small business service

Annual Small Business Survey 2003
Executive Summary

Research

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SMALL BUSINESS SERVICE

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Working with the public, private and voluntary sectors to make the UK the best place to start and grow a business.

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We champion UK business at home and abroad. We invest heavily in world-class science and technology. We protect the rights of working people and consumers. And we stand up for fair and open markets in the UK, Europe and the world.

This summary sets out the key findings from the Small Business Service's Annual Small Business Survey for 2003.

Survey aims

In undertaking this new annual survey, SBS is building on previous experience with its Omnibus Survey of Small Businesses, in seeking to:

- gauge the needs of small businesses, assess their main concerns, and identify the barriers which prevent them from fulfilling their potential
- act as a sounding board for possible government actions to help small businesses; and
- record small businesses' experiences of government services.

Survey scope

The research procedures on which this telephone-based survey is based are discussed in detail in the full report. However, for the moment we should note that:

- the findings are based on a large sample of 8,693 small businesses (for the purposes of this report, a small business is any business with zero to 250 employees);
- the whole of the UK is covered;
- the sample is weighted to be representative of small businesses in the UK; and
- the fieldwork was undertaken in the fourth quarter of 2003.

Acknowledgements

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The characteristics of small businesses

Perhaps the dominant characteristic of small businesses in the UK is the numerical dominance of businesses which have no, or very few, employees. Looking at all UK businesses with a headcount of up to 250 people, 69.5 per cent of them have no employees at all, and 25.3 per cent have fewer than ten. This bias is so marked, that even when we just focus on businesses that do have employees, fewer than a fifth of them (17.1 per cent) have ten or more.

Consistent with this, the experience of employment growth is not widespread across this sample, and where it is experienced it is frequently not sustained for two years running. Although 15.8 per cent of employers had grown in the previous year, and 25 per cent expected to grow in the coming one, only 9.1 per cent grew in the previous year and expected to grow in the following year.

Nevertheless, the turnover of small businesses with employees is substantial. Unfortunately, about a third of businesses could not or would not provide financial information. But nearly three quarters (73.8 per cent) of those who would tell us had a turnover between £56,000 (the VAT threshold at the time of the survey) and £1.5million, and another 14.2 per cent had turnovers exceeding £1.5million in the past year.

Furthermore, about a fifth of small employers (20.8 per cent) are exporters, conducting at least some of their business outside the UK. However, for most of these, their principal markets were close to home, with exports providing only a minority of their turnover. Thus, only 4.2 per cent overall said that most of their business was conducted abroad.

Service sector employers account for the bulk of the sample, at 71.8 per cent, and these include businesses in retailing, hotels and restaurants, transport and communications, financial services, business services, education, health and social work, and other services.

Finally, a substantial proportion of these businesses are relatively young. Among the businesses with employees, 14.4 per cent of them had been trading for less than four years, and fully a third (33.8 per cent) for ten years or less[1].

[1] There may be more young businesses than this in the UK business population, but because these take time to appear on Dun & Bradstreet's records (which were used as the sample frame), our sample may have a smaller proportion of young businesses than actually exists

The characteristics of small business owner/managers

About half of all small businesses (50.9 per cent) were managed solely by men, while 12.3 per cent of small businesses were managed by a majority of women, and the rest had women among their directors, but not in a majority.

People from minority ethnic group (MEG) backgrounds made up the majority of directors among less than one in ten small businesses (8.9 per cent).

Nine per cent of business owners had a disability of some kind. This was true for businesses both with and without employees.

Just over two thirds (67.3 per cent) of businesses reported described themselves as family-owned, and this proportion did not vary with the financial size of the business. Indeed, the only significant variation was that younger businesses were less likely to be family-owned (50.6 per cent among those trading for three years or less, compared with 73.3 per cent among those trading for over a decade).

New businesses

Moving on to look at these new businesses, that is those less than four years old, the survey showed quite a wide range of different rationales for starting. However, the most common, accounting for 29.0 per cent of the new businesses was a wish to be independent and to be their own boss. In addition, a wish to better themselves was also quite a common rationale among these new business developers, with 14.5 per cent citing their wish to make money, and another 11.5 per cent wanting to improve their careers and prospects.

