

Research Paper

Segmenting the SME Market and Implications for
Service Provision

A Literature Review

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1.1 INTRODUCTION AND AIMS

1.1 Introduction

The significance of small and medium sized enterprises (SMEs) to the economy and society in terms of their contribution to output and employment is now indisputable (European Commission, 2011). This report aims to inform Acas in the development of an appropriate strategy to provide advice/support to SMEs. In doing so, it seeks to contribute to a framework for the *segmentation of the SME market* for Acas.

It is important to understand what the SME market comprises. SMEs occupy all sectors of the economy, are started for different reasons, vary in their *modus operandi* and perform very differently: in other words, they are not a homogeneous category easily addressed by any one-size-fits-all approach. Understanding the specific context of businesses, their sector, strategic position and internal structures and pressures is important in underpinning an effective engagement strategy for support agencies (e.g. Edwards et al. 2010). In mapping out the heterogeneity of SMEs, it is also useful and important to draw upon the experiences of other private and public sector organisations attempting to reach SMEs and build upon these. There are many types of organisation that are seeking to understand the SME market, including financial organisations such as the banks, telecommunications providers, consultancies seeking to sell services, as well as public sector agencies. Efforts by government have been through specifically designed public policy interventions, either directly or working with organisations acting on its behalf (e.g. Bennett, 2008). In helping contextualise this review and inform the way forward, it is the experience of government that is most relevant: government as both regulator and the provider of advice and support. Not only is this experience extensive, it also provides lessons and indications for the way forward for any organisation seeking to address the SME market and as such is highly relevant to Acas.

1.2 Aims of the Report

There are clearly a number of ways in which the SME market can be segmented (business characteristics; owner-manager characteristics; strategic intentions etc) and defined (European Commission, 2003) but which characteristics are appropriate for an effective engagement strategy is open to question. This report aims to review the evidence relating to the segmentation of the SME market. Specifically, the review aims to help feed into strategy for Acas on how to better serve the SME population via its good practice services and dispute resolution services. The specific objectives of the research are to:

- a) Unpack the SME population by examining its specific segments.
- b) Map the development of SME advice and support services by government.
- c) Review the evidence on the effects of regulation, particularly employment regulation, by SME owner-managers and its effects on their advice seeking behaviours.
- d) Examine the link between business growth and the external advice.
- e) Analyse the advice and information needs of SMEs and gaps in provision.
- f) Inform the information and advice strategies of Acas.

The review draws upon evidence published in academic, government and practitioner literatures. Attempts by support agencies to communicate with

SMEs and reach this market are not new (e.g. MacMillan et al., 1988; 1990) and so it is important that a wide search was undertaken in order to learn from previous analyses. Hence, the research process has involved internet searches of a variety of databases, as well as drawing upon books, archive material not necessarily on the web.¹

The next section of the report discusses the evolution of government policies for SMEs. It demonstrates that policy has recognised the differences with the SME population but often implicitly rather than explicitly. This is followed by a review of the effects of regulation and the legal requirements of running a business on SMEs. Finally, the implications for Acas are discussed.

¹ These include Kingston University's electronic catalogue which includes both books and contemporary journals; google; google scholar; government and European Union websites. Numerous search terms were used.

2. SEGMENTING THE SME MARKETPLACE: THE DEVELOPMENT OF PUBLIC POLICY FOR SMES

Public policy for SMEs has gone through a number of phases (Bennett, 2008; forthcoming 2012). For those organisations seeking to reach SMEs and understand the challenges of attempting to do so, these previous initiatives can be informative in terms of what they sought to achieve and their outcomes.

2.1 Bolton Report and Small Firms Service

With time, policies for SMEs have developed according to the goals of different governments, responses to perceived requirements of SMEs and findings from evaluations of previous interventions. Although there had been some financial relief for small firms in the early 20th century (MacMillan Report, 1931), policy interventions in the UK for small business began in earnest following the Bolton Report with its 18 research reports (Bolton, 1971). This informed the establishment of the Small Firm's Service (SFS), the government's first major SME-focused support agency in the UK. Although the Bolton Report provided detailed definitions and found evidence of some 'classic' characteristics of smaller firms – centralisation of decision making, a low level of formal managerial training and skills, close personal relations and informality, limited resources and market power, thus making them vulnerable to external market shocks- the government response was relatively straightforward. Early policy interventions tended to focus on *filling gaps in provision* (i.e. responding to market failures) through the supply of advice, support and information. Thus, initial attempts at the design and delivery of SME interventions tended to be driven by a focus on specific 'problem' areas (such as where to find advice; the provision of finance; or assistance with premises) and was delivered through local and/or regional agencies. Interventions tended to follow an *implicit* rather than *explicit* segmentation strategy and operationally, these used simple size cut-off thresholds for who was eligible for what. So, although the Bolton Report (1971) developed detailed definitions of small firms by size within business sectors, inferring segmentation (see Appendix One), in practice most interventions that followed had a specific size threshold cut-off point for eligibility.

As public policy interventions developed, they became more sophisticated and numerous but they continued to pay little attention to any overall, 'joined-up' market segmentation strategy. Instead policy development continued to be incremental and designed to respond to specific issues or problems: these were many, ranging from attempts to encourage people to become self-employed and start a business (Enterprise Allowance Scheme); through to the provision of finance (Loan Guarantee Scheme). By 1983 the then DTI listed almost 100 small business support initiatives (DTI, 1983) increasing to 200 by the mid 1990s (Gavron, et al., 1998).

2.2 The DTI Enterprise Initiative

A second major phase in the development of SME policy came in 1988-93 through the government's Enterprise Initiative. This was launched with a substantial publicity drive and accompanied with a nationwide marketing and branding exercise. Again, segmentation was implicit rather than explicit and firms eligible for the scheme were British-based firms with fewer than 500 employees. Although this was a national initiative and marketing campaign, support was delivered regionally. The Enterprise Initiative was administered by up to five

regional contractors which employed private sector consultants to work with SMEs on, for example, marketing or innovation challenges. Evaluations of the Enterprise Initiative were encouraging, despite methodological issues regarding the displacement effects of interventions, and Wren and Storey's (2002) evaluation of the DTI's Marketing Initiative found that on average every £1,000 spent in assistance created one extra job and generated about £30,000 of increased sales turnover.²

2.3 Business Link and Solutions for Business

The third fundamental change in SME policy came in 1993, with the introduction of Business Link and the Training and Enterprise Councils (TECs). Business support was now decentralised through 85+ local Business Link agents who had to demonstrate that they were a partnership of existing suppliers of business support. This approach was designed to overcome the 'patchwork quilt' of support that had developed, as well as bring support closer to the SME market through partnerships and brokerage with existing providers. The partners included Training and Enterprise Councils (TECs), who managed the contract between the Department of Trade and Industry (DTI) and Business Link, Chambers of Commerce, Local Authorities and Enterprise Agencies (Bennett and Robson, 2003). With this change also came an attempt to target business support – a first explicit attempt at segmentation. 'Intensive' support was focused on those firms with 10-200 employees with *growth potential*; whilst 'less intensive' support was offered to other SMEs. Intensive support was provided by Personal Business Advisers (PBAs), individuals who were central to the system. However, evaluations of the early Business Link model were quite critical and the performance of the Business Links varied considerably. Although market penetration of the SME population increased with this operation, levels of satisfaction of advice diminished (Bennett, forthcoming 2012). One of the main problems was the lack of referrals from Business Link advisors to other expert agencies because of a need for PBAs to meet targets and deliver certain off the shelf solutions. This led to questions regarding the relevance of what had been supplied and some quality issues. For example, using survey data, Bennett and Robson (1999) reported that 21 per cent of the Business Link hubs accounted for 40 per cent of those clients dissatisfied with services. However, 'intensive

