



**SWP 8/87      SMALL FIRMS, NEW FIRMS:  
A STRATEGY FOR NORTHERN IRELAND**

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ABSTRACT

During the last ten years, Northern Ireland has suffered the same economic fate as the rest of the United Kingdom - a severe decline in its manufacturing base, and with this a substantial growth in unemployment to unacceptable levels. In response, a strategy for regeneration has been constructed. The main thrust of this strategy has been threefold:

1. To seek Inward Investment
2. To stimulate New Firms
3. To encourage Existing Firms to grow.

The strategy has involved a wide range of schemes of advice and assistance, managed through the Department of Economic Development, the Industrial Development Board (IDB), the Local Enterprise Development Unit (LEDU), as well as local enterprise organisations.

However, whilst many of the problems encountered, and for which the various schemes devised can be seen replicated elsewhere in the United Kingdom, the basic problems in Northern Ireland are different in character. Apart from the evident political problems, the province has a small population, and thus a small local market, with a very distinctive "stay-at-home" culture. However, as a number of large overseas firms have recently withdrawn their investments in the Province, increased attention has focused upon the small firms and the new firm as the source of new wealth and new jobs.

This paper arises out of an analysis of the current strategy. It discusses the fundamental problems inherent in attempting to develop a small firm/new firm strategy within this context, and outlines the future strategic directions necessary.

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During the past decade, most of Western Europe and North America has faced serious economic problems. The oil crises of the seventies, combined with the increased competition from Pacific Rim countries have forced many companies, both public and private, to re-examine their cost structures and to reduce their work forces. As a consequence, national unemployment has grown to politically unacceptable levels re-awakening fears of those experienced in the depression of the 1930's. However, in the United Kingdom these high levels of unemployment are not evenly distributed. Whilst the South East apparently flourishes, with companies complaining that they are unable to find employees, other areas which were traditionally "company towns" for industries like shipbuilding, steel manufacturing or coal mining are experiencing devastation. The province of Northern Ireland falls into this latter category, but because of its particular political and geographic situation, it faces problems which are even greater than other disadvantaged areas in Great Britain.

In dealing with these major structural shifts in the economy, national Government has developed strategies, in partnership with local organisations, which are regional in nature. Moreover, a major focus of these strategies has been that of trying to generate new firms, to encourage those in unemployment to move into self-employment. This is particularly pertinent in Northern Ireland where more than 70% of firms employ less than 20 people, and where currently 21.5% of the population are unemployed. Indeed, this extreme situation makes the study of the Ulster experience of particular value.

This paper, therefore, analyses the current strategy adopted in Northern Ireland, identifies problem areas, and suggests a change in strategic direction. The issues identified are of relevance to other regions experiencing economic problems.

### THE CURRENT SITUATION

As elsewhere in the United Kingdom, the goal of most initiatives in Northern Ireland is very clearly job creation. The strategy adopted by the Department of Economic Development [DED] has three major strands - the promotion of inward investment, the encouragement of existing firms to grow, and the stimulation of new firms. Within this, three major structural mechanisms are used to initiate, manage, or fund, the various schemes. At the local level, help is offered to the very small and the very new

[the lifestyle ventures] through a series of Local Enterprise Programmes [LEP]. The Local Economic Development Unit [LEDU] is concerned with "small firms" - those with up to 50 employees. Inward investment and the larger firms are the responsibility of the Industrial Development Board [IDB]. (See Figure 1 below)

Figure 1:

LEP -----	LEDU -----	IDB -----
Lifestyle Ventures	Small Firms/ New Firms	Large Firms

Unfortunately, despite extremely advantageous grants and training schemes, firms continue to close down their branch factories, small firms appear reluctant or unable to grow, and the supply of new firms does not currently fill the widening gap. Moreover, despite its relative success in obtaining new public and private sector orders, the major local firm of Harland and Wolf is in an industry, shipbuilding, which has been crippled world-wide. In Greater Belfast area, the most prosperous area in Northern Ireland, unemployment is over 18%, and in parts of the rest of the province it approaches 40%.

#### THIS RESEARCH

The purpose of this research, commissioned by DED and LEDU, was to study the current strategy adopted in Northern Ireland, and to suggest future directions. Data was collected in two ways. First, all relevant documents and papers were studied for background information [see Appendix 1]. Second, interviews were conducted with a sample of people chosen to represent a wide range of views and experience. A list of the organisations represented is found in Appendix 2.