Overwhelmingly, the owners of these new businesses had previously been in full-time employment (62.3 per cent), or self-employment (25.0 per cent). Only 6.8 per cent classed themselves as being unemployed previously, and even fewer were in part-time work. Interestingly, unemployment as a starting point is no more evident (less, in fact) among new businesses in deprived areas (where unemployment tends to be higher) than it is in the less deprived ones. However, for exactly one in ten of these owners it was the difficulty of getting the right job, or more often, any job at all, which had provided an important rationale for starting their business, at 2.4 and 7.6 per cent respectively.

Just over a third (35.6 per cent) of these new business owners had not sought advice from anybody before starting up, while a further 17.8 per cent had consulted nobody except their friends, family or informal contacts. Among the other half, who had taken more formal advice, professional and/or commercial consultations with accountants (22.0 per cent), banks (16.5 per cent) and lawyers (7.3 per cent) together constituted the largest source of advice. Only 14.7 per cent had taken advice from a public advice/support agency, although this was much higher among new businesses in Wales (29.9 per cent) and Scotland (33.8 per cent).

Over a quarter of these new businesses owners (27.2 per cent) said that they had not faced any real obstacles in starting up, while another 13.9 per cent said that they could not readily identify any particular obstacle, which might be taken to suggest that none had been serious enough to recall.

Where difficulties had been encountered, financial difficulties were the most prominent, with one in five (20.8 per cent) reporting obstacles in raising finance to start up their new businesses, and another 10.1 per cent facing difficulties with their cash flow. Competition was mentioned by 6.8 per cent as having been an obstacle to their starting up the business, while even fewer (1.4 per cent) mentioned 'the economy' as a constraint.

Businesses with no employees

As noted above, nearly 70 per cent of businesses did not employ any staff. Very nearly half of these businesses (47.7 per cent, or exactly a third of all small businesses) felt that they could not, or were not, attracting enough work to require taking on any staff.

Another 27.1 per cent (or nearly 19 per cent of all small businesses) said that they actively preferred to work alone, and so had no wish to employ staff. Even among businesses proposing to grow in the coming year, still fully a fifth (20.5 per cent) of them cited this preference as a reason for not employing staff.

The expense of employing labour (11.9 per cent, or just over eight per cent of all small businesses) and employment regulations (7.4 per cent, or just over five per cent of all small businesses) were much less widely cited.

Among this latter (and, it should be stressed, quite small) group, the dominant factor (cited by 56.9 per cent) was a generalised wariness of paperwork and perceived 'red tape', not specifically attached to a particular regulation or issue. Specific regulations were much less often cited as constraints on employment, but health and safety, and employee protection regulations were each cited by about a fifth of businesses with no employees (20.6 and 18.6 per cent respectively). Minimum wage regulations and working time rules were only cited infrequently, by about three per cent of these businesses each. Some 12.5 per cent said that they preferred to use casual staff rather than have any regular employees, and this preference was rather more widespread in construction.

Business objectives and growth

In order to assess growth prospects, we asked a general question about whether or not business owners intended to grow their businesses over the next two to three years.

Among all businesses (that is both those with and without employees presently) the sample was split fairly evenly between those who intended some form of growth (47.1 per cent) and those who did not (52.9 per cent).

The larger the business already, the more likely was it to intend to grow during the coming two or three years. Thus, among those with no employees currently, the proportion intending to grow was somewhat lower than average (at 41.0 per cent), but this rose consistently with size, reaching 83.2 per cent among the largest businesses, with 50 or more staff.

Looking at small businesses with employees, we found that, overall, some 61.1 per cent intended to grow in the next two or three years, although this is much lower in businesses in both the primary industries sector (46.2 per cent) and construction (43.0 per cent).

Anticipated growth correlates positively with turnover volumes, rising from just over half (52.5 per cent) among the smallest of these businesses, to just under three quarters (74.9 per cent) among the largest. It correlates negatively with the age of the business; younger businesses were much more likely to anticipate growth.

By far the most common means of securing the anticipated growth was simply to increase the volume of turnover or sales within the existing market/product parameters. About 55 per cent of businesses expecting to grow (or a quarter of them all), whatever their size or current employment, saw this as a means of growth.