² Evaluating the impact of interventions is challenging although certain key concepts are used. *Displacement* can occur with interventions, where an increase in support or resources produces positive outcomes for firms involved in the programme, at the expense of non-participating firms (HM Treasury 2011). For example, introducing tax breaks for a group of firms, may improve their profitability, but this may be achieved by enabling them to undercut non-participating firms, providing them with an uncompetitive advantage. Calculating displacement is often viewed as a difficult and inaccurate procedure. In the context of policy evaluation, displacement can be viewed as the unintended effects or distortions created by the programme. *Deadweight* refers to the proportion or number of businesses involved in a particular programme that would have experienced a positive outcome, even if they were not included in the programme (Purdon et al. 2001). For example, if a programme was implemented which sought to increase SME profitability, it is likely that some firms would have increased their profitability anyway, even if they had not been included in the programme. High proportions of deadweight can be seen as a characteristic of a less efficient programme as resources are wasted on attempting to influence a positive outcome which would have occurred without assistance. *Additionality* refers to the net impact of an intervention after taking into account the deadweight, leakage and displacement effects. In other words, is its net, rather than its gross, impact after making allowances for what would have happened in the absence of the intervention (see HM Treasury, 2011).

services', particularly those delivered by PBAs, achieved the highest satisfaction ratings.³

Academic analyses of the Business Link and TECs approaches to reaching SMEs were particularly critical and were used as examples to demonstrating the relative impenetrability of the market. Curran (1993), for example, in analysing the performance of TECs argued that they were failing to reach their target market on a number of grounds:

- First, the assumption that locality coincides with the activities and 'world' of small business owners is misconceived since the market interactions of many SMEs reach beyond their immediate locality and owner-managers often have little affinity with the location in which their business is located;
- second, that TECs failed to attract sufficient owner-managers onto their own boards and were therefore not in the consciousness of most owner-managers;
- third, that the 'pre-packed' products and services of TECs were misaligned with the day-to-day needs of small firms;
- and finally that small business owners did not perceive a need for additional support or training.

The significance of the *heterogeneity* of the small business population was also highlighted:

'One major point which emerges from much of the research on small businesses is that it is a fundamental mistake to see small businesses as a single, homogenous grouping with common needs and problems which can be met with a handful of off-the-peg policies and programmes' (Curran, 1993:10).

These themes have appeared in numerous analyses of public policy interventions targeted at SMEs and underpin many of the arguments regarding the limitations of the success, or otherwise, of these interventions.

The Business Link model of support was restructured in 1999. This involved: the launch of the Small Business Service (SBS); a reduction in the number of Business Link Organisations (BLOs) from 85 to 45, which now contracted directly SBS; an enhancement in 'non-intensive' services; and less emphasis on fee income targets for PBAs (see Bennett, 2008; NAO, 2006: Appendix Two). Whether or not these incremental changes in policies and institutions that sought to meet the variety of needs of SMEs led to improvements in services was open to question. Curran and Blackburn (2000), for example, argued that this new framework was not radical enough and not close enough to the *modus operandi* of small firms:

'... simply because any grouping of businesses employs under 50 or under 250 people is not robust enough a criterion for attributing them to the economic distinctiveness of 'a sector'. Smaller businesses exist in every area of the economy from financial services to funeral parlours. They are set up and run by people from all age groups, genders, ethnic groups and educational backgrounds. This extreme heterogeneity means that they face very different organizational structures to

³ The sample used in the analysis was drawn from the 1997 Cambridge ESRC Centre for Business survey of SMEs in Britain.

achieve a wide variety of personal and business goals. Curran and Blackburn.' (2000: 184).

Significantly, one of the criticisms of small business policy in a cross-cutting review by the DTI was that of a failure to adequately segment the SME market:

'Departments and agencies need to undertake a more rigorous approach to (1) segmenting their market and (2) understanding the needs of small businesses' (DTI, 2002: 70).

Hence, the DTI's review explained the need for public policy agencies to have a '...more sophisticated approach to segmenting the small firms sector [that] could [then] potentially lead to a more customer-focused service delivery'; (p90). This process of segmentation, it was suggested, should include consultation with a number of private and public bodies that represent the interests of small firms, such as: the Forum of Private Business; the Federation of Small Business; Chambers of Commerce; and the National Federation of Enterprise Agencies.

In 2004, the management and oversight of Business Link operators was transferred to the Regional Development Agencies (RDAs) on the grounds of integrating the support for SMEs within Government's regional economic strategies and reducing its cost of operation. The SBS was downsized and re-orientated to focus on strategy with its staff focusing on 'influencing' rather than delivering policies (NAO, 2006: 35). Whether or not these changes were effective in coming closer to SMEs and meeting their needs is debateable. Subsequent formative evaluations of the SBS and Business Link support model showed a number of on-going weaknesses: an uneven penetration of the SME market with services; inconsistent quality of services; and high overall cost (NAO, 2006). Thus, despite its sophisticated and estimated 3000 different programmes (DTI, 2007), the success of Business Link, measured against its objectives, was mixed. Market penetration of the service varied between one per cent and 20 per cent during 2005/6 to 2010/11 (Hansard, 2011). A key criticism of this decentralised form of support was its cost, estimated at £12bn in 2006 (Richard Report, 2008). Similar criticisms were levied by the National Audit Office (NAO) which estimated that in 2005-06, government services to small businesses (excluding tax relief) cost around £2.5bn per year (NAO, 2006). From a historical perspective, Bennett (forthcoming 2012) estimated that the decentralized brokerage scheme cost 10 to 12 times more than the centralised ones that were in existence prior to 1993.

In reviewing the evidence on the effectiveness of small business interventions during the 1990s and 2000s, the picture is one of different estimates in their ability to effectively reach and influence the performance of SMEs. A further common thread to emerge is the seemingly constant changing of the support initiatives and the agencies involved in delivery. This renders assessments and evaluations of impact problematic because of an absence of data collected at either local or national level until a long time after the intervention (NAO, 2006: 15). Certainly, attribution is a major problem when evaluating the effectiveness of any intervention for small businesses because of the range and type of factors influencing business performance. The permanent changing of agencies and initiatives adds further to this monitoring and evaluation challenge.

The most recent changes in government support for SMEs involved the closure of the Business Link regional network and the launch of the Solutions for Business programme (BIS, 2011a). This was designed to end the vast array of initiatives and schemes for small firms and return to the 'market failure' principle. Business Link services were streamlined and are currently available through an enhanced platform of advice and support on a website. The Solutions for

Business programme, provides support through a portfolio of 13 products aimed at helping businesses improve and is linked to a wider business growth strategy (BIS, 2011a). This new programme is set within a wider government strategy of promoting business growth. Although there is no explicit mention of segmenting support for SMEs, the 13 different products are designed to meet different needs of SMEs. Information in the first instance is through a series of websites covering each of the 13 products, although Local Enterprise Partnerships (LEPs) are also encouraged to work with the programme.

2.4 Lessons from SME policy development for Acas and a segmentation strategy

Overall, the above review shows that SME policies in the UK have had a mixed level of success. The lessons from this brief review are instructive for future development.

