

# Quarterly Survey of Small Business in Britain

*Special topic: education, training  
and skills development*



2012

# Quarterly Survey of Small Business in Britain

2012 Q3 Vol 28 No 3

*Special topic: education, training and skills development*

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The Business School is particularly pleased to acknowledge the generous financial and organisational support provided by Barclays Bank and ACCA (Association of Chartered Certified Accountants) in sponsoring the research, analysis and publication of these quarterly reports. However, it is important to note that any opinions expressed in this publication are not necessarily those of the sponsors or of the Open University.

We also take this opportunity to acknowledge **Andrew McCann's** immense contribution to the *Quarterly Survey of Small Business in Britain*. Andy, who has recently stepped down from his role as our researcher and writer, began work on the *Quarterly Survey* back in 1991, when he joined Graham Bannock and Partners (see the 'History' section of our website for a full timeline). Since that time, he has played a pivotal part in the analysis and authorship of the survey and in producing numerous commissioned research studies. Andy has been a strongly committed and highly-valued colleague. His work has continued to shed new light on many of the most important issues affecting small and medium-sized firms. We would like to thank Andy for his sustained efforts over so many years and wish him all the best for the future.

## Research and sponsorship opportunities

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# Summary

SMEs are still reporting a positive net sales balance overall but more firms experienced falling sales and fewer firms saw their sales performance improve, as compared to the same quarter in 2011. Overall, the balance of small firms is still positive with respect to future sales though London is the only part of the UK where a significant proportion of firms expect to increase jobs. Manufacturing, wholesaling and business services reported the strongest performance while worst performers were retailing and agriculture. Regional differences were particularly marked, with the North East experiencing the largest declines in sales and employment while the East of England and West Midlands had positive sales and employment balances. As in previous surveys, it is clear that smaller firms are being hit harder by today's troubled economic conditions in comparison with their larger counterparts. Smaller firms are also less optimistic about their prospects for sales growth in the next quarter. The overall pattern for expected future sales growth is broadly in line with current performance with the notable exception of firms in the £250,000 to £499,999 turnover band. The 'economic environment or demand' remains by far the most important problem faced by SMEs, irrespective of size, sector or region. However, the number of business starts has been higher than at any time since 1989 and the stock of businesses has continued to grow strongly.

## *Special topic: education, training and skills development*

Education and training are widely seen as critical to the continued competitiveness, innovation and resilience of UK firms, both large and small. However, there is a lack of consensus over the most appropriate types of provision, and on how it can be delivered most effectively. This quarter's special topic examines the views and experiences of SME owners and managers:

- While most of the survey respondents (71%) provide formal staff training, there are marked differences, both in the proportion of firms engaged in staff training and in the ways in which this training is provided. For example, more than two fifths (44%) of firms in the '1-4 employee' band report that they do not offer any formal training to staff, compared to just 6% of firms with between 50 and 250 employees.
- The most commonly reported types of staff training are: paying for external courses (48% of respondents), internal courses (45%) and giving staff time off to attend courses (41%).
- There have been modest increases over the last six years in the proportion of respondents organising online learning (or 'e-learning'). For example, the figure for the 5-9 employee band is up slightly (from 14% to 17%), and a similar trend can be seen amongst those with between 10 and 19 employees (up from 14% to 19%). High quality e-learning can bridge the gap between college and workplace learning but a number of obstacles need to be overcome before this kind of provision can achieve its full potential amongst SMEs.
- The lowest levels of formal management training are reported by the very smallest firms and by those operating in the agriculture, forestry and fisheries (36%), retail (42%) and manufacturing (48%) sectors. Higher levels are reported in the hotels and restaurants (64%) sector, closely followed by business services (60%) and transport (57%).
- A majority (59%) of firms with recent recruitment experience regard the educational system as appropriate to their needs, leaving a sizeable minority (41%) who consider it inappropriate.
- While most medium-sized firms consider that the existing educational system is appropriate to their needs (73% of firms with 50-250 employees), the proportion is much lower amongst smaller firms (45% of those with 1-4 employees).
- Almost half of the respondents (48%) who express a view are in favour of keeping the current mix of vocational and academic courses at secondary school level. Amongst those wanting to see further changes, there was more support for increasing vocational courses (38%), with a minority wanting to have additional academic courses (14%).

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## Education, training & skills development

Education and training are widely seen as critical to the continued competitiveness, innovation and resilience of UK firms, both large and small. However, there is a lack of consensus over the most appropriate types of provision, and on how it can be delivered most effectively. In this quarter's special topic, we examine the extent and variety of staff training provided by SMEs. We also report on SME owners and managers experiences of formal management training and explore their views on the current state of the UK's different educational systems, including the much-debated balance between 'academic' and 'vocational' courses.

### Training provision

The survey reveals marked differences, both in the proportion of firms engaged in staff training and in the ways in which this training is provided. While the overall percentages might suggest that most respondents provide formal training (Chart 1), it is clear that smaller firms are much less likely to offer formal training to their staff in comparison with their larger counterparts (Table 1). For example, more than two fifths (44%) of firms in the '1-4 employee' band report that they do not offer any formal training to staff, compared to just 6% of firms with between 50 and 250 employees<sup>1</sup>. This finding is in line with other research, which has pointed to strong size-related differences in the extent and type of training provided by smaller firms<sup>2</sup>.

Table 1 indicates that for our respondents, the most popular types of staff training involved paying for external courses (48%), running internal courses (45%) and giving staff time off to attend courses (41%). Comparison with our previous survey (2006, Quarter 4) suggests relatively modest changes in the pattern of training provision, once differences in the overall sample profile are taken into account. For example, the percentage of respondents organising online learning (or 'e-learning') for their staff in firms in the 5-9 employee band is up slightly (from 14% to 17%), and a similar trend can be seen amongst those with between 10 and 19 employees (up from 14% to 19%). High quality e-learning can bridge the gap between college and workplace and provide people with opportunities to engage in experiential and practice-based learning.

1 The reported figures in Table 1 for firms in the category 'no employees (excluding owners/partners)' should be treated with caution as, by implication, these firms would not be expected to engage in staff training. It is reasonable to assume that where respondents in this category do identify specific types of training provision, they are referring to courses undertaken by themselves as business owners or partners. However, it is likely that some respondents in this position may have answered 'no formal training'.

2 See, for example: Kotey, B. and Folker, C. (2007), Employee training in SMEs: Effect of size and firm type—family and nonfamily. *Journal of Small Business Management*, 45: 214-238; Hoque, K. and Bacon, N. (2006) The antecedents of training activity in British small and medium-sized enterprises *Work, Employment & Society*, 20, 3: 531-552. The latter study concluded that there was a clear relationship between size and training activity: 'This is particularly the case for very small SMEs (10-24 employees), within which managers/professionals as well as non-managers have received fewer days training and are less likely to have discussed their training needs with their supervisor than are their counterparts in larger SMEs. In addition, the evidence suggests that training activity is lower in single independent SME workplaces than in workplaces that are part of a larger multi-site SME' (Hoque and Bacon 2006: 544).

However, recent studies suggest that there are still significant obstacles (including resources, time, technology and attitudes), that need to be overcome before this type of provision can achieve its full potential amongst SMEs<sup>3</sup>. Lastly, it is important to note that, in common with many other studies of training provision, our survey question excluded 'on-the-job instruction', which may be informal in nature. Workplace learning takes a wide variety of forms, both formal and informal, and there is evidence to suggest that it can be far more effective than is commonly assumed. While external training courses clearly have their part to play in developing firm-level capabilities, learning in the workplace can be a highly cost-effective option; it does not always represent a 'last resort' for employers who are either unwilling or unable to enable their staff to take time away from work in order to study<sup>4</sup>.

Chart 1: Firms providing staff training (other than on-the-job instruction)

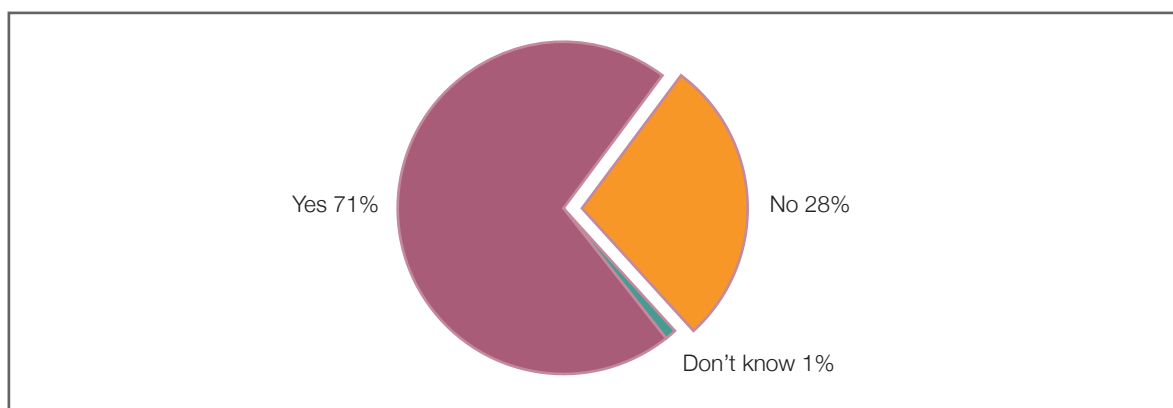


Table 1: Training provision other than on-the-job instruction by number of employees (excluding owners/partners)

	0	1-4	5-9	10-19	20-49	50-250	All
Pays for external training courses	10%	31%	45%	57%	63%	70%	48%
Organises other internal training courses	7%	25%	35%	53%	61%	75%	45%
Gives staff time off to attend courses	5%	29%	40%	50%	56%	55%	41%
Organises online learning	4%	8%	17%	19%	25%	32%	19%
Other	4%	4%	5%	4%	5%	3%	4%
No formal training	78%	44%	22%	19%	13%	6%	28%
Don't know	1%	1%	1%	0%	0%	1%	1%
Sample	137	190	170	201	154	234	1,086

3 See: Admiraal, W. and Lockhorst, D. (2009) E-Learning in small and medium-sized enterprises across Europe: Attitudes towards technology, learning and training. *International Small Business Journal*, 27, 6: 743-767; Moon, S., Birchall, D., Williams, S. and Vrasidas, C. (2005) Developing design principles for an e-learning programme for SME managers to support accelerated learning at the workplace. *Journal of Workplace Learning*, 17, 5/6: 370-384.

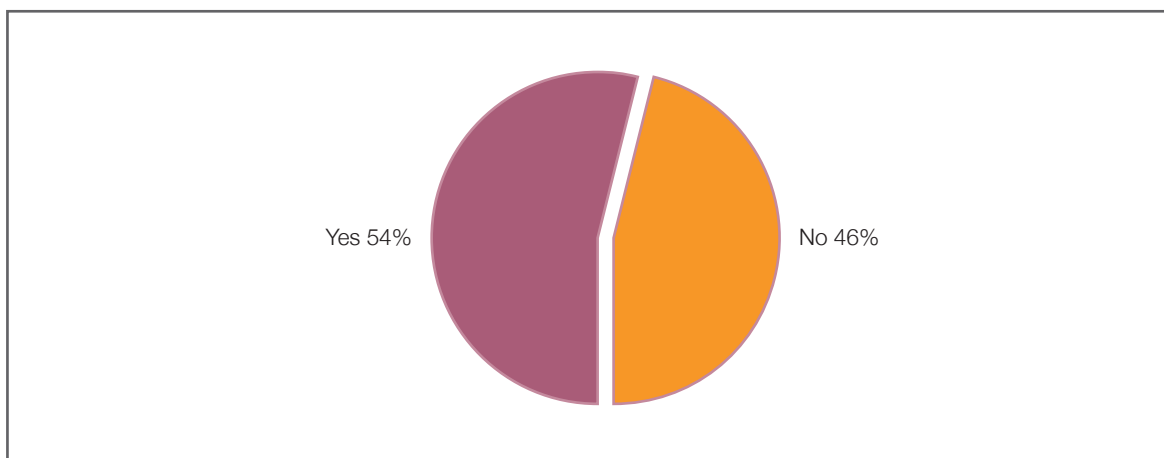
4 Kitching, J. (2008), Rethinking UK small employers' skills policies and the role of workplace learning. *International Journal of Training and Development*, 12: 100-120.

## Management education and training

There has been considerable debate around the need for formal management education and training in small and medium-sized firms<sup>5</sup>. In this survey, just over half (54%) of our respondents have undertaken some form of formal training, either at work or externally (Chart 2). We asked a similar question about personal experience of management training in a previous survey (2004, Quarter 2). Though the figures are not directly comparable, due to changes in the question format and sampling frame, we had not expected to see a higher proportion of respondents reporting no prior experience of formal management training (46% in 2012 compared to 39% in 2004), particularly given that the current sample has a higher representation of medium-sized firms. This may be explained by the lack of a clear pattern when levels of formal management training are compared across different firm sizes (Chart 3). While respondents from the very smallest firms (with a turnover of less than £100,000) report the lowest levels formal management training, this proportion fluctuates across the larger size bands, so that firms with a turnover in the £500,000 to £1m band report lower levels than in the adjacent bands on either side (i.e. their larger and smaller counterparts).

The survey findings also suggest quite large sectoral differences amongst SMEs with regard to management training experience. The lowest levels of formal management training were reported in agriculture, forestry and fisheries (36%), retail (42%) and manufacturing (48%), while the highest were to be found in hotels and restaurants (64%), closely followed by business services (60%) and transport (57%)<sup>6</sup>.

Chart 2: Formal management training

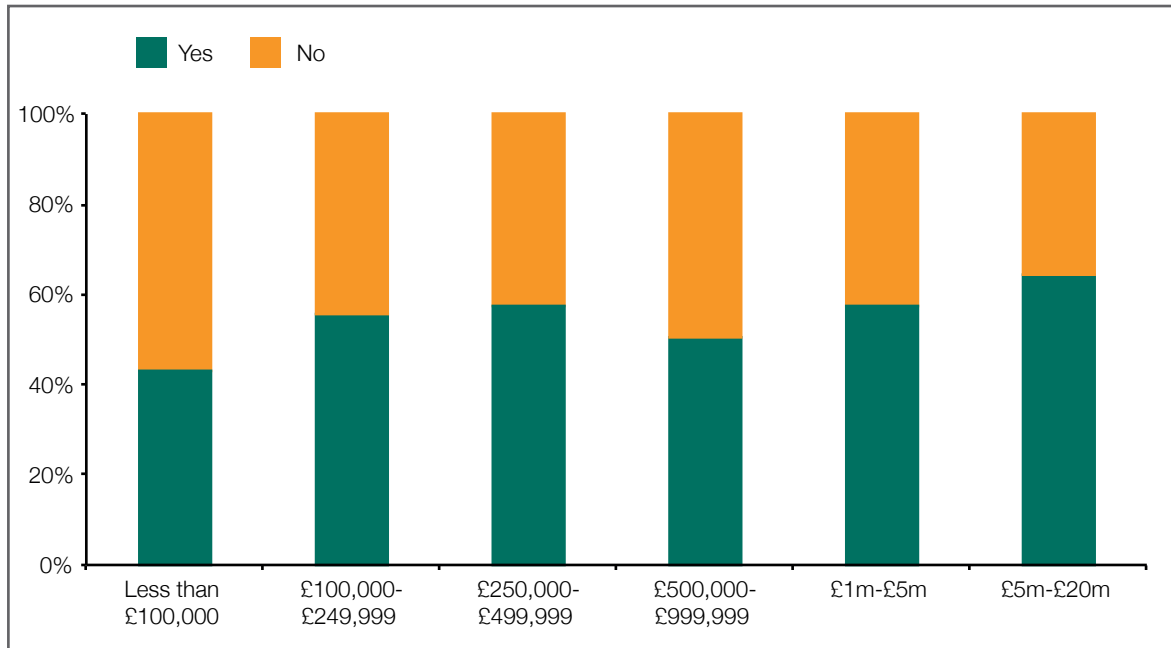


5 Researchers and policy-makers have often drawn attention to an apparent lack of management qualifications, particularly amongst smaller firm owner-managers. A recent literature review concluded that management development programmes were effective for small firms: Fuller-Love, N. (2006), Management development in small firms. *International Journal of Management Reviews*, 8: 175-190. However, other studies have questioned the relationship between formal management education and small firm performance, with some suggesting that it may be the result of informed decision-making on the part of owners and managers, rather than of market failure: Storey, D. J. and Westhead, P. (1997), Management training in small firms – a case of market failure?. *Human Resource Management Journal*, 7: 61-71; Storey, D. J. (2004) Exploring the link, among small firms, between management training and firm performance: a comparison between the UK and other OECD countries. *The International Journal of Human Resource Management*, 15, 1: 112-130

6 The survey did not detect strong patterns of formal management training by region.



Chart 3: Formal management training by turnover



Our online respondents' comments were overwhelmingly positive about the benefits of formal management training. Where there were negative comments, the problems revolved largely around the quality or type of provision. The following comments lend support to the view that practice-based or experiential learning approaches can prove the most effective for SME owners and managers<sup>7</sup>:

*You can't learn the sort of things you need to know by sitting in a classroom / lecture theatre. Experience is key in understanding not so much how to avoid problems, but how to deal with and overcome them in any working situation.*

*Not at all - the person doing the training ... had never even 'worked' - all theory - very annoying and frustrating.*

The main benefits cited by respondents included increased personal confidence as a manager, gaining a more rounded and realistic view of the business, and taking a more critical view of some of the more 'popular' management ideas:

*Enhances the range of skills required to run a business and broadens the mind in terms of how others run their businesses.*

*Absolutely the most important feature is the confidence given from doing an MBA which gives certainty to decision making and knowledge of when to ask for help.*

*Subtly, usually recognised in retrospect (i.e. you realise the validity of the training after you have come to the same conclusion yourself through experience). By the same token you quite often realise the irrelevance of management psychobabble that so often prevails nowadays.*

<sup>7</sup> Experiential and practice-based approaches are a key feature of The Open University Business School's curriculum and are increasingly being adopted in management and enterprise education. See, for example: Rae, D. (2004) Practical theories from entrepreneurs' stories: discursive approaches to entrepreneurial learning. *Journal of Small Business and Enterprise Development*, 11, 2:195 - 202.

