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How can research influence entrepreneurship and SME policies in an age of austerity? Some theoretical considerations and lessons from 30 years of UK research and policy

Abstract

This paper suggests that researchers need to re-think their role in the debate about the rationale for and effectiveness of entrepreneurship and SME policies, in the light of austerity policies that have been pursued across the world, prompting re-assessments of the case for public expenditure on a range of policies, including support for entrepreneurship and SMEs. We cannot simply assume that such policies are a worthwhile investment of scarce public funding; the case needs to be made in the same way as for any other policy programme.

A number of UK researchers including Bannock, Gibb, Curran, Bridge and Bennett have observed that there is little evidence that public policy has had a significant impact on the SME sector despite the rapidly expanding volume of research on the topic. In the light of the global economic slowdown and the austerity response of many governments, it is important to take these findings seriously and re-consider the role played by researchers in the policy process. The paper utilises theoretical models of research-policy interaction, applies them to the development of UK policy over a 30 year period and concludes with some thoughts about how research might seek to more effectively influence policy in future years.

Beyond market failure: rationales for entrepreneurship and SME policies

Researchers, policy makers, support agencies and SME groups have a tendency to assume - implicitly at least - that a strong case exists for the provision of government support for the SME sector. The vast majority of the literature is concerned with the 'how' rather than the 'why' of small business policy. Long-running debates about the appropriate balance between promoting start-ups and helping existing businesses (Storey, 1993; Bridge, 2012), the desirability of targeting certain types of business (Storey and Johnson, 1987; Johnson and Smallbone, 2003) and the spatial dimension of SME policy (North et al, 2003; Parker, 2008) among many others, are to a greater or lesser extent predicated on the assumption that the state should intervene to support SMEs. Research that questions the fundamental assumptions underlying such support is less common.

There are some exceptions. Johnson (1991) outlines some possible justifications for SME policy, as does Bennett (2008), building upon the 'market failure' model widely used by economists, and discussed in more detail below. SME policy debates are covered to varying degrees in synthesis works such as Storey and Greene (2010), Bridge and O'Neill (2012) and Bridge (2010). Bannock (2005) reviews the case for SME policies and takes a sceptical view of the need for governments to provide or fund information, advice or consultancy for SMEs:

Our review of small business policy instruments ... indicates that, with a few exceptions, results are unimpressive – and even for the exceptions, they are fairly marginal in their effects. There is no reason to suppose that if most subsidy and assistance programmes were abolished altogether, it would make a significant difference to the shape and prosperity of the SME sector anywhere (2005; 133)

Other contributions have considered the rationale for SME policy, for example, in Australia (Parker, 2000), the European Union (Dannreuther, 1999) and in developing countries such as Mozambique (Castel-Branco, 2003). Dennis (2011a, 2011b) provides an overview of the policy levers that are utilised to promote entrepreneurship and small business in the USA as well as a number of other countries.

This paper starts by reviewing briefly the fundamental arguments for state intervention in the economy in favour of SMEs, their owner/managers and people who aspire to become SME owner/managers. The starting point is the ‘market failure’ framework that has dominated the thinking of most UK Governments in recent years (Small Business Service, 2004), but also that of the European Union and many other governments throughout the world (Commission of the European Communities, 2008; OECD, 2007). Put simply, the argument is that in market economies the only legitimate justification for governments to intervene comes about where the unfettered operation of the free market does not result in the most efficient possible allocation of resources. This framework in turn has important implications for the role played by research evidence in the policy process, which are discussed below.

Conventional (or ‘neoclassical’) economic theory is, of course, only one way of looking at the world. Other approaches focus on issues of equity, the incentive structures facing politicians and government officials and the roles of pressure groups and political ideologies in determining the outcome of the policy process. This paper examines briefly these different approaches to understanding the policy process and examines the role of research evidence in the context of these frameworks, as applied to enterprise and SME policies.

The significance of these different perspectives on the rationale for public policy, for the purposes of this paper, is threefold. Firstly, our view of the role and influence of research evidence will vary according to the dominant policy-making framework in operation in specific countries at particular times. Research predicated on a ‘market failure’ approach to policy-making is unlikely to have a great deal of influence in a situation where politicians are primarily concerned with their own re-election, or in which powerful interest groups have a significant influence on policy decisions, for example.

