0.442</b> <b>(0.155)<sup>b</sup></b>	<b>0.507</b> <b>(0.190)<sup>c</sup></b>
Exporter	1.053 (0.345)	0.831 (0.254)	0.721 (0.273)	<b>0.732</b> <b>(0.026)<sup>a</sup></b>	1.025 (0.372)	1.077 (0.332)	1.083 (0.378)	1.035 (0.338)	<b>1.641</b> <b>(0.052)<sup>a</sup></b>	1.088 (0.373)	1.288 (0.484)
R&D	1.539 (0.677)	1.183 (0.515)	1.054 (0.535)	1.020 (0.444)	<b>0.362</b> <b>(0.024)<sup>a</sup></b>	1.341 (0.594)	0.600 (0.341)	0.861 (0.422)	0.692 (0.322)	<b>0.297</b> <b>(0.200)<sup>c</sup></b>	0.635 (0.399)
City	<b>0.606</b> <b>(0.023)<sup>a</sup></b>	<b>0.353</b> <b>(0.131)<sup>a</sup></b>	0.943 (0.389)	0.909 (0.319)	<b>0.527</b> <b>(0.023)<sup>a</sup></b>	0.737 (0.262)	<b>0.483</b> <b>(0.202)<sup>c</sup></b>	0.729 (0.274)	0.646 (0.234)	0.977 (0.392)	<b>0.401</b> <b>(0.193)<sup>c</sup></b>
Rural	1.407 (0.499)	0.956 (0.319)	1.028 (0.430)	<b>1.452</b> <b>(0.054)<sup>a</sup></b>	0.833 (0.346)	1.280 (0.443)	0.701 (0.282)	0.996 (0.369)	0.844 (0.304)	<b>1.505</b> <b>(0.059)<sup>a</sup></b>	0.930 (0.389)
Gender	1.389 (0.569)	0.909 (0.333)	<b>2.398</b> <b>(0.027)<sup>a</sup></b>	1.484 (0.572)	<b>2.252</b> <b>(0.117)<sup>a</sup></b>	1.446 (0.551)	<b>2.189</b> <b>(1.019)<sup>c</sup></b>	1.270 (0.500)	<b>2.102</b> <b>(0.886)<sup>c</sup></b>	1.209 (0.512)	<b>2.582</b> <b>(0.364)<sup>c</sup></b>
Age	0.993 (0.459)	0.986 (0.443)	0.990 (0.378)	0.985 (0.147)	0.985 (0.018)	0.996 (0.148)	0.977 (0.169)	0.976 (0.322)	1.000 (0.354)	0.999 (0.265)	0.980 (0.284)
Degree	<b>2.505</b> <b>(0.078)<sup>a</sup></b>	<b>1.785</b> <b>(0.538)<sup>c</sup></b>	<b>2.108</b> <b>(0.752)<sup>b</sup></b>	<b>1.887</b> <b>(0.571)<sup>b</sup></b>	1.286 (0.468)	0.847 (0.265)	1.208 (0.420)	1.011 (0.332)	<b>1.437</b> <b>(0.049)<sup>a</sup></b>	1.358 (0.469)	1.111 (0.419)
Serial	<b>1.592</b> <b>(0.067)<sup>a</sup></b>	1.079 (0.402)	1.082 (0.480)	1.273 (0.468)	<b>1.933</b> <b>(0.078)<sup>a</sup></b>	1.519 (0.534)	<b>1.741</b> <b>(0.070)<sup>a</sup></b>	<b>1.582</b> <b>(0.082)<sup>a</sup></b>	1.386 (0.509)	<b>1.542</b> <b>(0.026)<sup>a</sup></b>	<b>1.745</b> <b>(0.073)<sup>a</sup></b>
Portfolio	1.106 (0.428)	1.411 (0.505)	1.101 (0.481)	1.057 (0.385)	0.494 (0.263)	0.578 (0.230)	0.983 (0.435)	0.672 (0.285)	0.773 (0.306)	0.560 (0.594)	0.546 (0.294)
Log likelihood	-148.14	-151.49	-153.58	-149.71	-152.56	-149.06	-151.22	-156.07	-152.66	-141.62	-147.29
Likelihood Ratio	<b>39.54<sup>a</sup></b>	<b>39.27<sup>a</sup></b>	<b>-41.14<sup>a</sup></b>	<b>-40.96<sup>a</sup></b>	<b>-49.71<sup>a</sup></b>	<b>-42.27<sup>a</sup></b>	<b>-45.37<sup>a</sup></b>	<b>-48.95<sup>a</sup></b>	<b>-47.07<sup>a</sup></b>	<b>49.22<sup>a</sup></b>	<b>40.32<sup>a</sup></b>
Nagelkerke R <sup>2</sup>	0.102	0.106	0.097	0.085	0.085	0.089	0.110	0.082	0.108	0.122	0.137

n=242 <sup>a</sup> p>0.01; <sup>b</sup> p>0.05; <sup>c</sup> p>0.10 Excluded comparisons: Geographic location – urban; Business-leader experience, novice business-leaders;



Table 5.4 reports the percentage level of use of business advice at start-up. Family members were the most common source of advice and were used by 41% of business-leaders. Bank managers (35%) and accountants (32%) were each used by approximately one third of the business-leaders showing the importance of the private sector. Friends were used by slightly less than one quarter of the business-leaders. Thereafter there is a substantial drop-off in the use of business advice with solicitors the sixth most used source of advice. Trade and professional associations and business consultants were each used by only 6% of business-leaders. The take-up of the public sector backed providers is very low. Indeed, less than 1% of business leaders used Business Link at start-up or local enterprise centres at start up, and these were the only two public sector sources utilised. This is despite the substantial amount of resources the UK Government has spent on business support.

**Table 5.4: The % use of start up business advice (Percentage of firms reporting use of sources, multiple responses possible)**

Source	All %
Family and/or Friends, combined	54%
Family	41%
Friends	23%
Business Associates	3%
Bank Manager	35%
Accountant	32%
Solicitor	12%
Suppliers	0.5%
Business Link	0.5%
Trade/Professional Association	6%
Business Consultant	6%
Local Enterprise Centre	0.5%
British Chamber of Commerce	1%
Local University	0.5%
Local Authority	0%
N	255

As with the analysis of the use of business advice in the previous 12 months, the analysis of the use of business advice at start-up was taken further by performing logit models. The results of running regressions of the 5 most used sources of advice are reported. The use of other services was not reported because these are relatively rare events which made modelling difficult. The results reported show that men are more likely than women to use friends and less likely to use bank managers. Exporting businesses were less likely than non-exporters to use family, friends and accountants; and the reverse was found for the use of

solicitors. Business-leaders with degree level qualifications were more likely than those without to use friends and bank managers, but were less likely to use family advice.

**Table 5.5: Logit models of the likelihood of using business advice at start-up by source. (The odds ratios of the likelihood of using sources of advice with standard errors in parentheses).**

Source	Family	Friends	Bank Manager	Accountant	Solicitor
Size	0.998 (0.903)	0.998 (0.908)	0.997 (0.901)	0.997 (0.913)	1.002 (0.917)
Sector	<b>1.706</b> <b>(0.500)<sup>c</sup></b>	0.700 (0.231)	1.230 (0.352)	1.261 (0.369)	1.080 (0.453)
Exporter	<b>0.591</b> <b>(0.175)<sup>c</sup></b>	<b>0.784</b> <b>(0.006)<sup>a</sup></b>	0.841 (0.249)	<b>0.791</b> <b>(0.040)<sup>a</sup></b>	<b>1.325</b> <b>(0.179)<sup>a</sup></b>
R&D	<b>0.456</b> <b>(0.213)<sup>c</sup></b>	0.437 (0.242)	0.909 (0.395)	1.002 (0.435)	0.439 (0.326)
City	0.753 (0.259)	<b>1.715</b> <b>(0.035)<sup>a</sup></b>	<b>0.605</b> <b>(0.008)<sup>a</sup></b>	0.895 (0.302)	<b>0.232</b> <b>(0.150)<sup>b</sup></b>
Rural	1.262 (0.427)	1.098 (0.434)	1.047 (0.347)	<b>0.608</b> <b>(0.017)<sup>a</sup></b>	0.638 (0.309)
Gender	0.782 (0.280)	<b>1.501</b> <b>(0.054)<sup>a</sup></b>	<b>0.661</b> <b>(0.032)<sup>a</sup></b>	0.993 (0.365)	0.895 (0.471)
Age	0.984 (0.501)	1.005 (0.516)	1.001 (0.515)	0.995 (0.515)	0.993 (0.522)
Degree	<b>0.572</b> <b>(0.177)<sup>c</sup></b>	<b>1.464</b> <b>(0.048)<sup>a</sup></b>	<b>1.613</b> <b>(0.108)<sup>a</sup></b>	1.184 (0.361)	1.161 (0.515)
Serial	<b>1.238</b> <b>(0.049)<sup>a</sup></b>	<b>1.826</b> <b>(0.005)<sup>a</sup></b>	1.057 (0.376)	<b>2.017</b> <b>(0.717)<sup>b</sup></b>	<b>2.475</b> <b>(1.202)<sup>c</sup></b>
Portfolio	<b>2.440</b> <b>(0.077)<sup>a</sup></b>	<b>1.233</b> <b>(0.004)<sup>a</sup></b>	0.904 (0.322)	<b>1.457</b> <b>(0.122)<sup>a</sup></b>	<b>1.455</b> <b>(0.110)<sup>a</sup></b>
Log likelihood	-151.86	-152.11	-157.31	-158.02	-160.18
Likelihood Ratio	<b>32.98<sup>a</sup></b>	<b>38.98<sup>a</sup></b>	<b>40.02<sup>a</sup></b>	<b>39.98<sup>a</sup></b>	<b>38.77<sup>a</sup></b>
Nagelkerke R <sup>2</sup>	0.113	0.109	0.139	0.126	0.118

n=242 <sup>a</sup> p>0.01; <sup>b</sup> p>0.05; <sup>c</sup> p>0.10 Excluded comparisons: Geographic location – urban; Business-leader experience, novice business-leaders.

Businesses located in cities compared to towns were less likely to use bank managers and solicitors, and were more likely to have sought advice from friends. The business characteristics of size, sector and the expenditure on R&D, together with the business-leaders' age each had no relationship which was statistically significant at the 5% level, or better, with the use of business advice at start-up. The variable with the strongest relationships with the use of business advice was the experience record of the business-leaders. Serial and also

portfolio business leaders were more likely than novice business leaders to have used each of the sources of advice with the exception of bank managers.

### 5.2.3 Comparisons between use of business advice in the last 12 months and at start-up

Table 5.6 shows the changing pattern of use of sources of support as small firms emerge from the start up phase. It is clear that usage of support providers changes as firms evolve from start up to more established businesses. Less reliance is placed upon close contacts and more emphasis is placed on professional and institutional sources of support. This finding resonates with the findings of Hite and Hesterly (2000), Evald et al. (2006), Drakopolou-Dodd et al. (2006) (see section 3.5). In terms of personal contacts, it is interesting to observe that although the use of friends has dropped, the reduction is marginal compared to the decline in the use of family members. Use of business associates, accountants, solicitors, consultants and trade/professional associations all increase substantially post start up, but the use of bank managers reduces. The use of other institutional sources and suppliers shows a modest increase except for Chambers of Commerce where usage drops.

**Table 5.6: The % use of on-going business advice (Percentage of firms reporting use of sources, multiple responses possible)**

Source	Start up All %	On-going All %
Family and/or Friends, combined	54%	35%
Family	41%	23%
Friends	23%	22%
Business Associates	3%	9%
Bank Manager	35%	26%
Accountant	32%	52%
Solicitor	12%	21%
Suppliers	0.5%	0.8%
Business Link	0.5%	1.2%
Trade/Professional Association	6%	17%
Business Consultant	6%	15%
British Chamber of Commerce	1%	0.4%
N	255	255

#### 5.2.4 Network effects

Table 5.7 shows the importance ascribed to networking illustrating high importance attached to network activities by users of support services.

**Table 5.7: Network influences on use of support source (% of respondents who reported use of support services)**

Source	Not important	Quite Important	Very important	Essential	N	Quite important Very important or Essential
Family and Friends	13%	47%	32%	8%	186	87%
Business Associates	13%	46%	31%	11%	208	88%
Bank Manager	17%	47%	27%	9%	203	83%
Accountant	16%	46%	27%	10%	220	84%
Solicitor	15%	46%	27%	12%	161	85%
Customers	14%	44%	31%	11%	203	86%
Suppliers	14%	46%	30%	10%	203	86%
Business Link	13%	49%	27%	11%	147	87%
Small Business Service	11%	48%	31%	11%	94	89%
Trade/Professional Association	12%	50%	26%	12%	145	88%
Citizens Advice Bureau	10%	49%	29%	12%	68	90%
Venture Capital Trust	12%	44%	29%	15%	52	88%
Regional Development Org	11%	45%	25%	18%	71	89%
Business Consultant	13%	51%	24%	13%	87	87%
Business Angel	13%	40%	28%	19%	47	87%
Federation of Small Business	15%	47%	27%	11%	81	85%
The Forum of Private Business	18%	39%	27%	16%	51	82%
British Chamber of Commerce	18%	38%	30%	15%	80	83%
CBI	17%	40%	30%	13%	53	83%
Skills and Learning Council	16%	45%	28%	11%	64	84%
Local University	19%	44%	19%	19%	54	81%
Local Education Authority	14%	45%	27%	14%	56	86%
Regional Venture Capital Funds	13%	47%	27%	13%	45	87%
Other	11%	52%	26%	11%	46	89%
N	46	112	71	26	255	82%

Table 5.8 shows the time apportioned to networking by users broken down according to source of supply illustrating that the majority (51%) of users of support services spend less than an hour a week on network activities. This finding contrasts with Drakopolou-Dodd et al. (2006) who observed that European entrepreneurs spend between 33% and 50% of their working time in networking activities.

**Table 5.8: Time spent networking and use of support sources (% of respondents who reported use of support services)**

Source	<1 hour	1-3 hours	3-5 hours	>5 hours	N	> 1 hours
Family and Friends	47%	31%	13%	9%	186	53%
Business Associates	46%	30%	14%	9%	208	54%
Bank Manager	48%	30%	13%	9%	203	52%
Accountant	48%	30%	13%	9%	220	52%
Solicitor	47%	32%	12%	9%	161	53%
Customers	47%	30%	14%	9%	203	53%
Suppliers	46%	31%	15%	8%	203	54%
Business Link	45%	33%	14%	9%	146	55%
Small Business Service	48%	26%	17%	10%	94	52%
Trade/Professional Association	49%	26%	17%	9%	145	51%
Citizens Advice Bureau	45%	30%	14%	11%	66	55%
Venture Capital Trust	37%	35%	15%	13%	52	63%
Regional Development Org	35%	34%	18%	13%	71	65%
Business Consultant	45%	31%	13%	10%	89	55%
Business Angel	36%	36%	13%	15%	47	64%
Federation of Small Business	47%	27%	17%	9%	81	53%
The Forum of Private Business	49%	27%	14%	10%	49	51%
British Chamber of Commerce	52%	30%	10%	8%	79	48%
CBI	47%	28%	13%	11%	53	53%
Skills and Learning Council	46%	37%	10%	8%	63	54%
Local University	38%	37%	14%	11%	73	62%
Local Education Authority	45%	31%	15%	9%	55	55%
Regional Venture Capital Funds	47%	31%	11%	11%	45	53%
Other	48%	30%	15%	7%	46	52%
N	129	68	35	23	255	49%

Table 5.9 shows the wish to spend more time networking by source of supply illustrating that 80% or more users of tier 1 support services would like to spend more time networking. This drops to 50-70% for tier 2 sources and below 50% for tier 3 sources with most tier 3 sources below 40%.

**Table 5.9: Aspiration to spend more time networking by users of support sources  
(% of respondents who reported use of support services)**

Source	Desire to spend more time networking
Family and Friends	81%
Business Associates	91%
Bank Manager	80%
Accountant	87%
Solicitor	64%
Customers	85%
Suppliers	85%
Business Link	68%
Small Business Service	49%
Trade/Professional Association	60%
Citizens Advice Bureau	32%
Venture Capital Trust	24%
Regional Development Org	34%
Business Consultant	36%
Business Angel	21%
Federation of Small Business	40%
The Forum of Private Business	24%
British Chamber of Commerce	38%
CBI	24%
Skills and Learning Council	29%
Local University	36%
Local Education Authority	28%
Regional Venture Capital Funds	21%
Other	20%
N	117

Having considered usage statistics and networking dynamics, the next section analyses responses received relating to satisfaction with support services.

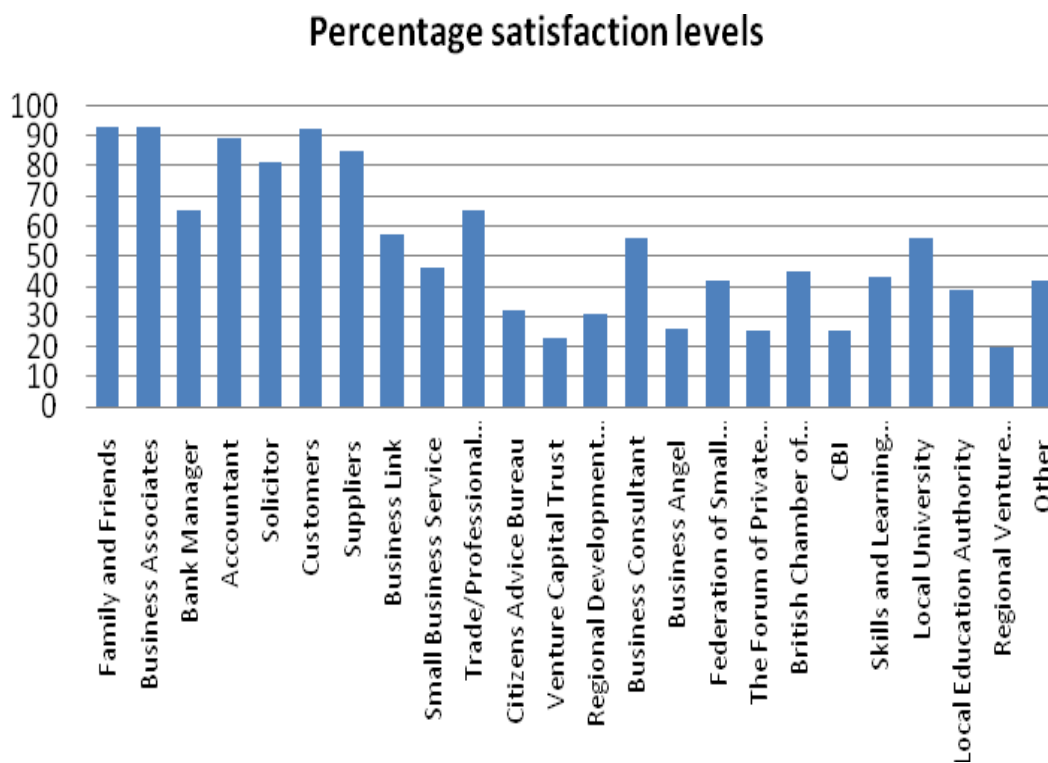
### 5.3 Satisfaction with the use of business support services in the last 12 months

This section discusses reported satisfaction levels categorised in the same way as Section 5.2 for ease of reference and comparison. The tables presented in this section illustrate that satisfaction levels vary according to sector, business environment and region. This section covers the main features, highlighting trends and anomalies for subsequent analysis.

#### 5.3.1. Overview

Figure 5.3 and Table 5.10 show the level of satisfaction with support providers is high for tier 1 suppliers, particularly for Family and Friends, Business Associates and Customers with over 80% reporting being happy or very happy. However, the survey reveals lower satisfaction levels with bank managers and suppliers. Tier 2 providers were generally less well rated although satisfaction with Solicitors was good with 80% approval levels. Satisfaction with Business Link at 57% was notably lower than trade and professional associations with 65%. Business Consultants and Universities lead the third tier with satisfaction ratings above 50% but all other providers recorded scores below 50% meaning that more people were unhappy with their experience than were satisfied with it.