- a) The SME advice marketplace is *crowded with initiatives*. The development of SME policies has created thousands of initiatives, involving numerous institutions and complex arrangements across various departments at both national and local levels. However, identifying, targeting and delivering services to SMEs continues to be challenging for any intervention agency. An underpinning challenge is the ability to align the strategic agendas of government or other agencies with the ambitions, capabilities and resources of SME owner-managers. It is no surprise that the take-up and success of many SME initiatives has been low: although well-intentioned many have failed to capture the SME audience because of the perception by SMEs that they do not need such advice or support on the grounds that they will not enhance the efficiency or performance of their business.
- b) *Cost issues* are paramount in the development of SME policy. More expensive means of development, implementation and delivery does not necessarily mean a more effective or efficient service quality or reach. Localised delivery is not necessarily more effective than national delivery focused on specific issues. Bennett (forthcoming 2012) points out the benefits of having a national approach and brand awareness campaign which is more cost effective than a patchwork of un-connected, localised initiatives. This has to be balanced against a need to be close to SMEs to understand their modes of operation, challenges and support needs.
- c) There appears to be no proven positive relationship between the amount of expenditure on services and their quality. The in-house provision of advice and assistance by government agencies, and failure to operate a referral network involving existing suppliers such as Chambers of Commerce, has also proved to be more expensive with no guarantee of higher levels of satisfaction amongst owner-managers.
- d) SME policy interventions in the past 40 years have shown some *attempts at segmentation*. Initially, these appeared implicit rather than explicit as a patchwork quilt of support emerged. However, the review suggests that segmentation can take various forms and requires a more in-depth understanding to raise the efficacy of support. Some Business Links did pursue a segmentation strategy and produced quite sophisticated models of segmentation. However, the evidence suggests that segmentation needs to be based on *customer requirements* rather than merely relying on administrative definitions by size, sector etc. Whilst the latter may be useful for the purposes of measuring the size of the SME marketplace, they are rather rudimentary for the development of an SME segmentation strategy.

- e) One useful method of segmentation is the 'intensive'/'less intensive' approach which has proved to be helpful as a means of meeting customer needs and managing their expectations (Bennett, forthcoming 2012). Hence, it is important that businesses are able to see a route that satisfies their specific needs: through those seeking information on a topic, through to those requiring detailed advice. This division also helps set appropriate expectations on both the provider of advice and the business as well as set a basis for the monitoring of the service.

We return to these five themes throughout this paper.

Of course, government *small business* agencies are not the only government bodies targeting SMEs with support services; many other government departments also seek to reach SMEs but it does not seem that these have done much better in reaching the breadth of the SME business population. Government spawned initiatives designed to improve the performance of businesses or their workforce frequently suffer from low take-up. Examples here include attempts to improve formal quality standards through ISO90001/BS5750 (Holliday, 1995; North et al., 1997) and the take up of training loans (e.g. DfEE, 1997). More recent analyses and development of support for SMEs has emphasised the need to overcome the *barriers to the take-up of support* (BIS, 2011b). An examination of these barriers is necessary when reviewing the evidence and making recommendations for segmenting the SME marketplace.

2.5 Private sector SME support and advice

Most studies and surveys of where SMEs go for advice and support indicate that, overall, private sector providers are dominant (BIS, 2011b: Table 3.2; BIS, 2011c: Table 9.1). *Accountants*, in particular, have had long-standing relations with SMEs, primarily as a result of the use of external accountants by SMEs for auditing services and understanding regulations but increasingly for other advice and services (e.g. ACCA, 2011; BIS, 2011b). In most surveys of SMEs, accountants repeatedly come out as the most frequently used advice provider and are often cited as the most trusted supplier of advice or confident because of their longer term relationship (Blackburn et al., 2006; 2010). Accountants are often now also able to provide advice on human resource issues and are looking to develop this aspect of their support provision further. There appears little or no effort at market segmentation on SMEs amongst private sector providers, although some accountancy practices align themselves to specific business sectors, and small and medium sized accountancy practices tend to meet the needs of SMEs (Blackburn and Jarvis, 2010).

The major high street banks are also significant providers and have extensive experience of attempting to reach SMEs. Banks have longstanding experience of segmenting their marketplace and although the criteria appear to change over time, they continue to emphasise financial criteria. HSBC, for example, classify their customers into three segments: Business Mass – those with up to £2m turnover (the larger ones with a £500k plus turnover with borrowings have a local business manager – and these account for around 1 million clients); Business Upper – those with between £2m to £25/30m turnover (around 100,000 clients); and Corporate Banking – £25-£30m to FTSE 100.⁴

⁴ Data kindly provided by Mike Conroy (HSBC Bank) and Richard Roberts (Barclays Bank), March, 2012.

Barclays Bank also segment according to financial turnover size: up to £1m; standard at £5m and complex SMEs at £25m when they go into mid corporate. However, they also employ a mixture of size versus complexity versus risk: "simple" customers hold one or two products (and no international trade), often have an on-line relationship and little debt; "standard" customers hold a few more products, many do simple export and have some borrowing and need basic branch access; and "complex" customers, who need the fuller service provision. Information provided by Barclays bank shows that the delivery of the service is critical to customer satisfaction and retention and there may be some fluidity between segments. From experience, the ability of customers to choose how to access a service is important. This choice can be influenced by the bank through price or how long somebody has to wait on the telephone. However, from Barclay's experience, what does not work well is having rigid boundaries between segments and not being able to move businesses between segments.

Lessons may also be learnt for Acas from private-sector bodies seeking to reach SMEs. For example, many analyses of successful business advice exchanges emphasise the development of 'trust' and 'relationship building', rather than having a 'one-shot' exchange, with customers. The strongest example is the accountant – SME relationships where owner-managers are prepared to go beyond the initial reason for the relationship and explore advice which is normally outside the competency of the accountant (Blackburn et al., 2010).⁵

The next section of this review will examine the alternative way in which government has a relationship with SMEs: through regulation and legal requirements. In some respects, this means of engagement is likely to be more compelling because it is non-voluntary (unlike most initiatives to support SMEs). In other words, SMEs can ignore government attempts to reach them through supportive initiatives but they are unable to avoid the statutory regulatory environment within which they operate.

⁵ For a more detailed discussion of trust in relation to entrepreneurship see Welter (2012).

3. SMES AND REGULATION: A STIMULANT FOR EXTERNAL ADVICE AND SUPPORT?

Regulation and the effects of regulation on SMEs have attracted widespread analysis and publicity in the media (e.g. British Chambers of Commerce, 2011). One of the greatest criticisms is that new and existing legislation or regulations may have unforeseen consequences, or increase the real costs of running a business. The academic, government and grey literature on regulation is vast. Academic assessments of the impact of legislation on SMEs have tended to take a more sanguine perspective than those provided by employer lobby groups and/or membership agencies. Macro assessments of the regulatory burden on SMEs, for example, rank the UK as amongst the lowest regulatory environments for starting a business (World Bank, 2012). Kitching (2006) undertook a systematic review of the literature and classified this into three types:

1. *Business 'burden' studies* (e.g. Atkinson and Hurstfield, 2004; British Chambers of Commerce, 2011; Carter et al., 2006);
2. *Compliance-cost studies* (e.g. NatWest/SERT, 2004; KPMG, 2006; Chittenden et al., 2005; Ambler et al., 2006); and
3. *Business decision-making and competitiveness studies* (e.g. NOP Social and Political, 2004; SBS, 2006; Low Pay Commission, 2005; Edwards et al., 2004).

The costs of regulation include licensing, form filling, inspections and enforcement activity including prosecutions (Hampton, 2005). Although the Hampton Review considered administrative burdens broadly, implicit in its analysis and recommendations was the consideration of employment-related regulations. Numerous surveys of SMEs have found regulation, and specifically employment regulations, to pose challenges to their practices and capabilities (BIS, 2011b, 2011c; BERR, 2007). Undoubtedly, the costs of regulation fall disproportionately on SMEs and particularly smaller enterprises. Precise estimates of these costs are difficult to collect. However, one estimate is that £1.4bn p.a. is spent on Human Resource and Payroll services, Safety and Employment consulting services (BERR, 2007: 8). One of the central tasks of the Better Regulation Task Force was to help set out the principles of good regulation. They also laid out some recommendations in relation to employment regulations for support agencies (Better Regulation Task Force, 2002) (see Appendix Two).

