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Jane Tonge
Centre for Corporate and Public Affairs
Manchester Metropolitan University Business School

A Review of Small Business Literature
Part 1: Defining The Small Business

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The Director, Graduate School of Business, Manchester Metropolitan University, Aytoun Building, Aytoun Street, Manchester M1 3GH

Telephone No: ++44 (0) 161 247 6798. Fax No: ++44 (0) 161 247 6854.

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Jane Tonge

Centre for Corporate and Public Affairs

Manchester Metropolitan University Business School

Aytoun Street

Manchester

M1 3GH

Tel: 0161 247 6970

Email: j.tonge@mmu.ac.uk

Biography

Jane Tonge is a full-time PhD student funded by a studentship provided by Manchester Metropolitan University. Her research area is public relations, and her current research interest is public relations and small businesses, in particular the business relationship between public relations agencies and small professional service firms. She previously gained an MA in Public Relations from Manchester Metropolitan University, with a particular focus on the strategic role of public relations in local government. Prior to joining MMU's Business School, she worked for seven years as a public relations practitioner. Jane also teaches on the full-time and part-time MA in Public Relations course in the Department of Retailing and Marketing.

Foreword

This is the first of two papers which form part of an initial literature review concerned with small business in preparation of a thesis which aims to examine the development of business relationships between small professional service firms and public relations agencies. This paper, Part 1, considers the role and importance of small business, and the various attempts at definitions offered from a number of quarters, such as commercial, political and academic. Part 2 examines the birth, growth and death of the small business and considers the range of factors identified as impacting on these aspects of small business development.

Abstract

Small and micro businesses have a vital role to play (Stanworth and Gray, 1991) with small business accounting for 99% of all businesses in the UK. The following paper examines the debate concerning the definition of small business, considering those put forward by the Bolton Committee Report (1971), the European Commission and the Department of Trade and Industry, as well as the academic community.

A review of the literature reveals that there is no single, uniformly acceptable definition of a small firm (Storey, 1994). In practice, various meanings can be found which apply in different contexts. The heterogeneity of the small firm sector means it is often necessary to modify the various definitions advanced according to the particular sectoral, geographic or other contexts in which the small firm is being examined, by using such as ‘grounded’ definitions. The implication for research is that researchers are likely to have to continue using their own definitions of small enterprises which are appropriate to their particular ‘target’ group (Storey, 1994).

1. The Role And Importance Of Small Businesses

It has long been recognised that small and micro businesses have a vital role to play in the economy (Stanworth and Gray, 1991) with small business accounting for 99% of all businesses in the UK, and an estimated 3.7 million active businesses in 1998. Collectively, small and medium enterprises (SMEs) are responsible for 65% of employment and 57% of Gross Domestic Product within the UK (Madsing, 1997). They play a particularly important role in areas such as the North West of England that have seen a decline in traditional heavy industry and a growth in the service industry.

During the past several decades, the majority of organisational research has been undertaken in large companies. One reason for this is that, until the 1970s, economic development was primarily achieved through mass production in large firms. Since that time, there has been a continuous trend towards 'downsizing' and this has significantly increased the commercial importance of the smaller firm (Lèbre La Rovere, 1998). For a long time, there had been a tacit assumption that organisational theories and models developed in large firms were directly applicable to SMEs. However, there is now a greater understanding that smaller organisations differ significantly from their larger counterparts (de Berranger and Tucker, 1999).

There is no doubt that small businesses remain economically important in every free enterprise industrial society (Curran *et al.*, 1986). In the UK, SMEs are strongly represented in almost every major sector of the economy, and continue to provide substantial employment not only in traditional established industries such as construction but also in the newer sectors such as professional and scientific services (Binks and Coyne, 1983).

Small firms, however they are defined, constitute the bulk of enterprise in all economies in the world. These firms also make a major contribution to private sector output and employment, a contribution which appears to be increasing over time (Storey, 1994). More than 95% of all firms in the economies of the European Community are classified as 'small' – in short, it is the firm with more than 100 employees that is the exception rather than the rule.

The fact that there are so many small firms in most developed economies leads to a number of issues, most notably that of measuring precisely how many exist in an economy at any one point in time. Many small firms deliberately do not register with the state authorities. Others have such a short lifespan that the state authorities do not have time to register their existence before the business ceases trading. Finally, many of the businesses are so small that the state may not deem it worthwhile to register their existence, and such enterprises are exempt from registration on the grounds of size. This causes problems in terms of estimating the size of the small firm sector, its contribution to output and employment, measuring whether this has changed over a period of time and making comparisons with other countries. For all these reasons, small firm statistics tend to be somewhat speculative (Storey, 1994).

