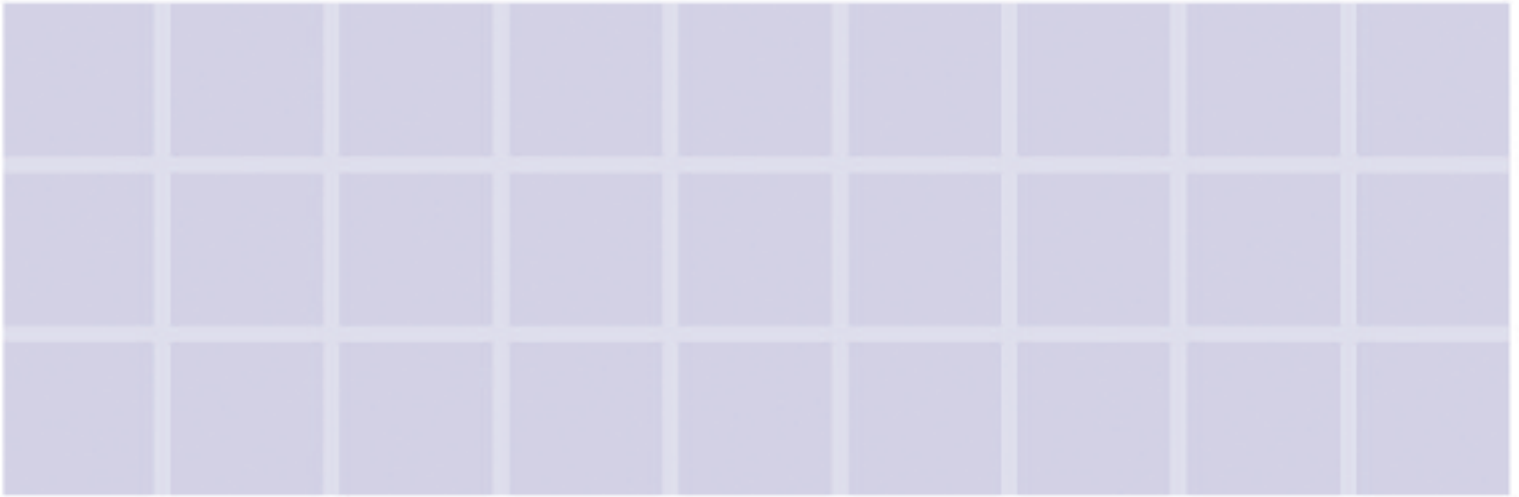


# Report of the Small Business Forum

# SMALL BUSINESS IS BIG BUSINESS



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May 2006

# About the Small Business Forum

**The Small Business Forum was set up in July 2005 by the Minister for Enterprise, Trade & Employment, Micheál Martin T.D. The overarching task of the Forum is to consider the current environment for conducting small business in Ireland, and to advise on the adequacy and appropriateness of public policy responses (Appendix A for the full *Terms of Reference*).**

In composition, the Forum is representative of the many and varied stakeholders involved in small business development in Ireland – owner/managers of firms drawn from the breadth of sectors that comprise the small business cohort, small business representative organisations, academics specialising in the field, and State development agencies. (Appendix B for membership of the Forum.)

The Forum met for the first time in September 2005 and decided to inform its work with a number of inputs: a review of current literature, submissions from interested organisations and members of the public, an empirical study, and a series of consultation meetings.

**Literature Review:** The Forum reviewed a wide range of current major publications from Irish, EU and OECD sources addressing the key areas of finance, entrepreneurship, innovation, productivity, and regulation.

**Public submissions:** A general call for submissions was issued in the national press, as a result of which seventy-four written submissions were received from small businesses, private sector representative organisations, government agencies, and private individuals. (Appendix C for a list of submissions received.)

**Empirical study:** In order to ensure that the Forum's eventual findings and recommendations would be grounded in empirical evidence, DKM Economic Consultants were commissioned to carry out a profiling study of small business in Ireland; the purpose of this study was to measure the economic impact of the sector through a range of indicators. The key findings of that study are published in parallel with this report.

