

How to promote and support business in the current climate

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How to promote and support business in the current climate

Executive summary

Introduction

For many years North London has displayed relatively high rates of both business start-up and closure – or more accurately, entry and exit. The area has also attracted a wide range of business support programmes. The North London Strategic Alliance (NLSA) has commissioned a short study to try to explain this distinctive business demography. Promoting and supporting the development of sustainable businesses has always been a major concern of NLSA, but given the current recession it's more important than ever.

This report is based on a three-fold work programme

- A review of the evidence from evaluation and other research
- Interviews with key actors involved in business support across North London
- A seminar involving a selection of key actors to discuss interim findings

The business demography of North London

There are some issues with the data that complicate the process of measuring closure and start-up rates; but nevertheless the evidence does confirm that so far as businesses that are either registered for VAT or PAYE are concerned :

- A substantial majority of NLSA boroughs have higher entry and exit rates than either London as a whole or the rest of the country, and that...
- ...this has been the case for some years (at times of growth and recession) BUT
- There is significant variation *between* NLSA boroughs, with, in general terms the inner London boroughs 'outperforming' the outer London boroughs;
- The proportion of the workforce who are self-employed varies substantially between boroughs; and also fluctuates over time – unlike either London or the country as a whole – where rates have been relatively stable.

The data also show that the area has a high level of self-employment, and that from 2005-2011:

- In all the NLSA boroughs there were substantial fluctuations year-to-year;
- The variations were most extreme in Haringey where rates (and numbers) *halved* between 2006 and 2011;

- The direction of these variations differed between boroughs: in four cases there is an overall decline over the period;
- There is no clear or consistent pattern in the relationship between self-employment and wider economic circumstances;
- In contrast there is much less volatility over time in both Great Britain and London.

What's the explanation?

There are three main possible explanations for the relatively high business closure rate:

- The structure and composition of the local economy: we know there are variations nationally in survival rates between sectors, and between the size of companies, so a locally high rate of closure *could* reflect over-reliance on vulnerable sectors, or a predominance of small businesses;
- An area could be unusually 'entrepreneurial' leading to a higher rate of start up (or the emphasis of business support programmes could generate the same result). We know that areas with high start-up rates are associated with a high degree of 'churn', as new businesses displace older ones trading in the same market place.
- There may be distinctive characteristics in the nature, experience and backgrounds of local entrepreneurs that explain high failure rates. This could include leadership and management skills, associated with a lack of entrepreneurial experience; but it could also reflect limited financial resources resulting from low levels of home ownership and thus collateral to support borrowing.

The evidence is inconclusive, but suggests that the main factors are: the predominance of a small firm economy in North London, the stress in public programmes on start-up, and the weakness of much of the economy and the inexperience and lack of financial resources of would be entrepreneurs.

Supporting and growing SMEs: what works?

There is relatively little evaluation evidence still available about the support programmes that have been run in North London over the last 20 years. However the extensive academic literature offers a number of firm conclusions about 'what works', although there are some limitations to the quality of the evidence. In part the loosely defined objectives and poor monitoring arrangements which often characterise publicly funded support programmes explain these limitations.

Start-up programmes

Policies which seek to maximise business birth rates often encourage businesses with low growth potential, and risk leading to displacement. Support agencies need to find ways of steering start-ups away from overcrowded sectors and product/service markets where there is a high risk of local displacement and to encourage business ideas which are more distinctive and innovative. Some interviewees suggested that the problem derives in part from the way funders structure programmes, with payments based on 'businesses started' rather than 'businesses discouraged.'

Support for start-ups can improve survival rates, but there are two important preconditions: a change in the emphasis of the support, from seeking high volumes of starts as the key objective, to a concentration on quality business starts; and rigorous selection to ensure that the businesses supported have the maximum potential to survive.

High growth starts

The greatest employment potential comes from high growth new businesses; however, only a few high growth potential firms will employ large numbers. One estimate suggests that 4% of new start-ups are responsible for 50% of jobs created by all new firms ten years later. Identifying firms with genuinely high growth potential is not easy. However some key indicators include:

- The age of the firm, the human capital of the entrepreneur, the firm's exporting activity and its networks.
- They are not (just) high-tech companies: high growth companies can be found in almost any sector of the economy.
- They are not (just) start-ups.
- But they do share one common factor – innovation, which may be to do with technological innovation but does not have to be.

Support for existing businesses

Many observers have argued for a greater focus on supporting existing rather than start-up businesses. There is evidence that support programmes aimed at established businesses can lead to both profits and employment growth. However it has also been argued that those firms seeking support already show greater potential than those that do not. The evidence about what makes for effective support programmes for existing businesses is clear. Intensive support for a few is more effective than limited support for many. One study argued that '...faced with a choice of spending priorities between gaining more customers or spending more on each our results suggest that a more focused, highly intensive profile of assistance works best. Deeper is better than broader.' The importance of long-term support was also emphasised by interviewees.

Access to finance

Access to finance is one of the most frequently cited problems of those setting up a business, and indeed of those seeking to develop and grow a business. Frequently in the past public authorities have offered grants or soft loans, in recognition of how difficult it is to secure loans from the banks. Recently a greater emphasis has been placed on demand rather than supply – helping firms improve their approach to fund-raising. However an evaluation of an LDA programme designed to improve 'investment readiness', found that the key barriers to finance for many were lack of business track record and lack of collateral – neither of which could be bridged by investment readiness preparation.

Where support agencies help clients raise funds the emphasis is usually on loan finance. This partly reflects the nature of the client base, their businesses and their needs; but the equity aversion of many small business owners is well documented. A recent OECD study has argued that equity aversion is also shared by many

support agencies and this helps explain the dearth and poverty of proposals going in front of business angels.

Premises issues

The availability of affordable, flexible and appropriate premises is critical to small business development, and to their retention locally. In some parts of the NLSA area, space is inherently limited and the options for developing any kind of work space are minimal. It is clear from a variety of sources of evidence that demand for basic small business space across the NLSA area is strong. But there is also interest in the public sector in the provision of premises that offer more than basic landlord services. Business incubators and hubs have extended the managed workspace concept, seeking to combine a variety of forms of business support with flexible workspace. Some argue that these work best where tenant firms are clustered around a particular sector. Ambitious claims have been made about the effectiveness of this approach. However, NESTA, an advocate of the incubator/hub, also argues that the model is not one that works equally well everywhere. 'A new incubator should be carefully tailored to meet its locality's requirements, necessitating careful feasibility studies'.

The range of support available in incubators is expensive, with the costs beyond the reach of most small businesses. In the past incubators have largely depended on a level of public subsidy which is not currently available. Inevitably therefore (and particularly in the current economic climate) they are not commonplace and their penetration into the business community therefore limited.

What do businesses say they want?

Direct evidence about businesses' own perceptions of need is scarce: some boroughs have attempted surveys as part of the local economic assessment process but with limited responses. However, the kinds of issues most frequently mentioned typically include parking, waste collection, traffic and 'council red tape'. A large survey across London by the Federation of Small Businesses reported similar conclusions, along with requests for easier access to local authority procurement processes.

Other studies show that relatively few small companies seeking business advice use public agencies: only 10% according to one report. Surveys of which sources of advice and help businesses use tell us little about the kind of support they want. However a survey of business advisers urged greater focus on established firms.

Enterprising North London? Some issues to be addressed

NLSA expectations for the outcomes from this study were threefold:

- To develop some pointers identifying the most effective way to spend limited public sector resources on business support: to summarise – if only one type of business support activity could be funded what should it be?
- Arising from this, to start developing ideas for the forthcoming round of European programmes;
- To explore how best to create and promote a reputation for the area as a good place to start and develop business – 'enterprising North London'.

Resources are of course limited, though there are some funding streams available – apart from the next round of European funds (which will not be available until 2014) the Regional Growth Fund, and the potential Local Enterprise Partnership may offer possibilities. In addition, changes in the rules surrounding business rates may create opportunities for local authorities to invest in local economic development. But how and where should any funds be used to create the optimum impact?

The business support infrastructure

A number of interviewees thought the business support infrastructure across the NLSA area remains crowded and confusing for potential clients. Given the independence of the agencies and their borough links it is not clear how they might be rationalised or better co-ordinated; however if one were starting to create a business support infrastructure for North London on a blank canvas it is unlikely it would look like it does today. Some interviewees argued that the agencies should be more proactive in order to attract a wider range of clients; however in the absence of additional resources, this may limit the amount of assistance available to each client, thus reducing the support available for firms with genuine growth prospects. The evidence suggests that selectivity and concentration of resources are key *if* the principal objective is employment growth.