## Educational system

This section looks at SME perspectives on the educational system, and whether owners and managers feel that our schools, colleges and universities are likely to meet current and future needs. For example, are they producing job candidates with the kinds of skills, aptitudes and motivation that are needed to ensure the continued success of the business? The context for our questions is an education system that is facing major challenges. For example, in 2011, the UK government published the Wolf Report, which proposed a series of radical reforms to the system of vocational education for 14-19 year olds. This included calls for the system to be simplified, to ensure that all students achieved good levels of English and Mathematics and that vocational courses were not solely based on occupation-specific content. The report also emphasised that the labour market was in 'constant flux', the implication being that students needed to develop general skills in order to remain adaptable and that the educational system itself had to become more responsive to changing needs<sup>8</sup>. Academic courses are also under review: In September 2012, the UK's Education Secretary Michael Gove announced proposals to replace some GCSE qualifications with a new 'English Baccalaureate'. There have also been continuing concerns over the examinations process at GCSE level, with some re-grading of scripts during the summer of 2012. In August 2012, a Federation of Small Business survey reported very low levels of confidence on the part of their respondents that UK graduates, college and school leavers were ready for the world of work<sup>9</sup>.

In order to gain a sense of current levels of satisfaction with today's educational system, we asked respondents to rate its contribution to meeting the needs of their businesses, based on the employees they have recruited in recent years. Overall a majority (59%) of SMEs with recent recruitment experience regard the system as appropriate; yet this leaves a sizeable minority (41%) who consider it inappropriate to their needs. Questions of this kind inevitably lead to an under-representation of the smallest firms because they tend to have much less experience of recruiting new staff compared to their larger counterparts (Chart 4). However, when we focus on firms with recent experience of recruiting new employees, there is clear evidence of size related differences. Most medium-sized firms consider that the existing system is appropriate to their needs (73% of firms with 50-250 employees), the proportion is much lower amongst smaller firms (45% of those with 1-4 employees) (Table 2)<sup>10</sup>.

8 *Review of Vocational Education: The Wolf Report* (March 2011). London: Department for Education. Available at: <https://www.education.gov.uk/publications/standard/publicationDetail/Page1/DFE-00031-2011>

9 FSB 'Voice of Small Business' Survey Panel (survey conducted June 2012 based on FSB membership). Available at: <http://www.fsb.org.uk/fsb-survey-panel>

10 Perceptions of the education system amongst the smaller firms in our sample (1-4 employees) are closer to those reported in the recent FSB 'Voice of Small Business' Survey Panel (see: Note 9). One minor anomaly in Chart 5 and Table 2 is a small number of responses (23) from firms with no employees. Unsurprisingly, these figures differ markedly from those of other micro-enterprises and can be discounted for analysis purposes.

Chart 4: Contribution of the UK education system based on recent recruits by employment

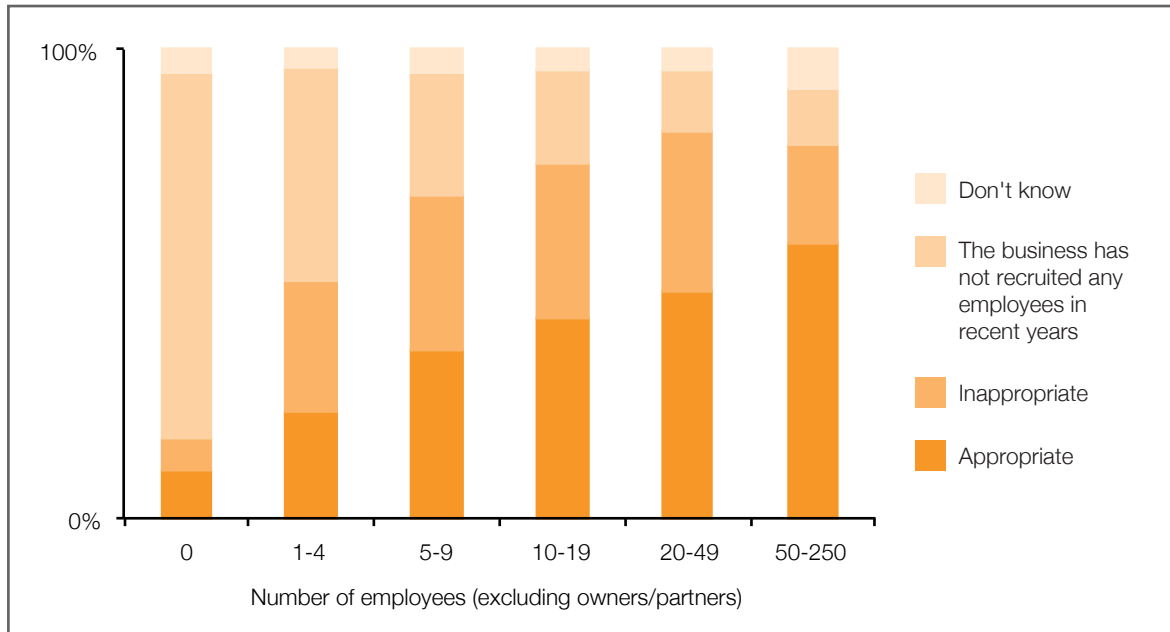


Table 2: Contribution of the UK education system (firms with recent recruitment experience only)

	0	1-4	5-9	10-19	20-49	50-250	All
Appropriate	61%	45%	52%	57%	59%	73%	59%
Inappropriate	39%	55%	48%	43%	41%	27%	41%
Sample	23	96	116	152	126	187	700

Amongst the most frequent comments from our online respondents, were that there was a need for higher quality vocational education, particularly in areas such as engineering and design:

*As an engineering manufacturer there are very few people around [aged] under 35 with appropriate technical skills.*

*I'm aware that design and technology is being or has already been downgraded and have added my names to a campaign against this. Design is one of the most important business sectors.*

*When I was in school we had Technical Drawing, Metal work and Wood work all very good subjects as a precursor to Engineering & Manufacturing, which is what this country needs now.*

Several respondents recognised the value of university degrees in developing transferrable skills such as critical thinking. However, as the following verbatim comments indicate, others felt strongly that the recent proliferation of new academic courses at degree level was not benefitting students. In some cases, this criticism was linked to a call to expand and to raise the status of vocational courses:

*At present the main route is academic and vocational is considered a lesser option. Hence trying to get 50% to University. This is madness.*

*I believe the lowering of Academic standard / qualification allowing those at school that would be ideal for vocational work being lulled into a false sense of ability - wrong. Fairy Tale degrees at Uni's that were Poly Techs - plain daft - sorry.*

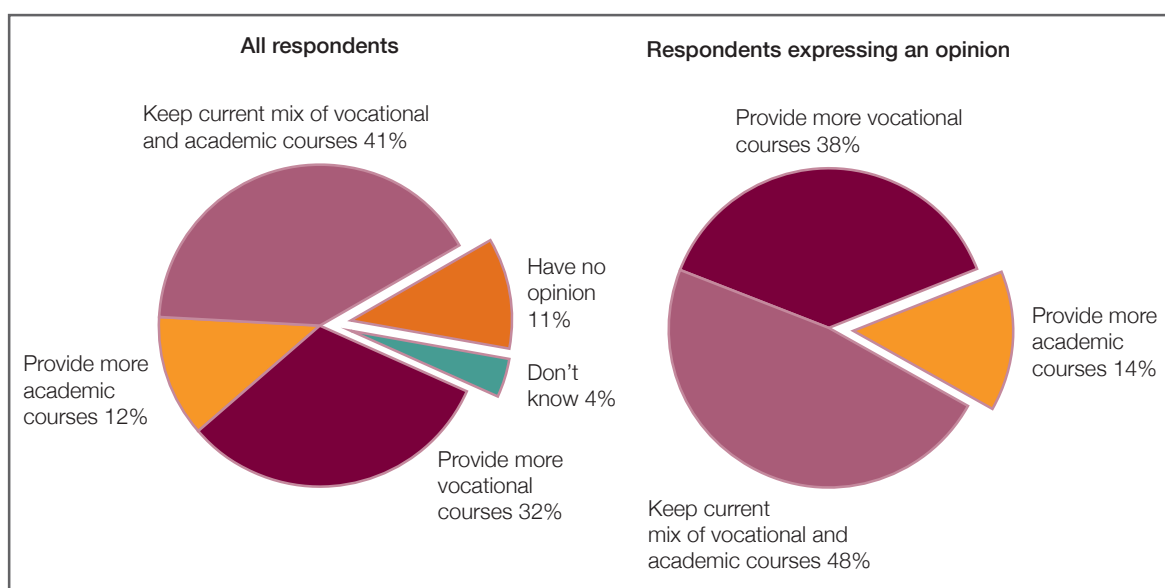
*Too much damn paperwork these days, not enough doin'* [n.b. given the question, this comment can be interpreted as, 'too much academic study these days, not enough practical application'].

We also asked about the current balance between 'academic' and 'vocational' education in the UK's secondary schools. These shorthand terms are normally seen as referring to courses based around academic disciplines, such as history, geography, languages and physics, and those with curricula designed around particular occupations, such as hairdressing, plumbing, architecture or accountancy. Though often treated as alternatives, in practice they often address similar specialist knowledge and skills (e.g. mathematics, written communication). Several respondents pointed this out in their written feedback, with one commenting that, 'medicine, a highly competitive academic choice, is also vocational training.' Another subject area that is particularly relevant to SMEs, enterprise education, has also become a regular component of both academic and vocational courses<sup>11</sup>.

Our respondents had mixed views on the current balance between academic and vocational education at secondary school level (Chart 5). If we exclude those who either did not express an opinion, or did not know (15% of the total), almost half of the respondents (48%) were in favour of keeping the current mix of vocational and academic courses. Amongst those wanting to see further changes, there was rather more support for increasing the number of vocational courses (38%), but also a minority wanting to see an increase in academic courses (14%).

We examined these responses to see if there were any clear differences by size of firm or industry sector. As in the case of formal management education, there was an uneven pattern in the responses from firms of different sizes (Chart 6). The proportion supporting more vocational courses tended to decrease in the larger firms surveyed (ranging from 49% for firms with 1-4 employees to 31% for those with 20-49 employees). By contrast, the proportion favouring more academic courses was similar across the size bands (in the range 12% to 16%), other than for micro-firms with fewer than 5 employees (19%). We can conclude that, in comparison with their larger counter-parts, micro-firms are much less satisfied with the current mix of vocational and academic courses, and that the demand for more vocationally-oriented

Chart 5: Preferred balance between 'academic' and 'vocational' education



11 For example: *Entrepreneurship in vocational education and training: Final report of the expert group* (November 2009). Brussels: European Commission. Available at: [http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/index_en.htm); *Enterprise and entrepreneurship: Equipping graduates for the twenty-first century* (September 2012). Gloucester: QAA. Available at: <http://www.qaa.ac.uk/Publications/InformationAndGuidance/Pages/enterprise-entrepreneurship-guidance.aspx>

courses is more strongly felt by some of the UK smallest firms<sup>12</sup>. There were also marked sectoral differences in opinion over this issue (Table 3). For example, more than half of manufacturing sector SMEs (53%) expressed support for more vocational courses compared to less than one third (29%) of construction firms. There was less variation across the sectors in relation to support for academic courses, with most sectors ranging between 14% and 18%. The exceptions were hotels and restaurants, and health, education, leisure and other services, each of which reported a rather lower level of support (8%).

Chart 6: Preferred balance between 'academic' and 'vocational' education by employees

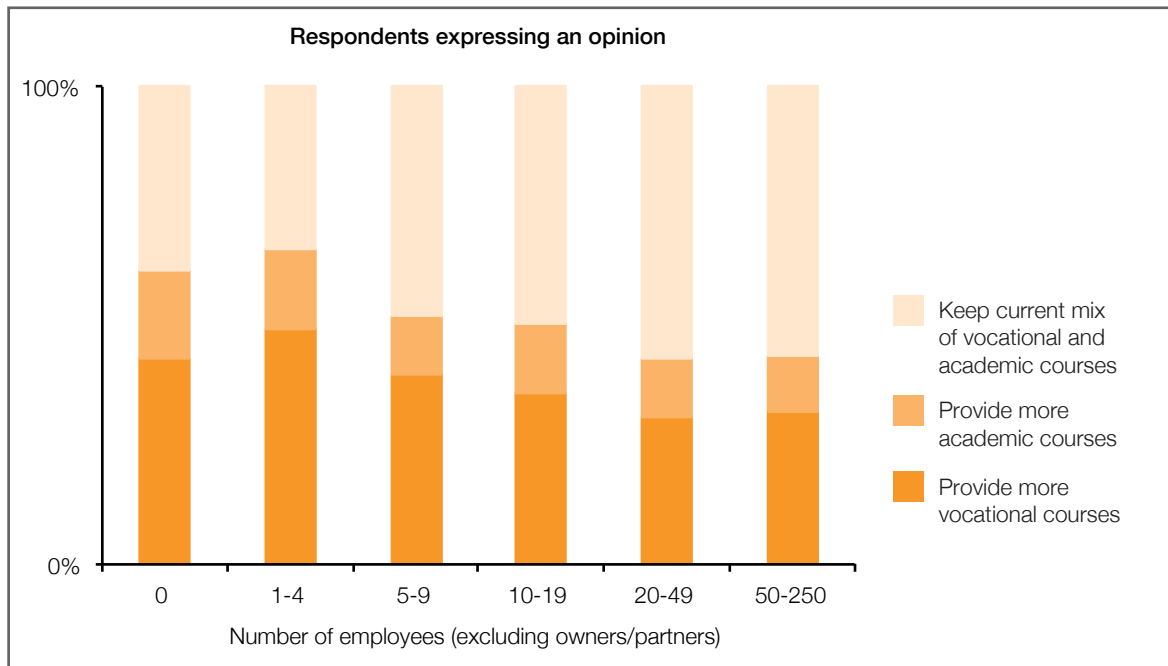


Table 3: Preferred balance between 'academic' and 'vocational' education by sector (respondents expressing an opinion)

	Provide more vocational courses	Provide more academic courses	Keep current mix of vocational and academic courses	Sample
Agriculture, Forestry, Fisheries	36%	18%	45%	22
Manufacturing	53%	14%	33%	101
Transport, Storage & Communication	22%	18%	59%	49
Construction	29%	15%	56%	111
Wholesale	30%	16%	54%	90
Retail	41%	16%	43%	117
Hotels & Restaurants	41%	8%	51%	73
Business Services	44%	17%	39%	197
Health, Education, Leisure, Other	33%	8%	59%	160
All	38%	14%	48%	920

<sup>12</sup> This is indicated by micro-firms' lower than average response to the option 'keep the current mix of vocational and academic courses', and the higher percentages favouring either 'more vocational' or 'more academic' ones. There is scope for further research to unpick some of the underlying sectoral and firm level differences.

## Conclusions

Education and training are at the forefront of public debate at the present time. They are widely regarded as integral elements in delivering the 'growth agenda' and their importance has been acknowledged across the political spectrum<sup>13</sup>. There is also a great deal of turbulence, with young people facing severe challenges as they seek to enter the job market in a difficult economic environment and with existing employees needing to become more adaptable and education systems under review. In this special topic we have highlighted the experiences of small and medium-sized firms, including their use of staff training, levels of formal management training and education and views on the current state of the secondary education system. Overall, we found that the proportion of SMEs providing staff training, and ways in which it was provided, varied markedly by firm size. In addition, just over half of our respondents (54%) had themselves undertaken some formal management training. A similar proportion (59%) considered that the current education system was broadly appropriate, based on their recruitment experience, and that most of those expressing a view (48%) thought that the balance between 'vocational' and 'academic' courses was about right. However, these aggregate figures mask a number of important concerns on the part of some of these firms.