In the context of this review, attention will be paid especially to the third type of study as a means of understanding the ways in which regulation of SMEs and the legal requirements they face affect the behaviour of owner-managers, their business strategies and their demand for external advice and support.

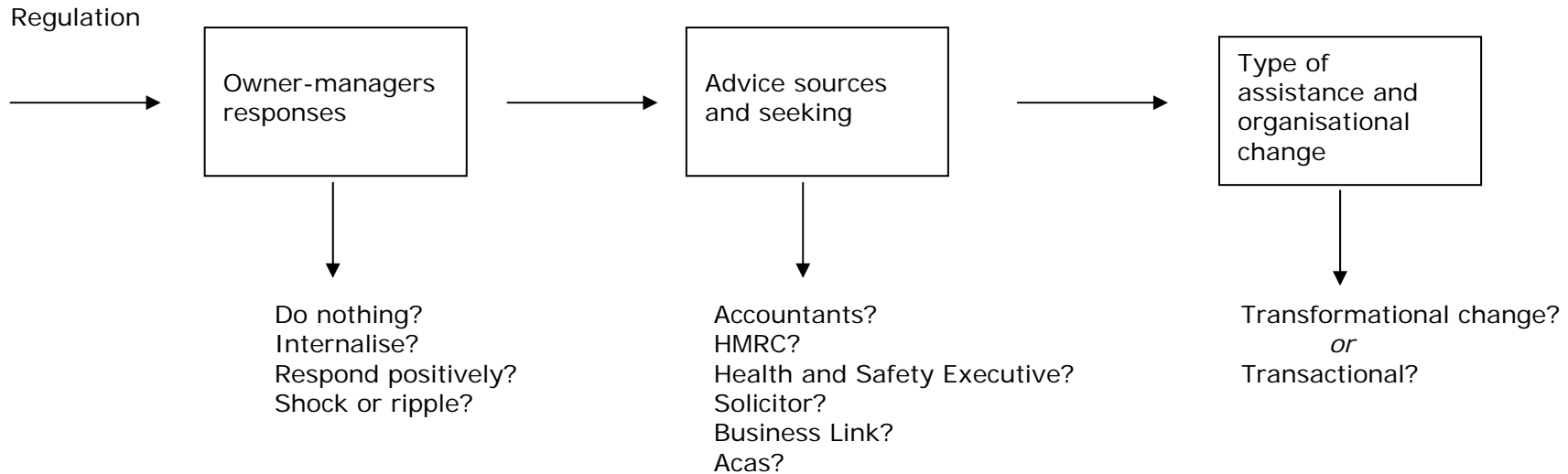
3.1 Understanding the specific and uneven effects of regulation

Overall, both quantitative and qualitative analyses Blackburn and Hart (2002), Edwards et al. (2003), Kitching (2006) and Small Business Research Centre (2008)) demonstrated the specific and varying effects of regulation on businesses and how they had particular effects according to size of enterprise. These highlighted the direct and indirect effects of regulations on business as well as the *constraining, enabling and motivating* impacts of the regulations. Unfortunately, the focus on the 'constraining' effects of regulation in the press and literature is substantial; this too often detracts from the analysis of how regulation can and does affect business performance, such as through

stimulating improved working environments and via efficiency effects within the enterprise. Given the focus of Acas on employment-related aspects of SMEs, it is important to draw attention to how Acas may assist SMEs in managing their employment relations to achieve growth and to help them cope with employment regulations.

A key issue of relevance to this review is the responses and response mechanisms (i.e. how to understand, implement and manage the regulation in relation to their business) of SME owner-managers to regulation. In some cases, the regulation may affect insignificant changes, involving mere compliance behaviour, whilst in others, this may lead to broader adaptations to products and processes (SBRC, 2008). One of the major effects of regulation on SMEs in particular is to seek advice and support from outside the enterprise because of internal resource constraints. Resource acquisition from outside the enterprise, in this case in the form of support and advice, can lead to organisational change or it can be assistance with a simple box ticking exercise to comply with a regulation. In principle, regulations and changes to the regulatory environment should generate a response from those targeted by the regulation (see Figure 3.1). The literature, however, suggests that this is less in evidence and that much depends on the nature of the *regulatory shock* as well as the market conditions in which the firm is operating and the ability and willingness of owners and managers to respond. From an advice provider's perspective, such as Acas, this means that a regulatory change may stimulate a range of responses from SMEs, spanning mere information seeking through to the need for detailed advice.

Figure 3.1 Schematic Outline of Businesses Responses to Regulation



Note: Original diagram

Transactional assistance is where support is typically provided at arms length via a particular piece of information to assist with standard, day-to-day business operations whereas *Transformational support* is where more in-depth, diagnostic, often face-to-face, support is required in order to facilitate stepped change relating to business growth and productivity (see BIS, 2011b: 2).

For example, for most businesses the National Minimum Wage was considered only a minor shock and, as such, there was little stimulus to transform the way in which they operated or reform business practices (Arrowsmith et al., 2003; Drucker et al., 2005). Subsequent analyses have found only minor impacts on employment retention and hours worked during recession (Bryan et al., 2012) although there was no size-based analysis.

Recent evidence (BIS, 2011b) showed little change in the level of external engagement by SMEs. Based on a survey of 1,202 SME employers the research found:

- Two-fifths of SME employers used external assistance
- One in five sought 'information'
- One in eight sought both 'information' and 'strategic advice'
- One in twenty only 'strategic advice'

However, the results also demonstrated the variation in take-up according to business and owner-manager characteristics within the SME population. Micro-businesses (i.e. 1-9 employees) were significantly *less* likely to seek formal business assistance than other SMEs. On the other hand, new SME employers were *more* likely to seek assistance. In terms of owner-manager characteristics, the use of external assistance increased with the number of managers in the enterprise, contradicting notions that one-person businesses are more likely to seek external advice because of internal constraints. Women-led enterprises were also more likely to use external assistance. There was also a positive association between the education levels of the owner-managers and the take-up of advice (BIS, 2011b: 28-31).

This analysis, therefore, leads to the conclusion that engaging with the SME market, and especially micro-firms, is extremely challenging. Certainly, micro-businesses have been shown to be less aware of the content of employment legislation (Blackburn and Hart, 2002; Pratten and Lovatt, 2005). This means that regulation, *per se*, does not necessarily stimulate a search for external advice or a change in the smaller enterprise. The more recent literature on 'learning' underlines this point. Indeed, many government bodies – such as the Health and Safety Executive and the Inland Revenue – seek to assess customer needs through workshops, seminars and user groups (BERR, 2007) in an attempt to raise their profile with SME customers.

In analysing the so-called 'strategic stickiness' of SMEs, Blackburn and Smallbone (2008) set this within the cultural predispositions of owner-managers and the competitive environment of the business. For one-person enterprises and micro-firms, such mediating factors may be particularly strong as owner-managers stick to 'what they know best'. Underpinning this reluctance to change, as a result of outside 'interventions', is the long-standing notion of many owner-managers having a strong 'internal locus of control' with a need for independence (Chell et al., 1991). However, size of enterprise was not the only determining factor in shaping take-up of advice: for example, Health and Safety regulations, in particular, were shown to stimulate a search for external support from the Health and Safety Executive irrespective of business size. Even when this occurred, however, these external searches were limited to satisfying requirements rather than affecting learning and change in the enterprise. They conclude:

'Regulation alone is unlikely to be a catalyst for fundamental change. To be positive, regulations may need to be accompanied by other methods. This resonates with the recommendations in

the Hampton (2005) for multiple approaches to be used to reach small firms with information if change is to be realized' (Blackburn and Smallbone, 2008: p323)

In sum, the evidence on the effects of regulations on advice seeking amongst SMEs show:

- a) regulation does not guarantee external advice seeking: this is mediated by market conditions and owner-managers;
- b) there is some evidence that micro-firms may behave differently to other SMEs;
- c) external advice seeking does not guarantee transformational change
- d) however, there is a market for instant advice; deeper advice may follow but is the exception.

