

Three Decades of UK Enterprise Policy: How has it influenced new firms in the Tees Valley

Abstract

The paper reviews the changes in UK enterprise policy from the 1970s to the 1990s and compares these policy changes to the characteristics of new firms in an area of 'low enterprise'. We identify three types of enterprise policy for each decade from the 1970s to the 1990s. Comparisons of human capital, sector and strategy suggest that the 1980s saw a burst of new firm founders who were previously unlikely to start-up in business. Forty per cent of the 1980s, entrepreneurs were previously unemployed; more than one-in-four had no formal qualifications. A business birth rate strategy is perhaps necessary but certainly not sufficient to boost enterprise in disadvantaged communities.

The paper reports three decades of new firms created in a disadvantaged area in the North-east of England. The study shows how the character of new firms created in this county changed at the same time as enterprise policy changed over from the 1970s to the 1990s. The paper offers a chance to evaluate the effectiveness of policy to create an enterprise culture. Review the changes in UK Enterprise policy over three decades. To examine the changes in the characteristics of new firms over those three decades in an area of “low enterprise”. To see if the changes in the firms seem to broadly reflect the changing objectives of national policy. The three decades represent three distinct policy regimes: little of no policy in the 1970s, a quantity of enterprise policy in the 1980s, and quality of enterprise policy in the 1990s. In the 1980s, the quantity policy regime, accompanied by high unemployment in the area, was accompanied by ‘poorer’ values of human capital reported by firm founders.

Literature Review

The paper assesses the different policy changes that have taken place over the last three decades. The first thing to note is the exponential increase in government measures to support new business, see table 1.

Table 1 Numbers of UK government measures to support small firms

Years	Number of measures
1946-60	2
1961-70	13
1971-81	33
1982-89	103

Source: Greene (2002)

The immediate post-war period in the UK saw few measures to support small firms. Indeed, in this period small firms were seen in a rather static analysis as being peripheral to overall government industrial policy. In the 1960s government policy encouraged mergers and acquisitions to create firms with internationally competitive economies of scale (Atkinson, Baker and Millward, 1996). In a static analysis small firms are found to be less productive than larger firms and this static type of analysis was prevalent in the 1950s and 1960s (Audretsch, 2001).

In 1971, the Bolton Committee investigated the declining number of small firms in the UK, as large firms crowded out small firms and industrial concentration increased. Aaronovitch et al reported '*Between the thirties and 1968 the hundredth largest firms increased their share of net output from 23 to 41 per cent, but the proportion accounted for by the 100 largest plants (11 per cent) was still the same*' (1981: 263). By this time the decline in the number of small firms was starting to attract government interest.

By the late seventies, researchers reported that small firms were making a comeback. Research by Birch (1979) however, using Dun and Bradstreet data showed small firms created two-thirds of new jobs, across all sectors of the US economy, between 1969 and 1976. Birch's work influenced policy-makers just as incoming Conservative governments sympathetic to small firms came into power in the UK and US.

Changes in UK small firm policy

Why does policy change? One answer is that policy changes when it fails; yet small business policy is shrouded in ambiguity with regard to its aims. Storey (1994) asked for a white paper on the objectives and targets for small firm policy; this is still awaited.

Furthermore, many policy evaluations find little real effect (see Westhead and Storey, 1996; Hart et al., 2001; Blackburn and Kitching, 2002). So, findings that policies are not working as expected are perhaps necessary but not sufficient to explain policy changes. Changes in government are one clear reason for policy to change; however, much of these three decades were characterized by a Conservative Party government. Although the change in policy in the 1980s may be due to the change in government, the change in the 1990s is characterized by the same ruling party. The networks approach argues that there are policy networks that surround issues (John, 1998). Indeed, in an analysis of theories of policy-making Bennett and Payne (2000) suggest that the period of small business policy at the time of Business Link policy between 1992-1995 was that of exchange and consensus among agents within policymaking. Nonetheless, the policy network approach tells us why policy remains, it is not an analysis of change. In organizational studies, punctuated change (Tushman and Romanelli, 1985), where pressure for change builds up to overcome inertia in strategy making. In public policy one such pressure for change can be the election of a new government, another may be changes in the economy. At particular point in time these pressures can facilitate policy change, but what policies will be most likely to be adopted? This would depend on the ideas around at the time.