**Figure 5.3: Overall percentage satisfaction levels**



**Table 5.10: The level of satisfaction with the use of business advice over the last 12 months, by type of source (Percentage of respondent's level of satisfaction with business advice).**

Source	Very Unhappy	Unhappy	Happy	Very Happy	n	Happy or Very Happy
Family and Friends	3	4	44	49	186	93
Business Associates	0	7	58	35	205	93
Bank Manager	6	30	43	22	199	65
Accountant	2	8	48	41	217	89
Solicitor	3	17	54	27	155	81
Customers	0	7	54	38	201	92
Suppliers	2	13	61	25	198	85
Business Link	15	28	49	8	145	57
Small Business Service	25	29	38	8	91	46
Trade/Professional Association	11	25	45	20	141	65
Citizens Advice Bureau	35	32	28	5	65	32
Venture Capital Trust	35	42	19	4	52	23
Regional Development Org	29	40	19	11	72	31
Business Consultant	21	23	44	12	91	56
Business Angel	36	38	19	6	47	26
Federation of Small Business	27	32	32	10	79	42
The Forum of Private Business	42	33	23	2	48	25
British Chamber of Commerce	25	30	38	7	76	45
CBI	37	37	20	6	51	25
Skills and Learning Council	31	26	34	8	61	43
Local University	29	15	45	11	73	56
Local Education Authority	38	23	34	5	56	39
Regional Venture Capital Funds	43	36	16	5	44	20
Other	29	29	31	11	45	42
N	361	529	1131	576	2598	1708

Levels of extreme dissatisfaction were evident in respect of the Forum of Private Business and Regional Venture Capital Funds. Other unpopular providers include The CBI, Business Angels, Local Education Authorities and The Skills and Learning Council. Business Link had relatively fewer users who were very unhappy with their experience compared to other non-tier 1 providers except for trade and professional associations.



### 5.3.2 Summary of satisfaction levels by category

Wholesale/retail businesses are generally more satisfied with a wide variety of suppliers as illustrated in table 5.11. Urban businesses appear to generally less happy with support services in general and London based firms are far less satisfied with most business services compared to other regions. The Federation of Small Businesses appears to have issues serving businesses in London and The South. London based businesses report zero satisfaction with a number of tier 3 services including Citizen's Advice Bureau, Venture Capital Trusts, The Forum of Private Business and The Skills and Learning Council.

Table 5.12 shows that older and larger businesses report higher levels of satisfaction with a broader variety of services than younger and smaller businesses. The notable exception to this is The CBI which scores comparatively poorly for older firms and larger sized firms. Female business-leaders appear to be generally more satisfied with support than their male counterparts. Indeed, statistically significant differences at the 10% level or better were found between gender and satisfaction with bank managers, solicitors, business consultants, FSB, and the British chamber of commerce. In each instance women reported higher satisfaction than men with the sole exception of satisfaction with the British chamber of commerce where the reverse was found. Older business-leaders are generally less satisfied with the range of support providers.

Table 5.13 demonstrates that degree educated business leaders are more satisfied with tier 3 support providers than others but are more critical of The Federation of Small Businesses, The Skills and Learning Council and Citizens Advice Bureau. Although still recording high levels of satisfaction, exporting businesses were comparatively less happy with certain tier 1 support providers including Bank Managers, Customers and Suppliers than non-exporting firms. Exporters are particularly less satisfied with their Customers; however, Business Link satisfaction levels are noticeably higher amongst exporting firms. Although still with low satisfaction ratings, Business Angels and The CBI score better with exporters than non-exporters whereas the Federation of Small Businesses approval rating declines dramatically. Portfolio business-leaders report higher levels of satisfaction than either novices or serial managers. Portfolio business-leaders are much happier with Bank Managers, The Citizens Advice Bureau and Venture Capital Trusts. Serial business-leaders are the least happy with bank managers, the Citizens Advice Bureau, business consultants, business angels, the British chamber of commerce and Local Education Authorities. Novice business-leaders reported a much lower overall satisfaction rating with Venture Capital Trusts compared to serial and portfolio business-leaders.

Innovative businesses spending a higher amount on R&D evidence lower satisfaction levels with Suppliers and Bank Managers (Table 5.14). Business Link is more popular than for lower investing businesses. Most tier 3 suppliers satisfaction ratings decline for these firms with the exceptions of Business Consultants and The British Chamber of Commerce, although it needs to be noted that these later two results were not statistically significant at the 10% level. Businesses with 1 or more patents appear to be less satisfied than those with no patents concerning a wide range of support services. Interestingly, this includes most tier 1 suppliers. The satisfaction levels of Business Link, Trade/Professional Association, The Federation of Small Businesses, The CBI, Skills and Learning Council, Local University, Regional Development Organisation and Local Education Authority drop significantly for these businesses. However, they are comparatively more satisfied with Venture Capital Trusts. Satisfaction levels by business turnover vary considerably. However, it appears that businesses with turnover of less than £100k are the least satisfied with material differences discernible in respect of Business Associates, Solicitors and all tier 3 suppliers. Notably, Venture Capital Trusts, Business Angels, The CBI, The Forum of Private Business, Local Education Authority and Regional Development Organisations all score zero satisfaction. This is surprising as such firms are the target market for these organisations.

**Table 5.11: The level of satisfaction with business advice by sector, location, and region. (Percentage of firms reporting happy or very happy, multiple responses possible)**

Source	All	Mfging	Services	Wholesale/ Retail	City	Urban	Rural	Other	North	South	East	West	London
Family and Friends	93	93	96	92	94	96	83	100	95	100	87	87	94
Business Associates	93	90	96	92	89	97	96	94	95	98	90	86	97
Bank Manager	65	<b>60<sup>c</sup></b>	<b>59<sup>c</sup></b>	<b>70<sup>c</sup></b>	67	56	74	50	<b>60<sup>b</sup></b>	<b>84<sup>b</sup></b>	<b>50<sup>b</sup></b>	<b>63<sup>b</sup></b>	<b>50<sup>b</sup></b>
Accountant	89	80	86	91	90	86	204	90	85	94	90	90	77
Solicitor	81	<b>63<sup>b</sup></b>	<b>88<sup>b</sup></b>	<b>88<sup>b</sup></b>	89	85	78	92	83	92	82	75	86
Customers	92	86	96	79	93	88	98	90	98	95	88	86	91
Suppliers	85	<b>79<sup>b</sup></b>	<b>85<sup>b</sup></b>	<b>88<sup>b</sup></b>	<b>89<sup>b</sup></b>	<b>78<sup>b</sup></b>	<b>94<sup>b</sup></b>	<b>100<sup>b</sup></b>	<b>82<sup>c</sup></b>	<b>93<sup>c</sup></b>	<b>93<sup>c</sup></b>	<b>84<sup>c</sup></b>	<b>91<sup>c</sup></b>
Business Link	57	<b>47<sup>b</sup></b>	<b>57<sup>b</sup></b>	<b>55<sup>b</sup></b>	58	42	73	62	<b>54<sup>c</sup></b>	<b>47<sup>c</sup></b>	<b>62<sup>c</sup></b>	<b>64<sup>c</sup></b>	<b>67<sup>c</sup></b>
Small Business Service	46	<b>47<sup>b</sup></b>	<b>68<sup>b</sup></b>	<b>48<sup>b</sup></b>	<b>57<sup>c</sup></b>	<b>38<sup>c</sup></b>	<b>50<sup>c</sup></b>	<b>71<sup>c</sup></b>	88	24	67	38	42
Trade/Professional Association	65	51	63	70	<b>44<sup>c</sup></b>	<b>71<sup>c</sup></b>	<b>73<sup>c</sup></b>	<b>86<sup>c</sup></b>	<b>63<sup>b</sup></b>	<b>51<sup>b</sup></b>	<b>100<sup>b</sup></b>	<b>71<sup>b</sup></b>	<b>52<sup>b</sup></b>
Citizens Advice Bureau	32	23	19	42	24	26	42	50	<b>33<sup>b</sup></b>	<b>25<sup>b</sup></b>	<b>43<sup>b</sup></b>	<b>37<sup>b</sup></b>	<b>0<sup>b</sup></b>
Venture Capital Trust	23	<b>16<sup>a</sup></b>	<b>11<sup>a</sup></b>	<b>33<sup>a</sup></b>	25	12	36	25	<b>30<sup>b</sup></b>	<b>20<sup>b</sup></b>	<b>33<sup>b</sup></b>	<b>25<sup>b</sup></b>	<b>0<sup>b</sup></b>
Regional Development Org	31	19	39	42	<b>29<sup>b</sup></b>	<b>19<sup>b</sup></b>	<b>44<sup>b</sup></b>	<b>57<sup>b</sup></b>	<b>31<sup>c</sup></b>	<b>15<sup>c</sup></b>	<b>50<sup>c</sup></b>	<b>33<sup>c</sup></b>	<b>20<sup>c</sup></b>
Business Consultant	56	<b>41<sup>b</sup></b>	<b>62<sup>b</sup></b>	<b>69<sup>b</sup></b>	26	56	78	78	<b>65<sup>c</sup></b>	<b>57<sup>c</sup></b>	<b>56<sup>c</sup></b>	<b>52<sup>c</sup></b>	<b>40<sup>c</sup></b>
Business Angel	26	15	40	35	46	7	31	60	30	29	29	29	29
Federation of Small Business	42	43	36	52	<b>37<sup>b</sup></b>	<b>32<sup>b</sup></b>	<b>71<sup>b</sup></b>	<b>33<sup>b</sup></b>	<b>50<sup>b</sup></b>	<b>29<sup>b</sup></b>	<b>67<sup>b</sup></b>	<b>55<sup>b</sup></b>	<b>10<sup>b</sup></b>
The Forum of Private Business	25	14	43	33	25	12	50	20	<b>22<sup>b</sup></b>	<b>22<sup>b</sup></b>	<b>50<sup>b</sup></b>	<b>31<sup>b</sup></b>	<b>0<sup>b</sup></b>
British Chamber of Commerce	45	36	60	42	41	35	62	29	44	53	58	44	22
CBI	26	14	50	35	<b>23<sup>c</sup></b>	<b>17<sup>c</sup></b>	<b>50<sup>c</sup></b>	<b>25<sup>c</sup></b>	22	36	38	31	14
Skills and Learning Council	43	<b>38<sup>b</sup></b>	<b>50<sup>b</sup></b>	<b>41<sup>b</sup></b>	<b>31<sup>b</sup></b>	<b>18<sup>b</sup></b>	<b>80<sup>b</sup></b>	<b>40<sup>b</sup></b>	<b>43<sup>b</sup></b>	<b>27<sup>b</sup></b>	<b>67<sup>b</sup></b>	<b>53<sup>b</sup></b>	<b>0<sup>b</sup></b>
Local University	56	<b>63<sup>c</sup></b>	<b>50<sup>c</sup></b>	<b>60<sup>c</sup></b>	52	46	87	67	<b>67<sup>b</sup></b>	<b>50<sup>b</sup></b>	<b>77<sup>b</sup></b>	<b>69<sup>b</sup></b>	<b>22<sup>b</sup></b>
Local Education Authority	39	<b>36<sup>b</sup></b>	<b>38<sup>b</sup></b>	<b>39<sup>b</sup></b>	38	17	77	20	20	30	60	39	25
Regional Venture Capital Funds	21	15	13	31	25	6	36	25	<b>33<sup>b</sup></b>	<b>13<sup>b</sup></b>	<b>29<sup>b</sup></b>	<b>25<sup>b</sup></b>	<b>0<sup>b</sup></b>
Other	42	23	58	47	50	31	40	67	25	43	60	50	17

<sup>a</sup> p>0.01; <sup>b</sup> p>0.05; <sup>c</sup> p>0.10 Statistical tests use the Kruskal-Wallis test for multi-group comparisons, between column entries. Population density and business environment: City (major commercial centres), urban (large towns and conurbations), rural (small towns and villages), and other (industrial estates and other). Geographical location: North (Merseyside, North East, North West, Yorkshire and Humber), South (South East, South West), East (Norfolk, East Midlands), West (West Midlands, Wales), and London (Central and Greater London).

**Table 5.12: The level of satisfaction with business advice by size, age of the business, sex and age. (Percentage of firms reporting happy or very happy, multiple responses possible).**

Source	Micro	Small	Modest	Medium	Young Firm	Old Firm	Male	Female	Young	Old
Family and Friends	<b>91<sup>c</sup></b>	<b>97<sup>c</sup></b>	<b>98<sup>c</sup></b>	<b>85<sup>c</sup></b>	93	96	93	95	93	91
Business Associates	<b>85<sup>c</sup></b>	<b>97<sup>c</sup></b>	<b>97<sup>c</sup></b>	<b>95<sup>c</sup></b>	91	93	92	98	94	89
Bank Manager	<b>52<sup>c</sup></b>	<b>62<sup>c</sup></b>	<b>66<sup>c</sup></b>	<b>75<sup>c</sup></b>	63	63	<b>60<sup>c</sup></b>	<b>70<sup>c</sup></b>	<b>69<sup>c</sup></b>	<b>57<sup>c</sup></b>
Accountant	85	85	88	89	88	91	85	93	<b>91<sup>c</sup></b>	<b>82<sup>c</sup></b>
Solicitor	78	82	83	83	<b>79<sup>b</sup></b>	<b>90<sup>b</sup></b>	<b>80<sup>c</sup></b>	<b>90<sup>c</sup></b>	86	78
Customers	<b>96<sup>c</sup></b>	<b>97<sup>c</sup></b>	<b>86<sup>c</sup></b>	<b>90<sup>c</sup></b>	91	94	92	89	86	94
Suppliers	89	86	91	78	87	89	86	90	86	87
Business Link	57	52	49	68	<b>53<sup>b</sup></b>	<b>68<sup>b</sup></b>	55	61	58	53
Small Business Service	54	41	46	55	<b>45<sup>c</sup></b>	<b>67<sup>c</sup></b>	47	56	46	49
Trade/Professional Association	62	63	63	79	<b>58<sup>b</sup></b>	<b>82<sup>b</sup></b>	65	69	60	67
Citizens Advice Bureau	29	18	35	41	32	30	31	33	36	27
Venture Capital Trust	19	20	31	23	23	25	23	25	25	21
Regional Development Org	<b>38<sup>c</sup></b>	<b>23<sup>c</sup></b>	<b>26<sup>c</sup></b>	<b>35<sup>c</sup></b>	<b>29<sup>b</sup></b>	<b>43<sup>b</sup></b>	31	36	32	29
Business Consultant	<b>59<sup>c</sup></b>	<b>42<sup>c</sup></b>	<b>52<sup>c</sup></b>	<b>65<sup>c</sup></b>	<b>54<sup>c</sup></b>	<b>63<sup>c</sup></b>	<b>53<sup>b</sup></b>	<b>67<sup>b</sup></b>	<b>59<sup>c</sup></b>	<b>49<sup>c</sup></b>
Business Angel	27	13	42	25	33	25	29	20	<b>32<sup>b</sup></b>	<b>21<sup>b</sup></b>
Federation of Small Business	52	35	52	21	45	36	<b>41<sup>b</sup></b>	<b>54<sup>b</sup></b>	44	42
The Forum of Private Business	31	13	38	15	26	22	24	33	<b>35<sup>b</sup></b>	<b>19<sup>b</sup></b>
British Chamber of Commerce	<b>52<sup>c</sup></b>	<b>23<sup>c</sup></b>	<b>54<sup>c</sup></b>	<b>35<sup>c</sup></b>	<b>41<sup>b</sup></b>	<b>56<sup>b</sup></b>	<b>47<sup>b</sup></b>	<b>31<sup>b</sup></b>	44	44
CBI	36	30	31	14	<b>31<sup>b</sup></b>	<b>11<sup>b</sup></b>	27	33	<b>33<sup>b</sup></b>	<b>19<sup>b</sup></b>
Skills and Learning Council	47	33	50	31	41	45	42	40	46	38
Local University	<b>59<sup>a</sup></b>	<b>22<sup>a</sup></b>	<b>62<sup>a</sup></b>	<b>68<sup>a</sup></b>	<b>54<sup>b</sup></b>	<b>71<sup>b</sup></b>	58	56	58	58
Local Education Authority	35	33	36	46	<b>34<sup>c</sup></b>	<b>56<sup>c</sup></b>	36	44	<b>43<sup>c</sup></b>	<b>33<sup>c</sup></b>
Regional Venture Capital Funds	21	13	36	9	<b>18<sup>b</sup></b>	<b>33<sup>b</sup></b>	21	20	<b>26<sup>c</sup></b>	<b>16<sup>c</sup></b>
Other	40	33	58	36	43	43	46	20	41	44

<sup>a</sup>  $p > 0.01$ ; <sup>b</sup>  $p > 0.05$ ; <sup>c</sup>  $p > 0.10$  Statistical tests use the Mann Whitney test for two group comparisons, or the Kruskal-Wallis test for multi-group comparisons, between column entries. Type of business: micro (up to 5 employees), small (6-10 employees), modest (11-50 employees) and medium (51-200 employees). Older firms were aged 5 years or more, and younger firms were up to 4 years old. Older business-leaders were 50 years or more, and younger business-leaders were up to 49 years old.

**Table 5.13: The level of satisfaction with business advice by possession of a degree, exporting activity, and types of entrepreneurs. (Percentage of firms reporting happy or very happy, multiple responses possible)**

Source	Non-Degree	Degree	Non-Exporter	Exporter	Novice	Serial	Portfolio
Family and Friends	96	90	94	94	92	96	95
Business Associates	95	94	91	95	94	95	98
Bank Manager	66	62	66	59	<b>64<sup>b</sup></b>	<b>59<sup>b</sup></b>	<b>73<sup>b</sup></b>
Accountant	89	87	91	86	89	87	90
Solicitor	82	81	79	85	82	82	85
Customers	80	92	<b>88<sup>b</sup></b>	<b>57<sup>b</sup></b>	94	89	93
Suppliers	88	86	<b>91<sup>c</sup></b>	<b>83<sup>c</sup></b>	87	87	93
Business Link	59	55	<b>52<sup>c</sup></b>	<b>61<sup>c</sup></b>	57	53	52
Small Business Service	<b>59<sup>b</sup></b>	<b>40<sup>b</sup></b>	<b>43<sup>b</sup></b>	<b>55<sup>b</sup></b>	<b>51<sup>b</sup></b>	<b>41<sup>b</sup></b>	<b>46<sup>b</sup></b>
Trade/Professional Association	<b>70<sup>b</sup></b>	<b>63<sup>b</sup></b>	62	68	65	66	68
Citizens Advice Bureau	<b>38<sup>c</sup></b>	<b>28<sup>c</sup></b>	35	29	<b>34<sup>b</sup></b>	<b>29<sup>b</sup></b>	<b>38<sup>b</sup></b>
Venture Capital Trust	<b>14<sup>b</sup></b>	<b>25<sup>b</sup></b>	<b>17<sup>b</sup></b>	<b>29<sup>b</sup></b>	<b>21<sup>c</sup></b>	<b>29<sup>c</sup></b>	<b>42<sup>c</sup></b>
Regional Development Org	<b>18<sup>b</sup></b>	<b>35<sup>b</sup></b>	32	32	<b>36<sup>c</sup></b>	<b>24<sup>c</sup></b>	<b>20<sup>c</sup></b>
Business Consultant	53	56	57	55	<b>58<sup>b</sup></b>	<b>50<sup>b</sup></b>	<b>62<sup>b</sup></b>
Business Angel	23	30	<b>23<sup>b</sup></b>	<b>33<sup>b</sup></b>	<b>30<sup>c</sup></b>	<b>21<sup>c</sup></b>	<b>30<sup>c</sup></b>
Federation of Small Business	<b>52<sup>b</sup></b>	<b>37<sup>b</sup></b>	<b>50<sup>b</sup></b>	<b>37<sup>b</sup></b>	45	42	35
The Forum of Private Business	23	25	24	28	26	23	22
British Chamber of Commerce	44	44	42	47	<b>46<sup>c</sup></b>	<b>37<sup>c</sup></b>	<b>39<sup>c</sup></b>
CBI	23	29	<b>23<sup>b</sup></b>	<b>33<sup>b</sup></b>	27	29	33
Skills and Learning Council	<b>53<sup>b</sup></b>	<b>37<sup>b</sup></b>	41	43	38	50	43
Local University	57	58	59	59	57	58	56
Local Education Authority	35	38	41	36	<b>41<sup>b</sup></b>	<b>27<sup>b</sup></b>	<b>40<sup>b</sup></b>
Regional Venture Capital Funds	17	20	20	22	20	21	30
Other	39	48	37	48	40	50	57

<sup>a</sup>  $p > 0.01$ ; <sup>b</sup>  $p > 0.05$ ; <sup>c</sup>  $p > 0.10$  Statistical tests use the Mann Whitney test for two group comparisons, or the Kruskal-Wallis test for multi-group comparisons, between column entries. Experience: Novice business-leaders had no previous experience prior to owning or leading a business, serial business-leaders had previous experience of owning or leading a prior business, and portfolio business-leaders were currently owning or leading two or more businesses.

