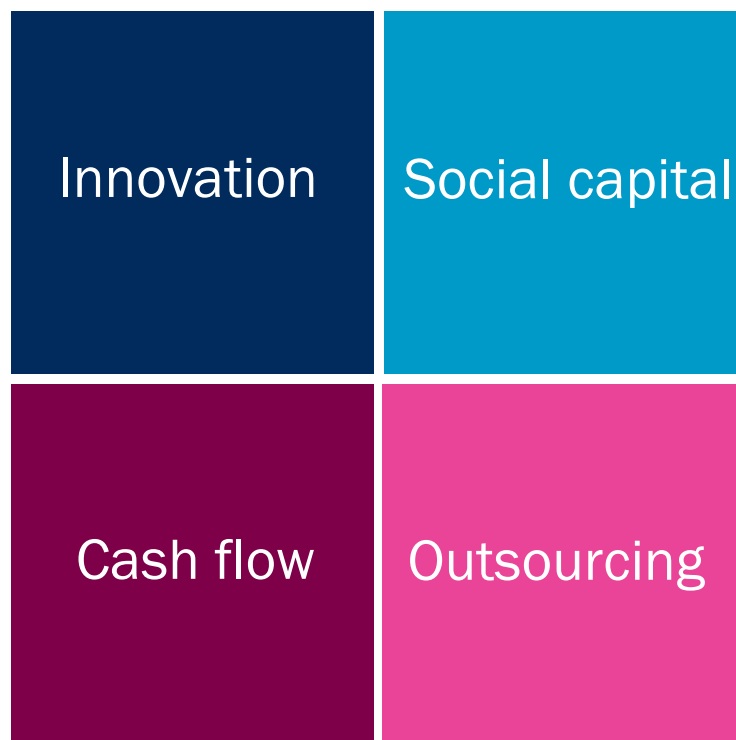




Success in challenging times: Key lessons for UK SMEs



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FOREWORD

In welcoming this report I would like to express my gratitude to David Gray, Mark Saunders and Harshita Goregaokar for their tremendous efforts in producing such an expansive and rigorous piece of academic scholarship which also provides important, practical lessons for Small and Medium Sized Enterprises (SMEs), the Government and others.

SMEs are a vital part of the British economy. A momentous 99.9% of all enterprises in the UK are SMEs. These SMEs provide 59.1% of private sector jobs and are responsible for 48.7% of private sector turnover. The performance of SMEs has a major impact on the performance of the wider economy.

In the current economic downturn, growth is most likely to come from SMEs. It is therefore encouraging that 2011/12 saw the highest level of company start-ups since the last recession with over 450,000 new businesses registered. However, new businesses have a precarious existence and many do not survive their first year; only a minority will still be trading five years later.

For this reason, the following report which looks into the challenges facing UK SMEs could scarcely have come at a more appropriate time. Understanding the factors that determine the durability of SMEs will allow the development of best practice, and this vital information can then be communicated to entrepreneurs and SME owners.

The findings and recommendations contained in this report, such as the difficulty in obtaining loans or financing and the growing utilisation of social media to build brands and innovate, are extremely useful insights into the challenges faced by SMEs. It is my hope that this report will be used to inform both policy makers and SME owners and entrepreneurs so that the productivity of all British SMEs can be improved.



Sir Michael Snyder

Senior Partner, Kingston Smith LLP

11 October 2012



Highlights and Executive Summary

There are approximately 4.5 million businesses employing less than 250 people in the UK, providing a total of 13.7 million jobs, equating to half the private sector workforce in 2011. However, while such Small and Medium Enterprises (SMEs) are of importance, it is their *durability* that can be considered of greater significance. The precarious nature of SME existence has been well documented. Only about 65% of small businesses are still trading after the first three years of initial start-up. After five years, fewer than 45% of businesses will have survived. Put simply, small firms are more likely to die than larger firms. Indeed, other than size per se, the higher likelihood of death is what distinguishes small from large firms. However, multiple failures can be experienced as the springboard for later success (provided learning takes place). Much of the research into small firms has focused on their failure. The danger of this approach is that it identifies what has gone wrong, but may fail to discover what they need to get right. The approach of the current study, then, is to focus on the triggers that lead to SME success, as a way of highlighting more effective strategy decisions for firms themselves, and to inform better policy decisions for government. A return of over 1,000 survey questionnaires completed by SME owners/directors or senior managers, 20 in depth interviews and 13 focus groups, makes this one of the largest surveys ever into the strategic management of SMEs in the UK.

Key findings

Finance

Successful SMEs are likely to use more than one source of finance to both start and sustain their business

- However, most SMEs only use one source of finance to start the business, the main source being personal/family savings with a smaller proportion using a bank loan
- SMEs with a relatively large number of employees now are significantly more likely to have funded the starting of their business using:
 - Bank loan
 - Remortgaging personal property
 - Business Angels/Venture Capital finance/Grant
 - Leasing
 - Factoring and Invoice Discounting
- SMEs with a relatively small number of employees now are significantly more likely to have funded the starting of their business using:
 - Credit card
 - Personal/family savings

- The main sources of finance used by SMEs to **fund** their businesses now are:
 - Reinvesting profit (68%)
 - Personal/family savings (39%)
 - Bank loan (29%)
- SMEs seek routes to financing that avoid banks and traditional financial institutions
- The attitude of SMEs towards banks ranges from disappointment to contempt.

Cash flow and liquidity

Successful SMEs proactively monitor their cash flow and liquidity

- Alongside cash flow, SMEs with larger numbers of employees recognise the importance of the broad range of success factors (e.g. planning, sales, marketing, managing people, having a website, using social media)
- SMEs with larger numbers of employees consider that they are significantly more effective across the range of almost all success factors than smaller SMEs.

Social capital, social media and the web

Successful SMEs consider direct referrals and search engine optimisation as central to their success

- SMEs with smaller numbers of employees place greater importance on direct referrals
- SMEs with smaller numbers of employees put greater importance on the use of social media
- 94% of SMEs consider direct referrals important to their continuing success; 67% consider search engine optimisation important.

Innovation

Successful SMEs are willing to find new ways of doing things and encourage their employees to think and behave innovatively

- SMEs are significantly more likely to be innovative than competitively aggressive, proactive in the market or risk taking
- SMEs are significantly less likely to take risks than be proactive in the market, competitively aggressive or innovative
- SMEs with larger numbers of employees are significantly more likely to be proactive in the market.

Learning Orientation

Successful SMEs believe that learning gives them competitive advantage

- Newer SMEs are more committed to learning
- SMEs with less than 5 employees are significantly more likely to have a shared vision
- SMEs with less than 5 or more than 50 employees are significantly more likely to be open-minded
- SMEs with larger numbers of employees are more likely to learn from crises.

Advice and support

Successful SMEs are more willing to seek external advice

- Most SMEs seek external advice regarding their website (including search engine optimisation)
- SMEs with larger numbers of employees are more likely to purchase external advice on managing people and developing management skills.

Outsourcing and exporting

Successful SMEs have the flexibility to adapt to changing market conditions

- Half of SMEs outsource some of their activities, including: accountancy (payroll and bookkeeping), IT and web development, HR and marketing
- Outsourcing provides SMEs with the flexibility to respond to market conditions
- SMEs with larger numbers of employees view exporting as important to their continuing success.

For Key Recommendations – see Page 38

Background

The Surrey Business School at the University of Surrey was commissioned by Kingston Smith LLP, a top 20 chartered accountancy firm, to conduct a research study into the 'triggers for SME success'. This meant identifying the crossroads or critical incidents that businesses reached, how key decisions were taken at these vital timelines in business development and what triggers stimulated innovation and growth. The target audience for the project was current small and medium-sized businesses (SMEs) with fewer than 250 employees that have demonstrated business success. These were commercial businesses; they were neither lifestyle businesses nor were they organisations located in the voluntary sector. The study, conducted between May and September 2012, comprised a national survey with responses from over 1,000 businesses, the hosting of 13 focus groups across the UK, plus detailed qualitative interviews with 20 SME businesses as case studies.

Section One of the report sets out the results from an analysis of secondary sources; that is, a review of key empirical studies on SME behaviour which helped in framing the direction of the current study. Section Two of the report then outlines the study's research methodology before presenting key findings and analysis in Section Three. The report concludes by making a summary of key recommendations (Section Four). Appendix 1 contains an analysis of the 20 qualitative case studies, and Appendix 2 comprises data tables that support the figures presented in the report.

SECTION ONE: ANALYSIS OF SECONDARY SOURCES

Introduction

A vibrant SME sector is one of the principal driving forces in the development of the market economy [1], hence it is not surprising that since the 1980s the birth and growth of new firms has been seen as a major source of economic growth. The UK Department for Business Innovation and Skills¹ estimated there were approximately 4.5 million small businesses in the UK providing 13.7 million jobs, equating to half the private sector workforce in 2011 [2]. However, while Small and Medium Enterprises (SMEs)² are of importance, it is their *durability* that can be considered of greater significance [3]. The precarious nature of SME existence has been well documented. Recent UK Office for National Statistics³ estimates indicate that fewer than 65% of SMEs are still trading three years after start-up, with fewer than 45% surviving after five years. Others, however, argue that only about 50% of small businesses are still trading after the first three years of initial start-up [4]. After five years, only 20% of businesses will have survived [5]. Put simply, small firms are more likely to die than larger firms [6]. Indeed, other than size per se, the higher likelihood of death is what distinguishes small from large firms [7].

What is SME success?

There is no universally accepted definition of SME success, which is probably one reason why it has been interpreted in many ways [8]. Indeed, no study has to date been conducted to systematically explore and validate what success really means to SME entrepreneurs [9]. Yet, establishing a valid measure of success is essential to help identify the critical success factors for SMEs. Hence, determining what SME entrepreneurs define as success became one of the aims of the study.

Many measures however, have been suggested, in terms of earnings [10], firm size and growth [11],[12] and number of employees [13]. The perception of what constitutes success may also be dependent on nationality. One study [14], for example, found that several elements of financial, lifestyle and social factors were more important in influencing business success in Australia than they were in Malaysia. However, whereas much of the literature has tended to focus on financial indicators, non-financial measures may be equally important to perceived SME success. Some commentators, for example, talk about the importance of personal involvement, responsibility, independent quality of life and lifestyle [15], while others identify personal satisfaction, independence and flexibility [16], reputation [17], and others mention customer retention and customer satisfaction [18].

¹ Business Population Estimates for the UK and Regions 2011. Available at <http://stats.bis.gov.uk/ed/bpe>

² Defined by European Union recommendation L124/36 (2003) as (1) under 250 employees; (2) annual assets under 43 million Euros; (3) business turnover under 50 million Euros

³ Business Demography 2010. Available at <http://www.ons.gov.uk/ons/rel/bus-register/business-demography/2010/stb---business-demography-2010.html>

Commentators have focused on a range of themes that might determine innovation and the success, or otherwise, of SMEs, which have included: the entrepreneur, including their traits, skills and motivation [19], [20]; the nature of the firm, for example, its size, location and legal form [19], [6]; and the strategy of the business including finance, market positioning and networking [3], [19], [21].

SME Innovation and Success: Some theoretical frameworks

The Entrepreneur

Psychologists have tended to describe entrepreneurs in terms of personality traits such as their high need to achieve [22], [23], while economists see them as risk takers and innovators [24]. Faster growing firms are also more likely to be founded by groups rather than single entrepreneurs, while middle-aged owners are more likely to found faster growing businesses than young owners. One study [13] supports this view, finding that years of schooling and work experience of the founder significantly improve the chance of business survival. Education, for example, may act as a proxy for advanced problem solving skills, commitment and determination, while industry-specific knowledge also contributes to both survival and growth [12].

i. Entrepreneurial Orientation

Entrepreneurial Orientation (EO) is the process, practice, and decision-making that leads to new entrants to the market [25] and is determined by the extent to which the entrepreneur innovates, acts proactively and takes risks [26]. Proactiveness is concerned with how a firm takes advantage of market opportunities. Others argue that aggressiveness is also a dimension, and is how a firm responds to trends and demand that already exist in the market [25]. Firms with more EO perform better than those who lack it [27].

ii. Learning Orientation

A firm's Learning Orientation (LO) rests on three factors. The first is commitment to learning and the extent to which a firm puts an emphasis on learning [28]. Secondly, it is related to open-mindedness, or the extent to which a firm proactively questions long-held assumptions and beliefs [29]. Thirdly, shared vision, or the extent to which a firm holds an organisational focus which is understood across the organisation, giving members a sense of purpose and direction [30]. According to some scholars, these three organisational values underpin two types of organisational learning: adaptive and generative learning [27], [28]. Adaptive learning entails sequential and incremental learning within the scope of traditional organisational activities. But for the firm to seize unconventional business opportunities, it has to be willing to question established assumptions about its mission, customers, capabilities or strategy – in other words it has to engage with higher order or generative learning. Both EO and LO have a positive impact on performance.

iii. Entrepreneurial Learning

Entrepreneurial Learning (EL) is a continuous process whereby practical wisdom is derived from experience [31], including failure and critical incidents. It includes the ability to learn, not only from new venture creation, but once the new business is established [32]. Although often stressful and even traumatic, such critical events can also be transformational [33], even if they only trigger the need for engaging support from individuals and organisations that form part of a wider network (particularly network agents such as accountants and bank managers, or social networks). As small

businesses grow, the entrepreneur must adapt as the business moves through its life cycles, a process that often triggers developmental crises at both a personal and organisational level [34]. It is important that entrepreneurs monitor the events that generate a crisis in order to learn from them [35], especially coming to understand the complex, interactive and mutual relationship between the individual and the organisation. Critical incidents may not only generate processes for learning and growing self-awareness, they may be seminal within the process of change [34].

However, whether critical incidents generate learning largely depends on whether the entrepreneur is able to engage in both 'single' and 'double-loop' learning [36] and reflection [37]. A study of 27 UK firms, found that the ability to 'stand back' from the business and reflect on the learning that had taken place was vital [38]. Such learning was nurtured both by formal programmes (for example, management courses) and informally through mentoring. Effective instruments aimed at entrepreneurs must not impose prescribed solutions, but should help them to learn [38].

The nature of the firm

Studies that identify the nature of the firm as central to success tend to focus on features such as the age of the business, the sector of markets it operates in, its size and legal form.

i. Age

Failure rates fall with the age of the firm because older firms have had time to form a more accurate view about their attributes, especially efficiency levels and cost structure [5]. Follower businesses (where the founder enters an existing business) have a better survival rate than newcomer businesses [13], largely because they are able to 'piggyback' on previously established connections to customers or from internal routines that have proved useful. Starting a business without experience in the industry sharply increases business mortality rates. Research also shows that younger firms tend to grow more rapidly, but that there are sector differences [19] (see Sector/markets). The slowdown in growth in older SMEs may be due to a slackening in entrepreneurial motivation, mentioned above, once the business owner has achieved a satisfactory level of income, or it may have moved beyond its minimum efficiency level, or diseconomies may have emerged with the need to employ and manage others.

ii. Sector/markets

There is strong evidence for differences between sectors in terms of SME growth rates [13]. Research also suggests that a highly innovative environment exerts a contrasting effect on the performance of new entrants [39]. Those new firms that are able to adjust and offer a viable product experience higher rates of growth and are more likely to survive. But conversely, new firms that are not able to adjust and produce a viable product are confronted by a lower likelihood of survival in highly innovative environments. Firms, then, need to learn about their competitive environment and make strategic changes that may be required.

iii. Size

A UK-based study found evidence of a positive relationship between plant size and firm survival but, in contrast, a negative relationship for micro-businesses (firms with fewer than 10 employees) [40]. This may be because larger SMEs are more likely to reach output that is close to the minimum efficiency levels needed to survive. Size, however, becomes less important over time provided that businesses can grow fast [5].

iv. Legal form

Legal structures also have an influence on growth with limited companies enjoying faster growth than either sole traders or partnerships – although the direction of this relationship is unclear [19]. In the UK, the growth group size seems to be between two and twenty employees.

Business strategy

i. Finance

While many UK SMEs raise money through family or other networks, approximately 50% were found to borrow from traditional suppliers of credit through current accounts. The impact of a recession, however, is to create a ‘credit crunch’, which is triggered by a reduction in turnover and cash flow. This is exacerbated by businesses slowing down their payments resulting in a reduced risk status for the businesses [2]. In this area, SMEs with tangible assets (such as manufacturing) fare better than those without (services). No wonder it is acknowledged that SMEs need to keep a tight rein on cash flow and maintain an open dialogue with their banks [2].

Failure rates are significantly higher for businesses starting with low levels of capital [13]. Conversely, high initial levels of capitalisation may influence performance through providing flexibility in ‘buying time’, changing course and undertaking more ambitious strategies [12]. Growing firms tend to have owners who share equity with external individuals or organisations (rather than relying on short-term debt financing which tends to constrain business growth) [19]. However, the direction of causation may be complex, in that, external owners may be more attracted to businesses that they identify as having the potential for high growth.

ii. Market Orientation

Market Orientation (MO) (the ability to respond to negative customer satisfaction information, immediate responses to competitive challenges and fast detection of changes in customer preferences) is seen to have a strong positive relationship with business performance [41]. MO may influence performance by stimulating forward planning and focus on implementation, but works most effectively when it fits with the firm’s structure, particularly the introduction of formal control systems and an innovation/differentiation strategy [41]. High growth firms choose to occupy particular segments or niches in the market, although this is a complex concept [19]. The introduction of new products or services is usually vital here.

iii. Management practices

Management ‘know how’ (embodied in the entrepreneur or through partners or advisers) may help the business to adopt better strategies or management methods, and is commonly acquired by substantial investment of time in observing, studying and making business decisions [12]. It includes the willingness of the owner to delegate decisions to non-owning managers [19]. However, it is less clear whether these managers should come from external or internal sources or what functional specialisms they should bring. A UK-based study, however, found that management know how had only a limited impact on survival or growth [12].

iv. Networks and social capital

Social capital can be defined as the goodwill available to individuals and groups [42] and operates where friends, colleagues or general contacts receive opportunities to use their financial and human capital [43]. Whereas human capital is a quality of individuals, social capital is a quality created between people. It is potentially of growing significance for SMEs, given the exponential growth of social networking (and use of social media) amongst both individuals and businesses. Two benefits that are relevant to entrepreneurs flow from social capital: information and influence [44]. Individuals can also gain influence in networks by accumulating obligations that they can cash in at a future time. While many scholars have seen social capital as a uni-dimensional construct, others [45] see it as multi-dimensional, comprising three dimensions:

Structural dimension: This is the overall pattern of connections between actors, where networks provide access to resources and reduce the amount of time and investment required to gather information. Networks often provide an efficient information-screening and distribution process for members [43] but this will depend on their configuration. It is relationships between networks that provide brokerage opportunities, taking advantage of structural holes [43]. Cohesive contacts (people similar to each other) are likely to share similar information, much of which is therefore redundant (the 'echo-chamber' syndrome). But where two groups have dissimilar information, an entrepreneurial manager can span the structural hole by monitoring information, identifying problems and offering tailored solutions. Sparse networks, with few redundant contacts, provide more information benefits because they tend to be more diverse [43]. However, information transfer only works effectively where the meaning of the information is unproblematic. Positioning within networks is also vital because it confers differential access to actors and therefore information. For example, an individual who holds the only connection between two clusters is able to act as an information broker between them [43].