2. Defining The Small Business: Introducing The Debate

There is no single, uniformly acceptable definition of a small firm (Storey, 1994). In practice, various meanings can be found which apply in different contexts. Indeed, Curran *et al.* (1986:3) refer to the 'great deal of agonising' over the issue of definition by small business theorists and researchers, such as Bolton (1971); Binks and Coyne (1983); and Curran and Stanworth (1984) from which no satisfactory solutions have emerged. One reason for this relates to size – for example, where a 'small' firm in such as the petrochemical industry will probably have much higher levels of capitalisation, sales and possible employment than a 'small' firm in the car repair trades. Therefore, definitions at sectoral level which relate to 'objective' measures of size - such as number of employees, sales turnover, profitability and net worth - may mean that in some sectors all firms may be regarded as small, while in other sectors there are possibly no firms which are small (Storey, 1994).

The following sections examine the debate concerning the definition of the small business as advanced by a number of sources, including the Bolton Committee Report (1971), the European Commission and the Department of Trade and Industry, as well as interpretations put forward by various academics.

3. The Bolton Committee Report (1971)

The Bolton Committee's Report on Small Business (1971) is one of the most widely quoted sources of definitions and understandings of the small business sector. Bolton (1971) attempted to overcome the problem of small firm definition by formulating what it called an 'economic' definition and a 'statistical' definition.

The economic definition regarded firms as being small if they satisfied three criteria:

- they had a relatively small share of their market place
- they were managed by owners or part-owners in a personalised way, and not through the medium of a formalised management structure
- they were independent, in the sense of not forming part of a larger enterprise.

Bolton then devised a 'statistical' definition which was designed to address three main issues. The first was to quantify the current size for the small firm sector and its contribution to economic aggregates such as gross domestic product, employment, exports and innovation. The second purpose was to compare the extent to which the small firm sector has changed its economic contribution over time. Thirdly, the statistical definition, in principle, would enable a comparison to be made between the contribution of small firms in one country with that of other nations.

The definitions used by the Bolton Committee are shown in Table 1. This illustrates the use of different definitions of a small firm in different sectors. It also reveals that the criteria upon which the judgement of 'smallness' was made also varied sectorally.

Thus, in two groups of sectors – manufacturing and construction, and mining and quarrying – the criterion was unemployment. In the three service sectors, the criterion was sales turnover, and in one sector – catering – it was based upon ownership. Finally, in road transport, it was based upon the physical assets of the business, in terms of the number of vehicles (Storey, 1994).
However, despite its status regarding the small business sector, the Bolton Committee's Report has drawn a number of criticisms of both its 'economic' and 'statistical' definitions (Storey, 1994).

Table 1. Bolton Committee (1971) Definitions of a Small Firm

Sector	Definition
Manufacturing	200 employees or less
Construction	25 employees or less
Mining and quarrying	25 employees or less
Retailing	Turnover of £50,000 or less
Miscellaneous	Turnover of £50,000 or less
Services	Turnover of £50,000 or less
Motor trades	Turnover of £100,000 or less
Wholesale trades	Turnover of £200,000 or less
Road transport	Five vehicles or less
Catering	All excluding multiples and brewery-managed houses

Source: Bolton (1971)

3.1 Criticisms of the Bolton Committee's 'Economic' Definition of Small Firms

Taking the 'economic' definition first, the Bolton criterion that a small business is 'managed by its owners or part-owners in a personalised way, and not through the medium of a formal management structure' is incompatible with its 'statistical' definition of small manufacturing firms as having up to 200 employees (Storey, 1994).

While Bolton recognised that some smaller firms may have one or more intermediate layers, such as supervisors or foremen to interpret their owner-manager's decisions and transmit them to employees, it still regarded small firm owners as taking all the principal decisions and exercising the principal management functions. However, the work of Atkinson and Meager (1994) demonstrates that managerial appointments are made when firms reach a size between ten and twenty workers. At that size, owners are no longer the exclusive source of managerial decisions (Storey, 1994). Once a business has over 100 employees, the owners of businesses are starting to assemble significant teams of managers and have to devolve responsibilities to those teams.

It is unlikely that a firm with more than 100 employees could be managed in a ‘personalised way’, and would require a more formal management structure, suggesting that the Bolton ‘economic’ and ‘statistical’ definitions are incompatible (Storey 1994).