Secondly, policy-making frameworks affect the process through which research is most likely to influence policy. The dominant ‘market failure’ approach to SME policy assumes, implicitly, that policy-makers adopt a neutral, rational stance on research evidence, seeking and drawing on a range of trusted sources and weighing up the balance of evidence before making an informed decision on which policies are most likely to improve economic welfare. Relaxing the assumption of pure rationality on the part of policy-makers and taking into account their own objectives and those of government officials fundamentally alters our understanding of the process through which research influences policy. Likewise, taking account of the influence of power blocks and/or pressure groups alters the route through which research findings might be expected to contribute to the policy process.

Thirdly, policy-making frameworks are likely to change over time as a result of key events such as general elections or – a key focus of this paper – major economic crises. Such changes may well have an important impact on the relationship between research and policy. This paper argues that researchers need to be alert to such changes and to adjust their approach to policy influence accordingly.

Neoclassical economics, market failure and SME policy

Neoclassical economic theory (see any standard economics textbook, for example Samuelson and Nordhaus, 2009) suggests that – under a number of restrictive assumptions – the operation of the free market leads to the maximum attainable level of economic efficiency, as indicated by the sum of the ‘welfare’ of all individuals in the economy. Resources are allocated to their best available uses through the operation of the price system, which acts as a signal, for example, to entrepreneurs to produce those goods and services that are in demand through expanding existing businesses and/or creating new ones.

Most, if not all, policies designed to assist the SME sector can be ruled out on the basis of the ‘pure’ free market model. However, there exist very few, if any, economists who would argue that this model is an accurate description of the realities of modern economies. Rather, the model is seen as an ‘ideal type’ against which real-world markets can be compared. It is widely recognised that markets do not work in precisely the way suggested by the neoclassical theorists, that there may exist ‘market failures’ and that there may be a role for governments to intervene in the economy to correct these failures.

‘Market failures’ that are of particular relevance to SME policies are as follows:

- **Market structure, entry and exit:** the neoclassical model assumes perfectly competitive markets with large numbers of buyers and sellers and freedom of entry into and exit from the market. In real world situations, monopolistic and oligopolistic markets and/or barriers to entry make it difficult for would-be suppliers to compete with existing businesses. Policies to enable small businesses to compete on an equal footing with larger organisations and measures to promote new business starts may be justified by the existence of non-competitive market structures.
- **Information:** the neoclassical model assumes that all participants in the market are perfectly informed and (often implicitly) assumes that such information is free to all. In reality information is neither free nor available to all on an equal basis. This can, in principle, justify state intervention in favour of new and small businesses in order to create a ‘level playing field’ in relation to access to and cost of information.
- Finally, the pure neoclassical model assumes away the existence of what economists call ‘**externalities**’. Put simply, these are effects that arise as a result of market activities that impact upon individuals and organisations not directly party to the transaction. Where significant externalities exist, theory suggests that state intervention is appropriate in order to discourage activities with undesirable consequences and/or encourage activities with desirable consequences.

A significant body of research (for overviews see Audretsch, Keilbach and Lehmann, 2006; Fritsch, 2008) points to a range of potential economic and social benefits associated with promotion of the SME sector, providing a potentially strong justification for not only a range of individual policy initiatives to address specific market failures, but also perhaps a more strategic approach to the promotion of entrepreneurship and SME activity. These potential benefits include job creation, training and skill development, technological change, social cohesion / inclusion and the regeneration of deprived areas.

Market failure: implications for research-policy interaction

Underpinning the market failure model of policy-making is an often implicit set of assumptions about the nature and role of policy-makers and their interaction with research and other forms of knowledge. In essence the assumption is that policy-makers (incorporating both politicians and senior government officials responsible for designing and developing policies) take a relatively neutral position, seeing their main role as being to introduce policies that will increase the welfare of society, informed by the best available research and expertise. To this extent, policy-making can be seen as an essentially technocratic process of finding the best available solutions to identified market failure problems.