**Table 5.14: The level of satisfaction with business advice by R&D expenditure, Patents activity, and Sales Turnover. (Percentage of firms reporting happy or very happy, multiple responses possible).**

Source	0-5% R&D	>5% R&D	No Patents	1 or more patents	<£100k	£100-£500k	£501k plus
Family and Friends	92	94	95	86	90	77	95
Business Associates	94	96	96	96	<b>77<sup>a</sup></b>	<b>95<sup>a</sup></b>	<b>96<sup>a</sup></b>
Bank Manager	<b>66<sup>b</sup></b>	<b>50<sup>b</sup></b>	63	57	54	55	67
Accountant	89	86	<b>95<sup>b</sup></b>	<b>70<sup>b</sup></b>	86	91	87
Solicitor	83	83	<b>88<sup>b</sup></b>	<b>71<sup>b</sup></b>	<b>61<sup>b</sup></b>	<b>83<sup>b</sup></b>	<b>86<sup>b</sup></b>
Customers	91	96	97	92	90	93	92
Suppliers	<b>89<sup>b</sup></b>	<b>75<sup>b</sup></b>	<b>94<sup>b</sup></b>	<b>65<sup>b</sup></b>	82	86	87
Business Link	<b>55<sup>c</sup></b>	<b>65<sup>c</sup></b>	<b>62<sup>b</sup></b>	<b>44<sup>b</sup></b>	52	56	57
Small Business Service	<b>55<sup>a</sup></b>	<b>29<sup>a</sup></b>	48	47	47	39	53
Trade/Professional Association	65	71	<b>73<sup>b</sup></b>	<b>58<sup>b</sup></b>	60	59	70
Citizens Advice Bureau	<b>35<sup>b</sup></b>	<b>20<sup>b</sup></b>	32	25	17	35	35
Venture Capital Trust	<b>30<sup>b</sup></b>	<b>11<sup>b</sup></b>	<b>20<sup>b</sup></b>	<b>33<sup>b</sup></b>	<b>0<sup>c</sup></b>	<b>13<sup>c</sup></b>	<b>34<sup>c</sup></b>
Regional Development Org	32	27	<b>38<sup>b</sup></b>	<b>17<sup>b</sup></b>	22	40	28
Business Consultant	58	63	56	60	50	64	55
Business Angel	<b>32<sup>b</sup></b>	<b>14<sup>b</sup></b>	27	25	0	29	32
Federation of Small Business	<b>48<sup>b</sup></b>	<b>30<sup>b</sup></b>	<b>50<sup>b</sup></b>	<b>25<sup>b</sup></b>	36	50	38
The Forum of Private Business	29	25	33	40	0	36	22
British Chamber of Commerce	45	46	<b>47<sup>b</sup></b>	<b>27<sup>b</sup></b>	25	45	43
CBI	<b>34<sup>b</sup></b>	<b>20<sup>b</sup></b>	<b>33<sup>c</sup></b>	<b>17<sup>c</sup></b>	0	43	25
Skills and Learning Council	46	44	<b>46<sup>b</sup></b>	<b>17<sup>b</sup></b>	14	42	42
Local University	62	55	<b>65<sup>b</sup></b>	<b>40<sup>b</sup></b>	29	62	62
Local Education Authority	<b>45<sup>b</sup></b>	<b>25<sup>b</sup></b>	<b>44<sup>b</sup></b>	<b>20<sup>b</sup></b>	0	44	39
Regional Venture Capital Funds	29	0	22	20	0	15	28
Other	48	29	46	0	20	31	56

<sup>a</sup>  $p > 0.01$ ; <sup>b</sup>  $p > 0.05$ ; <sup>c</sup>  $p > 0.10$  Statistical tests use the Mann Whitney test for two group comparisons, or the Kruskal-Wallis test for multi-group comparisons, between column entries. Research and Development (R&D) expenditure: 0-5% R&D (no R&D expenditure and up to 5% of turnover spent on R&D), and >5% R&D (expenditure on R&D greater than 5% of sales revenue). Patent experience: no patents firms did not currently have any patents, whilst '1 or more patents' firms currently had at least one patent. Sales revenue: <£100k (less than £100,000), £100-500k (between £100,000 and £500,000), and £501k plus (£501,000 or more).

### 5.3.2: Network effects relating to satisfaction levels

Table 5.15 shows satisfaction levels of support services according to the importance attached to networking by the users thereof illustrating that those that attach importance to networking are happy with tier 1 suppliers but less happy with tier 2 and tier 3 suppliers.

**Table 5.15: Network influences on satisfaction levels (Percentage of respondents who consider networking as quite important, very important or essential)**

Source	Very Unhappy	Unhappy	Happy	Very Happy	n	Happy or Very Happy
Family and Friends	2%	5%	43%	49%	161	93%
Business Associates	1%	7%	37%	55%	182	93%
Bank Manager	7%	34%	48%	12%	155	59%
Accountant	3%	9%	47%	41%	182	88%
Solicitor	3%	15%	60%	23%	137	82%
Customers	1%	8%	55%	36%	174	91%
Suppliers	2%	11%	64%	23%	174	87%
Business Link	12%	30%	51%	8%	128	59%
Small Business Service	23%	29%	42%	7%	84	49%
Trade/Professional Association	9%	26%	47%	19%	128	66%
Citizens Advice Bureau	32%	34%	31%	3%	59	34%
Venture Capital Trust	28%	48%	22%	2%	46	24%
Regional Development Org	25%	43%	22%	10%	63	32%
Business Consultant	19%	26%	45%	10%	78	55%
Business Angel	29%	41%	24%	5%	41	29%
Federation of Small Business	24%	33%	33%	10%	70	43%
The Forum of Private Business	44%	34%	22%	0%	41	22%
British Chamber of Commerce	33%	27%	35%	5%	66	39%
CBI	34%	42%	21%	3%	38	24%
Skills and Learning Council	33%	26%	33%	7%	54	41%
Local University	31%	14%	42%	13%	64	55%
Local Education Authority	44%	21%	33%	2%	48	35%
Regional Venture Capital Funds	46%	38%	13%	3%	39	15%
Other	29%	32%	29%	10%	41	39%
N	316	475	1008	476	2275	65%

## **5.4 Ethnographic analysis of survey comments**

In the final section of the questionnaire respondents were invited to make comments about networking activity, experience with support providers and to provide feedback on the questionnaire itself. This section analyses these comments revealing interesting additional insights into small business behaviour and attitudes toward small business support providers.

### **5.4.1 Comments relating to networking**

Comments regarding networking are shown in Tables 5.16 and 5.17. There were 14 positive comments regarding the benefits of networking and 16 negative comments. Positive comments were emphatic, with 8 out of 14 stating that networking was either “vital”, “important” or “essential.” Networking was also viewed as helping to grow, develop or progress the business in eight cases. Five respondents commented that networking in the context of gaining more customers generated “word of mouth” referrals. These comments serve to corroborate the theoretical claim that business networks evolve as businesses grow and that networks are beneficial for small businesses (Hite and Hesterly, 2000; Evald et al., 2006; Drakopolou-Dodd et al., 2006).

Two businesses thought of networking in terms of suppliers and two felt that networking was important for obtaining information about suppliers or competitors. Four respondents were actively using networks to gain access to useful resources consistent with the idea of mobilisation of contacts expressed by Lin (2006) and the social capital view of networks described by Borgatti and Foster (2003). Two respondents reported favourable results from institutional networking activities. The final comment indicates the influence of the bank manager as a broker across a structural hole in accordance with Burt (1997).

Negative comments about networking related either to the lack of perceived need or expected benefit from networking (8), lack of available time (4), poor previous experience from attending networking events (5), difficulties encountered when networking (3), suspicion or lack of trust (2) and disillusionment (1). Citation 12 in Table 5.17 was the only respondent to differentiate between personal networks and business networks. The comment also reveals a clear delineation between directed and non directed network activity suggesting that small firms may have multiple network strategies.



**Table 5.16 Positive comments relating to networks**

1. Networking is very important to every business for gaining business and useful business contacts
2. Essential to any business
3. It is very important for a small business
4. With the right presence this could be important
5. I have take networking to mean talking to customers who then recommend us to others
6. Almost all our business is generated through word of mouth so this is vitally important
7. I tend to get new business contacts through recommendations from my current clients
8. This is becoming much more important as we grow – but the challenge is being able to network at a senior enough level as our clients tend to be blue chip/large company and not local
9. The businesses I owned previously were NE based and the development of those businesses relied heavily on networking and professional advice. This came from professional bodies and from the business school at Durham
10. Was a member of a networking breakfast club for 3 years. This provided useful contacts by way of suppliers rather than customers
11. By joining promotional groups we have escalated our networking opportunities in the last 3 years and almost doubled our turnover. This is something I feel you have to do now to keep ahead in business
12. Networking is a vital tool in business not only to progress but to avoid pitfalls, pricing of suppliers, new suppliers, how customers are progressing and non paying companies to avoid
13. Local networking is vital to maintaining a finger on the pulse of the local business market
14. Networking hasn't worked for me, but I do keep in touch with most of local bank (business) managers-who have provided new clients

**Table 5.17 Negative Comments relating to networking**

1. All my business comes from fellow franchisees so I do not need to do any networking or indeed any business development
2. We sell largely to large pharmaceutical companies and are not affected by local networking
3. Too busy to try and do any networking.
4. It is extremely hard for small businesses to network as on the whole they are run by only a small number of people. The only time I have attended a business network meeting, it started at 7.30 am approximately half an hours drive from my home. I already give up many hours just running my business and I don't intend to give up my time in the very early morning, or late at night just to have a chat! I can't say that I got much out of the meeting I attended and haven't attended one since.
5. Small business owners do not have time to network. They are often snowed down by red tape. The same red tape burdened small business greater than large corporations. This is taking in the expertise, time, finance commitment proportionately
6. Networking events are often too diverse in terms of businesses represented to make them worthwhile
7. Whenever I have gone to one I get ambushed by advertising agencies, printers, solicitors, accountants, etc., there are never any similar companies, i.e. manufacturers which whom I can exchange views. It appears to me that networking is a new way of getting new business for some companies. Therefore I now no longer attend 'networking' meetings.
8. In this locality there are many networking opportunities but everybody seems to be potential suppliers not customers
9. The business relies on dedicated sales teams to grow. Operationally, there is little requirement to network, other than in expanding sources of support- staff recruitment, mechanical and electrical contractors etc
10. Networking is not very important in retail as customers generally hear about you through recommendation or advertising
11. Over rated
12. 'Networking' implies spending time talking to people with no specific aim in mind: I get that from friends and acquaintances. For business partners I try to keep things more directed than the word implies.
13. My business counterparts are so widespread that networking is difficult
14. Many business networks look great at the outset, but there is very little relevant follow-through, either from organisation or adherents.
15. Do not use networking
16. Difficult in a small company in a rural environment

#### 5.4.2 Comments relating to business support schemes

Comments regarding business support schemes are shown below (tables 5.18 and 5.19). Just 7 comments were mildly positive but 37 responses were profoundly negative. Furthermore even the positive comments also were focused on specific aspects of certain schemes. Key positive sentiments expressed were useful (3), good (2), and essential (1) although most contained caveats relating to more general deficiencies. Negative comments generally express extreme dissatisfaction with business support schemes. Criticism includes lack of relevancy (9), unhelpfulness (7), lack of focus (5), poor quality of contact personal (4), criticism of policy, confusion regarding the plethora of schemes on offer (1), slow delivery time (1), lack of trust (2), high cost (1) and excessive bureaucracy (1). There was also considered to be a lack of empathy with the users of business support and absence of commerciality, expressed most eloquently in comment 13. These comments are consistent with many of research findings detailed in chapter 2.

**Table 5.18 Positive comments relating to business support schemes**

<ol style="list-style-type: none"><li>1. We are based in Wales and our primary source of support comes from the Welsh Assembly Govt. In general I find them useful with regard to training and certain consulting schemes aimed at raising manufacturing standards.</li><li>2. Essential to developing businesses, less important to established plc groups like ours. We believe we know our business better than anyone.</li><li>3. Useful during initial start up but not used since. I work from home and do not employ people, otherwise I would probably use support schemes to keep up to date with employment and H&amp;S legislation, etc</li><li>4. With more and more bureaucratic legislation in every business it is always good to know there are contacts you can make to assist you.</li><li>5. Useful but can be impersonal</li><li>6. Good in general, but nobody seems to push relevant schemes, or everything is aimed at new starts.</li><li>7. We talk to competitors and trade associations to help solve issues either individual or industry based. Get to meetings early and chat over coffee and always reply to anyone's request promptly.</li></ol>
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**Table 5.19 Negative comments relating to business support schemes**

1. Tried small business federation but received no definite help from them
2. Need for a networking site specifically for networking across agencies
3. I was in the FSB for one year, it didn't bring anything to the party though
4. We have had no help over the last fifteen years from any government agency in either grants or any other aspect. They are nearly always directed at subsidy for certain industries or not related to the retail trade.
5. Many seem designed either to help very small, or very large businesses. Small-medium sized companies like ours often seem to fall through the net.
6. Too many short term knee jerk initiatives from a government that is devoid of any form of commercial sense.
7. Have had some success in past but withdrawal of funding prevents any continuity
8. Business support schemes are not set out to support the 'micro' businesses such as ours - their size of small business is if your t/o is around the £50k mark or if you're employing people other than yourselves. This leaves our type of business between a rock & a hard place!!!!
9. There must be about 35 organisations around my small town to support businesses. So far not one is helpful. Their sole goal seems to be to get together enough money to survive another year or so. Worse, it appears that very few people there have actually run businesses. Many people are even ex-bankers!
10. Unsure of who they are and what they do. The list given in the questionnaire is therefore an interesting reference!! Comments regarding support received from various sources would be that often the training or information is simply not followed through. As such, we know we should be doing x,y & z but are now all the more frustrated now because we aren't doing what we know we should be!! A small change well delivered would be better than a large change proposed and delivered either badly or not at all.
11. Always very complicated, and whatever they promise you takes a long time to come through.
12. Don't really use them. We find failed business people trolling round pinching our ideas to use on their next assignment.

13. Complete and utter waste of money. Good businesses succeed. Good ideas find backing. Well run companies stay the course. Business support schemes run by people who can only pay lip service and without the real world experience can't help. If they were any good they would be working on these schemes they'd be earning better money running their own company or with a real job. Save the tax payers money and scrap them all. Also, you won't find somebody in business support scheme working 80 hours a week and going unpaid for 6 months. That what it can take to get a business off the ground. Real commitment and determination – not a scheme.
14. These have never really felt relevant to us or meet the needs we have at the time. It seems that they have a funding push in a certain business area - Investors in people, Train to Gain, and if you happen to need it at that time then you will benefit - but if you have a different need it is difficult to find the right solution. I don't think there is a mentality in business that you can just pop along to, say, business link and ask for guidance on what you should do next - or that they are the best people to ask or that they are best of breed (is the advice you will receive going to be something you will listen to anyway!?)
15. Sceptical
16. Very poor if you are not in a disadvantaged area such as Cornwall
17. Have not found anything to be very helpful
18. I work in a technical and rather esoteric domain and these organisations tend not do understand what I do
19. Usually the time spent using them/winning support isn't justified. Honourable exception of some of our embassies overseas.
20. The most vital support for small business today is in the area of employment legislation where the government has made the business of employing people a minefield beyond even the most knowledgeable and resourceful employers
21. Comparatively hopeless as it is often manned by administrators rather than business orientated personnel. In my 20 years in business, I cannot access any help. Any attempts to access help had been hindered by unhelpful and uninterested persons; just doing a job to justify their pay.
22. I have lots of stories and some experience about this subject the end result is the same. The rule of thumb is for every 100 start ups 2 will still be going in 5 years time. All cannon fodder for the banks.
23. As a previous business owner the support was not that good except for the Franchise
24. Have been using BPIF to get our 2 employees fully qualified. Although finding it difficult to locate apple mac training programmes at decent costs
25. Non-existent to small companies

26. I think at £3.5m turnover we are at the large end for this survey - but I still feel that support to grow is lacking
27. There should be more free help and information available to smaller businesses. As well as access and information about funding and financial support
28. Consultant sat down with me and we identified training & Marketing wants.3 months later I was contacted by various Trade & Training companies offering services that I could not afford!
29. We tend not to use such things.
30. We are always welcoming of support from other agencies particularly those who have the expertise to support our aims & objectives.
31. None are aimed at my needs
32. Not familiar with these schemes
33. Was a member of the Chamber for a couple of years, but did not use any services.
34. Again, lots of documentation, but very little solid support - most simply seem to want to sell you something
35. Always found them all talk and no action
36. It is important that it builds on what already exists we cannot afford more expensive restructuring and renaming of support services
37. Most seem to be directed towards manufacturing or service companies intending to grow employment; not much for companies with no plans to recruit.

Having reviewed responses to the survey for the generality of support providers the next section looks at the details of responses relating specifically to Business Link.

## **5.5 Business Link**

### **5.5.1 Introduction**

This section comprises a review of survey responses related to use and satisfaction with the range of services provided specifically by Business Link. Similarities in the patterns of use of Business Link services and general business support services ranked by business categories were observed. Business Link thus appears to reflect a cross section of the broader use of business support services.

### 5.5.2 Summary of findings –usage

Business Link services were categorised into 13 named support schemes with a further “other” category. Respondents were asked to specify which services they used together with their level of satisfaction. This paragraph discusses usage of these schemes with accompanying data shown in the following tables. Paragraph 5.6.2 discusses satisfaction rates.

**Table 5.20: The level of use of Business Link Services (Percentage of firms reporting use of specific BL services, multiple responses possible).**

Source	Use (%)
General information	68
Start-up help	40
Financial advice	42
Employment advice	40
Health & safety issues	38
Innovation	38
Information technology	41
Sales & marketing	47
Exports and imports	34
Strategy	38
Buying & Selling Businesses	29
Business Consultancy	39
Loan Guarantee Scheme	27
Other	21
N	146

Table 5.20 shows that 68% of Business Link users accessed general information. However, this high level of usage was only found in respect of general services. Other services were used by less than 50% of Business Link users with the majority of services used by less than 40%. The lowest levels of use were in respect of buying and selling businesses and the loan guarantee scheme. This finding is consistent with remarks made by Wyn Griffith (House of Commons, 2004) who reported an inverse relationship between usage levels and interactive intensity.

Table 5.21 shows that service businesses make greater use of all Business Link services in every case except for import and export services. Service businesses were the main users of start up services by a large margin. Wholesale/retail businesses make greater use of all Business Link services than manufacturing firms. Indeed,

manufacturing sector firms report the lowest levels of the use for all of the individual Business Link services, with the exception of exports and imports; and most of these relationships are statistically significant at the 10% level or better. City based firms reported the highest levels of use for start-up help, information technology, and exports and imports and these relationships were statistically significant at the 5% level. Furthermore, businesses located in the North were consistently the lowest users of individual Business Link services with the exception of exports and imports. The geographical location variable was found to be statistically significantly related at the 10% level to seven individual Business Link services. At the other end of the spectrum London businesses make generally greater use of Business Link than other regions. Notably London based businesses report 60% usage of IT services which is nearly double the rate of businesses in the North.

It is evident from Table 5.22 that Business Link is most used by small businesses (i.e. employing between 6-10 workers). These businesses were more likely to use each of the BL services and this is statistically significant at the 5% level with the exceptions of start up help, and exporting and imports. In general, Business Link services were used more by young businesses and older managers although statistically significant differences at the 10% level or better were only found for start-up finance, and financial advice (Table 5.22). Also male business-leaders were more prominent users than female business-leaders of Business Link services, although these relationships were not found to be statistically significant at the 10% level or better. Older business-leaders were more likely to use information technology, and sales and marketing.