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The second questionable aspect of the Bolton ‘economic’ definition is the emphasis on the inability of the small firm to affect its environment – most notably its inability to influence, by changing the quantity which it produces, the price at which a product or service is sold in the marketplace. Here, Bolton is clearly influenced by the economist’s concept of perfect competition (Storey 1994). In practice, however, many small firms occupy ‘niches’. They provide a highly-specialised service or product, possibly in a geographically isolated area, and often do not perceive themselves to have clear competition. As a result, in the short and possibly medium term, they can maintain higher prices and higher profits than the general industry ‘norm’. In the United States, while large firms are generally more profitable than small, in heterogeneous industries where niches are more likely to exist, this relationship is reversed (Bradburd and Ross, 1989).

3.1.1 Caterpillars and Butterflies: How Small Firms Differ from Large

Wynarczyk *et al* (1993) provide an alternative 'economic' perspective on defining a small firm to that provided by Bolton. Building upon the observation of Penrose (1959) that small and large firms are as fundamentally different from each other as a caterpillar is from a butterfly, they attempt to identify those characteristics of the small firm, other than size, which distinguish it from the larger enterprise. Here, Wynarczyk *et al* (1993) argue that there are three central respects in which small firms are different to large firms – uncertainty, innovation and evolution

i. Uncertainty

With regard to 'uncertainty', three dimensions are identified:

- The first is the uncertainty associated with being a price-taker, which can be considered to be the inverse of the Bolton definition, which emphasised the small share of the market place.
- The second source of uncertainty for small firms is their limited customer and product base – a classic example being where small firms simply act as subcontractors to larger firms. Such firms are open to 'subcontractor vulnerability' (Lyons and Bailey, 1993), which is created not only by dependence on dominant customers, but also upon the extent to which output is specialised to particular customers, the specificity of investment decisions made, and the probability that the customer will withdraw the custom. Even for subcontractors as whole, the smaller firm clearly perceives itself to be more vulnerable than the larger firm and acts accordingly (Lyons and Bailey, 1993).
- The third dimension of uncertainty relates to the much greater diversity of objectives of the owners of small firms, compared with large firms. Many small business owners seek only to obtain a minimum level of income rather than maximising sales or profits (Storey 1994). Small business owners do not have to concern themselves with reporting their actions to external shareholders and so 'performance monitoring' effectively does not exist. For a small firm, the relationship between the business and the owner is very much closer than it is

> between the shareholder and the large firm, and so the motivation of the owner of the small firm is a key influence upon the small firm performance (Storey, 1994). This contrasts with the large firm literature, which emphasises the importance of control. Here, the central issue is how the owners of the business ensure that the managers of the business act in their interest, and how senior managers exert control over more junior managers. This form of 'internal' conflict is largely absent in small firms (Storey, 1994) where ownership and control are located in the hands of a few people or even a single individual.

Therefore, the central distinction between large and small firms is seen to be the greater external uncertainty of the environment in which the small firm operates, together with the greater internal consistency of its motivations and actions (Storey, 1994).

ii. Innovation

A second key area of difference between small and large firms is their role in innovation. Conventionally, the role small firms play in innovation relates to their 'niche' role where: "it is the ability of the small firm to provide something marginally different, in terms of product or service, which distinguishes it from the more standardised product or service provided by the larger firm" (Storey, 1994: 11-12). Small firms are more likely to introduce fundamentally new innovations than larger firms, a feature often attributed to small firms having less commitment to existing practices and products (Pavitt *et al.* 1987).

iii. Evolution

The third area of difference between a large and small firm is the much greater likelihood of evolution and change in the smaller firm (Storey, 1994). Management theorists (e.g. Scott and Bruce, 1987) see the transitions made by small firms into becoming larger ones as a multiple-stage change, unlike Penrose (1959) who views it as a single-stage change. Thus, small firms that become larger undergo a number of stage changes which influence the role and style of management as well as the structure of the organisation (Scott and Bruce, 1987). Here, the key point is that the structure and organisation of the small firm is more likely to be in a state of change, as the firm moves from one stage to another, than is the case for larger firms (Storey, 1994).

Uncertainty, innovation and firm evolution are thus the essential dimensions in which small firms differ from larger. They should be explored as a 'bottom-up' way of theorising about small firms, rather than implicitly assuming that a small firm is a 'scaled down' version of a larger firm (Wynarczyk *et al.*, 1993).

3.2 Criticisms of the Bolton Committee's 'Statistical' Definition of Small Firms

Five points emerge in the criticism of the Bolton Committee's 'statistical' definitions of small firms (Storey, 1994):

- The first is that there is no single definition or even any single criterion of 'smallness'. Instead, four different criteria are used in the definition – employees, turnover, ownership and assets.
- Three different upper limits of turnover are identified for the different sectors, and two different upper limits of employees are identified. These make the definitions too complex to enable comparisons to be made either over time or between countries (Storey, 1994).
- Statistical definitions based upon monetary units also make comparisons over time very difficult, since appropriate index numbers have to be constructed to take account of price changes. They also make international comparisons more difficult because of currency value fluctuations (Storey, 1994).