We would not expect SMEs to have a common position on any of these issues and the survey has identified important differences in respondents' views and experiences of education and training. The most important of these relates to the size of firm. We found that the UK's smallest firms, those in the 'micro-firm' category with fewer than five employees, tend to differ markedly from other SMEs in terms of the types of training they provide, their exposure to formal management training and in whether they regard the current educational system as being appropriate to their needs.

Several respondents commented on the need to address skills deficits in vocational areas such as construction, engineering and science. There was also support for the expansion of apprenticeships and for raising their status in relation to other types of educational provision:

*As a nation of Builders (not just construction but ship-builders, car-makers, aircraft manufacturers etc.), Engineers and Scientists, I'm not sure that we are doing enough to serve students wishing to follow a practical / hands-on route in to a career.*

*Businesses require new employees to have both a vocational and academic skill base. Not everyone can or needs to have a university degree. Apprenticeships are a good way to build a career base and move up into senior management. There needs to be balanced skill base for businesses to endure.*

Alongside areas of continuing concern, there were also clear signs that the situation was improving for some firms:

*In our experience of working with young people, there is now a good balance of vocational and academic courses offered to all students and a good balance between the courses (i.e. academic are not just seen as for bright students and vocational for the rest).*

*Two recent-ish recruits were educated outside the UK and got jobs ahead of UK-educated candidates. But since then two staff member recruits and two summer students, all UK educated and exceptional.*

Several respondents also pointed out that it was essential to take the individual into account, both by structuring courses to take account of how young people develop over time and by recognising that people often need to find the right work environment in order to flourish:

*A good quality broad education is essential with further specialization / vocational courses as talents emerge and interests start to focus for each individual.*

*In our firm of six craftspeople we have two very bright people who were hopeless at school but are brilliant at technical design and craft manufacture.*

*Individuals are INDIVIDUAL therefore have needs, skills and interests of their own and education should recognise this and not try and place everyone in a box.*

<sup>13</sup> For example, Vince Cable, Secretary of State for Business, recently has announced an 'Employer Ownership Pilot' scheme, offering employers access to £250 million to design and deliver training solutions to address what he called the 'very serious' skills gap for SMEs (*The Guardian* education supplement, 9th October 2012, p.39).

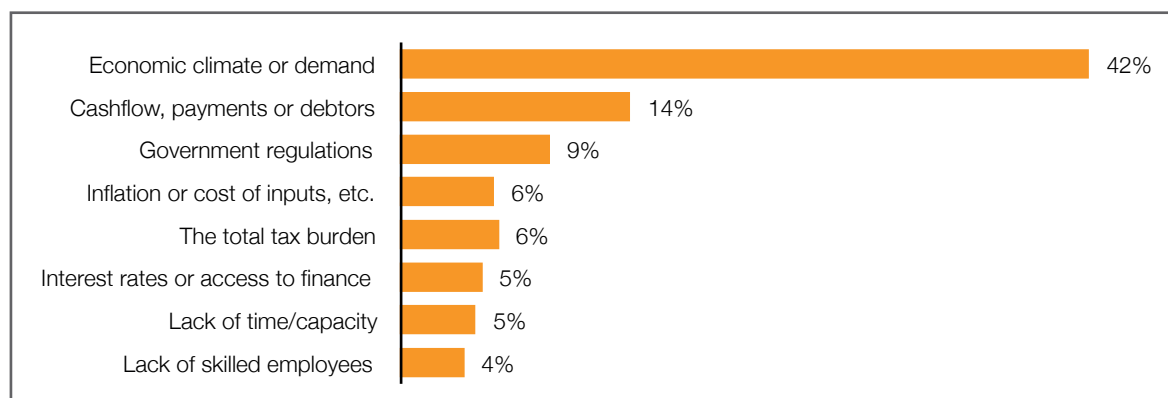
# Problems

The challenging economic climate, with its associated negative impact on demand, continues to be by far the most commonly reported ‘top’ business problem facing SMEs. Cashflow, payments and debtors is again the second most commonly reported problem, with government regulations taking third place.

## Economic climate or demand

It comes as no surprise to see that the economic climate or demand remains on the top of the list of most common business problems for UK SMEs (Chart 7), given that outlook for the UK economy is still uncertain, with continuing debate over whether it is showing signs of growth or contraction. A slightly higher number of respondents (42%) than in the previous quarter (40%) identified it as the main problem affecting their business. This figure is now three times that recorded for the second ranked problem in our list. While it tops the lists for every size and sector category in our sample, the highest proportion of respondents reporting this problem (54%) is to be found amongst the medium-sized firms (i.e. those with a turnover in the £5m to £20m band) (Table 4).

Chart 7: Proportion of firms indicating that each problem is the top one facing their business at the moment



## Cashflow, payments or debtors

This is the third successive quarter when ‘cashflow, payments or debtors’ has been ranked as the second most commonly reported problem (14%) in this survey, a similar percentage to that recorded in the previous report (16%). SMEs in the agriculture, forestry and fisheries and construction sectors were most likely to report it as their main problem (18%) on this occasion.

## Government regulations

Government regulations remains the third most commonly identified ‘top’ problem for UK SMEs (9%). Respondents from the ‘health, education, leisure, other’ sector most frequently report Government regulations as their number one problem (15%). When examined geographically, respondents from East of England top the list (14% of respondents).

## Inflation or cost of inputs

Inflation and the costs associated with running a SME is the fourth most mentioned problem after the 'economic climate or demand'. Rather than the overall level of inflation, it seems to be the costs of specific inputs that represent a particular burden on SMEs. For example, the high costs for rental property, higher energy and fuel prices, and recent price increases by Royal Mail feature prominently in the comments made by our online respondents. Competition from cheap imports and internet-based businesses are also related concerns.

## The total tax burden

SMEs concern with the costs side of their businesses is also reflected in the number of respondents reporting that the total tax burden is the top problem facing their business (6%), though the figure is unchanged from that reported in the previous quarter.

## Interest rates/access to finance

Whilst interest rates remain at historic lows, some SMEs continue to struggle with the access to finance to sustain or to grow their business. Evidence suggests that only a relatively small proportion of SMEs is actively seeking finance at any one point in time. For example, the 'SME Finance Monitor (Quarter 2 2012)' found that 14% of SMEs intended to seek renewed funding over the next quarter, a slight reduction on the 16% reported in the first Quarter<sup>14</sup>. However, verbatim comments from our online respondents, such as "all savings are gone now" and "no credit from suppliers" suggest that cashflow management and access to trade finance can pose severe problems for some SMEs, albeit a relatively small proportion of the total population.

## Lack of time/capacity

The number of SMEs indicating 'lack of time/capacity' to be the dominant problem in running their business (5%) is slightly lower than in the previous quarter (6%). The relatively low number of firms reporting this problem may be interpreted as evidence of a continuing lack of demand in the wider economy.

## Lack of skilled employees

This problem is again at the bottom of the rankings (4%), though it has increased slightly compared to the previous report (3%). However, the overall figure does mask some sectoral and regional variation. For example, the figure for SMEs in the manufacturing sector reporting lack of skilled employees as their top problem (9%) is more than double that of the SME population as a whole. Respondents located in Wales also report this problem (11%) at a percentage that is more than twice the overall average.

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<sup>14</sup> SME Finance Monitor Q1 2012: The mid-year review. BDRC-Continental. Available at: <http://www.sme-finance-monitor.co.uk/>



Table 4: Proportion indicating each problem is the top one, by turnover band size

	Less than £100,000	£100,000- £249,999	£250,000- £499,999	£500,000- £999,999	£1m-£5m	£5m-£20m	All
Economic climate or demand	41%	39%	39%	36%	42%	54%	42%
Cashflow, payments or debtors	15%	20%	15%	18%	13%	5%	14%
Government regulations	8%	9%	12%	9%	7%	10%	9%
Inflation or cost of inputs, etc.	6%	7%	3%	8%	6%	3%	6%
The total tax burden	7%	6%	5%	9%	6%	2%	6%
Interest rates or access to finance	5%	6%	4%	6%	5%	3%	5%
Lack of time/capacity	5%	3%	6%	5%	4%	6%	5%
Lack of skilled employees	1%	4%	7%	4%	4%	5%	4%
Sample size	231	147	123	137	269	175	1,086

## Business stock & activity index

Chart 8: Mainstream businesses in England and Wales, starts closures & net change, (thousands), four quarter moving averages, Source: Business Economics, Barclays

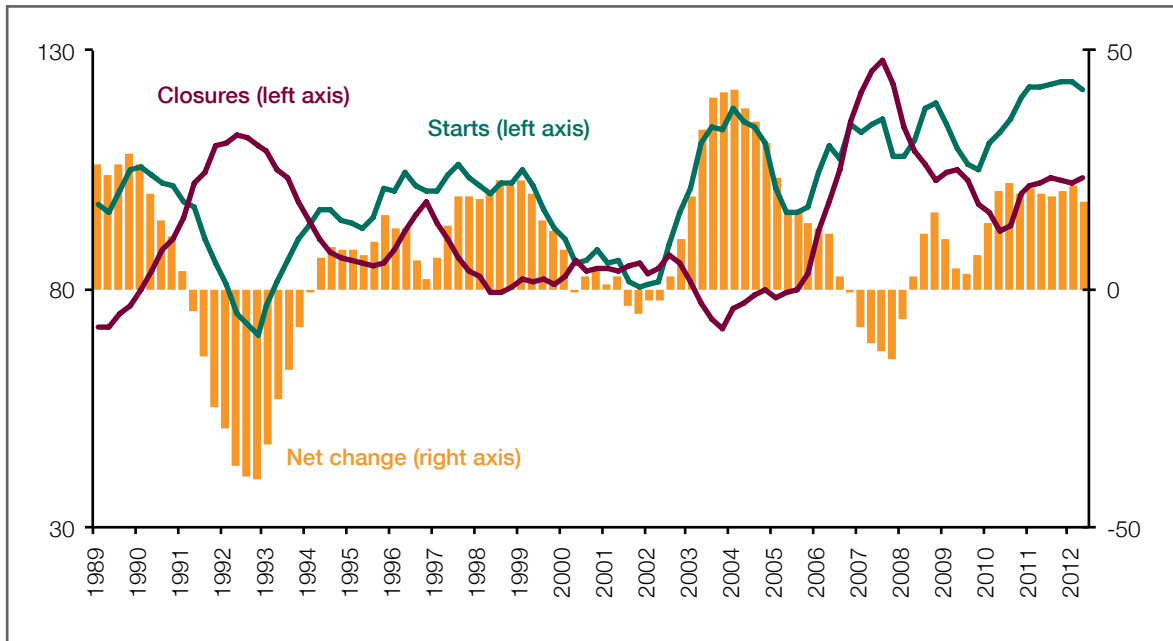


Chart 8 shows Barclays' estimates of the number of "mainstream" businesses, based on the number of business accounts held with them and an estimate of their market share. The figures show that, unlike in the recession of the early 1990s, the rate of business closures is thought to have exceeded the rate of business starts only for a relatively brief period in 2007 and early 2008.

Throughout 2011 and into 2012, the number of business starts has been higher than at any time since 1989 and the stock of businesses has continued to grow strongly. This is consistent with official figures, which have shown a big rise in self-employment. The number of self-employed people in the UK increased by 52,000 on the quarter to reach 4.22 million in July 2012<sup>15</sup>.

<sup>15</sup> Labour Market Statistics, September 2012 (12 Sep 2012) Office for National Statistics. Available at: [www.ons.gov.uk/ons/dcp171778\\_276985.pdf](http://www.ons.gov.uk/ons/dcp171778_276985.pdf)

Chart 9: Barclays Small Business Activity Index vs GDP growth (latest quarter on corresponding quarter previous year)

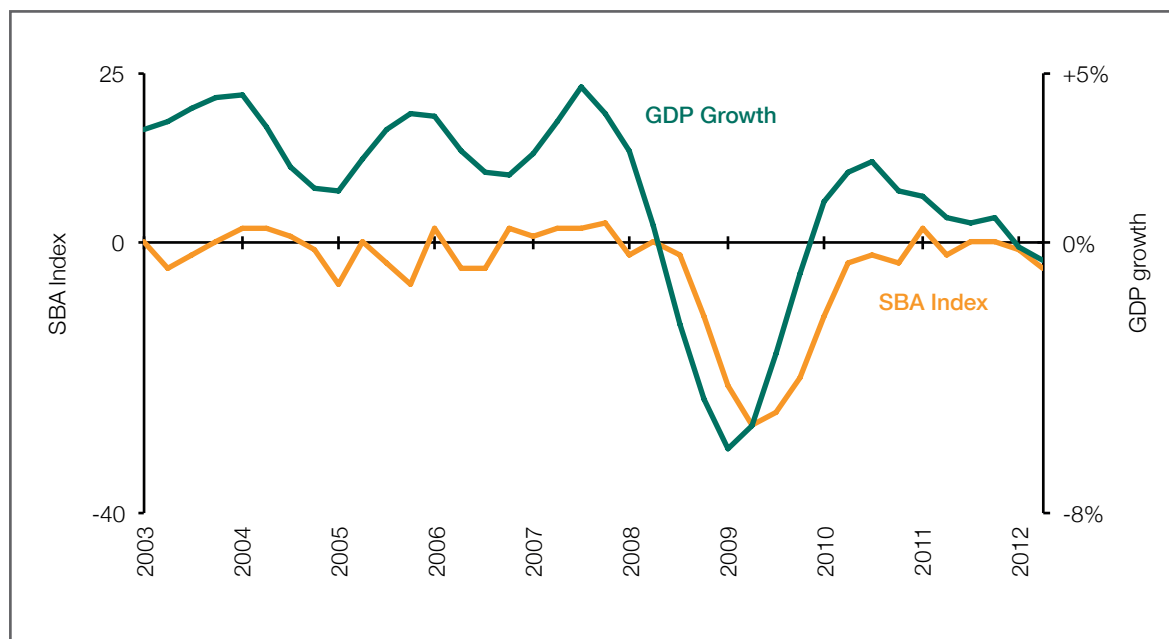


Chart 9 shows the **Barclays Small Business Activity Index ('SBA Index')**, derived from the banking activity of over 200,000 small firms<sup>16</sup>. The SBA Index has remained relatively stable since early 2010, rather than rising and subsequently falling as the rate of GDP growth has. For the second quarter of 2012, the SBA Index slipped from -1 to -4, while the change in GDP compared with the same quarter in the previous year fell from -0.1% to -0.5%.

16 Sources: SBA Index supplied courtesy of the Business Economics & Research Team, Barclays. UK GDP change data obtained from the Office for National Statistics (ONS), available at: [www.ons.gov.uk](http://www.ons.gov.uk), IHYR, GDP, quarter on quarter of previous year, CVM. Note: GDP estimates are revised by the ONS on a regular basis. Chart 9 includes revisions made following publication of the previous Quarterly Survey (2012 Q2) report.

## Performance

While UK SMEs are still reporting a positive net sales balance overall, more firms experienced falling sales in the latest survey<sup>17</sup>, and fewer firms saw their sales performance improve, compared to the same quarter in 2011. Manufacturing, wholesaling and business services report the strongest performance while worst performers were retailing and agriculture. Regional differences were particularly marked, with the North East experiencing the largest declines in sales and employment while the East of England and West Midlands reported positive sales and employment balances. As in previous surveys, it is clear that the UK's smaller firms are being hit harder by today's troubled economic conditions in comparison with their larger counterparts.

### Sales performance: overview

The UK economy has continued to show few signs of renewed growth in this period. As noted in the previous section, the revised estimate for change in GDP in the second quarter of 2012 fell to -0.5% (Chart 9)<sup>18</sup>. SME sales performance has followed a similar path, though as we shall see later in this section, the picture is more varied for firms operating in different industry sectors and when we compare performance on a regional basis. When we compare the sales balance to those in previous surveys (Chart 10 and Table 5), there is a small reduction in the percentage of firms experiencing an increase in sales (down from 38% to 35%) and a corresponding increase in those suffering a decline in sales (up from 27% to 30%). This resulted in a six point drop in the net sales balance, which now stands at +5% (compared to +11% in the previous report). This result differs from that reported for the previous quarter, where the overall net sales balance improved as a result of fewer SMEs reporting that their sales had declined.

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17 It is important to note the latest firm performance data always refers to the quarter *preceding* that of the published report. This is because, at the point in time when they complete the survey questionnaire, respondents are only in a position to report on their firms' performance for the previous accounting period.

18 Second estimate of GDP Q2: 24 August 2012. Office for National Statistics ([www.ons.gov.uk](http://www.ons.gov.uk))

Chart 10: Percentage balance of respondents reporting an increase in sales over past year, compared with change in real GDP<sup>19</sup>.