Relational dimension: This refers to the quality of relationships that develop within a network, and is characterised by the quality (strong versus weak) of ties between participants. Strong ties are a reflection of the amount of time, emotional intensity, intimacy and reciprocal services between people. They are typically associated with high levels of trust and the flow of fine-grained information [45]. Being embedded in a network can give rise to a form of trust known as relational trust [45], which develops over time and is based on continual reciprocity – 'I will do this for you now, but you will do something for me later'.

Cognitive dimension: This is the shared interpretations and systems of meaning among parties, that enables individuals to make sense of information and classify it into perceptual categories, allowing individuals to share each other's thinking processes [44]. Shared cognition arises from the existence of shared language and vocabulary and the sharing of collective narratives, and the transfer of tacit knowledge [45]. A benefit of social cognition is that it may give entrepreneurs a greater illusion of control, where individuals convince themselves that they can control and predict outcomes, including the success of the business [46]. This means they are more likely to be entrepreneurially proactive.

SECTION TWO: RESEARCH METHODOLOGY

Introduction

Section One, through a comprehensive analysis of previous empirical studies, provided a context for the current research. The report now describes the research design for the study, including instrument design, sampling design and approaches to data gathering. It also specifies the approaches to analysis of both quantitative and qualitative data. The research design comprised a mixed methods approach, using both quantitative and qualitative methods across three phases: (i) instrument design, (ii) data gathering and (iii) data validation (see Figure 1).

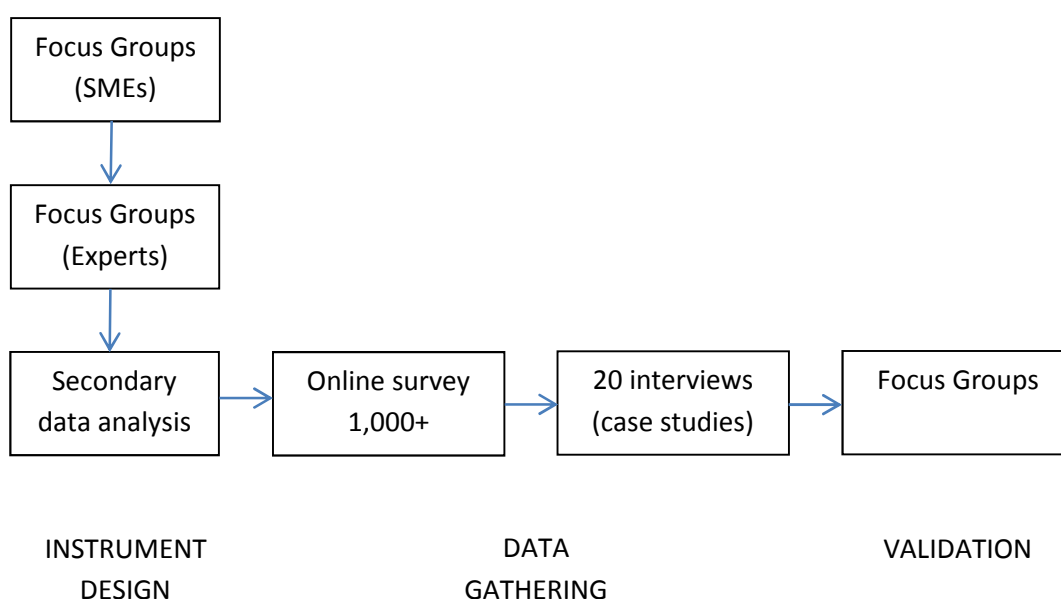


Figure 1 Overview of research design

Instrument design

Given the exploratory nature of this study, it was necessary to identify key themes, prior to building an online survey instrument. Hence, six focus groups, in which successful businesses were selected to provide maximum variation across the commercial sector and geographically, were held to establish a draft set of crossroads themes. These themes were then enriched, broadened and deepened through the running of a further focus group with a purposive critical case sample of subject matter experts.

In the 12 hours of focus group interviews, a wide range of views were expressed, showing that entrepreneurial attitudes and behaviour is contextual, dynamic and fluid. Nevertheless, a high degree of data saturation was reached, and helped in the generation of core propositions:

Propositions:

- 1:** SMEs seek routes to financing that avoid banks and traditional financial institutions
- 2a:** Tracking cash flow and liquidity is one of the triggers for SME success
- 2b:** SMEs need to understand and be able to implement a strategy of contracting as well as expanding to succeed
- 3a:** Successful SMEs generate social capital by being connected to their communities of customers, associates and other stakeholders
- 3b:** Successful SMEs engage proactively with the web and in particular social media to gain competitive advantage
- 4:** Entrepreneurial Orientation is a key factor in SME success
- 5:** Learning Orientation is a key factor in SME success
- 6:** Purchasing external consultancy and advice is a key to SME success
- 7:** Outsourcing and exporting are key to the success and future plans of SMEs.

These propositions derived from the focus groups were, in conjunction with the literature review, used to inform the subject matter of the online questionnaire. The questionnaire contained questions relating to the subject matter of the study as well as questions to collect background data regarding the SMEs. Questions relating to the subject matter (crucial questions) comprised 77 statements requesting respondents to indicate their opinions by selecting the most appropriate answer, three factual questions where respondents selected the answers, as well as one open question where respondents were requested to type their answers. Questions collecting background data (demographic questions) comprised 13 factual questions where respondents selected the answer. Respondents were asked a final catch-all open question.

Sampling design

The online questionnaire was delivered predominantly via a link in an email from the researchers to private sector SMEs (i.e. with less than 250 employees), some 4% of respondents completing the questionnaire as a telephone interview. Given the acknowledged difficulty of accessing such SMEs, a series of databases offering coverage of the UK were combined to ensure a large number of returns from the questionnaires delivered. These comprised:

- SMEs throughout the UK drawn from a commercial database (36%)
- Members of selected Chambers of Commerce in the South East, Midlands and North of England and other employer groups such as the Institute of Directors (36%)
- Directories of small businesses (23%)
- Existing SME contacts (5%).

Overall some 1,664 questionnaires were returned of which 1,600 contained responses that met the private sector and size criteria. Of the 1,600 questionnaires, 1,004 had 80% or more of the questions answered, this number rising to 1,023 when only crucial questions are considered. These are considered 'complete' returns.

Demographic data from the returned data were compared with the UK Department of Business Innovation and Skills (2011) data on private sector SMEs (see Tables 1 and 2). SMEs from certain UK regions, in particular the South East excluding London, are significantly over-represented. Where

these and other regional differences impact significantly upon subsequent findings, these are discussed. The proportions of SMEs in certain sectors, notably Professional, Scientific and Technical activities, Information and Communication and Other Service activities are over-represented. The proportion of SMEs in certain sectors, notably Construction and Agriculture, Forestry and Fishing are under-represented. Analysis does not consider such sector differences, except where it is considered likely to make a major impact.

Table 1: Location of business

Planning region	Survey N %	UK N %*
North East	2.4%	2.6%
North West	6.6%	10.0%
Yorkshire and the Humber	4.8%	7.3%
East Midlands	4.8%	6.8%
West Midlands	5.8%	7.3%
East of England	4.0%	10.4%
South East (excluding London)	42.9%	16.4%
London	12.7%	16.5%
South West	6.5%	9.4%
Wales	1.9%	4.2%
Scotland	3.9%	6.4%
Northern Ireland	3.6%	2.7%
Total (=100%)	1,181	4,536,445

Survey total refers only to respondents answering the actual question

* Source: Department of Business Innovations and Skills (2011) <http://stats.bis.gov.uk/ed/bpe>.

Table 2: Industry

Standard Industrial Classification	Survey N %	UK* N %
Agriculture, Forestry and Fishing	.6%	3.2%
Mining and Quarrying, Electricity, Gas, Steam and Air Conditioning Supply, Water Supply, Sewerage, Waste Management and Remediation	2.0%	.6%
Manufacturing	10.0%	4.9%
Construction	5.0%	20.6%
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles	6.5%	9.0%
Transportation and Storage	2.5%	5.9%
Accommodation and Food Service Activities	1.4%	1.5%
Information and Communication	11.8%	6.2%
Financial and Insurance Activities	6.7%	1.9%
Real Estate Activities	2.7%	1.8%
Professional, Scientific and Technical Activities	22.2%	13.7%
Administrative and Support Service Activities	5.1%	7.6%
Human Health and Social Work Activities	3.7%	7.2%
Education	4.2%	5.6%
Arts, Entertainment and Recreation	3.4%	4.7%
Other Service Activities	11.1%	5.7%
(Other, please say)	1.1%	
Total (=100%)	967	4,536,445

Survey total refers only to respondents answering the actual question

* Source: Department of Business Innovations and Skills (2011) <http://stats.bis.gov.uk/ed/bpe>.

Data gathering

Building on the exploratory focus groups, and the analysis of secondary sources, a large scale quantitative online survey was designed, to establish a robust and reliable understanding of key proposition themes. Before launch, the survey was piloted amongst a small, representative sample of successful businesses and minor amendments made. The online survey was followed by a series of qualitative, in-depth, detailed and illuminating interviews with a purposive, heterogeneous sample of 20 successful businesses designed to 'drill down' into the key themes developing deeper understanding and allowing triangulation of the quantitative findings. These businesses were also to be used to provide illustrative case studies which enlighten the key trigger themes.

Data validation

Following this, a further series of six focus groups and triangulation events were held to validate and expand on the findings. At these meetings participants were asked to review and evaluate the data and to comment and provide critical feedback on the key recommendations for SMEs and policy makers.

Approaches to data analysis

Focus groups and interviews (with the permission of participants) were recorded and transcribed for subsequent qualitative content analysis. The close mapping between these constructs and the themes identified in the literature (Section One) lend confidence to the validity of these preliminary findings. Quantitative data were collected through the online SurveyMonkey software and imported into SPSS for analysis using both descriptive and inferential statistics.

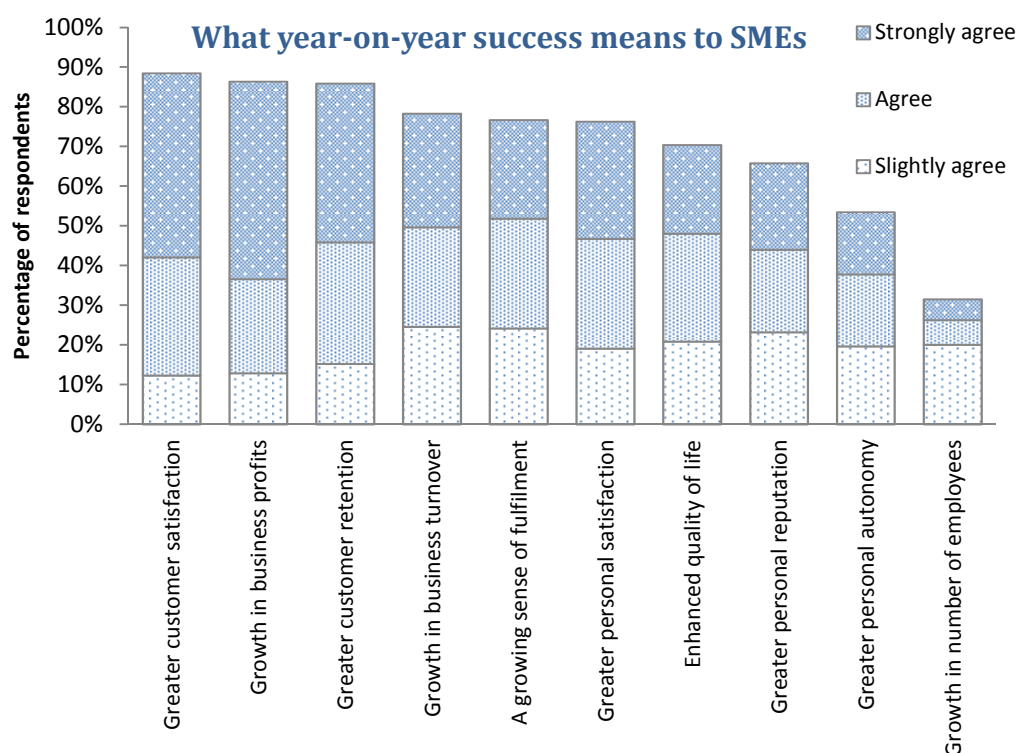
SECTION THREE: FINDINGS

Introduction

The findings presented here are integrated from data gathered through the seven preliminary focus groups, the responses to the online survey, the six post-research validation focus groups and the 20 in-depth qualitative interviews. This triangulation of data gathering methods is an approach that confers a greater degree of reliability to the findings. In this section, the findings will be presented within the framework offered by the propositions presented in Section Two, making use of all data sources. The data from which the graphs were developed are presented at Appendix 2.

What does success mean to our sample SMEs?

Before examining the actions and strategies adopted by SMEs for achieving success, we need to reflect for a moment on what they think of as ‘success’.



Source: Table A1

1. The vast majority of SMEs agree at least to some extent that year-on-year success for their business means:
 - Greater customer satisfaction (89%)
 - Growth in business profits (86%)
 - Greater customer retention (86%)
2. 32% of SMEs agree at least to some extent that year-on-year business success means growth in the number of employees.

3. SMEs with five or more employees are significantly more likely to agree that year-on-year business success means growth in the number of employees⁴.
4. SMEs with fewer than five employees are significantly more likely to agree that year-on-year business success means:
 - Greater personal reputation⁵
 - Enhanced quality of life⁶
 - Greater personal autonomy⁷
 - Greater personal satisfaction⁸
5. Such smaller SMEs include higher proportions of those involved in professional, scientific and technical activities and other service activities such as consultancy.
6. There are very few differences between SMEs in what they consider year-on-year success means, once the number of employees has been taken into account.
7. SMEs in London and in the South East are significantly more likely to agree that year-on-year business success means enhanced quality of life⁹.

Many SMEs acknowledged that they had been through a full business life cycle with its share of 'ups and downs'. Although it was good to have dreams about the business, the key to success for businesses was financial success, including maintaining cash flow. Success can mean not growing too fast, as this is a sure way of sucking cash too quickly out of the business. Success was based on repeatability of business to achieve recurring revenues and, for some, growth, maintaining cash flow and creating shareholder value. For others, however, success was also based upon non-financial measures such as a sense of fulfilment or challenge, or building a lifestyle business and work-life balance. Enhanced reputation and being seen as making a contribution to society were amongst the more altruistic goals. Whatever their idea of success, the means to achieve it were always evolving.

⁴ Chi square=38.7, df=12, p<.00

⁵ Chi square=47.2, df=12, p<.00

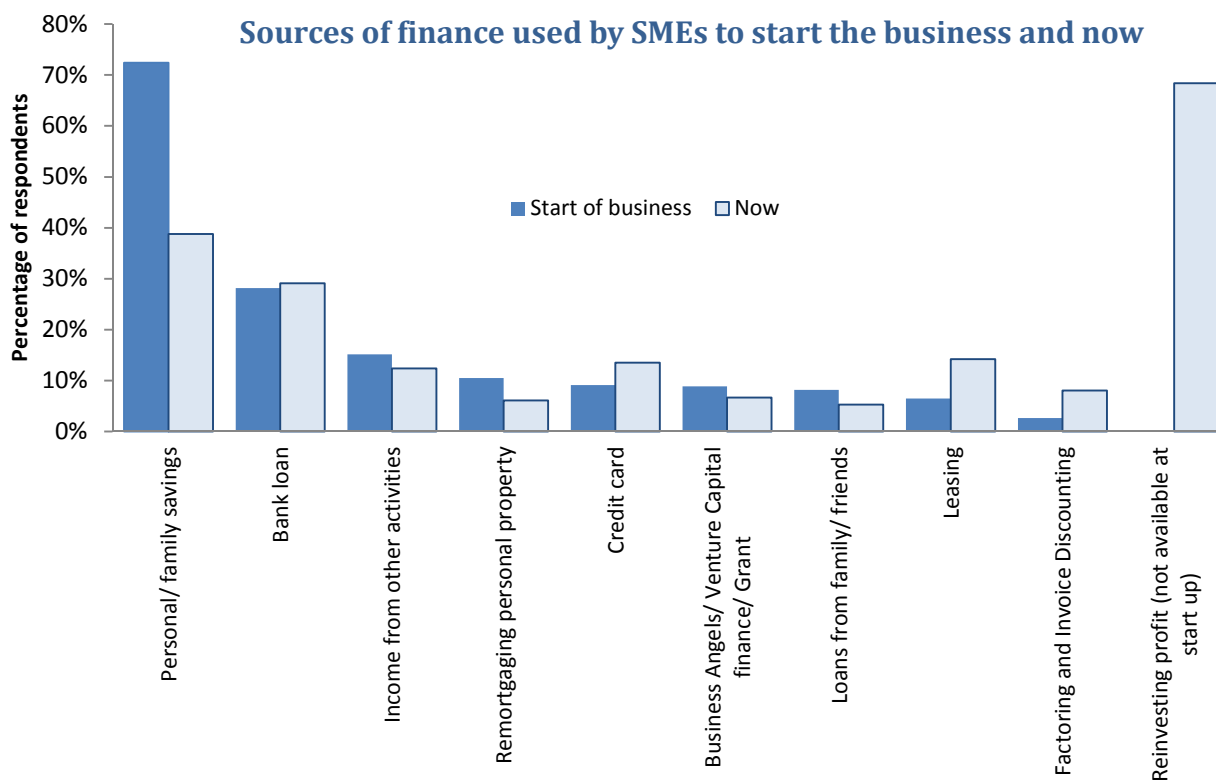
⁶ Chi square=38.9, df=12, p<.00

⁷ Chi square=35.7, df=12, p<.00

⁸ Chi square=28.4, df=12, p=.05

⁹ Chi square=29.2, df=18, p=.06, This difference remains after the number of employees has been taken into account.