Premises provision

While there is clear demand for basic, affordable, flexible premises, most of what is currently available is not suited to high growth, high tech businesses. However, care must be taken in investing in more sophisticated provision: *any* business support intervention – including hubs – has to take into account the specific characteristics of the sub-region, weaknesses as well as strengths. Elsewhere the failure to do so in the design of premises interventions has led to an influx of firms (and employees) from outside the local area, inevitably diluting the local employment and other economic impacts.

What kind of support – and for which types of enterprise?

There may be differences in the objectives of the business agencies and the public bodies: the latter may have strategic aims of improving employment growth, but as was clear from the seminar, in the current climate, for the agencies the priority may simply be survival, which means meeting funders' targets.

The main findings from the evidence may be summarised as follows:

- Ensure that the objectives of business support programmes are clearly defined: programmes work best where they concentrate on a single objective.
- Programmes should focus selectively on firms – both existing and start-ups – with genuine growth prospects. Though picking winners is not easy, focusing on sectors with growth prospects, and avoiding marketplaces that are already crowded can help.
- The evidence suggests that programmes designed to help those with little experience of enterprise into self-employment can help develop employability; but they are not effective routes to create firms employing significant numbers.
- Programmes targeted on disadvantaged communities and groups can be justified on any numbers of grounds – but are unlikely to produce high growth companies. These are most likely to be produced by individuals with some entrepreneurial

experience and who have access to finance – which in most cases these days requires the collateral to support borrowing.

- A greater focus on existing firms (rather than start-ups) may be a more effective way of promoting (and preserving) employment.

The role of local authorities

There are three areas on which interviewees and survey evidence suggest local authorities' activities may best be focused:

- So far as they are able, improving the business environment, for example in relation to parking, traffic, waste collection, the maintenance of the public realm.
- Renewed efforts to improve local businesses' access to public sector procurement – by developing public sector supply chain initiatives.
- Ensuring that local authority planning frameworks and developers' master plans are small business friendly, to ensure the right conditions – suitable space, support services and an identity – to maximise employment and business development potential.

An 'enterprising North London'?

A key issue for NLSA is to decide what indicators might be used to determine whether and how far the vision of an enterprising North London had been achieved. Options might include:

- More people in employment
- More companies
- A higher company survival rate
- More productive companies as indicated by higher levels of Gross Value Added
- A more even spread of employment and entrepreneurial activity across the NLSA area – and between different communities
- A higher concentration of companies in high growth, exporting sectors.

Among other things this will help shape the direction towards which NLSA will try to influence the focus of the area's business support policy: is the promotion of a high churn business environment a sensible use of public money, or is working with existing businesses a preferable option?

How to promote and support business in the current climate

1. Introduction

For many years North London has displayed relatively high rates of both business start-up and closure – or more accurately, entry and exit. At the same time, over at least the last 30 years the area has attracted a wide range of business support programmes – national, regional, sub-regional and even on occasion highly localised. The North London Strategic Alliance (NLSA) has commissioned Fordham Consulting to carry out a short study to try to explain this distinctive business demography. Promoting and supporting the development of sustainable businesses has always been a major concern of NLSA, but given the current recession it's more important than ever. The terms of reference for the study require us, among other things, to offer:

“Recommendations about practical measures available to NLSA and its partners in the current economic and funding climate to reduce the disparities in closure rates.”

There are three elements in the research programme:

- A review of the evidence from evaluation and other research; in annex 2 we provide a bibliography showing the substantial range of literature we have reviewed.
- Interviews with key actors involved in business support across North London and in agencies such as the GLA and GLE; annex 3 provides a list of interviewees.
- A seminar involving a selection of key actors to discuss interim findings.

This final report sets out our findings under the following headings:

- The business demography of North London: what do we know about start-up and closure rates, and patterns of self-employment? How do they compare with London as a whole and the rest of the country?
- What explains variations in start-up and closure rates between localities? Does this reflect the sub-region's sectoral characteristics? Does it say anything about the entrepreneurial capacity of those starting and running businesses in the area?
- Supporting and growing SMEs: what does the evidence tell us about what really works in developing SMEs capable of sustained growth? We focus on the evidence in relation to:
 - Start-up programmes

- Support for existing SMEs
 - Targeting businesses with high growth potential
 - Premises based approaches
 - Access to finance
 - Other actions available to local authorities and partners: planning, environmental improvements, procurement
- What support do businesses themselves say they want? Specifically, what support do they want from the public sector, and local authorities in particular?
 - What support is currently available, from central government and elsewhere?
 - What if any are the gaps that need to be filled by NLSA and its partners?
 - What issues have to be addressed to create a truly 'enterprising North London'?

We are grateful for the help and support we have received, from staff at NLSA, their partners, and those who gave up their time to attend the seminar or give interviewees. Their views and suggestions are incorporated in this report but we are responsible for the conclusions and recommendations we have drawn from them.

2. The business demography of North London

Introduction

The terms of reference for the study required us to explore the extent to which the NLSA area displays disproportionately high rates of business closure, and to explore possible explanations. We present a brief summary of the evidence below, but before doing so it is important to explain some important qualifications:

- Analyses of change over time are complicated by alterations to the data sets maintained by government;
- The main data sets exclude very small businesses – those not registered for either PAYE or VAT;
- At local authority level both company ‘births’ and ‘deaths’ data include relocations: it’s perhaps more accurate to think of ‘entrances’ and ‘exits’, which don’t necessarily equate to start-ups and failures
- As a number of interviewees pointed out the data are often based on companies’ registered offices – which in the case of small businesses is often the office of their accountants. where this is in a different local authority district those businesses’ activities – start-up, relocation and closure – will not appear in the statistics for the boroughs where they actually trade.

Nevertheless, for all these qualifications the evidence does confirm:

- That a substantial majority of NLSA boroughs have higher entry and exit rates than either London as a whole or the rest of the country, and that...
- ...this has been the case for some years (at times of growth and recession) BUT
- There is significant variation *between* NLSA boroughs, with, in general terms the inner London boroughs ‘outperforming’ the outer London boroughs;
- The proportion of the workforce who are self-employed varies substantially between boroughs; and also fluctuates over time – unlike either London or the country as a whole – where rates have been relatively stable.

Company entries and exits

A number of interviewees attributed the high level of closures or exits to the recession. However, the evidence shows that while they vary between boroughs, closure rates in North London were in general higher than those in either the capital as a whole or the rest of the country before the recession took hold as well as currently.

Table 1 shows closure rates in the NLSA boroughs, and in London and Great Britain in 2005, and Table 2 presents the same data for 2010. The tables show:

- In 2005, all but two of the NLSA boroughs had closure rates above the London and GB average, and in some cases substantially so;
- By 2010 the rate of closure had increased, and there had been minor shifts in the league table of rates, but overall the *relative* picture had scarcely changed: the NLSA boroughs continue to display closure rates higher than both London and GB averages;

Table 1 Company closure rates in NLSA Boroughs, 2005 <i>Local Futures 2007</i>	
Borough	%
Redbridge	13.48
Waltham Forest	12.26
Haringey	11.21
Enfield	11.03
Hackney	10.63
London	10.62
Islington	9.87
GB	8.43

Table 2 Company closure rates in NLSA Boroughs, 2010 <i>Fordham Consulting 2012</i>	
Borough	%
Waltham Forest	19.6
Redbridge	18.4
Enfield	17.9
Haringey	17.2
London	15.0
Hackney	14.9
Islington	14.4
GB	13.0

Unsurprisingly, underpinning and partly explaining these data other evidence shows significant variations in company survival rates, between the NLSA boroughs, but with most showing lower survival rates than either London as a whole or the rest of England. Table 3 shows five year survival rates for firms that started trading in 2005.

- Variations between the NLSA boroughs reflect the outer-inner London split, with Islington and Hackney displaying higher rates than the other four;
- In consequence the NLSA average survival rate is higher than London as a whole and close to the national rate.

Table 3
Business survival rates: firms established in 2005
 Source: ONS Business Demography

	Year 1	Year 2	Year 3	Year 4	Year 5
	%	%	%	%	%
Enfield	97.1	80.0	63.6	54.1	39.0
Hackney	95.4	79.3	62.9	51.3	42.5
Haringey	95.3	73.3	57.1	46.9	38.1
Islington	95.9	79.4	64.4	52.8	42.8
Redbridge	95.4	75.5	57.8	48.7	37.7
Waltham Forest	94.7	74.3	57.2	45.9	35.6
NLSA	95.7	78.0	61.6	50.8	43.1
England	95.9	79.9	64.6	53.7	44.1
London	95.9	78.3	61.2	49.6	39.7

Self-employment rates

The figures in the tables above exclude those businesses not registered for PAYE or VAT. However data from the Annual Population Survey provides an estimate of the numbers and proportions of the labour force in each borough who are self-employed. While it is not possible to produce entry and exit data as we can with larger businesses, we can track changes over time. Table 4 in an appendix shows both numbers and percentages of those unemployed in NLSA boroughs, London and Great Britain from 2005-2011.