The preliminary analysis and conclusions were then presented to groups from the three organisations shown in figure 1, and refined as a result of subsequent discussion.

#### THE BASIC PROBLEMS

Seven basic problems hinder the progress of strategies to improve the commercial base of the Northern Ireland.

1. **Small Population, Small Market;** The total population of Northern Ireland is approximately 1.6m, the majority of the population living in and around the capital, Belfast. There are 460,000 people in employment, of which 207,000 are employed in the public sector. Moreover, the public sector is not only the major employer, representing 45% of the employed population but public sector expenditure in Northern Ireland is equivalent to approximately 70% of the Gross Domestic Product.

It is clear from this simple analysis, and from the high levels of unemployment, that the home market for both new and existing firms is very limited in size. Moreover, the two closest markets are The Republic of Ireland and Great Britain, both of which are seen as "foreign" to many Northern Ireland businessmen. Consequently, if a firm wishes to grow, it must adopt an "export" orientation very early in its life.

2. **Old Skills in Declining Industries;** For the past 50 years three industries have dominated the province - farming, shipbuilding and textiles. Despite the growth and decline of associated industries like linen and food processing, the basic skills continue to be based upon heavy engineering and small-holder farming. Further, the fact that these industries are in decline, with both companies and branch factories contracting and closing down, means that insufficient industrial infrastructure exists to support a steady supply of new firms.
3. **Vacuum of New Ideas;** The main sources of new ideas flow either from work experience, or from external role models, or from the wider horizons developed as a result of travel. In Northern Ireland, the first two of these sources have dried up significantly, and the majority of those Ulstermen who do travel tend to stay abroad.
4. **Work Ethic is an Employment Ethic;** There is little commercial entrepreneurial tradition in the province. Even those farmers who are self-employed are more likely than not to have simply inherited their land, and thus their lifestyle, from their family.
5. **The Northern Ireland Nature;** It is difficult to capture the essential character of the typical Ulsterman. However, in terms of this research, the following quotes give the flavour of his current motivation - "We don't like to grow beyond the comfort level", "We are a stay-at-home society", "Those who are good go abroad". To illustrate the latter point further, it was noted by one interviewee from the academic sector that "80% of our qualified graduates go abroad".
6. **The Perception of Northern Ireland Overseas;** There is little doubt that whilst the political history of the province is not well understood overseas, its effect is very clear. It is seen by many as a dangerous place to live and to visit. As a result, it fares badly in comparison with other regions of the United Kingdom when seeking to encourage inward investment, particularly when dealing with large firms making decisions about the future homes of their executives.

7. **Low morale;** The basic Irish home-loving nature, plus the long history of "the troubles" has led to lack of willingness to take both personal and commercial risks.

### **STRENGTHS AND WEAKNESSES**

It is within this framework that an analysis of the strengths and weaknesses of "Ulster Ltd" was conducted. Despite the problems listed above, there is a clear base from which new firms and existing firms could grow.

#### **STRENGTHS**

1. **Good Industrial Relations Record;** Despite popular opinion to the contrary, the industrial relations record in Northern Ireland is very much better than that of either other regions of the United Kingdom or of the Republic of Ireland.
2. **Very Good Network of Incentives;** The range of incentives available to all types of firms is both comprehensive and competitive.
3. **LEDU;** LEDU is well-known throughout the province. The fact that "it is not part of the civil service" and that it "legitimises business" are seen as major strengths by the businessman.
4. **The Ex-patriot Market;** Large numbers of people overseas, particularly in North America, are of Irish origin and continue to have a strong affection for the "mother country". They provide a large and willing customer-base for the "Made in Ireland" label.
5. **Airports and Ports;** The transport services available to those firms wishing to export are modern and well developed.
6. **Ulster;** One of the important factors which firms consider when deciding upon a new location is the lifestyle which their executives will enjoy. Ulster offers beautiful countryside, excellent sports [fishing and golf], good schools, and warm hospitality. Few businessmen visiting for the first time fail to return, many for holidays.

Whilst the above analysis would indicate that Northern Ireland is an attractive base from which to grow, there exist substantial barriers to growing an entrepreneurial society.

#### **WEAKNESSES**

1. **The National Culture;** It is increasingly being recognised that national culture may have a substantial part to play in the supply of entrepreneurs. Two characteristics of the

Northern Ireland culture contribute to the poor supply of new firms. First, there is "no tradition of self-start". Second, even those who do chose to start their own firm are "not customer-oriented"; "submissive to customers - won't ask for money"; "marketing and exporting are beyond our vision"; "we see ourselves as isolated from markets". Moreover, a recent study by Hitchens and O'Faffell [1985] showed that the firm from Northern Ireland is likely to be uncompetitive in the more prosperous markets of Great Britain.