The most widespread reason for not anticipating growth, cited by 37.2 per cent of businesses not expecting growth (or just under a fifth of all small businesses) was that they were happy to remain at their present size. This rationale becomes less common as the size of the organisation increases, but even among the largest businesses, with 50 or more employees, this remains a reason for not seeking growth among fully a quarter (25.3 per cent) of them.

Although quite uncommon among these larger businesses, the constraining effects of the proprietor's personal circumstances (for example, their wish to retire or close the business down) appear to be fairly widespread among the smaller ones. By contrast, among the larger businesses, concern that the market may not support growth was the main reason for not growing, with almost a third (30.6 per cent) citing this, while their smaller counterparts were much less inclined to be put off by worries about the market. A similar pattern emerges when considering businesses' capacity to grow; among the larger businesses, nearly a fifth (18.3 per cent) were not looking to grow because they lacked the capacity (premises, space, people, etc.) to do so, but this concern shrinks to only 6.6 per cent among the smallest.

Altogether, most small businesses either want to grow and propose to, or don't want to and don't propose to. There is only a minority of small businesses who might be thought of as being prevented from growing. Only about one in 20 (4.9 per cent) small businesses cite their market circumstances as something preventing them from growth. Roughly twice as many, 9.6 per cent, cite non-market factors, which may in some way be preventing them from growing.

Barriers and obstacles to achieving business objectives

Whatever their objectives might be, small businesses might be constrained in reaching them by a range of barriers or obstacles. To assess what these might be, business owners were asked to say what they saw as the main obstacle to the success of their business.

There was considerable agreement between employers and small businesses in general, that competition (16.2 per cent of all businesses), regulations (14.5 per cent) and the economy (12.0 per cent of all businesses) are their main obstacles to their businesses' success. It may be worth noting that this 'success' may take many different forms, and is not necessarily synonymous with growth.

At the other end of the spectrum, lack of broadband access, keeping abreast of new technology, staff retention, and shortage of managerial skills/expertise, obtaining finance, and transport issues are each much less frequently cited. Employers with the highest turnover are most likely to mention the economy (37.6 per cent) and regulations (20.8 per cent).

We then went on to ask businesses how their greatest obstacle had actually affected their business.

The main impact is felt through restraint on, or reduction of, the volume of sales. Beyond this, higher costs/lower profit, capacity constraints and the soaking up of managers' time are the most frequently reported effects. Constraints on access to working capital or investment funding are less often cited.

Regulations as an obstacle to business

Altogether 38.7 per cent of all businesses thought that 'regulations' acted in some way to place obstacles in the way of their success, and for 14.5 per cent this was their greatest obstacle.

Looking more closely at businesses that found regulations to be a problem, we find that although about a fifth (22.9 per cent) of them could not cite any particular regulation. However 24.4 per cent, or just under one in ten of all small businesses, pointed to health and safety regulations. Among small businesses with employees, regulations were more widely cited as an obstacle, with just under half (47.6 per cent) identifying them. Employment protection regulations were cited as a particular obstacle to business by just over one in ten (11.6 per cent) of employers who cited regulation, or just 5.5 per cent of all employers.

The indirect costs associated with compliance (that is mostly administrative, managerial and time costs) were most widely regarded as the core of the obstacle (among 56.4 per cent of these employers, or 26.8 per cent of all employers); although in addition, just over a quarter of them (or 12.5 per cent of all employers) cited the substantive cost of compliance (the direct costs of any changes which might have been needed). Difficulties in understanding the regulation, in finding and consulting advisors and in paying for the advice were less frequently cited in this respect.

Financing the business

The majority of businesses (83.2 per cent) had not sought external finance for their business at all in the past 12 months. Larger businesses, newly formed ones and those demonstrating sustained growth (that is, they had grown in the past year and expected to grow again) were more likely to have sought such finance. Multiple attempts to raise finance were also more common among such businesses, but for the most part, the majority of those seeking it had only done so once in the past year.

The two reasons most frequently cited for seeking finance were for working capital/cashflow, and for capital equipment/vehicles, with each cited by about a third of those who had sought external finance.