The table shows that:

- In all the NLSA boroughs there are substantial fluctuations year-to-year over the whole period;
- The variations are most extreme in Haringey where rates (and numbers) *halved* between 2006 and 2011;
- The direction of these variations also differs between boroughs: in four cases there is an overall decline over the period but:
 - In Islington despite some relatively minor changes over the period, rates (but not numbers) are broadly the same in 2011 as in 2005
 - In Redbridge both numbers and rates go up over the period;
- There is no clear or consistent pattern in the relationship between self-employment and wider economic circumstances;
- In contrast there is much less volatility in both Great Britain and London: in the former case there is a steady rise in both numbers and rates of self-employment, (though rates remain well below any of the NLSA boroughs);

- There are modest variations in rates over the period in London but little overall change between 2005 and 2011.

What's the explanation for the failure rate?

The explanations for business failure in general are many and varied, and include, just to give a few examples:

- Under-capitalisation, reflected in under-investment and, more commonly among small firms, cash flow difficulties;
- Inexperienced entrepreneurs;
- Lack of clear business planning;
- Poor quality of labour supply – low basic skills and poor generic employability;
- Poor supply of good quality, affordable (rents and rateable values) and flexible business premises;
- Crowded and sluggish markets.

None of these by themselves explain spatial variations in business failure rates. A study¹ of another area with apparently high rates of exit/closure (Leicester) offered three sets of hypotheses in explanation:

- The structure and composition of the local economy: we know there are variations nationally in survival rates between sectors, and between the size of companies, so a locally high rate of closure *could* reflect over-reliance on vulnerable sectors, or a predominance of small businesses;
- An area could be unusually 'entrepreneurial' leading to a higher rate of start up (or the emphasis of business support programmes could generate the same result). We know that areas with high start-up rates are associated with a high degree of 'churn', as new businesses displace older ones trading in the same market place. One study summarised this phenomenon as follows:

'The issue here is whether increasing the number of new start businesses leads to an increase in the stock of businesses and therefore employment, or whether in static or declining markets it simply displaces an existing firm. This raises questions about the value of using public money to stimulate a new firm if it displaces another private firm.'²

- There may be distinctive characteristics in the nature, experience and backgrounds of local entrepreneurs that explain high failure rates. This could include leadership and management skills, associated with a lack of entrepreneurial experience; but it could also reflect limited financial resources

¹ Consulting In Place (2010) *Research into business failure* Leicester and Leicestershire Sub-Regional (Economic) Support Unit

² Centre for City and Regional Studies (2005) *Policy interactions and outcomes in deprived areas* BIS

resulting from low levels of home ownership and thus collateral to support borrowing.

We briefly examine the North London evidence in relation to each of the three hypotheses.

Structure of the local economy

Evidence so far available to us is inconclusive but suggests that all three of these factors may be at work to some degree in North London.

We know that nationally, the younger and smaller a company, the more vulnerable it is. The NLSA boroughs are dominated by micro-enterprises: Hackney and Haringey in particular.³ We also know that the NLSA boroughs are characterised by high rates of start-up, which also means that they have a younger than average profile of businesses. These two factors by themselves are likely to contribute to the high rates of exit.

We also know that there are variations nationally (and internationally for that matter) in closure rates between industrial sectors, those with the highest rates currently being:

- Business administration and support
- Accommodation and food services
- Construction

Table 5 in an appendix shows the industrial composition of the NLSA boroughs. In all cases the largest sector (in terms of numbers of firms) relates to business services, and those with the highest concentrations of construction firms also display the highest rates of company closure. However the relationship is far from precise, and the evidence suggests size and age may be more significant than sectoral mix.

Start-up rates

It is clear that the area has high start up rates, which among other things reflects cultural patterns within the area, and in some boroughs at least, the relative paucity of opportunities in the mainstream labour market. But as well for many years, a range of publicly-funded business support programmes have encouraged start-ups. This may help explain why North London appears to be anomalous in this respect: the literature generally suggests there is a strong negative correlation between low start-up rates and high levels of deprivation.⁴

Many of these start-up programmes have been explicitly targeted on disadvantaged areas and communities, and particularly those groups who are under-represented in business ownership. These programmes are seldom if ever accompanied by significant investment funds, which means the businesses that are generated are typically very small scale, and restricted to largely local markets. In the absence of market growth the arrival of a new entrant in a crowded market either creates high risks for the start-up, or is at the expense of established businesses.

³ 00:/ (2012) *Affordable enterprise and workspace: pre-feasibility study* NLSA

⁴ For example SBS (2004) *A government action plan for small business: The evidence base* DTI

The evidence about the relationship between high rates of start-up and closure is well established in the literature. For example, a literature review⁵ for NIESR found that 'It is widely recognised that entry rates are highly correlated with exit rates, which is partly due to survival rates of new entrants being relatively low.' A review of TEC support for small firms concluded that while some jobs were created locally, these were largely offset by jobs destroyed through displacement between TEC areas and 'crowding out' effects⁶

Indeed there are those who argue that the phenomenon of 'business churn' brings positive benefits to local economies. In a recent study⁷ of high growth businesses NESTA argued that churn was both a necessary and desirable consequence of promoting innovation: 'The ability of innovative companies to thrive and grow is dependent on their ability to displace and in many cases, replace incumbents.' While that may be so some writers have questioned '...the value of using public money to stimulate a new firm if it displaces another private firm.'⁸

The characteristics of local entrepreneurs

A number of studies and programme evaluations have examined the characteristics of entrepreneurs, seeking to distinguish between those that 'succeed' and those that 'fail', or of those developing high growth businesses. As a very general proposition, entrepreneurs are more likely to run businesses that survive if they are older, have a degree (NVQ 4 qualification), have parents who were self-employed, and if they have previously held a job. And of course these characteristics mean that the 'successful' entrepreneur is also more likely to be a home owner.

None of this argues against the criteria applied in many of the schemes introduced in the past in North London, targeting those under-represented in enterprise. However our review of evidence about business support programmes suggests that in the past many have failed to define objectives with sufficient rigour, frequently combining 'inclusivity' and high growth'. However programmes targeted on inexperienced entrepreneurs who are constrained by limited finance may achieve a variety of desirable outcomes but the evidence suggests that the promotion of high growth innovative companies is unlikely to be among them

⁵ NIESR (2006) *Business start-ups, closures and economic churn : A review of the literature*

⁶ PACEC (1995) *Evaluation of DTI funded TEC services in support of small and medium-sized businesses*, DTI

⁷ NESTA (2011) *Vital growth: The importance of high-growth businesses to the recovery*

⁸ Centre for City and Regional Studies (2005) *Policy interactions and outcomes in deprived areas* BIS

3. Supporting and growing SMEs: what works?

There is a substantial body of academic literature reviewing the impact and outcomes of different types of business support; and in most cases funders require (at some stage) evaluations of specific programmes. There are a number of quite firm conclusions that can be drawn from this extensive evidence base which we set out below (and which in general are confirmed by the perceptions of interviewees), but there are some limitations to the quality of the evidence.

- Very little of the substantial volume of evaluation research that has been commissioned in North London over the last 20 years (for example by North London TEC, the Learning and Skills Council, and the boroughs) is still available. Although some interviewees doubted in principle the value of any 'historic' data, many of the business programmes evaluated were remarkably similar to those operating today. It does seem at least plausible that an understanding of the strengths and weaknesses of past programmes might help with the design of current programmes.
- Many business support programmes have suffered from vague objectives, or an unspecified rationale, which has therefore made it difficult to decide whether the programme has 'worked'.
- Monitoring arrangements employed by business support agencies have not always been rigorous, often focusing on outputs rather than outcomes – a point confirmed by some of our interviewees.

However, there are some important issues on which there is a consensus which emerges from most if not all the available evidence.

The design and management of business support programmes

The business support map is complicated and overcrowded: in 1989 the Audit Commission⁹ described it as 'a patchwork quilt of complexity and idiosyncrasy', and as many of our interviewees confirmed it hasn't got much better. The complexity can lead to duplication of provision and competition between agencies for the same clients, but most importantly is confusing to the potential user.

This complexity, allied to the frailty of the evidence base referred to above, has led some to question the value of publicly funded support programmes.

Business development policies work best when they are clearly focused on a limited number of objectives which above all need to be explicit.¹⁰ This can be a particular problem with programmes focusing on areas of deprivation when the objective of economic development (as measured by employment growth) is combined with social objectives (improving access to enterprise for 'excluded' groups). Both are legitimate but may not always be compatible.