2. **The Rise of the Grant Society and the Grantpreneur;** The number and availability of incentives and grants available in the province is in danger of constraining the development of the commercially viable firm. Too often the advisors surrounding the entrepreneur are concerned with "getting as many grants as possible" rather than looking to beyond the grants ["We get so much Government money that it confuses Joe Public"]. This also has an effect on existing firms who view the availability of grants to the new firm as creating unfair competition.
3. **Historic economic ties;** Should the firm consider exporting for the first time, the most likely market to which it will turn will be the rest of the United Kingdom which, although it is not constitutionally an export country, is viewed as such by most Ulster businessmen. However, the UK market is not bouyant, a factor which severely hinders local firms which need to dveleop products whcih can compete in truly international markets.
4. **An Underdeveloped Banking and Investment Industry;** The wide availability of grant and uncommercial money, plus the perception of Northern Ireland overseas, has stifled the growth of commercial sources of money ["The bank would probably not be prepared to assist if it wasn't for LEDU involvement"]. Indeed, there are few significant venture or development capital firms resident in the province.
5. **The Delivery Mechanisms and Systems;** Because the growth in the schemes offered has been reactive rather than as an overall strategy, there is often confusion in the customers mind as what is available and from where. "When do Enterprise Training, Youth Training, and Community Employment Schemes apply?" There is "poor communication in the network of local activities" and it is unclear how the growing firm is passed through the local - national - international network.
6. **A lack of basic data to monitor and evaluate grants and schemes;** The sheer volume and variety of schemes, taken together with the fact that many are relatively new, has

meant that formal monitoring of their effectiveness has been sporadic.

7. LEDU; LEDU is haunted in part by its own success. The fact that it is so well known has meant that it has grown substantially in the last few years as it has responded to the increased demand for its services. However, there are costs associated with this. Response rates to requests for help and advice have slowed; the bureaucratic infrastructure is becoming top-heavy relative to the demands upon it.

### GOAL CONFUSION

Many of the problems described above can be traced to a concentration upon one strategic goal - that of job creation. Indeed the measure of performance and evaluation used by both the IDB and LEDU is one of jobs "promoted" However, some of the schemes introduced are likely to produce quite a different effect. For example, those entrepreneurs wishing to enter a home market already oversupplied will fail the "admissability" test, and thus not be eligible for assistance unless they can prove that there is substantial export potential very early in the life of the firm. This has the effect of cushioning those already trading in the market-place by limiting competition and by stifling export effort. Further, this concentration upon job creation and job retention has meant that those firms with wealth creating potential, but which create few direct jobs, are not supported, whilst poorly managed, overmanned, large firms are supported. A balanced strategy would include those who fall within boxes 1 and 2 in figure 2 below, rather than concentrating upon boxes 3 and 4.

Figure 2:

		Skills	
		Low	High
Employment	Low	1. Lifestyle Activities/ Self Employment	2. Wealth Creation
	High	3. Job Creation	4. Large Firms/ Inward Investment

In the short term, confusion has also arisen between the creation of work and the stimulation of enterprise when creating schemes



to assist the unemployed. Whilst it is clear that new and growing firms are necessary for the economic health of the future, it is not at all the case that the new entrepreneurs necessarily come from the unemployed group. Indeed, most of the studies to date which examine the experience of those who start their own firm show that the majority were fully employed immediately prior to start-up. Thus, whilst a few may move from unemployment into self-employment, the majority will not. If this is the case in Northern Ireland, the entrepreneurs of tomorrow will emerge from the employed of today; the firms of today are the incubators for the new firms of the future. Moreover, it will be many years before even the new firms of today are supporting a workforce of any size. There is, therefore, a gap, and it is to fill this gap that many of the work creating schemes are aimed. Figure 3 illustrates the involvement of both employed and unemployed in this process.

Figure 3:

	Jobs	Work
Employed	New Firm Incubators	Voluntary Activities/ Assistance
Unemployed	Self-employed	Community Work

Unfortunately, this confusion as to the purpose of both the strategy and the various schemes has contributed to the problems outlined in the previous sections of this paper. So, for example, a local organisation may be required to administer both work creation, job creation and firm creation schemes, each of which need very different skills. Work creation schemes use those social-work skills which are concerned with finding ways to create a more fruitful life for the underprivileged in the local community through the usually continual provision of aid and assistance. Grants are an important part of this approach. Conversely, those concerned with evaluating business ideas need to be able to assess the commercial viability of the idea [the ability of the new firm to survive on its own], and to counsel and guide the entrepreneur whilst he assembles the necessary resources.

