Environment and Planning C: Government and Policy 2002, volume 20, pages163–177

DOI:10.1068/c0113

Small business policy in the United Kingdom: the inheritance of the Small Business Service and implications for its future effectiveness

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Received 16 February 2001; in revised form 24 June 2001

Abstract. The launch of the Small Business Service in the United Kingdom stimulated a review of small business policy and support in the United Kingdom. The Service inherited a substantial number of policies and initiatives which have been criticised for their poorly stated aims and overall lack of coherence. The authors examine justifications for small business policy in Britain and the role of research in small business policymaking. They suggest that research has had relatively little impact, and some reasons why this has been the case. They also suggest ways of setting a small business research agenda—raising standards and ensuring the independence of research. Attention is given to the evaluation of small business policy and initiatives. It is argued that currently this is not sufficiently independent or rigorous, and the authors suggest remedies. Both quantitative and qualitative evaluation approaches are examined in order to redefine good practice. The overall aim is to suggest how the Small Business Service can be better supported by research and evaluation, enabling it to function more successfully than its predecessors.

Introduction

The United Kingdom's Small Business Service (SBS) was introduced in 2000 to be both a voice "for small business at the heart of government" and to "improve the quality and coherence of government support for small businesses" (DTI, 1999, page 3). As in many other countries, the UK government is promoting small and medium-sized enterprises (SMEs) as vital contributors to economic prosperity (DTI, 1998a; 1999). The Service continues the SME promotion policies of successive UK governments which first emerged in the 1970s and have been developed vigorously since (Beesley and Wilson, 1981; Curran, 2000a; Storey, 1994). It is unclear just how many support schemes sustain this commitment, but one estimate suggested there were about 200 by the mid-1990s (Gavron et al, 1998, page 59). Since then further policies, either new or updating previous ones, have been added (for examples see DTI, 1998b). However, the House of Commons Trade and Industry Select Committee (1999) famously described the results as:

> "An excess of loosely connected and apparently uncoordinated policy initiatives shooting off in all directions, generating noise and interest, but not commensurate light" (page v).

The advent of the Service invites a review of small business policy and the potential of the SBS initiative. As Storey (1982; 1994, page 253; 2003) has argued, assessing SME policy is difficult because of the lack of clarity in specifying its aims. Typically, aims have been expressed in 'politician speak': for example, policies are aimed at building "an enterprise society in which small businesses thrive and achieve their potential", or as helping "small businesses to identify the barriers to achieving their potential and to ensure action is taken to minimise the impact of regulation on small firms". Statements

like these are not specific enough for assessing the effectiveness of policies. The Trade and Industry Select Committee in its earlier, 1998, report, recommended:

> "that, as a matter of urgency, the government define the objectives of SMEs policy. The objectives chosen must be accompanied by measurable targets, with a timetable for their attainment" (page vii).

The overall woolliness surrounding UK small business policy has been paralleled by a long-term lack of adequate evaluation of its impact:

> "in some instances no evaluation is undertaken. In other cases, whilst evaluation is undertaken, it never enters the public arena. Finally, even where it is undertaken, it is not always the case that the most sophisticated (accurate) methods are applied" (Storey, 2003).

Effective evaluation methodologies have been slow to develop (Curran, 2000a; Storey, 1999), but other factors have also had an impact. First, the sheer hegemonic power of notions such as 'the entrepreneur', 'entrepreneurship', and the 'entrepreneurial society' since the late 1970s has discouraged serious assessment of policies promoting the small enterprise—seen almost universally as the embodiment of such notions. Second, SME policy evaluation appears especially susceptible to 'regulatory capture' (Stigler, 1971). This term refers to the process whereby those carrying out evaluation are subject to pressures from sponsors to produce favourable results and/or downplay any failures. The overall result of this tendency has been for the small enterprise and its role in the UK economy to be overstated considerably, as recent commentators (see, for example, Curran, 1999; Gibb, 2000a) have argued.

Aims

In this paper we have two main aims. First, we examine justifications for SME support policies in a modern market-based economy. An unquestioned acceptance of the desirability of SME support has become entrenched in the United Kingdom. But policies need to be justified, not only when they are introduced but also periodically so that both the impact of the policies and changes in the economy can be assessed. SME policies and support initiatives incur public expenditure. A Cabinet Office estimate (Gavron et al, 1998, page 59) suggested that the 200 support initiatives in 1995–96 cost taxpayers £632 million. The figure is unlikely to have decreased since then, and such a substantial annual expenditure requires justification.

Second, we examine approaches to evaluating SME policies. We believe that poor evaluation has been a continuing weakness in developing SME support policies in the United Kingdom since the very earliest policies in the 1970s. Although government commissions so-called evaluations, many have been sponsored by Training and Enterprise Councils (TECs) and Business Links (BLs)—the predecessors of the SBS. The overall quality of evaluation has been marred not only by the distortions of the 'regulatory capture' alluded to above, but also by methodological inadequacies. To this end we discuss what constitutes high-quality evaluation in this area of policy. Better evaluation is basic to the success or otherwise of the SBS. Without a more rigorous approach to assessing policy, the 'policy drift' and overall low effectiveness of SME support, which we argue have been fundamental weaknesses in this area of public support, will remain and the SBS will fail in its mission.