4. The European Commission (EC)

To overcome a number of the problems outlined above, the term 'small and medium enterprise' (SME) was coined. This followed the lead of the European Commission (EC) in February 1996 which adopted a communication setting out a single definition of SMEs to be adopted after 31 December 1997. The Commission applied this across Community programmes and proposals. The communication also included a non-binding recommendation to Member States, the European Investment Bank and the European Investment Fund encouraging them to adopt the same definitions for their programmes.

Note: to qualify as an SME:
both the employee and the independence criteria must be satisfied, and
either the turnover or the balance sheet total criteria

As shown in Table 2, the SME sector is itself disaggregated into three components:
micro-enterprises: those with 0-9 employees
small enterprises: those with 10-99 employees
medium enterprises: those with 100-499 employees.

Table 2: Definition of SMEs – the European Commission

Criterion	**Micro**	**Small**	**Medium**
Max. number of employees	9	49	249
Max. annual turnover	-	7 million euros	40 million euros
Max. annual balance sheet total	-	5 million euros	27 million euros
Max. % owned by one, or jointly by several, enterprise(s) not satisfying the same criteria (independence criteria)	-	25%	25%

Source: DTI (2000a)

A number of scholars (e.g. Dunne and Hughes, 1989) argue that there are also problems with employee-based criteria in comparing small and large firms over time, as the results can be unreliable.A final criticism of the Bolton Committee's statistical definitions is that it treats the small firm sector as being homogenous (Storey, 1994).

4.1 Advantages of the EC Definition

The SME sector is taken to be enterprises – except agriculture, hunting, forestry and fishing – which employ less than 500 workers (Storey 1994). In several respects, the EC definitions reflect the 'break points' in SME development which researchers have identified. For example, Atkinson and Meager (1994) found the appointment of nonowner managers tends to take place when the firm has between ten and twenty employees. Lyons (1991) found that subcontracting firms with less than 10 employees are unlikely to have formal contracts with their customers, and more likely to have them as their employee numbers rise above 10. Both these findings suggest that there is a marked shift to formality around the ten or twenty employee mark, and that it is important to subdivide the SME sector in this way (Storey, 1994).

The major advantage of the EC definition is that, unlike Bolton, it does not use any criteria other than employment and it does not vary its definition according to the sector of the enterprise (Storey, 1994). The only exception is that at the EC level, a 'special' group of firms is identified – those in the craft trades. These are small-scale businesses that are heavily dependent on a handicraft, professional, traditional or artistic base. All European countries, with the exception of Spain and the UK, have some definition of craft trades, although the nature of that definition varies considerably from one country to another.

In almost all senses, Storey (1994) argues that the EC definitions are more appropriate than those of the Bolton Committee. This is because:

- The EC definitions are exclusively based upon employment, rather than a multiplicity of criteria.
- The use of 100 employees as a small firm limit is more appropriate, given the rises in productivity which have taken place in the last two decades.
- The EC definition recognises that the SME group is not homogenous, in the sense that distinctions are made between micro, small and medium-sized enterprises.

4.2 Disadvantages of the EC Definition

A key problem with the EC definitions of an SME however, is that for a number of countries it is too 'all embracing' (Storey 1994:14). Virtually all firms and the vast bulk of employment and output in countries such as Greece, Ireland, Spain and Portugal fall within the definition of SMEs. Thus, for 'internal' purposes within these countries, the SME definition is not helpful. In these cases, it is the categories within the SME definition that are most relevant.

5. Academics' Approach

As demonstrated, there are a number of problems with the official definitions of a small firm. Academic researchers have attempted various ways to resolve these difficulties, as explored below. However, criticism is also levelled at these attempts in turn, with such as Storey (1994) pointing out that the strategy employed by small business researchers when faced with the difficulty of definition has been to tailor or adjust the definition according to their particular topic of research.

5.1 'Grounded' Definitions of Small Business

One such attempt at defining small business lies in the 'grounded' definitions advanced by Curran, Blackburn and Woods (1991). In their work on small enterprises in the service sector, they argue that the use of a single size criterion leads to an exceptionally heterogeneous collection of businesses being included as small, yet including owner-managers who have little in common with each other in terms of the problems they encounter or the business relations in which they engage. Curran *et al* (1991) argue that 'smallness' is a multi-dimensional concept which is closely linked with legal independence, type of activity, organisational patterns and economic activities. Their operational approach is to select enterprises as small on a 'grounded' definition. Here, consultation takes place with owner-managers, industry representatives and trade associations, and a consensus emerges as to what this group envisages as being a 'small enterprise' within its particular sector (Storey, 1994).