**Consultation activity:** To canvass opinion from as broad a cross-section of small firms as possible, members of the Forum held a series of consultative meetings with upwards of ninety enterprises, in Dublin, Cork, Galway and Carlow.

Informed by the public submissions, the DKM study and the consultation activity, the Forum focused on three distinct work strands:

- ❑ Improving the economic environment for small businesses;
- ❑ Enhancing performance and productivity among small businesses; and
- ❑ Stimulating growth of small businesses.

In each of these work strands, the Forum commissioned research. This work analysed the current state and likely future developments in each area, and were an input to the Forum's final formulation and prioritisation of recommendations.

**Mr. Micheál Martin, T.D.**

Minister for Enterprise, Trade & Employment

Dear Minister,

I would like to thank you for the opportunity to chair the Small Business Forum. It has been a privilege to undertake this role and to work with the Forum members to review the issues and challenges that are currently facing the small business sector. The task has been personally challenging, extremely interesting and very rewarding.

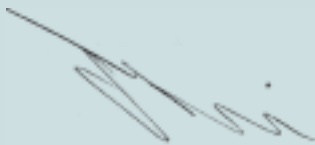
Over the past number of months, the Forum has held a broad consultation process and we were delighted with the level of passion, engagement and constructive contributions that we received, both in face-to-face meetings throughout the country and through written submissions. As a result of these contributions, and the time and effort of many different people, representing a variety of opinions and ideas, I believe that we have produced a comprehensive report with specific recommendations. When implemented, these will make a real difference to the future growth and health of the small business sector. The report also suggests an implementation path, and we look forward to providing any additional support that may be required to help move this process forward.

I would like to thank the members of the Forum who have given tirelessly of their time and expertise since our first meeting in September last year. Each and every one of them brought a unique perspective to the process and I believe has helped to shape a report that is inclusive and representative of the range of small businesses currently operating in Ireland.

The Secretariat service provided by Forfás to the Small Business Forum has been invaluable. The team from Forfás, led by Marie Bourke, has continually exceeded the expectations of the Forum and has provided us with extensive support, advice and guidance as we have worked through the process, and I thank them sincerely for that.

The small business sector in Ireland is the potential engine of growth for the future of the Irish economy. It is critical that plans are put in place now to create an environment that will allow the sector to continue to flourish and grow. I believe that the Report of the Small Business Forum effectively identifies the measures that need to be taken to achieve that objective. On behalf of the members of the Small Business Forum, I am delighted to submit our report to you.

Yours sincerely,



**Joe Macri,**

Chair of the Small Business Forum  
Managing Director, Microsoft Ireland

April 2006

# Contents

	<b>Executive Summary</b>	<b>vii</b>
<b>1</b>	<b>The Economic Impact of Small Businesses</b>	<b>2</b>
1.1	Small Business in Perspective	2
1.2	Growth in Small Business Numbers	3
1.3	Business Activities in the Small Business Sector	3
1.4	Sectoral Distribution of Employment	4
1.5	Sales and Export Performance	4
1.6	Contribution to the Irish Economy and Society	5
1.7	Trends	6
1.8	International Productivity Comparisons	6
1.9	Levels of Entrepreneurial Activity	9
1.10	Shortage of Comprehensive Data for Policy-making	9
1.11	Increasing Importance of Indigenous Sector	10
1.12	Conclusions	10
<b>2:</b>	<b>The Evolving Environment for Small Business</b>	<b>11</b>
2.1	Global Challenges	11
2.2	Local Factors	12
2.3	Challenges Facing Small Businesses in Ireland	13
2.4	The Need for Action	14
<b>3:</b>	<b>Create a Better Environment for all Small Businesses</b>	<b>15</b>
3.1	Better Regulation	15
3.2	Balanced Local Authority Charges	23
3.3	Enhanced Access to Information and Advice	27
3.4	Required Infrastructure	31