The justification for SME support policies

At first sight, it appears inherently contradictory to have special support for SMEs in a free-market economy. Such economies are committed to the principle that goods and services are most efficiently produced and allocated by consumer choices made effective through competitive market/price mechanisms. SMEs in the United Kingdom are

responsible for over half (55.5%) of all employment, and 51% of business turnover (DTI, 2000, table 3). In other words, in aggregate, they are more important in terms of employment and turnover than the largest firms in the United Kingdom and are certainly significant in producing market outcomes. Why, therefore, should they merit special support?

Governments in free-market economies commonly intervene to counter what are perceived as market failures in order to improve competition or to achieve outcomes judged desirable on social or moral grounds. Without such interventions, it is assumed that markets would not eliminate such failures automatically, nor would they help realise other desired outcomes. These kinds of justifications have long been the basis of support for small enterprises in the United Kingdom and, more recently, increasingly in the Third World and in the transitional economies of Eastern Europe (Curran, 2000b; Gibb, 2000b).

Although economic rationales for small business policy have conventionally been common in the United Kingdom, this apparent emphasis may be somewhat misleading as other, more ideologically driven, political and social rationales can be seen as being served by the economic rationales (Goss, 1991). For example, economic grounds for intervention have commonly been linked to alleged information failures preventing markets from operating efficiently. But this has frequently been coupled with a claim that these failures also prevent the full expression of entrepreneurial potential in the United Kingdom, which is seen as social good or virtue in itself. Three forms of information failure have been particularly common as grounds for interventions favouring small-scale enterprise, but each has had links with noneconomic rationales.

(1) *Rates of new business formation are assumed to be less than optimum in many economies.* In part, this is thought to be the result of individuals being unaware of the benefits (to themselves and to the economy as a whole) of starting their own businesses. Frequently, however, this is linked closely to attempts to develop a stronger 'enterprise culture' (Burrows, 1991; Gavron et al, 1998). In Britain, policies based on this alleged failure have resulted in a wide range of start-up support funded either by government or by not-for-profit organisations. For instance, the original UK Small Firms Service (of which the SBS is a direct descendent) provided initial information on starting a small enterprise as its main function. A well known example of a not-for-profit promoter of start-ups is The Prince's Trust. This, particularly as exemplified in the speeches of HRH Prince Charles, stresses the civil society benefits believed to result from more young people starting their own enterprises.

(2) *Because of information imperfections, small business owners are less able, or less aware of, the benefits of using information from outside sources, than are larger enterprises.* Almost all governments have developed free or subsidised information and advice services to help smaller enterprises improve their performance. A clear example in the United Kingdom is the Personal Business Advisor service offered by BLs since the early 1990s (Bennett and Robson, 1999). One aim of this support is to create a more entrepreneurial society in the widest sense.

(3) *Financial institutions are unable to assess accurately the viability of small firms, with the result that sound economic projects are not funded.* Finance providers know that small businesses are riskier than larger enterprises but, because of the poorer availability of information for small businesses, are unable to make accurate judgments on funding. Economic theory might suggest that high-risk borrowers would be willing to pay a premium to obtain finance, and lenders would be prepared to lend at this higher price. In fact, lenders do not behave in this way. Instead, finance providers vary their prices only slightly, preferring instead to reject high-risk projects except where the borrower has access to collateral. But if collateral is insufficient lenders will not

offer finance, so potentially sound projects go unfunded. Governments have attempted to counter this 'funding gap' via strategies such as the Loan Guarantee Scheme (KPMG, 1999). A more recent example is the Phoenix Fund, announced in 1999, and designed to encourage entrepreneurship in disadvantaged areas (SBS, 2001). The explicit social rationale element linked to the provision of finance in this initiative arose out of the recommendations in the *Enterprise and Social Exclusion Report* (H M Treasury, 1999).

The explicit combination of economic and social rationales, giving them a double force, is not new. Early examples can be found in policies linking unemployment and enterprise promotion in the early 1980s (Storey, 1994). One of the best known was the Enterprise Allowance Scheme which has run, with modifications, since 1983 (Gray, 1998, pages 71 – 74). Here small enterprise promotion (legitimated by an economic rationale) was aimed very clearly at reducing unemployment which was deemed to be at socially unacceptable levels by politicians and voters alike (a social rationale).

However, although academic distinctions of the above kinds are easily made, justifications for UK small business policies have been much less transparent in practice. The result, as pointed out above, is that this has made it difficult, or even impossible, to assess whether policies achieve their aims. It also makes it impossible to achieve a 'virtuous policy circle' in which policies are introduced, evaluated, and then either abandoned as unlikely to achieve their declared aims or revised to become more effective. Nor is it possible to see clearly how the patchwork of policies now in place form an integrated fostering of enterprise and SMEs in the United Kingdom.