Previous research has suggested that the policy streams approach can provide this theory (Mole, 2002). The policy streams approach (Kingdon, 1984) suggests that in one stream are governmental institutions, in another stream are ideas developed by policy entrepreneurs, such as academics. When the institutions change, then these two streams converge and ideas can jump across from one stream to the other and policy changes.

Thus, it has to be shown how the pressure for change shifted institutions to mark out three distinct policy periods: 1970s - little or no support (policy off), 1980s - support for start-ups, and 1990s - targeted support.

The first sea change

The first change identified occurs after the Conservative government headed by Margaret Thatcher comes to power in 1979. So, here is an institutional change. In addition there were ideas that helped the Conservatives. The Financial Times reported:

One of the most intensely studied documents in Whitehall ..has been a report from the MIT which shows that small firms have generated the vast majority of new jobs in the US during the last decade..the report strongly supports Sir Keith Joseph's argument that there is more chance of creating new employment in the UK by encouraging the start up and development of new businesses than by shoring up old and inefficient industries.

Financial Times 16th July 1979

With a new government and a set of ideas, you might reasonably expect that the first sea change would date from 1979. In fact, policy only really changes in 1981 after unemployment reached 2.5 million, and widespread rioting which created an intense pressure for change (Greene, 2002). At first, the incoming government continued with the Youth Opportunity Programme that had been developed by the previous government. By 1981, however, Greene suggests that the pressure for change had forced the government to intervene to the process of new firms founding.

The most important scheme was the Enterprise Allowance Scheme (1982-1991), over the period over half-a-million people participated in the scheme (Department of Employment, 1995). This scheme enabled participants to draw unemployment benefits whilst working to establish a business, if they could demonstrate £1000 of capital. In addition charitable efforts to encourage enterprise were also developed and boosted in this period (Greene, 2002).

The second sea change

The second sea change accompanied the Major government, where the DTI was dominated by Michael Heseltine. Again there was a change in the macroeconomic background where the recession of the 1990s increased bankruptcies to record levels (Storey, 1994). The catalyst for this change was the establishment of Business Links. Announced in July 1992, Business Links were to give a single point of access (Trade and Industry Select Committee Report 1996 page XI). The new institution enabled a fresh set of ideas to be entertained. The Trade and Industry Select Committees report tells us that the policy would have a “a shift in emphasis from start up and micro businesses towards established businesses with the potential to grow” pagexi. In addition the report tells us that: “The DTIs plans were heavily influenced by a study published in 1985 which found that 4% of start ups during a ten year period employed 50% of the firms in the sample at the end of that period” (Trade and Industry Select Committee Report 1996 para 100). The study referred to was Storey (1985). The committee investigating the change in policy four years later in 1996 was itself sceptical as to its efficacy:

“ Any method of identifying companies with growth potential is likely to be fallible, but we consider the attempt to do so worthwhile. We regard it ..as a way of concentrating the most costly forms of support on the range of firms from which the winners are most likely to emerge, and thereby directing public funds towards where they will have most impact” (Trade and Industry Select Committee Report 1996 para 107).

A further change in policy at this time was that support was to be focussed on ‘soft’ support, such as advice, rather than ‘hard’ support, such as cash grants (Greene, 2002).

Human Capital

Although, it is seemingly impossible to predict which new firm will succeed, there are a large number of studies that link success with education and experience. The entrepreneurs who are most likely to survive the sorting process are those with college degrees and those with financial capital (Bates, 1990). Graduates are less likely to enter self-employment, but they are more likely to head firms that grow (Burke, et al 2001).