While this is a relatively simplistic characterisation, it is one that helps us to position the role of research and researchers in the policy-making process. The assumption is that policy-makers will actively seek out the ‘best’ available research findings to inform their decision making and that interaction with researchers may be limited to reading the most recent and highly-regarded scientific papers to identify the most relevant research findings. Policy-makers may adopt a more pro-active approach to seeking out research evidence, for example if a problem is especially pressing and there appears to be no relevant research available, but in the main policy-makers are likely to be reactive recipients of research-based knowledge.

The implications of this stylised model for researchers is that our role is primarily concerned with exploring new ideas, concepts and empirical findings, debating them among ourselves and disseminating the results through established channels such as peer-reviewed journals. While researchers might feel inclined to set out the policy implications of their findings, it is not a fundamental component of our role under this framework. It is primarily up to the policy-makers to draw their own conclusions and act accordingly, based on their implicit role as guardians of economic and social welfare.

An important corollary of this view of the relationship between research and policy is that we should expect to see the quality of policy-making (as indicated perhaps by the impact of policies on their stated objectives) to improve as the volume and quantity of research evidence grows. In the case of enterprise and SME research, it is clear that its volume and quality has improved (although there is scope for further improvement, see for example Blackburn and Kovalainen, 2009). However, there is a growing body of evidence to suggest that government intervention has little more than a minor impact on key variables such as new firm formation or business performance (Gibb, 2000; Curran, 2000; Bannock, 2005; Bennett, 2008; Bridge, 2010). On the face of it, these observations pose a challenge to the technocratic market failure view of the policy-making process, and the role of research within it. One possible explanation is that there are factors other than a neutral desire to improve economic and social welfare that influence the decision-making of policy-makers. We now explore some alternative (or perhaps complementary) frameworks that might help to explain the apparent paradox of increasing research activity co-existing with relatively ineffective policies.

Limitations of the market failure approach

The market failure framework provides only a partial picture of why and how governments intervene to support new and small businesses. In order to understand more fully why such

policies have been so common despite limited firm evidence that they enhance economic welfare, we need to consider the insights provided by other frameworks and approaches.

Distributional issues and equity

One of the most fundamental criticisms of the neoclassical model is that it abstracts from issues of the distribution of income, wealth and economic welfare between groups in society or between areas. For example, if unemployment impacts disproportionately on certain groups within society, governments may decide to promote entrepreneurship as one element of a policy package to alleviate the social damage done through such inequalities (Blackburn and Ram, 2006). There may be an ‘externality’ argument attached to such policies, but in most cases the motivation is to ensure that all groups have an equal opportunity to participate fully in society. A related issue, is that of ‘spatial equity’ and in particular the desirability and achievability of reducing spatial disparities in SME activity (Small Business Service, 2004; North et al, 2003).

Public choice and the role of politicians

An influential stream of thought associated with political economists such as Buchanan and Tullock (1962) and Frey (see Mueller, 2001) is based on the then novel, but not totally implausible, suggestion that politicians are primarily concerned with their own welfare. The argument is that politicians will promote policies that will maximise their chances of remaining in office through re-election. ‘Rent-seeking’ behaviour on the part of politicians may result in policies that improve economic welfare. However there is no reason why this should always and everywhere be the case for two important reasons:

- Firstly, the time horizons over which politicians view the world are likely to be short. Politicians are likely to favour policies that will have short term positive impacts and avoid those that may be painful in the short term, but yield long term benefits.
- Secondly, politicians are not necessarily concerned with the wider economic and social impact of their decisions. Electoral systems are typically based on majority voting and not all citizens participate. Politicians are likely therefore to favour policies that will lead to a sufficient number of votes to achieve the desired electoral outcome.

There has been almost no consideration of how the public choice model might be applied to SME policy, although the role of SME pressure groups has some relevance in this context. Storey (1994) notes that, as the number of small businesses and self-employed people increases, the SME sector becomes a potentially significant block in electoral terms. At the time that Storey was writing, research suggested that self-employed people overwhelmingly favoured the Conservative party in the UK, thus explaining – partially at least – the emphasis placed on SME policy by the then Conservative administration. This argument fails to explain why the Labour government of 1997-2010 placed considerable emphasis on SME policy.