Academic research and UK SME policy

The growth of small enterprise support since the 1970s has been paralleled by a growth in academic attention. By the late 1980s, this had led the Economic and Social Research Council (ESRC) supported by Barclays Bank, the European Community, the Department of Trade and Industry, the then Department of Employment, and the Rural Development Commission, to launch a four-year, £1.5 million research programme (Storey, 1994). More than 10 000 businesses participated in over sixteen projects, the results of which were widely disseminated through academic and nonacademic outlets. Alongside this initiative there was a growth of contributions from other researchers (see reviews in Carter and Jones-Evans, 2000).

Yet the impact on policy of all this academic research effort has been limited. Policymakers complain they are busy people with no time to trawl through endless academic sources or to unravel their frequently conflicting messages. Undoubtedly, academics are often poor at communicating their findings or making them policy relevant. But, equally, the political process in democracies does not always help communications between researchers and policymakers. Realistically, politicians and policymakers in democratic political systems must heed a wide range of interests with varying agendas. Academics are only one (minor) voice amidst this clamoring. Even when academics are brought into the policymaking process, policymakers complain that the academics often do not understand the demands of policymaking, and offer overtheoretical conflicting inputs when straightforward practical recommendations are what are needed. This tension between academics and policymakers has become widely recognised in recent years as the efforts of the ESRC and the recent Research Assessment Exercise (RAE) demonstrate. The ESRC now places much more emphasis on end users than it did in the past and, as a result of a joint industry – research funding bodies task group, many RAE assessment panels in 2001 had user representatives with full voting rights for the first time (HEFCE, 2000).

Another reason why academics' SME research has had less impact is that lobbying groups such as the Federation of Small Businesses and the Forum of Private Business have been very effective in influencing policy. For these bodies, influencing policy is a prime raison d'être. In contrast, it is not academics' sole or even main aim to influence policy. Indeed, the career incentives motivating academics actually make influencing policy a secondary issue. Despite the changes referred to in the paragraph above, the main career payoffs for academics come from publishing in outlets (particularly academic journals), achieving good ratings in RAEs, with few incentives to disseminate beyond the academic community. In addition, academics are conditioned to question and test accepted views. But criticism is often seen as 'negative' or 'off-message' by modern governments, or is attacked by groups who perceive their interests threatened. Provocatively, Curran et al (1999) as discussed below, suggest that evaluations by academics have generally been more critical than those of private sector consultants evaluating the same policies.

The foregoing might be regarded as special pleading on behalf of academics, but from a policy perspective the main point is important. Few should expect the privilege of deciding policy without informing themselves on what others, particularly those involved full-time in investigating the issues, have found. Small business research, like all other areas of enquiry, is ongoing and cumulative. For example, since the late 1960s there has been a lot of research on employment in small enterprises, which now adds up to a significant body of knowledge—with clear policy implications on a wide range of aspects of employment. One result has been that some widely held and remarkably persistent assumptions about employment in small enterprises, which continue to influence policy, have been shown repeatedly to be unsubstantiated (Kitching, 1997, chapter 2). A similar example comes from research on the supply of capital for small firms; here the notion of a general 'finance gap' frustrating expansion has been frequently expressed but has in fact been found to be grossly overstated (Storey, 1994, page 250). Overall, policymakers largely remain uninformed consumers of research and few SME policies are based on best available knowledge. The results have, arguably, been poor policy, wasted public resources, and a less effective economy.

One reason for poor communication between academics and policymakers in the formation and implementation of small business policy has been the apparent failure to establish in-house 'knowledge banks' by the relevant government departments. The Departments of Trade and Industry and for Education and Skills have been responsible for small business support since the early 1970s. Both have, over the years, supported small business research unevenly and largely on an ad hoc basis. One reason for this seems to have been that staff commissioning research have little expertise in small business research and are in post for relatively short periods before moving on. This has made it difficult for departments to develop a thorough knowledge of the complex, multidisciplinary area of small business research. The tendency has been to distribute small amounts of funding to a wide range of academics by competitive tender, but with no discernable overall strategy. This is poor practice. First, the selection of what projects are to be funded has not been transparent: although sponsoring staffs may claim to have sufficient expertise, this has not always been apparent to those involved in research in the area (Blackburn et al, 1999). Second, the research has not been as inde-pendent as it could be. This is important particularly where research has an evaluative element or is linked closely to party-political orthodoxies. The research agenda can all too easily come to reflect the minister's whims arising, for instance, out of brief visits abroad, commonly to the United States. Like wine, small business policies often do not travel well when introduced into the very different cultural, economic, and administrative environments of other countries (Curran, 2000b; Gibb, 2000b).