Proposition 1: SMEs seek routes to financing that avoid banks and traditional financial institutions



Source: Table A12

Funding to start the business

- The main sources of finance used by SMEs to start their business were:
 - Personal/family savings (72%)
 - Bank loan (28%)
 - Income from other activities (15%)
 - Remortgaging personal property (11%)
- 42% of SMEs had used more than one source of finance to start their business
- SMEs that started trading more recently are significantly less likely to have used a bank loan to fund the starting of their business¹⁰
- SMEs who started trading more recently are significantly more likely to have used a credit card to fund the starting of their business¹¹

¹⁰ Chi square=48.1, df=2, p<.00. This is still significant once the number of employees now has been taken into account.

¹¹ Chi square=7.5, df=2, p=.03. This is still significant once the number of employees now has been taken into account.

- SMEs with a relatively large number of employees now are significantly more likely to have funded the starting of their business using:
 - Bank loan¹²
 - Remortgaging personal property¹³
 - Business Angels/Venture Capital finance/Grant¹⁴
 - Leasing¹⁵
 - Factoring and Invoice Discounting¹⁶
- SMEs with a relatively small number of employees now are significantly more likely to have funded the starting of their business using:
 - Credit card¹⁷
 - Personal/family savings¹⁸.

Current funding

- The main sources of finance used by SMEs to fund their businesses now are:
 - Reinvesting profit (68%)
 - Personal/family savings (39%)
 - Bank loan (29%)
 - Leasing (14%)
 - Credit card (14%)
 - Income from other activities (12%)
- 58% of SMEs use more than one source of finance to fund their business now
- SMEs with a relatively large number of employees are significantly more likely to fund their business now by:
 - Reinvesting profit¹⁹
 - Bank loans²⁰
 - Leasing²¹
 - Factoring and invoice discounting²²
- SMEs with a relatively small number of employees are significantly more likely to fund their business now by:
 - Personal/family savings²³
 - Credit card²⁴
 - Income from other activities²⁵

¹² Chi square=48.3, df=2, p<.00.

¹³ Chi square=8.9, df=2, p=.01.

¹⁴ Chi square=22.1, df=2, p<.00.

¹⁵ Chi square=35.8, df=2, p<.00.

¹⁶ Chi square=21.4, df=2, p<.00.

¹⁷ Chi square=9.7, df=2, p=.01.

¹⁸ Chi square=28.3, df=2, p<.00.

¹⁹ Chi square=22.2, df=2, p<.00.

²⁰ Chi square=44.6, df=2, p<.00.

²¹ Chi square=57.3, df=2, p<.00.

²² Chi square=47.3, df=2, p<.00.

²³ Chi square=107.2, df=2, p<.00.

²⁴ Chi square=16.7, df=2, p<.00.

²⁵ Chi square=12.4, df=2, p<.00.

- Remortgaging personal property²⁶
- Loans from family/friends²⁷

- Significant differences as to how SMEs fund their business relate to size (number of employees now), rather than location or when the business was started.

The attitude of SMEs towards banks ranges from disappointment to contempt (Case Study 10). Not only do banks not provide the capital required, they seem to know very little about what businesses (particularly small businesses) need. As the data shows, finance is acquired via other means, including the use of credit cards. Some businesses have turned to discounting their invoices as a means of maintaining cash flow, whereby a discount is offered in return for prompt payment. Third party equity finance is sometimes utilised and sometimes new ventures are grown organically through the reinvestment of funds from an original, successful business (Case Study 6). However, reinvested funds are often too restricted, and they suck finance away from successful core activities.

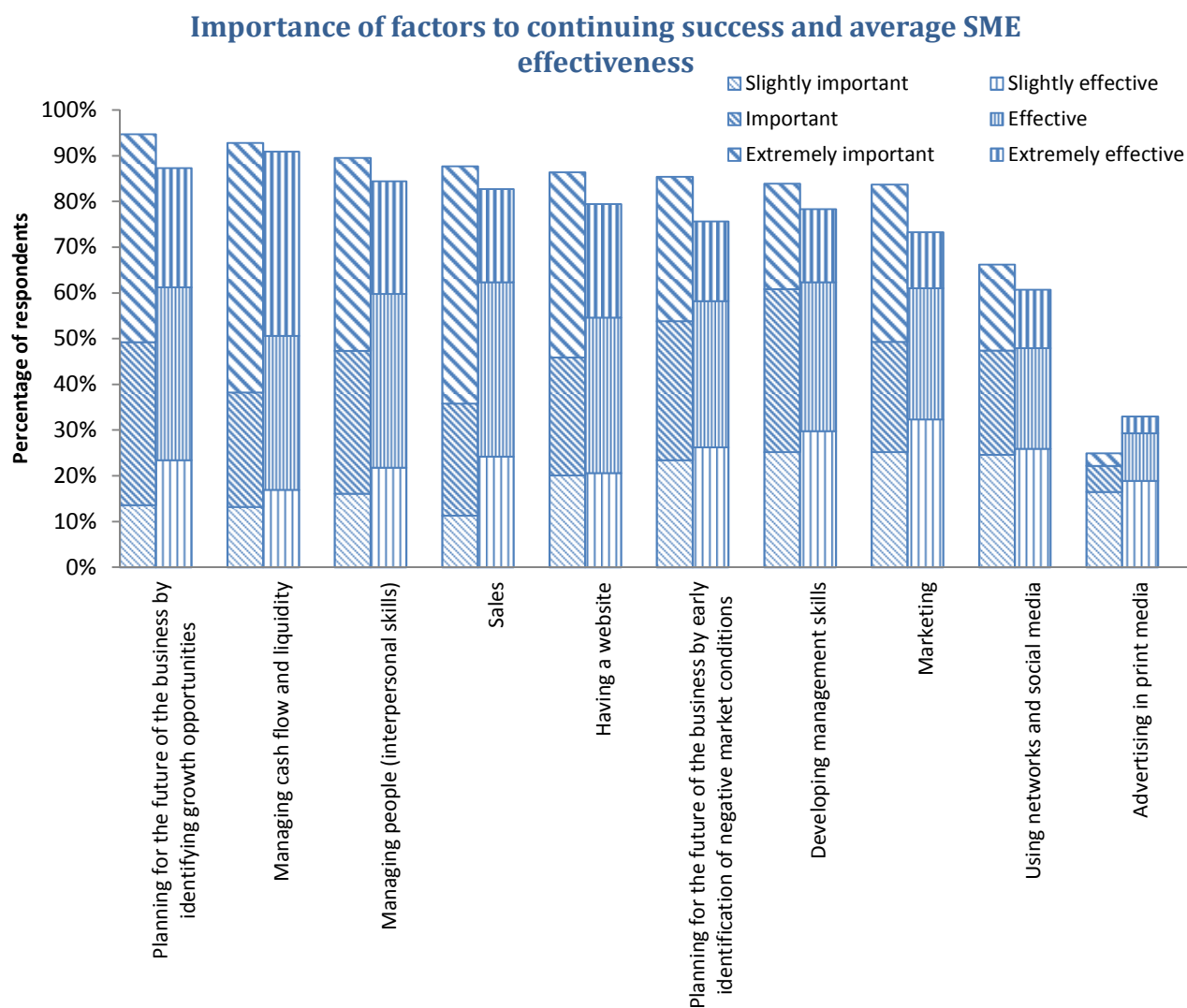
²⁶ Chi square=8.6, df=2, p=.01.

²⁷ Chi square=9.9, df=2, =.01.

Propositions

2a: Tracking cash flow and liquidity is one of the triggers for SME success

2b: SMEs need to understand and be able to implement a strategy of contracting as well as expanding to succeed



(N.B. Effectiveness percentages exclude those factors not used by the SME)

Source: Tables A2 and A3

- The vast majority of SMEs consider that factors important for their continuing success are:
 - Planning for the future of the business by identifying growth opportunities (95%)
 - Managing cash flow and liquidity (93%)
 - Managing people (interpersonal skills) (90%)
 - Sales (88%)

2. SMEs with more employees consider nearly all the factors listed are significantly more important for their continuing success than SMEs with fewer employees²⁸
3. Having a website and planning for the future of the business by identifying growth opportunities do not differ significantly in importance for continuing success across all SMEs
4. There are no significant regional differences in what SMEs consider are the most important factors for their continued success, once the number of employees has been taken into account
5. 25% of SMEs consider advertising in print media is of at least some importance for their continuing success. 32% do not advertise in print media
6. Advertising in print media is considered significantly more important for continuing success by SMEs with larger numbers of employees²⁹
7. SMEs consider they are most effective at:
 - Managing cash flow and liquidity (92%)
 - Planning for the future of the business by identifying growth opportunities (87%)
 - Managing people (interpersonal skills) (84%)
 - Sales (83%)
 - Having a website (79%)
8. SMEs with more employees consider that for nearly all the factors listed they are significantly more effective than SMEs with fewer employees³⁰
9. 66% of SMEs consider using networks and social media is of at least some importance for their continuing success. 11% do not use networks and social media
10. Using networks and social media is considered significantly more important for continuing success by SMEs with fewer employees³¹
11. 61% of SMEs, who use networks and social media, consider they are effective at doing so
12. SMEs with fewer employees consider they are significantly more effective at using networks and social media than SMEs with more employees³²
13. There are very few differences between SMEs regarding how effective they consider themselves once the number of employees has been taken into account.

²⁸ The only factors which do not differ significantly in importance are: planning for the future of the business by identifying growth opportunities; having a website. Using networks and social media is considered significantly more important by SMEs with fewer employees.

²⁹ Chi square=27.9, df=12, p=.01

³⁰ The only factors which do not differ significantly with regard to SME effectiveness are: planning for the future of the business by identifying growth opportunities; planning for the future of the business by early identification of negative market conditions; having a website. SME effectiveness in using networks and social media is considered significantly higher by those with fewer employees.

³¹ Chi square=39.3, df=12, p<.00

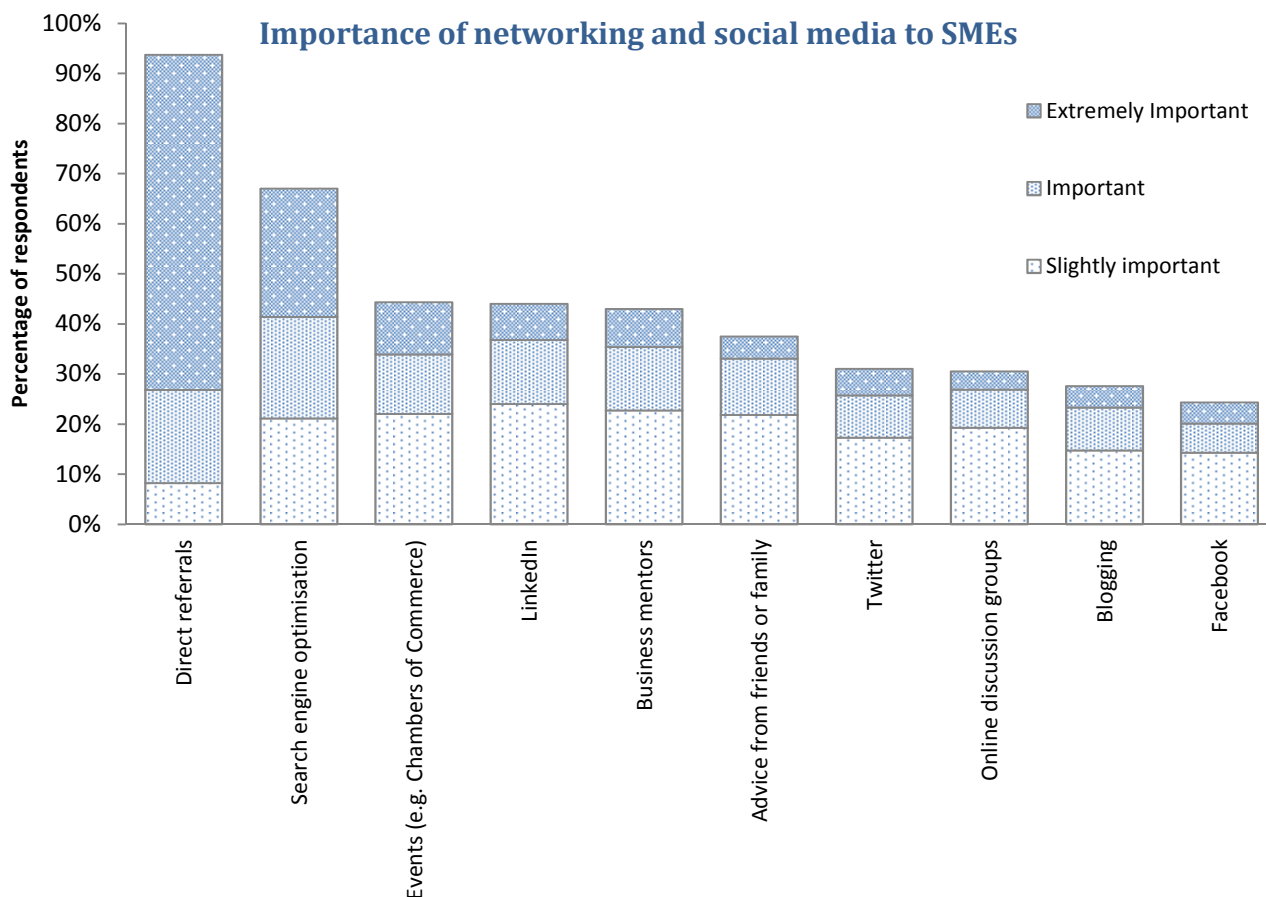
³² Chi square=25.6, df=12, p=.01

The key focus of SME finance is cash flow, in particular the need to learn about it. Monitor it and ignore it at your peril (Case Study 8). Conversely, too much money is considered just as harmful, because SMEs are going to spend (and not always wisely) whatever they have got. Keeping a close eye on liquidity can mean using new technology to track liquidity on a regular basis. SMEs felt they needed to keep a close eye on their pipeline of orders, otherwise as one focus group participant commented *“you just feel like somebody’s turned the engine off in the plane”*. They emphasised the need to look at people costs and look at unit costs and rein them in if necessary, otherwise *“the plane doesn’t come to a nice, gradual descent – it crashes through the atmosphere quicker.”* For businesses seeking growth, securing one large contract can put them into a new league of *“big hitters”*. It can transform the way the market perceives their business. However, they must also be able to contract when market conditions require it (Case Studies 1 and 12). This means being able to identify strains on financial liquidity at an early stage and take steps (for example, moving to smaller premises, laying off staff - especially contractors) in a timely fashion.

Propositions

3a: Successful SMEs generate social capital by being connected to their communities of customers, associates and other stakeholders

3b: Successful SMEs engage proactively with the web and in particular social media to gain competitive advantage



Source: Table A6

1. 94% of SMEs consider direct referrals are of at least some importance to their continuing success, 67% considering them extremely important
2. Direct referrals are considered significantly more important to their continuing success by SMEs with fewer employees³³
3. 67% of SMEs consider search engine optimisation of at least some importance to their continuing success, 26% considering it extremely important³⁴

³³ Chi square=37.4, df=12, p<.00.

³⁴ This figure may be artificially inflated as the questionnaire was conducted online for all but 53 respondents, who answered by telephone. However, analysis revealed no significant difference between online and telephone respondents (Chi square=9.9, df=6, p=.13)

4. 44% of SMEs consider events (e.g. Chambers of Commerce) are of at least some importance to their continuing success, 10% considering them extremely important³⁵
5. Events (e.g. Chambers of Commerce) are considered significantly more important to their continuing success by SMEs with fewer employees³⁶
6. 43% of SMEs consider business mentors are of at least some importance to their continuing success, 8% considering them extremely important
7. Business mentors are considered significantly more important to their success by SMEs that started trading more recently³⁷
8. Business mentors and advice from friends or family are considered significantly more important to their continuing success by younger, rather than older, respondents³⁸
9. Less than half of SMEs consider social media important to their continuing success, in particular:
 - LinkedIn (44%)
 - Twitter (33%)
 - Online discussion groups (30%)
 - Blogging (28%)
 - Facebook (24%)
10. Online discussion groups are considered significantly more important to the continuing success of the business for SMEs with less than 5 employees³⁹
11. LinkedIn is considered significantly more important to the continuing success of the business for SMEs with fewer employees⁴⁰
12. The importance of social media to the continuing success of their business does not differ significantly with the age of respondent other than for Twitter. Twitter is considered significantly more important by younger rather than older respondents⁴¹
13. Twitter is considered significantly more important to the continuing success of the business by SMEs who started trading more recently⁴².

³⁵ This figure is significantly higher for data collected via Chambers of Commerce, 56% of SMEs considering such events are of at least some importance and 14% considering them extremely important (Chi square=60.5, df=6, p<.00).

³⁶ Respectively: Chi square=39.5, df=12, p<.00.

³⁷ Chi square=37.5, df=12, p<.00.

³⁸ Respectively: Chi square=27.5, df=12, p=.01; Chi square=30.3, df=12, p<.00.

³⁹ Chi square=40.2, df=12, p<.00.

⁴⁰ Chi square=88.6, df=12, p<.00.

⁴¹ Chi square=29.5, df=12, p=.03.