The economic theory of bureaucracy

A related, but distinct, theoretical tradition (Niskanen, 1994) focuses on government officials, recognising that state bureaucrats may have vested interests that they seek to pursue through their position within the policy process. Bureaucrats are not typically subject to re-election, but may feel under threat – in terms of job prospects, salary, power or other variables - if

decisions are made to discontinue or substantially change programmes with which they are associated. Conversely, their careers and incomes are likely to benefit from being associated with high-profile and ostensibly successful initiatives. The pursuit of 'rent-seeking' behaviour by bureaucrats may lead to the establishment of larger programmes than might strictly be necessary; over-bureaucratic management and control structures; reluctance to undertake robust evaluations and reluctance to curtail ineffective programmes.

Again, it does not appear that the economic theory of bureaucracy has been utilised explicitly in the analysis of SME policies. However, some commentators (e.g. Richard, 2008; Bannock, 2005) have noted the tendency for SME policies to be 'supply-led' rather than based on the needs of the main targets of policy, namely the SMEs themselves. Consideration of the role of state bureaucrats and their relationship with politicians and researchers adds potentially a new dimension to our understanding of the research-policy relationship.

Power relations, pressure groups and ideology

For analysts with a broadly Marxist perspective (the literature is large but see, for example, Baran and Sweezy, 1966; Braverman, 1974), government policy is essentially determined by the balance of power between the two main classes in society, namely capital and labour. At risk of over-simplification, such approaches suggest that in the state will tend to promote policies that meet the interests of the ruling capitalist class. To the extent that SME owners fall into this category policies are likely to favour this group. However, many commentators focus on the role of the state in supporting large-scale 'monopoly capital'. By implication, the interests of the small business owner are likely to be secondary, if they are considered at all.

A further element of the Marxist approach relates to the role of the state as a promoter of specific ideologies that support and legitimate the established order. In this context, the promotion of 'enterprise' as a desirable concept may be seen as reinforcing the idea of the free market capitalist economy as a permanent, desirable and natural state of affairs.

Not all radical analyses are based on the Marxist conception of class struggle. A multiplicity of groups attempt to influence government policy including many that lie outside of the strictly economic domain, for example charities, educational bodies, health-related and environmental groups. In this type of model, large employers, small employers, trade unions, local authorities and many other groups compete to influence government policies. The outcome of this process is not pre-determined by some notion of 'ruling classes' but depends upon a range of factors including the strength of individual organisations, their relations with their members and their skill in navigating the complexities of the political process.

The role and operations of small business membership and lobby groups has been investigated by UK researchers, notably Bennett and McCoshan (1993), May and McHugh (2002) and Bennett (2008). The consensus appears to be that in the UK these groups are relatively weak and tend not to collaborate very effectively (Storey, 1994; Bannock, 2005). The net result is that, until relatively recently, small business representative bodies have exerted limited direct and overt influence over UK public policy, although there is some evidence of indirect influence through, for example, skilful use of the media.

Understanding the evidence-policy interface

The above discussion demonstrates that the conceptual and empirical underpinnings of SME policy are unclear and contested, and that the market failure model is only one way of conceptualising the policy process. We have also observed that there is a growing body of evidence to suggest that government intervention has little more than a minor impact on key variables such as new firm formation or business performance (Gibb, 2000; Curran, 2000; Bannock, 2005; Bennett, 2008; Bridge, 2010). Despite such lack of clarity about policy rationale and apparently disappointing evaluation findings, governments in the UK and around the world have invested significant resources in entrepreneurship and/or SME support, with little sign to date of a significant decline in this commitment in the wake of the global recession and consequent austerity policies which are putting state budgets under severe pressure.

In order to make sense of this puzzle, we need to understand better the policy-making process and the role of research evidence within it. SME research/policy has not featured strongly in this literature on the policy impact of research, which has been dominated by discussions of social policies (for example Davies, Nutley and Smith, 2000). The concepts and models emerging from this literature help to inform our understanding of why the relationship between SME research and policy appears to be so weak, despite the volume of ‘policy-relevant’ research in the field and the apparent interest of policy-makers in its findings.