The SBS, to its credit, has adopted a more systematic approach. It has published a research strategy for 2000/01 to 2001/02 (SBS, 2000) and appointed a Head of Research and Evaluation. It is too early to assess whether this represents a radical change in research policy, with a clear long-term strategy which will result in a much more developed in-house knowledge of small business research and greater coherence in policymaking. Even if this were to be the case, research might well emerge as too narrowly focused on applied issues or political fashions of the moment. Nor would it ensure that research was as independent as it could be, particularly where the research evaluated the SBS's own policies and delivery.

One solution might be to transfer funding and decisions on research to a third party. An obvious third party would be the ESRC, although some argue that its overbureaucratic administrative procedures means it is not up to the job and it can still be subject to political pressures where, for instance, government departments are invited to comment on proposals. An alternative might be the Leverhulme Trust which has experience of managing economic and social research, including small business research, employs the same peer-review procedures as do research councils, and, as far as is known, is independent of industrial and political pressures. Given suitably guaranteed funding, a long-term agenda could be put in place and greater independence and transparency could be assured. It would be unrealistic to argue that government departments, the private sector, and other interested parties should never be involved in setting the agenda or that user interests should never be represented. As the 1989–92 ESRC research initiative showed, their involvement is possible without unduly compromising the independence of the research—but their role needs to be advisory rather than directional.

Evaluation research could be treated separately. It is wrong that the main policy players and main delivery agency, the SBS, directly fund and manage policy evaluations. An alternative would be to transfer responsibility to an independent body such as the National Audit Office who have considerable experience in evaluating policies. In addition, enhanced powers should be given to the Trade and Industry Select Committee who have shown a critical and informed interest in small business support in recent years. Copies of all evaluation reports involving more than some minimum level of public expenditure should be received by the Committee as a matter of statutory right.

Small business policy and evaluation in the United Kingdom

Despite the enormous proliferation of SME support since the mid-1970s, evaluating its effectiveness has, as we remarked earlier, been poor. The blinding hegemonic dazzle surrounding 'entrepreneurship', 'enterprise', and 'the enterprise culture' has placed them almost beyond question and resulted in policies not being scrutinised as closely as might normally happen in Britain. There are also considerable procedural and methodological problems in evaluating small business policies (Bennett, 1997; Curran, 2000a; Storey, 2003). The procedural problems arise out of how evaluations are conducted. Basically, there are two approaches.

(1) Evaluations sponsored by the government departments and/or agencies delivering the policy, conducted by private sector for-profit, bodies. Most SME policy evaluation in the United Kingdom has probably been of this kind.

(2) Evaluations by independent (usually academic) researchers on a not-for-profit basis, sponsored not by those originating or funding the policy or delivering it to SMEs, but by independent sponsors such as the ESRC.

The differences between the two are important. A review of SME policy evaluations by Curran et al (1999) found that the first kind was much more likely to be favourable to

the policy than was the second. Where those conducting evaluations depend on the initiator for their fees and future similar work, there are likely to be pressures to be less critical than where those conducting evaluations do not depend on sponsors for their main funding. Moreover, private sector evaluations are more likely to be conducted by 'all purpose' researchers who are less likely to have a sound knowledge of the issues than by academics who usually only win funding if they are well-established small business researchers.

The 'independence' of academic researchers is, of course, relative. Few would argue that academic researchers are totally free from the influences from the wider environment. Research councils, as mentioned earlier, increasingly take into account government agendas in making awards. Academics themselves have personal values and ideological preferences. But the norms of objectivity and accepting findings which suggest conclusions contrary to the researcher's personal values or beliefs are emphasised strongly in academic research. Further, the peer-review process ensures that research offered for publication will usually receive close scrutiny. Academics, it might be argued, have less of a vested interest in furthering the reputation of the SBS, and their rewards are less dependent on the success or otherwise of any policy. For these reasons, it can be suggested that the chances of a rigorous even-handed assessment of policy is greater here than where it is carried out by the department responsible for, or linked closely with, the profit-making activities of the body conducting the evaluation.

The second, methodological reason, for the frequently poor quality of evaluation studies arises from inherent problems in research on small enterprises. For example, there are three key well-known issues: the estimation of:

(a) *additionality*, that is, the net positive outcomes (desired outcomes or, even, unanticipated consequences) which may be attributed reliably to the policy (additionality, in turn, has always to be offset against deadweight and displacement);

(b) *deadweight*, which refers to desired outcomes which would have resulted even if the policy or programme had never happened; and

(c) *displacement*, which occurs where, as a result of the policy, other firms not involved cease to trade, or have lower sales or employment, or suffer higher costs.

It should be relatively easy to measure all of these, given appropriate research designs. In practice, it is extremely difficult. Because the firms are, by definition, relatively small they are extremely sensitive to difficult-to-control-for external influences. Most support programmes last at least several months, during which all kinds of external influences can significantly affect the way SMEs perform. Allowing for these in assessing additionality, for example, is very difficult, but not impossible, and depends critically on the budget available.