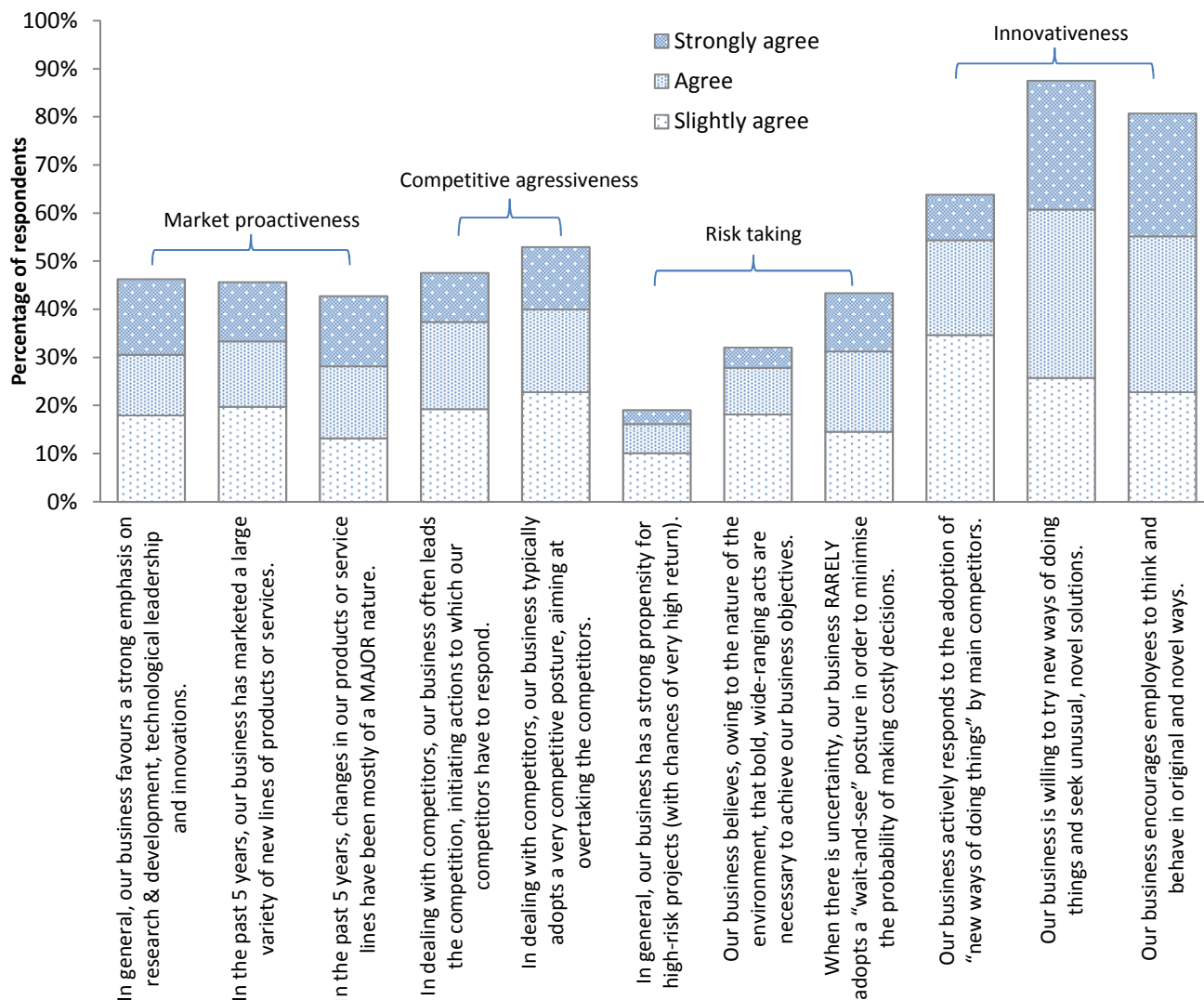
⁴² Chi square=37.3, df=12, p<.00.

There is a strong engagement with web technology (some of it linked to social media, as above). Hence participants talked about using LinkedIn to target customers. Some use Twitter as a form of viral marketing (Case Study 5). Websites are used as interactive tools to connect to customers, gauge their needs and even talk to them in real time using Live Chat. Within this, a high quality website is considered important even for interacting with local customers. For more advanced users, the web is not used as a kind of electronic billboard, passively advertising product. It is used dynamically to analyse customer profiles, levels of interest, and buying intentions, or even train their customers to use a product (Case Study 7 and 15). Websites are also used in recruitment, for example, looking at *GitHub*, a social coding environment, to evaluate the quality of a potential employee's coding. But none of the entrepreneurs regard themselves as experts. They experiment and "*feel*" their way towards virtual solutions for their business – sometimes buying in external consultancy to develop social media campaigns. The perception is that IT and social media are regarded as a "*necessary evil*", and there is no choice but to engage very proactively in this area.

Respondents see themselves as connected to a number of communities which include their customers, associates and even former employees who are now independent contractors. It is all about direct contact, talking to the right people. Sometimes this means people who are outside the business (associates) offering feedback or advice, these people having done work for the business in the past. These were regarded as a "*community of people*" who might join in with a new business proposal. Unlike in the corporate world, participants argued they "*feel a bit more loved*" and appreciated in the SME environment.

Proposition 4: Entrepreneurial Orientation is a key factor in SME success

SME agreement with statements about Entrepreneurial Orientation



Amendments to statements that were originally worded in reverse outlook are shown in capitals

Source: Table A10

Entrepreneurial Orientation relates to SMEs' market proactiveness, their competitive aggressiveness, their risk taking and their innovativeness. SMEs that are more entrepreneurially orientated score higher on these characteristics, whilst those which are less entrepreneurially orientated score lower.

1. SMEs are significantly more likely to be innovative than competitively aggressive, proactive in the market or risk taking⁴³

⁴³ A series of paired t-tests were undertaken with innovativeness to test this. All were significant at the p<.00 level.

2. SMEs are significantly less likely to take risks than be proactive in the market, competitively aggressive or innovative⁴⁴
3. SMEs with larger numbers of employees are significantly more likely to be proactive in the market⁴⁵
4. SMEs with larger numbers of employees are significantly more likely to compete aggressively⁴⁶
5. SMEs with larger numbers of employees are significantly more likely to take risks in relation to their business⁴⁷
6. SMEs' market proactiveness, competitive aggressiveness, risk taking and innovativeness do not differ with when they started trading, their location or the age of the respondent.

In terms of Entrepreneurial Orientation, participants demonstrated high levels of commitment, proactiveness and "*persistence in adversity*" (Case Studies 3 and 14). For example, failure was viewed as just part of a learning process (Case Study 15); you "*learn from experiences*". When autonomy was mentioned it was always in a positive light, none of the entrepreneurs wanting to go back to the corporate or salaried world. "*I am in control*" and "*no one's going to turn the lights out on me*". In terms of the corporate world (even though some have worked there), they often regarded themselves as unemployable. Entrepreneurial Orientation included being "*open minded*" or "*open eared*" at all times, being prepared to listen (Case Study 12). It also meant showing drive and determination and being persistent – because success always took longer than expected. The downside of this entrepreneurial spirit is that excessive focus can result in being too blinkered and arrogant. Some felt they should have had the humility to step back and admit: "*I was wrong*". The creative but reckless won't survive. SMEs are often cautious about risk because they are usually investing their own money!

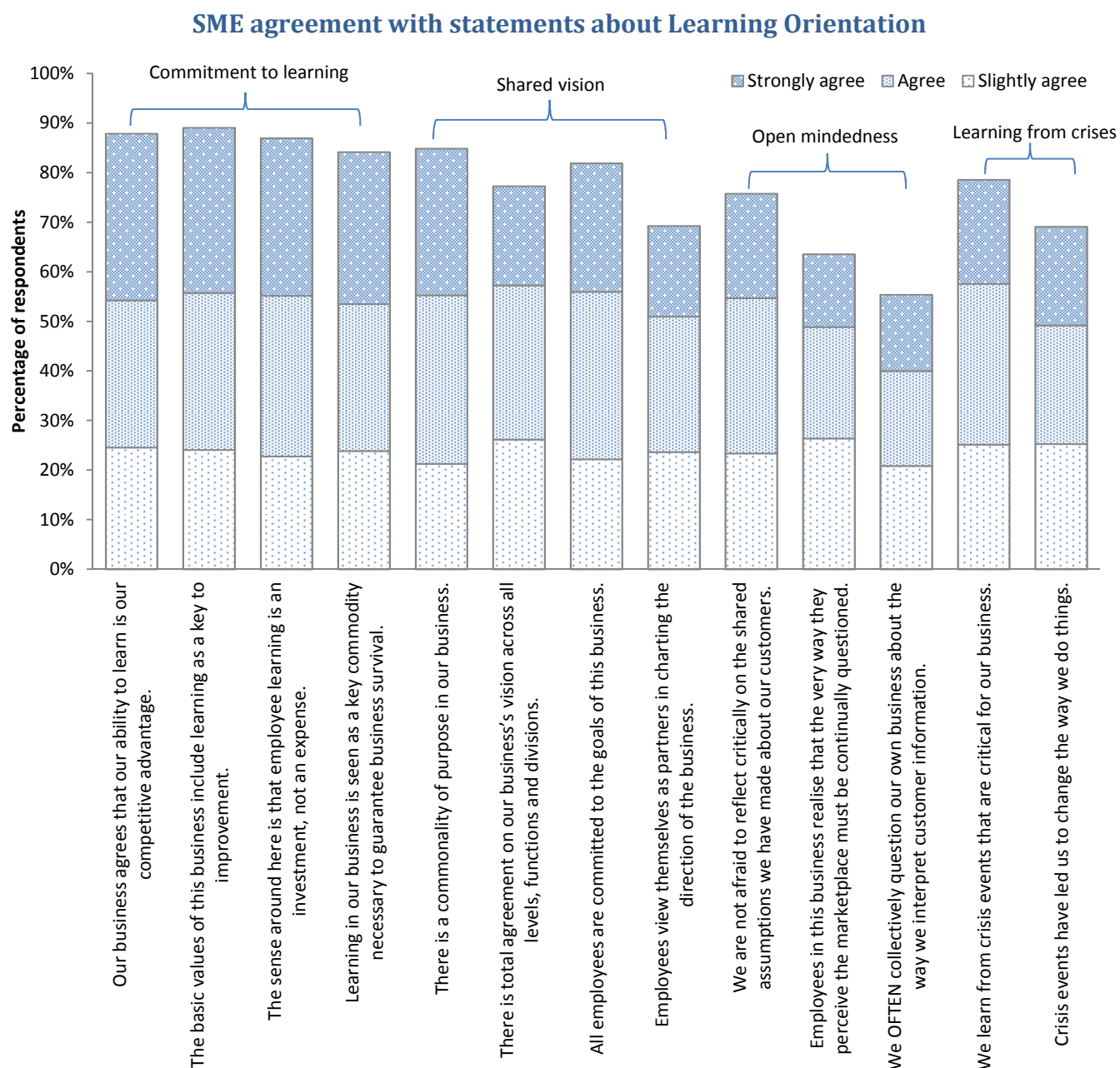
⁴⁴ A series of paired t-tests were undertaken with risk taking to test this. All were significant at the $p < .00$ level.

⁴⁵ $F = 19.3$, $df = 2,950$, $p < .00$.

⁴⁶ $F = 30.9$, $df = 2,949$, $p < .00$.

⁴⁷ $F = 4.07$, $df = 2,949$, $p = .02$.

Proposition 5: Learning Orientation is a key factor in SME success



Amendments to statements that were originally worded in reverse outlook are shown in capitals

Source: Table A11

Learning Orientation relates to SMEs' commitment to learning, their shared vision, their open mindedness and their learning from crises. SMEs that are more learning orientated score higher on these characteristics, whilst those which are less learning orientated score lower.

1. SMEs are significantly more likely to be committed to learning than to have a shared vision, be open minded or learn from crises⁴⁸
2. SMEs are significantly less likely to be open minded than learn from crises, have a shared vision or be committed to learning⁴⁹
3. SMEs that started trading more recently are significantly more likely to be committed to learning⁵⁰
4. SMEs commitment to learning does not differ significantly with the number of employees, the age of the respondent or their location
5. SMEs with less than 5 employees are significantly more likely to have a shared vision⁵¹
6. SMEs with less than 5, or 50 or more, employees are significantly more likely to be open minded⁵²
7. SMEs with larger numbers of employees are significantly more likely to learn from crisis events⁵³
8. SMEs' shared vision, open mindedness or learning from crises events do not differ with when they started trading, their location or the age of the respondent.

SMEs value learning (whether formal through accredited programmes or informal – more usually the latter) and the majority were committed to personal development in one way or another. Sometimes this was as a result of a 'critical incident' such as a temper tantrum with staff that led to the entrepreneur undertaking counselling (and subsequently developing an interest in and learning about emotional intelligence). Some engaged with formal learning programmes, such as an MBA, (Case Study 2), but this was relatively uncommon. For most, making use of informal learning opportunities, such as the use of a mentor or coach was important. Getting an external perspective from a range of groups whether it be peer groups, Managing Director groups (talking to fellow directors can be "*hugely powerful*"), breakfast seminars or casual conversations, helped in "*chewing over the business*" (Case Study 16). "*You are cocooned and isolated as an SME*". For example, if there is a dip in business, you can discuss this with competitors to find out if it's a market trend, or a blunder you have made yourself. Whilst for informal learning like this, there is never any great agenda, there is always a "*nugget*" that comes out, so the entrepreneur comes away thinking "*Yes, that's something that I can work with*". It is conversations that trigger ideas (Case Study 4).

⁴⁸ A series of paired t-tests were undertaken with commitment to learning to test this. All were significant at the p<.00 level.

⁴⁹ A series of paired t-tests were undertaken with learning from crisis to test this. All were significant at the p<.00 level.

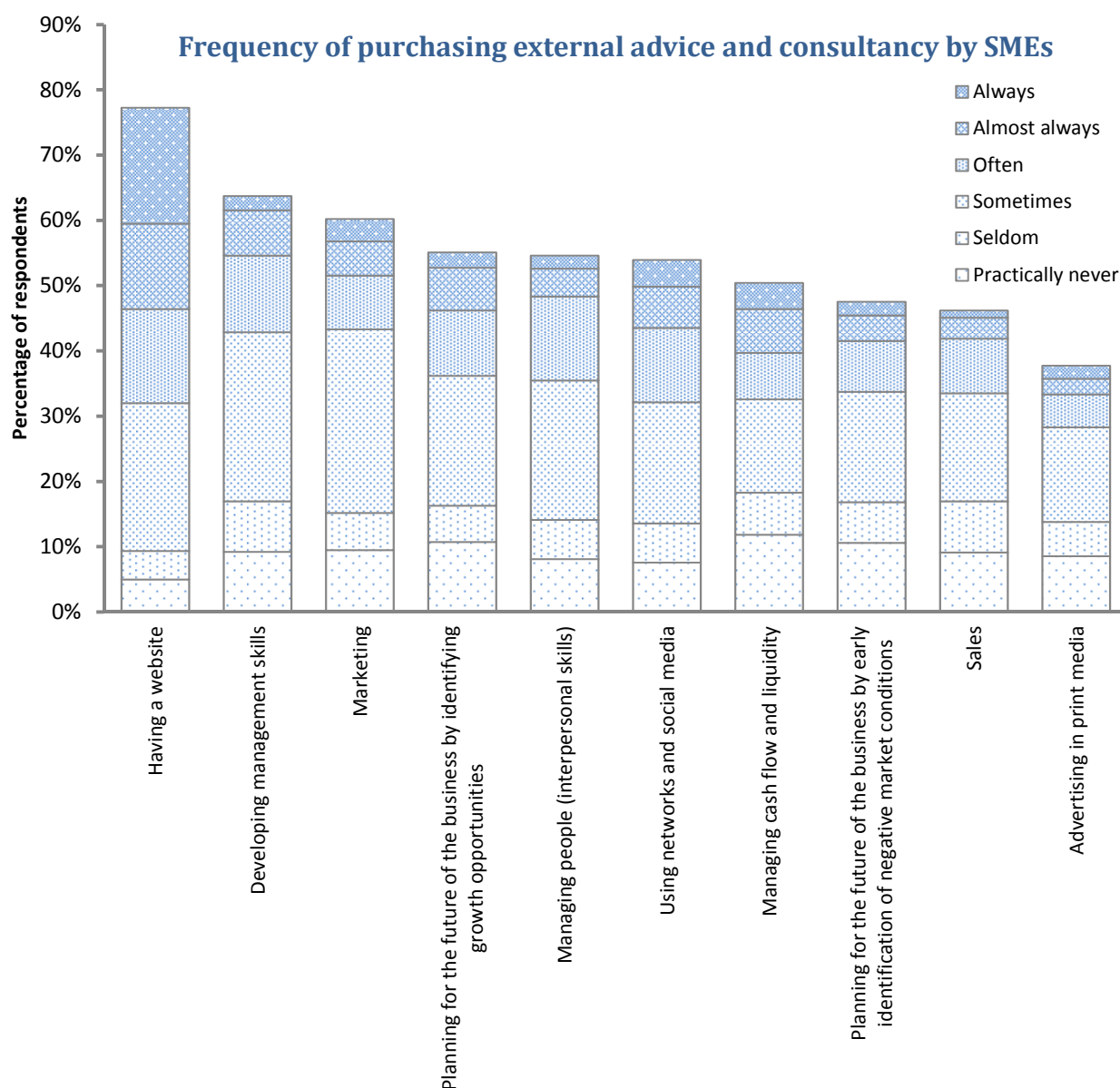
⁵⁰ F=3.1, df=2, 885, p=.05.

⁵¹ F=14.2, df=2,936, p<.00.

⁵² F=6.2, df=2, 936, p<.00.

⁵³ F=3.7, df=2,940, p=.03.

Proposition 6: Purchasing external consultancy and advice is a key to SME success



Source: Table A5

1. 77% of SMEs have purchased external advice/consultancy regarding having a website
2. 18% of SMEs always purchase external advice/consultancy regarding having a website
3. SMEs are less likely to have purchased external advice/consultancy regarding:
 - Managing cash flow and liquidity (50%)
 - Planning for the future of the business by early identification of negative marketing conditions (47%)
 - Sales (46%)
 - Advertising in print media (38%)

4. SMEs with more employees are significantly more likely to purchase external advice/consultancy at least sometimes for:
 - Managing people (interpersonal skills)⁵⁴
 - Developing management skills⁵⁵
 - Advertising in print media⁵⁶
 - Having a website⁵⁷
 - Marketing⁵⁸
 - Planning for the future growth of the business by identifying growth opportunities⁵⁹
 - Planning for the future growth of the business by early identification of negative market conditions⁶⁰
5. There are very few differences between SMEs regarding purchasing of external advice/consultancy once the number of employees has been taken into account
6. SMEs that started trading within the last 5 years are significantly more likely to have purchased external advice/consultancy regarding managing cash flow and liquidity than other SMEs⁶¹.