### FUTURE STRATEGY

Two major conclusions arise from the analysis in this paper. First, the province has a number of weaknesses which mitigate against inward investment, particularly of the larger firm.

Whilst this could often significantly reduce the unemployment levels "at a stroke", it has been extremely difficult to sell and firms can not be relied upon to stay for the long term. Second, and as a corollary, the firms of the future are more likely to be home-grown. Therefore, a strategy which aims at promoting new firms and encouraging existing ones to grow is critical.

Drawing upon the experience of the entrepreneurial societies elsewhere, a number of premises were established in determining a future strategy for the province.

1. Most entrepreneurs are employed immediately prior to start-up.
2. Most entrepreneurs start their firms when they are in their thirties.
3. Most "high flying" entrepreneurs are well educated and travelled.
4. The most important resource during the start-up process is the personal network.
5. Almost all firms start small.
6. Most new ventures take many years to come to fruition.
7. A healthy new firm sector is a volatile one.
8. New firms often fail to create jobs for the unemployed.
9. Schools build motivations and future horizons, employment incubates ideas.

It is clear from these premises that the effect of new firm and small firm strategies will take many years to realise and that, therefore, the short-term work creation schemes become an essential part of the overall strategy. However, they should not be expected to be a prime incubator for new firms, but rather the base from which skills and experience are gathered. Moreover, an entrepreneurial society will not be created by the creation of yet more schemes, of which there was an oversupply, but in changing attitudes towards ownership and towards growth. Thus the major thrust of the strategy should be to -

- \* separate job and work-promoting activities
- \* devolve work creation and self-employed activities to local organisations
- \* proactively focus upon and promote those firms wishing to grow.
- \* increase awareness - promote the "I can do it" idea to the population as a whole by regularly promoting successful role models.

Changing national attitudes is difficult, particularly in the Northern Ireland environment, yet the evidence from elsewhere would indicate that an "entitlement society" is not an entrepreneurial society. In his analysis of economies world-wide, Scott [1982] concludes that a growth in the level of social entitlement leads to an increase in individual expectations, a decrease in motivation and a resultant decline in economic health. Northern Ireland is a small, but self-contained, example of a problem encountered in many parts of Europe and America.

## APPENDIX 1

### Sources of Information; Articles and Papers

"Inter-regional Comparisons of Small Firm Performance: The Case of Northern Ireland and South East England" - David Hitchens [Queens Univeristy, Belsfast] and Patrick O'Faffell [UWIST, Cardiff]. Presented to the UK National Small Firms Policy and Research Conference, Belfast, Northern Ireland, November 1985.

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"The Duration of LEDU Assisted Employment" - Northern Ireland Economic Council

"Five Year Corporate Plan; 1986-1990" - Newry and Mourne Co-operative Society

"Enterprise in Recession; A Community Response" - Frank O'Dologhan, Newry and Mourne Co-operative Society

"Youth Unemployment in Northern Ireland" - Price Waterhouse 1985

"LEDU Annual Report" LEDU, 1985

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"Can Industry Survive the Welfare State?" B.R. Scott, Harvard Business Review, September/October 1982

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"Building Businesses....Not Barriers" HMSO, London, Cmnd 9794

"Local Employment Initiatives: A Manual on Intermediary Support Organisations" Commission of the European Communities, 1985

"Local Employment Initiatives: Local Enterprises in Great Britain" Commission of the European Communities, 1985

"Small Firms Policies in the UK", Storey and Johnson, Centre for Urban and Regional Development Studies, University of Newcastle upon Tyne, 1985

Various articles in The Times, The Financial Times, The Economist, and British Business

## APPENDIX 2

### Sources of Information; Interviews

Northern Ireland Office

Industrial Development Board [IDB]

Department of Economic Development [DED] - Northern Ireland  
Boston, Massachusetts  
Chicago, Illinois

Members of the Local Economic Development Unit [LEDU]

Local Enterprise Groups - Coleraine  
Newry  
Ardoyne

Consultants - Coopers and Lybrand  
David Rigby Associates

Bankers

Faculty from the University of Ulster

Design Council

Owners and Managers of Small Firms