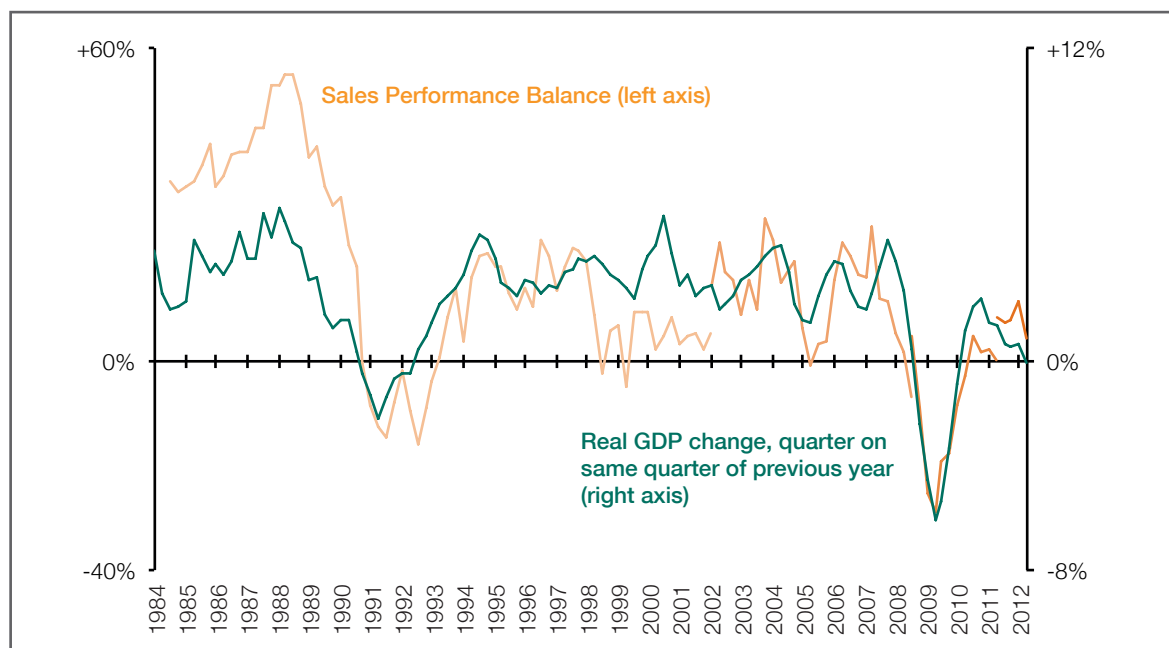


Table 5: Change over past year in sales turnover, compared with previous survey (weighted figures)

	Up	Same	Down	Balance
<b>Q3 2012 report: (comparing 2012 Q2 on 2011 Q2)</b>	<b>35%</b>	<b>35%</b>	<b>30%</b>	<b>+5%</b>
Q2 2012 report: (comparing 2012 Q1 on 2011 Q1)	38%	35%	27%	+11%
Q1 2012 report: (comparing 2011 Q4 on 2010 Q4)	38%	32%	30%	+8%

## Employment performance: overview

There has not been a continuation of the modest improvement in employment performance highlighted in the last report. SMEs reporting an increase in employment (17%) are exactly matched by those reporting a decline. The net employment balance is therefore zero, a two point fall from the positive balance reported in the previous survey (Chart 11 and Table 6).

Chart 11 also tracks the change in workforce jobs as measured by ONS Labour Market Statistics<sup>20</sup>. This gives a rather more positive employment picture, indicating that the number of filled jobs in the economy as a whole rose by 2.3% in the year to June 2012.

<sup>19</sup> Enlargements and consequent changes in composition of the sample led to breaks in the series in 2002, 2008 and earlier in 2011. More details can be found in Vol 18(2), Vol 24(4) and Vol 27(3) of this survey. GDP change data is from [www.ons.gov.uk](http://www.ons.gov.uk), IHYR (pre-1988 calculated as change in YBEZ), GDP, quarter on quarter of previous year, CVM.

<sup>20</sup> UK Workforce Jobs, [www.ons.gov.uk](http://www.ons.gov.uk), Labour Market Statistics, series DYDC, change between quarter and same quarter of previous year. Workforce jobs measures the number of filled jobs in the economy. It differs from the number of people in employment as some people have more than one job.

Chart 11: Percentage balance of respondents reporting an increase in employment over past year, compared with change in jobs<sup>21</sup>

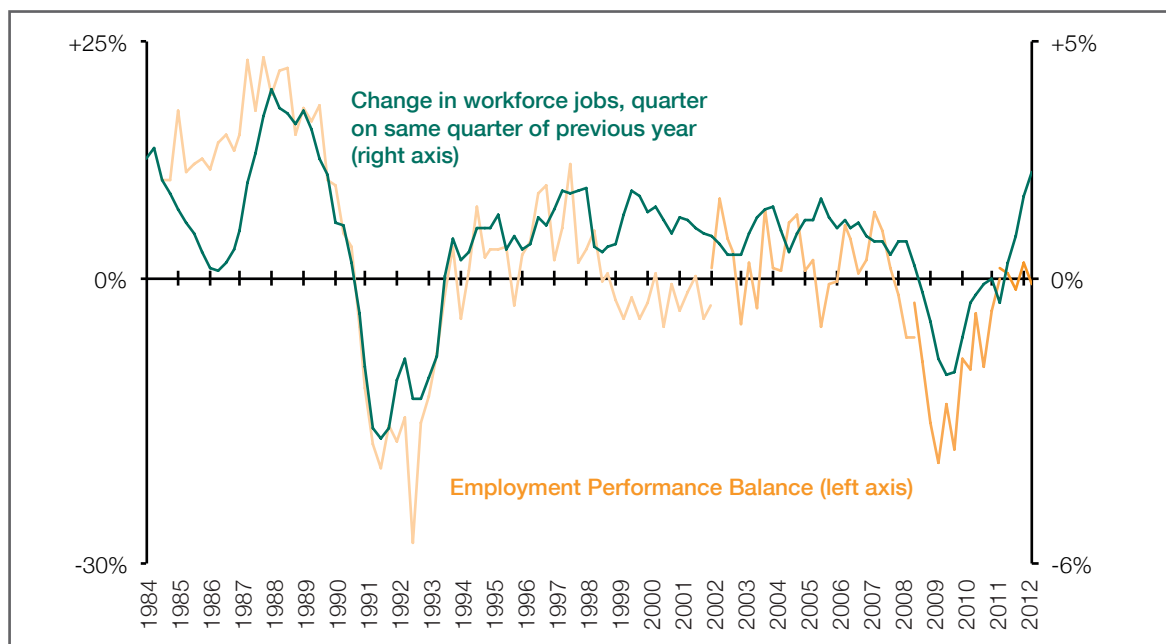


Table 6: Change over past year in employment, compared with previous survey (weighted figures)

	Up	Same	Down	Balance
<b>Q3 2012 report: (comparing 2012 Q2 on 2011 Q2)</b>	<b>17%</b>	<b>66%</b>	<b>17%</b>	<b>0</b>
Q2 2012 report: (comparing 2012 Q1 on 2011 Q1)	18%	65%	16%	+2%
Q1 2012 report: (comparing 2011 Q4 on 2010 Q4)	18%	62%	19%	-1%

### Other SME Surveys

A consistent picture has emerged from other SME surveys, conducted in the period covered in this report. Like us, they point to an overall deterioration in business confidence in the second quarter of 2012. This reflected a broadly similar pattern of decline in overall firm-level performance over the last quarter, coupled with gloomy forecasts for economic growth. As we have already noted in the Business Stock and Activity Index section, the Barclays Small Business Activity (SBA) Index, which is derived from the banking activity of over 200,000 small firms, is down from -1 to -4 (Chart 9). This indicator is supported by three of the main surveys that report on the recent performance of small and medium-sized firms, though it is also worth noting that, as we have indicated in this report, the overall figures mask considerable variability between the experiences of individual firms. The **Federation of Small Businesses' Voice of Small Business Index**<sup>22</sup> for Quarter 3 reported that small firms' confidence levels fell by 5.8 points to -4.5 and that the Index was reporting its fourth lowest score since the start of 2010. Despite this seemingly gloomy finding, around half of the FSB's respondents indicated an intention to grow in the next 12 months (see the 'Prospects' section for a comparison with our findings).

21 Labour Market Statistics, September 2012 (12 Sep 2012, Office for National Statistics, [http://www.ons.gov.uk/ons/dcp171778\\_276985.pdf](http://www.ons.gov.uk/ons/dcp171778_276985.pdf))

22 FSB Voice of Small Business Index, Q3 2012. Available at: <http://www.fsb.org.uk/small-business-index>

The **British Chambers of Commerce Quarterly Economic Survey**<sup>23</sup> also reported falls in its key balances in its Quarter 3 report. For example, the BCC's manufacturing employment balance fell 5 points, to +11%, the worst level since Q4 2011, while the manufacturing employment expectations balance dropped 12 points, to +1%, also the worst level since Q4 2011. The **CBI's SME Trends Survey**<sup>24</sup> reported a -5% net balance for manufacturers' output volumes in the quarter, the first fall in that indicator since October 2009 when the figure stood at -14%. The CBI survey, which is based on 359 firms, also reported a slight fall in export orders (-4%).

The **English Business Survey**<sup>25</sup> is still classed as 'experimental official statistics' and advises against comparisons across months. The survey uses balance statistics but they are not directly comparable the other data reported in this section or to the findings of other SME surveys reviewed in this section. For example, it is based on individual workplaces rather than firms, compares to the preceding quarter (rather than to the equivalent quarter in the previous year), and excludes non-registered businesses. For these reasons, we are not currently including it as part of our review of SME survey evidence. However, it is interesting to note that the latest EBS quarterly statistical bulletin reports rather more positive set of performance data for Quarter 2 than the SME surveys reviewed above. It states that, "workplaces accounting for 39% of employment in England reported that the level of output was the same in Quarter 2 2012 as in Quarter 1 2012; workplaces accounting for 39% of employment in England reported the level of output to be higher and 19% reported output to be lower when comparing the same quarters."

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23 British Chambers of Commerce Quarterly Economic Survey, Q3 2012. Available at: <http://www.britishchambers.org.uk/policy-maker/economic-data/quarterly-economic-survey/>

24 CBI SME Trends Survey, Q3 2012. Available at: <http://www.cbi.org.uk/business-issues/economic-intelligence/economic-intelligence-content/sme-trends/>

25 English Business Survey, Q2 2012 Statistical Release. Available at: <http://www.bis.gov.uk/analysis/statistics/sub-national-statistics/ebsurvey>

## Performance: comparison across size bands

Smaller firms continue to report a worse performance than relatively larger firms (Charts 12 and 13). However, in contrast to the previous survey, there is a much larger group of firms (i.e. those with turnover of less than £500,000 or with fewer than 10 employees) that have negative net sales balances. Firms in the £100,000 to £249,999 bracket have fared particularly badly; their negative net sales balance of -11% contrasts with one of +8% in the previous report. Another striking result is the decline in the sales performance of some medium-sized firms in this survey. While the net sales balance for firms in the £1m to £5m range is almost unchanged (+19% compared to +18% in the previous survey), firms with a turnover in excess of £5m report a much lower balance (+10% compared to +30% in the previous survey). (Chart 12). Chart 13 indicates a broadly similar pattern when firm size is measured in terms of employee numbers.

Chart 12: Percentage balance reporting an increase in sales over past year by turnover size band

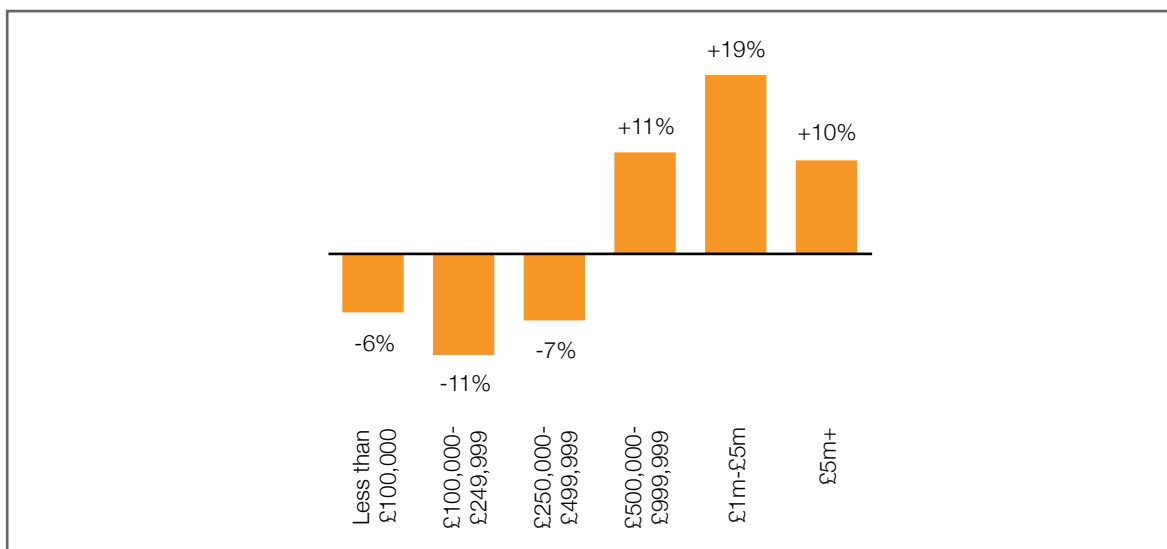
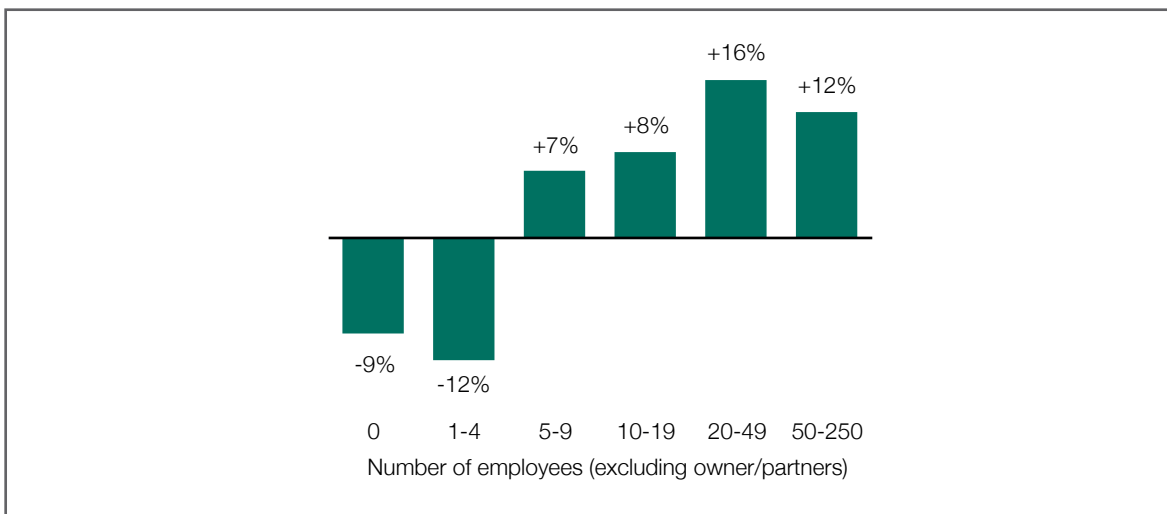


Chart 13: Percentage balance reporting an increase in sales over past year by number of employees





The strong size-related differences in sales performance are also reflected in employment performance (Table 7). Firms in the £100,000 to £249,999 band report the most negative employment balances, with 20% having reduced their average employment over the preceding 12 months and only 5% having increased it, creating a net balance of -15%. The employment balances were positive for firms with a turnover in excess of £500,000. However, the net balance figures mask a great deal of variability *within* these larger size bands. For example, while the net balance of firms in the £5m+ turnover band is positive (+8%), with 29% of firms reporting increases in average employment, more than a fifth of the firms in this band (21%) reduced average employment in the same period.

Table 7: Percentage balances for average employment over past year by turnover size band

Average employment	Less than £100,000	£100,000-£249,999	£250,000-£499,999	£500,000-£999,999	£1m-£5m	£5m-£20m	All
Up	7%	5%	12%	20%	23%	29%	17%
Same	78%	74%	68%	64%	61%	51%	66%
Down	15%	20%	20%	15%	16%	21%	17%
Net Balance	-7%	-15%	-7%	+5%	+7%	+8%	0%
Sample size	232	147	123	137	269	175	1,086

## Performance: comparison across sectors

Manufacturers have continued to recover strongly and they have been one of the top two performing SME sectors in every survey since the end of 2010. However, manufacturing sales performance in this survey is down sharply in this survey, along with that most of the other industry sectors (Chart 14 and Table 8). As we noted in the previous report, manufacturing was hit very hard by the economic crisis, with small manufacturers reporting the worst sales performance of all the sectors at the end of 2008 and at the beginning of 2009, when the balance fell to -40%.