Penrose (1959) modelled the growth of the firm. She deliberately drew her focus on the internal processes of corporate growth. The firm is assumed to maximise long-term profits. This means that the firm will want to pursue any investments that yield a positive return, regardless of the overall rate of return. The theory's core is the set of 'productive opportunity'. These are the opportunities that the firm is aware of, and can make a profit supplying. This puts the managerial team at the centre of events. Each firm has a particular history within which managers have acquired skills and experience. Each firm, therefore, is unique. Given no external constraints, the firm cannot grow faster than the existing management can plan for. The firm can acquire management talent but then needs time to integrate the new managers. The rate of efficient managerial expansion is limited, but growing. It is limited by the existing management team but is growing through the added experience of the team and any additions to that team. If the existing markets are growing at a slower rate than the managerial constraint

then the firm will start to look for additional markets through diversification. The diversification will tend to build on the existing resources. It will be close to the existing markets, the type of service these resources offer, and the unused capability. We would not expect retail bankers to move into oil exploration but they might try insurance, for example. Downie (1958) looking at the competitive process, suggested that the relationship between profit and growth was reflexive. Those with higher profits could support faster growth. Further, the more efficient firms, with higher profits, could grow faster by taking customers from the less efficient firms. The managerial and demand form the firms' industry constraints, constraints that can be overcome in the medium-term, impede firm growth in these models. Though the behaviour of profit maximising is assumed, it is long run. Further, these models are more explanatory of the internal processes of the firm and are not comparative statics but dynamic models. The further extension toward explanation occurs if one abandons profit maximisation as in bounded rationality models.

Industrial economics demonstrates the key variable of managerial capability and the availability of financial resources. Further the, industrial economics models show the importance of financial and managerial constraints to the growth of the firm.

If we are attempting to explain firm growth then, managerial capability is that variable that we want to understand; and that capability might be seen before the start of the business, at the start of the business and after the start of the business. Table 2 shows factors that affect small firm growth into three aspects: one, pre start which includes human capital and advice; two, at start which includes sector and legal form; three, post-start, which includes strategy and advice.

Table 2: Factors affecting the growth firm, pre, at and post start.

Pre-start	At start	Post-start
Age (+) but Age sq (-)	Choice of sector : growth sectors (+)	Use of new technology (+)
Male (+)	Limited company (+)	Introduced new products (+)
Education (+)		Sell on quality rather than price (+)
Unemployed (-)		Have business plan (+)
Manager in prior job (+)		Sell non-locally (+)

Employed in same trade (+/?)		Use external advice (+)
In-mover (+)		Provide workforce training (+)
Owned business before (+)		Occupy uncontested markets (+)
Use of external advice before start (+)		

Empirically, we find that a range of inheritance enhances the performance of the self-employed and increases self-employment; while higher education also increases self-employment income and job creation, but reduces the probability of self-employment. Combining these choice and performance effects, we find that education has a positive net effect on job creation, as does inheritance up to a certain threshold. (Burke et al., 2000)

Three studies

This is the third of three studies into new firms founded in Cleveland. The first study published as Storey (1982) investigated new firms started in Cleveland, England, an area of high unemployment, and heavily dependent on chemicals, steel and heavy engineering for employment. In 1990, a second study repeated the first to examine the effects of the ‘enterprise culture’ (Storey and Strange, 1993). By then we know Cleveland has the lowest rates of new firm formation, per 10,000 population, of any “county” in the UK. In 2001, we conducted a third study. This repeated the 1970s and 1980s study for Cleveland in the 1990s, although Cleveland as a county ceased to exist, the Tees Valley is now broadly the same, but this study undertook a parallel study of new firms in contrasting areas of Buckinghamshire [high “enterprise”] and Shropshire [average “enterprise”].

Therefore, with the three studies we can compare the effects of the decades on the characteristics of new businesses.

Obviously, there are many changes that occur over three decades. Policy is only one change, others of interest include macroeconomic factors,

- More firms will be created in the 1980s (policy on) period than in the 1970s or in the 1990s.
- Whilst more firms are started in the 1980s, the founders will have lower human capital than those starting in the 1970s or the 1990s

Method

Sample Selection

This research set out to compare the characteristics of start-up entrepreneurs and their businesses across three decades of enterprise policy. Tees Valley was the chosen site, because the study revisited the site of previous research into new firms (Storey and Strange, 1992). And because *'if the enterprise culture could be shown to work in Cleveland, it could probably work anywhere'* (MacDonald and Coffield, 1991:4).