Curran *et al.*'s (1991) grounded definitions of small firms in the services sector are seen in Table 3. This shows seven sectors or groups of sectors which the researchers investigated, and identifies four criteria which generally vary from one sector to another to identify the characteristics for the smaller firm. These four criteria are:

- the number of outlets
- the upper employment limit
- the lower employment limit, and
- special conditions.

Table 3 shows that the maximum number of outlets is only specified for four of the seven major sectors and that, where specified, the number of outlets may be one, two or three. The upper limit for employment is specified for most sectors, but not all; this upper limit may either be ten, twenty or twenty-five workers. The only consistency is that the minimum number of employees is a full-time equivalent of one worker other than the owner. Finally, the fourth criteria shows any special conditions which are imposed on the firms in order that they should qualify as small.

Therefore, Table 3 demonstrates that a ‘grounded’ definition of a small firm has to be multi-dimensional (Storey, 1994). It illustrates that the ‘statistical’ definitions which apply a single criterion of, for example, maximum employment number, often cannot encapsulate the subtleties required by researchers investigating managerial and behavioural issues in small firms (Storey, 1994).

Table 3. 'Grounded' Definitions of Small Firms in the Services Sector

	No. of outlets	**Employment (FTEs)**	**Minimum employment (FTEs)**	Special conditions
1. Free house	One	None	1	Not brewery-owned
Wine bar	One	10	1	Premises owned or rented
Restaurant	One	10	1	Premises owned or rented
2. Video hire	Up to three	None	1	-
Leisure services	One	10	1	-
3. Vehicle repair and servicing	Not specified	10	1	Car franchises excluded but other franchises allowed
4. Market research	One	25	1	Must not be in top 50 agencies
Advertising	One	25	1	Must not be in top 50 agencies
Design	One	25	1	Must not be in top 300 agencies
5. Employment agency	One or two	10	1	-
Secretarial agency	One or two	10	1	-
Training agency	One or two	10	1	-
6. Computer services	Not specified	20	1	-
7. Plant, skip, equipment and vehicle hire	Not specified	10	1	-

Source: Curran, Blackburn and Woods (1991)

Note: FTE = full-time equivalent

However, it would also be virtually impossible to collect comprehensive data on smaller firms according to the 'grounded' definitions in this table to enable comparisons to be made between countries and over periods of time. In short, 'grounded' definitions are appropriate for researchers to investigate managerial and behavioural aspects of small firms, and the 'statistical' definitions constitute practical and operational approximations to the measurement of 'smallness' (Storey, 1994).

5.2 ESRC Small Business Initiative Definitions of the Small Business

Table 4 also shows the variety of different operational definitions of a small firm which were employed by researchers on the ESRC Small Business Initiative.

Table 4. ESRC Initiative – Definitions and Sample Size

Researcher	Institution Location	Definitions	Sectors	Sample No. of Firms	Data Source	Data Collection	Response Rate	Geography
1. Curran *et al.*	Kingston University	'Grounded'	Services	350*	Yellow Pages, trade and local directories	Face-to-face, telephone	56.1	Nottingham, Guildford, north-east Suffolk, Doncaster, Islington
2. Hughes *et al.*	Cambridge University	1-500 employees	Manufacturing and business services	2,028	Dun & Bradstreet	Postal	32.9	England, Scotland, Wales
3. Atkinson	Sussex University	Establishments with <200 employees	All sectors	3,309	Business connections	Postal and face-to-face	29.8	North Cornwall, Shrewsbury, Brighton, Manchester, Newport, Slough
4. Townroe	Sheffield Hallam University	Small start ups	All sectors	559	Rural Development Commission	Postal	23.3	Northumberland, Derbyshire, Norfolk, Devon
5. North *et al.*	Middlesex University	Independent and < 100 employees	Eight manufacturing sectors	306	Prior contact, Rural Development Commission, local directories	Face-to-face	_	London, Derbyshire, Hertfordshire, Essex, Cumbria, North Lancashire, North Yorkshire
6. Owen	Sheffield Hallam University	<300 employees	Manufacturing and mobile services	467	Local authority and chamber of commerce	Postal	25.5	Sheffield, Hainaut (France/Belgium)
7. Rees	Bristol University	Self-employed	All sectors	N/A	General Household Survey	Government	N/A	UK
8. Bartlett	Bristol University	Co-ops and 'matched' private firms	All sectors	200	Business associations	Face-to-face	N/A	Emilia Romagna (Italy), Catalonia (Spain)

Table 4. Continued.