<b>4:</b>	<b>Stimulate Growth</b>	<b>33</b>
4.1	Broaden Access to Finance	33
4.2	Develop Management Capability	40
4.3	Stimulate Innovation	45
4.4	Drive Adoption of ICT	50
4.5	Campaign to Stimulate Growth Aspiration and Potential	52
<b>5:</b>	<b>Inspire Entrepreneurship</b>	<b>53</b>
5.1	Benefits of Entrepreneurship	53
5.2	What is an Entrepreneur?	53
5.3	Business Start-ups in Ireland	54
5.4	Key Drivers of Entrepreneurship	54
5.5	Existing Support for Entrepreneurs	54
5.6	A National Entrepreneurship Policy	55
<b>6:</b>	<b>Implementation: from Recommendations to Action</b>	<b>58</b>
6.1	Bodies Supporting Small Business	58
6.2	Duplication of Services and Levels of Co-ordination	60
6.3	Focus of State Enterprise Supports	61
6.4	Implementation of the Small Business Forum's Recommendations	63
Appendix A:	Terms of Reference	64
Appendix B:	Membership of the Small Business Forum	65
Appendix C:	Submissions Received	66
Appendix D:	Small Business Release	68



# Executive Summary

## Background

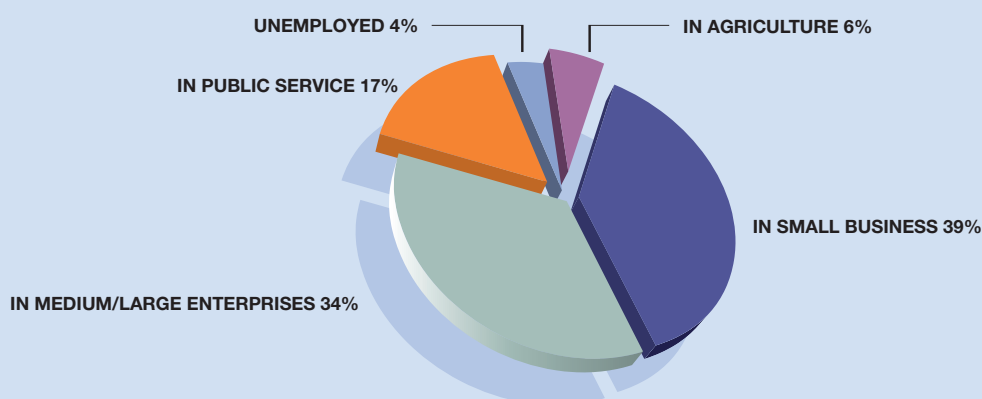
The Small Business Forum was set up in July 2005 by the Minister for Enterprise, Trade & Employment, Micheál Martin T.D., to consider the current environment for conducting small business in Ireland, and to advise on the adequacy and appropriateness of public policy responses.

The Forum based its work on a number of inputs: an extensive review of current literature, 74 submissions from organisations and interested members of the public, a detailed empirical study, and a series of consultation meetings with small business owners and managers.

## Why Small Business is Big Business

Over 97 per cent of businesses operating in Ireland today are 'small' – they employ fewer than 50 people. There are approximately a quarter of a million small businesses in Ireland, employing 777,000 people (more than half of the total private sector, non-agricultural workforce).

### Distribution of the Irish Labour Force, 2005





In many ways, the health of the small business sector is both an indicator of the condition of the whole economy and a determinant of that condition. Small businesses are important for a number of reasons:

- They provide regionally distributed employment around the country, deliver a huge range of local services, and contribute to the economic, social and cultural life of the entire population.
- They account for over 70 per cent of gross value added (GVA) in Construction (around €7.2 billion), over 40 per cent of GVA in Services (€15 billion – excluding financial services), and 34 per cent of GVA in indigenous Manufacturing (€2.1 billion).
- They pay 50 per cent of VAT on services (over €4 billion), 11 per cent of corporation taxes (around €530 million) and 37 per cent of income taxes (almost €4 billion).
- They form an essential part of the supply chain for larger firms, and in particular are part of the support infrastructure needed to attract and retain foreign investment.