⁹ Audit Commission (1989) *urban regeneration and economic development: the Government Dimension* HMSO

¹⁰ Centre for Enterprise and Economic Development Research (2003) *Business-led regeneration of deprived areas: A review of the evidence base* ODPM

Support programmes are typically highly general, but as an interviewee said, 'no one size fits all'. Any support on offer needs to meet the specific needs of the business assisted – which will vary according to sector, age of business, nature of market, among other things. In practice the skills, background and experience of business advisors are likely to restrict how specific much advice can be.

Start-up programmes

As we have already argued, there is substantial evidence to suggest that policies which seek to maximise business birth rates often encourage businesses with low growth potential and risk leading to displacement. In particular an evaluation of business support programmes in disadvantaged areas argued that the evidence '...suggests that business support agencies need to find ways of steering start-ups away from overcrowded sectors and product/service markets where there is a high risk of local displacement and to encourage business ideas which are more distinctive and innovative.'¹¹

The evaluation of the Local Enterprise Growth Initiative (LEGI), a huge programme to encourage enterprise in deprived areas launched in 2006, concluded that although by 2009 more than 12,000 businesses had been assisted, many of these '...focused on local markets with the consequence that there were potentially high levels of displacement of other firms.'¹² The evaluators also concluded that additionality was likely to be low, because of 'the general lack of targeting on growth businesses.' One study pointed out starkly that while '...small firms are responsible for a disproportionate share of job creation...job destruction is much more prevalent in this sector of the economy.'¹³ Moreover, recession exacerbates this process of '...business churn, the entry and exit of firms, by motivating incumbent firms to adapt products and business processes.'¹⁴

There is a debate however, about whether this churn actually matters. One study summarised the arguments for and against as follows:

'The 'negative' view...focuses on the costs of business failure, including: the social and economic costs of intervention; the destabilisation of local supply chains; introducing instability to local economic systems; the impact on local employment; the psychological impact of business failure.

The 'positive' view...sees failure as part of the natural evolution of the economy and as necessary for its efficient operation. Proponents of this perspective highlight:

- More 'entrepreneurial' areas will invariably experience greater churn, due to a greater propensity of entrepreneurs to start and re-start their businesses

¹¹ Centre for Enterprise and Economic Development Research (2003) *Business-led regeneration of deprived areas: A review of the evidence base* ODPM

¹² Amion Consulting (2010) National Evaluation of the Local Enterprise Growth Initiative Programme, DCLG

¹³ Urwin, P., Karuk, V., Buscha, F., Siara, B., (2008) *Small Businesses in the UK: New Perspectives on Evidence and Policy* Federation of Small Businesses

¹⁴ Kitching, J., Blackburn, R., Smallbone, D., Dixon, S., (2009) *Business strategies and performance during difficult economic conditions* BIS

- Failure results in the reallocation of scarce resources, including entrepreneurs themselves (failed entrepreneurs are more likely to try and start a new business)
- Failure is necessary as part of the process of ‘creative destruction’ – new ideas and businesses emerge from the result of failure
- Failure provides important lessons for entrepreneurs – they learn from their mistakes, improving the chances of success for future business ventures’¹⁵

We return to this issue in relation to North London in our conclusions.

The evidence suggests that funders have to be very careful in the way they define objectives and targets for delivery agencies. A report¹⁶ from the London Assembly reviewing start-up support across the capital argued: ‘Business advice services that focus solely on the number of business start-ups as a measure of success are unlikely to provide what the Committee was told is ‘the reality check’ many of those with a business idea need.’ One of the interviewees for this study, a manager of a business support agency, said that their agency did counsel people *against* starting a business where appropriate, but another told us that ‘Public funding....does not pay for advice that says a business will not work. This could mean that people are going into business who shouldn’t and that’s bad for everybody.’

But support for start-ups can make a difference. Research by the National Federation of Enterprise Agencies showed the benefits of offering advice and training to start-up businesses. It was reported that enterprise agency supported start-ups are less likely to close under ‘distress’, twice as likely to have a loan, borrow less but repay earlier than a control group of non-enterprise agency assisted start-ups, as well as having higher growth rates.¹⁷ However a number of other studies have found that those approaching business support agencies are self selecting – it’s those already best equipped to survive that seek help.

Finally the evidence clearly suggests that with start-up programmes (as with other forms of business support) less is more. Two key findings from a review of evidence for ODPM¹⁸ recommend:

- A change in the emphasis of the support from seeking volumes of starts as the key objective, to a concentration on quality business starts.
- Rigorous selection to ensure that the businesses supported have the maximum potential to survive.

High growth starts

It is widely recognised that the greatest employment potential comes from high growth new businesses, and governments across Europe (and beyond) have pursued policies designed to promote the high growth firm. However, only a few high

¹⁵ Consulting In Place (2010) *Research into business failure* Leicester and Leicestershire Sub-Regional (Economic) Support Unit

¹⁶ London Assembly (2009) *Credit crunched? Support for business start-ups in London* GLA

¹⁷ Roberts, R. (2001) *NFEA Tracking Study – Results*, Barclays Bank

¹⁸ Centre for Enterprise and Economic Development Research (2003) *Business-led regeneration of deprived areas: A review of the evidence base* ODPM

growth potential firms will employ large numbers: David Storey pointed out almost 20 years ago that '4% of new start-ups survivors were responsible for 50% of jobs created by all new firms ten years later'.¹⁹ More recent work by NESTA produced similar findings which highlighted the importance of the small number of fast-growing businesses that between 2002 and 2008 generated the lion's share of employment growth in the UK. The analysis, which reviewed the records of all UK companies between 2002 and 2008, '...showed that the 11,000 businesses that generated 20 per cent or higher average annual employment growth over a three-year period were responsible for creating 54 per cent of new jobs.'²⁰

This study and more recent work²¹ by NESTA have identified some of the issues to be faced in selecting and developing firms with genuinely high growth potential. Governments are understandably keen to develop high growth firms, but many of the attempts that have been made have failed to deliver results, largely, NESTA argues, because '...high-growth businesses are hard to characterise and identify, so it is easier to target companies based on some other characteristic, hoping it is a good proxy for growth potential. This may lead policymakers to direct their energies to unproductive areas, and miss the real opportunities.'

According to NESTA 'a few factors that may be associated with higher growth' include the age of the firm, the human capital of the entrepreneur, the firm's exporting activity and its networks, or the degree of competition in the industry. Apart from these NESTA summarises some of the characteristics of high growth companies as follows:

- They are not (just) high-tech companies: high growth companies can be found in almost any sector of the economy.
- They are not (just) start-ups 'This means that government needs to think very carefully about any policy that involves spending money to encourage new businesses indiscriminately. Such policies may have beneficial social and cultural effects (for example by encouraging people to start small businesses rather than being unemployed or take low value jobs). But even if such a policy works, generating more businesses that do not have the potential or ambition to expand is unlikely to lead to economic growth.'
- They defy prediction: 'If high-growth companies were easy to identify before they grew, the role of government (and for that matter, of venture capitalists and other private investors) would be simple.'
- But they do share one common factor – innovation, which may be to do with technological innovation but does not have to be: '...new services, new business models, and new processes are often as important to growth businesses as new technology'

Support for existing businesses

There are those who have criticised the focus of business support policy in the past: for example SQW in its review of business development in the Upper Lee argued that

¹⁹ Storey, D. J., (1994) *Understanding the small business sector*

²⁰ NESTA (2009) *The Vital 6 Per Cent*

²¹ NESTA (2011) *Vital growth: The importance of high-growth businesses to the recovery;*
NESTA (2011) *Barriers to growth: The views of high-growth and potential high-growth businesses*

'business development is over-concentrated on start-ups'.²² Evaluations of a variety of Business Link related support programmes aimed at established businesses found evidence of both profits and employment growth. However it has also been argued those firms seeking support already show greater potential than those that do not.

A study by Warwick University²³ compared a large sample of firms assisted by Business Link with a comparator sample of firms that did not apply for assistance. *Before they had been helped* the first group:

- Had higher growth
- Were more likely to have a business plan
- Were more likely to be exporting
- Were more likely to have a non-executive director

A more recent study for BIS²⁴ confirmed something similar, suggesting that 'Growth orientated SME employers were more likely to seek formal business assistance than survival orientated SME employers'.

These studies showed that on a number of indicators assisted firms outperformed the other group, but given the differences before assistance it is impossible to say how far their superior performance was a result of the Business Link programme. However if support to SMEs is to be provided, the evidence is overwhelmingly clear about how best to provide it.²⁵ At the time of the study Business Link was running two types of programme – light-touch aimed at relatively large numbers of clients; and more intensive support over a longer period for smaller numbers of firms.

It is clear – as a number of interviewees argued – that intensive support for a few is more effective than limited support for many. The study argued that '...faced with a choice of spending priorities between gaining more customers or spending more on each our results suggest that a more focused, highly intensive profile of assistance works best. Deeper is better than broader.' A review of Business Link in London²⁶ reached similar conclusions. It found limited evidence of significant impact on either sales or employment growth in assisted firms, which it attributed in part to management arrangements, specifically questioning '...the suitability of the performance measures currently being used to determine the success of BLIL and would argue that they have skewed the focus during Year 1 of delivery toward mass outputs rather than impacts and strategic influence and coordination.'

