



Major survey reveals main barriers to small business growth

A new quarterly survey of 12,000 small to medium sized firms is revealing that taxation, National Insurance and employment regulations are the key barriers to growth in the sector.

The Small Business Research Trust (SBRT) quarterly report is being relaunched this month with a new author, the University of Liverpool Management School (ULMS), a new sponsor HSBC bank and a new partner business pressure group the Forum of Private Business (FPB). The aim of the report is to provide consistent and authoritative market intelligence in coming years on the performance of the small to medium sized (SME) business sector. It was conducted between August and November 2004.

The FPB said it is pleased to see that overall the report reveals the performance of the SME sector to be stable. In quarter three of 2004 sales turnover increased for 42pc of firms and stayed the same for a third of firms, however, a quarter of businesses reported a decline in sales turnover. Employment and investment remain on an even keel for the vast majority, two thirds, of firms. Breaking the sample down, however, shows larger firms out performing micro and small businesses. Well over half of medium sized firms, 55pc, reported increased sales compared to 45pc of small firms and just over a third of micro businesses.

However when asked about what holds business back two thirds of firms cited tax and national insurance as a barrier to growth. This was followed by employment regulations, 57pc and business rates 50pc. But when the data was analysed by priority the problems differ between micro and small businesses and medium sized firms. The main problem for micro and small businesses is taxation and national insurance but for medium sized firms only 3.3 per cent of respondents cited this as their main priority. Employment regulations are far more of an issue for medium sized firms with a quarter ranking it as their main priority.

The FPB's Chief Executive Nick Goulding said the barrier to growth results come as no surprise.

"The FPB is actively lobbying the Chancellor on the back of the quarterly survey results to reduce the taxation burden on business," he said. "Taxation is hurting small firms and the Government urgently needs to examine practical common sense measures to reduce this pain. Ahead of the budget we are asking the Chancellor to reduce employers national insurance contributions by one per cent and scrap plans to increase the minimum wage and fuel duty. Moreover we want to see an overhaul of the business rates system so rateable values are assessed on the size of business rather than size of premises. Other important areas for consideration are: an integration of national insurance and PAYE, reduced VAT for labour intensive services, a reduction of stamp

duty on commercial property, a reduction or abolition of insurance premium tax on compulsory insurance, an extension of capital allowances for plant and machinery beyond the first year.”

Mr Goulding said the FPB is fighting hard for an overhaul of employment regulations which are overly bureaucratic and loaded in favour of employees.

“This survey proves that employment regulations are a running sore for employers,’ he said. “Fpb has consistently argued that a fatal flaw of employment regulations is that they are loaded in favour of employees. From a business owner point of view this is completely the wrong way round. It is the employers who are putting everything on the line for the success of the business, his or her home or lifesavings. And that is why business owners feel the present system is unjust and unfair. Maternity law, for example, prevents business owners asking when their staff when they intend to return to work and actually encourages women to lie about their return date. That leads to enormous organisational and operational headaches for small businesses. Moreover disciplinary procedures are a minefield for employers. It is extremely difficult for firms to deal with incompetent staff and the whole procedure is extremely costly in both time and money.”

FPB member Keith Chetwin of RK Engineering in Warwickshire said employment regulations are stopping him run his company successfully.

“I cannot discipline my staff because the employment law rules and regulations are such a ,’ he said. “They overly complicated and bureaucratic. I feel as an employer I’m losing control, it’s the lunatics running the asylum not me, that’s how its feels. What does the Government know about the pressure I work under when it introduces these employment regulations. I’ve put my lifesavings, my pension and my family’s future on the line and invested 25 years of my life in this firm. I take this risk but I cannot properly discipline my staff without fearing a fallout at a tribunal.”

Elsewhere the leading SME sectors in terms of performance in quarter three 2004 were wholesale and retail with 48pc reporting an increase in turnover followed by manufacturing, 47 pc and construction 45.2 pc. Tellingly, the three sectors reporting growth also lead the way in investment manufacturing 27pc, construction 21pc, wholesale and retail 24pc. The leading sectors in terms of expectation of growth for quarter four of 2004 were wholesale and retail 52pc, finance 51pc, and manufacturing 46pc. The sectors least expecting growth were hotel and restaurant 23pc and construction 36pc.

The figures for regional SME performance show significant differences. Yorkshire and Humberside is the region with the highest percentage of firms experiencing growth with 56pc recording an increase, this is followed by the Eastern region 46pc and South West 47pc. The worst performing regions are East Midlands and Scotland which both report just 34pc of firms experiencing growth. Yorkshire and the Humber also come top of the regions most confident of growing in the final quarter of 2004 with well over half, 58pc, optimistic of experiencing growth. This is followed by the Eastern region 54pc and the North West 51pc. The regions with firms reporting least confidence of growth are West Midlands 27pc, London 38pc and Scotland 39pc.

This edition of the report focused on a one off theme, on this occasion internet usage. Nine out of 10 firms participating in the survey are connected to the internet with 63pc using broadband. However a number of regions, the North East, West Midlands, South West, Scotland and Northern Ireland all fall below the 90pc national connection average. London and the South East are the only regions to have connection figures above the national average. Meanwhile three quarters of businesses reported that they had a website.

The survey examined the reasons why businesses sign up to the internet. The most important reason is to obtain information for the business, 78pc of firms. External communication is also high 74pc, with online banking 55pc. More than half of firms ordered goods and services over the internet. Just over a third of firms recorded selling online as a key activity.

Interestingly fewer than 30pc of businesses said they had seen an increase in sales as a result of their firm's engagement in e-commerce while around half believed they could not attribute any sales growth at all to their involvement in e commerce.

Commenting on the survey the SBRT chairman Brian Wolfe said he hoped policy makers would look closely at the reports finding.

"Despite the huge contribution to the UK economy, the SME sector is often misrepresented and its importance underestimated by those in power,' he said. "The needs and problems of small businesses are different to those of their larger counterparts. The SBRT's Quarterly Report offers an unparalleled opportunity to look in depth at the small business economy, its performance and challenges."

FPB BACKGROUND:

The Forum of Private Business (FPB) was formed in 1977 and is a pressure group fighting on behalf of private businesses. The FPB represents approximately 25,000 UK-based businesses employing in excess of 600,000 people, and is a powerful lobbying voice in both the UK and the European Union.

The FPB, as the only full UK member of UEAPME - the organisation that represents small and medium-sized enterprises (SMEs) in Europe - is the most prominent advocate of UK SMEs in Brussels and has a track record of positively affecting legislation prior to its introduction in the UK.

The FPB also provides a range of business services aimed at increasing member efficiency and profitability. Visit www.fpb.org

MEDIA CONTACTS:

Ben Pinnington, media manager
Mobile: 07887 562900
Email: ben.pinnington@fpb.org

FPB press office:
Tel: 01565 634709

Fax: 0870 241 9570

Head Office:
Ruskin Chambers
Drury Lane
Knutsford
Cheshire
WA16 6HA