A conventional approach to measuring these three influences is some version of the matched-control sample in which firms supported are compared with those not supported in order to isolate the effects of external influences from the effects of the policy intervention. It is difficult to construct matched samples because of the extreme heterogeneity of the SME population. SMEs are run by people of different ages, different genders, different social and educational backgrounds, and different ethnic origins. Owners have different aims for their businesses, ranging from wanting to grow their enterprises as fast as possible to those who run 'lifestyle' businesses. The latter run their businesses in ways which fit closely with their nonbusiness interests and usually exclude significant growth aspirations. Further, SMEs operate with different technologies, different labour – skill mixes, and in different regions and markets.

These difficulties are compounded by two further problems. The first of these is the lack of suitable sampling frames for selecting samples of firms. There are few full

listings of small firms in the United Kingdom, even for small localities or particular types of enterprise. Those lists that do exist often provide little detail and date rapidly because of the high level of 'churning' in the UK small business population. The second problem is response, particularly where representative samples upon which statistical analyses can be undertaken, are needed. Typically, response rates are low in the commonest evaluation study—the postal survey. For example, Bryson and Daniels (1998) sought to determine the extent and character of external expertise used by small businesses. They endeavoured to recruit a nationally representative sample of firms employing 10–250 employees in selected sectors: they received 156 responses—a response rate of 10%. Response rates in some parts of the ESRC programme were even lower (Storey, 1994).

Low response rates do not necessarily mean that results are unrepresentative, but they will do so if there is response bias. Unfortunately, response bias is common in small business research. It arises in two forms. First, as size bias: that is, smaller firms are less likely to respond than are larger firms, but firms of differing size operate differently internally and relate differently to the external environment (Goffee and Scase, 1995). Second, firms in some sectors are more likely to respond than are those in others (Curran and Blackburn, 1994, pages 69–71). Such biases weaken the value of results considerably where the research seeks to analyse subsamples based on firm size, economic activity, and the amount and kinds of external expertise used. Some of these problems can be alleviated by careful statistical manipulation of the data if the achieved sample is large enough, but clearly this is not always possible.

The aforementioned is also relevant where the less rigorous alternative to the matched-control sample is employed. In this, firms supported are compared with an 'average' firm not involved in the initiative. But sample selection, response problems, and response bias mean the results are unlikely to provide reliable 'average firm' benchmarks. Even more fundamentally, where a population has such high heterogeneity, variability around any average is likely to be so extensive that notions of a 'typical' or 'average' firm are virtually meaningless unless, again, the sample is sufficiently large. In practice, adequately sized samples are rare as government bodies are reluctant to fund studies with large enough samples to alleviate these problems.

In addition, assessment of the impact of policy is made more difficult by two types of 'selection': administrative selection, and self-selection. Administrative selection occurs when only a proportion of the firms or individuals which apply to join the programme are selected for inclusion. An example might be the Prince's Trust, in which only a fraction of young people making enquiries eventually receive advice and loans, with 'unsuitable' individuals being excluded. It would be entirely wrong to compare participants in the Trust's programme with otherwise-similar young people, as observed differences could either reflect the accuracy of administrative selection or the impact of the programme. If administrative selection issues were ignored all of the observed differences would be attributed to the programme, thus raising its apparent impact.

Self-selection occurs when only certain types of firms apply to join a programme. For example, a programme designed to aid growth is likely to attract businesses which are growth orientated. This needs to be taken into account, otherwise the impact of the programme would be overestimated if one were simply to compare participants with a control group of 'typical' SMEs. Even in the absence of the programme, the participant firms would almost certainly have grown faster than the control group. Controlling for this kind of problem through research design, or at the analysis stage, is not easy. However, more sophisticated statistical procedures are now emerging. An example is discussed in detail in the next section.

What this also implies is that displacement and deadweight are also difficult to assess. Of the two the more difficult is displacement, mainly because it has so many possible forms (Bennett, 1997, page 7). A proper assessment requires a careful analysis of all enterprises 'at risk' of being affected, directly or indirectly, by any policy. In practice this is very difficult. In many evaluations, displacement *is* estimated but most estimates are guesses expressed as (often very) approximate minimum – maximum values. Deadweight is also difficult to estimate. The commonest sources of data on deadweight are owner – managers in the initiative. But asking questions about what respondents might have done in the absence of the support is always problematic. Some, for example, might be overoptimistic, if only because a positive outlook is likely to be a common attribute of entrepreneurs. Others might underestimate the impact of policy because they believe that any good performance by their business reflects their own contribution rather than that of any government policy.

Evaluation of SME policies is therefore difficult, but this has not stopped researchers searching for more effective approaches. The traditional approach has been quantitatively based. Not only does this have a long history, but it is also attractive to policymakers who see it as more rigorous than the main alternative—qualitative approaches (Curran and Blackburn, 2001, pages 43 – 46). Whereas on epistemological and methodological grounds the distinctions between the two approaches are fundamental, in practice it is quite common for the two to be combined—albeit with the quantitative dominating.