The importance of long-term support was emphasised by one interviewee – a support agency manager – who argued that 'People generally need a mentor initially and then an active account manager to continue to help with schemes and finance as

²² SQW (2003) *Review of business development in the Upper Lee Valley*

²³ Mole, K., Hart, M., Roper, S., and Saal, D., (2008) *Assessing the effectiveness of business support services in England: Evidence from a theory based evaluation* Centre for Small and Medium-Sized Enterprises, University of Warwick

²⁴ North, D., et al (2011) *Research to understand the barriers to take up and use of business support* BIS

²⁵ Mole, K., Hart, M., Roper, S., and Saal, D., (2009) *Broader or Deeper? Exploring the most effective intervention profile for public small business support* Centre for Small and Medium-Sized Enterprises, University of Warwick

²⁶ The Evaluation Partnership (2008) *Interim Impact Evaluation of Business Link in London* LDA

they grow. Current funding is generally short term. People are touched once and then abandoned. Funding doesn't look at the issue from a client point of view.'

Access to finance

Access to finance is one of the most frequently cited problems of those setting up a business, and indeed of those seeking to develop and grow a business. In the current economic climate the banks are attracting criticism for (among many other things) their apparent reluctance to lend to small businesses, preferring, so it is claimed, to retain the funds released to them by government through the process of 'quantitative easing' to restore their balance sheets. But this is far from a recent phenomenon: for example more than 35 years ago Harold Wilson chaired a committee of inquiry on the financial institutions, which at the time were accused of starving manufacturing of funds.²⁷

On a number of occasions since then governments and other public agencies have tried to plug the gap with grants and soft loans. Recently the focus of most public support has shifted to providing help to access finance – operating on the demand rather than supply side. For example, the LDA ran four schemes all designed to help firms access finance (two versions of A2F – one for Objective 2 areas, one pan-London - Gateway to Investment, and Creative Business Accelerator). An evaluation study²⁸ of the projects described the baseline showing that black-owned businesses were more likely than others to report problems in accessing finance; and that the two main obstacles (for all businesses) were:

- lack of sources of advice about where to seek funding;
- and lack of collateral.

Comparing the Objective 2 programme with the pan-London version, the evaluators concluded that although SMEs in relatively affluent areas face similar problems, those in more deprived areas did find it more difficult to raise finance. And while the LDA projects were designed to improve 'investment readiness', the key barriers to finance were lack of business track record and lack of collateral – neither of which could be bridged by investment readiness preparation. The projects did lead to improved success in fund raising, but the evaluators found no evidence that this fed through to increased employment, productivity or profits.

At present central government action to improve access to finance is largely operating on the supply side (through successive rounds of 'quantitative easing'), in the belief that constraints on access to finance arise because of deficiencies in the supply of capital. A recent study for OECD²⁹ suggests that the main weaknesses may not lie on the supply side: 'However, there is now belated recognition that access to finance can also be hindered by the existence of weaknesses on the

²⁷ Wilson, H., (1984) *Committee to Review the Functioning of Financial Institutions*. The gap in the provision of equity finance for small companies in the UK was first identified by the Macmillan Committee on Finance and Industry in 1931 (and is known as the 'Macmillan gap'). The Macmillan gap was still present when the Wilson Committee to Review the Functioning of Financial Institutions reported in 1980

²⁸ SQW (2008) *Impact evaluation of four access to finance projects* (LDA)

²⁹ Mason, C., and Kwok, J., (2010) *Investment readiness programmes and access to finance: a critical review of design issues* OECD

demand side. Clearly, if there are demand-side deficiencies then this will compromise the effectiveness of supply-side interventions.’

In the current climate few are likely to sympathise with the banks who routinely claim that they will lend whenever they are presented with a sound proposition. But similar complaints can be heard from the venture capital industry and from business angels who are frustrated by the low quality of the investment opportunities that they see and so are unable to invest as frequently or as much as they would like.

Most of the business support agencies we interviewed offered help in the preparation of business plans, and some advice on accessing finance. But in every case the assistance focused on raising loan finance – very largely because of the nature of the client group and the kind of businesses the support agencies work with. It is widely recognised that there is a high level of equity aversion amongst SMEs (with most business owners with aspirations to grow their businesses reluctant to surrender ownership and control.) In addition few small business owners understand the equity market, or the expectations of investors.

But the OECD study argues that this lack of understanding of the equity market and the requirements of the venture capital industry and business angels also extends to the SME small business support network, both private and public, particularly local, small scale advisers and service providers. Their knowledge tends to be confined to debt funding options and therefore reinforces the aversion to equity amongst their clients.

A NESTA study³⁰ found that ‘...high-growth firms are significantly more likely to mention (access to finance and cash flow) than firms with the lowest growth potential, which is not surprising given the difficulties of funding the rapid expansion of a firm with only internal resources.’ The LDA G2i programme still continues – providing support to high growth potential firms seeking equity finance, but none of our interviewees from business support agencies reported experience of referring clients to the programme.

Premises issues

It is widely recognised, in the literature and by almost all our interviewees, that the availability of affordable, flexible and appropriate premises is critical to small business development, and to their retention locally. Interviewees also pointed out that in some parts of the NLSA area, space is inherently limited and the options for developing any kind of work space are minimal, an issue that has long been recognised as a problem in North London.³¹ Some interviewees qualified this by arguing that many micro-businesses and much self-employment are home based; nevertheless premises issues may constrain the home-based business from moving to the next stage of expansion that leads to employment growth.

Evidence for demand for premises is partly anecdotal, partly from a series of business surveys over time; however, Lee Valley Estates manages a million square feet of small workspace, mainly but not exclusively in Waltham Forest, and which is 97% let. The Managing Director was confident that the market for the kind of unit offered by LVE – small, flexible, affordable – remained substantial. The services offered in these kinds of premises are fairly basic: no business support or training is offered: LVE see themselves as landlords, and argue that there is no demand from

³⁰ NESTA (2011) Barriers to growth: The views of high-growth and potential high-growth businesses

³¹ SQW (2003) *Review of business development in the Upper Lee Valley*

their tenants for anything beyond that. Moreover, the cost of providing wider support, they argued, is beyond what the typical small business can afford.

But there is substantial interest in the public sector in the provision of premises that offer more than basic landlord services – as indeed there has been in North London (and elsewhere) for many years. In some cases the first generation of managed workspaces in the eighties combined a variety of business support facilities (including finance) with a flexible premises offer, though many focused just on the premises offer.

But subsequent iterations of the managed workspace model – termed business incubators and more recently hubs – have developed and extended the concept. Additional benefits arise from these kinds of establishment, it is claimed, if tenant firms are drawn from similar sectors, creating a cluster. The hypothesis is that sharing physical premises encourages collaboration between businesses operating in similar sectors and markets, creating the opportunity for businesses to come together to exploit opportunities that stimulate and accelerate economic growth. Where these circumstances applied, businesses might be able to participate in collaborations to exploit opportunities which they would be unable to do without support.

Fairly ambitious claims have been made about the efficacy of the incubator-hub model: for example a report³² for the European commission claimed, without qualification, that ‘The business incubation process adds value by accelerating the start-up of new businesses and helping to maximise their growth potential in away that is more difficult for alternative SME support structures to achieve.’

However, a guide to good practice in incubator management is more circumspect, arguing that programmes able to develop successful businesses in incubator settings need to display the following characteristics:

- ‘are highly selective both in which firms gain entry to the program and, within their client portfolio how time is divided among firms, with most being allocated to the firms demonstrating the highest growth;
- base their decision-making on a comprehensive business plan for each enterprise and include intensive review and analysis as a significant element of the package of services in which their clients participate; actively participate in deal-making and deal-shaping with their clients;
- identify and monitor clear quantifiable milestones with their clients, which are set as an element of a tailored business development program;
- enhance organisational learning amongst their clients;
- have access to extensive and deep networks of expertise specifically cultivated to develop small, rapidly growing enterprises; and
- facilitate capital acquisition to underpin the implementation of the business development strategy.’³³

³² Centre for strategy and evaluation services (2002) *Benchmarking of Business Incubators* EC

³³ Duff, A., (1994) *Best practice in business incubator management*

Businesses developing in incubators are claimed to have higher chances of survival than others: the Small Business Service reported a five-year survival rate of 75% compared with 33% of other firms. It is not clear however how far that survival rate reflects the support offered or the selection process: most business incubators have a selection/screening process to target a particular group of firms.