Table 5.23 reveals a marked difference in the use of Business Link by educational achievement with those with a degree standard education much more likely to be users than less well educated business-leaders. This applied to all of the individual Business Link services. Export oriented businesses tended to be higher users of Business Link services but there were only three statistically significant differences at the 10% level or better and these were information technology, sales and marketing services and import/export services (Table 5.23). The level of use of a broad range of Business Link services was noticeably greater for serial and portfolio business-leaders than novices (Table 5.23). Approximately one third of novice business-leaders had used start-up help, financial advice, health and safety issues, and innovation Business Link specific services; and the corresponding levels of use for



serial and portfolio business-leaders was above one half of the serial business-leaders, and slightly less portfolio business-leaders. Serial business-leader users tended to use Business Link to a greater degree than portfolio managers.

Table 5.24 shows that innovative firms and those with 1 or more patents are more active users of Business Link although the differences are more pronounced for innovative firms than for patent registrants. This was unsurprisingly most emphatic when considering the provision of R&D expenditure. It does however need to be noted that the number of firms who have one or more patents, and also the number of firms spending more than 5% of their sales turnover on R&D do represent a minority of the Business Link users. This is tempered against the Government policy to increase innovation activity and so these groups of firms and the findings are important. As with the broader spectrum of business support services, Business Link was used more by businesses with turnover between £100k -£500k. Businesses with turnover below £100k were the lowest users of Business Link services except for start up services and financial advice.

**Table 5.21: The level of use of Business Link Services by sector, location, and region. (Percentage of firms reporting use of services, multiple responses possible)**

Source	All	Manu- facturing	Services –Lower	Wholesale/ Retail	City	Urban	Rural	North	South	East	West	London
General information	68	62	79	65	66	74	69	54	67	68	74	73
Start-up help	40	<b>33<sup>c</sup></b>	<b>69<sup>c</sup></b>	<b>33<sup>c</sup></b>	<b>49<sup>b</sup></b>	<b>38<sup>b</sup></b>	<b>33<sup>b</sup></b>	<b>29<sup>c</sup></b>	<b>31<sup>c</sup></b>	<b>44<sup>c</sup></b>	<b>52<sup>c</sup></b>	<b>47<sup>c</sup></b>
Financial advice	42	<b>35<sup>c</sup></b>	<b>50<sup>c</sup></b>	<b>45<sup>c</sup></b>	43	43	40	<b>29<sup>c</sup></b>	<b>44<sup>c</sup></b>	<b>50<sup>c</sup></b>	<b>48<sup>c</sup></b>	<b>33<sup>c</sup></b>
Employment advice	40	<b>29<sup>c</sup></b>	<b>54<sup>c</sup></b>	<b>40<sup>c</sup></b>	43	43	33	<b>32<sup>c</sup></b>	<b>36<sup>c</sup></b>	<b>44<sup>c</sup></b>	<b>45<sup>c</sup></b>	<b>47<sup>c</sup></b>
Health & safety issues	38	<b>25<sup>b</sup></b>	<b>54<sup>b</sup></b>	<b>38<sup>b</sup></b>	43	34	38	<b>29<sup>c</sup></b>	<b>31<sup>c</sup></b>	<b>47<sup>c</sup></b>	<b>39<sup>c</sup></b>	<b>53<sup>c</sup></b>
Innovation	38	<b>25<sup>c</sup></b>	<b>50<sup>c</sup></b>	<b>40<sup>c</sup></b>	43	34	36	<b>29<sup>c</sup></b>	<b>41<sup>c</sup></b>	<b>41<sup>c</sup></b>	<b>35<sup>c</sup></b>	<b>53<sup>c</sup></b>
Information technology	41	<b>29<sup>c</sup></b>	<b>52<sup>c</sup></b>	<b>45<sup>c</sup></b>	<b>49<sup>b</sup></b>	<b>42<sup>b</sup></b>	<b>33<sup>b</sup></b>	<b>32<sup>c</sup></b>	<b>36<sup>c</sup></b>	<b>44<sup>c</sup></b>	<b>42<sup>c</sup></b>	<b>60<sup>c</sup></b>
Sales & marketing	47	<b>40<sup>c</sup></b>	<b>60<sup>c</sup></b>	<b>45<sup>c</sup></b>	49	49	42	43	44	50	52	47
Exports and imports	34	33	31	38	<b>43<sup>b</sup></b>	<b>30<sup>b</sup></b>	<b>31<sup>b</sup></b>	36	28	41	29	33
Strategy	38	<b>25<sup>b</sup></b>	<b>52<sup>b</sup></b>	<b>40<sup>b</sup></b>	43	36	38	32	38	44	32	47
Buying & Selling Businesses	29	<b>21<sup>b</sup></b>	<b>37<sup>b</sup></b>	<b>30<sup>b</sup></b>	31	30	24	25	26	38	23	33
Business Consultancy	39	31	48	38	31	45	38	<b>32<sup>c</sup></b>	<b>38<sup>c</sup></b>	<b>44<sup>c</sup></b>	<b>35<sup>c</sup></b>	<b>47<sup>c</sup></b>
Loan Guarantee Scheme	27	23	33	25	29	26	27	21	31	29	26	20
Other	21	17	23	25	20	21	24	21	21	29	16	13
N	146	52	52	40	35	53	45	28	39	34	31	15

<sup>a</sup> p>0.01; <sup>b</sup> p>0.05; <sup>c</sup> p>0.10 Statistical tests use the Kruskal-Wallis test for multi-group comparisons, between column entries. Population density and business environment City (major commercial centres), urban (large towns and conurbations), rural (small towns and villages), and other (industrial estates and other). Geographical location: North (Merseyside, North East, North West, Yorkshire and Humber), South (South East, South West), East (Norfolk, East Midlands), West (West Midlands, Wales), and London (Central and Greater London).

**Table 5.22: The level of use of Business Link Services by size, age of the business, sex and age. (Percentage of firms reporting use of services, multiple responses possible).**

Source	Micro	Small	Modest	Medium	Young Firm	Old Firm	Male	Female	Young	Old
General information	65	<b>81<sup>b</sup></b>	<b>69<sup>b</sup></b>	<b>61<sup>b</sup></b>	70	64	69	68	67	70
Start-up help	35	63	36	32	<b>43<sup>c</sup></b>	<b>31<sup>c</sup></b>	40	39	42	38
Financial advice	39	<b>56<sup>b</sup></b>	<b>42<sup>b</sup></b>	<b>36<sup>b</sup></b>	<b>45<sup>c</sup></b>	<b>33<sup>c</sup></b>	44	36	39	45
Employment advice	28	<b>63<sup>b</sup></b>	<b>42<sup>b</sup></b>	<b>36<sup>b</sup></b>	40	42	42	36	35	44
Health & safety issues	33	<b>56<sup>b</sup></b>	<b>38<sup>b</sup></b>	<b>32<sup>b</sup></b>	39	36	40	32	37	40
Innovation	33	<b>56<sup>b</sup></b>	<b>38<sup>b</sup></b>	<b>29<sup>b</sup></b>	40	31	39	32	32	43
Information technology	30	<b>63<sup>b</sup></b>	<b>42<sup>b</sup></b>	<b>36<sup>b</sup></b>	41	42	42	39	<b>35<sup>b</sup></b>	<b>46<sup>b</sup></b>
Sales & marketing	43	<b>63<sup>b</sup></b>	<b>47<sup>b</sup></b>	<b>39<sup>b</sup></b>	48	44	47	46	<b>44<sup>c</sup></b>	<b>51<sup>c</sup></b>
Exports and imports	28	48	29	36	33	36	34	32	30	37
Strategy	33	<b>56<sup>b</sup></b>	<b>38<sup>b</sup></b>	<b>32<sup>b</sup></b>	38	39	39	36	39	39
Buying & Selling Businesses	24	<b>37<sup>b</sup></b>	<b>31<sup>b</sup></b>	<b>25<sup>b</sup></b>	29	28	20	29	26	31
Business Consultancy	37	<b>48<sup>b</sup></b>	<b>40<sup>b</sup></b>	<b>32<sup>b</sup></b>	38	42	39	39	42	38
Loan Guarantee Scheme	17	<b>37<sup>b</sup></b>	<b>31<sup>b</sup></b>	<b>25<sup>b</sup></b>	28	22	26	29	30	25
Other	17	26	24	18	22	19	20	25	21	22
N	46	27	45	28	110	36	118	28	57	87

<sup>a</sup>  $p > 0.01$ ; <sup>b</sup>  $p > 0.05$ ; <sup>c</sup>  $p > 0.10$  Statistical tests use the Mann Whitney test for two group comparisons, or the Kruskal-Wallis test for multi-group comparisons, between column entries. Type of business: micro (up to 5 employees), small (6-10 employees), modest (11-50 employees) and medium (51-200 employees). Older firms were aged 5 years or more, and younger firms were up to 4 years old. Older business-leaders were 50 years or more, and younger business-leaders were up to 49 years old.

**Table 5.23: The use of Business Link Services by possession of a degree, exporting activity, and types of entrepreneurs. (Percentage of firms reporting use of services, multiple responses possible)**

Source	Non-Degree	Degree	Non-Exporter	Exporter	Novice	Serial	Portfolio
General information	24 <sup>a</sup>	61 <sup>a</sup>	68	68	63 <sup>b</sup>	80 <sup>b</sup>	75 <sup>b</sup>
Start-up help	15 <sup>a</sup>	34 <sup>a</sup>	39	36	31 <sup>b</sup>	55 <sup>b</sup>	56 <sup>b</sup>
Financial advice	16 <sup>a</sup>	37 <sup>a</sup>	42	41	33 <sup>b</sup>	59 <sup>b</sup>	56 <sup>b</sup>
Employment advice	14 <sup>a</sup>	38 <sup>a</sup>	37	42	36	49	38
Health & safety issues	14 <sup>a</sup>	35 <sup>a</sup>	35	39	33 <sup>b</sup>	51 <sup>b</sup>	47 <sup>b</sup>
Innovation	12 <sup>a</sup>	36 <sup>a</sup>	35	36	31 <sup>b</sup>	53 <sup>b</sup>	47 <sup>b</sup>
Information technology	12 <sup>a</sup>	40 <sup>a</sup>	35 <sup>b</sup>	45 <sup>b</sup>	35 <sup>b</sup>	57 <sup>b</sup>	53 <sup>b</sup>
Sales & marketing	14 <sup>a</sup>	45 <sup>a</sup>	49 <sup>b</sup>	57 <sup>b</sup>	43 <sup>b</sup>	59 <sup>b</sup>	56 <sup>b</sup>
Exports and imports	11 <sup>a</sup>	31 <sup>a</sup>	24 <sup>a</sup>	41 <sup>a</sup>	31	41	38
Strategy	11 <sup>a</sup>	39 <sup>a</sup>	37	38	33 <sup>b</sup>	49 <sup>b</sup>	44 <sup>b</sup>
Buying & Selling Businesses	9 <sup>a</sup>	28 <sup>a</sup>	27	28	28	33	28
Business Consultancy	11 <sup>a</sup>	37 <sup>a</sup>	38	36	36	45	44
Loan Guarantee Scheme	9 <sup>a</sup>	25 <sup>a</sup>	24	27	20 <sup>b</sup>	37 <sup>b</sup>	38 <sup>b</sup>
Other	4 <sup>a</sup>	24 <sup>a</sup>	17	23	22	20	22
N	140	101	71	74	94	49	32

<sup>a</sup> p>0.01; <sup>b</sup> p>0.05; <sup>c</sup> p>0.10 Statistical tests use the Mann Whitney test for two group comparisons, or the Kruskal-Wallis test for multi-group comparisons, between column entries. Experience: Novice business-leaders had no previous experience prior to owning or leading a business, serial business-leaders had previous experience of owning or leading a prior business, and portfolio business-leaders were currently owning or leading two or more businesses.

**Table 5.24: The use of Business Link Services by R&D expenditure, Patents activity, and Sales Turnover. (Percentage of firms reporting use of services, multiple responses possible).**

Source	0-5% R&D	>5% R&D	No Patents	1 or more patents	<100k	100-500k	501k plus
General information	67 <sup>a</sup>	95 <sup>a</sup>	73 <sup>a</sup>	82 <sup>a</sup>	67	68	68
Start-up help	36 <sup>a</sup>	63 <sup>a</sup>	46	41	48	38	38
Financial advice	38 <sup>a</sup>	74 <sup>a</sup>	46 <sup>a</sup>	59 <sup>a</sup>	43	43	43
Employment advice	37 <sup>a</sup>	74 <sup>a</sup>	44	41	33 <sup>c</sup>	40 <sup>c</sup>	43 <sup>c</sup>
Health & safety issues	36 <sup>a</sup>	74 <sup>a</sup>	41 <sup>b</sup>	53 <sup>b</sup>	33 <sup>c</sup>	45 <sup>c</sup>	36 <sup>c</sup>
Innovation	34 <sup>a</sup>	74 <sup>a</sup>	43 <sup>c</sup>	53 <sup>c</sup>	38	38	38
Information technology	38 <sup>a</sup>	79 <sup>a</sup>	43 <sup>a</sup>	65 <sup>a</sup>	33 <sup>c</sup>	43 <sup>c</sup>	41 <sup>c</sup>
Sales & marketing	43 <sup>a</sup>	84 <sup>a</sup>	49	53	38 <sup>c</sup>	50 <sup>c</sup>	45 <sup>c</sup>
Exports and imports	31 <sup>a</sup>	63 <sup>a</sup>	33 <sup>a</sup>	65 <sup>a</sup>	29	35	35
Strategy	33 <sup>a</sup>	79 <sup>a</sup>	42	47	33	40	38
Buying & Selling Businesses	27 <sup>a</sup>	53 <sup>a</sup>	34	29	24	30	30
Business Consultancy	34 <sup>a</sup>	74 <sup>a</sup>	45	41	29 <sup>b</sup>	45 <sup>b</sup>	39 <sup>b</sup>
Loan Guarantee Scheme	22 <sup>a</sup>	53 <sup>a</sup>	30	35	29	23	29
Other	21 <sup>a</sup>	47 <sup>a</sup>	24	18	10	23	23
N	107	19	91	17	21	40	80

<sup>a</sup> p>0.01; <sup>b</sup> p>0.05; <sup>c</sup> p>0.10 Statistical tests use the Mann Whitney test for two group comparisons, or the Kruskal-Wallis test for multi-group comparisons, between column entries. Research and Development (R&D) expenditure: 0-5% R&D (no R&D expenditure and up to 5% of turnover spent on R&D), and >5% R&D (expenditure on R&D greater than 5% of sales revenue). Patent experience: no patents firms did not currently have any patents, whilst '1 or more patents' firms currently had at least one patent. Sales revenue: <£100k (less than £100,000), £100-500k (between £100,000 and £500,000), and £501k plus (£501,000 or more).

### 5.5.3 Summary of findings –satisfaction

Satisfaction with Business Link varies considerably depending upon the type of service used. Table 5.25 shows that 71% of users are satisfied with their experience in accessing general information services. This is slightly lower than found in earlier research but consistent with more recent findings (see Table 5.26). Other services showing relatively high levels of satisfaction were health and safety (64%), start-up assistance (61%) and employment advice (61%). Users were least satisfied with services related to buying and selling business (41%) and the loan guarantee scheme (39%). Satisfaction with specialised services is much less than with general services. In particular, in 8 out of 14 categories satisfaction levels were below 50% indication that more firms were dissatisfied than satisfied with Business Link services. For many specialised services, users reported high levels of dis-satisfaction and up to 33% of respondents reporting that they were very unhappy with the service provided.

**Table 5:25 The level of satisfaction with the use of Business Link services, by type of source (Percentage of respondents level of satisfaction with the Business Link services).**

Source	Very Unhappy	Unhappy	Happy	Very Happy	Happy or Very Happy	n
General information	12	17	51	20	71	100
Start-up help	25	14	52	9	61	56
Financial advice	26	26	39	10	48	62
Employment advice	15	24	47	14	61	59
Health & safety issues	13	23	54	11	64	56
Innovation	24	35	38	4	42	55
Information technology	23	27	45	5	50	60
Sales & marketing	25	30	36	9	45	69
Exports and imports	29	20	41	10	51	49
Strategy	25	36	34	5	39	56
Buying & Selling Businesses	29	38	29	5	33	42
Business Consultancy	26	35	30	9	39	57
Loan Guarantee Scheme	36	31	26	8	33	39
Other	32	26	29	13	42	31

**Table 5.26: Satisfaction levels for Business Link identified by previous research**

Source	Satisfaction level (%)	Satisfaction criteria
Sheikh et al (2002)	81	Very or rather satisfied
SBS (2004d)	84	Website considered “helpful”
Baldock and North (2009)	70	Satisfactory, fairly good, excellent

Table 5.27 reveals that service businesses and city based business are generally more satisfied with their experiences than other firms. However, London based businesses reported lower levels of satisfaction with a broad range of Business Link services than businesses in the North or West. Businesses based in the South were least satisfied with some services scoring particularly poorly (i.e. strategy, financial advice, innovation, business consultancy and start up assistance) with satisfaction scores less than 30%.

Table 5.28 shows that larger businesses were most satisfied with Business Link services except for business consultancy, exports and imports and strategy services; although, none of the satisfaction scores were statistically related to business size at the 10% level, or better. Although males appear to be generally more satisfied with Business Link services than women, the situation is not clear cut with some services scoring better for men and others for women. Men were more satisfied than women with employment advice, and business consultancy; and, the reverse was the case for strategy.

In general older businesses and younger business-leaders tend to be more satisfied than younger firms and managers, although in the case of age of businesses this was only statistically significant for two services – start-up help, and innovation; and looking at age of the business-leaders again this was also found to be statistically significant for two other services – general information, and strategy (Table 5.28).

Table 5.29 shows that degree standard educated managers are less satisfied with Business Link than less well educated managers, with the exceptions of sales and marketing and strategy services. However, possession of a degree level of qualification was only statistically related at the 10% level to satisfaction with two services – start-up help, and buying and selling businesses. Exporting businesses were less satisfied than non-exporting firms for health and safety issues, sales and marketing, and business consultancy; and, the reverse was true for financial advice. Business-leader experience was statistically significantly related to satisfaction with three services – health and safety issues, business consultancy, and the Loan Guarantee Scheme. Serial and portfolio business-leaders were in general more satisfied than novices.

There appears to be an inverse relationship between innovative and patent owning businesses and satisfaction with most of the specific Business Link services utilised (Table 5.30). Whilst for turnover this was also found to be strongly related to satisfaction with the services used, and was highest for businesses with turnover of between £100k -£500k.