9. Jones *et al*.	Liverpool John Moores University	White, Asian, Afro- Caribbean owned firms	Retailing, wholesaling, manufacturin g	403	Rateable valuations list	Face-to-face	N/A	Wards in the North, Midlands, and south-east England
10. Freedman/ Goodwin	Institute of Advanced Legal Studies	Incorporated and unincorporated small firms (<£1m. turnover)	All sectors	429	Yellow Pages, companies register/Jordans	Telephone, postal and face-to-face	29%	Bath, Sutton, Darlington, Derby
11. McGregor	Glasgow University	Community enterprises and firms in managed workspace	All sectors	346	_	Face-to-face	_	Belfast, Glasgow, Bristol, Manchester, London, Newcastle
12. Davies *et al*.	University of East Anglia	<100 employees	Subcontracto rs	102	Benchmark	Postal	8% †	UK
13. Nenadic	Edinburgh University	Family-owned businesses 1861-1891	All sectors	781	Post Office Directory	_	_	Edinburgh
14. Nayak	Birmingham University	<10 employees	All sectors, engineering, electrical	200	Redditch Enterprise Agency	Face-to-face	_	West Midlands
15. May	Manchester Metropolitan University	<100 employees	All sectors	294	Local authority	Telephone	73%	Oldham, Stockport
16. Mason/ Harrison	Southampton / Ulster University	Users of informal venture capital	All sectors	297 (3 surveys)	VCR guide, brokers' contacts	Postal	12% †	Rural areas, Northern Ireland, Leicestershire, Hertfordshire, South Hampshire

Source: Storey (1994: xvi-xvii)

Note: *274 of these firms were interviewed in 1992 and 204 re-interviewed in 1993.

†Response rates do not take account of ineligible firms.

This demonstrates that, in practice, researchers have to tailor their definitions of a small firm according to the particular groups of small firms which are the focus of their interest (Storey, 1994). The factors that influence the inclusion of the firms are the nature of the premises in which they operate, or their use of certain types of finance, or their legal status. The same table also makes it clear that a wide variety of different sources of information are used to identify individual small firms.

6. Department of Trade and Industry (DTI)

The Department of Trade and Industry (DTI) defines business size according to the number of employees in the organisation, an approach which is commonly used both in academia and in the field. Here, a micro business has 0-9 employees, a small business has 10-99 employees and a medium size business has 100-499 employees. According to The DTI's (DTI, 2000a) statistical information concerning SMEs, there is no single definition of a small firm because of the wide diversity of businesses. It maintains that the best description of the key characteristics of a small firm remains that used by the Bolton Committee in its 1971 Report on Small Firms (DTI, 2000*a*), although various criticisms of this have already been noted above.

Section 248 of the Companies Act 1985 states that a company is "small" if it satisfies at least two of the following criteria:

- a turnover of not more than £2.8 million
- a balance sheet total of not more than £1.4 million
- not more than 50 employees.

A medium-sized company must satisfy at least two of the following criteria:

- a turnover of not more than £11.2 million
- a balance sheet of not more than £5.6 million
- not more than 250 employees

For statistical purposes, the DTI use the following definitions:

- micro firm – 0-9 employees
- small firm: 0-49 employees (includes micro)
- medium firm: 50-249 employees
- large firm: over 250 employees.

However, in practice, schemes which are nominally targeted at small firms adopt a variety of working definitions depending on their particular objectives (DTI 2000a).

7. SMEs In The UK

7.1 Lack of Estimates

The lack of a single, uniformly acceptable definition of a small firm is further compounded by there being no single source of estimates of the business population in the UK (DTI, 2000b).

Given the problems identifying a small firm, it is perhaps not surprising that in the UK there is no single definitive statement about the total number of firms in the economy, or the proportion of those which, however defined, could be regarded as small (Storey, 1994). Part of the reason is the lack of consensus about what constitutes ‘small’. However, even more serious is the absence of any single comprehensive database covering all firms in the UK economy. This is not to say that databases on UK firms do not exist. Daly and McCann (1992) noted that a study by Graham Bannock and Partners (1989), which reviewed existing official statistics, identified forty-four sources of information on firms which were categorised by size. Unfortunately, none of these forty-four official sources were able to provide comprehensive coverage of all firms in the economy (Storey, 1994).

Table 5 identifies the seven main official data sources on employment and smaller firms in the UK. It shows that two of the data sources – the Annual Census of Production and the Census of Agriculture – are restricted sectorally, while the data on company accounts is limited to businesses choosing that particular legal form. Sectoral restrictions are also apparent, although less significant, for firms registering for VAT, since some sectors are tax-exempt. The bulk of the data sources underestimate the total number of firms (Storey, 1994), whereas others, such as companies data, are likely to overestimate the total number of operational businesses, since a large proportion of firms on the Register have either ceased trading and not been excluded, or never traded (Scott, 1982).