Many SMEs purchase external advice, but tend to be highly selective as to what kind of advice they need, focusing primarily on the services of accountants, HR specialists, and IT consultants. The problem is that SMEs are outward (customer) facing, whereas external advice is usually sought to solve back office issues which SMEs regard as necessary but less rewarding. Both the issues themselves, and the external professional advice on offer, are usually fragmented. Apart from finance and cash flow, the other key area where SMEs need advice is on website design and particularly search engine optimisation (SEO) (Case Study 6). However, few companies believe that the SEO advice they receive is effective - SEO consultants are giving different answers to the same question (Case Study 7). Rather than pay for advice, some SMEs are turning to social media, live networks or informal management learning groups (Case Study 4) where they can discuss business problems with experienced fellow business owners.

⁵⁴ Chi square=122.6, df=12, p<.00

⁵⁵ Chi square=109.2, df=12, p<.00

⁵⁶ Chi square=43.8, df=12, p<.00

⁵⁷ Chi square=35.7, df=12, p<.00

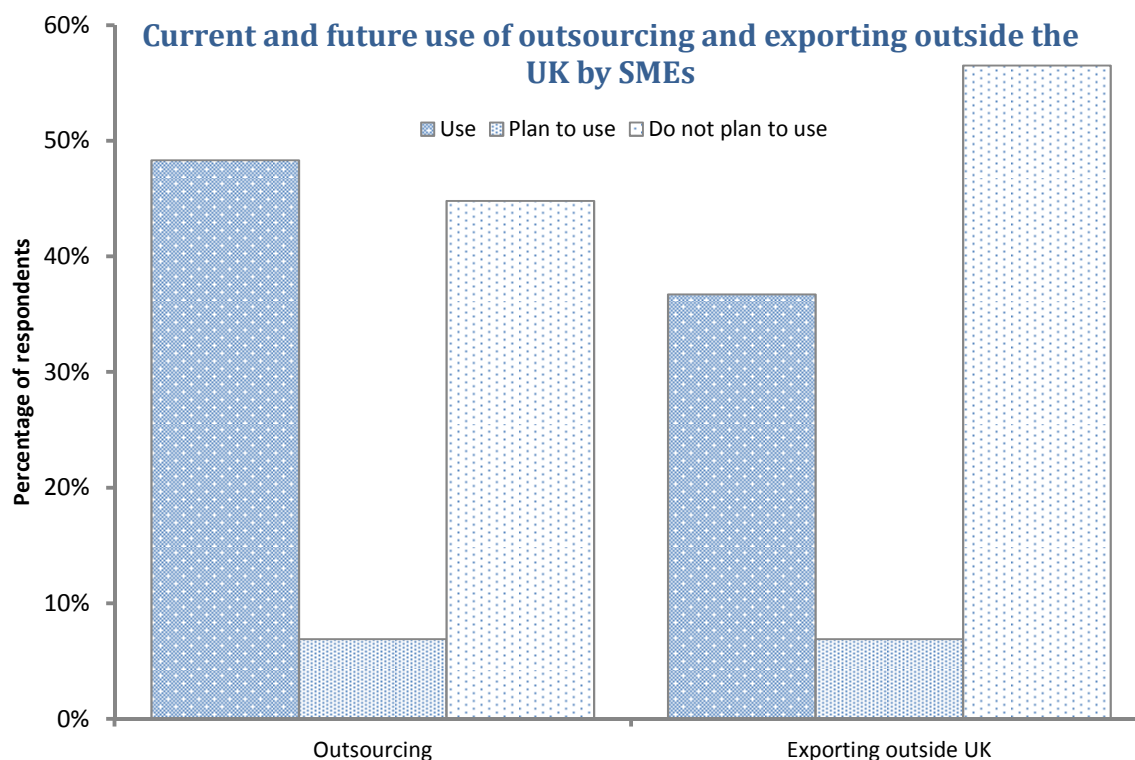
⁵⁸ Chi square=34.0, df=12, p<.00

⁵⁹ Chi square=31.7, df=12, p<.00

⁶⁰ Chi square=24.4, df=12, p=.02

⁶¹ Chi square=23.0, df=12, p=.3. This difference remains after the number of employees has been taken into account.

Proposition 7: Outsourcing and exporting are key to the success and future plans of SMEs



Source: Table A7

Outsourcing

1. 48% of SMEs currently outsource at least some of their activities and a further 7% are planning to do so in the future
2. 38% of SMEs consider outsourcing of activities is of at least some importance to the continuing success of their business
3. Of those SMEs who currently outsource at least some of their activities, 65% consider it is of at least some importance to the continuing success of their business
4. The most frequently outsourced activities are: accountancy including payroll and book-keeping, IT development, web development, human resources and marketing.

Exporting

1. 37% of SMEs currently export outside the UK and a further 7% are planning to do so in the future
2. 29% of SMEs consider exporting outside the UK is of at least some importance to the continuing success of their business
3. Of those SMEs who currently export outside the UK, 69% consider it is of at least some importance to the continuing success of their business
4. Those SMEs who currently export outside the UK export a wide variety of products and services throughout the world
5. Exporting outside the UK is significantly more important to the continuing success of the business for SMEs with larger numbers of employees⁶².

Outsourcing is becoming increasingly important for SMEs as they strive to keep control of cash flow and as they attempt, in the light of this, to keep head count down. Typical areas include accountancy, human resources and payroll (often to agencies who are themselves SMEs), IT (particularly web design and search engine optimisation) and some legal advice. But one of the dangers of this strategy is employing people who don't necessarily identify with the business. Hence, it is essential to outsource to people who have the same ethic and work approach and appreciation of the brand that you are trying to build (Case Study 5). Outsourcing can be seen as engaging the services of the self-employed – itself a sign of a more entrepreneurial, flexible society.

Moves into exporting sometimes develop iteratively, but at other times may result from a complete change in strategic direction. For example, experiencing a collapse in demand due to aggressive competition from overseas entrants to the UK market, a company launched their product into European and U.S. markets, and is now exporting to 52 countries (Case Study 3). Exporting might be one element of a company's move towards greater diversification (Case Study 8).

⁶² Chi square=33.4, df=12, p<.00.

SECTION FOUR: SUMMARY OF FINDINGS & KEY RECOMMENDATIONS

So what are the ‘triggers’ for SME success? Were there any moments, critical incidents or turning points where an entrepreneur made a decision or took an opportunity that was decisive? Participants sought to look at this in a different way. Rather than triggers, they talked about being ‘open minded’, being attuned to possibilities. Sometimes innovative ideas come from casual conversations that can lead to the total redesign of a product. One of the keys here was having conversations – with associates, across different social networks and with peers, at conferences and director networks or with coaches or mentors. Entrepreneurial Orientation also emerged clearly from the data – focus, determination, the ability and confidence to take (calculated and not excessive) risks. But this was modified by the realisation that retrenchment was also a vital strategy. Firms need the ability to both grow but also rein in the business when times (and especially cash flow) get difficult. Learning occurs at two levels. Learning Orientation is about how learning flows within and across the business – it is about having a shared vision and being able to question direction and assumptions. Entrepreneurial learning is about individual learning both from personal engagement with programmes but more often conversations within social networks.

Key findings

Finance

Successful SMEs are likely to use more than one source of finance to both start and sustain their business

- Most SMEs only use one source of finance to start the business, the main source being personal/family savings with a smaller proportion using a bank loan
- SMEs with a relatively large number of employees now are significantly more likely to have funded the starting of their business using:
 - Bank loan⁶³
 - Remortgaging personal property⁶⁴
 - Business Angels/Venture Capital finance/Grant⁶⁵
 - Leasing⁶⁶
 - Factoring and Invoice Discounting⁶⁷

⁶³ Chi square=48.3, df=2, p<.00.

⁶⁴ Chi square=8.9, df=2, p=.01.

⁶⁵ Chi square=22.1, df=2, p<.00.

⁶⁶ Chi square=35.8, df=2, p<.00.

⁶⁷ Chi square=21.4, df=2, p<.00.

- SMEs with a relatively small number of employees now are significantly more likely to have funded the starting of their business using:
 - Credit card⁶⁸
 - Personal/family savings⁶⁹
- The main sources of finance used by SMEs to fund their businesses now are:
 - Reinvesting profit (68%)
 - Personal/family savings (39%)
 - Bank loan (29%)
- SMEs seek routes to financing that avoid banks and traditional financial institutions
- The attitude of SMEs towards banks ranges from disappointment to contempt.

Cash flow and liquidity

Successful SMEs proactively monitor their cash flow and liquidity

- Alongside cash flow, SMEs with larger numbers of employees recognise the importance of the broad range of success factors (e.g. planning, sales, marketing, managing people, having a website, using social media)
- SMEs with larger numbers of employees consider that for nearly all success factors they are significantly more effective than smaller SMEs.

Social capital, social media and the web

Successful SMEs consider direct referrals and search engine optimisation as central to their success

- SMEs with smaller numbers of employees place greater importance on direct referrals
- SMEs with smaller numbers of employees put greater importance on the use of social media
- 94% of SMEs consider direct referrals important to their continuing success; 67% consider search engine optimisation important.

Innovation

Successful SMEs are willing to find new ways of doing things and encourage their employees to think and behave innovatively

- SMEs are significantly more likely to be innovative than competitively aggressive, proactive in the market or risk taking
- SMEs are significantly less likely to take risks than be proactive in the market, competitively aggressive or innovative
- SMEs with larger numbers of employees are significantly more likely to be proactive in the market.

⁶⁸ Chi square=9.7, df=2, p=.01.

⁶⁹ Chi square=28.3, df=2, p<.00.

Learning Orientation

Successful SMEs believe that learning gives them competitive advantage

- Newer SMEs are more committed to learning
- SMEs with less than 5 employees are significantly more likely to have a shared vision
- SMEs with less than 5 or more than 50 employees are significantly more likely to be open-minded
- SMEs with larger numbers of employees are more likely to learn from crisis events.

Advice and support

Successful SMEs are more willing to seek external advice

- Most SMEs seek external advice on their website (including search engine optimisation)
- SMEs with larger numbers of employees are more likely to purchase external advice on managing people and developing management skills.

Outsourcing and exporting

Successful SMEs have the flexibility to adapt to changing market conditions

- Half of SMEs outsource some of their activities, including: accountancy (payroll and bookkeeping), IT and web development, HR and marketing
- Outsourcing provides SMEs with the flexibility to respond to market conditions
- SMEs with larger numbers of employees view exporting as important to their continuing success.

Key recommendations

SMEs

- Diversify sources of finance to include (but not be confined to) Venture Capital finance/Grant, Leasing, Factoring & Invoice Discounting and Crowd Funding⁷⁰
- Monitor cash flow and liquidity proactively (taking quick and decisive action when necessary), but also focus on planning, sales, marketing, managing people, website development, and using social media
- Get 'close' to customers, establishing reputation and relationships to achieve retention and referrals. Work with customers to build the brand
- Define the unique selling point of the business and put it on the front page of the website. Focus on search engine optimisation in website development
- Connect with social media in ways that fit the business (especially for Business to Consumer businesses). Consider engaging external advice on ways to do this
- Encourage employees to think and behave in novel ways; monitor and respond rapidly to the actions of competitors; avoid high risk projects
- Learn proactively from crises and difficulties; join and contribute to learning networks (for example business and professional associations, customer networks); engage the services of a coach or mentor. Share ideas through social networks and media
- Take calculated risks but never ignore intuition. Respond to market conditions - learn to rein in the business as well as expand
- Consider outsourcing some activities, especially in turbulent economic conditions.

Policy makers

- Provide a flow of 'patient capital' through the establishment of a Business Bank aimed specifically at high-growth potential SMEs
- Ensure that the market provides SMEs with choice for sources of finance. Use social media for disseminating information about sources of finance and engage SMEs in a debate about their financial needs
- Demonstrate to SMEs through transparent policy initiatives that *all* businesses, irrespective of size, get equal treatment in fiscal and monetary policy initiatives
- Make it easier and cheaper for SMEs to protect their patents and intellectual property.

Professional service providers

- Offer a holistic range of professional services encompassing accountancy, HR, law and IT, to integrate provision across 'back office' operations
- Orientate services from the 'back end' (where possible and subject to regulatory frameworks) towards SME 'front end' perspectives (including customer orientation)
- Facilitate the management and leadership capabilities of SME owners to create synergy between their work and their values, confidence, and personal beliefs – the 'inner game'.

⁷⁰ The collective effort of individuals who pool financial resources, usually via the Internet, to support a new business initiative.

APPENDIX 1: CASE STUDIES

Case Study 1: LBBC Group Limited

Established in 1876, the business is now in its fifth generation of family management run by Howard Pickard, MD. LBBC is involved with both traditional engineering practices such as machining fabrication and pressing metal, and more technological processes involving the design and development of autoclave-based products. The latter are designed, built, tested and then supported through service and after sales activities. The company is involved in glossed wax casting, one major application of which is turbine engine blades for jet engines. Hence, the company works closely with Rolls Royce. Indeed, most of the leading investment casting companies in the world purchase LBBC Group's equipment. They export between 60 and 70% of what they make.

The company currently employs a workforce of 70 people. Despite fluctuations in profitability prior to 2002, restructuring in that year into two divisions, has achieved organic, natural growth over a sustained period. Profitability has been maintained throughout that time. Part of this success is due to better management processes. For example, rather than over-expand the workforce in times of business expansion, the company tends to sub-contract the work or take on short-term specialist contractors. Like any business, LBBC faces challenges, but overcomes these by *"getting on with it and trying something new, talking to people, seeking advice, using your experience and then going for it"*. More specifically, restructuring the business has meant being able to improve the focus of the two new divisions on different activities so that one division is focused on cost-competitiveness and quality, while the other is more focused on technology and the development of processing knowledge. In the current economic climate, this can mean knowing when you're in a dying market so that you can cut your losses while you can. The competitive edge of the company is maintained through having a strong balance sheet, maintaining quality and having good business ethics.

In the future, the company sees itself as needing to do more product innovation, product development, people development and marketing. Market analysis is vital here, to be able to foresee trends.

Case Study 2: Phoenix Trading Limited

Phoenix Trading is a network marketing or a direct selling company which sells greetings cards and associated stationery. Heather Short became a Phoenix Trader for the sum of £45 in 2002 and built her annual turnover into nearly £1million. Her business now has about 700 people involved in the network (note this is a network and not a franchise) with most based in the UK (500 members) but also members in Australia, New Zealand, the United States and France. Phoenix Trading, the parent company, is based in south-west London and traders order stock direct from it, with most of the products being sourced in the UK; indeed Phoenix Trading claims to be the largest card company to source its card printing in the UK. Cards are shipped from the UK to its overseas operations.

Like many businesses, Phoenix Trading has experienced trying times as a result of the recession. For example, Heather's business experienced exponential growth in the early years (triple digit growth), but the recession that hit most companies in 2008 began to be experienced by Phoenix earlier, with a decline in sales from 2008. However, while the rest of the economy was still in recession, Phoenix Trading began to experience growth from 2010 onwards, especially overseas. The recession has emphasised the importance of careful tracking of profit margins which has led to concentration on the most profitable parts of the business.

Ironically, part of the company's success has been *due* to the recession. People need additional money and so have been prepared to look at alternative ways of making it. The Phoenix business model offers this because it allows people to become members of the network to work the hours they want, when and where they want to. An important element of the business model is that network members usually sell to people they know; personal contact is key.

The business is successful because it learns from its experiences and adapts accordingly. Phoenix Trading looks for new, proactive ways of selling, ensuring that customers know how to buy/ place orders and it offers them a variety of means for doing this. The key is to treat customers like individuals ("*cherished and important and not just a number*") and to maintain regular contact with them – for example, letting them know about new items, reminding them of the ways in which they can order products. So, up to five times each year each customer is emailed with a link to the individual trader's company website so that they can order online, although orders by other means, including email and text, are also welcomed. The number of orders elicited via email and through the website is growing but the paper brochure remains popular with many and each customer receives a new order form with each order to encourage repeat business.

Phoenix Trading believes in communicating with, and training, its traders. Consequently a business manual has been produced, giving members advice on all aspects of the Phoenix business, including sales, sponsoring and taxation. Monthly newsletters from both the company and Heather are seen as a form of training, with other training also available. For example, all traders joining Heather's team receive a comprehensive email covering all aspects of the business, with a particular focus on sales techniques and attracting others to the business, which is followed up by personal face-to-face or telephone contact. Both Heather and the parent company, Phoenix Trading, seek to support their traders on a one-to-one basis, either face to face, or via email, Skype or telephone. In the future, the intention is to use different social media channels for group training sessions, in order to provide

tailored advice when needed.

Learning has been a central element of the company's success. Heather has completed an MBA and intends to start a PhD (with a focus on virtual training similar to the Skype training she conducts). She is in touch with members of other networks, keeping herself open to new ideas about how the business can grow. Social media such as LinkedIn have sometimes been useful, getting advice from and taking part in discussions with people who run similar businesses.

Businesses like Phoenix Trading believe that in the future having a website will be essential, not an optional extra – a *“must have”*. Similarly, companies need to be more aware of the importance of social media and how customers review their products and services. In particular, companies need to be aware of any negative publicity. But in using social media, companies need to be disciplined and not waste precious time. Social media will never replace face to face networking.

Case Study 3: Earlex Limited

Julian Baseley started Earlex Limited in 1988, manufacturing consumer steam wallpaper strippers and has since moved into manufacturing wet and dry vacuum cleaners and paint sprayers. The business now employs around 180 people with offices in France, the USA and China. Turnover is around £25m, exporting to 52 countries.