The performance of the small business sector is thus an important contributor to the overall quality of life and standard of living in the country.

## The Seedbed for Future Growth

As the Irish economy becomes increasingly knowledge-based, and as low value-added activities migrate to lower cost economies, a greater proportion of the country's wealth will have to be generated by indigenous companies.

Whereas in the past, Irish indigenous companies have tended to start small and remain small, a new generation of indigenous companies is already beginning to emerge – companies with the potential to grow, and in some cases grow rapidly, to conquer international markets.

The small business sector is the incubating ground for these companies. Some of them will be technology-based companies, who will exploit the State's substantial investment in R&D and help to assert Ireland's position as a knowledge creator and innovator. A greater proportion will be in services (reflecting the growth internationally of the services sector). These businesses will use highly innovative business models to grow and deliver internationally, services that were previously the preserve of small companies trading locally. The majority, however, will continue to deliver local services and to play their important role in the supply chain of larger companies.

Small business owner/managers with the ambition, ability and potential to grow their companies into strong internationally trading entities must be empowered to reach this potential. Those that continue to trade locally largely determine the cost base for both consumers and other businesses, and these must be encouraged to innovate in other ways, in order to maximise their efficiency, quality of product and service, and productivity.

## Transformation of the Business Environment

The last major report on the small business sector was issued by the Small Business Task Force in 1994. At that time, the business environment was characterised by low disposable incomes, high taxation and high interest rates. In the intervening period, the business environment has been radically transformed:

- The Irish market has grown very substantially: the population – and particularly the number of people in work – has increased. In short, there are more people with more money to spend.
- The taxation regime has relaxed – for the vast majority of companies, corporation tax has been reduced to 12.5 per cent; the top income tax rate has been reduced to 42 per cent; and the capital gains tax rate has been halved to 20 per cent.
- Short-term interest rates are considerably lower (currently below 4 per cent, compared with 6 or 7 per cent in the mid 1990s).

In this positive environment, over the ten years since 1995 the small business sector has flourished: the number of small businesses in Ireland has grown by more than 50 per cent, and employment in small businesses has grown by approximately 79 per cent. Economic growth, however, has created a number of difficulties for businesses in Ireland:

- ❑ With the liberalisation of international trade and globalisation of markets, small companies are facing greatly increased competition from companies with lower cost bases.
- ❑ High inflation in recent years has contributed to sharp rises in business costs.
- ❑ The labour market is considerably tighter (unemployment is now around 4 per cent); as a result many businesses have difficulty finding and retaining suitable skilled staff, and wage rates are increasing.

## Challenges Ahead

In the years immediately ahead, the pressure on Irish companies to perform to the highest international standards will be heightened by intensifying international competition. Irish companies – whether trading locally or in foreign markets – will increasingly face competition from major international players with highly sophisticated business models, coupled with economies of scale in every aspect of their operation. In this environment, only the strongest and fittest companies will survive.

A number of trends have recently emerged that are of particular concern, and that present significant challenges for small businesses in the years ahead.

### Productivity

Productivity in small Irish companies is low in comparison with similar-sized companies in other countries.

In manufacturing, in comparison with nine other EU countries, productivity in small Irish companies ranks:

- ❑ 5th in companies with between 1 and 9 employees
- ❑ 8th in companies with between 10 and 19 employees
- ❑ 4th in companies with between 20 and 49 employees

In services, Ireland also compares unfavourably with other countries.

Service Sector	Size of business (Number of employees)			
	1	2-9	10-19	20-49
	Productivity ranking when compared with eight other EU countries			
Hotels and restaurants	5	6	8	7
Transport, storage and communications	6	6	2	8
Real estate, renting and business activities	6	2	6	2

Given the importance of the services sector to today's economy, the Small Business Forum is particularly concerned that the issue of productivity in services be addressed.

### International competition on the local market

Small service companies with a traditional market in their immediate locality have begun to face intense competition from large international competitors in, for example, retailing, personal and professional services, restaurants, hotels and entertainment. Internet-based competition has also begun to affect a number of sectors.