NESTA³⁴ has also argued that the hub or incubator model is not one that works equally well everywhere. 'A new incubator should be carefully tailored to meet its locality's requirements, necessitating careful feasibility studies'.

Much of the literature on hubs and incubators has been produced from within the industry and independent evidence about impacts and effectiveness is limited. One evidence review³⁵ reported that 'Much of the literature on business incubation has inconsistent, and at times, conflicting messages.' It also argued that the selection of measures by which to judge performance is problematic, explicitly questioning the value of job creation which it acknowledged '...is a popular metric used to evaluate incubation, [but] is not generally considered a useful measure of incubator value. An emphasis on job creation also contradicts the advice of many investors who are acutely aware of the need to control spending by investee firms, which often means delaying recruitment.' In addition, there is no guarantee that business incubators or hubs necessarily lead to increased numbers of *local* jobs, especially where premises costs are reduced because of public subsidies.³⁶

Despite the lack of independent evidence and the issues surrounding additionality, it seems likely that the hub or incubator can provide a supportive environment for tenant firms. However, the range of support available in incubators is expensive, with the costs beyond the reach of most small businesses. In the past incubators have largely depended on a level of public subsidy which is not currently available. Inevitably therefore (and particularly in the current economic climate) they are not commonplace and their penetration into the business community therefore limited.

One interviewee pointed out some of the pitfalls as well as the benefits, based on past local experience: "Incubation units could help but good research would be needed to see if there is really a demand and exactly what kind of offer would be welcomed. Some of the early incubator units went bust because their criteria were not clear, there was no targeted programme of support and no exit strategy [for tenant firms]".

³⁴ NESTA business hub bulletin 2008

³⁵ Dee, N., Livesey, F., Gill, D., Minshall, T., (2011) Incubation for Growth: A review of the impact of business incubation on new ventures with high growth potential NESTA

³⁶ This has occurred in a number of cases the author has been directly involved with, including incubators set up by Inner City Task Forces, and those funded through the Greater London Enterprise Board – forerunner of GLE.

4. What do businesses say they want?

The previous chapter drew on evidence about the effects of a variety of types of business support intervention, and of course the conclusions to be drawn from that evidence need to be reflected in any policy initiatives that NLSA and its partners may develop. But the views of the customer base are of great importance too: what kind of support do businesses themselves say they want from public (and publicly funded) agencies?

Systematic and recent evidence from North London is limited. Boroughs generally sought to include businesses' own perceptions of needs in their local economic assessments, but the quality of the evidence thus produced is reduced by the poor response rates. For example Waltham Forest estimate that their survey, issued through a variety of channels, reached 4,500 businesses – but elicited just 151 responses. And the Hackney business consultation exercise deadline had to be '...extended...due to the low response rate'.³⁷ Even so only 69 responses were generated.

A survey for the Islington LEA was more effective, drawing more than 500 responses.³⁸ The conclusions offer little guidance about the direction of business support policy: 'When businesses were asked what would help them to be more successful, more affordable premises was the most commonly raised issue. Less Council 'red tape' and more business support and advice were also mentioned as issues that would improve business.'

In 2010 the Federation of Small Businesses conducted a survey across London³⁹ to explore the implications for businesses arising from the impact of government cuts on local authority services. Their report stressed that '...the key functions which local authorities undertake in assisting economic development and job creation in the area need to be assessed to ensure the best possible value for money and to ensure that they are addressing the key needs of local businesses'. Thus though the results reported describe the views of businesses across the capital, they are broadly reflected in the views expressed by businesses in the NLSA boroughs.⁴⁰

The survey suggests that so far as local authority services are concerned, small businesses priorities are firmly focused on the working environment: 'On a London-wide basis it is very clear from these results that the top concern for business in London is parking with almost exactly half of all respondents choosing this as one of their top two priorities. The second priority was waste collection, closely followed by crime. It is striking that these figures broadly mirror survey work undertaken by the FSB of its London members 12 months ago.'

The FSB concludes that the things that councils can do to make life easier for businesses are:

- Improved traffic management and parking
- More procurement opportunities

³⁷ LB Hackney (2010) *Hackney is Building Better Business: Consultation Report*

³⁸ LB Islington (2011) *Islington Local Economic Assessment: Working Towards a Fairer Islington*

³⁹ Federation of Small Businesses (2010) *London councils and their relationship with small businesses*

⁴⁰ The survey is based on 20 interviews in each borough – so inevitably the samples are too small to draw firm conclusions at the level of individual local authorities.

- Less red tape
- Improve street appearance and safety (less road humps, more CCTV etc)
- Reduced business rates

Similar conclusions were reported in a review of business needs for the London Borough of Camden a few years ago.⁴¹ Although it did finance business start-up and other forms of business support programme, the Upper Lee Valley Partnership also prioritised environmental improvements as a mechanism for business support. An evaluation⁴² of the partnership spelled out ‘...some of the *business* issues arising as a consequence [of the poor environment]:

- Difficulties attracting new companies – partly because of the environmental conditions themselves, partly because of what the conditions appear to say about the firms located there;
- Difficulty attracting new investment into existing firms – and especially those with foreign parent companies: many alluded to the threat posed by the visit of the Coca Cola chief executive and the worries about the fly-tipping and litter, and their impact on his perception of the value of the investment;
- Problems of recruitment – because of potential employees’ reluctance to work in dirty and degraded conditions;
- Difficulty of retaining existing businesses – partly because of access problems, but because the surrounding environment was inconsistent with high quality business development.’

Of course in the years since this report was prepared there have been substantial improvements to the area – though more remains to be done, an issue to which we return in our concluding chapter.

Because businesses cite parking, traffic and so on as their priorities, it does not mean that they neither need nor seek help more specifically related to business development. The annual small business survey asks firms questions about the support they have used, but it doesn’t tell us much specifically about the kind of support they require. The latest survey⁴³ reports that around a quarter of SMEs and micro-businesses had sought general advice and information about running their business.

Growing businesses were more likely to have sought advice than those who had neither grown nor planned to grow, with 39 per cent of sustained-growth businesses, 34 per cent of new-growth businesses, and 32 per cent of contained-growth businesses seeking advice, compared to 22 per cent of businesses in the ‘no growth’ category. However, in the context of this report perhaps the most significant finding is that only 10 per cent of businesses had used local or government support

⁴¹ PACEC (2005) *Business Creation and Closures in Camden*. This was also confirmed in informal consultations with local businesses conducted in Islington around the same time as the PACEC study in Camden.

⁴² GFA Consulting (2004) *Evaluation of the Upper Lee Valley Partnership*

⁴³ Institute for Employment Studies (2009) *Annual small business survey* BERR

agencies: firms were more likely to seek advice from accountants (24 per cent), banks (13 per cent) or lawyers (12 per cent).

A major survey of business advisers offers their perspective on priorities for business support.⁴⁴ The survey, conducted in June 2010, asked more than 400 business advisers from a variety of sectors about proposed Government reform of business support over the next five years. The headline findings included the following.

- The advisers believe the highest priorities for support should be for existing firms with 10+ employees, (80% rated this as essential) closely followed by new start ups at 77%.
- 92% believe support should be available to anyone regardless of gender, ethnicity or location – and 64% are opposed to support specifically targeted at women and minority groups.
- 85% say manufacturers and exporters are the top priority sector, followed by IT, digital and creative industries at 48% – and only 14% are in favour of prioritising support for home-based and lifestyle enterprises.
- Most favoured method of intervention is local face-to-face advice/counselling (73% rated this as essential) followed by subsidised or free training at 58% – and the least favoured intervention (which just 10% of respondents rated as essential) was proposed growth hubs similar to British Library Business & Intellectual Property Centre.

Doubtless some of these findings reflect self-interest – no surprises that those delivering face-to-face advice/counselling should also regard this approach as essential. Similarly the opposition to targeted support is consistent with studies that report that they were less likely to access advice or support at start-up from public or quasi-public sector agencies from their male and White counterparts. The survey report is silent on the ethnicity of respondents. Nevertheless there are some interesting issues raised by the findings, to which we return in the concluding chapter.

⁴⁴ [Business Advisers' Survey - Business support priorities | Cobweb Information](#)

5. Enterprising North London? Some issues to be addressed

NLSA expectations for the outcomes from this study were threefold:

- To develop some pointers identifying the most effective way to spend limited public sector resources on business support: to summarise – if only one type of business support activity could be funded what should it be?
- Arising from this, to start developing ideas for the forthcoming round of European programmes;
- To explore how best to create and promote a reputation for the area as a good place to start and develop business – ‘enterprising North London’.

This chapter sets out our conclusions and recommendations, in an attempt to help NLSA and its partners arrive prioritise their approach to business development, in the light of current funding constraints, the specific issues facing North London, and the objective of creating ‘enterprising North London.’ We focus on:

- The business support infrastructure
- The kind of support to be provided – and for which enterprises
- Premises provision
- The role of local authorities

But first, to provide context, we review current and future funding possibilities, and the map of support provision being provided by national government.