Earlex faced difficult times very soon after it started, firstly with direct competition from two corporate competitors. In 2004, competitors in China started to copy its products and sell directly to stores in the UK. Then there was the 2008 recession. This was not helped by the company's bank persuading it to hedge against the euro, pre-selling euros against their average sales. But the euro dropped by nearly 25%, costing the company considerable losses. The most challenging phase was 2003-4 where a competitor tried to buy the company but was turned down – the competitor then approached all of Earlex's major customers and offered very low prices. Being attacked in its UK markets, Earlex went for exports, opening up in France, Spain, Italy and the USA.

The trigger for growth is innovation, making something different that people want to spend their money on. For example, the company makes paint sprayers and has now converted this idea into the spray tanning industry (fake sun tanning). Secondly, it means going for world markets. Earlex's largest market is now the USA. You also have to be passionate about your products, know your competitors and know your unique selling point. You need to be very, very well versed in your products. Innovation also means creative approaches to sales. The company uses television screens in retail stores to sell products but also trains staff to demonstrate them to customers. This sells 10 to 15 times as many in a day as would normally be sold with the product just on a shelf. Some of the products also have unique technical features.

The company has seven of its own design engineers but also uses external design consultancies – and the engineering department of a local university. As well as technical consultants, accountants are also used for advice, particularly on areas such as getting the right finance in place for business development and paying at the right level to attract and keep employees. HR consultants advise on HR requirements for China, America and Europe.

The manufacturing base is in Guildford. Although labour costs are high in the UK, there are quality and delivery issues overseas, particularly where there are fluctuations in demand due to seasonal variations. With UK manufacturing, customer orders can be serviced in five days. In places such as China there are also issues such as the infringement of patents that you do not get in the UK.

For sales and marketing, the company makes extensive use of social media such as Facebook and YouTube both in the UK and also for its French and US operation. Video is used for demonstrations of products. It does not currently use Twitter. It is important to use social media but not be intrusive and use a 'hard' sell. Their main focus of selling to worldwide markets is met through attending trade exhibitions around the world, including countries such as China, Dubai, India, the USA and Germany. These exhibitions are for worldwide audiences and the company attends over 20 of these per year. In the future the market is probably going to be Asia and South America rather than Europe and the USA. The time between product inception and launch is now down to about

one year, whereas 20 years ago it probably took about three years. With new computer aided design systems this could even come down to six months in the future. Everyone wants something new and better quality. Businesses will also have to show that they are more socially aware (including being environmentally clean) and that they are in the community, doing things for the community.

Case Study 4: Cobalt Sky Limited

Founded in 1989 as a two-man business, Cobalt Sky is a company that provides IT services to market research companies, its business focusing on conducting interviews via the web, processing data and delivering results through internet portals and dashboards. The company employs 35 people, 25 of them in the UK and 10 in Thailand. The company has been through some tough times. Just as the company started, the 1990s recession hit and the company was also adversely affected by the dot.com crash. Growth was good up to 2008 when the current recession started and times are still challenging both with the recession and the growth in overseas competition. Cash flow has become a particular challenge and has to be monitored carefully.

In response, Cobalt Sky has moved to diversify its services, for example, partnering with a statistician in order to offer more sophisticated data analysis services, adding value and differentiating the business from competitors. The company has also analysed its internal business processes seeking to find even the smallest efficiencies as part of process improvement. Added to this, product deliverables such as web surveys have been internally evaluated to ensure that they are engaging and fit for purpose, differentiating them from zero cost products available on the internet. As part of this process, an innovations team has been formed whose remit is to explore best practice in the industry on themes such as respondent engagement, data visualisation and mobile phone surveys. One innovation, for example, was when a member of the team designed a survey screen specifically for the iPad. Another member invented a data visualisation for the Eurovision Song Contest – it has no immediate business impact, but is a calling card that can be shown to clients. The innovations team meets once every two months to share their learning.

Indeed, learning is a distinct feature of the company. Raz Khan, the MD meets with other business owners (he refers to this as a focus group) once a month to discuss some aspect of business – sales, marketing, and business strategy are all typical themes. It's a kind of training session. Participants also have an opportunity to raise problems that are specific to their own businesses which are then debated and resolved by others in the group. The group has been very helpful in coming up with ideas. The company has also brought in expertise by employing a non-executive director with an accounting and finance background. *"It's just a little bit of discipline to remind us to look at the bigger picture"*.

Cobalt Sky's unique selling point is its commitment and success in getting projects done 'right first time' and on time. 98% of its 1,000-1,200 a year projects are right first time. Part of this success is due to the commitment of staff. For example, the company was undertaking a project for a client in China who had never commissioned a web survey before. There were some technical problems, but the project team worked all through Friday night and were at their desks 1am on Saturday morning liaising with the Chinese client. The dedication is there to ensure the client gets what they need.

In terms of innovative approaches to customer engagement, Cobalt Sky has a Twitter account and can tweet within the market research industry as part of its marketing strategy. However, the company remains dubious about the impact of this technology.

Case Study 5: Finicky Shirts Limited

Finicky is an online retailer for quality, bespoke tailored shirts that are custom made to the design and choice of cloth of the client. As a new company, Finicky has enjoyed annual growth of between 300% and 400%. The company employs six people, but seeks to keep head count to a minimum by creating a direct link between customer orders and manufacturing – the latter currently completed overseas. Having lived in Asia and the Far East for 15 years, where tailoring is prominent, managing director and owner, David Buisson, had the idea of developing an online tailoring capability, where people can complete their personal measurements and order through the Finicky website 24 hours a day, seven days a week. David saw a gap in the market. There are numerous online retailers but most have taken a “*traditional retailing mentality and methodology and stuck it on the web*”. But then companies often have great High Street retail outlets but ineffective websites. Finicky have approached the issue the other way round. They are purely online but also bespoke. David also outlined an intriguing plan for taking his business model to a mass market, combining his online business with the use of an emerging technology⁷¹.

Since the website is a central part of the company’s business model, its quality is all important for brand positioning. Consequently, David is always open to feedback and comment, and always looking for improvement. Part of the success of the company is due to its engagement with social media, particularly Twitter and Facebook. The success of a social media campaign depends on delivering a consistent message, consistent tweeting and being able to come up with a new message each week – otherwise people lose interest. The use of social media is a central element of the company’s business strategy of wider market penetration. But business owners need to understand how it works. People can spend a lot of money on social media for zero return. David is looking at engaging the services of a company that can conduct the social media campaigns effectively for Finicky as the company seeks to expand.

⁷¹ This has not been described here due to commercial sensitivity.

Case Study 6: Gen3 Systems Limited

Gen3 Systems Limited was founded in 2005, emerging from a previous company. Its name stems from the fact that three generations of the family are involved; Chairman of the Board and Generation 1 is Arthur (89), Graham (55), Generation 2 who is the managing director, and Graham's two sons, Alasdair and Andrew (27 and 24) Generation 3. The company is a manufacturer of specialist test equipment used to help predict reliability in electronics. There are 17 people working directly for the company but with a further 250 people in Europe, Asia Pacific and North America working through distribution arrangements. Another business division, Gen3 Kinematics, manufactures specialist strength and conditioning equipment for athletes in a wide variety of sports, giving the family a diverse business operation.

Generation 1 began in heavy engineering in the late 1960s, with a major French manufacturer of cement plants, sugar refineries and more. Generation 2 then subsequently moved into electronics, producing special varnishes used to protect electronic systems operating in difficult environments, mainly in the aerospace and defence industries. This business was sold in 2005 but the equipment manufacturing division was retained to become Gen3 Systems. Employing an *"Inverse Marketing Technique"* the business, in its many guises, has worked closely with the customer to understand and resolve precise technical issues drawing on their diverse manufacturing capabilities. This gap is then filled through Gen3's diverse manufacturing capabilities. The company requires people with both experience and high level engineering skills.

The company has seen many challenging times. In 2008 the electronics industry *"fell off a cliff"*. For example, the semi-conductor business dropped 40% in September 2008 and for the next four months dropped a further 40% per month so that by early 2009 it was at 20% of its 2008 level. As this spread its influence through the entire electronics industry, Gen3 had to halt its capital spend, cut costs dramatically, even resorting to a 20% salary-cut across the entire company.

"We were hammered, as were so many other businesses" and needed to find new opportunities to survive. They acquired a distribution company handling equipment complementary to that manufactured by Gen3. In 2010 another opportunity arose that provided diversification into an entirely new industry managed by Generation 3 manufacturing sports training equipment.

After only two years, it is now showing a profit selling mainly in the rugby world. Customers include top rugby clubs such as Exeter, Gloucester, Northampton, Worcester in England; Leinster, Munster and Ulster in Ireland; Toulon, Biarritz and Castres in France, and many more. The company supplied its equipment to the Cycling GB and Rowing GB teams, both of which performed rather well in the London Olympics. Gen3 has also successfully developed its business in the education sector, providing products to UK universities, schools and colleges.

"Sustaining a business in this, the most challenging economic climate in history, demands the retention of your staff who are paramount to the success of all businesses; ignore this ingredient at your peril. In terms of marketing you need to be the best at what you do. Helping write the International Standards relevant to your equipment/product, a thankless but necessary task, facilitates that goal and opens doors to customers that would otherwise remain firmly shut".

Success in challenging times: Key lessons for UK SMEs

In this modern era a good website is essential, as is being at the top of search engine listings. The company is also active in social media, including YouTube, Facebook and LinkedIn. Gen3 employs external specialists here, but all of this is funded internally and grown organically – *“because you can contain the risk”*.

The business is family financed and free of any loans and commensurate pressure from banks and other financial institutions.

Case Study 7: Piping Limited⁷²

Founded in 2006 (although the origins of the company go back another ten years), Piping Limited has developed from selling plastic piping bags into a parallel flourishing internet business with six different websites, selling through eBay, Amazon and Play.com. Products include garden-type products, and party and catering products, with much of the sales business going overseas to the USA, Europe and China (taking less than 5% of sales but a target market). Some sites are focused at the higher end of the market and some at the lower end – the latter do better in downturns.

One of the keys to the success of the business has been agility and flexibility. The internet market is notoriously volatile, and so eight of the company's 20 staff are on flexible contracts. Sometimes they will have a lot of hours, and sometimes they won't have any. Through these kinds of arrangements, the company is able to keep a tight rein on cash flow. Piping could easily sell more, but they do not want to over-stretch finances. Even so, they have achieved annual growth of between 20% and 30% over the last six years.

The company has thrived because of its responsiveness to change. For example, when eBay, the Royal Mail and Play.com all put up their prices almost simultaneously, Piping adjusted by easing up their own prices, reducing staff headcount and rearranging some staff roles. Sales are highly responsive to external 'shocks'. Hence, if there is some negative financial news in the media, trade drops off for two or three weeks afterwards. Piping therefore are meticulous in researching and tracking events in the global economy that might make a difference to sales, ensuring that the company is selling the right products and clearing inappropriate items out of stock. People who run into difficulty are those who *'take a flier at it'*, they don't measure what they are endeavouring to do nor do they achieve a balance in what they are doing.

Social media is a significant feature of the company's marketing and sales efforts. While the company does use Facebook and LinkedIn, Twitter is the medium that is used most extensively. MD Martin, built over 2,000 Twitter followers within three weeks (the figure is now 4,000). His Klout score is now 48 (Klout is an online site that measures a user's influence across his or her social network). Twitter enables Piping to *'get a feel for how people see the world and what they're prepared to spend on'*. Piping has also had 20 or 30 conversations with Search Engine Optimisation (SEO) specialists in the last month, but hasn't found one that can truly deliver – they are giving different answers to the same question. The company, therefore, undertakes a lot of its own research, for example, using Google Analytics to discover how customers use the Piping websites. Appearing on pages 2 or 3 in Google produces an *'astronomical'* drop in sales compared to being on page 1. Hence the importance of being active in social media to maintain this status. This also means monitoring Piping's competitors and what they are selling.

⁷² Name of company and MD changed to protect confidentiality

Case Study 8: Kavanagh Communications Limited

Founded in 1996 by Anne Kavanagh, Kavanagh Communications Limited is a public relations company with a particular focus on both UK and global travel retail. It also helps clients with crisis communications particularly where there is a need for damage limitation as a result of negative scrutiny in the media, assessing risk and running a proactive crisis communication strategy. The company, which employs 10 people, has an 'enviable' client list, with last year being the best for the company. 2012, however, has proved to be very challenging.

Two factors have been especially problematic. Firstly the banks have been very unhelpful, particularly in advising the company to embark on a base rate swap connected to the office property. Even the bank manager who sold the deal didn't understand the principles of the swap. This resulted in considerable financial losses for the company, which it is still trying to resolve. Part of the resolution to the problem may come from the FSA's investigation into the issue but the company cannot wait for this and has had to take urgent action by reducing fixed costs and head count. *'If I could get out of this today, I'd have a very different business tomorrow'*. The second problem relates to how larger companies, particularly corporates, treat SMEs, indulging in negative tactics to delay payments. In many instances, the terms of payment have shifted from 60 to 90 or even 120 days which puts particular pressure on the cash flow of SMEs.

As a result, the company has taken decisive action, shifting its future growth strategy to a greater global diversification on PR for the travel retail industry with customers in France, North America, South America, Scandinavia, Hong Kong, and Singapore. Secondly, the company has decided that it no longer needs a costly UK base (and the drain it causes on overheads) because technology has moved on so much. Hence, the company is transitioning from a traditional office setting to a smaller more flexible site and to greater virtual working where it's possible to maintain team contact through meetings in wifi enabled settings, such as hotels and cafes. The company believes flexibility is the key to success in challenging times and that businesses cannot hang on to how things were. They must move with the times to stay ahead of the competition and to nurture the more enlightened customers who have a real partnership approach with SMEs.

For businesses to succeed, they need to get absolutely on top of payments coming in from customers and understand the procurement-led society in which we are working. Make sure you have a purchase order, particularly from large, global businesses. Understand the strategy for how larger businesses work – they are more sophisticated contractually and are adept at using *"every excuse in the book"* on procurement procedures. In one case it took nine months to get payment from one large business.

Social media is a tool that the company exploits and can be particularly powerful for SMEs that are dealing with the public (B2C), but needs tailoring to business led social platforms for SMEs operating in B2B. An effective social media strategy should always focus on who and where the customer is and tailor accordingly.

Case Study 9: Bike Dock Solutions Limited

The business began five years ago after Josh Coleman and James Nash, the two MDs, wrote a business plan for the Entrepreneurship module of a university degree programme. The business plan got the lowest marks compared to their other modules because the finance figures weren't accurate! Undaunted, they launched Bike Dock Solutions Limited selling bike racks to both retail customers and to organisations and businesses. Other businesses have been launched with one inspiring the creation of another. For example, Bike Dock Solutions sells bike racks, but these need a shelter – hence, the launch of Shelter Store for bikes. Shelter Store then led to the launch of Hudson Garden Rooms supplying luxury garden offices made of wood. Bike Dock Solutions, Shelter Store and Hudson Garden Rooms all won contracts to supply products for the London 2012 Olympics.

From an initial investment of £10,000 by each of the two directors (and money borrowed from their parents), sales for Bike Dock Solutions reached £85,000 in the first year, followed by £400,000 in year two, £1.25m in year three and £2.5m in year four. Total sales for all companies exceed £4m. The company now employs 14 people with much of the manufacturing being done in the UK. There are good reasons for this. Production could have been sourced, for example, to China. But UK manufacturing achieves shorter lead times for production, important in a market where customers want tailored solutions.

Part of the company's success is down to its close interface with its customers. *"People are passionate about their cycling so we try to talk to them about it"*. The company uses both Facebook (it has almost 4,000 followers) and Twitter. A video was produced to illustrate bike theft in a London street as part of a bike safety awareness campaign resulting in over 34,000 views on YouTube. Although social media brings in domestic customers, most of the sales come with businesses and organisations (e.g. schools and local authorities), but social media *"makes us look quite human"*. Constant attention is paid to the business' website. Recently £10,000 was spent on Google marketing using pay-per-click adverts. Sales tripled. But the company is always experimenting in Google to see what works and what doesn't. The business has been shortlisted for the National Business Awards in the small online business category.

One of the keys to success is not competing with competitors at their own game. Compete for the same customers but do it in a different way. Ensure that lead times are good. Allow people to track their deliveries via the website. Use distinctive branding. *"We meet a lot of people and talk about business with them"*. Shelter Store is now trading in Dubai and the United Arab Emirates, and is tendering for bus shelters for the whole of Dubai. UK Trade and Investment (UKTI) has helped Bike Dock start trading in Europe via its new Bike Safe website. In 2013, the company aims to start trading in the USA with Bike Dock. But it is not just about increasing sales. Keep an eye on suppliers and source new suppliers to refine costs – *"So if competitors in the future get close to our prices we can drop them"*.

Case Study 10: The Organic Health Company Limited⁷³

The business has been trading for six years and makes pure and natural personal lubricants, free of skin irritants. The Organic Health Company Limited employs 10 people, including Anna and Heather the two founders and directors. With growth last year up by 25% and a further 25% this year, 60% of the company sales are from exports which go to 66 countries. The UK Trade and Industry: Passport to Export programme was beneficial here. The company's success stems from the ability of the team to constantly innovate and provide excellent customer service. The company strives to act ethically, creating products of the purest and safest ingredients. These are now assets in the current climate because customers favour good business ethics. One result of this is high levels of customer loyalty (and a growing number of business awards). Most products that are sold in the UK are manufactured here. *"It's nice to confound peoples' expectation. We have supported the local economy"*.

One major limitation on expansion has been access to finance. In 2007 the business applied for a bank loan but was turned down. *"Bank managers speak with forked tongues"*. As a result, the company has had to grow out of its cash flow. It was a strategic choice not to borrow. But many new products in the pipeline have had to go onto the back burner and the product line is restricted. *"If we could have won that investment, our company would be a completely different size now"*.

Another challenge has been the protection of their intellectual property, with competitors copying their products or infringing patents. The government could help by assisting small companies to defend their patents – for example, making it less expensive to defend patents through legal channels. Governments could help new companies to understand intellectual property and help them to fast track their products through the Patent Office. The UK is an innovative country – help companies to protect their innovation.

Advice for new businesses would be to go global. Anyone who doesn't see the world as one market is going to go out of business.