Table 5. **Main official data sources on employment and smaller firms**

Source	**Frequency**	**Measuring unit**	**Coverage (UK unless stated otherwise)**	**Data held**	**Classific-ation SIC**	**Main exclusion**	**Main weakness**	**HMSO publication**
Census of Employment	Triennial sample (300,000) 1978 - 1987	Reporting unit	PAYE scheme	Employees by FT/PT and by gender	1980	Self-employed, firms without employees on PAYE	RU neither establishment nor firm	DE Gazette
Annual Census of Production	Annual sample (20,000)	Establishment enterprises	Divisions 1-5	Average employment, output, wages	1980	All 1-20 employees and 50% of 20-40 employee establishments	Estimates of employment in smaller establishments	Business Monitor PA 1002
Census of Agriculture	Annual census	Individual holding	All UK agricultural holdings	Numbers employed by FT/PT and gender, whether family or hired	_	Minor holdings with no regular full-time workers, forestry and fisheries	_	Agricultural Statistics
New Earnings Survey	Annual sample (1 per cent)	Individual employee	Employees with NI number, PAYE members	Industry, gender, hours worked, size of UK organisation (1979, 86 only)	1980	Part-time workers below NI earnings limit	No analysis of numbers of firms by size	New Earnings Survey
Labour Force Survey	Annual sample (0.5 per cent)	Adults (16+) in private households	All private households in Great Britain	Employment status, economic activity, workplace size, industry, region	1980	Institutions	Self-assessment of employment status, size of workplace error-prone	DE Gazette
Company Accounts	Annual sample (3,000)	Companies or groups of companies	UK industrial and commercial companies	Employment, turnover, financial variables	1980 (approx.)	Non-incorporated businesses	Employment data imputed for many small companies	Business Monitor MA3
VAT Register	Continuously updated register	Registered traders	Business above threshold plus voluntary registrations	Turnover, form of organisation	1968	Businesses below threshold (and not voluntarily registered)	Delays in registration & deregistration, turnover data not reliable and no employment information	Business Monitor PA 1003, British Business DE Gazette

Source: Bannock and Partners (1989)

The clear picture which emerges from Table 5 is that there is no data source which covers all firms in the economy and which is able to specify the proportion of total employment in the various class sizes (Storey, 1994). The problems arise primarily for firms in the construction and service sector, where Curran and Burrows (1988) located almost 90% of all UK small businesses employing between one and twenty workers.

7.2 DTI Statistics

Although there is no data source that covers all firms in the economy and which is able to specify the proportion of total employment in the various class sizes, one of the main sources of statistics for UK SMEs used by both government and academics is the DTI's SME statistics.

i. Sources

The DTI's SME statistics are compiled using a variety of sources, the main source being the Inter Departmental Business Register administered by the Office for National Statistics. The SME statistics are published 18 months after the start of the reference year, with estimates taking into account the very small businesses that do not appear on the official business register. These are estimated using survey data, and therefore the reliability of the statistics is lower for the smallest size class of business (DTI, 2000b).

Using the EC definitions of micro, small and medium-size enterprises, the DTI's current estimates (DTI 2000b) are that of the entire business population of 3.7 million enterprises in the UK in 1999, only 24,000 were medium sized (50-249 employees) and less than 7,000 were large (250 or more employees). Small businesses, including those without employees (approximately 2.3 million), accounted for 99% of businesses, 45 % of non-government employment and (excluding the finance sector) 38% of turnover (DTI, 2000b). In contrast the 7,000 largest businesses accounted for 45% of non-government employment and 49% of turnover.

ii. Industry Patterns

At the start of 1999, at least 98% of businesses in all but electricity, gas and water supply were SMEs. The share of employment provided by SMEs varies greatly from one industry to the next (DTI, 2000*b*). In construction, 84% of employment is accounted for by SMEs, while finance is only 21%. Of the 2.3 million enterprises with no employees, 24% are in the construction sector and 18% in business related services (see Table 6).

Table 6. SME share of business, employment and turnover by industry, start 1999.