Two contemporary approaches to evaluation

To illustrate current thinking on evaluating SME policies, two approaches are presented below. The first offers a recent example of a predominately quantitative approach (Storey, 1999). This comprises a six-step strategy, with each step an evaluation approach in itself but with each being successively more sophisticated. Hence, steps 1 to 3 are fairly primitive.

(1) Quantitative estimates of the take-up of the scheme being evaluated; this may include measures assessing sector, regional distribution, size of firm, etc. This is probably the most common form of monitoring, but offers little or no real information on policy effectiveness.

(2) Data on recipients' opinions on how useful or satisfying they found the initiative, how well they thought it was organised, and how it might be improved. Nonrecipients' views may be collected to contrast with these. Evaluations based on this approach are also common but, again, provide little or no help for assessing policy effectiveness.

(3) Data extending (2) to add information on respondents' views on the impact of the policy. Usually, respondents will be asked to provide quantitative estimates of additionality or displacement. However, there are fundamental problems here because it is difficult to know whether respondents are answering accurately. For example, they may not have the appropriate information or be able to disentangle the effects of the policy from other influences on the business. A lot of answers will, at best, be guesses. Others may give the answers they think the asker wants, and yet others be reluctant to admit that any benefits were not thanks to their own managerial skills. Again, therefore, the results may not be a reliable guide.

Steps 4 to 6 are more rigorous and, hence, more satisfactory in determining the effectiveness of policy.

(4) Comparisons of the performance of the 'assisted' firms with 'typical' firms. The aim is to learn what would have happened if the policy had *not* been introduced. Here the problem is, as observed earlier, that of ensuring that the firms really are comparable, and of what should constitute an 'average' firm for the purposes of the evaluation.

(5) Comparisons with matched firms: that is, assisted firms are compared with a sample of firms matching them in all respects other than involvement in the programme. In practice, only a few key criteria are likely to be matched, with age of firm, sector, ownership, and geography being the most common. This is because of problems of ensuring that firms really are comparable and, again, the methodological problems need very careful attention. There is always the very real danger that other factors—'unobservables'—will have influenced firms but will not be taken into account.
(6) Taking account of selection biases of the kinds mentioned above by the use of appropriate statistical techniques. This represents the most sophisticated approach, but is also technically the most difficult. Relatively few evaluations of this kind exist, but one example is that of Wren and Storey (2002). They evaluated one element of the DTI Enterprise Initiative, which ran from 1988 to 1994. The paper specifically addresses the issue of self-selection, that is, they test the notion that firms who joined the Initiative were keener to grow and to take advantage of government support than those not involved. As mentioned earlier, even with very careful matching, it is very difficult to detect self-selection and its impact, if any, on outcomes. Wren and Storey employed a statistical technique originally outlined by Heckman (1979) to estimate self-selection effects. The findings indicate that, when no account is taken of self-selection, survival rates among firms helped appear better than those not helped. However, when the statistical correction is applied, it shows that not taking account of self-selection in this way led to the effectiveness of the policy being overestimated by a factor of three over an eight-year period.

What the foregoing offers is a set of evaluation strategies arranged hierarchically to show their scope and limitations. The strategy actually chosen will depend on several factors. For example, small-scale policy interventions may not merit more than a moderately sophisticated evaluation, whereas others such as the DTI's Enterprise Initiative, which cost £275 million of public funding, deserve the most rigorous evaluation possible. The use of more sophisticated approaches also depends on how early evaluation needs are taken into account in policymaking. Too often, by the time evaluation is considered the data required to undertake the most sophisticated evaluation can no longer be collected.

Qualitative approaches to evaluation

The second approach to evaluation is much less well understood than quantitative approaches. Qualitative evaluations of SME policy are also more recent but have gained ground as support elements in quantitative evaluations especially. However, the use of qualitative data to support or illustrate quantitatively based evaluations is not strictly what qualitative evaluation is about. What qualitative evaluation offers is more radical: it is an alternative approach which explores issues not addressed by quantitative approaches but which are just as, or possibly even more, important in determining whether policies meet their goals. As Curran and Blackburn (2001, page 123) point out, some of the staunchest proponents of each approach pose them as fundamentally opposed: only one, it is sometimes asserted, can establish 'true' knowledge. In fact, most researchers refrain from such epistemological extremism. Researchers who lean towards one or other approach routinely work alongside each other, exchange ideas and results and, indeed, often combine them in their work depending on the topics being investigated.

Although there is a wide range of methodological strategies which can be employed in qualitative evaluations, the most common is probably the face-to-face interview. This resembles steps 2 and 3 of the quantitative approach outlined above, although how the

data are analysed differs substantially, as shown below. Another very commonly used qualitative approach is the case study, in which a small number of firms are selected for in-depth study—usually over an extended period of time. This will usually involve repeated interviews with owner–managers as well as often with employees and others connected with the firm. But usually several other kinds of data will be collected also. These might include: financial information; other documentation; repeated systematic observation of how the firm operates on a day-to-day basis; group discussions with people in the firm; and information collected from customers and others outside the firm. One advantage of this 'data triangulation' is that several kinds of data help produce a more complete analysis and avoid inadequate assessments based on the views of one person—the owner–manager—offered in a mail survey, telephone interview, or even face-to-face interview.

