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ECONOMIC *Perspective*

RESPONSE TO PAPER BY ALEXANDER
DOW AND CATHERINE KIRK
"THE NUMBER OF SCOTTISH BUSINESSES
AND ECONOMIC POLICY"

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The figures in the paper by Alexander Dow and Catherine Kirk are indeed a disappointment. They reflect the serious debate on Scotland's progress towards the Business Birth Rate Strategy's objectives that began after we published our own "Five Years On" report on the Strategy's progress in 1998. The debate became more pronounced this year with the publication of the 1999 year-end *New Business Statistic* (based on data from the Scottish clearing banks) which showed a marked drop in the number of starts - at a time when the economy overall seemed to be quite healthy.

Against this background we launched the "Inquiry 2000" Review, which was designed to take stock of what had been achieved since the Strategy's launch in October 1993. As this review coincided with the year chosen to mark the culmination of the Strategy and the departure from Scottish Enterprise of the Strategy's initiator and champion - its founding Chief Executive, Crawford Beveridge - the timing of this reassessment was particularly appropriate. The Review also considered the impact on attitudes to entrepreneurship within Scotland and the impact within Scotland's key institutions (including the media). The process culminated in a re-union of many of the original instigators of the Strategy, in Glasgow in February 2000¹

The negative results highlighted in the Dow and Kirk paper were well known at the time of the Review. But, as Crawford Beveridge argued in his

presentation at the Inquiry meeting², they had to be seen in the context of the much wider evidence of the progress being made:

- An increasing interest in entrepreneurship in Scotland. According to Scottish Enterprise's biennial Attitudes to Entrepreneurship Survey (carried out by MORI), the number of people expressing 'serious interest' in starting businesses has nearly doubled, from 50,000 in 1992, to 99,000 in 1999. Moreover, the 'degree of seriousness' within the group has increased, with the proportion reporting that starting a business is 'no more than a dream' dropping from 62% in 1995 to 44% in 1999. In addition, there is evidence that the gap with the rest of the UK is closing on these issues.
- Stronger institutional support for business start-ups, reflected in the increased and more positive coverage of entrepreneurship in the Scottish media. For example, there has been a twelve-fold increase in the usage of the word 'entrepreneur' by the main Scottish newspapers since 1993. The improvement is also reflected in the financial support for start-ups, with Scotland identified as a "hot spot" in the UK for both venture capital and business angel finance.
- Considerable success in incorporating enterprise into the education system, with 10% of students in primary and secondary schools, and in Further Education Colleges and Universities, engaged in some sort of 'enterprise experience'. An evaluation by Oxford University estimated that graduates from six (now seven) entrepreneurial teaching courses at Scotland's Universities produce around 500 additional new starts a year - with considerable commitment to business start-up among other alumni³.
- Many of the new business start-up initiatives taken by the Scottish Enterprise Network seem to have been successful. The 'turnover' of the Scottish Business Shops has almost doubled, to nearly 90,000 (the 1999-2000 figure topped 100,000⁴). The Personal Enterprise Campaign

² Scottish Enterprise (2000). *Inquiry 2000: Abstract of Proceedings*. February 2000, pp3-4. (see www.newbusiness.org.uk)

³ Geoff Hayward. *An Evaluation of Enterprise Education Activity in Scottish Universities*. 1999. (see www.newbusiness.org.uk)

⁴ Scottish Enterprise (2000). *Annual Report*. 2000 (see www.scottish-enterprise.com)

¹ A summary of the *Discussion Paper* produced for this meeting, and an *Abstract of Proceedings* can be found on the Business Birth Rate Strategy web site: www.newbusiness.org.uk, which also includes summaries of the original evidence used to produce the Strategy.

has proved a major success at attracting Scotland's 'wannabe' entrepreneurs, with over 15,000 visitors to the Personal Enterprise Show, and almost 3,000 new businesses created. For fast-growing new starts, the Entrepreneurship Programme run by Scottish Enterprise Lanarkshire helped create 15 fast-growth starts over three years, generating over 1600 jobs and winning the European Union's job-creation award for enterprise.

There is no doubt that attitudes have changed within the major institutions within Scotland, with the media, financial providers, educators, policy-makers and providers of business support all more positively-disposed towards entrepreneurs and business start-ups than they were in the early 1990s. The fact that many other regions and countries have adopted entrepreneurship and start-ups as policy priorities suggests that, for once, Scotland has been ahead of the game in this area.

The participants in the Inquiry 2000 discussions endorsed much of the above evidence. The entrepreneurs, financiers, educationalists, policy-makers and journalists who participated in the debate largely agreed that the environment for entrepreneurship in Scotland had improved significantly during the 1990s, and that the Business Birth Rate Strategy had done much to initiate this change. Concluding that the Strategy had 'failed', or had not been worthwhile, from the recent start-up trends, was an unduly pessimistic view. However, it is certainly not the case that the effort to continue to improve things should not be continued.