Some funding prospects

It hardly needs to be pointed out that the funds available to support economic development have been drastically reduced by the government’s economic policy, and may be further reduced in subsequent rounds of cuts. A report from the London Assembly last year noted that ‘The Comprehensive Spending Review settlement for GLA/LDA economic development programmes is set to reduce funding from £192 million in 2009/10 to £25 million in 2012/13’.⁴⁵ However, a report from ⁴⁶GLE in 2010 set out a number of possibilities, which despite the wider cuts, it argued, offered continuing possibilities for economic development interventions. These were described as:

- Investment opportunities arising from the Local Growth White Paper including:
 - Tax Increment Financing (TIF) which will allow boroughs to fund economic development by borrowing against the increased level of local taxation
 - Business Increase Bonus (BIB: any borough whose annual business rate rises by more than the national rate will keep the additional funds for six years

⁴⁵ London Assembly (2011) *The Mayor's role in economic development*

⁴⁶ GLE (2010) *The impact of budget restrictions on borough economic development activity, London Councils*

- Regional Growth Fund
- Local Enterprise Partnerships

In addition of course, a new round of European programmes come into force in 2014. the findings of this study, it was hoped, could feed into thinking in North London about possible programmes and projects to include in bids under future ERDF and other regimes.

National business support provision

Since 2010 the government had introduced a series of new business support measures, largely justified in the name of simplification. While in opposition David Cameron invited an American entrepreneur living in Britain to chair a task force examining the existing business support infrastructure, and the resulting report⁴⁷ has exerted a major influence on subsequent policy. The task force claimed to have found ‘...a system which is overly complex, ineffective and undirected. Some 3,000 business support schemes are being run by over 2,000 public bodies and their contractors at a direct cost of at least £2.5 billion. Total public expenditure spent on supporting small business is now more correctly estimated to be £10- £12 billion, and much is wasted.’

The current framework is based on a suite of programmes organised under the heading Solutions for Business.⁴⁸ These are listed as:

- Collaborative Research and Development
- Designing Demand
- Finance for Business
- Grant for Research and Development
- Helping Your Business Grow Internationally
- High Growth Coaching
- Improving Your Resource Efficiency
- Knowledge Transfer Partnerships
- Manufacturing Advisory Service
- Networking for Innovation
- Rural Development Programme for England Business Support
- Understanding Finance for Business

⁴⁷ Richards, D (2008) *Small Business and Government: The Richard Report* Conservative Central Office

⁴⁸ BIS (2011) *Solutions for Business Government Funded Business Support: A Guide for Business*

- Work Place Training, Including Apprenticeships

Some of the programmes offer grants; a few offer consultancy or mentoring support (for example 'Helping your business row internationally', and 'High growth coaching'), but most of current provision is web-based.

The hands-on assistance, delivered generally through large central contracts with sub-contracted local providers, is limited – for example, the high growth coaching element offers 10 days over 18 months. The consultancy/coaching support is subsidised but participating companies are expected to make some financial contribution.

A few of the business agency interviewees said they were delivering some element of the Support for business suite but in most cases were sceptical of its value. In particular, interviewees questioned the value of web-based provision, except for straightforward information. Any kind of training/coaching/advice, it was argued, had to be delivered face-to-face – a point on which interviewees are absolutely in accord with the research evidence.

The business support infrastructure

We provided a comment from the Audit Commission almost 25 years ago describing the business support infrastructure as 'a patchwork quilt of complexity and idiosyncrasy'. Successive governments have tried (at least initially) to streamline and simplify provision. However in the view of some of our interviewees the structure in North London remains complicated, and is confusing to the small and potential businesses that form its customer base. For some this meant that business support provision and other elements of the area's promotion need to be presented on a sub-regional basis. Among other things this requires closer co-operation (rather than competition) between the business support agencies. Given the central but often competing position of the local authorities it is not clear how this could be brought about; however if one were starting to create a business support infrastructure for North London on a blank canvas it is unlikely it would look like it does today.

It's clear that in North London (as elsewhere) the business support agencies are able to achieve only modest penetration of the small business and micro-enterprise market: hardly surprising as there were more than 100,000 individuals working in self-employment in the NLSA boroughs in 2011, in addition to the thousands of small businesses. A number of interviewees thought there was scope for the agencies to develop better outreach techniques to promote business support services to a wider selection of businesses.

It has to be stressed that support agencies in North London are not alone in this respect. A recent study for BIS explored which firms took up business support and which did not, and analysed the barriers they faced.⁴⁹ The study found that:

- Over the last three years, two fifths of SME employers made use of formal external assistance, with one in five seeking only information, one in eight both information and strategic advice, and one in twenty only strategic advice.

⁴⁹ North, D., et al (2011) *Research to understand the barriers to take up and use of business support BIS*

- Growth orientated SME employers were more likely to seek formal business assistance than survival orientated SME employers.
- Those SME employers achieving rapid growth had the highest propensity to use formal business assistance from both private and public sources.
- An estimated 28 per cent of SME employers had a latent demand for formal business assistance over the last three years: half were non users that did not recognise their need for assistance, despite experiencing unresolved problems; a third were nonusers that did recognise their need for assistance; and one in seven were users who had other unmet needs for assistance.

Certainly the evidence from the literature suggests that businesses that seek assistance from support agencies tend to be relatively well organised. More proactive outreach by North London support agencies may help increase their penetration into the business community; but in the absence of additional resources, may also dilute the amount of assistance available to each client, and thus reduce the support available for firms with genuine growth prospects. The evidence suggests that selectivity and concentration of resources are key *if* the principal objective is employment growth.

Premises provision

There is broad agreement from all classes of interviewee that the area remains short of appropriate business premises, though there are different views about the priorities. For some the priority is the further development of affordable flexible workspace; others argued the case for more sophisticated provision in the form of incubators or hubs. It's likely that the same level of investment would produce more square metres of the former than the latter; but the latter type is thought to provide greater support for business development.

The evidence presented earlier (from NESTA – a great supporter of the business incubator concept) emphasises the importance of relating hub aspirations to local characteristics: developments that work well in one locality will not necessarily succeed in areas with quite different demographics and markets.

NLSA's own work in preparation for a LEP covering North London provides important evidence about the area's characteristics which *any* business support intervention – including hubs – has to take into account: 'In the sub-region, there is a significant polarisation of skills; with higher than average numbers of high skilled and low skilled residents, indicating pockets of deprivation in the area.'⁵⁰ Elsewhere the failure to recognise local weaknesses as well as strengths in the design of premises interventions has led to an influx of firms (and employees) from outside the local area, inevitably diluting the local employment and other economic impacts.

Following on from this some argued that hubs should be associated with clusters built around existing sectoral strengths. This could provide the opportunity to develop networking and supply chain linkages, and could also help establish a distinctive sub-regional identity. The evidence suggests that for this strategy to promote and support *local* employment the clusters need to reflect genuinely local sectoral strengths. . One interviewee argued that the success of hubs elsewhere reflected

⁵⁰ NLSA: LEP appendix

the accuracy of the match between the sectoral focus of the hub and the skills – and at least as important the financial resources – of local residents.

What kind of support – and for which types of enterprise?

The independence of the business support agencies complicates the process of setting priorities strategically at sub-regional level. This independence also means that the interests of the agencies may not be identical to those of NLSA and its partners. For NLSA as we understand it, the ultimate objective is to promote employment growth through business support. For the agencies, simple survival means their priorities must be to meet funders' targets.

A criticism frequently levelled at business support programmes nationally in the literature (and echoed by some interviewees about support programmes in North London) is that they frequently lack clear or specific objectives, or that they attempt to address a variety of objectives simultaneously. Particularly in areas of deprivation, this often means attempting to combine economic and social goals. One study of business development initiatives developed in the context of a regeneration programme described the '...inherent tension between regeneration as the alleviation of need (e.g. in supporting a business, because it is in need) and regeneration as the exploitation of economic opportunity (e.g. supporting a business because it will lead to growth and job creation).'⁵¹

A later study⁵² reviewing the impact of businesses support programmes funded through the SRB found:

- The survival rates of new businesses tend to be higher where projects had a specific focus on business start-up support than in those instances where business start-up was a secondary activity within broader regeneration programmes.
- There was a discernible shift in the attitudes of policy makers towards business start-up projects from regarding them as primarily unemployment measures to seeing them as an enterprise activity.
- There was also a noticeable shift in focus from simply achieving start-ups, to the achievement of starts which will have the best chances of survival.

These are lessons which could usefully be heeded as the programme to regenerate Tottenham in the wake of the riots develops.

The evidence offers a number of pointers illustrating how business support programmes can best support employment growth.