Overall, the lessons from above suggest that any segmentation of the SME marketplace and the development of a strategy to reach these firms will involve an iterative process. This will also involve communicating with SME representative bodies and a need to develop segmentation based on business *needs* rather than their basic characteristics.

4. SEGMENTING THE SME MARKET

Numerous analyses have argued that SMEs should not be treated as a homogenous group. This is summed-up by one government report:

“Small firm’ is not a description: it denotes membership of a sector which is a political and economic construct, relatively recent and still evolving. It is hard to see unifying characteristics. Many self-employed people would not think of themselves as small firms; and other businesses will define themselves sectorally (“I’m a butcher”,) or by reference to their locality or region (‘I run a northwest building firm’). They have different motivations: (‘I’m an engineer – not an entrepreneur: I want to make things, not money’).’ (DTI, 2002: p. 14)

A key challenge is how to actually engage with SMEs with relevant services that will help them develop and overcome their challenges.

4.1 Business Link Segmentation Models

The above analysis of the evolution of SME policy in the UK has shown that the segmentation of advice and support has been an *implicit* rather than *explicit* strategy and this has been reflected in the content and delivery of initiatives by many providers. Of course, if a provider is narrowly focused on one type of specialist advice and support, say within a specific sector, then this is less of an issue than those organisations with a wider brief such as Business Link. Acas fits somewhere in between this dichotomy: it focuses on employment-related issues but at the same time is open to all businesses, irrespective of size, sector, age, owner-manager characteristics etc.

It is widely accepted that, over time, Business Link has developed one of the most sophisticated approaches to segmenting the SME market. This was illustrated in a review of the practitioner and academic literatures by Atherton and Lyon (2001).

Table 4.1 Segmenting the SME Market	
<i>The personal characteristics of the individual involved or being targeted</i>	<ul style="list-style-type: none"> • Experience of the founder • The personality of the individual entrepreneur • The motivation to start a business. • The type of entrepreneurial activity undertaken: portfolio or parallel, serial, single • Venture-focused • Education and skill level • Ethnicity • Gender • Age • Disability • Unemployment
<i>The characteristics of the business</i>	<ul style="list-style-type: none"> • Size • Stage of development or lifecycle. • Type of entrepreneurial business activity: lifestyle, survivalist, limited growth, high potential • Performance • Economic sector

	<ul style="list-style-type: none"> • Non-economic sector: co-operatives, social enterprises, community enterprises, public enterprises • Origin: indigenous, foreign, incoming • Industry sector • Age of business • Location • Industry environment and dynamics • Formal or informal businesses
<i>The activities and processes undertaken within and by the business</i>	<ul style="list-style-type: none"> • Market development including international market development and internationalisation • Business function including human resource management; quality management; • Information technology; marketing; research and development; and strategy • Technology and innovation • Take-up of support • Type of support used • Patterns of use • Provider perspective • Nature of support offered • Forms of business-to-business collaboration • Business processes • Business performance stance or strategy
<i>Business support needs</i>	<ul style="list-style-type: none"> • By type of resource, or 'capital', needed: human, social, organisational, physical, or financial. • Based on a specific incident or experience, focusing on: a specific problem, a particular crisis, or an identifiable opportunity.

Source: Adapted from Atherton and Lyon (2001)

Table 4.1 identifies segmentation based on four broad types of classification:

- a) The personal characteristics of the individual involved or being targeted
- b) The characteristics of the business
- c) The activities and processes undertaken within and by the business
- d) The specific needs of the business.

However, segmenting businesses in this manner is only the start of the process of strategy formulation and service delivery. In practice, the above segmentation model is probably overly complex for practical implementation and a number of issues require consideration, especially for agencies such as Acas. However, they are informative in the sense of being a starting point for helping to understand the complexity of the marketplace.

In 2005, a new model of segmentation of SMEs was developed to support Business Link. This divided the population into six segments that shared similar characteristics, needs, preferences and behaviours (Business Link, 2010). These are shown in Table 4.2. Given these segments, key questions arise for Acas regarding the target audiences for advice, support and means of service delivery. Potential employment-related issues, of significance for Acas, have been highlighted in the table, suggesting that the client-base has the potential to be broad, ranging from pre-starts through to growth businesses.

Table 4.2 Segmenting the Market: definition, needs, value and size		
Pre-Starts	<i>Definition</i>	Any individual seriously thinking of starting a business.
	<i>Needs</i>	Emotional encouragement to develop ideas; understand the benefits and downsides of setting up; understand what support is available and where and how to access further support.
	<i>Value</i>	This segment is important as the UK currently has lower business formation rates than other significant economies.
	<i>Size</i>	3.4m - 11% of all adults aged 16-64 in England
Start-Ups	<i>Definition</i>	Individuals that have made the decision to set up in business, are in the process of setting up in business or have just recently set up in business. Businesses up to 24 months old.
	<i>Needs</i>	Understanding what they need to do, how best to access/make use of business support, and how to minimise the impact and management of rules and regulations.
	<i>Value</i>	Start ups are an important source of GDP growth and economic regeneration.
	<i>Size</i>	453,000 per year
Lifestyle	<i>Definition</i>	Owner managed businesses with little aspiration to grow above levels that maintain their relative position in the market. People motivated to be in business in order to be their own boss and in control of their lifestyle.
	<i>Needs</i>	Improve the effectiveness of their business operations through understanding and implementing best practice and finding ways to improve their compliance and management of rules and regulations.
	<i>Value</i>	This segment provides the lowest opportunity for value uplift in terms of each individual business and the UK and would therefore require most cost effective forms of engagement (online and publications), with face to face engagement being used reactively.
	<i>Size</i>	2.4m sole traders + 266,991 SMEs
Growth	<i>Definition</i>	Owner managed businesses with the ambition to grow above levels that maintain their relative position in the market.
	<i>Needs</i>	The challenges as they evolve from taking on new employees, developing leadership capabilities and locating additional funding etc and in addition to the other challenges of managing rules and regulations that other businesses across the owner/manager segment face.
	<i>Value</i>	This segment is critical to the productivity agenda and requires pro-active and intensive relationship management by Business Link.
	<i>Size</i>	466,279 SMEs

Steady State	<i>Definition</i>	Team managed businesses unwilling or unable to grow above levels that maintain their relative position in the market. Includes companies growing moderately (within the confines of their existing capabilities or overall market growth), as well as those with level or declining sales/profit.
	<i>Needs</i>	They are interested in managed growth rather than fast growth. They are looking at safe ways of progressing such as implementing best practice but can be prone to complacency.
	<i>Value</i>	They are important to maintaining UK productivity and employ significant numbers of people.
	<i>Size</i>	141,003 SMEs
Corporate Growth	<i>Definition</i>	Team managed businesses growing or forecasting rapid growth in sales and/or profits above levels that maintain their relative position in the market. May be trailblazing innovators and market leaders with significant growth aspirations.
	<i>Needs</i>	Growth for these businesses quite often means significant and innovative change. These businesses are looking for help in navigating the system (planning regime) and in accessing new markets.
	<i>Value</i>	These businesses have the potential to become the FTSE 100 companies of tomorrow. This segment is critical to the productivity agenda and requires proactive and intensive relationship management by Business Link.
	<i>Size</i>	97,141 SMEs

Source: Adapted from Business Link Segmentation Model 2005-06 (Business Link, 2010)

4.2 Developing a segmentation approach for Acas

As a starting point to raise effectiveness, Acas will need to prioritise its objectives and then developing a SME segmentation strategy that can be applied to meet these objectives. The corporate priorities of Acas (2011-15) include SME support:

Assist SMEs to manage their employment relations to achieve sustainable growth. Acas will:

- Help reassure SMEs that employment legislation does not have to be a barrier to taking on new employees and growing the business.
- Support SMEs as they transition from very small owner-manager run organisation to larger entities requiring middle managers and more sophisticated employment processes.
- Provide quick, easy to access advice and guidance to help resolve every day employment-related problems.