Half of the businesses seeking finance (51.6 per cent, or about eight per cent of all small businesses) said that they had sought a bank loan, while about a fifth (20.6 per cent) had sought a bank overdraft. Smaller proportions had sought finance through a grant, through leasing/hire purchase, or a mortgage (at 9.0, 9.2 and 6.9 per cent respectively).

The amount of money sought varied widely, although for nearly half of them (49.0 per cent), less than £25,000 had been sought. The amount tended to increase with the size of the business.

Few businesses reported any difficulty in raising finance. Around three quarters (74.1 per cent) of those who had tried had succeeded, and this proportion tended to increase with the size of the business. A further 6.7 per cent had obtained all the finance sought, but they had experienced problems in doing so, and another 4.7 per cent had only obtained part of the finance they sought. By contrast, some 13.2 per cent of those trying had failed to obtain any finance at all, although this amounts to just two per cent of all small businesses.

Among businesses with employees, those located in disadvantaged areas, those managed by a majority of women, and those managed by a majority of people from minority ethnic groups (MEG) had all been just as likely as other businesses to seek external funding.

Those located in disadvantaged areas had been just as likely to get this finance. However, among women-led businesses, and more particularly among MEG-led businesses, the proportion experiencing problems when they sought external finance was higher than average.

The main impact of difficulty in raising finance was that the business was not able to grow as quickly as it believed it might have done, or that management time had been wasted. Few felt that the survival of the business had been called into question, although this was more evident among the smallest businesses.

Late payment

For two out of five businesses (40.8 per cent), late payment was not a problem at all. However, 24.7 per cent thought it was a problem, albeit a small one, and 11.3 per cent considered late payment to be a big problem. The other 23.1 per cent of businesses did not provide credit; so late payment was not a relevant question.

The larger the business, the more likely it was to identify late payment as a big problem. Consistent with this, around three quarters (76.1 per cent) of small businesses who provided credit had never taken a customer to court, with the proportion rising to 81.4 per cent of the smallest businesses.

Overall, nearly two thirds (64.3 per cent) of managers of small businesses who provided credit were aware of the legislation dealing with late payment, but the proportion was much higher among the larger businesses (86.6 per cent among those with 50 or more employees).

Among those who were aware of it, some 16.6 per cent might mention the legislation when chasing debts, with the proportion rising with the size of the business. This amounts to just one in ten small businesses overall. Of those small businesses that knew about it, only 1.9 per cent of them (or just over one per cent of all small businesses) had taken legal action under the legislation.

Seeking advice about business regulation

Among small businesses as a whole, about half (52.7 per cent) had not sought advice or information from any external sources during the past year about regulations which might affect them. However, the likelihood of seeking such advice increases sharply with the size of the business, such that among medium-sized businesses, only about a fifth (21.1 per cent) had not done so.

Growing businesses in general, and the more recently established ones, appear more likely to have sought such advice more often than others, as do those in primary industries. By contrast, MEG-led businesses and those in deprived areas have sought such advice less often than average.

Among small businesses as a whole, the three main sources used for advice on regulation were:

- the business's accountant (12.8 per cent of all businesses)
- the trade or business association to which the business might belong (10.7 per cent); and
- public information sources, such as the internet, library or press (6.3 per cent).

Contact with, and use of, government services

Nearly half of all businesses owners (45.1 per cent) said that they had had no contact with the government during the previous year, although as the size of the business increased, they were more likely to have had contact. Fewer than one in five (18.3 per cent) of medium-sized businesses said that they had not had any contact.

30.1 per cent of small businesses said that they had had contact on VAT related issues. Around one in five (21.9 per cent) had had contact on non-VAT tax related issues and a similar proportion (20.8 per cent) had dealt with Companies House. A minority of businesses mentioned the area of regulation enforcement (12.4 per cent).

Those who said that they had had contact with the government were asked, for different types of contact, how satisfied they were with it. For each type of contact, more businesses were satisfied than dissatisfied. The proportion satisfied ranged from 52.9 to 84.4 per cent depending on the type.