As was admitted in the Discussion Paper produced for *Inquiry 2000*, the lack of clear evidence of progress in the 'headline' start-up data, as highlighted by Dow and Kirk, still raises concerns. After all, the objective of "closing the gap" in the business birthrate with the rest of the UK was adopted as a clear way of highlighting that something 'different' had happened in Scotland that had not occurred elsewhere in the UK. Even though data are only available for 1998, we fully admit that the Strategy's target of 'closing the gap by the year 2000' is unlikely to be met. To some, this evidence seems to suggest that the most active entrepreneurial campaign run in the UK in recent years has failed, or has had negligible impact on its key target measure.

However, taking into account the other evidence, listed above, there is a strong suggestion that "something has happened" and that some of the basic "building blocks" for stimulating increased levels of entrepreneurship are in place. Identifying any policy impact from the wider trends in the

economy and the impact of other policy measures is fraught with difficulty, for a variety of reasons. This analysis is made all the more difficult by the absence of truly effective methods for measuring business start-ups and growth trends. For instance, our own evidence from the *New Business Statistics*, compiled from bank data, shows a consistent fall in the number of business closures over the last five years – in contrast to the increasing numbers of VAT de-registrations described in Dow and Kirk's paper.

Another reason for taking a longer view is to allow sufficient time for the underlying changes from the various policy initiatives to take effect. Other evidence than the basic start-up data shows little change over the last decade: wider social attitudes towards entrepreneurs have hardly budged since we first started surveying the issue in 1992. Scottish views of the importance of entrepreneurs to the economy and to society were much more negative than in other areas then; and they are still as negative now, having hardly shifted at all over the last seven years⁵.

This suggests that the aim of increasing the number of new business starts is not a simple task – one unlikely to be turned around in five years or less. While the lack of strong evidence of a 'closing gap' with the rest of the UK is disappointing, there is other evidence to suggest progress. There has been a small reduction in the gap with the rest of the UK, excluding the South of England. There is the attitudinal evidence that suggests a growing interest in entrepreneurship in Scotland, and the significant take-up of the policy measures adopted to address the low business birthrate.

For these reasons, the accusations of 'policy failure' made against the Business Birth Rate Strategy may be somewhat premature. If there has been a failure, it was to underestimate the time it would take to make serious in-roads into Scotland's low business birthrate. It is ironic, given some of the critical comments made of the Strategy of late, that SE was widely applauded for taking as long a perspective as seven years when the Strategy was launched – a time-frame that looks unduly short now.

However, even with hindsight, I am convinced that the Strategy was correct to focus on improving the Scottish 'environment' for entrepreneurship – rather than trying just to hit a more straightforward numerical target. Given the policy instruments at Scottish Enterprise's disposal, it would have been

⁵ Scottish Enterprise (2000). *Inquiry 2000: Discussion Paper*. p11 (see www.newbusiness.org.uk)

much easier to hit such a numerical target – like increasing the number of start-ups by 25,000 – for instance by increasing direct subsidies to business starts. Instead, we have focused on making Scotland a more encouraging environment for entrepreneurs, trying to build stronger commitment to business start-ups among the general population and support institutions. Recent evidence from other quarters agrees with this, suggesting that creating the correct business environment is much more important to the task of increasing the number of business starts than the provision of direct policy support to new businesses. As the 1999 report of the Global Entrepreneurship Monitor international study of entrepreneurial potential concluded:

“It may take dramatic, sustained changes in all aspects of the cultural, political and economic institutions to make the quantum leap forward to join the entrepreneurial economies. Creating a culture of enterprise and the associated conditions to support entrepreneurship will take decades – perhaps generations – requiring a sustained national commitment that transcends the political cycle.”⁶

Or, as Crawford Beveridge himself put it, at the *Inquiry 2000* meeting:

“Many look at Silicon Valley and ask why can’t we emulate that. As we now know, these things take time. Silicon Valley’s beginnings were really with Hewlett Packard in 1939. It took that generation of entrepreneurs to invest in the next generation as business angels, and then that generation to put their wealth into the first venture capital funds. Now, a couple of generations after that we have the vibrant self-sustaining place it is today. Maybe it won’t take us 60 years as it did them – indeed the signs here both in terms of the quality of some of our new companies as well as the growth in angel investing are encouraging. But it is certainly a lot more than seven [years]. This is a marathon, not a sprint...”⁷

⁶ Paul D. Reynolds, Michael Hay and S. Michael Camp (1999). *Global Entrepreneurship Monitor*. Babson College/Kaufman centre for Entrepreneurial Studies/London Business School. p42.

⁷ Scottish Enterprise (2000). *Inquiry 2000: Abstract of Proceedings*. February 2000. p22 (see www.newbusiness.org.uk)