As can be seen, part of the emphasis in the Acas 2011-15 Corporate Strategy is on assisting SMEs through organisational change (mainly growth) as well as helping SMEs with employment regulations and issues that may arise. However,

the lessons learnt from previous experiences of 'intensive' and 'less intensive' approaches to the nature of support can be informative. A number of possible approaches to segments and meet these audiences are worthwhile considering.

All businesses, irrespective of size should be made aware of the services of Acas. This may be called 'less intensive' services and include, for example, information on the legal obligations of taking on a first employee. On the other hand, some businesses will be undergoing growth, taking on more employees and as such may require more intensive advice and support as they reach certain thresholds and have to undergo fundamental changes in their mode of operation and structures. It is critical that these businesses are served appropriately either by Acas directly or through referrals to Acas from other agencies. On the other hand, Acas should also be prepared to refer SMEs to other support agencies when the required expertise is not available.

The level of intensity of service provision may be mapped against the market segments to give some indication of where Acas may want to provide more in-depth levels of support and advice (Table 4.3).

Segment	Potential Advice and Support
Start-ups	Low intensity
Lifestyle	Low intensity
Growth	High intensity
Steady-state	Medium intensity
Corporate Growth	High intensity

The rationale for this strategic positioning is based on:

- a) Limited resource availability
- b) Reluctance of some groups (e.g. lifestyle) to seek advice and support
- c) The ability to manage the expectations of sub-groups. This segmentation was one of the benefits that Bennett (forthcoming 2012) reported in his analysis of the development of BIS services for SMEs.

In segmenting the SME market, however, and building a portfolio of products and/or services, care should be taken that these segments are not adhered to rigidly. For example, some 'lifestyle' businesses may undergo a change in its market and experience a sudden need to recruit new staff. Similarly, a 'fast growth' business may become a 'steady-state' business following growth, and this is likely to be the case given that growth is often sporadic rather than permanent (Storey, 2011). In other words, this classification should be treated as *transitory* rather than permanent at the level of the business.⁶ The earlier analysis of policy for SMEs has demonstrated the problems associated with merely 'responding' to customer needs. At the same time one of the weakness of the Business Link model was the 'pipeline forcing' of standardised training programmes and products onto SMEs.

⁶ This flexible approach would resonate with the experience of Barclays Bank discussed earlier.

4.3 SMEs, learning and training needs

One of the means of segmenting the SME market is through their learning and training needs. In this sphere, the principles of relevance of training content and efficiencies in delivery apply. Also crucial is the role of the owner-manager in steering the overall learning and training culture of their business. Numerous studies have emphasised the informal nature of learning and training in SMEs and the low levels of training and development budgets for formal activities (e.g. Kitching and Blackburn, 2002; LSC, 2006). Other analyses have also found low levels of take-up of initiatives by government agencies (e.g. Curran et al., 1996; Sims et al., 2000; Matlay, 2004). *Prima facie*, macro measurements of training suggest that SMEs undertake less formal training or learning activities than in larger organizations and contribute to an overall skills deficit. This may be the case in relation to formal, accredited training but more in-depth analyses have shown the variety of tacit, informal learning and training in SMEs as well as the mis-match between their needs, modes of operation and timing and what is available from formal sources. Measuring informal training is problematic (Kitching and Blackburn, 2003), but a key starting point for any agency seeking to engage with SMEs, and particularly micro and small firms, has to understand the key drivers for training in these firms. The pursuit of qualifications or 'badges' of approval is less likely to be an underlying motivation to train (e.g. Spilsbury and IFF, 2002).

A fundamental difference between SMEs and larger organizations is the focus on immediate business performance and the need to construct a workforce that is productive: there is little room for attendance away from the business or training which is not directly associated with the activities of the enterprise (e.g. Lyons and Mattare, 2011). Kitching and Blackburn (2002) for example reported that in essence, employers provided workforce training to provide workers with skills required in their current jobs and to improve business performance. Together, these two motives accounted for 71 per cent of the most important reasons for training. However, given the absence of unequivocal evidence that links training and business performance (Bryan, 2006; Patton et al., 2000; Westhead and Storey, 1997), it is understandable that many SME owner managers are reluctant to engage with formalised programmes for themselves or their employees. Hence, the default position for most SMEs is to have in-house training primarily on the grounds of relevance (because training could be tailored to employers' specific needs), convenience (training could be undertaken at times chosen by the employer and not to suit an external provider's schedule) and cost (Kitching and Blackburn, 2002). External training providers were used primarily because the employer lacked the skills and knowledge to provide the training in-house.

Numerous analyses of the take-up of training and learning by SME owner managers and their staff demonstrate a need to 'fit' with the needs of SMEs at different points of development. Hence, the drivers to change can include owner-manager ambitions and strategy, recruitment, product and service developments, supply chain pressures, broader market environments, capital equipment needs and new regulations linked to workforce practices. Obviously, these factors change with time and vary within the SME population – implying a segmentation strategy if agencies wish to engage in a meaningful way. A central challenge is how to segment the SME market given the multifaceted nature of training requirements.

SMEs not only have employees, they also have owner-managers and these should not be overlooked. First, they are key influencers in the culture of the organization, shaping learning and training for employees. Second, they are also

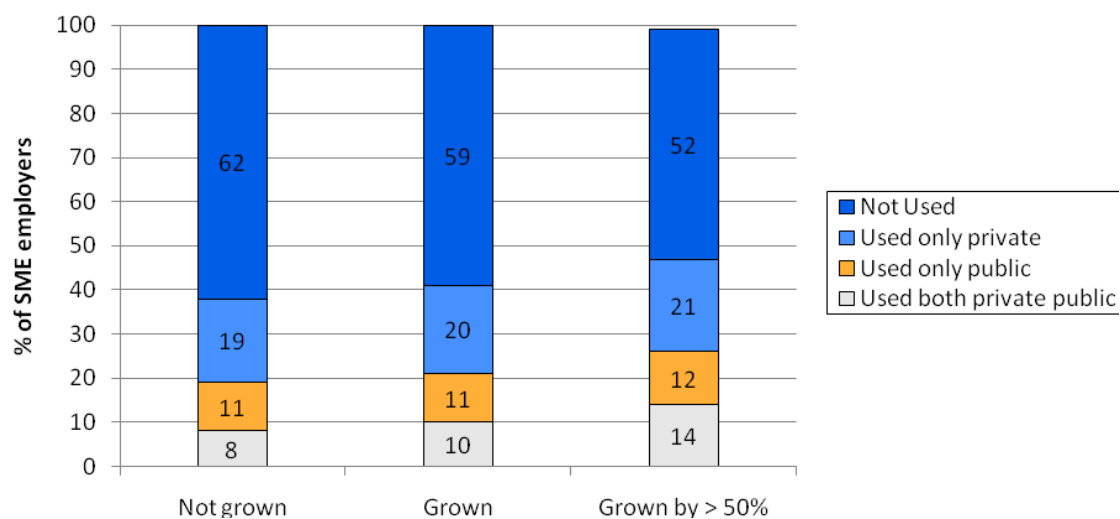
recipients of training – not only in relation to undertaking directly productive work but also in relation to the management of others. Hence, owner-managers should be key targets in any strategy to reach SMEs. However, the variety of learning and training needs of owner-managers is substantial: from starting a business, being self-employed (UKCES, 2011), through to taking on a first employee – ie becoming an employer (see David and Watts, 2008) – and subsequent business development. Thus, training is a *derived demand* from fundamental changes in the operations, size and activities of the business rather than linked to the actual size of the workforce. Certainly, persuading employers to undertake more training is an uphill struggle. However, as indicated, changes in the structure of the enterprise bring with them the need for changes in the skills composition of the workforce. In addition, there is a need to recognise the growth in the self-employed population, now accounting for around 13 per cent of the workforce, and their diverse training needs.