These challenges are already having an impact. Between 1995 and 2000 the number of small businesses grew by an average 6.6 per cent a year, but in the years since then, growth has slowed to 2.6 per cent. The number of small manufacturing firms has been static over the past five years, and the number employed in them has declined. The number of small firms in wholesale, retail and hospitality has also declined.

## The Need for Action

A number of issues need to be addressed if the small business sector is to realise its full potential and play the increasingly important role in the Irish economy that will be demanded of it in the years ahead. Addressing these issues will require effort by Government and State agencies, by the education and training institutions, by industry representative organisations, by businesses themselves, and by emerging entrepreneurs. In some cases, this will require redistribution or rebalancing of resources, and in others it will require new investment.

Given the relative health of the economy following the past decade of growth, the Small Business Forum emphasises that it is now both opportune and appropriate to take the necessary initiatives, in order to ensure that the issues identified in this report are addressed promptly, comprehensively and convincingly.

Some of these issues are particularly acute for businesses that are growing, and are of particular concern to the Forum, given the role expected of the small business sector in the future. Some are faced by all small businesses, irrespective of their sector or stage of development; and some are peculiar to businesses in their start-up phase.

### Issues that particularly face growing businesses

- ❑ Difficulty in accessing finance
- ❑ Weak management capability
- ❑ Lack of innovation, both technological and non-technological
- ❑ Under-exploitation of Information and Communications Technology (ICT)

### Issues that face all small businesses

- ❑ Burdensome and costly administrative regulations
- ❑ Rising local authority charges
- ❑ Poor access to information and advice
- ❑ Inadequate infrastructure

### Issues that face start-ups

- ❑ Lack of a systematic approach to entrepreneurship

These issues are discussed overleaf.

# Issues that Particularly Face Growing Businesses

## Access to finance

While the problem of funding for small business has eased somewhat over the past decade with the improvement in the investment environment and the drop in short term interest rates, small businesses continue to report difficulties in obtaining appropriate levels of finance for start-up and growth. These difficulties appear to be more pronounced for:

- ❑ Businesses in the services sector, with limited capital assets; and
- ❑ Businesses that are ineligible for support from the enterprise development agencies.

In particular, the Forum believes that financial institutions are reluctant to lend money to businesses that are perceived to be risky or that have limited collateral, while under the current taxation regime Irish investors are more likely to choose one of the many asset-backed investment options than take equity stakes in small companies. The financial support provided by the enterprise development agencies does address this issue to some extent, but only for the limited number of businesses that are eligible for agency support.

A separate issue relates to working capital and cash flow. Small businesses that supply goods and services to large organisations are often compelled to accept long delays in payment, either because of unreasonable contract terms, or because they are afraid to pursue on-time payment for fear of losing business.

### The Small Business Forum recommends:

#### For Growth Capital

Encourage financial institutions to provide European Investment Fund-**guaranteed loan finance** to small businesses.

Enhance the **Business Expansion Scheme** (BES) and the **Seed Capital Scheme** (SCS) as follows:

- ❑ Extend the lifetime of both schemes to 2013;
- ❑ Increase the individual investment ceiling for the BES to €250,000 and for the SCS to €100,000;
- ❑ Increase the BES/SCS investment ceiling to €2 million per company; and
- ❑ Simplify the operation of both schemes, and promote them more actively.

Further develop networks of '**Business Angels**' in order to encourage investment by private individuals in seed and early-stage businesses.

#### For Working Capital

Amend the Companies Act to require large companies to publish in their annual accounts details of their average creditor days.

**Responsibility:** Department of Finance; Department of Enterprise, Trade & Employment; financial institutions; Enterprise Ireland.

## Management capability

The performance – and even the survival – of a small business depends in large measure on the competence and capability of its management. The quality of management affects productivity, profitability and sales growth.

Work carried out in Ireland has shown that the level of general management skills in Irish small businesses is relatively poor, particularly in specific functional skills such as human resources, marketing and finance, and in forward planning and strategic management.