The study compiles the sample in the same way as the previous Cleveland studies. A single, comprehensive and publicly available list of new firms to a given area is unavailable (Storey and Strange, 1992). Lists of limited companies exclude the numerous smallest start-ups, and the same can be said for VAT registrations. However at the time

the phone book was a source of data, since all new businesses needed a phone and there was only one provider.

The latest study continued the technique: a list of new firms was compiled through comparisons of B.T. telephone directories for 2000 with those from 1995; those in the directories for 2000 but not in for 1995 were considered to be 'in principle' new firms to the area. When the first study was conducted no, even quasi-comprehensive, publicly-available firm data bases existed.

Given that we started with TDs, and the purpose is to compare over time, it would be unwise to change. It may be the last time we can use this method, because of non-BT users and many small businesses using only mobiles. Researchers contacted these firms to check that they started within the counties, were wholly independent, non-retail businesses that started between 1990 and 2001.

It continues to be the case today that no comprehensive directory of new business "starts" is available. We find both VAT registered and Non-Vat registered businesses, both companies and non-companies.

Procedure

Face-to-face interviews were conducted 320 firms in Tees Valley. Respondents answered a structured interview questionnaire, that took between half-an hour to an hour, and was administered at their normal place of work.

Results

Numbers of new firms. The numbers of new firms in the nineties were lower than those in the 1980s. Figure 1 shows that the VAT registrations peaked at the time of the last survey done in 1990. The period from 1995 to 2001 showed fewer VAT registrations per 10,000 population than at any time in the 1980s. Previous reports showed that the 1980s had more firm births than the 1970s: *“Comparing the same geographical areas...almost three times as many firms new firms were established in the 5 year period in the 1980s as were established in the 4year period in the 1970s”* (Storey and Strange 1992: 74). The policy-on period was associated with the creation of more new firms.

In terms of the human capital variables, the results show three different patterns - see table 2. One pattern is a trend over the three decades: for example, the mean age of founding increases over the period, the proportion of graduates who found businesses increase over time.

The second pattern is a u-shaped pattern, which indicates that the 1980s were different: for example, the number of graduates given the proportion in the population, the number who were unemployed, the proportion who had been in business before.

Finally, there are variables that are not significantly different over the three decades: being between 30 and 50 years old on founding does not change. The proportion of time-served entrepreneurs varies insignificantly over the period, in a very shallow u shape. The same shallow but not statistically significant pattern is followed by the born and bred and fully employed variables.

Table 3: Human Capital of Entrepreneurs over three decades in Cleveland/Tees Valley

Variable	1970s	1980s	1990s	χ^2	df	p
General						
Mean age on founding	34.68	35.84	37.05	3.633 ^a	2,679	.027
Median age on founding	33.00	37.00	36.00			
Prime age (30-50) on founding (%)	61.10	67.30	65.30	1.531	2	.465
Gender (% male)	84.70	71.00	74.70	9.681	2	.008
Qualifications						
Degree	5.70	4.20	11.60	10.850	2	.004
National rate	7.00	10.20	16.30			
Degree/National rate	0.81	0.41	0.71			
Time served	26.80	34.60	33.40	2.909	2	.233
No formal qualifications	5.10	38.80	10.90	90.224	2	.000
Previous experience						
Unemployed	26.10	40.20	22.80	19.613	2	.000
Average Unemployment in the decade	9.90	18.70	11.60			
Ratio unemployed to average	2.63	2.15	1.87			
Born and bred in the county	66.90	71.50	66.90	1.456	2	.483
In business before	29.90	16.40	30.00	14.338	2	.001
At the start						
Fully employed in the business	90.40	95.80	92.80	4.227	2	.121
Limited company	37.60	12.60	25.30	31.218	2	.000
Post start						

a: (F test ANOVA; eta squared =.011)

In detail the human capital variables show that 1990s firms were founded by (slightly) older entrepreneurs than 1970s firms. More women founded firms in the 80s than in the 70s but the upward trend slightly reversed 90s.