In considering the segmenting of the SME market in relation to learning and training needs (in addition to focusing on owner-managers as discussed above), Kitching and Blackburn (2002) divided their sample of 1005 small firms into three distinctive groups. Strategic (30 per cent of firms), tactical (55 per cent) and low (15 per cent) trainers were identified on the basis of answers to questions concerning their attitudes to training provision and whether they had a dedicated training budget. Strategic trainers were more likely to report growth over the past five years and anticipate growth over the next two years. The results also showed that employers were prepared to mix both in-house and external sources of training. The implications for agencies seeking to provide training advice and support to SMEs is that this needs to be tailored to meet the needs of different types of SMEs: certainly some are more engaged in learning and training than others.

4.4 Should Acas focus on growth businesses?

One of the recurring themes in small business policy has been a need to encourage and support growth businesses. Indeed, this is now a central pillar in the current government's strategy for enterprises (BIS, 2011d). Aligned to this is a need for government assistance and support agencies to target growth businesses with an advice and support infrastructure. This is predicated on the assumption that growth businesses will be faced with numerous demands on their resources: recruiting new staff, coping with regulations, meeting the demands of export markets and so on. The evidence to underpin the assumption that growth stimulates a search for assistance and advice is widespread (e.g. Kitching and Blackburn, 2002). BIS (2011b) found that where businesses stated their main business objective over the past three years to be growth, they had a higher propensity to seek external support. However, 'survival' businesses were slightly more likely to use *only* public sector assistance (12 per cent) compared with growth businesses (10 per cent). A further breakdown on whether the firm had grown also shows a positive relationship between growth and use of external assistance. Firms growing by over 50 per cent over the previous three years were more likely to seek external assistance, around 48 per cent compared with 38 per cent of those that had 'not grown' (Figure 4.1).

Figure 4.1: Has the business grown in the last 3 years/since established cross-tabulated by use of external assistance?

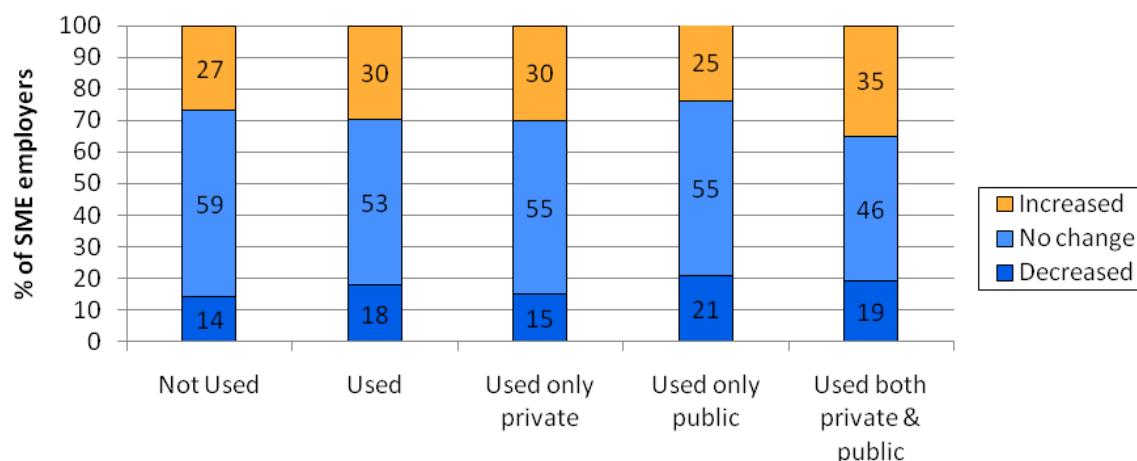


Source: BIS (2011b: 34)

BIS also provides an analysis by changes in *employment* over the previous 12 months and the results are of particular relevance for Acas (Figure 4.2). Although there was an overall positive relationship with employment growth and use of external assistance, the relationship was not simple. Businesses experiencing a *decline in employment* during the previous 12 months were also much more likely to use external assistance than not use assistance. This is shown elsewhere, for example, with SMEs seeking advice when going to an employment tribunal.

Moreover, those declining firms using external assistance were more likely to use 'public' sources of assistance (21 per cent) only. This compares with 25 per cent of firms experiencing an increase in employment. These public assistance sources included Business Link, and there was no explicit discussion of Acas. Thus, although the government agenda and research links business growth with external advice, support and training, business downsizing or even closure also requires external assistance.

Figure 4.2: Business employment change in the last 12 months cross-tabulated by use of external assistance



Source: BIS (2011b: 36)

The significance of such findings suggests that caution must be exercised in targeting a specific segment of the business population. Whilst business growth is desirable, aligning business advisory services to this segment of the population alone can have drawbacks. First, as 'growth' is a phase rather than a permanent state, advice beyond growth may be required (Storey, 2011; Westhead and Wright, 2011). Second, the proportion of businesses experiencing growth is minimal; for example, only around six per cent of the UK business population are classified as fast growth or 'gazelles', thus limiting the scale of the market that may be assisted (BERR, 2008). Third, the experience of Business Link and its early attempts to target firms of 20+ employees and growth firms discussed earlier, shows the limitations of this approach. Finally, many growth firms are already targeted with support and seek advice from private providers including accountants and consultants (BIS, 2011b), which also tended to be 'transformational' rather than 'transactional' in nature.

A main implication for Acas from this analysis is that it needs to provide a service for businesses undergoing 'transformation' including 'employment change'. This would ensure that Acas captures declining, steady-state and growth enterprises. Indeed, most businesses at some stage in their life-cycle go through these different segments of the market. To focus on 'growth' businesses may mean that it is missing out on servicing the needs of SMEs also undergoing change.

4.5 Is there market failure for advice and support?

Undoubtedly, the market place for business advice and support is crowded; there are both private and public sector providers, some assistance is provided free whilst some is charged for, and there is a range of both formal and informal advice. Finding estimates of the size of the market for SME advice is difficult. Certainly, one enduring theme in support for SMEs has been around gaps in finance and financial advice for growth (e.g. HM Treasury, 2003) and measures have been taken to help address this gap through specific measures in the new Solutions for Business Programme (BIS, 2011a). However, it has to be recognised that most SMEs (around 60 per cent) do not seek any formal external assistance over a three year period. Conventional arguments for this level of formal advice seeking amongst SMEs includes: a refusal to accept that assistance is needed; the opportunity cost of seeking advice when working in the business is regarded as priority; poor experiences or impressions of the quality of the advice and support that are available; a reluctance to pay fees; and not knowing where to go for advice. Of course, much advice that SME owner-managers seek and receive is informal, from other business owner, suppliers, clients, family and friends (Curran and Blackburn, 1994; Curran and Blackburn, 2000; Blackburn et al., 2010).