⁷³ Name of company and MDs changed and details of its technical operations omitted to protect confidentiality

Case Study 11: Company X Limited⁷⁴

Founded in 2007, Company X operates in the area of movie production. The company, which currently employs six people, plus two or three external contractors, is based in the UK but has offices abroad. 70%-80% of sales are overseas (USA, Canada, Japan, Germany). The company was given various grants at its early stage (£70,000), and a further £20,000 of personal investment. Since then, the company has grown organically, securing licensing deals.

The main challenge is that the company came from a research background with the managing team lacking business experience. The crucial question for SMEs at the leading edge of technology is getting the timing right for bringing in outside investors. This can only be achieved if the company can build up a positive cash flow. In turn, sales only emerge when customers begin to understand the functionality of a unique technology.

The key to success is thinking several steps ahead, partnering with successful and established companies and identifying strategies that are beneficial to both companies. Early stages of the business cycle involve proving the technology and establishing the brand. Sales and marketing will be critical in the near future. Expansion in the UK, however, is limited due to the costs of employing people (particularly National Insurance costs). For this reason, additional work becomes outsourced overseas or UK contractors are used. Future expansion may be sourced through crowd financing through the internet. This could be a game-changer for how finances are distributed into the private sector. The company is currently looking to bring in more business expertise through a non-executive director. As in the past, business mentors may also be used to help with strategy.

⁷⁴ Name of company changed and details of its technical operations omitted to protect confidentiality

Case Study 12: CV Freight Limited

CV Freight Limited was created by Mark Foard in 2001, from two established companies. It is a freight forwarding and global logistics company, importing and exporting by air, sea and road and uses its own sophisticated internet based software for tracking freight. The company operates worldwide through an extensive agency network and specialises in the difficult functions of freight forwarding, often neglected by the larger operators. CV Freight has established close working relationships with similarly motivated freight forwarders in some 225 cities world-wide and provides customs clearance, collection or delivery and documentation for any type of cargo.

The most challenging phase the company has faced is during periods of growth, especially finding the right staff. Growth leads to new challenges, with the need to tackle increasing levels of bureaucracy, human resource issues and health and safety regulations. Based upon this they have found that growth ought to be achieved at a realistic pace. Expanding too quickly can cause as many problems as reducing the size of the company. Being competitive is still an on-going battle. The key to their success is concentrating on the company's core strengths and, above all, the niche markets they have identified and exploited. One key asset is the company's internet-based software which incorporates a shipping tool that clients can access and operate 24 hours a day, 365 days a year on a global basis. Hence, IT is a core strength of the business.

Part of the company's success has been due to the external help it has elicited. In the past, some of this was from Business Link. Another extremely useful source of help was from an executive coach, who has supported both the business and also the MD personally (particularly on issues such as work-life balance). The internal finance director is supported by an external accountant.

The key to CV Freight's success is being flexible and open-minded, being able to adjust to ever changing markets. Act promptly and quickly. Concentrate on niche areas where the company has specialist knowledge. This is facilitated through networking and talking regularly to clients to keep up to date with their requirements. The company is very selective of who it chooses as a client. Effective targeting of high quality clients enhances the company's reputation. Clients are visited regularly which often leads to introductions to other parties.

Over the next four or five years the business will change dramatically again. The markets in China, India and Russia are continuing to grow with clients, so it may become necessary to have business collaborators available in those markets. The Board is also looking ahead to examine the feasibility of more remote working and home working to reduce overheads.

Case Study 13: GPW Recruitment Limited

GPW Recruitment Limited is a recruitment agency in the technical and engineering field, based in St Helens, Lancashire. Established 40 years ago, the company has significantly changed in the last six years with the onset of the recession. With 45 staff, it is one of larger single site recruitment companies in the UK, with clients in a wide range of manufacturing sectors including automotive, aerospace and pharmaceuticals. One of the company's strengths is its movement into niche markets, although even here it has shown itself to be flexible and adaptive. For example, with the recession, the company identified the power generation industry as a potential new sector. Within 12 months, 25% of GPW Recruitment's business was with this sector. *"Even when the economy is in the dumps, there are always niche markets out there"*. One result of this flexibility was that profits actually rose during the recession. This was also achieved by focusing the company on the quality of its business not quantity. The crisis has *"aged us a couple of years"*, but it has also made the company stronger, leaner and fitter. *"When the economy grows, we will capitalise on what we have done"*.

The key to success has also been the continuing drive to market effectively. The marketing spend increased during the recession, including an increase in marketing staff. A customer relations database has been built in-house, which is used extensively, most customers being targeted for their physical proximity to the company. This means they can be visited on a regular basis, part of the company's strategy for nurturing strong customer relationships. Social media is used (for example, Twitter, Facebook and LinkedIn) especially to attract people for vacancies. But the main marketing strategy is the use of direct mailshots. *"We like to learn at GPW, we are a very innovative, driven organisation"*. Hence, the business looks outside the industry to see what other companies are doing to innovate. For example, they studied how Virgin Media structured their mailshot marketing, including wording. The company rarely uses external consultants, but values the local Chamber of Commerce for providing advice and guidance.

Staff training is also a key to success. *"We need to retrain our staff, and retrain and retrain"*. The training is a differentiator with the company's competition. So staff are trained (with a special emphasis on sales training) every day of the week and there is a training and development manager in-house. MD Mark Parish is also involved in the training.

In the future businesses will need to be either innovating or increasing the level of quality they are offering. *"They will have to add more bells and whistles"*. They will also have to be adept at managing costs. GPW, for example, train their managers to manage cash flow, all clients are credit checked and all corporate debt is insured. Companies that get the balance right between controlling their overheads and promoting their development will be the most successful.

Case Study 14: Grigoriou Interiors Limited

Grigoriou Interiors Limited is a commercial interior design business that champions sustainability and well-being for commercial and residential spaces. Started five years ago by sisters Elina and Angeliki, the business employs two other staff, an intern, and has three contract staff including an architectural technologist. Starting with virtually no capital, the business has been successful in winning contracts for a women's business lounge, created for Regius in Covent Garden, interiors for Starwood Hotels in Berlin as well as offices in Dubai and Ireland. The central concept of the design process is that sustainability must embrace social, economic and environmental elements. To work effectively, all must be in balance.

There have been some difficult times when order books have been low. However, their response has been to become more proactive, delivering free seminars, meeting other companies, writing articles in magazines and, above all, networking. They have not been afraid to knock on doors and ask a more experienced person for guidance, including people they have worked with in the past. They have gained confidence in their own knowledge as the portfolio of clients has been built. *"As girls we underestimate ourselves"*. They have also benefited from UCL Enterprise, a society dedicated to promoting entrepreneurship amongst the postgraduate community at University College London through mentoring workshops for new start-ups and lectures from internationally renowned entrepreneurs. Design consultancies are often very creative, but lack business acumen. Grigoriou Interiors has a strong commercial capability. *"Being a family business, people felt they could trust us"*.

The business' website is maintained by another family member (their mother), and the business communicates to customers via its blog. The business also has Twitter and LinkedIn accounts and the partners have met contacts through both, although these social media have not directly brought in clients. The strategy of the business is to focus more on the needs of the client rather than cutting costs. How do you make yourself stand out from other businesses? Show passion for what you are doing. In the future, new regulations will increase the need to create sustainable environments and businesses. However, as sustainability becomes the norm, this means that Grigoriou Interiors will look to new ways of differentiating itself in the market.

Case Study 15: Imagineer Systems Limited

Founded in 2000, Imagineer Systems Limited is a software company that specialises in the development and maintenance of visual effects software applications, used throughout all levels of film, video and broadcast post-production. The company employs 11 people worldwide, with 3 full time staff in the UK. Clients include the large visual effects companies (50 – 200 employees in size), working on Hollywood blockbusters (including the Harry Potter films, Spiderman, Transformers, Hugo, and The Avengers) through to the low end, smaller companies working on television shows and commercials.

The history of the company demonstrates that failure (including multiple failure) often has to be experienced before success. The company's first product, mokey®, was launched in 2001. Unfortunately, the launch coincided with the 9/11 attacks, hence there were few people in attendance from the USA, the company's main market. The following year the company had to go into liquidation. It was restarted with finance from an Angel investor. New technology and new products were developed including monet™, developed in 2004 for inserting the animated paintings at Hogwarts in Harry Potter. A new company, MirriAd was launched in 2007 using the technology from monet™ to deliver a virtual product placement service for broadcasters (which became legal to transmit in the UK in 2011). In 2006, Imagineer noticed a gap in the market for a complete visual effects system. Finance (£1m) was raised from existing investors and some new institutional investors and a new product, mogul™ was launched in 2008. However, this was at the peak of the credit crunch, and the main investors pulled out. The project was closed down and most of the team laid off. Finally, mocha™ was licensed to Adobe and now has over 50,000 users. Most people who work in visual effects will know the products.

As a result of this success, Imagineer Systems has grown since the onset of the recession, generating revenues of £400,000 in 2008 and more than doubling these by 2011. The company has been profitable since 2009 and is now a virtual operation, with much of the production being outsourced to a company in Russia, with other freelancers in Los Angeles and New York. Its business model has also changed radically, from selling a few high end products at \$20,000, to selling high volume \$200 products to a mass market. Here social media is used extensively, interacting with specific online communities on Facebook and teaching users how to use its products through video tutorials on the company website. Strategically the company is successful because it has been able to target both the high end (professional) and low end (hobbyists and freelance users) part of the market.

Imagineer Systems approached its bank a few months ago to discuss a loan but CEO John-Paul Smith reported that *"the door was slammed in our face. Yet we are a small profitable business that has been trading for 10 years"*. The attitude of the banks to risk doesn't seem to have changed. The future of financing for companies like Imagineer Systems might be Kickstarter finance, where funding is raised from the businesses' own community (including customers). This form of community financing is being facilitated by the internet.

Case Study 16: SocialSafe Limited

SocialSafe, founded by Julian Ranger, is a searchable digital journal software application that allows people using social media channels such as Facebook, Google + and LinkedIn to view and search their entire social history timeline privately; it also provides a backup in case their accounts are hacked, deleted or lost. It also can be used professionally to analyse trends within social media accounts for business purposes. Ten people work for the business, three of them full-time. The business has seen challenging times because it was taken to market too early. This, however, has allowed the company to develop a stronger product, as well as engaging new partnership arrangements that help to promote the business.

The company provides many lessons for those trying to grow small businesses. There is a need for strong teams that are given direction and vision. At the same time it is important to keep a close eye on the customer and the way in which technology is developing; competitors can steal a march on you very quickly. Technology has the ability to suck a business into false directions, especially since people are always looking for something that will magically transform their business. Success, however, rarely emerges from one element. Social media, for example, is only one piece in the puzzle.

For small businesses *“cash is king”*. In the current climate it is even more important. Don't waste money – adopt a no frills approach. Be as cost effective as possible. This also helps to make the business investable for any cash injection. In a flourishing economy it is possible to make mistakes and get away with it – but not in a recession. In starting a business, work out exactly how much it is going to cost, particularly the cost of getting to each milestone.

Personal learning has also been important, particularly membership of Vistage International, a group for chief executives. The monthly meetings allow for the exchange of ideas and the training programmes have also proved useful. SocialSafe makes little use of external consultants but is just about to engage the services of a consultant for advice on producing an integrated marketing plan – getting all the different marketing initiatives to be additive, rather than being treated in isolation.

Case Study 17: Asperion Hotel Limited

The Asperion Hotel states that it is a socially responsible “*more than for profit*” hospitality business, which aims to create a high quality guest experience that is ethical, sustainable and rewarding. Winner of the best hotel in Guildford for five out of the last eight years, The Asperion is also strongly connected with its local community. For example, the hotel sponsors the Guildford Heat Basketball Team, which helps to get kids off the street and onto the basketball courts; The Guildford Book Festival, the Yvonne Arnaud Theatre, the Guildford Music Festival, and Visitsurrey.com. The hotel also supports Chase – a children’s hospice in Guildford. Owner Manny Sawhney is adamant that the business is also committed to sourcing supplies that are environmentally friendly or helping those who are less fortunate. So, for example, the hotel uses recycled paper and envelopes and its empty print cartridges are donated to ActionAid, in aid of the ‘Touching Tiny Lives Campaign’.

“If you create a good product and provide a good service the profits will come; but don’t concentrate on profits at the outset”. Now employing 10 people, the business has been built up largely through word of mouth and Manny’s passion for face-to-face networking, something that is so important in the hospitality industry. What Manny terms “*the old fashioned way*”. He admits that the business has been slow to respond to the emergence of social media. “*We have been fortunate and have had a high rate of repeat business. But this can build complacency*”. He accepts that social media is the future – “*slowly but surely we are looking into this more*”. It will have to be outsourced because it has to be done well. “*It’s the hardest thing for me to adjust to*”.

The Internet has impacted on the business in other, unexpected ways. A few years ago, third party agencies were uncommon. Now they cannot be avoided, meaning a cut in margins. The hotel’s strategy of dealing directly with customers is also undermined. “*The internet has changed the dynamics of the business*”. Previously in the UK there was excessive demand and insufficient supply, enabling businesses to “*get away with it*”. But this has now changed; the customer demands good quality and good value. People are demanding four star services but at three star prices. Survival means knowing your consumer extremely well, and doing business in the new way – it’s more consumer-led than ever before. The high end of the hospitality market is also growing, catering for the super-rich, especially in London. The future will be in these two markets.

Case Study 18: ST Group Limited

ST Group Limited is a leading timber merchant and joinery manufacturer in the north west of England, but with business across the UK. Employing a staff of 55, this family based business is about to engage a third generation as MD Andrew Smith's son joins the company. In addition to supplying timber and building materials to commercial customers, the building trade and retail customers, ST Group is a bespoke joinery manufacturer, producing products to customer specifications. A second company, Qualplas, manufactures PVC door and conservatories.

The onset of the 2008 recession saw two rounds of redundancies, but the business has grown in the last year, mainly due to a strategy of diversification and the launch of a new division. ST Group spotted a gap in the market for the fabrication of aluminium doors, products that yield a higher margin than PVC. The manufacturing unit is now being expanded to cope with demand. Following market research, new products in the company's timber and building range are being produced. The company has also diversified into manufacturing garden roofs.

The experience of the 1990s recession taught the company of the need to act very quickly to control costs, the biggest one being payroll. So cuts were made immediately in 2008-9. *"Act quickly. But don't simply retrench – there is a need to reinvent and develop the business"*. Reinventing is something that is cyclical and never stops. The company's unique selling point is the product knowledge of staff and the quality of customer service– hence product training is done monthly. These are the *"watermark"* of the business. A successful business manages three elements: cash flow, customer satisfaction, and staff morale.

Marketing is important. ST Group work with an advertising agency in marketing the business mainly using press advertising and direct mail. The company is also looking to exporting and is evaluating the products that will fit this. Exploring export markets is just another part of the reinvention concept. Social media is also a target. ST Group understands the need to be more proactive here. The company works at search engine optimisation, and has a Twitter and Facebook presence but is very much in the early stages. However, they have just recruited two people under the age of 20 to develop the company's internet presence.

Everyone is working harder for less and margins are being squeezed. Banks are extremely cautious in their lending policies. There is a happy medium and it has not been struck. By the time ST Group got to know about the Regional Growth Fund it had already been spent. In the future nothing will be taken for granted. All businesses will need to be more cost conscious and margin-driven. The need to build up reserves will be paramount. Attitude to risk might also have to change. Only the strong survive in situations like this. Businesses are very nervous about recruiting and not being able to get rid of staff. There is the constant gripe about red tape and bureaucracy. The relaxation of planning laws would enable ST Group to expand their manufacturing site. Planners need to work more with businesses and not regard them as *"public enemy number one"*.

Case Study 19: Pure Technology Limited

In 2001 MD Danny Long had just quit another organisation and had enough money for three months. He had no business plan, but decided to “*go for it*” using his money to launch Pure Technology Limited, supplying IT services. With turnover of £45,000 in 2001 the company’s turnover last year was £6m. Now employing 22 people, the company has no borrowing with all investment coming from reinvested profits. In the teeth of the 2008 recession the company made a commitment to expand – to “*push through the challenging times*”. One key to success though has been the careful management of spending. The last 12 months in particular has taught lessons about financial controls. It is vital to learn from crises and not to make mistakes by wasting money on speculative ideas.

Cash flow is tightly monitored through a monthly management report. The company has also invested in a real time revenue stream tool, and a software platform that measures profitability rather than just turnover. An audit director has been appointed and an operations director to oversee overheads. A non-executive director has also been appointed to help the company reposition itself in the market. Marketing is vital with a combination used comprising direct marketing and drip marketing (emails based on one of 20 templates sent on the basis of what customers have clicked on the website).

The company has gone through a cultural shift in the last 12 months. It was like “*teenagers going out and having parties and fun. We needed to be more mature*”. External professionals have been brought in who have helped on issues as diverse as project management training, telephone training, personal development and how the management team should manage assessment processes. Training is constantly reviewed and there are quarterly and annual reviews of staff.

Social media is used as a tool to engage with clients – it is important to build a relationship, especially when the product on offer is not unique. “*Service is the key to everything*”. Social media is also used internally to encourage innovation. Here a platform is used by the technical team to explore and debate about different sources of technology.

In the future the company has got to become more financially transparent (so costs can be controlled), and more mature with a stronger management structure. The management of work flow process are being assessed by a US company to develop a methodology. However, while Pure Technology seeks external advice when needed, processes such as accountancy and HR are kept in-house to keep control over quality and processes. The company will also be working hard on its brand identity, on standards, and on continuity.

Case Study 20: Elite Telecom PLC

MD Matt Newing founded the company in 2000 following the deregulation of the telecoms market, using £6,000 of his own money. Elite Telecom PLC is now one of the UK's leading unified communications and business telecoms providers. The business has grown year-on-year, with turnover growing from £11m five years ago, to £21.5m in the last financial year. Employing 80 people (10 more than last year), Elite Telecom has offices in London, Lancashire and Shropshire. In 2005 the company made the move into the international market by opening an office in Madrid, giving the company access to Pan European Networks. In 2012, Elite Telecom was the first unified communications provider to establish a specialist sports division that caters directly for sport clubs, who, because of their often large fan bases, require high performing telecoms frameworks. Elite Telecom is the only unified communications provider to have been ranked four times in *The Sunday Times Tech Track 100*, which identifies the 100 fastest growing technology companies across the UK. In 2009, Elite also won the KPMG/O2 Business of the Year award.