**Table 5.27: The level of satisfaction with Business Link services by sector, location, and region. (Percentage of firms reporting happy or very happy, multiple responses possible)**

Source	All		Manufacturing	Services	Whole sale/retail	City	Urban	Rural	North	South	East	West	London
	%	n											
General information	71	100	78	71	65	74	69	68	73	62	74	74	73
Start-up help	60	56	59	47	62	65	55	60	75	25	60	75	71
Financial advice	48	62	50	46	50	47	48	44	<b>63<sup>b</sup></b>	<b>29<sup>b</sup></b>	<b>53<sup>b</sup></b>	<b>60<sup>b</sup></b>	<b>40<sup>b</sup></b>
Employment advice	61	59	<b>53<sup>b</sup></b>	<b>71<sup>b</sup></b>	<b>50<sup>b</sup></b>	53	65	53	<b>67<sup>b</sup></b>	<b>50<sup>b</sup></b>	<b>60<sup>b</sup></b>	<b>71<sup>b</sup></b>	<b>57<sup>b</sup></b>
Health & safety issues	64	56	<b>54<sup>b</sup></b>	<b>75<sup>b</sup></b>	<b>53<sup>b</sup></b>	67	67	53	63	67	56	75	63
Innovation	42	55	<b>31<sup>b</sup></b>	<b>50<sup>b</sup></b>	<b>38<sup>b</sup></b>	47	44	25	50	19	50	45	50
Information technology	50	60	40	59	44	<b>65<sup>c</sup></b>	<b>50<sup>c</sup></b>	<b>27<sup>c</sup></b>	<b>67<sup>b</sup></b>	<b>29<sup>b</sup></b>	<b>40<sup>b</sup></b>	<b>62<sup>b</sup></b>	<b>67<sup>b</sup></b>
Sales & marketing	45	69	38	48	44	47	42	47	50	41	41	50	43
Exports and imports	51	49	59	56	40	53	38	57	<b>60<sup>b</sup></b>	<b>45<sup>b</sup></b>	<b>43<sup>b</sup></b>	<b>78<sup>b</sup></b>	<b>20<sup>b</sup></b>
Strategy	39	56	<b>23<sup>b</sup></b>	<b>44<sup>b</sup></b>	<b>44<sup>b</sup></b>	<b>47<sup>c</sup></b>	<b>37<sup>c</sup></b>	<b>24<sup>c</sup></b>	56	13	47	50	43
Buying & Selling Businesses	33	42	<b>27<sup>b</sup></b>	<b>42<sup>b</sup></b>	<b>25<sup>b</sup></b>	36	31	18	<b>43<sup>b</sup></b>	<b>30<sup>b</sup></b>	<b>46<sup>b</sup></b>	<b>14<sup>b</sup></b>	<b>20<sup>b</sup></b>
Business Consultancy	39	57	<b>25<sup>b</sup></b>	<b>44<sup>b</sup></b>	<b>47<sup>b</sup></b>	27	38	41	56	27	47	36	29
Loan Guarantee Scheme	33	39	<b>25<sup>b</sup></b>	<b>47<sup>b</sup></b>	<b>20<sup>b</sup></b>	20	43	25	67	17	40	38	0
Other	42	31	44	50	30	43	45	36	67	25	40	40	50

<sup>a</sup> p>0.01; <sup>b</sup> p>0.05; <sup>c</sup> p>0.10 Statistical tests use the Kruskal-Wallis test for multi-group comparisons, between column entries. Population density and business environment: City (major commercial centres), urban (large towns and conurbations), rural (small towns and villages), and other (industrial estates and other). Geographical location: North (Merseyside, North East, North West, Yorkshire and Humber), South (South East, South West), East (Norfolk, East Midlands), West (West Midlands, Wales), and London (Central and Greater London).



**Table 5.28: The level of satisfaction with Business Link services by size, age of the business, sex and age. (Percentage of firms reporting happy or very happy, multiple responses possible).**

Source	Micro	Small	Modest	Medium	Young Firm	Old Firm	Male	Female	Young	Old
General information	67	68	77	71	70	74	72	68	<b>79<sup>b</sup></b>	<b>67<sup>b</sup></b>
Start-up help	69	53	69	44	<b>57<sup>b</sup></b>	<b>73<sup>b</sup></b>	60	64	67	58
Financial advice	50	40	47	60	46	58	48	50	55	46
Employment advice	54	59	68	60	59	73	<b>63<sup>b</sup></b>	<b>50<sup>b</sup></b>	60	63
Health & safety issues	60	67	71	56	63	69	64	67	62	66
Innovation	27	53	47	38	<b>41<sup>b</sup></b>	<b>55<sup>b</sup></b>	43	33	44	38
Information technology	29	59	63	40	49	53	51	45	55	48
Sales & marketing	40	47	43	55	43	50	45	46	56	39
Exports and imports	54	54	46	50	53	46	50	56	59	47
Strategy	40	47	35	33	36	50	<b>37<sup>b</sup></b>	<b>50<sup>b</sup></b>	<b>55<sup>a</sup></b>	<b>29<sup>a</sup></b>
Buying & Selling Businesses	36	30	50	0	34	30	46	38	33	33
Business Consultancy	53	38	33	22	43	27	<b>41<sup>b</sup></b>	<b>27<sup>b</sup></b>	38	39
Loan Guarantee Scheme	38	30	43	14	32	38	35	25	29	36
Other	50	29	64	0	38	57	46	29	42	42

<sup>a</sup> p>0.01; <sup>b</sup> p>0.05; <sup>c</sup> p>0.10 Statistical tests use the Mann Whitney test for two group comparisons, or the Kruskal-Wallis test for multi-group comparisons, between column entries. Type of business: micro (up to 5 employees), small (6-10 employees), modest (11-50 employees) and medium (51-200 employees). Older firms were aged 5 years or more, and younger firms were up to 4 years old. Older business-leaders were 50 years or more, and younger business-leaders were up to 49 years old.

**Table 5.29 : The level of satisfaction with Business Link services by possession of a degree, exporting activity, and types of entrepreneurs. (Percentage of firms reporting happy or very happy, multiple responses possible)**

Source	Non-Degree	Degree	Non-Exporter	Exporter	Novice	Serial	Portfolio
General information	76	68	69	76	68	77	71
Start-up help	<b>76<sup>b</sup></b>	<b>50<sup>b</sup></b>	64	63	62	59	67
Financial advice	50	46	<b>43<sup>b</sup></b>	<b>57<sup>b</sup></b>	45	55	50
Employment advice	63	58	62	71	62	63	67
Health & safety issues	68	60	<b>72<sup>c</sup></b>	<b>62<sup>c</sup></b>	<b>58<sup>b</sup></b>	<b>72<sup>b</sup></b>	<b>73<sup>b</sup></b>
Innovation	47	36	44	44	38	46	33
Information technology	53	48	56	48	48	50	53
Sales & marketing	40	47	<b>46<sup>c</sup></b>	<b>36<sup>c</sup></b>	43	48	39
Exports and imports	53	48	<b>47<sup>c</sup></b>	<b>57<sup>c</sup></b>	52	50	42
Strategy	33	38	42	39	39	42	36
Buying & Selling Businesses	<b>50<sup>b</sup></b>	<b>21<sup>b</sup></b>	37	33	31	38	22
Business Consultancy	38	38	<b>48<sup>b</sup></b>	<b>33<sup>b</sup></b>	<b>32<sup>b</sup></b>	<b>50<sup>b</sup></b>	<b>43<sup>b</sup></b>
Loan Guarantee Scheme	33	32	41	30	<b>26<sup>b</sup></b>	<b>44<sup>b</sup></b>	<b>42<sup>b</sup></b>
Other	50	38	58	35	43	40	57

<sup>a</sup> p>0.01; <sup>b</sup> p>0.05; <sup>c</sup> p>0.10 Statistical tests use the Mann Whitney test for two group comparisons, or the Kruskal-Wallis test for multi-group comparisons, between column entries. Experience: Novice business-leaders had no previous experience prior to owning or leading a business, serial business-leaders had previous experience of owning or leading a prior business, and portfolio business-leaders were currently owning or leading two or more businesses.

**Table 5.30: The level of satisfaction with Business Link services by R&D expenditure, Patents activity, and Sales Turnover. (Percentage of firms reporting happy or very happy, multiple responses possible).**

Source	0-5% R&D	>5% R&D	No Patents	1 or more patents	<100k	100-500k	501k plus
General information	78 <sup>b</sup>	56 <sup>b</sup>	77 <sup>b</sup>	57 <sup>b</sup>	71	67	70
Start-up help	63 <sup>b</sup>	50 <sup>b</sup>	69 <sup>b</sup>	29 <sup>b</sup>	50 <sup>c</sup>	67 <sup>c</sup>	57 <sup>c</sup>
Financial advice	49	50	55	40	44 <sup>c</sup>	53 <sup>c</sup>	44 <sup>c</sup>
Employment advice	65 <sup>b</sup>	50 <sup>b</sup>	73 <sup>b</sup>	14 <sup>b</sup>	57 <sup>c</sup>	69 <sup>c</sup>	53 <sup>c</sup>
Health & safety issues	68 <sup>b</sup>	50 <sup>b</sup>	73 <sup>b</sup>	44 <sup>b</sup>	71	67	59
Innovation	47	36	46 <sup>b</sup>	22 <sup>b</sup>	25 <sup>c</sup>	53 <sup>c</sup>	37 <sup>c</sup>
Information technology	61 <sup>b</sup>	27 <sup>b</sup>	56 <sup>b</sup>	36 <sup>b</sup>	29 <sup>b</sup>	65 <sup>b</sup>	42 <sup>b</sup>
Sales & marketing	48	44	51 <sup>b</sup>	22 <sup>b</sup>	13 <sup>b</sup>	60 <sup>b</sup>	39 <sup>b</sup>
Exports and imports	58 <sup>b</sup>	33 <sup>b</sup>	50	55	50	57	46
Strategy	49 <sup>b</sup>	27 <sup>b</sup>	39 <sup>b</sup>	13 <sup>b</sup>	29	50	30
Buying & Selling Businesses	45 <sup>b</sup>	10 <sup>b</sup>	35 <sup>b</sup>	20 <sup>b</sup>	40	42	25
Business Consultancy	44 <sup>b</sup>	29 <sup>b</sup>	46 <sup>b</sup>	14 <sup>b</sup>	50	44	29
Loan Guarantee Scheme	42 <sup>b</sup>	10 <sup>b</sup>	41 <sup>b</sup>	0 <sup>b</sup>	50	33	22
Other	55 <sup>b</sup>	11 <sup>b</sup>	45 <sup>b</sup>	0 <sup>b</sup>	50	56	28

<sup>a</sup> p>0.01; <sup>b</sup> p>0.05; <sup>c</sup> p>0.10 Statistical tests use the Mann Whitney test for two group comparisons, or the Kruskal-Wallis test for multi-group comparisons, between column entries. Research and Development (R&D) expenditure: 0-5% R&D (no R&D expenditure and up to 5% of turnover spent on R&D), and >5% R&D (expenditure on R&D greater than 5% of sales revenue). Patent experience: no patents firms did not currently have any patents, whilst '1 or more patents' firms currently had at least one patent. Sales revenue: <£100k (less than £100,000), £100-500k (between £100,000 and £500,000), and £501k plus (£501,000 or more).

#### **5.5.4 Demand for additional services**

Table 5.31 summarises the other services that small firms would like Business Link to provide. Whilst there is no dominant theme, there are a number of suggestions relating to improving networking facilities, help for specific industries, improving continuity and quality of service and the addition of mentoring services. Help is also requested with the provision of grants and dealing with the EU. One interesting suggestion was to share the cost of some common overheads.

Interestingly, a number of respondents chose this question to voice some frustration with Business Link including complaints about the quality of service and personnel. The following comment reveals the extent of the exasperation felt by one respondent:

“Obtaining sales and getting paid are the critical elements in any business. Business Link thinks it’s about how to make life as complicated as possible and about making you aware of every regulation under the sun. You become suicidal talking with them.”

There were even three suggestions that Business Link should be closed down with two respondents recommending that the money would be better spent elsewhere. However, three respondents felt that Business Link could be doing more to promote networking based upon different the formation of an MD’s club, by local industry and by organising hosting events.

**Table 5.31: Additional Services which firms think that Business Link should be providing.**

<b>Additional services</b>
An MD's club
Assistance with grant availability and grant application
Business coaching/mentoring to see new projects through rather than just seeing an advisor once and then having to pay or be transferred to a private consultant
Business mentors and Non-exec directors
Could do more to raise awareness of funding opportunities.
Focused help for "one man band" consultants who wish to collaborate with associates in the same line of work.
Help for general engineering but not IT more for loans with machinery
Helpful friendly advice would be a start!
I was happy with business consultancy when they had direct consultants who visited, they have since stopped this, but we carried on with the consultant that they made redundant. They also used to give rebates on design work which we made use of, but I think this has since stopped
I'm sure that they are great with advice for small sole traders, but for a limited company that needed advice on investors and capital, the service was poor.
Industry related networking i.e. concrete / construction industry.
Local business in same area can strip costs out of communal services required e.g. Security, Nurse facilities, gardening, Likely % pay deals
Marketing themselves
More professional IT help
Most services are being duplicated by Chamber of Commerce, perhaps it would be better to close them down and put the money into fewer but better agencies.
Not consultancy. The calibre of their consultants is not high.
Obtaining sales and getting paid are the critical elements in any business. Business Link thinks its about how to make life as complicated as possible and about making you aware of every regulation under the sun. You become suicidal talking with them.
People with real start up business expertise; with ability to undertake analysis of businesses to help varied business types.
Point out any aid coming forward from Brussels
Profit and loss account help
Quality Management Issues. Environmental Issues
Stick to communicating government policy, rules and regulations. Put the money saved back in to lowering taxes on small businesses. Like most government institutions they are ineffective and a waste of good money.
Subsidised consultancy support
Suggest disband and provide start-ups with consultancy vouchers.
Tax advice
They should be arranging more networking for companies

## 5.6: Perceptions of Business Link by non-Business Link users

Respondents who classified themselves as non-users of Business Link were asked to comment upon their knowledge of Business Link. The results are shown in table 5.32 revealing that whilst 40% responded that they had not heard of business link, 16% said that they had visited the Business Link website. Interestingly, only 13% knew that Business Link was owned by the government despite the website address as [www.businesslink.gov.uk](http://www.businesslink.gov.uk) and the statement on the website that “Business Link is [the] government's online resource for businesses.”

In terms of referrals, the percentage of people who reported hearing positive things about Business Link at 13% was nearly 3 times as many as those hearing negative things but compared to 47% who had heard neither positive nor negative things. When comparing these results to the satisfaction scores received by Business Link (table 5.10), it seems that many users do not have particularly strong opinions to feel the need to pass on their experiences. However, proportionately twice as many people pass on their positive views opposed to their negative experiences. This provides Business Link with potential to promote itself by encouraging satisfied users to share their experiences.

**Table 5.32: The Perception of Business Link by Non-BL-Users (Percentage of respondents).**

	%
Not heard of Business Link before	40
Heard negative things about Business Link	5
Heard positive things about Business Link	13
Heard neither positive or negative things	47
Visited the BL website	16
Knows who owns BL	13
N	88

Non users were also asked their reasons for not using Business Link and the results are shown in table 5.33. Only a small number of respondents said that they found it confusing or too bureaucratic. This confounds some of the earlier criticism (Curran and Storey, 2000; Smallbone et al. 2001; Reynolds et al. 2004; Westhead and Howorth, 2007) and the charge of administrative failure (Bennett, 2007a). Investigation of the choice by 64% of respondents of “other” reasons for non-usage could potentially provide scope for an interesting follow up study.

**Table 5.33: The Reasons for not using Business Link (Percentage of respondents).**

	%
Too costly	0
Too time consuming	4
Too far away	0
Too confusing	12
Too bureaucratic	20
Others	64
N	25

### **5.7: Ethnographic study of comments related to Business Link**

Eight comments were received regarding Business Link as shown in Table 5.34. There was only complimentary comment which referred to “a very useful service” but even so was not unequivocal in its wording expressing a wish for “more clarity.” The remaining comments often contained vehement criticism of Business Link including criticism relating to complexity or confusion (3), competence of staff (2), service levels, excessive cost and questions regarding relevancy.

**Table 5.34 Comments relating to Business link**

Positive comments
1. I have worked closely with both Business Link and with the RDA's. The level of support often overlaps, and more clarity would be helpful, but by and large they provide a very useful service.
Negative comments
2. Tried to work with business link in the past when setting up and it was so awkward and the paperwork was vast. Was far too complicated especially when you are already bogged down with the business setup. Should have been easier!!!!!!
3. Business link is useless, it employs ill informed unqualified people, who waste time and money
4. Scope for Business Link to join up with professional bodies in promoting business development
5. Too complex; anything to do with the Govt is a pain
6. More investment should be put into self help information systems that can be accessed via the Internet. Consultancy services should be delivered on a commercial basis (with 'voucher' funding or similar) from the government. There are too many incompetent consultants working for Business Link
7. Business Link is very fragmented and confusing. Not able to provide other than very basic advice
8. I used Business Link when I first started my previous business but it was not relevant to the way I wanted to work

## **5.8 Conclusion and Summary of findings**

The 3-tier hierarchy of business support services is developed based upon reported usage levels. High levels of dependency are observed relating to close business and personal associates, including family and friends especially amongst smaller businesses. Use of business services changes based upon business experience and educational attainment of the business-leader. Business maturity and age of the business leader are also factors that appear to affect use of support services, as does business activity, environment, location, business environment, previous business experience and qualifications of the business leader. There was clear support for networking activities although the time allocated to such activities was lower than earlier studies indicate.

The model of a tiered structure of business support corroborates network theory research relating to the embeddedness of small firms and the changes that



occur within small firm's networks as they mature. No significant differences were found by size of business or gender of business leader.

In terms of satisfaction levels, it was apparent that small firms are very happy with respect to tier 1 support services. The highest approval rating was for family and friends and business associates where 93% of respondents expressed themselves to be either "happy" or "very happy." Family and friends scored higher overall as 49% said they were "very happy" compared to 35% who were "very happy" with business associates. Tellingly, the only group where the number of "very happy" responses exceeded "happy" responses was for this group.

Other popular sources included customers (92%) and accountants (89%). Suppliers and solicitors were also well regarded with 85% and 81% respectively. Trade and professional associations and bank managers also fared reasonably well with 65% overall approval levels but noticeably lower respondents reporting themselves to be "very happy." Satisfaction levels are appreciably lower for support services available from dedicated support providers. The lowest levels of satisfaction were recorded for regional venture capital funds, venture capital trusts, the CBI, business angels, and the FPB. In each case more than 70% of users said they were either unhappy or very unhappy. Many respondents were emphatically critical of certain providers with the FPB and regional venture capital funds receiving more than 40% of "very unhappy" ratings. The worst rated service providers were regional venture capital funds where 43% of users were "very unhappy" closely followed by the FPB where 42% of users were "very unhappy." The CBI and Chambers of Commerce also clearly have something to think about in terms of their approach to small businesses as the majority of users were dissatisfied or very dissatisfied with their services.

Business Link scored quite well in terms of overall satisfaction rating with 57% of users reporting that they were "happy" or "very happy" with the outcome. However this is lower than found in earlier studies and there are clearly extant issues as 15% of respondents said that they were "very unhappy" as this is nearly twice as the number of people who said they were "very happy."

Ethnographic analysis provided rich contextual information to supplement the quantitative analysis. Although there were some very positive comments on this subject of networking, there were also many who expressed disappointment with their networking experiences. Reasons cited include lack of requirement as the networking

function is completed elsewhere, lack of opportunity, lack of a clear agenda for the networking event, the existence of ulterior motives, and lack of follow up. This implies that the provision of more structured networking opportunities could overcome these frustrations.

Content analysis based upon comments relating to support services shows a generally negative bias. Even those who responded positively were rarely unequivocal in their comments with several qualifying their positive remarks with a negative afterthought. Many respondents who responded negatively were quite outspoken in their language with regard to institutional sources with one finding that these providers were a “hindrance” rather than a help. Notably there were no negative comments concerning support from close associates including family and friends.

Business Link penetration levels were found to be higher than indicated by previous research. Use of Business Link was found to depend upon the age, gender, education and prior business experience of the business leader and the age, sector, size, business environment, export orientation and level of innovation of the business itself. Usage and satisfaction levels with Business Link services were found to vary according to the specific service provided. Most respondents used general information services and were generally satisfied. Fewer respondents used specialised services. Furthermore, satisfaction levels with specialised services were lower than for general services.

The survey highlights that businesses access Business Link mostly for general information services and were generally satisfied with their experience. In contrast, there was noticeably less usage of more specialised services and respondents were mostly unhappy with the quality of service provided. For those businesses that had not used Business Link, 16% said that they had nevertheless visited the website. Furthermore Business Link does not appear to generate referrals between users and non users as 47% reported hearing neither positive nor negative opinions about Business Link and 40% had not heard of Business Link at all. Reasons cited for not using Business Link were that it was too bureaucratic and too confusing although most respondents did not give a specific reason. The ethnographic analysis provided richer contextual data on this topic, including commentary that it was variously “too complex,” “fragmented,” “not relevant,” “too awkward,” “useless,” and “it employs ill informed and unqualified people.”

## **Chapter 6**

### **Conclusion**

#### **6.1 Introduction**

##### **6.1.1 Aims, Contribution and Beneficiaries of this research**

The main objective of this research is to gain a greater appreciation of the problems encountered by small businesses when seeking support. A key question concerns the relatively low use of public sector support services despite these services being freely available. This research reveals the hitherto unknown importance of network factors when accessing public sector business support services bringing a new dimension for consideration by policy makers when designing such services.