Chart 14: Percentage balance of respondents reporting an increase in sales over past year by sector

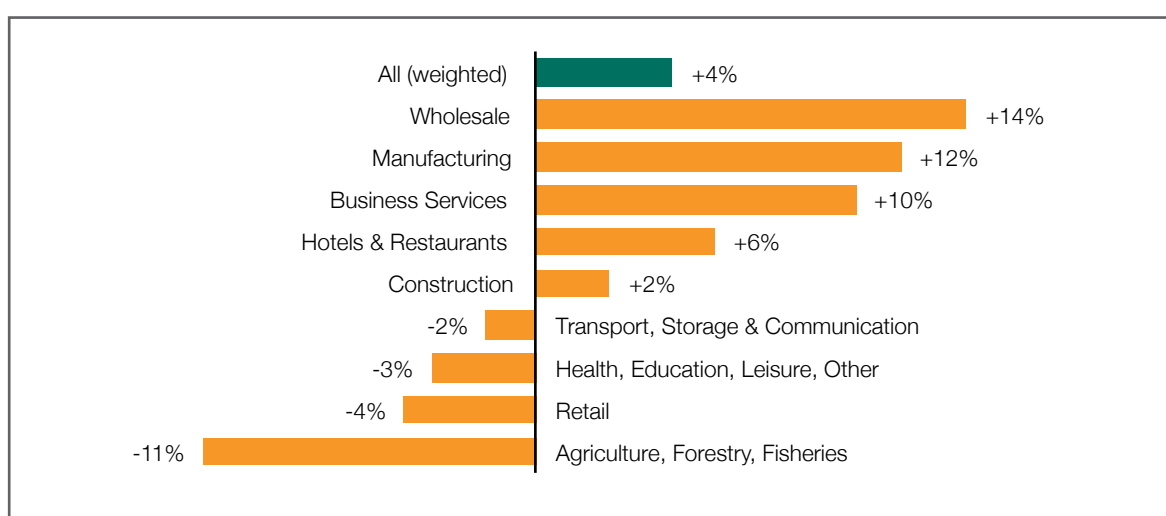


Table 8: Change over past year in sales and employment, by sector

	Sales Turnover	Average Employment	Sample
Agriculture, Forestry, Fisheries	-11%	-7%	28
Manufacturing	+12%	+11%	119
Transport, Storage & Communication	-2%	+2%	63
Construction	+2%	-3%	126
Wholesale	+14%	+6%	108
Retail	-4%	-10%	142
Hotels & Restaurants	+6%	-18%	87
Business Services	+10%	+3%	233
Health, Education, Leisure, Other	-3%	-1%	179
All (weighted by sector)	+4%	0%	1,086

Construction is one of the few sectors to show an improvement in this survey, reporting a positive net sales balance (+2%) in contrast to a strongly negative balance in the previous report (-19%).

This is particularly encouraging given the longstanding period of poor sales performance in this sector, the low point being during 2009, when the balance fell below -50%. While the UK's wider construction sector has had fluctuating performance since that time, SMEs engaged in construction have been reporting falling sales for the past sixteen surveys (i.e. in every survey since late 2008). The employment balance for construction sector SMEs remains slightly negative (-3%), though this also represents a strong improvement over the equivalent figure reported in our previous survey (-20%). Hotels and restaurants is the other sector showing something of a turnaround, making a 10 point improvement in sales performance, from a negative balance (-4%) in the previous report to a positive one (+6%) this time around. However, the improvement was not reflected by the sector's employment performance (-18% compared to -1% in the previous report).

The largest reversal of fortunes is in agriculture, forestry and fisheries, which suffered the worst sales performance by sector (-11%), compared to a strongly positive performance in the previous quarter (+23%). The figure for the most recent quarter can in part be explained by factors such as the unseasonable weather experienced by farmers when an exceptionally dry Winter and Spring was followed by one of the wettest Summers on record. These problems have also been exacerbated for farmers reliant on inputs, who have been subject to global commodity price increases in this period, and for those with dairy enterprises, due to continuing downward pressure on milk prices. The picture is complex, however, so our sector-wide results should be treated with some caution given the relatively small sub-sample and the potential impact on the sector average of a few strongly negative (or positive) responses. The mixed picture is echoed by a recent sector-based report from Barclays Bank, which notes that, "Despite the recent rise in global food prices, incomes are expected to fall back in 2012, primarily due to increased costs (especially animal feed, following the severe drought in the US)."<sup>26</sup> The report also points out that while agriculture, forestry and fishing output fell by 7% overall in the year to Q2 2012, agriculture was one of the UK's more profitable industries, and cites DEFRA estimates that aggregate farming income increased by 25% in 2011.

SMEs in the health, education, leisure and other personal services sector have also seen a decline in sales performance (-3% in this survey, compared to +19% in the previous report). By contrast, business services sector SMEs have continued to see their sales performance improve, though with a more modest net balance of +10% (compared to +18% in the previous report).

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26 UK Agriculture: sector outlook (Third quarter 2012). Barclays Bank plc. Available at: [http://www.business.barclays.co.uk/BBB/A/Content/Files/Agriculture\\_Outlook.pdf](http://www.business.barclays.co.uk/BBB/A/Content/Files/Agriculture_Outlook.pdf)

## Performance: comparison across regions

This survey has seen another major change in regional SME performance, as measured by the net sales and net employment balances. In the previous survey, SMEs in the East Midlands recorded a negative sales balance, only the second time this had occurred in the last seven quarters. In the present survey, however, they have again reported a net increase in sales, though at a relatively modest level (+10% compared to -9% in the previous survey) (Chart 15 and Table 9). Elsewhere, there are strong performances in the East of England (+31%), West Midlands (+20%) and Yorkshire and the Humber (+12%). However, these were accompanied by large reversals in North East (-21%) and South West (-14%) England, both of which had reported positive net sales balances in the previous quarter (+17% and +22% respectively). Scotland (-7%) and Wales (-9%) experienced similar changes of fortune in terms of their sales performance.

The picture for employment is broadly in line with sales performance, with the North East of England (-10%), Scotland (-10%) and Wales (-11%) reporting the weakest performances while London saw something of a turnaround with the most positive net employment balance (+8% compared to -6% in the previous survey) (Table 9).<sup>5</sup>

Chart 15: Percentage balance of respondents reporting an increase in sales over past year - by region

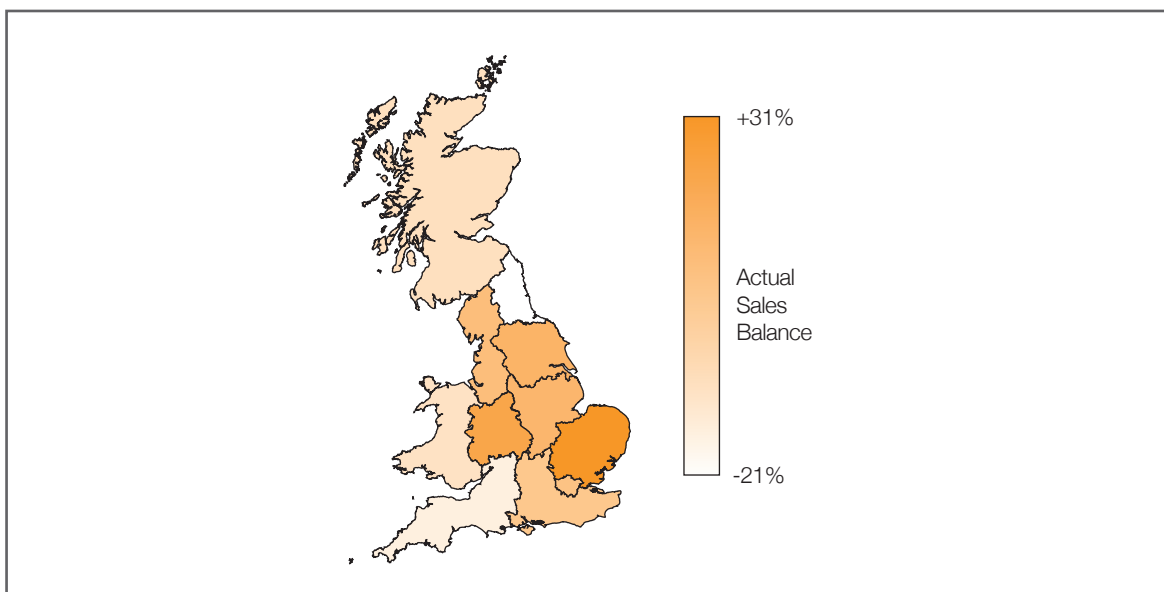


Table 9: Change over past year in sales and employment, by region

	Sales Turnover	Average Employment	Sample
North East	-21%	-10%	86
North West	+8%	-2%	77
Yorkshire & the Humber	+12%	-1%	133
East Midlands	+10%	-3%	48
West Midlands	+20%	+8%	97
East of England	+31%	+2%	67
London	+9%	+8%	198
South East	+5%	+3%	111
South West	-14%	-5%	35
Wales	-9%	-11%	86
Scotland	-7%	-10%	99
All (weighted by sector)	+4%	0%	1,086

## Prospects

Though SMEs in the UK continue to anticipate an overall improvement in sales performance over the third quarter, a reduced number of small firms expect their sales to rise and more expect them to fall in this period. As with the Performance results, firms in the £1m to £5m turnover band are most optimistic about their sales, while the smallest firms are most pessimistic. SMEs in the wholesaling sector are the most optimistic on sales, by a large margin, while manufacturing is once again the sector that anticipates continued growth in average employment. SMEs in the East Midlands, who seem to have been proved correct when they expected that sales would recover in the second quarter, do not expect that trend to continue. By contrast, many firms in London expect to see strong growth in both sales and average employment.

SMEs expect their in sales performance to improve over the third quarter, though overall sentiment is less optimistic than it was in our previous report. One third of firms (33%) expect their sales to rise in the period (down from 37% in the previous report), and more than a quarter of firms (26%) expect them to fall (up from 23% last time). These differences result in a lower positive net balance (+8%) as compared to the previous report (Table 10)<sup>27</sup>

Table 10: Expected change in sales turnover compared with same quarter last year (weighted figures)

	Up	Same	Down	Balance
<b>Q3 2012 report: (comparing 2012 Q3 on 2011 Q3)</b>	<b>33%</b>	<b>41%</b>	<b>26%</b>	<b>+8%</b>
Q2 2012 report: (comparing 2012 Q2 on 2011 Q2)	37%	39%	23%	+14%

There is very little overall change in the figures for employment prospects, with marginally fewer firms expecting average employment to increase (15%) or to remain stable (72%) and no change in the proportion of firms expecting to see employment decline (13%). The resulting net balance remains slightly positive (+2%) (Table 11).

Table 11: Expected change in average employment compared with same quarter last year (weighted figures)

	Up	Same	Down	Balance
<b>Q3 2012 report: (comparing 2012 Q3 on 2011 Q3)</b>	<b>15%</b>	<b>72%</b>	<b>13%</b>	<b>+2%</b>
Q2 2012 report: (comparing 2012 Q2 on 2011 Q2)	16%	71%	13%	+4%

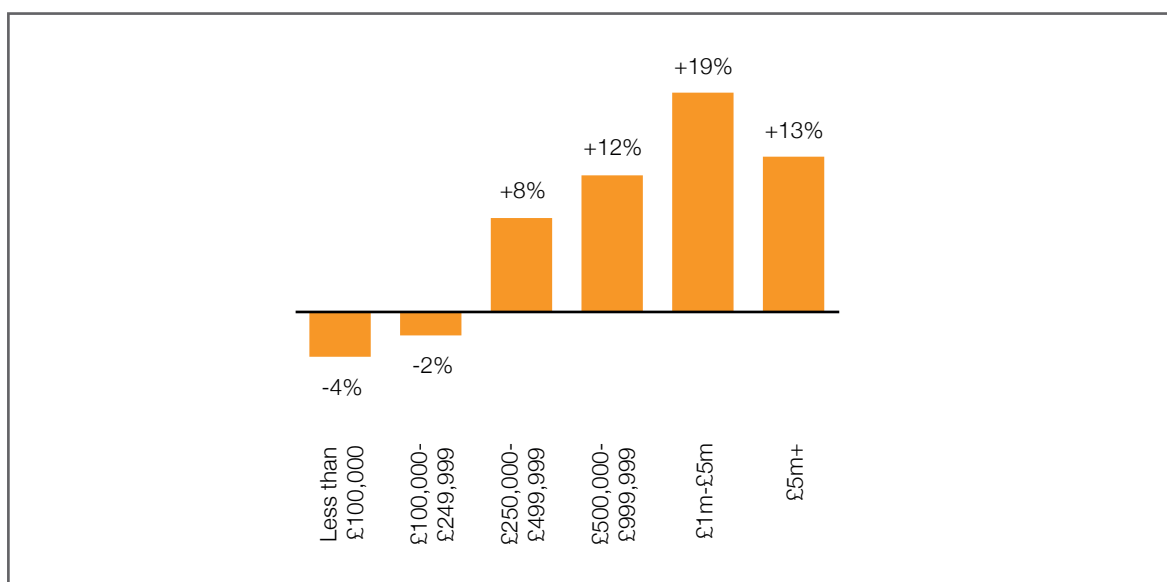
In this survey, we also asked our online respondents about their expectations for investment in the quarter. Of this smaller sub-sample (total: 197 responses), just over a half (52%) expected no change, while the remainder were evenly balanced between those expecting to increase investment (24%) and those expecting it to fall in the period (24%). This produced a zero net balance for investment expectations (0%).

<sup>27</sup> The net balance figure for Q3 2012 is the result of rounding in the calculations.

## Prospects: comparison across size bands

The UK's smallest SMEs are much less optimistic about their prospects for sales growth in the next quarter, compared to their relatively larger counterparts. Firms with a turnover below £250,000 have negative net sales balances for this period while those above the threshold have positive balances (Chart 16). The overall pattern for sales growth expectations is broadly in line with that seen in the Performance section in this report. The notable exception is for firms in the £250,000 to £499,999 turnover band, who have a positive net sales balance (+8%) in the Prospects section, despite their negative net sales balance (-7%) in the Performance section.

Chart 16: Percentage balance expecting an increase in sales over past year by turnover size band



We have already seen that SME expectations regarding average employment are generally lower than those for sales turnover (Table 11). When this figure is broken down by firm size, there is a clear divide between the lack of employment prospects amongst firms with an annual turnover below £500,000, and the more encouraging picture painted by other small and medium-sized firms (Chart 17)<sup>28</sup>. However, perhaps the most striking feature in this data is the low net employment balance (+2%) reported by firms in the £5m+ turnover band. While two thirds of firms (66%) in this size band did not expect any change in average employment in the current quarter, the number of firms expecting to increase employment (18%) was largely offset by those expecting average employment to decline in the period (16%).

Chart 17: Percentage balance expecting an increase in average employment over past year by turnover size band



<sup>28</sup> We identified a similar split for investment expectations, based on our smaller online sub-sample (197 respondents). Firms with an annual turnover above £500,000 had slightly positive net investment balances (ranging between +1% and +3%) and those below that threshold had slightly negative ones (-2% to -4%).



## Prospects: comparison across sectors

The following breakdowns suggest some dramatic differences in the experiences of SMEs in different industry sectors (Chart 18 and Table 12). The sales expectations indicate that many sectors are less optimistic than they were in the previous report. For example, the net sales balance for manufacturing is +8% (compared to +21% in the previous report) and health, education, leisure and other services is +2% (compared to +21% previously). By contrast, construction sector SMEs have become much more optimistic about sales, their positive net balance (+12%) reversing that reported in our Quarter 2 report (-10%). SMEs in agriculture, forestry and fisheries are the most pessimistic by a large margin (-39%), a result that highlights the multiple difficulties that were discussed in the Performance section of this report. Unsurprisingly, firms in this sector are also the most pessimistic on average employment prospects (-14%) (Table 12). However, while the severe problems facing many of the country's farmers should not be underestimated, this isolated statistic should be treated with caution given the relatively small number of firms in this sample, a figure that is related to the sector's overall 'economic' weight in the wider SME population.