Weiss (1979) observes that *‘the use of social science research in the sphere of public policy is an extraordinarily complex phenomenon’* (1979; 427) and suggests that policy-makers do indeed make use of evidence in their decision-making, but in a range of different ways:

- In the **knowledge-driven model**, research findings feed into the policy-making process in a relatively simple linear manner. Weiss suggests that this model is of limited relevance to social research due to the fact that *‘social science knowledge is not apt to be so compelling or authoritative as to drive inevitably towards implementation’* (1979; 427). The relative youth of SME and entrepreneurship research and ongoing debates around issues such as job generation and ‘nature versus nurture’ suggest that Weiss’ observation is especially apt in relation to SME research and policy. We should not, in general, expect policy to emerge as a direct result of new discoveries in SME research, along the lines of the knowledge-driven model.
- The **problem-solving model** is more relevant to a wider range of policy decisions, including those relating to SMEs and entrepreneurship. This model concerns the application of research findings to a specific problem (or problems) that requires some sort of policy decision. In this case, the decision drives the application of research, rather than the other way round. Depending on the nature of the decision, a range of evidence might be brought to bear and the process may involve reviews of previous research and/or newly-commissioned research.
- The **interactive model** recognises that research findings represent only one of many sources of information that policy-makers take into account. A *‘disorderly set of interconnections and back-and-forthness’* (Weiss, 1979; 428) involves a range of players including, for example, journalists and interest groups. This has resonance within the SME/entrepreneurship field, which is populated with many such groupings, each of which tends to express strong (but not always evidence-based) views about what government should do to assist small businesses, regenerate local economies etc.

- The **political model** posits that political considerations are dominant within the policy-making process, with research evidence playing a role only in cases where it appears to support a pre-determined policy position.
- The **tactical model** suggests that in some cases policy-makers might use research as an excuse for putting off difficult decisions, either by commissioning a research review, or by stating that there is insufficient research evidence to inform a decision.
- Finally, the **enlightenment model** suggests that research leads to an improved general understanding of the phenomenon under consideration which influences the policy-making process in indirect rather than direct ways, which are difficult to observe or measure. Weiss includes in this model the influence of research that challenges the prevailing wisdom as well as that which reflects decision-makers' values and goals. Weiss suggests that this is the route through which research most frequently enters the policy arena, and we will argue below that SME and entrepreneurship research has to some extent helped to provide 'enlightenment' in the policy-making process.

More recent work which has attempted to conceptualise and analyse the role of research evidence in the policy process includes Pawson (2006), Sanderson (2009) and Nutley and colleagues (Davies, Nutley and Smith, 2000; Solesbury, 2001). A useful overview of the field by Cozzens and Snoek (2010) presents a number of models adopted by analysts from different perspectives, of which the knowledge utilisation models suggested by Jones (2009) are of particular interest. He identifies three 'paradigms' for understanding the link between knowledge and policy:

- **Rational:** broadly equivalent to the linear or knowledge-driven models
- **Pluralism and opportunism**, in which policy decisions are seen as pragmatic decisions taken under conditions of uncertainty, within which research evidence plays a role, alongside a range of other sources of evidence and influence
- **Politics and legitimisation**, with the underpinning notion that power is infused throughout the decision-making process and that *'knowledge will often reflect and sustain existing power structure and imbalances'* (Cozzens and Snoek, 2010; 5)

It is clear from this brief overview of the literature that the relationship between evidence and policy is a complex one that is only just beginning to be understood in relation to social research and policy. A number of complementary and competing models exist through which it might be possible to analyse the extent to which and the processes through which SME research has had an influence on public policy. Two important observations are worth highlighting at this point:

- Firstly, the market failure, equity, public choice, bureaucratic rent-seeking and power-related models are not necessarily mutually exclusive. For example, politicians or government officials may be motivated by a desire to ensure equal treatment for SMEs on equity grounds, while also considering the potential electoral consequences and/or the likely impact on economic development and job creation. Lobby group influence may also play a role in persuading decision-makers to pursue such policies.
- Secondly, there are clear links between the various policy-making frameworks and the models of research utilisation put forward by Weiss and others. Taking the three broad categories suggested by Cozzens and Snoek (2010), 'rational' models of research

utilisation are likely to be associated with market failure frameworks; ‘pluralism and opportunism’ emphasises the influence of pressure groups and public opinion, and ‘politics and legitimisation’ models are associated most clearly with public choice models of policy-making. In all cases the influence of research is likely to vary in extent and nature.