- Programmes should focus selectively on firms – both existing and start-ups – with genuine growth prospects. Though picking winners is not easy, focusing on

⁵¹ Oc, T and Tiesdell, S. (1999), "Supporting Ethnic minority business: a review of business support for ethnic minorities in city challenge areas". *Urban Studies*, Vol.36, No. 10, pp 1723-4

⁵² Centre for Enterprise and Economic Development Research (2003) *Business-led regeneration of deprived areas: A review of the evidence base* ODPM

sectors with growth prospects, and avoiding marketplaces that are already crowded can help.

- The evidence – for example from evaluations of the Prince's Youth Business Trust – suggests that programmes designed to help those with little experience of enterprise into self-employment can help develop employability; but they are not effective routes to create firms employing significant numbers. One interviewee whose agency runs a New Enterprise Allowance programme for DWP reports a success rate of no more than 10-15 percent.
- Programmes targeted on disadvantaged communities and groups can be justified on any numbers of grounds – but are unlikely to produce high growth companies. These are most likely to be produced by individuals with some entrepreneurial experience and who have access to finance – which in most cases these days requires the collateral to support borrowing.
- A greater focus on existing firms (rather than start-ups) may be a more effective way of promoting (and preserving) employment.

The role of local authorities

As we mentioned earlier, in the view of some interviewees local authorities should focus on the wider environment and leave business support to the private sector. This includes parking, street cleaning, and other environmental improvements. This is certainly a view that came from a study of business views in Camden a few years ago, and is consistent with views expressed to Fordham Consulting by businesses in Islington we consulted for another piece of work in 2008. The ULVP also adopted a similar approach as part of its strategy to retain businesses in the Upper Lee.

There is also scope to review the opportunities to link local authority (and other public bodies') procurement practices to local business development. At a time of financial stringency the pressures on procurement officers to reduce costs are considerable. Nevertheless there may be long term gains in relation to employment and economic development if a greater proportion of public procurement expenditure could be retained locally. According to CLG figures the NLSA boroughs' combined capital and revenue procurement budgets for the current year are in excess of £3.5bn.⁵³ Local procurement strategies are not new: for example a few years ago Haringey and Enfield councils undertook a pilot scheme with European funding.⁵⁴ With procurement budgets on this scale – despite the cuts – it may be worth reviving the idea at sub-regional level.

Finally a number of interviewees argued that more could be done to make local authority planning frameworks and developers' master plans small business friendly. This would help ensure that they provide the right conditions – suitable space, support services and an identity (or identities) that were locally appropriate and maximised employment and business development potential.

⁵³ [Capital expenditure, receipts and financing: 2011-12 - Local government - Department for Communities and Local Government;](http://www.communities.gov.uk/documents/statistics/xls/2179165.xls)
<http://www.communities.gov.uk/documents/statistics/xls/2179165.xls>

⁵⁴ Lifeworld Ltd (2005) *Public Sector Procurement and Small and Medium-Sized Enterprises in the London Boroughs of Haringey and Enfield: Final Evaluation and Report for Trade Local and Haringey SME Procurement Pilot*

An 'enterprising North London'?

The conclusions to be drawn from the evidence and our interviewees' comments in the previous sections set out some of the steps NLSA needs to encourage to help establish an 'enterprising North London.' But perhaps the first – and most important step – is to decide what measures might be used in say two or three years' time to determine whether and how far the vision of an enterprising North London had been achieved. The literature and our discussions suggest a number of possibilities – each of which may require a different set of policy interventions. The options might include (but are probably not restricted to):

- More people in employment
- More companies
- A higher company survival rate
- More productive companies as indicated by higher levels of Gross Value Added
- A more even spread of employment and entrepreneurial activity across the NLSA area – and between different communities
- A higher concentration of companies in high growth, exporting sectors.

And an important issue to resolve in deciding on which of these indicators to use (and therefore which of the various policy priorities) takes us back to the question that instigated this study: how to account for North London's apparently high business failure rate. We have argued that the high failure rate is at least partly related to the high start up rate. We have produced a variety of evidence that suggests that a greater focus on support for promising established firms with growth potential may offer a more cost-effective route to employment creation than start up programmes which carry the risk of high levels of displacement.

But there is an alternative view, which argues that high start up rates – irrespective of the displacement consequences – is a precondition for the establishment of a high growth, enterprising area. This position was set out clearly in a publication in 2004 from the Small Business Service:

'The main objective in encouraging a more dynamic start-up market is to boost productivity and economic growth by strengthening business support networks and creating an environment that encourages and supports entrepreneurial activity...A dynamic start-up market is a key driver of economic growth. The creation and growth of new businesses contributes to the beneficial process of 'productive churn' by which more efficient and innovative businesses replace less efficient ones, with the effect of raising overall productivity growth within the economy.'⁵⁵

Identifying the priority policy outcomes from the list set out above is an important step in helping to decide whether or not the promotion of a high churn business environment is a sensible use of public money, or whether working with existing businesses is a preferable option.

⁵⁵ SBS (2004) *A government action plan for small business: The evidence base* DTI

Annex 1: data tables

Table 4
Self-employed by borough, 2005-2011

Borough	2005		2006		2007		2008		2009		2010		2011	
	No.	%												
Enfield	22,100	17.3	21,600	16.6	14,300	10.7	22,000	17.1	18,000	14.9	22,700	18.3	19,700	15.7
Hackney	13,600	16.8	13,500	16.8	12,300	13.3	14,200	15.3	18,500	18.1	20,100	18.0	16,100	15.3
Haringey	20,000	20.1	28,300	26.6	22,300	20.6	20,800	20.5	19,100	19.1	18,000	18.1	13,400	13.1
Islington	14,500	16.2	10,900	12.4	14,800	16.1	17,200	17.2	19,200	20.1	17,800	18.0	17,000	16.5
Redbridge	14,300	12.7	17,400	15.8	23,200	19.9	21,500	18.4	21,600	18.0	19,700	16.2	19,700	16.5
Waltham Forest	18,000	18.6	13,700	13.9	11,400	11.2	11,100	11.0	18,800	18.7	16,700	16.9	19,800	17.9
GB	3,538,600	12.7	3,613,400	12.9	3,668,800	13.0	3,695,100	13.0	3,668,500	13.1	3,773,300	13.4	3,868,700	13.8
London	563,600	15.9	570,000	16.0	572,300	15.6	573,600	15.4	591,400	16.0	617,900	16.4	617,200	16.1

Table 5
North London industrial structure 2008 (selected sectors)

Source: <http://www.london.gov.uk/archive/gla/publications/factsandfigures/boros2009/4-1.csv>

Area	Production	Construction	Motor trades	Wholesale	Retail	Hotels and catering	Transport	Posts and telecoms	Finance	Property & business services
	%	%	%	%	%	%	%	%	%	%
Barnet	3.6	6.4	1.8	7.3	10.2	4.7	2.0	0.6	2.5	44.1
Camden	4.6	1.8	0.6	4.6	7.6	6.6	1.5	0.7	2.1	49.0
Enfield	5.1	11.4	2.8	7.1	11.9	5.6	3.1	1.3	2.0	33.0
Hackney	7.1	3.2	0.9	5.3	9.6	5.5	1.6	0.9	1.6	42.8
Haringey	4.7	3.8	1.3	5.0	9.5	4.3	1.5	0.4	1.0	25.5
Islington	5.3	2.8	0.6	4.2	8.2	7.0	1.8	0.4	2.5	41.2
Redbridge	4.0	10.8	2.5	6.6	12.6	5.3	3.0	1.0	1.5	35.8
Waltham Forest	5.9	11.6	2.8	7.7	14.0	5.7	2.4	0.7	1.5	29.0
NLSA	4.9	5.4	1.4	5.8	9.8	5.6	2.0	0.7	2.0	40.0
London	4.4	6.4	1.6	5.3	10.1	6.2	2.6	0.8	3.2	41.4
England	6.4	9.7	3.2	5.0	11.1	6.5	3.1	1.0	2.4	30.3

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Annex 3: Interviewees

Interviewee	Organisation
Joost Beunderman:	00:/
Steven Boyes	LB Waltham Forest
Michael Locke	Urban Futures
Claire Tunley	LB Islington
John Mark Williams	Santander
Nick Schlittner	Haringey Council
Geoff Hill	Redbridge Chamber
Gary Ince	North London Business
John Pelledri	Lea Valley estates
Chris Shellard	Lea Valley estates
Pauline Barnett	East London Small Business Centre
Mark Collings	Santander
Simon Donovan	Manor House Development Trust
Fiona Crehan	LB Enfield
Matt Garner	Centa
David Hughes	LB Redbridge
Huw Jones	North London Chamber of Commerce
Mark Kass	EnterpriseREDBRIDGE
Gary Walker	LAGP
Mark Lucas	LB Redbridge