Businesses did not consider that the government took a lot of account of the concerns of small businesses. Less than one per cent of all businesses said that the government took very much concern, and just under seven per cent that it took quite a lot of concern. Conversely, some 36.1 per cent considered the government took only a little account and 37.6 per cent said that it took no account at all.

Public procurement

All business owners were asked whether they had sought any work from the government or public sector in the past 12 months, and whether they had actually done any business for the public sector in the same period.

Overall, 14.0 per cent of all businesses had expressed an interest in public sector work. This proportion varied according to size, with nearly two in five in medium-sized businesses having expressed interest (38.5 per cent) compared with 11.9 per cent of businesses with no employees.

Of those who had expressed such an interest, more than three quarters (77.9 per cent) had actually done public sector work in the past 12 months. This proportion was higher for micro businesses (83.2 per cent), and higher still for small and medium businesses.

Discrimination against minority businesses

In seeking some preliminary data on the extent to which some small businesses may experience, and be inhibited by, discrimination of one sort or another, we asked a sub-sample from within the overall sample of businesses about their experiences in this area. This sub-sample focused on some of the poorest and most deprived parts of the country, and consequently the results are not intended to be representative of small businesses as a whole, and ought to be treated with some caution as a result.

We found that 11.7 per cent of small businesses reported that they had been discriminated against in some respect during the past two or three years in the course of running their business.

There is no significant variation in this level according to the size of the business, but the incidence of discrimination seems slightly lower for businesses engaged in the primary and production sectors. The incidence of recalled discrimination rises slightly among both women-led and MEG-led businesses, but again not by much, to 14.6 and 14.0 per cent respectively.

In only about one in ten (10.9 per cent) businesses that had experienced discrimination (that is approximately one per cent of small businesses as a whole) was this discrimination adjudged to be sufficiently serious to have constrained the business. However, this proportion doubles for MEG-led businesses.

Crime as a problem for small businesses

When small business owners were asked 'open-ended' what factors were constraining their business, crime was mentioned by only a handful of them. However, when the questioning was directed explicitly at crime, then the proportion citing it as a big or fairly big problem was more considerable. Fully 30 per cent of businesses with employees thought so, and the bigger the business, the more likely is it to perceive crime as an important problem. However a similar proportion did not view crime as a problem at all.

Among MEG-led employers the proportion viewing crime as a very big or fairly big problem increased to 38 per cent, while in the most deprived wards in England, the proportion citing crime as a very big or fairly big problem increased to fully 45 per cent of employers.

About a third (35.3 per cent) of small employers had been the victim of at least one crime in the previous 12 months, and for just over a fifth of them (21.1 per cent), it had happened more than once. Once again, there was considerable variation by size and location.

Innovation in products and processes

Two in every five small employers (39.5 per cent) had introduced some kind of new product or service in the year before the survey, while a third (33.5 per cent) had introduced some kind of new process or way of working in that year (some businesses had introduced both).

For both kinds of innovation, there is a clear relationship with the size of the business; the larger it is, in terms of employment, the more likely is it to have innovated. Furthermore, both kinds of innovation are positively associated with growth. Finally, the younger the business is, the more likely it has been to have introduced new products/services or processes.

Small businesses and youth

Businesses owners were asked about their awareness of, and involvement with, organisations that are active in helping young people learn about business. Most of the organisations cited were quite widely recognised among small businesses, with the Prince's Trust, in particular, recognised by 86.5 per cent of these employers overall, and rather more in Wales.

Overall, less than one in ten of these employers (8.4 per cent) had not heard of any of the organisations, although the proportion was somewhat higher in Scotland.

However, when attention is turned to these employers' actual involvement with these organisations, then a radically different picture emerges. No organisation had secured the involvement of more than two per cent of these small employers. This picture did not differ to any significant degree between any of our sub-groups of employer.

Family businesses

We reported earlier that just over two thirds (67.3 per cent) of businesses owners described their business as a family-owned one.

For the most part, these were controlled by the first generation (57.5 per cent) or the second (20.9 per cent).

The most common expectation about the future of these businesses, was that they would remain in the families' hands (47.7 per cent), although about a fifth (19.2 per cent) said that they would probably sell the business at some point in the future.

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