

Evidence from the Federation of Small Businesses to the Economic Development Committee – Appendix II

Further FSB Comments on *Barriers to Growth*

Nearly 70 per cent of respondents said they wanted to expand their business, undermining the findings of some previous surveys that many small businesses are set up for 'lifestyle' reasons and are unlikely to grow bigger.

But small businesses in Wales are seriously lagging behind their competitors in south east England when it comes to fast access to the Internet. The survey has found that a paltry two per cent of firms in Wales use broadband technology whereas 11 per cent of London businesses are cashing in on the faster connection.

Broadband infrastructure for small businesses has given us the most cause for concern as 16 per cent of respondents said that the lack of broadband connections was either fairly or very constraining to their business use of technology, which was higher than the UK average.

The alarming thing was that in terms of business technology, this came ahead of upgrade costs of hardware and software, which were 9 per cent and 11 per cent respectively. If competitiveness is the key to growth, then this is an extremely concerning finding.

The value of public sector business advice in Wales also comes in for criticism as respondents express the highest levels of dissatisfaction in the UK with a range of government funded support services, such as usefulness of business advice, quality of business advisors, advisors' understanding of their business, loan funding, and relevance of their services.

The quality of support offered by local authorities also attracted criticism, with over half of all firms saying they were dissatisfied, with around 40 per cent saying they were fed up with local economic development departments and a quarter unhappy with the way local planning applications were carried out.

Of the nearly 750 small business people surveyed, most were particularly fearful that growth of their firms was being held back by environmental legislation in particular, along with employment legislation and high fuel costs.

And some 59 per cent of respondents said they were not happy with their council business charges. Compared to the UK as a whole, dissatisfaction among respondents in Wales was generally higher on all items relating to locally provided services, with the exception of the

provision and cost of premises.

Compared with the UK as a whole, businesses in Wales reported higher than average levels of unhappiness with finance and banking issues such as interest rates, bank charges, the cost of overdrafts, the availability and cost of loan finance, the availability of venture capital and the accessibility of EU funding.

Where to now?

The EDC's last review of business support concluded that there is congestion within the field of local economic development in Wales. There is confusion, overlap, duplication and even active competition between the many agencies involved. There are numerous circumstances where the same services are provided by different organisations in different parts of the country.

By reaching this conclusion, the Committee was making two very clear points. Firstly, the existing provision of services is failing to adequately meet the needs of consumers. Those seeking to use these services are not being best served by existing arrangements.

Secondly, if this conclusion is correct, there is an inherent failure to deliver maximum value to the public purse for the substantial sums of public money that are invested in these services.

With this in mind, the FSB would like to make the following points:

- **ECONOMIC DEVELOPMENT IS NOT A BRANCH OF SOCIAL WORK**

Economic development strategy has become too much an industry in its own right and too focused on substituting for market failure rather than making the market work properly. We need a new approach that is not social work ('more jobs') but viewing things as we would a business problem – the Welsh economy is an under-performing division and we need to fix it.

- **PUBLIC ACTION HAS ONLY ONE TEST – IS IT ADDING VALUE?**

Listing new starts and training places filled is not a test of success of the economy it is only a test of the success of a programme. What we are really interested in is how the economy maintains continuous improvement.

- **SUPPORT FIRMS NOT INDUSTRIES**

Welsh economic development strategy is habitually focused on inventing new industries rather than helping individual firms. It thus has a terrible history of seeking the next fad that has

caught the planners' eyes – and concentrating subsidy and training there – rather than supporting business excellence wherever it lies and letting business seek out new markets for itself.

- **GET BUSINESS TO DELIVER TO BUSINESS**

When designing business support programmes, publicly-funded programmes will always be subject to (1) accountability systems which slow delivery; (2) politicians, political parties and elections dictating goals; (3) empire building; (4) output targets which are rigged, e.g. encouraging people who are incapable to start businesses just to fill quotas.

- **THE TASK OF PUBLIC AGENCIES IS TO BACK FIRMS WITH COMPETITIVE ADVANTAGE – NOT TO DO THEIR JOBS**

Public bodies in Wales can't pick winners, identify the next big global market, or tell us what industries we have to keep. But public sector bodies do have a strategy role. In a small country with limited resources and talent, the market place cannot always quickly modernise the general components of competitive advantage; e.g.

- Low cost, skilled labour
- Transport/telecommunications to reach customer
- National brand name ('Scottish..') to access customer base
- Property (cheap, abundant, ready when you need it, flexible)
- Spill-over effects (similar firms, knowledgeable suppliers)

- **GLOBALISE DON'T BALKANISE**

Economic development strategy in Wales, with its inward investment and job numbers bias, has been traditionally over-concerned with creating industries in which everything was produced locally. This is impossible in a global economy. For example, there is a danger in our 'cluster' strategies of attempting to build complete supply chains inside Wales.

- **MAKE A BRAND OUT OF SUCCESS**

Creating an entrepreneurial culture – which is really what all this is about – involves exciting people and giving them the sense that they can succeed in business. Too often, the development and support programmes and agencies get mired in process and minute detail. Success is not to be measured ultimately in whether or not you met your (plucked from the air) target for new firm start ups. It lies in whether or not you created a buzz about business and your local economy.

- **A PROGRAMME IS NOT SUCCESSFUL JUST BECAUSE YOU SPENT ALL THE**

CASH

Most economic development and support programmes are publicly funded on an annualised basis. If they don't spend their allocation, the funding body has a nasty habit of thinking they don't need as much the next year. Efficiency becomes linked to spending the lot.

- **PUBLIC PROGRAMMES OR AGENCIES SHOULD HAVE A PRE-ORDAINED SHELF LIFE**

If a public economic or business support programme or agency succeeds then you don't need them any more. If they fail, you certainly don't want them. Much of the confusion stemming from multitudes of over-lapping programmes and agencies stems from fossils left over from previous ages of policy determination. Funding programmes especially are subject to 'capture' by the people they fund with politicians being too scared to pull the plug for electoral reasons.

If a programme or agency does not have a built-in time to complete its task it never will. Besides, giving a programme or agency a definite lifetime underscores the key point that we wish to solve Wales's economic problem by fixing the economic machine. Time scales encourage focus, enthusiasm and are a test of success.

In Conclusion

The Assembly should take the lead in guaranteeing that a simpler, more cohesive structure exists in Wales for the delivery of local economic development services. The Assembly should initiate a process of eliminating duplication in service provision at local level and be prepared to penalise publicly-funded bodies who do not co-operate in this process.

It should concentrate on strategic guidance, setting targets and measurable outcomes, ensuring value for money in service provision, promoting good practice, reporting and evaluation. A key tool in assisting the Executive in this process should be a fully developed Economic Framework for Wales. The framework should specify outcomes that reflect the need for Wales to be globally competitive. It should also set out the Assembly's aims for the Welsh economy and what contribution is expected toward these aims from local organisations operating in the field of economic development.