Chart 18: Percentage balance expecting an increase in sales over past year by sector

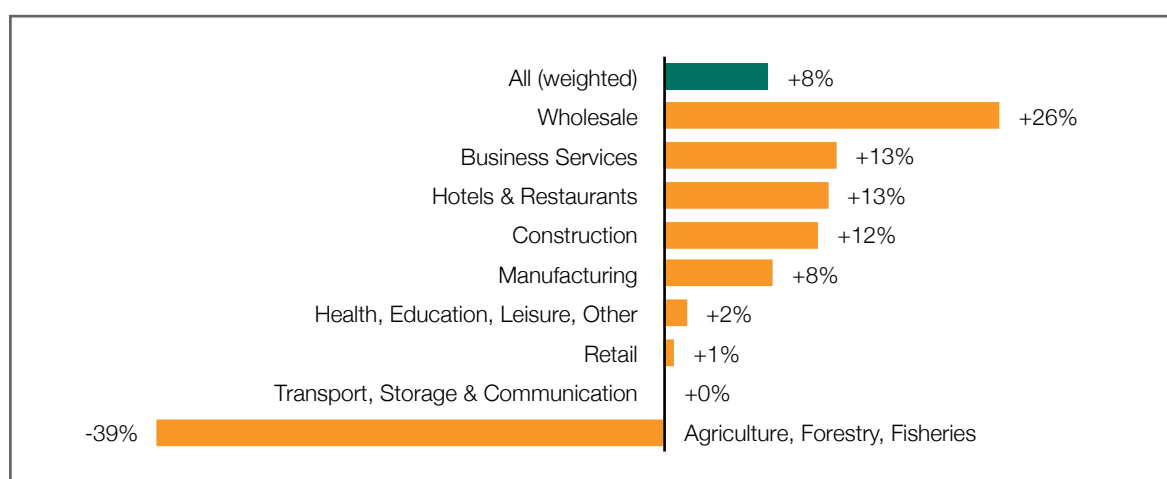


Table 12: Expected change current quarter over year in sales and employment by sector

	Sales Turnover	Average Employment	Sample
Agriculture, Forestry, Fisheries	-39%	-14%	28
Manufacturing	+8%	+11%	120
Transport, Storage & Communication	0%	+8%	63
Construction	+12%	-1%	126
Wholesale	+26%	+7%	108
Retail	+1%	-6%	142
Hotels & Restaurants	+13%	-9%	87
Business Services	+13%	+6%	233
Health, Education, Leisure, Other	+2%	-2%	179
All (weighted by sector)	+8%	+2%	1,086

## Prospects: comparison across regions

Expectations for sales and employment vary markedly by region (Chart 19 and Table 13), with the figures sometimes, but not always, approximating to those reported in the Performance section. SMEs in the East of England and the London region are the most optimistic about their sales prospects, the latter perhaps reflecting expectations around the summer Olympics. However, firms in the East of England do not anticipate that higher sales will be matched by increases in average employment in the period. Firms in Wales and the North East of England, regions that also reported poor sales and employment performance in this survey, are the most pessimistic about their sales prospects. Firms in Scotland seem to have discounted the negative net sales balance reported in the Performance section and produced a positive figure for sales expectations (+3%), though they remain less confident about employment prospects.

Chart 19: Percentage balance of respondents expecting an increase in sales over current quarter by region

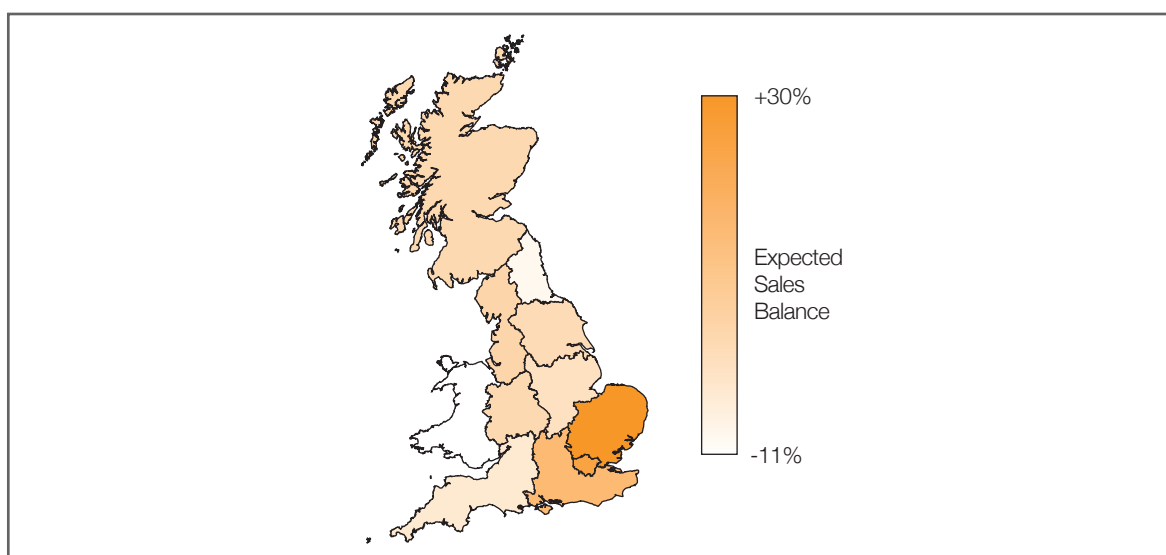


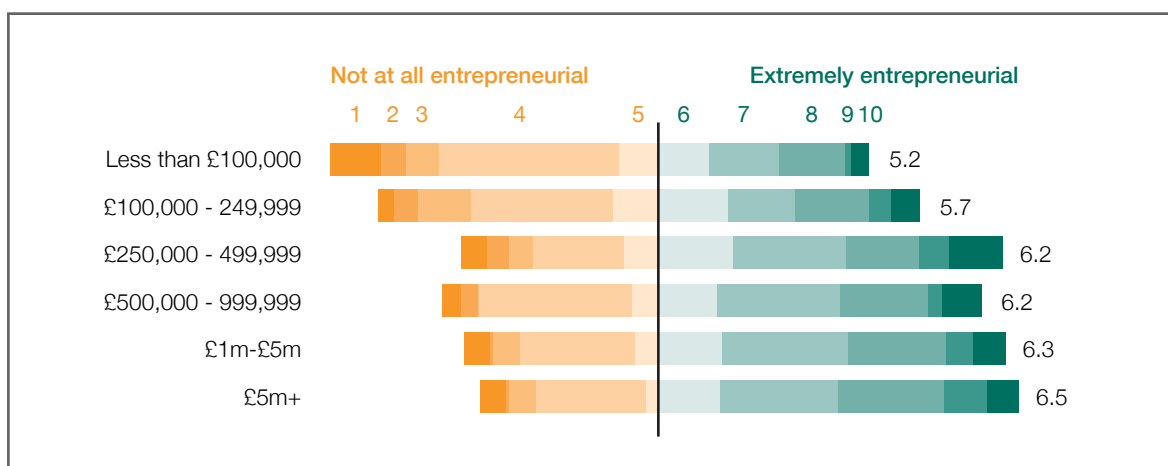
Table 13: Expected change current quarter over year in sales and employment by region

	Sales Turnover	Average Employment	Sample
North East	-8%	-6%	86
North West	+4%	+8%	77
Yorkshire & the Humber	+2%	-6%	133
East Midlands	0%	+4%	48
West Midlands	+3%	+2%	97
East of England	+30%	-1%	67
London	+25%	+12%	198
South East	+16%	+3%	112
South West	-2%	-4%	35
Wales	-11%	0%	86
Scotland	+3%	-3%	99
All (weighted by sector)	+8%	+2%	1,086

# Entrepreneurial Index

Larger firms tend to view themselves as more entrepreneurial. These self-reported measures also vary by region and sector. The most entrepreneurial firms report the best performance over the past year and are more optimistic about prospects for the current quarter.

Chart 20: “Entrepreneurial firms are more competitive, growth-minded and innovative than other firms. Where would you put your firm on a scale of 1 to 10?”



Respondents are asked to rate their firm on an entrepreneurial scale, where 1 is not at all entrepreneurial and 10 is extremely entrepreneurial. Entrepreneurial firms are defined as being more competitive, growth-minded and innovative than other firms. Firms which rate themselves as entrepreneurial tend to be larger than their non-entrepreneurial counterparts, perhaps reflecting their stronger growth-orientation. Businesses with an annual turnover below £100,000 rate themselves as on average 5.2 on the entrepreneurial scale, while those with a turnover of £5m or more rate themselves as 6.5 (Chart 20). Similarly, business owners who work on their own, without employees, rate themselves as 5.2 on the scale while those with 20 or more employees rate themselves as 6.3. In this survey, SMEs in Wales (6.4) rate themselves as more entrepreneurial than their counterparts elsewhere while those in the West Midlands rate themselves as least entrepreneurial (5.7)<sup>29</sup>. There are also a number of sectoral differences. In this survey, SMEs in wholesale this time rate themselves as most entrepreneurial (6.3), while those in agriculture have the lowest entrepreneurial self-rating (5.4). Firms which rate themselves higher on the entrepreneurial scale tend to report better sales performance and are more optimistic about their immediate prospects. In this survey, the ‘least entrepreneurial’ firms (those rating themselves from 1 to 3) have seen sales fall in the year to the second quarter and expect them to be lower in the third quarter compared to a year earlier (sales performance balance -22% and sales prospects balance -13%). The ‘most entrepreneurial’ firms (those rating themselves from 8 to 10) have seen sales rise and expect this to continue (sales performance balance +28% and a sales prospects balance of +35%).

<sup>29</sup> Regional differences in this variable tend to fluctuate and should be treated with some caution. We are currently planning further research to validate the Entrepreneurial Index and to refine its potential applications.

## How the survey is carried out

This is the 112th survey completed since the series began in 1984. Firms that respond to the survey are drawn from a wide range of sources. They reflect the complexity and richness of business life in Britain today. It should be noted that the survey is not a panel, nor is it fully random. It continuously recruits new members to reflect the national distribution of small firms; yet it also retains long time respondents to gauge changes over time.

In this survey, our regular online respondents (owners and managers of small businesses who had previously volunteered to take part) were supplemented by telephone interviews of owners and other senior managers of small businesses, carried out by BDRC Continental<sup>30</sup>. The link to the online questionnaire was emailed to 1,198 regular respondents on 6th July and a reminder email sent to non respondents from 3rd August. In total, 200 of these regular participants responded. Telephone interviews were carried out in two waves. Between the 2nd and 9th July 2012, 443 telephone interviews were carried out. Between the 6th and 14th August 2012, a further 443 firms were interviewed. The total number of responses was therefore 1,086.

The telephone respondents do not include firms with a turnover below £50,000. Few of the online respondents have more than 50 employees (95% of responses from the 50-250 employee size band are from telephone respondents). The telephone respondents include more firms established since 2000 than the regular online respondents, but also more established before 1970. There are a higher proportion of telephone respondents in health/education & other personal services and hotels & restaurants, but lower proportions in manufacturing and business services. There are also this time slightly higher proportions in London and a lower proportion in the East of England and the South East (n.b. where comparisons are made with 'earlier surveys', these refer to Volumes 1 to 18 of the NatWest/SBRT Quarterly Survey of Small Business in Britain)

Following the well-established practice of the CBI in its Industrial Trends Survey<sup>31</sup>, a summary statistic, the balance, is used to monitor the responses to key questions. The balance is the percentage of respondents replying 'up' minus the percentage replying 'down' (we ignore, for this purpose, the percentage replying 'same').

The key balances for the questions on performance and prospects are split by industrial sector and re-weighted according to the national sectoral SME distribution, using BIS (Department for Business, Innovation and Skills) estimates of total employment by firms with fewer than 250 employees. In earlier surveys results for previous years were re weighted as estimates for those years became available. To avoid continuous revisions figures are now weighted by the latest figures available (currently 2010) and not revised. The aim of the weighting is to ensure that the results are as representative as possible of the business population in Britain. (From 1995 to the second survey of 2011, results were weighted by the sectoral distribution of employment in firms with fewer than 50 employees. Between 1989 and 1995 results were weighted by the sectoral distribution of all VAT registered businesses and prior to 1989 they were unweighted). Other breakdowns by industrial sector, region and firm size and the tables on problems and in the special topic section use unweighted data and are not seasonally adjusted.

In tables by number of employees, we have adopted the BIS definition of a firm with no employees. This is where a self-employed sole proprietor or partners work on their own with no employees or where a limited company has a single employee director. Note that a firm with one sole proprietor and one employee is counted as a one employee firm, but a company with two employees is counted as a two employee firm.

The survey reports in each issue on changes in sales and employment and on the ranking of most important problems experienced by small firms. In addition, Barclays Bank provides its latest estimates of small business closures and starts and their Small Business Activity Index. The percentage balances for sales and employment are shown in Appendix Tables A.1 and A.2. In addition, each issue covers one or more special topics, designed to contribute to knowledge about small business in Britain.

In Quarter 2 2012, we took the opportunity to revise some of our regular questions. From that date, the 'Problems' question asks for the single most important problem, rather than the top three, and offers slightly fewer options. Our 'Performance' and 'Prospects' sections now concentrate on sales and employment; we no longer ask about changes in prices on a regular basis, though we continue to ask our online respondents about changes in investment activity. Lastly, our 'Prospects' question now asks about changes between the current quarter and the equivalent quarter last year, rather than with the previous quarter. This enables us to look at expected changes unaffected by seasonal variation and to compare more easily with actual performance.

30 BDRC Business Omnibus, further details available at: <http://www.continentalresearch.com/business-omnibus/>

31 <http://www.cbi.org.uk/business-issues/economy/business-surveys/industrial-trends-survey/>

## Special topics

- Vol 1** No 1 Some Characteristics of the Respondents  
No 2 Changes in Employment, New Business  
No 3 Part-time Employees, Computers  
No 4 Employment
- Vol 2** No 1 Finance, Representative Bodies  
No 2 Exports, The Business Expansion Scheme  
No 3 Employment, Skill Shortage  
No 4 Unincorporated Business, Expansion, Services
- Vol 3** No 1 Telephone Usage, Employment  
No 2 Most Important Problems, Characteristics  
No 3 Employment, Slow Payment Problems  
No 4 Use of Accountants
- Vol 4** No 1 Use of Solicitors  
No 2 Training  
No 3 Access to external information  
No 4 Telecommunications, Characteristics
- Vol 5** No 1 Employee Turnover  
No 2 The effects of 1992 on small firms  
No 3 Background of respondents  
No 4 Origins of new employees
- Vol 6** No 1 EC Special Directorate DG23  
No 2 Motivation and Objectives  
No 3 School-leaver Training  
No 4 School-leaver Training Problems
- Vol 7** No 1 Training and Enterprise Councils  
No 2 Use of Computers  
No 3 Business Growth Objectives, Gender of Owner  
No 4 Sources of Small Business Finance
- Vol 8** No 1 Co-operatives  
No 2 Exports  
No 3 Quality Standards (BS 5750)  
No 4 Impact of the Recession on Incomes and Prices
- Vol 9** No 1 Business Premises and the UBR  
No 2 Rented Business Premises  
No 3 Delayed Payments  
No 4 External Sources of Information
- Vol 10** No 1 The Single Market  
No 2 Pensions  
No 3 The Past Ten Years  
No 4 Minimum Wage
- Vol 11** No 1 Capacity Utilisation  
No 2 Succession and Ownership  
No 3 Staff Recruitment  
No 4 Employee Turnover and Training
- Vol 12** No 1 Compliance Costs  
No 2 IT - Communications and Computers  
No 3 Business Support Organisations  
No 4 Motivations, Objectives and Targets
- Vol 13** No 1 Employment, hours worked, satisfaction  
No 2 Incomes and Prices  
No 3 Minimum Wage  
No 4 Slow Payment
- Vol 14** No 1 VAT Compliance Costs  
No 2 Low Turnover, Advertising and Promotion  
No 3 Lack of Skills, Training and the 'New Deal'  
No 4 The euro
- Vol 15** No 1 IT, Communications and Year 2000  
No 2 Business Finance  
No 3 Government Regulations and Paperwork  
No 4 Motivations, Objectives and Targets
- Vol 16** No 1 Changes  
No 2 Slow Payment  
No 3 Government Regulations and Paperwork  
No 4 Skills Shortages and Training
- Vol 17** No 1 Employee Turnover and Retirement  
No 2 Exports and the Euro  
No 3 IT and the Internet  
No 4 Business Climate
- Vol 18** No 1 Sources of Business Information  
No 2 Business Networks and Supply Chains  
No 3 Ownership and Intentions  
No 4 Pensions and Stockmarket Slide
- Vol 19** Q1 Minimum Wage and Cost Pressures  
Q2 Government Regulations and Paperwork  
Q3 Business Finance  
Q4 ICT and the Internet
- Vol 20** Q1 Motivation, Objective, Target, Innovation  
Q2 Business Education & Training  
Q3 Government Regulations and Paperwork  
Q4 Local Community and Social Responsibility
- Vol 21** Q1 Growth and Motivation  
Q2 Business Ownership  
Q3 ICT and the Internet  
Q4 Government Regulations and Paperwork
- Vol 22** Q1 Exports  
Q2 Motivation, Target, Innovation, Entrepreneurs  
Q3 Organisations & Suppliers (Internet & Imports)  
Q4 Training, Education and Skills
- Vol 23** Q1 Business Advice and Information  
Q2 ICT and the Internet  
Q3 Business Finance  
Q4 'Credit Crunch' and Outlook
- Vol 24** Q1 Government Regulations and Paperwork  
Q2 Economic Uncertainties, Capacity & Income  
Q3 Ownership, Retirement and Succession  
Q4 Business Finance
- Vol 25** Q1 Effect of Downturn  
Q2 Motivation, Growth Targets  
Q3 Business Advice and Information  
Q4 Sources of Advice
- Vol 26** Q1 Equipment and Recovery  
Q2 ICT, Internet, Advertising  
Q3 Recession Strategies  
Q4 Environmental Issues
- Vol 27** Q1 ICT, Smartphones, Cloud Computing  
Q2 Capital Allowances  
Q3 Focus, Employment, 'Greening' Business  
Q4 Post-recession Trends
- Vol 28** Q1 Retirement, Succession & Illness  
Q2 Business Advice & Information  
Q3 Education, Training & Skills Development