The election in the UK of the ‘New Labour’ Government in 1997 with an explicit commitment to ‘evidence-based policy’ provides us with a potential basis on which to assess the influence of research on policy. There is also scope to compare this with the preceding Conservative administration, widely felt to be more ideologically-driven than New Labour, and the Conservative-Liberal Democrat Coalition Government, elected in 2010 under conditions of severe economic and fiscal crisis.

Evidence, ideology and pragmatism: SME research and UK policy over 30 years

The 1980s: Conservative Government, Birch and the enterprise culture

The conventional wisdom is that the enterprise and SME policies pursued by the UK Conservative Government from 1979 to 1997 were inspired by the work of Birch (1979), which demonstrated the importance of small firms in the creation of new jobs. Davidsson (2002) went so far as to suggest that Birch’s work made ‘*all the difference in the world*’ to enterprise policies. It is clear that Birch challenged conventional wisdom about the role of large and small firms and it that sense played an important role in the policy process. However, it is inaccurate to conclude that the enterprise policies of the early years of the Conservative administration were ‘evidence-based’. There are three key arguments:

- Firstly, even before Birch’s findings were known to Government Ministers and advisers, the Thatcher government was ideologically committed to promoting an enterprise culture. The use of Birch’s findings to justify government enterprise policies can be seen in the context of Weiss’ political and enlightenment models, rather than the knowledge-driven model implied by most commentaries on the topic.
- Secondly, Birch’s findings were subject at the time to a number of criticisms from researchers, based largely on methodological considerations (Storey and Johnson, 1987). It seems that the UK Government did not take into account these criticisms, as might have been expected under ‘knowledge-driven’ or ‘interactive’ models.
- Finally, Birch’s study was primarily empirical in nature, with no explicit underlying theoretical model. As a result the policy implications of the Birch study were never entirely unambiguous, and the UK government chose to pursue policies based largely on its ‘enterprise culture’ commitment, rather than equally plausible policy options suggested by other researchers (Storey and Johnson, 1987). Birch’s findings provided convenient justification for the then Government’s policies, by highlighting the previously ignored importance of small firms (‘enlightenment’) but cannot be said to have had a direct impact on UK policy in any meaningful sense.

It is also important to note that, later in the Conservative administration, from the early 1990s, the focus of SME policy changed significantly away from addressing unemployment and changing the underlying culture of UK society, towards the promotion of business growth to

improve the competitiveness of the economy. This is broadly in line with the policy prescriptions of David Storey (1994) which in turn were based on synthesis of a wide range of research findings, including those of David Birch and like-minded researchers.

In the context of this paper, we might suggest that a ‘problem-driven’ approach became dominant at this time as unemployment had reduced significantly and the main problem facing the Government was how to promote economic growth and competitiveness. Arguably, the government by then had become less ideologically-driven, resulting in a more pragmatic approach to the use of research evidence to justify enterprise policies.

Enterprise policy under New Labour: evidence-based?

The ‘New Labour’ Government elected in the UK in 1997 explicitly rejected ideological approaches to policy-making and expressed a commitment to ‘evidence-based policy’. Initially there was a large element of continuity in enterprise policies, not least in relation to focusing on productivity and competitiveness as key economic drivers. Having said this, the scope of enterprise and SME policies was widened by New Labour in two significant ways. Firstly, ‘enterprise’ was seen as a key element of strategies to achieve ‘social inclusion’. Secondly, the spatial dimension of SME policies became much more important than they had been under the Conservatives.

The ‘modernising government’ agenda can be summarised as follows:

The government expects more of policy makers. More new ideas, more willingness to question inherited ways of doing things, better use of evidence and research in policy making... (Cabinet Office, 1999, ch 2, para 6, our emphasis)

There is insufficient scope within this paper to undertake a detailed analysis of the genesis of SME policies over the 13 years of New Labour Government¹. We focus here on a set of policy documents that appear to be strongly influenced by research evidence, namely the Small Business Service Action Plan (2004) and associated evidence document (SBS, 2004). On the face of it, this represents evidence-based policy-making *par excellence*.