Empirical findings from a specially constructed survey of small businesses show that small firms rely primarily on a cadre of trusted sources of support including family, friends, business associates, customers, suppliers, accountants and bank managers (referred to herein as tier 1 or the inner circle support providers). The banner public sector support agency, Business Link, was found to be a tier 2 supplier along with trade and professional associations and solicitors. All other sources were classified in tier 3.

Despite achieving high levels of satisfaction, Business Link was found not to have sufficiently penetrated small firm networks. Accordingly, policy recommendations are made herein whereby Business Link can improve access to small businesses via accountants and bankers as trusted existing tier 1 suppliers.

The main beneficiaries of this research are the many small businesses that can expect to experience an improvement in the suitability and quality of support services available to them. There are also expected to be wider benefits to society in terms of increased employment, growth and prosperity.

##### **6.1.2 Structure of this chapter**

This chapter is divided into thirteen components including this introduction. Section 2 presents a précis of each of the earlier chapters of this thesis. Section 3 discusses the choice of research framework and debates the deficiencies of both the rational economic and the economic sociology models. Section 4 looks at the status of small business research from a network theory perspective. Section 5 provides a

review of prior research relating to small business support schemes. Section 6 provides a review of the research methodology used herein and section 7 presents the key findings of the empirical study. Section 8 reviews the research questions and hypotheses whilst section 9 looks at the policy implications of this research. Research gaps are identified and debated in section 10. Limitations of this research are discussed in section 11 with suggestions for future research. The research contribution is considered in section 12 and the thesis closes with an overall conclusion in section 13.

## **6.2 Précis of earlier chapters**

Chapter 1 introduced the field of research and highlighted the main areas of research interest. It also outlined the importance of this subject as it pertains to a significant constituency of business activity. Chapter 1 also discussed some of the challenges presented in the field and how these were tackled in practice. Then the research perspective was introduced and the research methodology explained. Chapter 1 also summarised the contribution made by this research.

Chapter 2 described how research into the small business community was slow to develop compared to research into large businesses. Possible reasons for this were posited including the absence of a universal definition of a small business. People and agencies that provide essential support for small businesses were introduced and their roles reviewed. The arguments for and against public sector involvement were debated at length. An appraisal of the literature regarding Business Link, the main UK government support agency, found that researchers are generally critical of this organisation but offer very little constructive advice to improve it. A core theme of Chapter 2 related to the rationale for public sector support. The conventional view that the primary purpose of support is to compensate for market failure was found to be flawed. A more broadly based theoretical framework was subsequently developed.

Chapter 3 presented a critical appraisal of economic sociology as an alternative model to rational economics. In brief, economic sociology considers that human behaviour is influenced by social factors as well as by monetary considerations. Chapter 3 highlighted the intuitive appeal of economic sociology but found that many of the associated concepts remained quite nebulous. However, network theory, which is one of the underlying precepts of the economic sociology model, was considered to be more robust than the model itself and therefore more

suitable for use in research applications. Consequently, Chapter 3 provided a thorough review of network theory and re-formulated the theoretical framework derived in Chapter 2 in network theory terms. In this way, the conceptual model was translated into a practical tool for application in the field.

Chapter 4 contained a detailed account of the research methodology used in this study. It explained the sampling approach employed and described the use of an innovative on-line survey technique to access a population that is renowned as difficult to penetrate. Chapter 4 also provided preliminary insight into the nature of the responses received and the statistical foundation upon which the empirical findings are based. Chapter 4 concluded with a clear statement of the research questions and hypotheses.

Chapter 5 comprised a comprehensive account of the research findings emerging from the empirical data. Using statistical techniques a link between networking and the use of business support services was established. The main hypothesis that network activity influences the choice of support provider was upheld.

This chapter summarises the contents of this thesis and presents the conclusions derived from this research. It reviews the main findings of the empirical research and puts them into context. Finally this chapter makes a number of recommendations for the enhancement of support services for consideration by policymakers.

Having outlined the structure of this thesis, the next section starts by discussing the deficiencies of the rational economic model as a framework for considering small businesses before debating the merits of economic sociology as an alternative.

### **6.3 Theoretical approach: Limitations of available research models**

Silverman (2010: 109) described a research model as “an overall framework for looking at reality.” This section takes a critical look at the rational economic model and debates whether the framework it presents is suitable for use in business research. It finds that it is a poor proxy for the world of large corporations and a particularly inappropriate framework in the context of small businesses.

For most of the Twentieth Century, the pervading view was that markets were efficient and that people behave rationally according to the profit maximisation principle. The enduring power of this model was its clarity and simplicity.

Furthermore, this view of the world was reified by scholars, business consultants, large corporations and government institutions with vested interests in maintaining the status quo. Accordingly, the business world is depicted in diagrammatic format including graphs and pie charts, and success is measured purely in terms of financial performance.

However, unpicking the core elements of the rational economic model exposes 4 fundamental weaknesses:

Firstly looking at the efficient market assumption, Grossman and Stiglitz (1980) argued that this state pertained only where there was no cost to obtaining information. They concluded that in the main, where information has a cost, then the efficient market theory breaks down. Subsequently, Malkiel (2003) acknowledged that whilst short term aberrations may occur, stock markets remain essentially efficient over the long term. The important point is the acknowledgement that markets are not efficient all of the time.

Secondly, Rosenbaum (2000) deconstructed the elements pertaining to market based activity and found that organisational behaviour does not satisfy the conditions of market exchange because of the breakdown of the assumption of perfect competition.

Thirdly, there is doubt about the assumption of rational economic behaviour. On this topic, Granovetter (2002:2) remarked that “any account of human interaction which limits explanation to *individual* interests abstracts away from fundamental aspects of *relationships* which characterize economic as well as other action. In particular, horizontal relationships may involve trust and co-operation, and vertical relationships power and compliance, well beyond what individual incentives can explain.” Similarly, Swedberg (2009: 365) wrote “economic actions, in brief, do not follow the short and direct paths of maximisation, as the economists claim; they rather follow the considerably more complex paths of networks.”

Finally, the veracity of the rational economic model has been undermined by observation of recent events. In particular, Ariely (2009:1) concluded that “the global economic crisis has shattered two articles of faith in standard economic theory: that human beings usually make rational decisions and that the markets invisible hand serves as a trustworthy corrective to imbalance. We need to do replace these and other assumptions with a new approach.”

The conclusion is that the rational economic model has manifold shortcomings. Whilst it may apply for part of the time in particular markets, its usefulness for both general market conditions and non-market activities engaged in by organisations is quite limited. Furthermore, in the context of small businesses a number of other difficulties emerge. Firstly, the presumption of the existence of a market environment is disputable. Indeed, Drakopolou-Dodd et al. (2006:45) argued that small businesses operate in a networked environment where “the market is the network, and it is made real through the mechanisms of structure (who connects to who), content (what is exchanged) and process (how and when do these transactions take place).” Secondly, the assumption that the profit maximisation principle applies to small businesses is challenged by research results that show that small business owners are motivated more by issues relating to autonomy, self fulfilment, status, reputation, philanthropy and a sense of custodianship for future generations than material wealth (Carland et al., 1984; Walker et al., 1999; Reynolds et al., 2004; Westhead and Howarth, 2007). In summary, the rational economic model is under severe strain.

The next part of this section looks at the alternative model of economic sociology where behaviour is determined by social factors as well as monetary influences. Despite being intuitively more appealing this model also has numerous deficiencies. In Granovetter’s seminal works (1973, 1983, 1985, 2002), human behaviour is predicated on the nature of relationship ties and the extent of social interaction. This insight has influenced writers such as Bordieu (1985), Burt (1997), Lin (1999, 2006) and Putnam (1993, 2000, 2004). Although Granovetter’s ideas were revolutionary they lacked clarity. For example, the notion of social capital has been promulgated as a neo-classical re-interpretation of the Marxist idea of physical capital (Lin, 2006) but there are also doubts about whether it is correctly described as a component of capital at all, since it is not clear how it can be increased or measured (Anderson et al., 2007; Haynes, 2009). Similarly, there is confusion about whether social capital is an individual attribute, a network resource or a community asset (Woolcock and Narayan, 2000). It also suffers from issues of circularity (Portes, 1998).

A more focused and potentially more useful idea is social embeddedness. This is “defined as the degree to which commercial transactions take place through social relations and networks of relations that use exchange protocols associated with social,

non-commercial attachments to govern business dealings” (Uzzi,1999:482). Uzzi clearly perceived social embeddedness in a range varying by the degree to which social influences over-ride commercial considerations. Conceptually, rational economics occupies one extreme of this spectrum whilst transactions based upon philanthropic instincts are located at the other. In the same way that rational economics is a poor model, researchers also err if they assume that human behaviour is essentially altruistic in nature. Such naïvety was a flaw in the early work of Granovetter, (1973) and Putnam (2000) and other researchers have identified more manipulative and malign motives determining human behaviour (Burt, 1997; Portes, 1998 and Woolcock and Narayan, 2000).

When viewed along a scale in the manner proposed by Uzzi (1999) the overlap of social embeddedness theory with market structure theory propounded by Rosenbaum (2000) is quite striking (see Table 2.2). Furthermore, as discussed in Section 2.2.3 the predominant source of small business support comprises family and friends representing deeply embedded relationships. It is also confirmed by network theory research (Drakopolou-Dodd et al., 2006; Hite and Hesterly, 2000 and Evald et al., 2006). More recently, Uzzi’s idea of differing degrees of social embeddedness was developed by Johannisson et al., (2002) who formulated a model based upon three distinct “orders” of social embeddedness (see Table 3.2) around which a number of policy recommendations were formulated.

If rational economics represents an over-simplification, economic sociology arguably suffers from being overly complex. It compounds the simple idea of the profit motive at work in rational economics by the multiplicity of issues related to status, reciprocity, trust, social advancement, and issues of power and control. No longer can researchers rely upon the prescriptive qualities of rational economics but must learn to grasp uncertainty and unpredictability.

Although Granovetter (1973) sparked renewed interest in economic sociology, it is his insight into network behaviour that is possibly going to be his most enduring legacy. The subsequent development of network theory provides the yardstick for analysis within the construct of economic sociology. Key network terms have now been clearly specified and the advent of computer-based analysis means that network attributes can be graphically represented and human behaviour better understood. There is also a growing body of empirical work that uses network theory in the sphere



of small business research (see table 3.4). This thesis serves to extend network theory to the study of small business support schemes.

Having discussed the choice of model and theoretical perspective, the next section considers the relatively late development of research into small businesses. It is notable that a lot of progress has been made since researchers began to consider small businesses using network theory.

#### **6.4 Small business research from a network theory perspective**

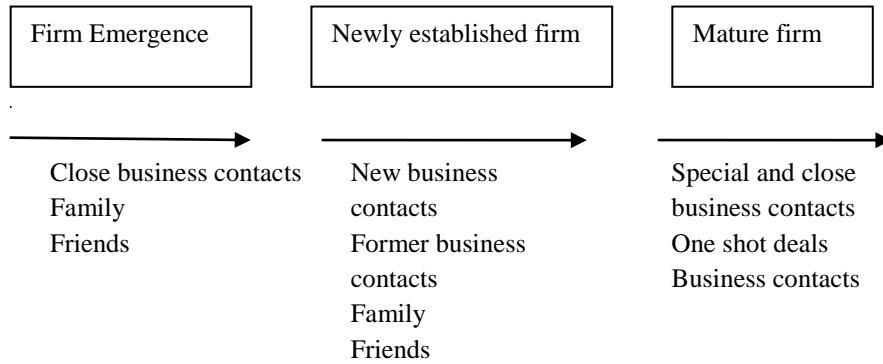
Chapter 2 traced the historic development of business research over the last 100 years from the early focus on large scale enterprises to its more recent interest in small businesses. This trend follows the increasing significance of small businesses in terms of stimulating innovation, employment growth and increasing prosperity (Reynolds et al., 2004). However, researchers originally struggled with this change of emphasis and progress was hampered by the difficulty in agreeing a suitable definition of a small business. Furthermore, theories related to large businesses could not simply be adapted to apply to small businesses (Welsh and White, 1981) and prompted d'Amboise and Muldowney (1988:236) to proclaim that “there is no grand management theory for small business” and “many theoretical propositions are not generalizable.” Subsequent research conducted from the perspective of network theory has at least partially remedied this situation as discussed later in this section.

However, small businesses continue to elude definition. One of the more recent attempts by the EC (2003) categorises nearly 4.5 million UK enterprises as micro-businesses employing less than 10 people. This definition clearly lacks specificity and is particularly unhelpful in distinguishing between different types of small business (e.g. start-up, established, growth, mature, sole trader, family, hobby, serial, entrepreneurial, professional, etc). It serves to highlight the overwhelming number of very small firms but is of scant value when trying to identify small firms in need of support which varies depending, for example, on the age as well as the size of the firm (Scott and Irwin, 2007).

An alternative definition has been developed by Evald et al. (2006) using network theory. This approach characterises firms according to the structure of their networks irrespective of the size or age of the firm. In their framework, small firms are defined by their stage of evolution (see figure 6.1) rather than their size. Emergent or start up firms rely on close circles of family and friends whereas newly established

firms are notable for their extended networks and mature firms have an even wider ambit.

**Figure 6.1: The conceptual framework – Strong and weak ties’ importance throughout the entrepreneurial process.**



Source: Evald et al. (2006:17)

The theoretical basis for this framework was clearly built upon earlier work by Woolcock and Narayan (2000), Johannison et al. (2002), Jack and Anderson (2002), and since been corroborated by Drakopoulou-Dodd et al. (2006), Anderson et al.(2007), Smith and Lohrke (2008) and Jack et al. (2008).

Having established the relevance and value of considering small firms from the perspective of network theory, the following section looks at public sector support schemes starting by exploring the reasons for the existence of such schemes. This leads to the construction of an original conceptual framework based upon four different identified rationales. This framework is then converted into the language of economic sociology and finally made operational by superimposing network theory definitions. This conversion process makes investigation of public sector support schemes accessible from a network theory perspective.

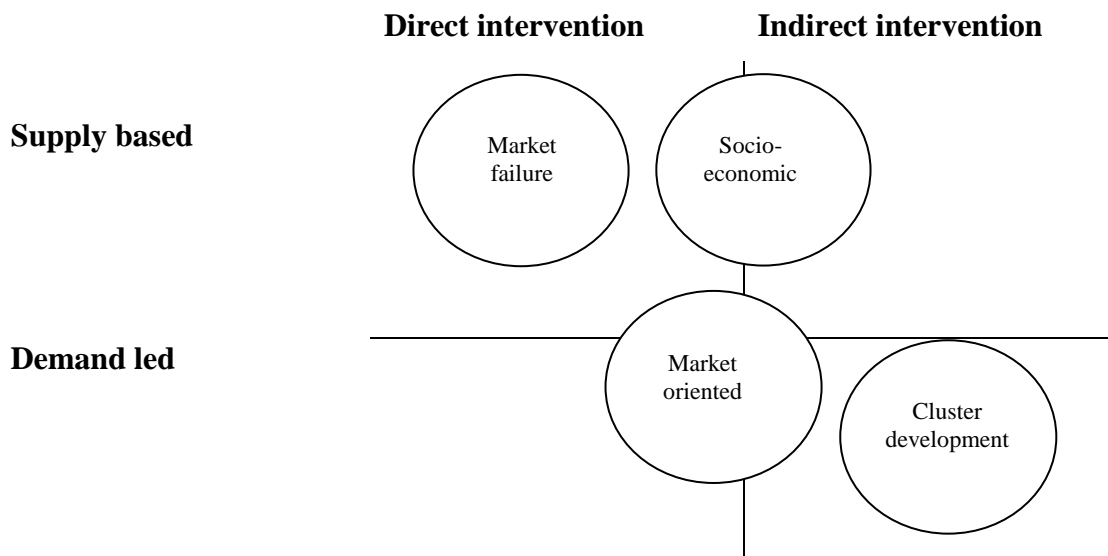
## **6.5 Development of a framework for consideration of public sector support services**

Public sector support for small firms was originally predicated on the identification of a financing gap by the MacMillan Committee (1931). This approach

was based upon the observation that small businesses were disadvantaged compared to large firms due to the market's failure to provide funding. However, it now appears anachronistic in the light of recent work by Ross (1996) who disputes that market failure still exists and Bennett (2007b) who has doubts about the competence of government to identify and compensate for market failure.

More recently, other rationales for the provision of public sector support have been gaining credence. These consider the broader benefits to society of supporting small firms and advocate alternative delivery methods. However, these rationales have not hitherto been integrated into a cohesive framework. This thesis remedies this omission and also distinguishes between supply-based and demand-led services and between direct and indirect business intervention. The framework is reproduced in Figure 6.2 and discussed below.

**Figure 6.2 Topology of UK government policy support for SME's**

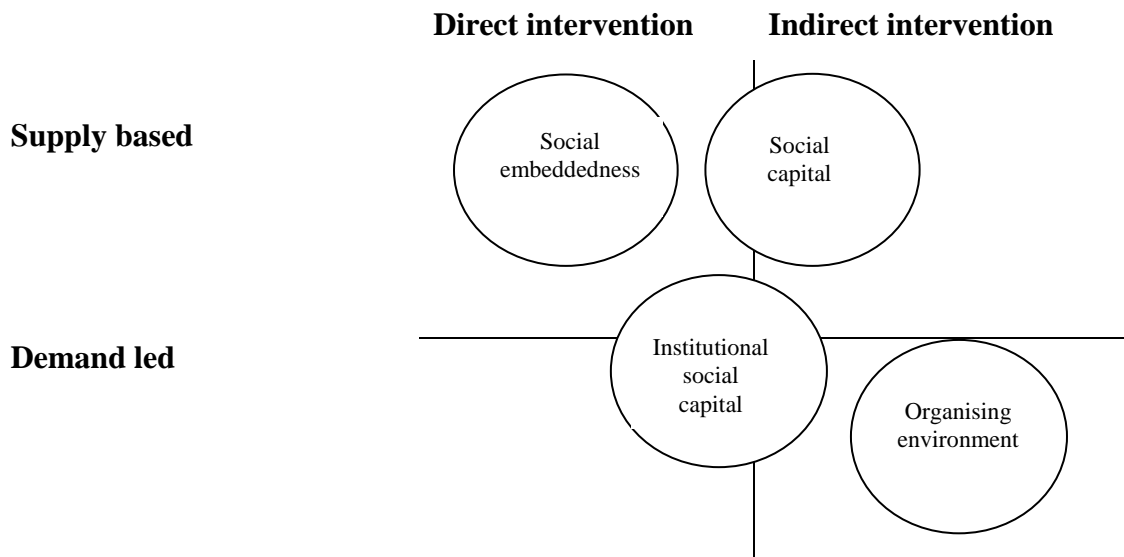


The market failure rationale has already been referred to earlier in this section. It is a supply based interventionist approach where a suite of products exists for direct delivery to small businesses. The social-economic rationale is based upon the belief that broader benefits will accrue from an active small business sector including increased employment and fairer wealth distribution. This approach is encapsulated in the work of van de Walle and Nead (1998: 285) who considered government's "main function in industrialized countries as directed towards redistributive objectives" designed to alleviate poverty and create a fairer society. This approach is

less interventionist than the market failure approach but is similarly supply-based. Critics of this approach argue that there are better ways of achieving the same goals through fiscal policy and other means. The market oriented approach is based upon the work of Hallberg (2000) supported by findings from Davis and Henrekson (1997), Woolcock and Narayan (2000), Carree and Thurik (2002), Stevenson and Lundström (2001), and Johnson et al. (2003). This rationale involves the maintenance of an efficient and reliable infrastructure (e.g. supportive regulatory environment, reliable energy supply, efficient logistics and advanced IT) and provision of a suitably educated workforce that small businesses can access. It is moderately interventionist but notably less supply based than either of the first two alternatives. Regrettably very little further empirical work has been done to assess how specific support services might be designed around this approach. The fourth rationale relates to the observation that businesses in the same sector often derive benefits from grouping together in close proximity with each other. This approach is based predominantly on the work of Porter (2000) who considers that it is incumbent on government to promote the formation of such clusters by targeting four interlinked advanced factors including competition, demand, support industries and associated infrastructure. Although some of these ideas are similar to the market oriented rationale, the approach is differentiated by being much more demand-led. It is also the least interventionist of the four approaches. Critics, including Kent (2007) argue that technology has overtaken this rationale as it is no longer necessary for companies to be in close proximity to gain the benefits of clustering. The similarities between this approach and the ideas of network theory were noted by Johansson and Quigley (2004) and the relevance of network theory to this debate is considered later in this section.