# Historical tables

Table A1: Actual change in sales and employment, percentage balances, to Vol.28 No.1

Survey	Sample Size	Past Quarter Date	Actual Change, past quarter compared with same quarter last year		Survey	Sample Size	Past Quarter Date	Actual Change, past quarter compared with same quarter last year	
			Sales	Employment				Sales	Employment
Vol.1 No.1a	3,056	1984/3	+34.7%	+10.5%	Vol.15 No.1	601	1998/4	+5.9%	+0.5%
Vol.1 No.1b	1,795	1984/4	+32.6%	+10.4%	Vol.15 No.2	619	1999/1	+6.9%	-2.3%
Vol.1 No.2	1,181	1985/1	+33.4%	+17.6%	Vol.15 No.3	507	1999/2	-4.9%	-4.3%
Vol.1 No.3	1,090	1985/2	+34.4%	+11.2%	Vol.15 No.4	1,121	1999/3	+9.2%	-2.0%
Vol.1 No.4	1,072	1985/3	+37.4%	+12.1%	Vol.16 No.1	812	1999/4	+9.3%	-4.2%
Vol.2 No.1	1,326	1985/4	+41.4%	+12.6%	Vol.16 No.2	866	2000/1	+9.6%	-2.6%
Vol.2 No.2	1,052	1986/1	+33.6%	+11.6%	Vol.16 No.3	758	2000/2	+2.1%	+0.5%
Vol.2 No.3	1,285	1986/2	+35.5%	+14.2%	Vol.16 No.4	803	2000/3	+5.0%	-5.0%
Vol.2 No.4	1,435	1986/3	+39.7%	+15.2%	Vol.17 No.1	726	2000/4	+8.6%	-0.5%
Vol.3 No.1	1,116	1986/4	+40.0%	+13.4%	Vol.17 No.2	856	2001/1	+3.2%	-3.3%
Vol.3 No.2	1,746	1987/1	+40.2%	+15.2%	Vol.17 No.3	720	2001/2	+4.9%	-1.4%
Vol.3 No.3	1,113	1987/2	+44.7%	+23.1%	Vol.17 No.4	705	2001/3	+5.3%	+0.3%
Vol.3 No.4	977	1987/3	+44.8%	+17.6%	Vol.18 No.1	654	2001/4	+2.5%	-4.2%
Vol.4 No.1	1,042	1987/4	+52.7%	+23.4%	Vol.18 No.2 old	675	2002/1	+5.4%	-2.7%
Vol.4 No.2	933	1988/1	+52.7%	+19.3%	Vol.18 No.2	1,168	2002/1	+14.7%	+1.2%
Vol.4 No.3	983	1988/2	+55.0%	+22.0%	Vol.18 No.3	1,078	2002/2	+22.9%	+8.5%
Vol.4 No.4	950	1988/3	+54.9%	+22.3%	Vol.18 No.4	1,074	2002/3	+17.2%	+4.1%
Vol.5 No.1A	1,523	1988/4	+49.2%	+15.1%	Vol.19 No.1	922	2002/4	+15.5%	+2.7%
Vol.5 No.2	947	1989/1	+38.8%	+18.1%	Vol.19 No.2	851	2003/1	+9.0%	-4.7%
Vol.5 No.3	2,274	1989/2	+41.1%	+16.7%	Vol.19 No.3	784	2003/2	+15.4%	+1.6%
Vol.5 No.4	795	1989/3	+33.5%	+18.3%	Vol.19 No.4	687	2003/3	+10.1%	-3.0%
Vol.6 No.1	1,091	1989/4	+29.9%	+10.5%	Vol.20 No.1	808	2003/4	+27.2%	+7.3%
Vol.6 No.2	1,384	1990/1	+31.4%	+9.9%	Vol.20 No.2	739	2004/1	+23.1%	+1.3%
Vol.6 No.3	1,043	1990/2	+22.3%	+4.8%	Vol.20 No.3	623	2004/2	+14.9%	+0.8%
Vol.6 No.4	1,312	1990/3	+18.2%	+3.5%	Vol.20 No.4	711	2004/3	+17.4%	+5.8%
Vol.7 No.1	1,239	1990/4	-0.5%	-5.1%	Vol.21 No.1	652	2004/4	+19.3%	+6.6%
Vol.7 No.2	984	1991/1	-8.6%	-11.6%	Vol.21 No.2	675	2005/1	+6.3%	+0.9%
Vol.7 No.3	1,718	1991/2	-12.5%	-17.3%	Vol.21 No.3	670	2005/2	-0.5%	+2.0%
Vol.7 No.4	835	1991/3	-14.8%	-19.9%	Vol.21 No.4	620	2005/3	+3.1%	-5.1%
Vol.8 No.1	1,684	1991/4	-7.9%	-15.6%	Vol.22 No.1	641	2005/4	+3.6%	-0.6%
Vol.8 No.2	1,359	1992/1	-1.8%	-17.2%	Vol.22 No.2	638	2006/1	+15.4%	-0.1%
Vol.8 No.3	1,527	1992/2	-9.2%	-14.6%	Vol.22 No.3	547	2006/2	+22.6%	+5.7%
Vol.8 No.4	921	1992/3	-15.9%	-27.8%	Vol.22 No.4	538	2006/3	+20.2%	+4.3%
Vol.9 No.1	1,339	1992/4	-9.1%	-15.1%	Vol.23 No.1	526	2006/4	+16.5%	+0.5%
Vol.9 No.2	1,021	1993/1	-3.8%	-12.4%	Vol.23 No.2	528	2007/1	+16.2%	+2.0%
Vol.9 No.3	1,310	1993/2	+0.9%	-7.9%	Vol.23 No.3	629	2007/2	+25.7%	+6.9%
Vol.9 No.4	1,076	1993/3	+8.3%	-1.6%	Vol.23 No.4	528	2007/3	+12.0%	+5.0%
Vol.10 No.1	1,295	1993/4	+13.8%	+3.5%	Vol.24 No.1	822	2007/4	+11.4%	+1.0%
Vol.10 No.2	861	1994/1	+3.6%	-4.3%	Vol.24 No.2	711	2008/1	+5.3%	-1.6%
Vol.10 No.3	2,327	1994/2	+16.2%	+0.8%	Vol.24 No.3	278	2008/2	+2.0%	-6.2%
Vol.10 No.4	1,046	1994/3	+20.3%	+7.6%	Vol.24 No.4 old	277	2008/3	-6.8%	-6.1%
Vol.11 No.1B	983	1994/4	+20.6%	+2.1%	Vol.24 No.4	1,281	2008/3	+4.7%	-2.5%
Vol.11 No.2	1,295	1995/1	+18.2%	+3.2%	Vol.25 No.1	975	2008/4	-9.1%	-8.7%
Vol.11 No.3	669	1995/2	+18.0%	+3.2%	Vol.25 No.2	848	2009/1	-25.1%	-15.1%
Vol.11 No.4	1,047	1995/3	+13.1%	+3.3%	Vol.25 No.3	858	2009/2	-29.1%	-19.4%
Vol.12 No.1	700	1995/4	+10.0%	-2.9%	Vol.25 No.4	834	2009/3	-19.1%	-13.1%
Vol.12 No.2	1,099	1996/1	+14.2%	+2.5%	Vol.26 No.1	830	2009/4	-17.5%	-18.1%
Vol.12 No.3	742	1996/2	+10.5%	+3.9%	Vol.26 No.2	833	2010/1	-8.3%	-8.5%
Vol.12 No.4	753	1996/3	+23.1%	+8.9%	Vol.26 No.3	832	2010/2	-2.9%	-9.5%
Vol.13 No.1	912	1996/4	+20.4%	+9.8%	Vol.26 No.4	819	2010/3	+4.7%	-3.7%
Vol.13 No.2	720	1997/1	+13.6%	+2.0%	Vol.27 No.1	826	2010/4	+1.7%	-9.2%
Vol.13 No.3	909	1997/2	+18.0%	+5.3%	Vol.27 No.2 old	757	2011/1	+2.3%	-3.5%
Vol.13 No.4	634	1997/3	+21.5%	+12.1%	Vol.27 No.3 old	730	2011/2	-0.3%	-3.6%
Vol.14 No.1	783	1997/4	+21.1%	+1.7%	Vol.27 No.3C	1,105	2011/2	+8.2%	+1.0%
Vol.14 No.2	1,273	1998/1	+19.3%	+3.0%	Vol.27 No.4	1,106	2011/3	+7.5%	+0.5%
Vol.14 No.3	682	1998/2	+9.0%	+5.0%	Vol.28 No.1	1,082	2011/4	+8.0%	-1.2%
Vol.14 No.4	654	1998/3	-2.5%	-0.4%					

Table A2: Actual and expected changes in sales and employment, percentage balances, Vol.28 No.2 onwards

Survey	Sample Size	Past Quarter Date	Actual Change, past quarter compared with same quarter last year		Past Quarter Date	Expected Change, current quarter compared to past quarter	
			Sales	Employment		Sales	Employment
Vol. 28 No. 2	1,106	2012/1	+11.4%	+1.6%	2012/2	+13.5%	+3.6%
Vol. 28 No. 3	1,086	2012/2	+4.4%	-0.5%	2012/3	+7.8%	+1.5%

## Table A1 Notes:

a, b – The results from two surveys were published in Vol. 1 No. 1

A – From Vol. 5 No. 1, results were weighted to the sectoral distribution according to VAT statistics.

B – From Vol. 11 No. 1, results were weighted to the sectoral distribution of employment in firms with under 50 employees according to BIS statistics.

C – From Vol. 27 No. 3, results are weighted to the sectoral distribution of employment in firms with under 250 employees.

old - Changes in the sample composition in 2002, 2008 and 2011 created breaks in the series. For further details, see the published reports at the date of each break.

Table A3: Most important problem, 1984Q4 to 2002Q1

	Inflation	Interest Rates	Access to Finance	Lack of Skilled Employees	Total Tax Burden	Low Turnover or Lack of Business	Competition from Big Business	Govt Regs and Paperwork	High Rates of Pay	Shortage of Materials, Supplies etc.	Internal Management Difficulties	Cashflow/ Payments/ Debtors	Premises, Rents, Rates	Other	No Response	Number of Replies Analysed
1984/4	3.5%	17.1%	-	5.4%	15.9%	15.3%	12.0%	12.6%	4.2%	1.1%	-	-	-	10.9%	1.4%	3,056
1985/1	3.8%	19.4%	-	4.4%	15.9%	14.5%	10.0%	15.7%	3.4%	1.3%	-	-	-	9.5%	1.5%	1,795
1985/2	5.0%	22.1%	-	4.3%	16.1%	14.3%	10.8%	12.5%	2.4%	1.3%	-	-	-	9.1%	1.5%	1,181
1985/3	2.0%	23.6%	-	4.9%	12.8%	13.8%	11.2%	13.1%	3.7%	1.9%	-	-	-	8.6%	3.8%	1,090
1985/4	2.2%	24.0%	-	5.6%	16.6%	15.7%	11.0%	10.2%	2.0%	0.9%	-	-	-	9.2%	2.0%	1,072
1986/1	3.0%	21.4%	-	7.2%	17.1%	14.4%	11.7%	9.6%	2.0%	1.8%	-	-	-	9.9%	1.3%	1,326
1986/2	1.7%	29.9%	-	7.3%	16.3%	12.6%	9.1%	9.9%	2.2%	1.2%	-	-	-	9.4%	0.6%	1,052
1986/3	0.9%	21.3%	-	7.3%	16.6%	17.0%	11.5%	7.3%	1.4%	0.9%	-	-	-	13.7%	2.0%	1,285
1986/4	1.1%	25.0%	-	7.2%	17.7%	14.7%	11.8%	6.8%	1.3%	1.3%	-	-	-	10.0%	3.1%	1,435
1987/1	0.9%	26.4%	-	8.0%	16.0%	13.0%	12.0%	7.4%	1.6%	1.3%	-	-	-	9.1%	4.2%	1,166
1987/2	1.0%	23.7%	-	9.6%	17.7%	12.0%	10.7%	7.6%	2.6%	1.5%	-	-	-	10.3%	3.3%	1,746
1987/3	1.1%	20.3%	-	11.8%	17.9%	12.9%	11.5%	6.6%	1.9%	2.2%	-	-	-	10.5%	3.5%	1,113
1987/4	1.1%	18.0%	-	11.1%	21.3%	13.0%	12.5%	6.3%	1.3%	1.3%	-	-	-	9.6%	4.5%	977
1988/1	0.7%	21.6%	-	11.1%	20.1%	9.6%	11.4%	6.1%	2.3%	1.9%	-	-	-	14.9%	0.3%	1,042
1988/2	1.0%	19.4%	-	12.7%	15.5%	10.2%	14.4%	8.0%	1.8%	2.3%	-	-	-	13.7%	1.4%	933
1988/3	0.9%	17.6%	-	17.7%	13.7%	11.3%	11.4%	8.3%	2.4%	2.7%	-	-	-	11.4%	2.4%	983
1988/4	2.8%	25.5%	-	16.9%	12.5%	8.7%	10.4%	6.0%	1.3%	3.3%	-	-	-	10.6%	1.9%	950
1989/1A	5.3%	23.4%	-	16.4%	11.1%	5.7%	5.9%	7.2%	1.4%	0.3%	-	-	-	19.0%	4.3%	1,523
1989/2	6.3%	28.4%	-	14.0%	12.2%	7.1%	5.9%	5.2%	1.0%	0.8%	-	-	-	14.5%	4.7%	947
1989/3	6.1%	32.9%	-	13.3%	7.1%	13.1%	6.0%	5.9%	1.5%	0.5%	-	-	-	12.1%	1.6%	2,274
1989/4	6.9%	39.2%	-	10.4%	5.4%	12.9%	4.7%	5.1%	1.1%	0.6%	-	-	-	12.2%	1.4%	795
1990/1	4.2%	31.3%	3.1%	6.7%	5.3%	13.3%	-	5.5%	2.5%	0.7%	0.6%	11.5%	8.4%	5.3%	1,091	
1990/2	6.7%	27.9%	3.2%	7.8%	2.9%	14.6%	-	5.6%	1.5%	0.3%	1.6%	11.6%	6.6%	8.2%	1,384	
1990/3	4.3%	29.9%	3.6%	6.4%	3.7%	14.7%	3.1%	4.3%	1.6%	0.0%	1.9%	13.6%	4.8%	5.5%	1,043	
1990/4	7.5%	26.6%	2.3%	5.7%	4.4%	18.9%	3.8%	6.3%	0.2%	0.3%	0.8%	8.6%	4.7%	7.9%	1,250	
1991/1	6.0%	29.4%	2.7%	3.4%	4.2%	21.1%	2.6%	5.6%	0.9%	0.5%	0.8%	11.4%	4.2%	5.5%	1,239	
1991/2	4.0%	21.2%	4.3%	2.9%	5.1%	25.2%	2.9%	4.0%	0.4%	0.4%	0.6%	14.9%	7.1%	6.0%	984	
1991/3	3.3%	15.0%	3.0%	2.3%	4.7%	37.5%	2.4%	6.7%	1.2%	0.3%	1.2%	11.0%	3.3%	6.7%	1,718	
1991/4	1.2%	7.5%	4.6%	4.5%	4.1%	38.1%	3.4%	3.9%	0.7%	0.3%	1.3%	13.2%	5.7%	10.7%	835	
1992/1	2.0%	9.1%	5.2%	2.1%	5.6%	36.3%	3.2%	5.6%	0.5%	0.4%	1.2%	15.8%	4.0%	7.1%	1,684	
1992/2	2.2%	11.6%	4.4%	3.4%	5.4%	34.3%	4.5%	5.3%	0.4%	0.3%	1.1%	13.4%	5.0%	7.4%	1,359	
1992/3	1.6%	7.6%	3.9%	2.9%	5.1%	43.3%	2.1%	8.1%	0.3%	1.0%	0.8%	13.5%	3.0%	5.9%	1,527	
1992/4	1.0%	8.8%	3.6%	1.6%	6.0%	44.3%	4.0%	8.0%	0.5%	0.3%	0.2%	11.5%	3.0%	5.2%	921	
1993/1	0.6%	3.7%	3.2%	3.2%	4.1%	47.7%	3.0%	6.2%	0.3%	1.2%	0.6%	13.1%	2.9%	8.4%	1,339	
1993/2	0.5%	1.4%	5.4%	3.3%	5.4%	43.1%	4.0%	7.6%	0.5%	0.7%	1.6%	14.3%	2.9%	7.4%	1,021	
1993/3	0.4%	2.1%	5.5%	4.5%	5.4%	41.2%	4.2%	12.6%	0.3%	0.7%	0.9%	10.9%	3.7%	5.9%	1,310	
1993/4	1.0%	2.8%	6.9%	3.0%	6.5%	36.8%	4.3%	10.0%	0.3%	0.6%	2.5%	15.5%	3.3%	4.6%	1,076	
1994/1	0.6%	1.9%	5.5%	4.2%	6.8%	34.1%	6.9%	11.0%	0.1%	0.6%	1.1%	14.4%	4.1%	6.9%	1,295	
1994/2	1.1%	1.6%	3.8%	5.4%	7.0%	35.3%	5.2%	13.9%	0.1%	0.4%	1.4%	14.0%	3.2%	6.4%	861	
1994/3	0.9%	1.5%	3.6%	4.9%	5.9%	37.7%	5.9%	9.7%	0.9%	0.8%	2.1%	13.3%	3.1%	7.6%	2,327	
1994/4	1.1%	1.2%	4.7%	4.8%	6.4%	35.7%	6.3%	10.4%	0.1%	1.1%	1.6%	12.9%	3.8%	7.6%	1,046	
1995/1B	0.8%	2.7%	4.0%	6.1%	6.2%	37.7%	6.9%	6.7%	0.6%	1.1%	3.0%	12.5%	2.0%	7.4%	983	
1995/2	1.2%	2.0%	3.4%	5.1%	6.9%	36.7%	6.1%	8.0%	0.6%	0.9%	2.7%	12.2%	3.8%	9.4%	1,295	
1995/3	1.1%	3.8%	4.2%	4.0%	6.8%	37.6%	8.8%	7.1%	0.5%	0.5%	1.1%	11.4%	5.9%	6.8%	669	
1995/4	1.1%	0.8%	3.4%	6.0%	6.0%	39.1%	6.3%	9.1%	0.7%	0.3%	2.4%	12.0%	2.8%	9.3%	1,047	