The main challenges to the business have come with the growth in regulation and through Ofcom. Business, however, continues to be buoyant. *“Don't believe the dross. There's plenty of opportunity out there”*. In terms of the recession *“We should be talking ourselves up, not talking ourselves down”*. The company has been successful because it keeps ahead of technology. Innovation is important as long as it leads to value – the bottom line. The management team has a think tank group to discuss innovation. Change is constant. Three years ago 95% of the business was voice, whereas now it is only 65%; the rest being data.

Elite Telecom was one of the first businesses into social media and has been one of the first out of it. Its experience is that conversion rates from social media such as Twitter to the bottom line are miniscule. All marketing is online, largely through pay-per-click and through search engine optimisation strategies. In the recent past, new enquiries amounted to one or two per week. Last month they were over 200.

Years ago, legislation was not as crippling as it is now. Government can help businesses by cutting red tape dramatically.

APPENDIX 2: DATA FOR GRAPHS

Table A1: Respondents' opinions of what year-on-year success means for their business

	Strongly disagree	<=	<=	Neither agree nor disagree	=>	=>	Strongly agree	Total
	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	=100%
Growth in business turnover	3.2%	3.5%	4.1%	10.8%	24.6%	25.1%	28.6%	1,173
Growth in business profits	5.1%	2.3%	1.7%	4.4%	12.9%	23.7%	49.8%	1,192
Growth in number of employees	8.6%	7.7%	12.0%	40.3%	20.1%	6.2%	5.2%	1,167
Greater customer retention	3.1%	3.5%	1.5%	5.9%	15.2%	30.7%	40.0%	1,179
Greater customer satisfaction	4.0%	2.1%	1.4%	4.1%	12.3%	29.8%	46.4%	1,182
Greater personal satisfaction	3.4%	3.0%	3.3%	14.0%	19.1%	27.7%	29.5%	1,168
Greater personal autonomy	3.5%	4.1%	6.2%	32.6%	19.7%	18.1%	15.7%	1,165
Greater personal reputation	4.3%	3.7%	6.4%	19.8%	23.2%	20.8%	21.8%	1,168
A growing sense of fulfilment	3.8%	2.6%	4.2%	12.7%	24.2%	27.7%	24.8%	1,171
Enhanced quality of life	3.7%	3.7%	3.8%	18.4%	20.9%	27.2%	22.3%	1,145
Other	2.4%	1.8%	0.6%	38.8%	4.8%	18.2%	33.3%	165

Total refers only to respondents answering the actual survey question

Table A2: Respondents' opinions of the importance of different factors to the continuing success of their business

	Not important at all	<=	<=	Neither important nor unimportant	=>	=>	Extremely important	Total
	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	=100%
Marketing	2.2%	3.5%	2.6%	8.0%	25.2%	24.1%	34.4%	1,156
Advertising in print media	25.4%	14.9%	12.9%	21.8%	16.5%	5.7%	2.7%	1,131
Sales	2.5%	2.3%	2.1%	5.4%	11.3%	24.5%	51.9%	1,144
Having a website	2.3%	1.9%	2.3%	7.1%	20.1%	25.8%	40.5%	1,147
Using networks and social media	5.6%	4.7%	6.3%	17.1%	24.6%	22.8%	18.8%	1,151
Managing people (interpersonal skills)	1.0%	1.4%	2.1%	6.0%	16.1%	31.2%	42.2%	1,149
Managing cash flow and liquidity	1.6%	0.6%	1.3%	3.7%	13.2%	25.0%	54.6%	1,155
Developing management skills	1.1%	1.8%	2.2%	11.0%	25.2%	35.6%	23.1%	1,152
Planning for the future of the business by identifying growth opportunities	1.0%	0.8%	0.5%	3.1%	13.6%	35.6%	45.5%	1,156
Planning for the future of the business by early identification of negative market conditions	0.7%	2.0%	2.0%	9.8%	23.4%	30.4%	31.6%	1,140
Other	4.7%	0.8%	0.0%	30.5%	3.9%	10.9%	49.2%	128

Total refers only to respondents answering the actual survey question

Table A3: Respondents’ opinions of their business’s effectiveness with regard to different factors that could contribute to the continuing success of their business

	Not effective at all	<=	<=	Neither effective nor ineffective	=>	=>	Extremely effective	Not used	Total
		Row N %	Row N %		Row N %	Row N %		Row N %	
	Row N %	N %	N %	Row N %	N %	N %	Row N %	N %	=100%
Marketing	1.8%	2.9%	7.7%	13.2%	30.8%	27.4%	11.7%	4.5%	1,124
Advertising in print media	10.7%	5.4%	7.2%	22.0%	12.8%	7.0%	2.5%	32.3%	1,107
Sales	1.3%	1.1%	4.4%	9.7%	23.1%	36.4%	19.5%	4.6%	1,116
Having a website	2.3%	1.8%	4.1%	11.6%	19.8%	32.6%	23.8%	4.0%	1,120
Using networks and social media	6.6%	4.7%	8.2%	15.7%	23.2%	19.7%	11.5%	10.5%	1,118
Managing people (interpersonal skills)	0.4%	1.3%	2.2%	11.0%	20.9%	36.4%	23.6%	4.2%	1,114
Managing cash flow and liquidity	0.6%	1.2%	1.9%	4.9%	16.1%	32.1%	38.4%	4.8%	1,121
Developing management skills	1.1%	1.5%	3.6%	14.7%	28.7%	31.3%	15.4%	3.8%	1,118
Planning for the future of the business by identifying growth opportunities	0.4%	1.4%	3.3%	7.2%	22.6%	36.6%	25.2%	3.3%	1,120
Planning for the future of the business by early identification of negative market conditions	0.6%	2.1%	5.8%	15.1%	25.4%	31.0%	16.9%	3.1%	1,112
Other	1.8%	0.0%	0.0%	31.2%	10.1%	18.3%	21.1%	17.4%	109

Total refers only to respondents answering the actual survey question

Table A4: Respondents’ opinions of their business’s effectiveness with regard to different factors that could contribute to the continuing success of their business (excludes factors not used)

	Not effective at all	<=	<=	Neither effective nor ineffective	=>	=>	Extremely effective	Total
	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	=100%
Marketing	1.9%	3.1%	8.0%	13.8%	32.2%	28.7%	12.3%	1,073
Advertising in print media	15.9%	8.0%	10.7%	32.4%	19.0%	10.3%	3.7%	749
Sales	1.3%	1.1%	4.6%	10.1%	24.2%	38.1%	20.5%	1,065
Having a website	2.4%	1.9%	4.3%	12.1%	20.7%	34.0%	24.7%	1,075
Using networks and social media	7.4%	5.2%	9.2%	17.5%	25.9%	22.0%	12.9%	1,001
Managing people (interpersonal skills)	0.5%	1.3%	2.2%	11.5%	21.8%	38.0%	24.6%	1,067
Managing cash flow and liquidity	0.7%	1.3%	2.0%	5.2%	16.9%	33.7%	40.3%	1,067
Developing management skills	1.1%	1.6%	3.7%	15.2%	29.8%	32.5%	16.0%	1,076
Planning for the future of the business by identifying growth opportunities	0.4%	1.5%	3.4%	7.5%	23.4%	37.9%	26.0%	1,083
Planning for the future of the business by early identification of negative market conditions	0.6%	2.1%	5.9%	15.6%	26.3%	32.0%	17.4%	1,078
Other	2.2%	0.0%	0.0%	37.8%	12.2%	22.2%	25.6%	90

Total refers only to respondents answering the actual survey question

Table A5: Frequency of purchasing of external advice and consultancy

	Never	<=	<=	Sometimes	=>	=>	Always	Total
	Row	Row	Row		Row	Row	Row	
	N %	N %	N %	Row N %	N %	N %	N %	=100%
Marketing	39.8%	9.5%	5.7%	28.1%	8.2%	5.2%	3.4%	1,106
Advertising in print media	62.3%	8.5%	5.2%	14.5%	5.1%	2.4%	2.0%	1,089
Sales	53.8%	9.1%	7.8%	16.6%	8.4%	3.2%	1.1%	1,098
Having a website	22.8%	5.0%	4.4%	22.7%	14.4%	13.1%	17.8%	1,103
Using networks and social media	46.1%	7.6%	6.0%	18.6%	11.4%	6.3%	4.1%	1,098
Managing people (interpersonal skills)	45.4%	8.1%	6.0%	21.4%	12.8%	4.3%	2.0%	1,099
Managing cash flow and liquidity	49.6%	11.8%	6.5%	14.3%	7.1%	6.7%	4.0%	1,099
Developing management skills	36.3%	9.2%	7.7%	25.9%	11.8%	6.9%	2.2%	1,097
Planning for the future of the business by identifying growth opportunities	44.9%	10.7%	5.5%	19.9%	10.0%	6.5%	2.4%	1,100
Planning for the future of the business by early identification of negative market conditions	52.5%	10.6%	6.2%	16.9%	7.8%	3.9%	2.1%	1,094
Other	50.4%	1.8%	0.9%	23.9%	4.4%	7.1%	11.5%	113

Total refers only to respondents answering the actual survey question

Table A6: Respondents' opinions of the importance of networking and social media to the continuing success of their business

	Not important at all	<=	<=	Neither important nor unimportant	=>	=>	Extremely important	Total
	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	=100%
Events (e.g. Chambers of Commerce)	19.4%	7.1%	4.6%	24.5%	22.0%	11.9%	10.4%	1,085
LinkedIn	18.4%	9.0%	6.1%	22.5%	24.0%	12.8%	7.2%	1,082
Facebook	39.4%	10.2%	7.0%	19.2%	14.3%	5.8%	4.2%	1,090
Blogging	35.3%	9.9%	7.0%	20.1%	14.7%	8.6%	4.3%	1,087
Twitter	35.0%	9.1%	6.2%	18.8%	17.3%	8.4%	5.3%	1,088
Online discussion groups	26.8%	9.5%	8.1%	25.2%	19.3%	7.6%	3.6%	1,085
Search engine optimisation	10.6%	4.2%	4.6%	13.6%	21.1%	20.3%	25.6%	1,090
Direct referrals	1.6%	0.7%	0.8%	3.3%	8.2%	18.6%	66.9%	1,075
Business mentors	18.1%	8.4%	6.4%	24.1%	22.7%	12.7%	7.6%	1,075
Advice from friends or family	16.8%	10.8%	8.5%	26.4%	21.8%	11.3%	4.4%	1,065
Other	15.5%	1.0%	2.1%	29.9%	7.2%	12.4%	32.0%	97

Total refers only to respondents answering the actual survey question

Table A7: Respondents' opinions on the current and future outsourcing activity of their business

	Currently to at least some extent	Plan to in the future	Do not or plan to do so	Total
	Row N %	Row N %	Row N %	=100%
Does your business outsource any of its activities currently?	48.3%	6.9%	44.8%	1,030
Does your business export outside the UK currently?	36.7%	6.9%	56.5%	1,036

Total refers only to respondents answering the actual survey question

Table A8: Respondents' opinions on the importance of outsourcing and exporting to their businesses' continuing success (all respondents)

	Not important at all	<=	<=	Neither important nor unimportant	=>	=>	Extremely important	Total
	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	=100%
Outsourcing of activities	28.8%	7.8%	3.5%	22.3%	16.7%	9.3%	11.6%	970
Exporting	50.8%	4.4%	2.3%	13.2%	8.2%	7.8%	13.4%	979

Total refers only to respondents answering the actual survey question

Table A9: Respondents' opinions on the importance of outsourcing and exporting to their businesses' continuing success (only respondents currently undertaking the activity)

	Not important at all	<=	<=	Neither important nor unimportant	=>	=>	Extremely important	Total
	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	=100%
Outsourcing of activities	5.1%	6.4%	3.2%	20.0%	26.9%	17.5%	20.9%	469
Exporting	10.4%	4.2%	3.9%	12.4%	17.4%	17.7%	34.0%	356

Total refers only to respondents answering the actual survey question

Table A10: Respondents’ opinions on their businesses’ Entrepreneurial Orientation

	Strongly disagree	<=	<=	Neither agree nor disagree	=>	=>	Strongly agree	Total
	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	=100%
MARKET PROACTIVENESS In general, our business favours a strong emphasis on research & development, technological leadership and innovations.	15.3%	9.8%	7.1%	21.5%	18.0%	12.6%	15.7%	1,040
In the past 5 years, our business has marketed a large variety of new lines of products or services.	15.8%	10.7%	9.3%	18.5%	19.8%	13.6%	12.3%	1,042
<i>In the past 5 years, changes in our products or service lines have been mostly of a minor nature.</i>	14.6%	15.0%	13.2%	17.3%	19.8%	13.0%	7.1%	1,032
COMPETITIVE AGGRESSIVENESS In dealing with competitors, our business often leads the competition, initiating actions to which our competitors have to respond.	5.4%	5.4%	5.8%	35.8%	19.3%	18.1%	10.2%	1,037
In dealing with competitors, our business typically adopts a very competitive posture, aiming at overtaking the competitors.	5.8%	6.3%	6.5%	28.4%	22.8%	17.2%	13.0%	1,041
RISK TAKING In general, our business has a strong propensity for high-risk projects (with chances of very high return).	25.9%	19.0%	13.6%	22.4%	10.1%	6.1%	2.9%	1,037
Our business believes, owing to the nature of the environment, that bold, wide-ranging acts are necessary to achieve our business objectives.	14.1%	15.0%	11.5%	27.2%	18.2%	9.7%	4.2%	1,036
<i>When there is uncertainty, our business typically adopts a “wait-and-see” posture in order to minimise the probability of making costly decisions.</i>	12.1%	16.7%	14.6%	28.7%	17.8%	6.4%	3.8%	1,035
INNOVATIVENESS Our business actively responds to the adoption of “new ways of doing things” by main competitors.	2.9%	3.8%	6.0%	23.5%	34.7%	19.7%	9.5%	1,035
Our business is willing to try new ways of doing things and seek unusual, novel solutions.	1.5%	1.3%	1.3%	8.3%	25.8%	35.0%	26.8%	1,040
Our business encourages employees to think and behave in original and novel ways.	1.7%	1.3%	1.7%	14.6%	22.8%	32.4%	25.6%	1,026

Total refers only to respondents answering the actual survey question
Statements in italics are worded in reverse outlook to others.

Table A11: Respondents’ opinions on their businesses’ Learning Orientation

	Strongly disagree	<=	<=	Neither agree nor disagree	=>	=>	Strongly agree	Total
	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	Row N %	=100%
COMMITMENT TO LEARNING								
Our business agrees that our ability to learn is our competitive advantage.	0.6%	1.2%	1.6%	8.7%	24.6%	29.7%	33.6%	1,007
The basic values of this business include learning as a key to improvement.	0.4%	1.0%	1.3%	8.2%	24.1%	31.7%	33.3%	1,005
The sense around here is that employee learning is an investment, not an expense.	0.9%	0.9%	2.0%	9.2%	22.8%	32.4%	31.8%	1,002
Learning in our business is seen as a key commodity necessary to guarantee business survival.	1.1%	1.8%	1.7%	11.2%	23.9%	29.6%	30.7%	1,002
SHARED VISION								
There is a commonality of purpose in our business.	0.8%	0.7%	1.0%	12.6%	21.3%	34.0%	29.6%	1,000
There is total agreement on our business’s vision across all levels, functions and divisions.	1.1%	1.5%	4.8%	15.3%	26.2%	31.1%	20.0%	997
All employees are committed to the goals of this business.	0.8%	0.9%	2.9%	13.5%	22.2%	33.8%	25.9%	996
Employees view themselves as partners in charting the direction of the business.	1.0%	2.3%	7.1%	20.3%	23.7%	27.3%	18.3%	989
OPEN MINDEDNESS								
We are not afraid to reflect critically on the shared assumptions we have made about our customers.	1.1%	0.9%	1.9%	20.3%	23.4%	31.3%	21.1%	995
Employees in this business realise that the very way they perceive the marketplace must be continually questioned.	1.6%	2.0%	4.7%	28.1%	26.4%	22.5%	14.7%	989
<i>We rarely collectively question our own business about the way we interpret customer information.</i>	15.4%	19.1%	20.9%	21.5%	12.9%	6.9%	3.4%	996
LEARNING FROM CRISES								
We learn from crisis events that are critical for our business.	2.1%	2.1%	2.7%	14.5%	25.2%	32.4%	21.0%	996
Crisis events have led us to change the way we do things.	4.5%	2.6%	3.8%	19.9%	25.3%	23.9%	19.9%	994

Total refers only to respondents answering the actual survey question
Statements in italics are worded in reverse outlook to others.

Table A12: Sources of finance used to start the business and to fund the business now

	At start of business	Now
	Col N%	Col N%
Personal/family savings	72.4%	38.8%
Remortgaging personal property	10.5%	6.1%
Credit card	9.1%	13.5%
Loans from family/friends	8.2%	5.3%
Bank loan	28.2%	29.1%
Leasing	6.5%	14.2%
Factoring and Invoice Discounting	2.7%	8.0%
Business Angels/Venture Capital finance/Grant	8.8%	6.7%
Income from other activities	15.1%	12.4%
Reinvesting profit (now)	-	68.4%
Other	8.9%	9.6%
Total (=100%)	1,018	1,034

Total refers only to respondents answering the actual survey question

Table A13: Number of different sources of finance used to start the business and to fund the business now

	At start of business		Now	
	Col N%	Cumulative Col N%	Col N%	Cumulative Col N%
1	57.6%	57.6%	41.5%	41.5%
2	24.6%	82.1%	25.6%	67.1%
3	11.0%	93.1%	19.8%	86.9%
4	4.9%	98.0%	8.3%	95.3%
5	1.3%	99.3%	2.6%	97.9%
6	0.3%	99.6%	1.7%	99.6%
7	0.3%	99.9%	0.2%	99.8%
8	0%	99.9%	0.1%	99.9%
9	0.1%	100.0%	0%	99.9%
10	0%	100.0%	0.1%	100.0%
Total (=100%)	1,018	1,018	1,034	1,034

Total refers only to respondents answering the actual survey question

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