Firms will be selected to highlight issues pertinent to the policy being evaluated. For example, firms representing contrasting sectors, or differing points on the size spectrum, or in differing localities or markets may be selected. Because numbers are small, clear contrasts between firms help maximise the likelihood of differences related to the policy being revealed. Some closely matched firms not participating in the policy initiative may also be included. Because the number of firms involved is relatively small, it is often easier to achieve a much closer match between assisted and nonassisted firms than in larger scale quantitative studies.

What is especially important to understand is the fundamental differences between quantitative and qualitative evaluations. Qualitative evaluations are often seen as inferior because few firms are involved and, hence, they do not meet statistical criteria for establishing validity. But to make this kind of criticism is to misunderstand the very different aims, and different explanatory basis, of qualitative approaches. One problem with quantitative studies based on large, statistically representative, samples is that, strictly, they only deal in aggregates; that is, they suggest statements about *populations* of firms rather than about individual firms. Any particular firm in the population may or may not reflect the statistical associations found to hold across the population. Where the population is also highly heterogenous this problem is even more serious. Yet the influence of policy on *individual* firms is crucial to understanding its impact. This point becomes even more important when it is remembered that most small firm policies are adopted by only a small proportion of the firms who could, in principle, participate. Implementing most policies, as study after study has demonstrated, is a constant struggle against low take-up (Curran, 2000a).

To evaluate the impact of any policy fully it is necessary to understand how it relates to the firm, that is, the owners and their strategies and the way it operates. For example, a review of a large number of studies of small business management training found that, although most were methodologically flawed, among the few deemed adequate there was "little evidence that management training programmes clearly led directly to better performance amongst participating SMEs" (Storey and Westhead, 1997, page 1). This might suggest a good case for qualitative approaches focusing on individual firms to find out how training affects management decisionmaking and how this impacts on the operation and performance of the firm. A closer, qualitative, focus might help unravel the chain that links (or fails to link) such training to business performance.

Qualitative evaluations also differ from quantitative approaches in another fundamental way. Implicitly or otherwise, quantitative approaches generate explanations based on 'logics' closely aligned to the mathematical models upon which statistical theory is based. These reflect models of rationality familiar from the natural sciences and some of the social sciences, especially economics. But qualitative researchers argue

that the 'logics' in which human action and associated social phenomena are embedded are often not of these kinds; rather, they frequently demonstrate a highly variable, reflexive, contingent character unique to human and social phenomena. The term 'reflexive' here refers to the human ability to monitor, assess, and rethink responses and actions in relation to the external environment and, indeed to rethink what constitutes the external environment itself. Changing perceptions of what is happening 'out there' lead to changed interpretations and actions. 'Contingent' refers to the last of these processes and underlines the frequent absence of the relatively fixed 'necessary' relations found in quantitative explanations.

That the 'logics' underlying the behaviour of small business owners are often highly variable, complex, and not infrequently unstable over time, is well illustrated by the many studies of the steep learning curve experienced by owner–managers in the early years of their enterprise (Gray, 1998). However, it is also the case that there is still frequently sufficient consistency in responses to make generalisations possible. Owner–manager responses and actions are also often contrary to the findings (and good practice derived from these) of quantitative approaches (Curran et al, 1997), but this makes them no less 'true' for the purposes of qualitative approaches.

Although there are relatively few studies demonstrating qualitative evaluation approaches, one example (MacDonald and Coffield, 1991) concerned support for young people becoming self-employed workers. This offered an interpretation based on the varying 'logics' and contingent experiences of the young people supported. Another, equally revealing, example is Holliday's (1995) study of three small manufacturing firms. Her interpretations have implications for policies promoting, for example, formal quality management strategies in small firms. In neither case would conventional, quantitative, evaluation strategies have uncovered the data reported or have led to the interpretation offered. The validity of these interpretations is established not by their statistical adequacy but on revealing the actors' 'logics' and situational constraints influencing their attitudes and behaviour.

The two approaches to evaluation outlined above represent alternative ways of assessing SME policy. Given the problems of researching SMEs summarised above, both have a role. Quantitatively based evaluations have a strong appeal, particularly to policymakers, whereas qualitative evaluations are often seen as 'soft'—implying they are less valid. But, as we have shown, the two approaches do different things. For policymakers, being aware of the strengths and potentials of the two approaches widens the range of tools available to assess policies. Quantitative evaluations clearly have power where key aspects are measurable. But, where the need is to know what drives owner–managers' strategies and decisions, qualitative evaluations are indispensable. The proper evaluation of almost all policies needs both kinds of information. The main point is that employing both approaches adds to the overall power of evaluation to inform the policymaking process.