Each main chapter of the Action Plan report has a section entitled ‘what does the evidence say?’ The ‘Evidence Base’ document is particularly impressive in scale, running to over 80 pages and containing over 120 references. It seems reasonable to conclude that the SBS Action Plan was indeed strongly influenced by research findings, although further work would be needed to establish whether the policies suggested, and the ones actually implemented, are indeed ‘evidence-based’ or at least ‘evidence-informed’ to a greater extent than were SME policies under previous governments.

A number of caveats are warranted here, which temper the above conclusions somewhat:

¹ There is also insufficient scope to consider in any detail the policies pursued by the devolved administrations in Scotland and Wales; the paper focuses primarily on UK Government policies

- Firstly, it is clear that the process was to a large extent problem-driven, with the problems being defined by the policy-makers rather than the researchers. For example, the Action Plan makes it clear that social exclusion deserves policy attention and that the Government sees enterprise as a large part of the solution to this problem.
- Secondly, the references in the Action Plan are dominated by SBS documents, reports commissioned by SBS, other government documents (e.g. Treasury reports), reports sponsored by NatWest Bank and Global Entrepreneurship Monitor reports.
- Thirdly, as noted by Bridge (2010), the Evidence Base contains little or no consideration of evidence regarding the impact of policies to promote entrepreneurship and SME development.
- Fourthly, it is highly probable that the published documents and associated references represent the tip of the iceberg in terms of communication between researchers and policy-makers. In order to form a balanced judgement about the influence of researchers and research evidence, it would be necessary to understand the extent and nature of formal and informal interactions between researchers and policy-makers.

This brief discussion focusing on one (albeit highly significant) New Labour policy document highlights the complexities involved in drawing simplistic conclusions about the role of researchers and research evidence. Our tentative conclusion is that, at least on paper, SME policies under New Labour have approached the ideal of ‘evidence-based policy-making’, or at the very least have been informed to some extent by research evidence. Nonetheless, the observed interactions between research and policy span the spectrum of Weiss’ models of research utilisation. Typically research has been deployed to address pre-defined problems rather than the problems being defined as a result of research findings. Moreover, political considerations still play a key role in policy-making, even under ‘modernisation’.

Policy under the Coalition Government: some early observations

The Coalition Government has been in power in the UK since May 2010, and it is early days in which to draw any definitive conclusions regarding the Government’s policies towards entrepreneurship and SMEs, and the extent to which it is based on research evidence. Having said this, some brief observations are warranted:

- The Conservatives’ approach to entrepreneurship policies is strongly influenced by a report by Doug Richard (2008), which they commissioned while in opposition. Interestingly, Richard echoes the views of many of the authors reviewed in this paper – that government intervention has had very little, if any, impact on entrepreneurship and SME performance in the UK. The evidence used to support Richard’s radical proposals is provided by a specially-commissioned consultant, with no other research evidence (apart from official statistics) being cited, despite the existence of a considerable array of publications and reports by academics, think tanks etc.
- Apart from the effective abolition of the Business Link service and its replacement by telephone and web-based business support, there is little sign of Richard’s recommendations being implemented in their entirety. Indeed, as Thompson, Scott and Downing (2012) have observed, there is a degree of continuity in the Government’s policies, which might reflect the nature of coalition government or perhaps the

existence of more pressing issues concerning the economy, the Euro, the public finances and the banking sector.

- Finally, the Government's 'official' document on entrepreneurship and SME policy (BIS, 2010) differs from Labour's equivalent document in one important way: there is no explicit reference to evidence, merely a list of the things that government intends to do. *Make Business Your Business* (Young, 2012) is equally devoid of research evidence. While it is too early to conclude that there has been a retreat from evidence-based policy, the signs are that research evidence is to date playing a less explicit role in relation to SME policy under the Coalition than it did under New Labour.

Recession and austerity: does it change everything or nothing?

Much has been written about the global economic recession that followed the collapse in 2008 of several large financial institutions in the US, UK and other countries. This paper does not intend to add to this literature. Rather, we aim to explore whether and how the changed economic, financial and fiscal environment affects the rationale for enterprise and SME policies and how this might affect the relationship between research and policy, in the light of the discussions above. We have seen from our brief overview of policy trends in the UK that there appears to be some, albeit tentative, relationship between economic growth and SME policy. In the recessionary 1980s, enterprise policies were primarily seen as a means of addressing unemployment; as economic growth re-emerged in the late 1980s and early 1990s, attention shifted towards promoting growth, competitiveness and innovation. This remained a key focus through most of the 2000s, with the balance shifting slightly towards the 'social inclusion' agenda. Since 2010, there appears to be a twin-track strategy of using state resources to try to encourage bank lending to small businesses while applying strict value-for-money criteria to the provision of free or subsidised business support.

