



<http://www.smeweb.com/content/view/2458/112/>

## Government needs to encourage enterprise

Written by Stephen Archer, Business analyst and director of Spring Partnerships

Thursday, 03 February 2011

With the coalition government's announcement of possibly 600,000 public sector job cuts and slow growth in the private sector, economists' predictions of a recovery with low job uptake is, sadly, looking likely.

One thing is clear, the turnaround, recovery, the improvement of the balance of payments and growth will need to come from private sector business.

But, for private sector growth to occur, the government needs to rethink its support of businesses. This cannot be just lip service though I shudder to suggest that another quango is created to help this to take place.

There can be no sustainable recovery until the private sector is hiring again and the levels of GDP deriving from the State reduces from its current high of 44% to under 35%. In the medium term this may mean low levels of GDP growth but so long as this is accompanied by the shift from state to private GDP growth this should not be viewed as a problem.

The government needs to encourage enterprise – yes SMEs, but particularly the Small Enterprises which are the backbone of the UK economy, employing as they do 52% of the UK workforce. The SE's have the capacity to hire regionally and locally in a way that larger organisations cannot. They also have the ability to hire and harness skills.

These skills in SE's can create new products and services with innovation and speed – two features that all too often atrophy in larger organisations – certainly speed is all too rare in big business. Speed will be a vital component of the ability of the UK economy to compete in the world. With China sprouting 15,000 engineering graduates a year and an economy that encourages copying of western products (quickly) we have to be smarter and fleet of foot. Small enterprise can do this.

Vince Cable clearly knows this as do the more enlightened members of the government but we need to make enterprise far easier to start. The most obvious area of help is with finance. Banks need to be far more imaginative and co-operative with enterprise. All too often the banks still display a 'tick box' approach to finance.

They are absurdly risk averse. They make entrepreneurs go through all the hoops and then

they take a charge on their house. So the banks act as if they are in the risk business but they are far from it.

Paradoxically the tick box approach diminishes as the investments get bigger! Why? Because bigger investments are handled by more senior bank staff who have more experience and freedom to support investment. They also have more scope for risk and they get excited about the larger customers and investments.

Banks need to start seeing the small enterprise investments as exciting as opposed to a distress service, a chore to get through even.

What does the end game look like? We could do far worse than copy the German economic model which is based so much on SME's and manufacturing. Finance is strongly geared around supporting SME's because they are the backbone not just of the economy but also of society. They provide employment at a local level which means far less regional unemployment black spots in Germany.

In the UK the employment picture is far too polarised to the south and away from such regions as the North east and Northern Ireland. There is no reason why this picture has to prevail.

It is not just regional development agencies that can make the change. Wales is quite a good example. Why can't the same be done in the north east or even counties such as Suffolk?

Business founders not only need greater enterprise investment support but also tax breaks. Tax breaks for employing people and major tax breaks on profits in the first 5 years provided there is a certain level of re-investment. In the short term, tax revenue from start ups may not be bumper but unemployment benefits will fall and the big society may even start to emerge at the business level.

Regulation needs to be waived in many areas of business. Local authorities and the government's procurement processes are great example of where this can be slashed. The buying process by government militates very strongly against the SME's. The requirement for many years accounts, ISO accreditation, health and safety certification, diversity policies and many many more. This kills the chance for SMEs' to supply government and serves no one well – except the paper suppliers.

It is not just the government that makes it tough on small business. Big business can be equally bound up in red tape procurement process and deter SME's as suppliers.

Employment law needs to be eased for SMEs' too. The rights of employees and the propensity to use no-win no-fee lawyers can be very damaging for small businesses. This really deters the hiring of people. It has been a significant factor in the growth of the contractor market. Why employ someone when you can contract them and reduce the

responsibility to an acceptable level? There are many people that love being business owners but too many do not enjoy being employers.

So the rise in employer national insurance contributions must of course be stopped. This is a cost that SME's don't need.

The Enterprise Finance Guarantee scheme should be extended and broadened to allow more enterprise to be encouraged.

There should be far stronger local support for enterprise. Business Link could be far more focussed in this regard and so too can the Chambers of Commerce. Business should be the heroes of the land since they will be the employers and the social glue in many areas.

Finally – We need a rather more real Dragons Den and Apprentice to be seen by the public. These programmes really distort reality. Business must be seen as attractive, fun, worthwhile, rewarding and community building. We live in a free market economy.

Let's make it a lot freer – FAST!