	Businesses		Employment		Turnover
	Total Number	SME Percentage Share	Total Employment	SME Percentage Share	SME Percentage Share
All industries*	3,676,940	99.8	21,746	55.4	51.0
A.,B. Agriculture, forestry and fishing	185,305	100.0	452	97.6	97.6
C. Mining	3,860	98.4	83	30.8	29.4
D. Manufacturing	332,070	99.2	4,334	49.6	35.6
E. Electricity, gas, water supply	325	86.9	139	2.6	6.9
F. Construction	683,530	100.0	1,524	83.7	69.8
G. Wholesale, retail and repairs	533,140	99.8	4,416	52.1	54.8
H. Hotels and restaurants	154,400	99.8	1,598	55.6	52.9
I. Transport, storage and communications	225,725	99.8	1,538	39.8	39.9
J. Financial intermediation	59,455	99.4	1,043	21.1	35.5
K. Real estate, business activities	800,515	99.9	3,146	69.6	73.1
M. Education	107,850	99.9	255	83.8	86.5
N. Health and social work	203,465	99.7	2,107	41.7	33.7
O. Other social/personal services	387,295	99.9	1,111	76.7	64.1

Source: DTI (2000b)

*Finance sector excluded from turnover

iii. Regional Analysis

Small and medium enterprises accounted for over 99% of businesses in all regions. The share of employment amongst SMEs was highest among Northern Ireland based businesses and lowest among those based in London. The share of turnover in SMEs was also highest among Northern Ireland based businesses and lowest among those based in London, the South East, North East, and Yorkshire and the Humber (see Table 7).

The statistics for 1999 show that for there were a total number of 356,180 businesses in the North West of which 98.8% were SMEs. The share of employment in SMEs in the North West was 60.3% of a total of 2,098,000 employed by all businesses. This ranked fourth highest alongside Scotland, and behind Northern Ireland, the South West and Wales. The share of turnover was 57.4%, which ranked third highest behind Northern Ireland and the South West.

In summary, over 3 million SMEs in the UK account for about half of private sector employment but just one-quarter of GDP (DTI, 1995). The majority of these firms are either self-employed sole traders or micro firms with less than five employees, with the share of employment provided by SMEs varying greatly from one industry to the next (DTI, 2000b).

Table 7: SME share of business, employment and turnover by Government Office Region, start 1999**.**

	Businesses		Employment		Turnover *
	Total Number	**SME Percentage Share**	**Total Employment (000s)**	**SME Percentage Share**	**SME Percentage Share**
North East	91,250	99.8	671	55.2	44.9
North West	356,180	99.8	2,098	60.3	57.4
Yorkshire & the Humber	259,225	99.8	1,927	49.4	47.9
East Midlands	234,920	99.8	1,522	56.8	54.1
West Midlands	288,715	99.8	1,935	54.9	51.5
East of England	352,200	99.8	2,019	56.1	49.0
London	665,725	99.8	4,300	42.5	47.7
South East	606,010	99.8	3,071	58.2	47.5
South West	360,530	99.9	1,574	68.6	58.0
England	3,214,750	99.8	19,117	54.1	50.1
Wales	144,135	99.9	728	66.1	57.2
Scotland	233,430	99.8	1,486	60.3	55.2
Northern Ireland	84,620	99.9	415	78.7	74.7

Source: DTI (2000b)

*Excluding VAT. Finance sector excluded from turnover.

8.0 Summary: Implications for Researchers

Despite the importance placed by government upon the small firm sector as a source of economic development, the above statistics reveal that only rough estimates can be made of the total number of small firms in the UK (Storey, 1994). A number of varied sources are used to gather the data, yet there is no single source of estimates of the business population in the UK (DTI, 2000b).

Although there is no uniformly satisfactory definition of a small firm, small enterprises constitute at least 95% of enterprises in the European Community (Storey, 1994). The definitions employed by Bolton (1971) can be seen to be no longer satisfactory and have been effectively superseded by the EC definitions of a small and medium enterprise (SME). The value of the EC definition is that it uses only one criterion - employment - but can be subdivided into three categories – micro, small and medium-sized enterprises (Storey, 1994).

While the debate concerning definitions continues, what are the implications for researchers? Broadly acceptable and consistent definitions are needed for international and time series comparisons, yet small firm researchers need not be restricted by these parameters. The heterogeneity of the small firm sector means it is often necessary to modify these definitions according to the particular sectoral, geographic or other contexts in which the small firm is being examined. This can be done using such definitions as 'grounded' definitions which ask those in the industry to identify what they regard as being a small firm.

"Ultimately, debates about definition turn out to be sterile unless size is shown to be a factor which influences the 'performance' of the firm. If it were possible to demonstrate that firms below a certain size clearly had a different performance from those above that band, then the definition has real interest. In practice, however, such clear 'breaks' are rare and size appears to be a 'continuous' rather than a 'discrete' variable." (Storey 1994:16).

Indeed, as Storey (1994) further points out, researchers are likely to have to continue using their own definitions of small enterprises which are appropriate to their particular 'target' group.

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