In terms of qualifications we found significant differences between the human capital of 80s founders, compared with other decades. More founders in the 1990s were graduates than in the 1970s and more founders in the 1970s were graduates than in the 1980s. However, one might reasonably object that there were more graduates in the 1990s. So, the data was normalized by the national rate of degree holders. The resulting ratio shows that actually the 1970s entrepreneurs were better qualified compared with the general

population than they are today. The same pattern shows through from the number of entrepreneurs with no qualifications.

Table 4 Sector Shares: 70s-90s and compared with Buckinghamshire

Sector	1970s %	1980s %	1990s %	Bucks 90s %
Manufacturing	19	23	15	17
Construction	22	5	8	11
Professional Services	20	6	16	34
Distribution	9	20	19	18
Other services	11	23	18	16
Motors and beauty	19	23	24	4

Table 4 shows the broad industry sectors of our sampled firms over time and compared to Buckinghamshire. The most striking element of table four is that both in the 1980s and 1990s nearly one-in-four of firms in the Tees Valley were in the repair of motor cars and beauty (mainly hairdressers).

Discussion

These results show that the policy-on period of the 1980s was linked to more new start-ups but with significantly lower amounts of human capital, in terms of both qualifications and experience. In some sense, policy works, although both policy and the start-up rate may have reflected the high unemployment in the 1980s.

It is possible to increase the birth rate in an area, but it may take rather high levels of unemployment to do it. However, even if you do increase the birth rate, you would not increase like-for-like businesses. In general, those firms in the policy-on period were

poorer in terms of human capital. Given Bates (1990) observations, we might expect that any boost to the number of businesses may be rather short-lived.

When you attempt to increase the supply of new founded firms their average quality falls. As well as the founders having less human capital, they cluster in sectors that are easier to enter, such as motor vehicle repair and hairdressing. No doubt some of the new founders with poorer levels of human capital will succeed, and these founders may not have entered self-employment had it not been for the policy, or circumstances that prevailed in the 1980s. Nevertheless, on average we would expect that the higher birth rates would be offset by higher death rates, for two reasons: first, because human capital is linked to business survival (Bates, 1990); and second, because in areas with high unemployment new, subsidised firms may displace existing firms. In fact, estimates for the 1980-88 period show a strong relation between entry and exit in UK counties (Love, 1996). As such, the extra self-employed might be a short-term palliative for high unemployment.

Previous research has found that not only human but also less financial capital was deployed by new firm founders in the 1980s (Robson, 1997). Further, as the number of self-employed climbed in the 1980s, it became more hazardous to predict the returns from self-employment (Fraser and Greene, 2002).

The results of this and previous analyses (Storey, 1985) demonstrate why the policy to increase firm births runs into trouble. Whilst much effort was focussed on increasing the number of new firms, the subsequent demise of a high proportion of small firms received much less attention. For example, is it not preferable to discourage an obviously less able

potential entrepreneur than to encourage him or her into self-employment? Unfortunately the stochastic element of all our variables means that, ex ante, it is not possible to tell who will succeed and who will fail.

Generally, the idea of increasing the supply of new businesses relies on the dynamic of entrepreneurship to create its own demand. There are reasons for believing that in the case of innovative new firms, then they may be able to create new products and new markets. However, it is not reasonable to suppose that increases in the number of hairdressers will increase the demand for hair-dos to any great extent.

Recall that a small number of firms create the most jobs, it is these 'gazelles' that policy would be advised to focus upon.

Open with a clear statement of the support or non-support for your original hypotheses.

In general be guided by:

- What I have contributed
- How has my study helped to resolve the original problem?
- What conclusions and theoretical implications can I draw from my study?

You are free to examine, interpret and qualify the results. Emphasize the theoretical consequences and the validity of your conclusions

What are the policy implications? How can people in your field use it? Who is able to apply your findings? What might they do and where might they do it?

Conclusion

The 1980s saw a burst of new entrants into business, as a result of high unemployment and policy. Forty per cent of 80s entrepreneurs were previously unemployed. Over one-in-four had no formal qualifications. Hence, we find evidence to support our hypotheses. “Policy-on” leads to more but poorer businesses

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