Firstly however, it is necessary to re-cast the framework into the language of economic sociology (see figure 6.3).

**Figure 6.3 Topology of UK government policy support for SME's from an economic sociology perspective**



The framework for public sector support based upon the earlier four distinct rationales, fits readily into the economic sociology model. In transcribing the framework in this way a more coherent picture of the role of public sector support begins to emerge. Social embeddedness and social capital concepts replace market failure and socio-economic rationales. Institutional social capital and the organising environment replace market oriented and cluster development theories.

The final step is to express these ideas using network theory terminology (see table 6.1).

**Table 6.1 Network theory gateway to small business support schemes**

<b>Support rationale</b>	<b>Social capital concept</b>	<b>Network theory terminology</b>
Market failure	Social embeddedness	Network strength Tie strength Network content Network connectivity Network density
Socio-economic	Social capital	Network structure Reachability Bridge ties Network range Network transivity
Market orientated	Institutional social capital	Connectivity Between-ness centrality Network weaving
Cluster development	Organising environment	Clustering Structural equivalence.

In this process, each of the support rationales can be expressed in terms of core elements of economic sociology and subsequently transformed into network theory terminology. This provides an access channel for researchers to study small business support services from the perspective of network theory. This is an important step as it synthesises research related to business support schemes considered in Chapter 2 and network theory considered in chapter 3.

Having established the relevance of network theory in the context of small businesses, the next section describes how the research methodology was designed in order to reach the relatively inaccessible small business community.

## **6.6 Methodology**

Techniques of research into network attributes of small businesses are still in development and there have been no prior research studies into network aspects relating to the use of public sector support schemes. Thus there was a requirement to formulate a fresh research methodology for this research project. The chosen methodology was based upon a large scale quantitative survey augmented with

specific network related questions. Both quantitative and qualitative techniques were used to interpret the results.

In order to overcome research challenges relating to access to the large and diverse population of small businesses, a commercially available database was used to construct a suitable sample frame and sampling methodology. After testing the questionnaire with three small pilot groups, the survey was deployed using a novel on-line format supported by an accompanying mail shot. Respondents were fully informed about the purpose of the research and were encouraged to respond by promise of a small monetary incentive. Responses were collected on-line and downloaded into SPSS for statistical analysis.

Before despatch, the design of the questionnaire was given considerable thought and attention. The development of proxies for network characteristics was a key focus. It was considered necessary not only to put the network-related responses into the context of the replies to the other questions in the survey but also to be able to validate the replies with each other. Consequently, three inter-related network specific questions were crafted. The first question asked what importance the respondent attached to networking activities as a proxy for network strength. The second question concerned the time spent on networking activities and the third question was designed to find out if the respondent intended to allocate more or less time to networking activities in the future. It was intended that the second question would track Drakopolou-Dodd et al. (2006) whilst the third question would check internal validity.

The survey produced sufficient numbers of replies to facilitate statistical analysis as planned. Use of quantitative analysis techniques was supplemented by qualitative work using content analysis of the free format comments made by respondents relating to their thoughts on networking and opinions regarding support providers.

Having reviewed the theoretical foundations for this research and briefly described the process undertaken to derive the empirical data, the next section discusses the main results and key findings from the survey.

## **6.7 Summary of findings**

The data showed statistically significant differences in the use of small business support services according to the personal characteristics of the

owner/manager and affirmed the importance attached to networking activities. Certain business traits were also statistically significant determinants of the level of use made of support services. A tiered model of business support services was developed based upon citations with the most frequently cited sources placed in the first tier. Business Link was found to be located in Tier 2. A gauge of satisfaction levels was also constructed. Overall satisfaction levels were found to be higher for tier 1 providers but lower for tier 2 and tier 3 providers. More respondents were unhappy with tier 3 providers than were satisfied with them. Particular focus was given to the use made of, and satisfaction with, Business Link including respondents' views on their experiences of specific Business Link services. An interesting complementary section reviewed non-users views of Business Link.

### **6.7.1 Development of 3 Tier model of support providers – The Support Rings Model**

It was apparent from the survey results that use of business support varied according to the source of the support. Greater use was made, for example, of friends and family, close associates and necessary experts. A model of three tiers of support usage was constructed based upon the number of citations received for each source as illustrated in Figure 6.4.

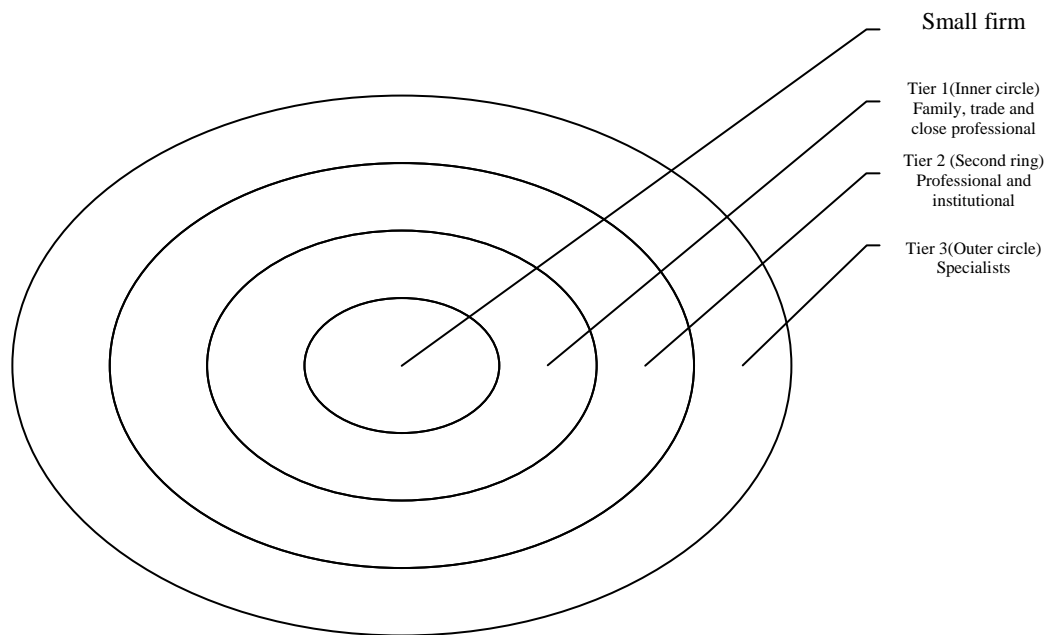
The first tier or inner circle, with the highest number of citations comprised family and friends, business associates, inter firm contacts, bank managers and accountants. This tier was cited by in excess of 70% of respondents. Interestingly, within this tier, start up businesses made much more use of family sources than more established firms but the use of friends was relatively constant. It was also notable that the use of accountants, and business associates increased dramatically post start-up indicating migration towards third party providers. However, the use of bank managers dropped.

The second tier or the second ring, of support providers comprised solicitors, Business Link and Trade and Professional Associations which were cited by more than 50% of respondents. Once again migration was observed between sources within this tier as the use of solicitors, trade associations and business consultants all increased.



The third tier or outer circle comprised a range of individuals, institutions and other bodies including many dedicated representative organisations, none of which achieve more than 40% citations.

**Figure 6.4 3 Tiers of business support – The Support Rings Model**



This model represents an easily recognisable and memorable representation of the small business support schemes. It is seen to closely resemble the model of Economic, institutional and cultural embeddedness developed by Johannison et al., (2002) (see Figure 3.2).

### **6.7.2 Statistically Significant Determinants of Use of Business Support Services**

The results of the survey showing statistically important associations broken down by tier are shown in table 6.2 which illustrates the core factors that are significant determinants of usage across most tiers of providers. Notably, key qualities associated with the business leader are important. These include gender, whether the individual has a degree education, and prior business experience or multiple business interests but not their age. Business related factors include age of the firm, sector, business environment and export orientation. Interestingly the extent

of innovation is only significant for accessing tier 3 suppliers. The table is also revealing for the factors that do not affect the level of usage. For example constitutional form, firm size (both by revenue and employee number), regional location, historic growth trends and future growth aspirations are not material factors. Many of these factors were found to be important in respect of Business Link (see Table 6.4).

**Table 6.2 Factors affecting the use of business support providers**

	Tier 1	Tier 2	Tier 3
Sector	✓	✓	✓
Exporter	✓	✓	✓
Innovation			✓
City Based		✓	✓
Rural location	✓	✓	✓
Gender of leader	✓		✓
Age of firm	✓	✓	✓
Degree Education	✓	✓	✓
Serial entrepreneur	✓	✓	✓
Portfolio	✓	✓	✓

✓ Significant at 1% level; ✓✓ Significant at 5% level; ✓✓✓ Significant at 10% level

Respondents were also asked to provide an indication of their degree of satisfaction with their experiences according to identity of provider. Once again a number of key factors were found to be significant. These are shown in table 6.3 illustrating the same factors that affect usage also affect satisfaction levels, but there are also some additional variables at work. For example satisfaction rates vary according to the size of the firm (by number of employees but not by turnover) as well as geographic location. The age of the business leader is also relevant.

**Table 6.3: Factors affecting the satisfaction with business support providers**

	Tier 1	Tier 2	Tier 3
Sector	✓✓	✓✓	✓✓
Exporter	✓✓	✓✓✓	✓✓
Innovation	✓✓	✓✓✓	✓✓
Business Size	✓✓✓	✓✓	✓✓✓
Urban	✓✓	✓✓✓	✓✓
City Based	✓✓	✓✓✓	✓✓
Rural location	✓✓	✓✓✓	✓✓
Region	✓✓	✓✓	✓✓
Gender of leader	✓✓✓	✓✓	✓✓
Age of firm		✓✓	✓✓
Age of business leader	✓✓✓		✓✓
Degree Education		✓✓	✓✓
Serial entrepreneur	✓✓		✓✓
Portfolio	✓✓		✓✓

✓ Significant at 1% level; ✓✓ Significant at 5% level; ✓✓✓ Significant at 10% level

When looking specifically at Business Link, it was clearly seen as a tier 2 provider being cited by 57% of all respondents but, was at the bottom in terms of help with start-up and running a business, scoring only 1% in each case. Business Link is clearly considered a source of information rather than a source of practical support. General information services were the most cited category of support (68% of Business Link users). Factors affecting usage and appreciation of Business Link were similar to those affecting other Tier 2 sources of support with some notable exceptions (see Table 6.4). For example missing factors were export orientation, gender of business leader, other business activities or experience, age of firm or growth orientation of firm. Similarly, satisfaction varied by sector, export orientation, level of innovation, region and age of firm. Satisfaction was not conditional on size of firm, business environment, gender, educational background or age of business leader, or business experience.

**Table 6.4: Factors affecting the use of and satisfaction with Business Link**

Business Link	Use	Satisfaction
Sector	✓	✓✓
Exporter		✓✓✓
Innovation		✓✓
City Based	✓	
Rural location	✓✓✓	
Region		✓✓✓
Age of firm		✓✓
Degree Education	✓✓✓	
Serial entrepreneur	✓	

✓ Significant at 1% level; ✓✓ Significant at 5% level; ✓✓✓ Significant at 10% level

After general information services, the most often cited services were sales and marketing (47%), financial advice (42%), IT (41%), start-up support (40%) and employment advice (40%). All other services were cited by less than 40% of users. The lowest take-up levels were reported in respect of the loan guarantee scheme (27%) and buying and selling businesses (29%).

The take up of individual Business Link services and satisfaction therewith is linked to a variety of factors. Service businesses in general make greater use of all services than other types of firms. Businesses in London are more likely to use IT services. Micro firms use most services less and small businesses use most services more than modest or medium sized firms. Older firms are more likely to use IT and sales and marketing services. Degree educated business leaders are more likely to use all services. Exporters are higher users of IT, sales and marketing and export/import services than non-exporters. Serial and portfolio business leaders are greater users of most services than novices. Innovative businesses are much more likely to use the full range of services than less innovative businesses.

In addition to the quantitative analysis, a qualitative analysis was undertaken of comments made in free format style, on the general topics of networking, attitudes towards small business support schemes and Business Link. Content analysis techniques were used to uncover themes and to draw inferences. Key words or phrases were placed into categories so that meanings could be discerned.

Despite the higher number of negative comments than positive comments regarding networking, the strength of the words employed to express positive attitudes towards networking counterbalanced the milder language of the negative comments. More positive comments were received in respect of networking than for either general business support or Business Link indicating a more open-minded approach to networking than to business support. In general, the vehemence of the language used to express negative attitudes towards business support schemes exceeded the relatively mild and generally qualified positive comments.

**Table 6.5 Ethnographic summary**

<b>Category</b>	<b>Number Positive Comments</b>	<b>Number Negative Comments</b>	<b>Key positive expressions</b>	<b>Key negative expressions</b>
Networking	14	16	Important/Essential/ Vital (8) Progress (8) Referrals (5) Gaining access (4)	No need (8) Lack of time (4) Poor experience (5) Difficulties (3) Lack of trust (2)
Business support schemes	7	37	Useful (3) Essential (1) Good (2)	Not relevant (8) No help (7) Incompetent (4) Waste of time/money (3)
Business Link	1	7	Very useful (1)	Too complicated (3) Incompetent (2) Wastage (1)

Having discussed the findings of the survey, the next section looks at the implications of the empirical study in relation to the research questions posed in chapter 4.

## **6.8 Research questions and hypotheses**

### **6.8.1 Research questions**

The research questions posed in Chapter 4 (section 4.9) and are repeated here for ease of reference.

#### **Question 1. What do small business leaders think about networking?**

**Answer 1.** There is clearly a strong sense among small business leaders that networking is an important activity. Indeed 82% of respondents rated network activity as quite important, important or essential. However, despite this small firms dedicate a surprisingly small amount of time to networking with the majority spending less than an hour a week. Many state that they would like to spend more time on this activity with more than 80% of using tier 1 providers expressing this aspiration. Content analysis of voluntary comments made by respondents indicates that business leaders perceive value in engaging in networking activity to learn about opportunities and to gain information about customers and competitors

**Question 2.** Do policy makers need to pay more attention to the network environment of small businesses in the delivery of small business support schemes?

**Answer 2.** This research has demonstrated the importance of network influences in respect of Business Link with 87% of Business Link users reporting that they believe networking is important. It has also shown that there are nearly 3 times as many positive opinions shared than negative referrals. However, 40% of non-users had not heard of Business Link at all. Prior research has established that there are material opportunities and benefits available to small businesses emanating from improved networking. A greater understanding of the importance of the network environment of small firms is expected to lead to greater realisation of relevant opportunities. Policy makers are encouraged to utilise the framework for business support developed in this thesis to develop business support schemes using the model of economic sociology and utilising network theory insights.

**Question 3.** Do policy makers need to re-design small business schemes taking more account of demand side factors?

**Answer 3.** It is apparent from the ethnographic analysis that small businesses do not regard small business support schemes as particularly relevant to their needs. The analysis shows a desire to see a simpler system delivered by more highly qualified personnel and the development of more network related services. The implications of this are discussed in section 6.9.

**Question 4.** Do the answers to the above questions depend upon individual characteristics of small businesses or small business managers?

**Answer 4.** Use of small business schemes also varies by sector, environment, export orientation and level of innovation of the business. It is also influenced by the gender, age and educational background of the business leader together with his/her prior and concurrent business experience. Business size and geographic location do not affect usage of business support schemes

**Question 5.** What are small business views on and experiences with Business Link and do these vary by any of the factors listed in question 4?

**Answer 5.** The majority (57%) of small businesses are satisfied with their experience of Business Link. However, there is a wide range of satisfaction levels depending upon the specific service. For example, although 71% of users are happy with general information services but only 33% are satisfied with the loan guarantee scheme or services connected with buying and selling businesses. Satisfaction levels also vary depending upon sector, geographic location, age of the firm, export orientation and level of innovation. Personal qualities of the business leader do not affect satisfaction levels. There were numerous suggestions for additional services to be provided by Business Link including explicit requests for help in gaining grants and accessing support from the EU. There were also suggestions that Business Link should foster increased networking activity. However, despite, an overall positive satisfaction rating, there is a clear need for improvement as 15% of users expressed themselves to be “very unhappy.” Furthermore, 8 users were emphatically critical in separate comments and one respondent commented that dealing with Business Link made him feel “suicidal.”

Having considered the research questions, the next section considers the research hypotheses and the extent to which these have been addressed.

### **6.8.2 Research Hypotheses**

Three hypotheses are presented in this section. The key hypothesis is that there is a link between network activity and patterns of usage of business support schemes. The second hypothesis relates to the characteristics of small firms and their leaders which have a role in determining the use of small business support schemes. The final hypothesis relates to Business Link having failed to develop a network based approach to small businesses.

**Hypothesis 1.** There is a link between small firm network activity and patterns of use of small business support schemes

The development of the 3 tier model of support services demonstrates that network influences have an important role to play in the choice of support provider. The model reinforces the network view of small firms and shows that much greater reliance is placed on close knit groups of key supporters especially during the start up phase.

**Hypothesis 2.** There are significant differences in use of support schemes depending upon age, size, activity, legal form, location, growth and growth aspirations, export orientation and innovative style of small firms

This hypothesis is partly proven. Whilst there are statistically significant differences associated with business activity, export orientation, level of innovation and business environment, the other factors are not linked.

**Hypothesis 3.** Business Link has failed to develop effective network referral mechanisms.

The answer to this hypothesis is not clear cut. It is commendable that Business Link is a tier 2 supplier with citations from 57% of respondents (see table 5.2). In addition, 13% of non-Business Link users have heard positive things about



Business Link compared to only 5% who have heard negative things (see table 5.28). This compares to 57% of Business Link users who express themselves to be happy or very happy with their experience. Clearly more positive messages are being conveyed than negative messages, but this leaves 47% who have heard neither positive nor negative things and 40% who have not heard of Business Link at all. Furthermore, 87% do not know who owns Business Link despite clear statements on the website that it is an organ of government. Clearly more can be done to raise awareness and to promote a more positive image of Business Link. This topic is taken up again in recommendations for the future of Business Link considered in section 6.9.

Having reviewed the research findings and considered the key questions that prompted this research, the next section assesses the implications of the answers for policy design and delivery of future small business support services.

## **6.9 Policy implications**

Business Link has been subject to frequent external change imposed upon it by politicians. It has experienced a series of radical policy shifts as successive governments have sought to improve its performance or redefine its purpose. The latest policy change is currently underway following the election of the Cameron/Clegg government. Curran and Storey (2000) deplored such inconsistency in policy making arguing that it caused inconsistency and confusion. Sheikh et al. (2002) observed that it produced a proliferation of schemes that were difficult to assimilate and also that frequent changes made it difficult to identify which were most effective.

Clearly inconsistent policy has affected delivery and elicited critical comment from the academic community. However, with rare exceptions researchers have offered little guidance to government to assist in the formulation of policy. Even those that have made recommendations have either been too vague to be of practical value (Johannison et al., 2002), or stopped short of making definitive policy recommendations (Mole, 2004). Table 6.6 presents a critical assessment of the contribution of these researchers to the policy debate.