Conclusions

The establishment of the SBS offers an opportunity to review UK small business policies. The policy mix inherited is opaquely defined in terms of its aims, and the 200 or so initiatives delivering support appear to have little or no overall rationale. The justifications for intervening to promote small enterprise have been virtually taken for granted, so strong has been the consensus that such support irrefutably benefits the economy. Many of the justifications offered are expressed in 'politician speak', making them difficult to evaluate. One solution would be that, along with the usual rhetorically saturated statements designed to elicit voter support, there should always be a carefully detailed statement of the factual basis, supporting reasoning, and aims of the policy.

Although few of the 200-plus policies and initiatives inherited by the SBS are easy to evaluate, there is a strong case for reappraising them to assess their effectiveness. SME numbers have increased greatly over the last twenty years and the sector is now responsible for over half of employment and private sector turnover in the United Kingdom. The justification for any policy, in other words, may become stronger or weaker as time passes. Indeed, some observers (see, for example, Curran, 2000a) argue that the revival of the small enterprise in the UK economy over this period is now so complete, and its role in the economy so secure, that the question emerges as to whether SMEs need such wide-ranging support any longer.

A further reason why SME policies have escaped serious scrutiny is the poor communications between researchers and policymakers which, in turn, is linked to poor evaluation of policies. Poor communication between researchers and policymakers needs to be seen in the context of the political process itself. In small business policymaking, the lobbying organisations claiming to represent Britain's SMEs are single minded in seeking to influence policy. This makes them more successful than academics in getting their views across. For academics, influencing policy is desirable but secondary. Their careers are better served by reaching audiences such as those conducting Research Assessment Exercises. Research is also based on challenge and counterchallenge, so that academics as a whole rarely speak with a single voice. The results are that academics often find themselves outside the policy loop and policy is thus enacted with little or no properly researched foundation. A relatively recent example was the rapid implementation of late-payment legislation by the 1997 Labour government soon after coming to office. This appears to have reflected the views of a single small business lobby group—the Forum of Private Business—with little or no input from academic researchers. Recently, the SBS (2000, appendix B) announced a study of the impact of better payment practice campaigns and the Late Payment of Commercial Debts (Interest) Act, but this comes long after the policy was initiated.

The SBS has responsibility for funding and managing research, and policy evaluation. But it is as yet doubtful whether the SBS has a sufficiently clear strategy for research. There is a strong case for distancing the SBS from these activities. The SBS research budget might be better transferred to third parties such as Leverhulme or ESRC, who can ensure independence of the research, promote the highest standards, and ensure the fullest dissemination of its results. We urge a similar stance in relation to evaluation with perhaps the National Audit Office taking over responsibility for evaluating all main projects at least.

The issue of poor evaluation has been discussed in detail, and two approaches highlighted. The first restated the main, well-established, quantitatively based approach much favoured by policymakers. This has the robustness of a well-tested and understood research design logic and has considerable appeal to those with a strong faith in numbers. The restated version was, in effect, a package of evaluation strategies. The simplest was relatively easy to use but had only a very limited value in evaluating policy. The most sophisticated relied greatly on refined statistical techniques requiring a lot of carefully collected data but with the potential to answer some of the more intractable issues in evaluating policy.

The second evaluation approach discussed was the newer, qualitative, approach. Qualitative evaluations are less well understood because the research designs and analytical logics employed are alien to quantitative approaches. However, in practice the two are commonly combined, though with quantitative approaches usually dominant.

As is the case with quantitative approaches, qualitative evaluations use a wide range of research designs and methodological strategies. Two of the most common have been discussed: the face-to-face interview and the case study. The case study

shows the strengths of qualitative approaches more clearly. It employs a battery of data-collection strategies to undertake in-depth studies of relatively small samples of firms. What is especially distinctive about these approaches is their concentration on the individual firm rather than populations of firms as with quantitative evaluations, whose results say relatively little about individual firms.

Where qualitative approaches most differ from quantitative approaches, however, is in the analysis. Quantitative explanations reproduce the relatively simple rationality models employed in the natural sciences and some social sciences, notably economics. Qualitative researchers see this as inadequate for understanding the range of reflexive contingent 'logics' employed by people to make sense of their situations and decide actions. In other words, qualitative approaches explore phenomena which proponents argue are frequently ignored by, or inaccessible to, quantitative approaches. They stress that it is wrong to see qualitative approaches as 'lightweight' or 'soft' compared with quantitative approaches: they do different things but both can contribute significantly to small business policy evaluation.

It is in nobody's interest that the SBS repeats the mistakes of its predecessors. The TECs and BLs, for example, developed powerful infrastructures to deliver a wide range of initiatives but gradually withered as their efforts came under more and more criticism as ineffective. The SBS is, in effect, a third bite at the cherry (after the TEC and BL initiatives) to produce support for enterprise, entrepreneurship, and an enterprise economy in the United Kingdom. How it goes about its work will be crucial to avoiding a repetition of the history of support for SMEs, where the observable impact on UK economic performance has been, at best, patchy.

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