Table A3: Most important problem, 1984Q4 to 2002Q1 (continued)

	Inflation	Interest Rates	Access to Finance	Lack of Skilled Employees	Total Tax Burden	Low T/over or Lack of Business	Competition from Big Business	Govt Regs and Paperwork	High Rates of Pay	Shortage of Materials, Supplies etc.	Internal Management Difficulties	Cashflow/ Payments/ Debtors	Premises, Rents, Rates	Other	No Response	Number of Replies Analysed
1986/1	2.2%	0.6%	3.3%	4.5%	6.5%	38.2%	6.7%	5.1%	0.3%	0.7%	1.7%	12.8%	3.7%	11.5%	2.1%	700
1986/2	0.4%	0.7%	2.6%	4.4%	6.5%	36.6%	6.1%	8.8%	0.4%	0.5%	2.6%	13.1%	3.4%	13.1%	1.0%	1,099
1986/3	0.2%	0.7%	3.7%	6.1%	6.3%	31.8%	8.1%	8.6%	0.3%	0.5%	1.4%	12.2%	4.9%	14.3%	1.2%	742
1986/4	0.6%	1.0%	2.5%	7.6%	6.5%	34.6%	7.5%	10.3%	0.4%	0.2%	2.5%	9.5%	4.2%	11.6%	1.0%	753
1987/1	0.3%	1.4%	2.9%	8.2%	6.6%	29.9%	7.4%	10.8%	0.3%	0.5%	2.1%	14.6%	3.9%	10.2%	1.0%	912
1987/2	0.1%	1.2%	2.0%	9.5%	5.1%	31.9%	7.2%	10.5%	1.4%	0.3%	2.5%	11.2%	3.5%	12.6%	1.1%	720
1987/3	0.2%	2.7%	3.4%	8.1%	8.1%	27.6%	9.2%	10.3%	0.5%	0.5%	2.0%	10.5%	5.3%	11.1%	0.5%	909
1987/4	0.7%	1.9%	2.5%	12.1%	5.6%	29.4%	7.0%	10.9%	0.6%	0.6%	2.5%	10.3%	4.9%	9.7%	1.3%	634
1988/1	0.2%	3.4%	1.8%	8.9%	5.8%	27.7%	8.1%	11.8%	0.9%	0.5%	1.6%	12.1%	3.4%	12.6%	1.3%	783
1988/2	0.2%	3.4%	2.9%	10.1%	5.0%	25.6%	8.2%	8.4%	1.1%	0.3%	1.9%	10.7%	3.2%	18.1%	0.9%	1,273
1988/3	1.8%	3.4%	2.2%	7.7%	5.0%	29.3%	6.3%	9.6%	0.8%	0.1%	2.6%	9.7%	4.9%	16.0%	0.7%	682
1988/4	0.8%	6.3%	1.8%	9.7%	7.1%	30.8%	7.6%	6.1%	1.4%	0.7%	1.6%	10.5%	2.0%	13.0%	0.6%	654
1989/1	0.1%	1.7%	1.9%	8.9%	7.2%	31.0%	5.3%	11.1%	1.1%	0.9%	1.9%	8.3%	4.3%	15.2%	1.1%	601
1989/2	0.2%	1.0%	1.2%	8.0%	6.3%	31.6%	7.6%	14.8%	1.1%	0.1%	1.0%	9.2%	3.9%	12.9%	1.0%	619
1989/3	0.1%	0.7%	2.8%	11.2%	7.7%	25.3%	8.0%	13.6%	2.1%	0.9%	3.3%	8.2%	4.4%	10.2%	1.5%	507
1989/4	0.4%	0.8%	2.9%	11.4%	6.1%	26.3%	7.3%	14.2%	1.1%	0.5%	2.0%	9.6%	3.9%	12.6%	0.9%	1,121
2000/1	0.3%	1.0%	1.7%	9.5%	6.4%	26.2%	8.7%	18.6%	1.4%	0.3%	2.2%	8.8%	3.7%	10.4%	0.6%	812
2000/2	0.3%	1.6%	1.3%	8.7%	6.7%	25.9%	6.3%	19.0%	1.4%	1.1%	1.8%	7.2%	3.3%	14.9%	0.6%	866
2000/3	0.3%	0.8%	2.2%	12.2%	7.3%	26.7%	6.3%	12.5%	1.4%	1.1%	2.4%	9.6%	2.8%	12.6%	1.9%	758
2000/4	0.4%	0.7%	1.6%	7.9%	7.2%	27.4%	6.9%	15.7%	0.8%	0.9%	1.4%	10.2%	4.1%	14.3%	0.4%	803
2001/1	0.1%	0.4%	2.0%	11.1%	6.7%	27.2%	6.3%	14.4%	0.8%	0.3%	1.9%	9.2%	2.8%	10.9%	1.8%	726
2001/2	0.2%	0.8%	1.3%	10.8%	7.9%	27.2%	5.9%	15.4%	2.7%	0.4%	2.6%	7.0%	3.2%	13.7%	1.0%	856
2001/3	0.0%	0.0%	0.7%	13.5%	9.6%	30.0%	6.4%	13.8%	0.8%	0.4%	1.2%	7.3%	3.1%	12.8%	0.5%	720
2001/4	0.1%	0.0%	2.0%	11.7%	6.7%	27.4%	5.2%	16.5%	1.3%	0.5%	1.1%	8.2%	2.9%	15.0%	1.3%	705
2002/1	0.3%	0.5%	1.7%	7.8%	8.9%	28.5%	5.1%	15.2%	0.7%	0.2%	1.0%	8.4%	3.4%	16.8%	1.5%	654

Table A4: Most important problem, 2002Q2 to 2007Q4

	General economic climate	'Sector-specific demand/problems	Competition	Marketing problems	Interest rates/ Access to finance	Inflation/ Cost of materials, supplies	Other costs (e.g. premises, transport)	Exchange rates	Cashflow/ Payments/ Debtors	Government regulations and paperwork	Lack of skilled employees/ High pay	Total tax burden	Lack of time/ capacity	No problems	Other (please specify)	No response	Sample
2002/2	13%	7%	6%	4%	2%	1%	2%	2%	10%	14%	8%	7%	8%	3%	12%	1%	1,168
2002/3	13%	7%	7%	4%	1%	0%	1%	1%	11%	16%	11%	6%	9%	2%	11%	1%	1,078
2002/4	16%	7%	9%	4%	1%	1%	2%	1%	9%	15%	10%	6%	9%	2%	8%	2%	1,074
2003/1	20%	8%	9%	4%	1%	0%	1%	1%	9%	14%	6%	7%	8%	2%	9%	1%	922
2003/2	21%	8%	7%	4%	1%	1%	1%	1%	11%	10%	9%	6%	9%	2%	8%	2%	851
2003/3	18%	9%	6%	3%	1%	1%	1%	1%	6%	15%	9%	9%	10%	2%	7%	2%	784
2003/4	13%	9%	8%	3%	1%	1%	1%	0%	7%	18%	8%	8%	8%	3%	9%	2%	687
2004/1	11%	8%	9%	3%	2%	1%	2%	2%	11%	15%	7%	9%	8%	3%	8%	1%	808
2004/2	9%	8%	8%	4%	2%	2%	1%	1%	8%	20%	9%	8%	9%	3%	8%	1%	739
2004/3	10%	9%	8%	4%	2%	3%	3%	1%	10%	13%	10%	7%	9%	3%	7%	1%	623
2004/4	11%	8%	7%	3%	1%	2%	1%	1%	8%	20%	10%	8%	8%	4%	8%	1%	711
2005/1	9%	9%	8%	5%	1%	2%	2%	1%	7%	18%	10%	11%	9%	2%	5%	1%	652
2005/2	13%	9%	8%	3%	1%	1%	1%	1%	8%	22%	8%	7%	8%	3%	5%	2%	675
2005/3	16%	10%	6%	5%	0%	2%	2%	1%	8%	20%	6%	5%	7%	1%	6%	3%	670
2005/4	20%	8%	6%	4%	1%	3%	1%	1%	8%	15%	10%	9%	7%	1%	5%	2%	620
2006/1	18%	9%	7%	4%	1%	3%	1%	1%	9%	20%	9%	7%	6%	2%	4%	1%	641
2006/2	11%	9%	6%	2%	1%	4%	2%	0%	9%	22%	7%	8%	10%	3%	6%	1%	638
2006/3	12%	9%	7%	2%	1%	2%	1%	1%	9%	21%	7%	10%	9%	2%	4%	2%	547
2006/4	10%	9%	8%	3%	1%	3%	1%	1%	7%	25%	7%	8%	7%	2%	7%	2%	538
2007/1	9%	9%	8%	3%	1%	3%	2%	2%	9%	22%	7%	8%	7%	2%	5%	4%	526
2007/2	11%	7%	9%	4%	2%	3%	1%	2%	6%	23%	8%	7%	7%	2%	6%	2%	528
2007/3	10%	8%	9%	3%	3%	4%	2%	1%	7%	15%	8%	7%	9%	5%	7%	2%	629
2007/4	15%	8%	9%	2%	4%	4%	1%	2%	5%	17%	8%	8%	5%	2%	8%	2%	528

Table A5: Average rating of problems (1=no problem, 10=severe problem), 2008Q1 to 2008Q3

Survey	Economic climate or demand	Competition	Interest rates or access to finance	Inflation or cost of inputs, etc.	Cashflow, payments or debtors	Government regulations	Lack of skilled employees/high pay	Total tax burden	Lack of time/capacity	Internal (management, marketing etc.)	Sample
2008/1	6.7	5.0	4.9	6.2	5.1	6.6	4.6	6.7	6.1	-	822
2008/2	6.2	4.7	4.0	5.7	4.9	6.2	4.5	6.1	5.6	-	711
2008/3	7.0	5.1	4.3	6.0	5.3	6.5	4.4	6.5	6.0	4.2	278

Table A6: Proportion ranking each problem in top three facing their business, 2008Q4 to 2012Q1

Survey	Economic climate or demand	Competition	Interest rates or access to finance	Inflation or cost of inputs, etc.	Cashflow, payments or debtors	Government regulations	Lack of skilled employees/high pay	Total tax burden	Lack of time/capacity	Internal (management, marketing etc.)	Sample
2008/4	58%	28%	19%	26%	28%	28%	11%	22%	15%	5%	1,281
2009/1	55%	23%	21%	24%	36%	30%	7%	26%	14%	4%	975
2009/2	61%	26%	19%	22%	33%	31%	10%	24%	17%	7%	848
2009/3	52%	24%	19%	18%	34%	30%	10%	26%	16%	6%	858
2009/4	57%	25%	21%	17%	35%	33%	10%	26%	16%	4%	834
2010/1	48%	29%	17%	18%	33%	35%	11%	29%	14%	6%	830
2010/2	55%	28%	17%	20%	31%	31%	10%	26%	17%	6%	833
2010/3	51%	32%	17%	18%	34%	29%	11%	22%	16%	5%	832
2010/4	51%	28%	21%	19%	33%	30%	10%	27%	16%	6%	819
2011/1	54%	28%	17%	23%	33%	27%	9%	25%	15%	7%	826
2011/2	54%	28%	17%	26%	29%	26%	11%	19%	16%	7%	947
2011/3	55%	26%	16%	24%	25%	25%	8%	20%	13%	6%	1,105
2011/4	63%	33%	15%	26%	26%	28%	10%	22%	14%	6%	1,106
2012/1	59%	31%	15%	25%	31%	26%	10%	20%	12%	5%	1,082

Table A7: Most important problem, 2012Q2 onwards

Survey	Economic climate or demand	Interest rates or access to finance	Inflation or cost of inputs, etc.	Cashflow, payments or debtors	Government regulations	Lack of skilled employees	Lack of time/capacity	The total tax burden	Sample
2012/2	40%	5%	8%	16%	10%	3%	6%	6%	1,106
2012/3	42%	5%	6%	14%	9%	4%	5%	6%	1,086

## Quarterly Survey 2012 Q3

Please click in the appropriate circles and boxes or fill in the blanks. Your answers will remain confidential. If you have any problems with, or queries about, this form, please email us at [ubs-enterprise@open.ac.uk](mailto:ubs-enterprise@open.ac.uk) or call Julie Sullivan on 01908 655 831.

- 1** What is the legal status of your business?  
 Private (limited) company       Self-employed sole trader/sole proprietorship       Other  
 Partnership       PLC
- 2** Including yourself, how many people work in the business including both full and part-time workers?
- 3a** How many years have you been running a business?
- 3b** How many years has your present business been trading?
- 4** Please describe in a few words the precise nature of your business:
- 5** Entrepreneurial firms are more competitive, growth-minded and innovative than other firms. Where would you put your firm on a scale of 1 to 10 (where 1=not at all entrepreneurial to 10=extremely entrepreneurial)?
- 
- 6** Apart from on-the-job instruction, what training does your business provide for its staff?  
 Organises on-line learning       Pays for external training courses       No formal training  
 Organises other internal training courses       Gives staff time off to attend courses       Don't know  
 Other
- 7a** Which one of the following do you believe would be best for the secondary school system in your country? [i.e. in England, Scotland, Wales or Northern Ireland]  
 Provide more vocational courses       Keep the current mix of vocational and academic courses  
 Provide more academic courses       Have no opinion       Don't know
- 7b** If you expressed a view on this issue, please explain and/or give an example
- 8a** Have you personally ever undertaken any formal management training, either at work or externally?  
 Yes       No       Don't know
- 8b** If YES, how has it influenced the way you run your business?
- 9a** Based on the employees your business has recruited in recent years, how do you rate the contribution of the UK educational system to meeting the needs of your business?  
 Appropriate       The business has not recruited any employees in recent years  
 Inappropriate       Don't know
- 9b** If you expressed a view on this issue, please explain and/or give an example
- 
- 10** In which of the following ranges is your firm's annual turnover (excluding VAT):  
 Less than £50,000       £250,000-£499,999       £5m-£10m  
 £50,000-£99,999       £500,000-£999,999       £10m-£20m  
 £100,000-£249,999       £1m-£5m       over £20m
- The next three questions ask how your sales turnover, average employment and investment (in plant, equipment and premises) in the past quarter compared with the same quarter last year.
- 11a** Was your sales turnover in April to June 2012 compared with April to June 2011:       Up       Same       Down
- 11b** Was your average employment in April to June 2012 compared with April to June 2011:       Up       Same       Down
- 11c** Was your investment in April to June 2012 compared with April to June 2011:       Up       Same       Down
- The next three questions ask how you expect your sales turnover, average employment and investment (in plant, equipment and premises) will have changed in the current quarter compared with the same quarter last year.
- 12a** Expected sales turnover in July to September 2012 compared with July to September 2011:       Up       Same       Down
- 12b** Expected average employment in July to September 2012 compared with July to Sept 2011:       Up       Same       Down
- 12c** Expected investment in July to September 2012 compared with July to September 2011:       Up       Same       Down
- 13** Which, if any, of the following is the TOP problem facing your business at the moment?  
 Economic climate or demand       Inflation or cost of inputs, etc.       Government regulations       Lack of time/capacity  
 Interest rates or access to finance       Cashflow, payments or debtors       Lack of skilled employees       Total tax burden
- 14** What other major problems does your business face at the moment?
- 15** Please indicate the sex of the owner(s) of the business:  
 Male       Female       Joint Male/Female ownership
- 16** Please enter your Business Postcode:
- 17** Please enter any comments you have on the issues raised in this questionnaire:

## Quarterly Survey of Small Business in Britain

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