This tension between a desire among governments to promote economic recovery - felt to be largely dependent on the SME sector - and addressing unprecedented pressures on the public finances, lies at the heart of the issue of whether there has been a fundamental shift in thinking about the rationale for enterprise and SME policies. On the face of it, at least in the UK, the market failure argument appears to prevail in relation to SME finance, whereas there seems to be some doubt in the minds of policy-makers about the rationale for providing or subsidising relatively expensive advice services for SMEs (Richard, 2008).

It is too soon to draw clear conclusions about whether there has been a shift in the way that policy-makers think about, develop and implement enterprise and SME policies in a time of recession and austerity. Turbulent financial and economic times, associated with social unrest in some countries, suggest that political considerations and the role of powerful lobby groups might play an increasing role in the policy process. On the other hand, there is some indication that policy-makers are becoming more interested in identifying 'what works' in relation to enterprise policy, an example being the establishment of a new small business research programme in the UK, with Government financial support.

Ongoing research and policy debates - for example about the relative merits of promoting business start-ups and business growth, whether or how to target high-growth businesses, targeting of specific groups of potential entrepreneurs (e.g. unemployed people) or spatial targeting - all have a potential contribution to make to the policy-making process. While

researchers are unlikely to come up with definitive answers that policy-makers can simply implement, the process of ‘enlightenment’ engendered by lively academic debate should, in principle, help to improve the quality of policy-making, as suggested by Weiss (1979). This is the key contribution that enterprise and SME researchers have made over the past 30 years or so, and the current difficult economic environment provides a renewed opportunity for researchers to engage in meaningful debate that will provide an informed underpinning to the policy process, which will inevitably be influenced by factors other than research findings.

Re-framing the policy debate: a key role for researchers

In contrast to the apparently negative findings of some reviews of the impact of research and enterprise and SME policies, this paper strikes an optimistic tone about the potential for researchers to influence policy, based on an understanding of Weiss’ different meanings of research utilisation and the alternative frameworks which enable us to better understand the policy-making process. Once we recognise that the linear knowledge-driven model of research utilisation describes only a tiny proportion of research-policy interactions in our field, and that market failure is only one consideration in the minds of policy-makers, we can begin to consider a more realistic and potentially constructive role for the research community.

First and foremost, and in line with the observations of Davidsson (2002), researchers and policy-makers need to be clear that not every piece of research necessarily needs to yield results that have direct implications for policy. While there may be notable examples such as Birch (1979), the impact of research on policy occurs primarily through Weiss’ process of ‘enlightenment’, whereby an accumulation of scholarly thinking and research evidence over a period of time provides the basis on which policy-makers can make decisions, informed also by other influences, including lobby groups, public opinion and the political process.

Crucially, Weiss notes that the ‘enlightenment’ process is enhanced by research that questions or challenges conventional thinking and may be critical of current policies. This is a vital component of the academic process, entailing debate between researchers and also constructive interaction between researchers and policy-makers. At a time of economic crisis, and when public resources are scarce, it is more vital than ever that researchers take an independent and critical view of current thinking, while recognising the constraints faced by policy-makers, and ensuring that debates are conducted in a constructive manner on the basis of evidence that is presented and discussed in open and accessible ways.

Finally, while we argue that - in general - research should not necessarily be about influencing policy directly, it is important for researchers to understand, and where possible engage with the policy-making process. In particular, we need to recognise that knowledge-driven, linear models do not accurately describe the role of research in the policy process and that it is inevitable that a range of factors - of which research is just one - will influence the decisions of politicians and senior officials. This multiplicity of influences and processes, which tend to change over time and over space, goes a long way to explaining why policy does not, in general, appear to be strongly evidence-based, despite the volume and quality of research in the vibrant field of entrepreneurship and small business.

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