**Table 6.6 Summary of public sector support for Small Business combining Mole (2004), Woolcock and Narayan (2000) and Johannison et al (2002)**

Theoretical perspective	Market failure/social embeddedness	Socio-economic policy/social capital	Market Development / Institutional social capital	Cluster Development / Organising environment
Networks view Woolcock and Narayan (2000)	Networks view	Communitarian View	Institutional view	Synergy view
Administration	Specific organisation	Specific organisation	Specific organisation	Specific organisation
Rationale	Focus on building network strength and connectivity	Development of network structure, bridge building and transivity	Concentration on network weaving	Identifying network clusters and supporting network equivalence
Explicative rationale	Small firms need to extend their network contacts to evolve from emergent or newly established businesses to become mature businesses			
Rationing	Targeted, free, local	General, subsidised, local	Sector specific, subsidised, local	Cluster based, local
Policy prescription Johannison et al (2002)	Facilitation of interaction between businesses	Facilitation of interaction between business and community organisations	Facilitation of contacts between business and economic institutions	Facilitation of interaction between businesses and social/economic institutions
Advantages	Policy can be set centrally and implemented locally Can be specifically targeted to individual firms Possibility of targeting emergent, newly established and mature firms separately Can be tailored to individual needs	Community participation can be rewarded with public service awards Simplicity, speed and flexibility of design	Policy can be set centrally and adapted for local conditions Engages local businesses in civic activity	Possibility of targeting specific geographic areas for accelerated development
Disadvantages	Difficult to access individual firms Time consuming Difficult to measure effectiveness Challenge to overcome scepticism	Difficult to identify social contributions Tackles symptoms not causes Difficult to target accurately	Susceptible to local political issues	Difficult to identify cluster participants Difficult to design appropriate policies Difficult to implement Difficult to measure effectiveness Requires significant goodwill and trust between participants

The new government is seen to be taking heed of some of these messages. For example, the announcement of proposals to set up Local Enterprise Partnerships between business and local authorities is a good start in helping to build institutional embeddedness. Similarly, the proposed reintroduction of enterprise zones should promote the development of clusters. The debate about the creation of a “big society” is also encouraging in terms of its implicit support for ideas emanating from the social capital debate. A missing facet appears to be the establishment of any schemes to foster the development of community based activities of small businesses. Subsequent research will no doubt be directed at investigating the success of the individual specific initiatives that have been announced.

However, in order to capitalize on this research, government needs to be more radical in its approach to the small business sector. Support services need to respond to the needs of small businesses by becoming more demand-led rather than supply based. This means finding out what small businesses want rather than simply determining what to supply. For this, a better understanding of the motivations and aspirations of small business owners is required. Greater appreciation and use of the network environment of small firms and their owner/managers is also necessary.

This research provides a vital bridge linking small business network theory to policy making. This is achieved by use of the Support Rings Model and existing network theory relating to the importance of weak ties, first identified by Granovetter (1973, 1983) and modified by Jack (2005), combined with the structural holes theory developed by Burt (1997).

The Support Rings Model shows that small firms make extensive use of their inner circle of support providers. The results of the survey also show that small firms are generally very happy with the support they get from this inner circle of close relationships. However, network theory shows that close groups can also have a darker side. For example, Portes (1998:15) observed that they can mean “exclusion of outsiders [and] restrictions on group members.” Similarly, Borgatti and Foster (2003:994) described “social ties [which] imprison actors in maladaptive situations.”

Network theory of the evolution of small firms developed by Hite and Hesterly (2000) and Evald et al. (2006) indicates that small firms extend their networks as they grow. In other words, they transcend the enclave of close support providers by seeking out other sources. Expressed in these terms, the conundrum for

policy makers becomes transparent: how to access small firms that are constrained within close relationships with existing core support providers?

Granovetter (1973) noted the importance of weak ties in learning about external events. Burt (1997) added to this by observing that conscious actions by network agents can also act as bridges over structural holes in a network and that these agents have a lot of power. As noted by Jack (2005) strong ties can be used as bridges to weak ties whereby the inner circle is not breached directly but the network is nevertheless de facto extended. This is very similar to Granovetter's (1983:218) concept of transitivity, defined as "the tendency of one's friends' friends to become one's friends as well."

So the policy conundrum can be re-expressed as the need to find a strong network tie that can be used as the conduit to penetrate the inner circle of small firms support networks. Using the Support Rings model the solution becomes apparent. Since accountants and bank managers are members of the inner circle it makes sense to use them as the bridge between Business Link and small businesses. Although both are potentially valuable in this context, the survey findings show that accountants achieve higher overall usage citations of 86% compared to bank managers at 79%. They also achieve higher satisfaction ratings of 89% compared to bank managers with at 65% (table 5.2 and table 5.10). However, bank managers have the advantage of slightly better penetration of start-up businesses (table 5.4).

The advantages of using accountants and bank managers to promulgate the services of Business Link are clear:

- Accountants and bank managers are easily identifiable and accessible;
- Small firms are generally more difficult to locate and access;
- Accountants and bank managers are trusted by small firms;
- Accountants and bank managers are professionally trained to understand the commercial and financial issues surrounding small forms;
- Accountants and bank managers are intimately aware of the circumstances of their small firm clients;
- Accountants and bank managers can relay small firms' needs back to support providers;
- Accountants and bank managers have a vested interest in seeing their clients prosper so that they can provide ancillary services.

The policy question is then reduced to one of how best to utilise accountants and bank managers in the role of ambassadors for public sector support schemes and emissaries for communication of the needs of small businesses whilst retaining government influence over socio-economic outcomes? The question of conflict of interest also arises.

A number of solutions present themselves.

Firstly, including knowledge of small business support schemes as a compulsory part of professional qualifications will help to discharge the criticism that Business Link advisers are incompetent.

Secondly offering employer organisations transparent incentives for client referrals will alleviate issues relating to conflict of interest.

Thirdly, rewarding individuals for suggestions relating to product innovations based upon feedback from small businesses will help to make products more demand-based.

Fourthly, and more radically, devolving ownership and operation of Business Link to the private sector will bring clarity to the delivery model. This could be via a newly formed institution with personnel drawn from accountancy firms and banks in an echo of the creation of the ICFC in 1945 with the proviso that the obligation to provide necessary funding is retained by the government. The issue of governance could be addressed by appointing senior representatives of the large accountancy firms and senior bank executives to the board which would also include senior civil servants. In this way policy would be set by the board and not be at the political whim of successive governments. Although this is a dramatic choice it will be imperceptible in the eyes of users as 87% of small businesses responding to the survey who do not know who owns Business Link.

These policy proposals and the changes to the support system engendered thereby would represent a fundamental reform to the way in which government approaches this topic. However, the key components are already in place represented by the extensive networks already in existence between accountants and banks and their small business clients. Furthermore, Business Link already has an established working on-line infrastructure. Nevertheless, it is recommended that the proposals are implemented in phases beginning with a training programme for accountants and bankers followed by a small test sample and a larger field trial. Planning for the

devolution of Business Link could be conducted in parallel and implemented once the practical issues of the roll out had been considered.

Having constructed a research framework and model of the support environment, this section has used key network theory to develop a set of policy proposals aimed at empowering trusted members of the inner circle of business advisers to deliver public sector support services. In this way small firms will have a say in determining the types of services that are available and will be encouraged to progress towards maturity whilst still retaining the strong ties that sustain them. The collateral benefits should flow through to society in terms of business success and increased prosperity as a consequence of improved small business performance and increased employment.

The policy prescriptions developed above are based upon the literature reviews and the findings of this research. Whilst the work performed hereby is complete in itself, a number of research gaps have been identified during the course of this project which may form the basis for future research on this topic. The next two sections summarise the research gaps and suggest potential areas for future research.

### **6.10 Research gaps**

This research represents a major step towards improving the provision of small business support services. In conducting this research, a number of research gaps were identified and closed. Whilst these have been highlighted throughout the text, it is pertinent to summarise them here for future reference.

Research gaps were found to exist in four categories. Firstly, the prevailing research model of rational economics was discovered to be a poor fit for the study of small businesses. Secondly, previous research using traditional organisation theories had failed to advance knowledge concerning small businesses. Thirdly, there was no theoretical framework for use by researchers when studying the small business sector until network theory was employed. This framework needs further development. Finally, there was no integrated theoretical framework for the supply of public sector support services.

This research has addressed a number of these gaps. Firstly, economic sociology was discovered to provide a better fit for the everyday activities of small businesses. Secondly, a conceptual framework for the provision of small business support services was developed and made accessible in network theory terms.

However many gaps remain. In particular, the conceptual framework relating to economic sociology is incomplete with many core concepts are lacking detailed specification. Similarly, network theory is still evolving and although substantial progress has been made within social network analysis, it still lacks prescriptive capacity. Finally, the framework developed for consideration of small business support services remains a theoretical construct as no empirical research has been conducted to test its veracity. This is a gap that has arisen as a result of this research. Table 6.7 summarises these points and presents a “before and after” analysis of the status of these topics.

**Table 6.7 Research gaps – “before and after”**

<b>Research Gap</b>	<b>Before this Research</b>	<b>Contribution of this research</b>	<b>Current status</b>
Limitations of classical economics model	Rational economic model to study small businesses represents a poorly fitting framework for this population	Consideration of small businesses from the perspective of economic sociology represents a better fit. Associated network theory perspective used in research methodology.	Numerous gaps remain in the conceptual development of the economic sociology model.
No theoretical framework for the study of small business	Mixture of disparate research studies into small business behaviour and flawed attempts to retro-fit theories derived from the study of large organisations	Greater understanding of the network environment of small firms	Still no general framework
Poor specificity in prevailing definitions of small businesses	Definition based predominantly on size does not capture the human qualities of small firms. Micro-businesses are not sufficiently differentiated	Identification of definition of small business according to the Evald et al., 2006.	Distinctions between phases are not clear and no empirical work has been done using this definition.
No framework for small business support schemes	Jumble of half formed policy rationales does not equate to a coherent framework and poor basis for policy formulation	Development of a 2x2 framework, translation into economic sociology model and made accessible using network theory. Creation of Support Rings Model	Remains subject to critical assessment and testing.



This section considered the research gaps extant at the beginning of this research and identified gaps still unfilled on completion of this research. It is beyond the scope of this thesis to attempt to address all of these research gaps. The next section looks at the limitations of this research and suggests ways in which future researchers can build on its findings. It also identifies other possible future avenues of research to address the remaining gaps.

### **6.11 Limitations of this research and suggestions for future research**

This research has been based upon a large scale survey which has produced a number of interesting conclusions regarding small firm network activity and its correlation to the use of small form support schemes. However, the data set contains much richer data relating to the nature of small business ownership and activity which can be re-examined to generate additional insights. This could reveal more insights about small business behaviour with implications for the design of small business support schemes.

The research data was gathered during the early stages of the financial crisis in 2008. Data gathered at a different time may have provided different results. Further research is recommended using the same sample set to derive a longitudinal perspective on the networking activities of respondents to determine the survival rate correlated with networking activities and use of small business support schemes.

This research has endeavoured to include all pertinent research material. However, bearing in mind the wide ranging scope of this report, encompassing social, political, economic, conceptual, theoretical, practical and analytical dimensions, there will inevitably be material that has been overlooked. This is considered not to be the case in any material sense. However, theories change as knowledge develops and research gaps are closed. This is particularly relevant to the dynamic field of network theory. Subsequent researchers may find it fruitful to enquire further into the network behaviour of small businesses based upon the findings of this research.

The use of an on-line survey is a departure from telephone and postal campaigns used by previous researchers. Whilst this research technique provided significant benefits in terms of cost and efficiency of data collection, traditional methods may have produced different results. An interesting future research project may involve the dual use of both on-line and traditional methods in order to compare results.

As discussed above, research gaps still exist and new gaps have been created as a result of this research. There are a number of follow-on research studies that can be conducted to illuminate the remaining gaps. For example social network analysis which post-dates much of the theoretical work relating to social capital could be used to re-examine this concept.

Having examined some of the limitations of this research and highlighted a number of possibilities for follow-up work, this chapter concludes with a summary of the contributions made by this research.

## **6.12 Contribution of this research**

This research is concerned with finding out whether policy makers should be making more use of small firm networks when providing support services. It represents a significant step forward in deepening the understanding of the small business community and solving the mystery of low take up of public sector support services despite many being provided free of charge.

This thesis builds and develops a model of business support that explains the role of the public sector in providing support for small businesses to help to locate its position in the galaxy of small firm support networks. Using this model to undertake empirical research, a picture emerges of small firms embedded in tiered layers of support providers (the Support Rings model) which positions the public sector in the second ring (tier 2) compared to close associates in the inner circle. This research therefore provides valuable insight into the importance of network determinants of small business behaviour and indicates the possible future shape and direction of public sector support services in order to improve the reach of such services to assist those small businesses in need of support.

The contributions made by this research are manifold. Valuable contributions are made to knowledge, theory and practice and then applied to the development of policy. The addition to knowledge emanates from the empirical work and the contribution to theory derives from the construction of a new research model. The contribution to practice arises from the use of an innovative research technique. The application of new knowledge to improve policy formulation should lead to tangible benefits for small businesses and positive impacts on society. Each of these aspects is considered in more detail below.

### 6.12.1 Contribution to knowledge

The contribution to knowledge is twofold – theoretical and empirical. Firstly, this research presents two significant advances in theoretical knowledge relating to small businesses and small business support services.

#### **i) Contribution to theoretical knowledge**

a). this research overturned the assumption that small businesses should be viewed within the framework of rational economics as purely economic entities. By exploring and debating the alternative economic sociology model, the development of a theoretical framework for the consideration of small businesses is moved closer.

b). by challenging the conventional view that the primary purpose of public sector support schemes is to compensate for market failure, this research posits a broader conceptual framework within which the true multi-dimensional nature of public sector support is discerned.

Secondly, this research makes two important contributions to empirical knowledge as a result of analysis of the survey results.

#### **ii). Contribution to empirical knowledge**

a). Findings from the large scale survey serve to enhance knowledge about small firms and the pattern of use of small firm support services. Statistically significant correlations are discovered which relate characteristics of small business leaders with use and satisfaction of various support providers. This knowledge will enable business support providers to better target the marketing of their services to capture not only those older, better educated and serial business leaders who already use business support services but more importantly to reach those that may not naturally fall within their ambit.

b). The research findings are used to postulate a three tier model of sources of business support (the Support Rings model). This model provides a powerful way of looking at small businesses in the context of their support networks and leads to a deeper understanding of the role of different support providers. Its discovery underpins the policy recommendations discussed in section 6.9.

### **6.12.2 Contribution to the wider research community**

The contribution to the research community is based upon the development and use of a number of innovative research techniques.

#### **Development of a research tool**

The conceptual framework for public sector services has been developed into an operational tool for the conduct of future research. This tool not only allows research to interrogate small business support services in a new way but can also be used to map the promulgation of Business Link services throughout small firm networks. In this way, impact and effectiveness of public sector support schemes can be accurately assessed for the first time.

#### **Improved access to the small business population**

Accessing the small business population is notoriously difficult due to its dynamic state and its inherent opacity. This research project developed an effective methodology to access this population using a commercially available database. Contact details of a large percentage of the population were acquired and the responsibility for verifying the data was taken by the database provider. This provides a much more straightforward, reliable and replicable technique than trying to access government records.

#### **Improved sampling techniques**

Obtaining a valid statistical sample of the small business population is fraught with hazard due to its heterogeneous nature. This solution was to use the search and select functions available within the database. Improved statistical sampling techniques help to overcome many of the pitfalls encountered in the sampling process in previous studies and enable research findings to be generalised.

#### **Improved survey technique**

The use of an on-line survey is an original research design. This technique has numerous benefits including reduction of cost, ease of construction and deployment. The capture of data electronically reduces paper usage and also saves time in subsequent coding and analysis. Furthermore, this aspect also reduces the risk of coding errors. The rationale for this approach is discussed in detail in Chapter 4 and a

detailed description of its practical usage is provided. Greater use of such methods is expected to simplify the conduct of future research.

### **6.12.3 Contribution to business**

Small business are not making full use of the range of public sector support services available to them mainly because they are not aware of them or they think they are not relevant to their situation. This research has shown that small firms make extensive use of tier 1 support providers with whom they are generally satisfied. However, as they evolve they require access to more sophisticated services available from tier 2 and tier 3 providers. Adopting the policy prescriptions to make use of accountants and bankers as trusted intermediaries for the delivery of public sector support services will facilitate greater access by small businesses and trust in these services and a more tailored approach to the design of products. Ultimately devolving ownership of Business Link to members of the accountancy and banking professions and empowering management of Business Link with an independent board should help to bring clarity of purpose and accountability as well as liberation from political interference.

### **6.12.4 Contribution to society**

Small businesses play an important part in the prosperity of society as a whole. Not only do they account for a large proportion of output but also employ a high percentage of the workforce. Furthermore, previous research has shown that small businesses stimulate innovation, competition and economic growth (Dharwan, 1999); Wennekers and Thurik 1999; Carree et al., 2000; Andretsch and Thurik, 2001; Madison, 2001). Economic sociology propounds that increasing social capital by building networks also has direct consequences on the functioning of society including child welfare, public health, crime reduction, increased life expectancy and increasing prosperity (Lochner et al., 1999, Spies-Butcher 2003; Walker, 2004; Ottebjør, 2005; McLaren and Baird, 2006). Therefore by helping small businesses to prosper by improving access to support services and strengthening of networks, government can expect positive societal outcomes.

### **6.13 Overall Conclusion**

This research adds to knowledge, theory and practice and makes an important contribution to the understanding of the networked nature of small business support services. It uses this knowledge to make radical policy recommendations for the future shape and direction of public sector support services.

This thesis describes the logical progression of the research process from theory building to practise and application. Firstly an original conceptual framework was built and subsequently converted into a research tool. Next the data collection process was described and findings analysed using both quantitative and qualitative methods. Research findings were then fed back into the research design in order to refine theory. Next the modified theory was used to develop the Support Rings Model describing the small business support environment. Finally this model was used to develop policy and make a number of suggestions for the radical re-shaping of the system of public sector support for small businesses.

In chapter 2, the theoretical foundation for this research was established. This involved the construction of an original framework to represent the four main rationales for public sector intervention. The assumption that intervention was required to compensate for market failure was discovered to be an anachronism. Indeed, it became apparent from an analysis of government rhetoric over the last 10 years that there existed a blatant socio-economic dimension to the government's willingness to provide small business support services. The focus on this macro view and the pursuit of societal aims seemed to preclude even the most basic need to measure the impact of support schemes on target businesses. On further consideration, both of these rationales were found to reflect an arrogant, supply side imperative which was aggravated by a pre-disposition for interventionism ingrained in policy formulation since the 1930's. The other rationales, namely cluster development and market oriented approach were found to be inherently less incursive and more client-focused than either the market failure or socio-economic perspectives but lacking in empirical support. Nevertheless, these alternatives were debated in detail and proposed as the third and fourth quadrants of the new framework.

The fallacy of thinking of small businesses in rational economic terms was exposed in chapter two. The merits of adopting the alternative model of behaviour based on economic sociology were discussed in chapter 3. The framework for public sector support conceived in chapter 2 was then re-cast in terms of this alternative

paradigm. The opportunity was taken to synthesise the many disparate network definitions, often used quite loosely by network researchers, in an attempt to unify the research terminology for this and subsequent research projects. The body of work relating to small firm networks was reviewed and assessed. It was then used to transcribe the framework for public sector support into network theory terminology for operationalisation in the empirical research.

A notable contribution to methodology and practice was achieved by the use of an on-line survey tool extending the range of research methods available to researchers in this field. The survey design incorporated a stratified random sample of small businesses segmented by size, sector and region derived from the Thomson database. The survey was undertaken between August 2007 and September 2008 generating usable responses totalled 255 and therefore presenting a worthwhile, contemporary empirical dataset for the study of small firm support providers. Survey results were analysed using both statistical and ethnographic methods and presented in chapter 5. The survey findings revealed, inter alia, the presence of a link between the importance ascribed to networking by small business leaders and the pattern of usage of small business support schemes.

A tiered model of the support environment was subsequently developed – The Support Rings Model. This model was used together with the support services framework to develop a new policy agenda designed to improve the delivery of small business support schemes by use of trained accountants and bankers as trusted intermediaries in the inner circle of support providers. Radical suggestions were made for the transformation of Business Link into a client focused, demand-driven organisation owned by members of a reputable profession and experienced bank executives, managed free of government interference.

This thesis is presented with the objective of serving the interests of small businesses who are currently frustrated at the lack of coherent support that they receive from the government. Putting responsibility for Business Link into the hands of representatives of the inner circle of support providers should lead to greater clarity, increased responsiveness and an enhanced level of support for small businesses. Wider societal benefits in terms of employment growth, greater prosperity and increased competitiveness are expected to follow.

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## Appendix 1 – Detailed Questionnaire and Survey Results