An analysis of evidence of *latent* demand and market failure has estimated that 28 per cent of SME employers in the past three years have had a need for formal assistance but have not used it (BIS, 2011b). Three types of latent demand are identified based on the experiences of businesses over the previous three years: users of business assistance during the previous three years that had a recognised need for assistance with another issue but did not seek it (3.6 per cent); non-users who had considered seeking formal assistance but did not do so (10 per cent); and non-users who did not seriously consider obtaining formal business assistance but had at least one concern about their business which they were unable to deal with fully (14 per cent). The actual requirements of latent demand by non-users are shown in Table 4.3.

External Assistance Requirements	Per cent of non users
Developing and growing the business	41
Raising finance	33
Sales and marketing	32
Surviving	30
Regulation and compliance	28
Managing cashflow	26
Starting a business (n=326)	19
New products and services	15
Recruiting staff	12
IT systems or websites	12
New export markets	2
Other	1

Source: (BIS, 2011b, p.64)

How such macro evidence is translated into a strategy for action requires more research and development. However, it is clear that the categories indicating 'developing and growing the business', 'regulation and compliance' and 'recruiting staff' suggest potential latent demand for Acas. Other issues underpinning why assistance was not taken up included doubts about benefits and value, relationship failures and concerns about access to information and advice (BIS, 2011b). Whether or not it is possible to stimulate a demand for advice from suppliers such as Acas, rather than relying on stimulants from regulations, remains open to debate.

4.6 The Means of Delivering Advice and Support to SMEs: Implications for Acas

A recurring challenge in the provision of advice and support to SMEs is the *means* of delivery. As discussed earlier, the most sophisticated or complex delivery formats in the UK have been demonstrated through the Business Link brokerage model. Despite its level of sophistication and high level of resource input to provide a comprehensive support service, the SME market has proved difficult to satisfy. Lessons for Acas can be drawn from this extensive experience.

First, it is important that suppliers of advice and support have a specific 'focus' or segmented client base. Hence, a segmentation strategy can help manage clients' expectations as well as focus the resources of the assisting agency.

Second, owner-managers are aware of the different formats of advice and support delivery. This appears to vary according to the intensity of exchange required. In some cases, information may be easily gleaned and collected via a website whilst in others, a face-to-face event may be important.

Clearly, the experience of Acas reflects these general patterns (Acas, 2008: Q27). However, attention needs to be paid to building relationships with businesses. It has to be recognised that many businesses seeking advice require guidance and this will involve an iterative process with the advice provider in order to unpack the real issues that lie underneath an immediate

problem. From an Acas point of view, national initiatives and campaigns using regional delivery might be the most appropriate mix of regional versus national service delivery. However, Acas should not assume a close affinity with all SMEs and their locality (unless geography and sector coincide such as beach-side hoteliers). Although business sector expertise is likely to be more important to SMEs than location, a regional presence is clearly important when doing face to face, more intensive advice.

Third, Acas may be regarded as a primary source of advice and support i.e. to businesses directly, but it should also be regarded as part of a referral network. Thus, Acas should be able to receive clients from other support agencies as well as refer clients to other support agencies. Acas has had a referral system with Business Link (Acas, 2008) but this needs to be developed further with other private and public sector organisations. However, the results of the survey in 2008 suggests that it is important that Acas retains their independence and continues to have direct access to businesses, rather than being subsumed under the Business Link website. Alliances with private sector organisations, such as accountants and solicitors, would also prove useful as a means of delivering services as well as raise its profile.

Finally, the evidence suggests that in order to reach the SME market more effectively, a mass marketing campaign would be appropriate. This is based on the findings that around 50 per cent of businesses are aware of Acas as an organisation to 'prevent and resolve problems' or 'resolve disputes' (Acas, 2008). Whether or not this is considered to be a 'high' or 'low' level of awareness is debatable but it certainly implies that there is room to shift this image and especially towards *advising* SMEs. In relation to this, the national branding campaign of the DTI's Enterprise Initiative in the early 1990s, proved to be a success in terms of raising use of the services and advice available (Bennett, forthcoming 2012). Within this campaign, there needs to be an emphasis on helping small firms solve problems related to regulation, employment disputes and managerial issues and procedure in relation to the changes in size of businesses, such as recruitment and retention.

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APPENDICES

Appendix One: Bolton Report Definitions of Small Firms

The Bolton Report suggested that qualitative and quantitative measures could be used to examine and define the British small business sector. The qualitative characteristics included:

- The business is independent and not a subsidiary of a larger organisation
- The management style is personalised, simple and less hierarchical
- The business has a relatively small share of the market

The Committee also suggested a quantitative definition according to different business sectors.

Bolton Report Definitions of small business

Sector	Definition
Manufacturing	Up to 200 employees
Construction	Up to 25 employees
Mining and Quarrying	Up to 25 employees
Wholesale Trades	Up to £200,000 turnover
Motor Trades	Up to £100,000 turnover
Retailing	Up to £50,000 turnover
Miscellaneous Services	Up to £50,000 turnover
Road Transport	Up to five vehicles
Catering	All excluding multiples and brewery-managed houses

Source: Bolton, J E (1971)

One of the main problems with using financial data for defining categories of businesses is of course the effect of inflation. Hence, employment size measures are probably more useful for time-series comparisons.

Appendix Two: Better Regulation Task Force

Recommendations by the Better Regulation Task Force that have implications for employment-related issues. These has been reviewed earlier (BRTF, 2002) in a report that made 12 recommendations to government and support agencies. The BRTF report was littered with evidence and references to small firms and nine of the recommendations were specifically designed to address the challenges of small firms. These included:

Recommendation 3: Understanding small business. The Task Force recommends that civil servants who deal with aspects of employment law should spend time understanding how regulations impact on small businesses. Each Department should include a section in their Annual Report on how they are meeting this recommendation.

Recommendation 4: The impact of employment legislation. The Task Force recommends that the DTI should review, by December 2002, the current state of research in employment matters to establish whether there are gaps in its understanding of the direct and indirect effects of employment legislation on large, medium and small firms.

Recommendation 5: 'Stress test' regulations by sector and size. The Task Force recommends that all new regulations should be tested, to indicate the industry sectors and size of business on which it will have most impact, when the regulatory impact assessment is carried out. Existing regulations should be tested when reviewed.

Recommendation 6: Demand led guidance. The Task Force recommends that guidance on employment regulations, in any format, should tell employers how to deal with a situation – for example, using a question and answer format – rather than give a detailed description of what the regulations say. All guidance intended for small firms should follow the SBS guidelines.

Recommendation 9: Advice visits to employers. The Task Force recommends that Acas should (a) provide their seminars to businesses with fewer than 5 employees for free; and (b) pilot the provision of one-to-one free employment law advice visits to employers of less than 50 employees, and, if found useful, rolling out national provision of this from April 2003.

Recommendation 10: Shared HR resource. The Government should run a range of pilots, with different providers and funding methods, for a shared HR resource for small firms. The pilots should run until the end of 2003, and the successful model rolled out nationwide in 2004.

Recommendation 11: Access to mediation. Acas should pilot a mediation service for businesses of less than 50 employees. If successful, the service should be either free or subsidised.

Recommendation 12: Earlier access to arbitration. Acas should pilot an arbitration service for businesses of less than 50 employees. Arbitration should be made available without a tribunal application having to be made. If successful, the service should be either free or subsidised.

Source: BRTF (2002)