Despite these deficiencies, small firms engage in management training and development only to a very limited extent, both for reasons of time and cost, and because the available management training programmes are not perceived to be relevant.

Given that economic progress in Ireland in the years ahead will depend heavily on the performance of the small business sector, it is critical that the management of these businesses be equipped with the knowledge and skills they need to make the businesses perform optimally.

### The Small Business Forum recommends:

Raise the standard of **management capability** in small Irish businesses to the level of best international practice by:

- Stimulating *demand* among small business owner/managers for management development initiatives; and
- Establishing a Management Development Council to ensure that the *supply* of management programmes meets the needs and learning styles of owner/managers, through continuous monitoring and evaluation of the available programmes.

**Responsibility:** Department of Enterprise, Trade & Employment.

At present, resource constraints are not the primary barrier to enhancing management competence in the small business sector. Approximately €35 million per annum in public funding is available between 2006 and 2008 to support management training and development (including non-financial supports, such as mentoring), particularly in SMEs.

## Innovation

Innovation is imperative throughout the enterprise sector as Ireland progresses towards a knowledge-based society. The type of innovation most often referred to is technological innovation, which is rooted in scientific research and development (R&D), but other types of innovation are also important, and more relevant to the majority of small businesses, particularly in the services sector.

Very few small businesses have the resources or the expertise to engage in R&D. Those that are unlikely to become R&D performers – and particularly companies in the services sector, should be encouraged to use the best available expertise to help them constantly adapt and be innovative in their businesses. This should help them to bring their operations into line with international best practice, to increase productivity and profitability, and to win new markets. The recommendation proposed overleaf will enable them to develop new service offerings, change their business models, improve their customer interface, cut costs, and adopt new technology.

A number of companies, however, have some in-house scientific or technological capacity, but not sufficient to engage in formal R&D activity. These companies should be encouraged and supported in making the transition to R&D performance. The intermediate step for them is to form significant productive relationships with outside sources of knowledge and technology, and in particular with the Institutes of Technology and other third-level institutions. Support should be made available to help such companies to form these relationships and acquire the knowledge they need to develop new products, processes and designs. These supports should stimulate innovation and awareness of innovation throughout the small business sector.

### The Small Business Forum recommends:

- Make **Innovation Vouchers** available to small businesses in every sector, to be exchanged for advice, expertise and information from accredited knowledge providers. A budget of €2 million should be provided for these vouchers each year for three years.
- Provide **Knowledge Acquisition Grants** to enable small businesses in the manufacturing and internationally traded service sectors to gain access to research-based knowledge, expertise and facilities in higher education institutes, research bodies and large private enterprises, on a co-funded basis.

**Responsibility:** Department of Enterprise, Trade & Employment; Enterprise Ireland; City and County Enterprise Boards.

### ICT audits for small businesses

The effective use of ICT by the entire small business sector will be critical to sustained productivity and growth in the years ahead. The Small Business Forum agrees with the assessment of the Government's eBusiness Strategy that many SMEs need to make better decisions about Information Technology (IT) investment, to manage the IT facilities they already have, and to make more and better use of these facilities.

The Small Business Forum believes that the low uptake and limited use of ICT by small businesses is due to a low level of awareness of the benefits presented by the technology. Addressing this issue will encourage businesses to adopt and exploit the available technologies in an optimum fashion, and thereby increase their productivity. The Forum recommends that €2 million be provided per annum over the next three years to meet this requirement. Clearly, such a scheme will be limited in the number of companies supported, but it should be structured and promoted in a manner which will highlight to a much larger number of small companies the benefits of ICT usage to their businesses.

### The Small Business Forum recommends:

Drive awareness and understanding of the role of ICT in improving business performance, by creating a subsidised scheme costing €2 million a year for three years to help small businesses to avail of an **ICT audit**. This audit will allow businesses to access customised, independent, professional advice on the use of ICT to improve productivity and foster growth.

**Responsibility:** Department of Enterprise, Trade & Employment; Enterprise Ireland; City and County Enterprise Boards.

# Issues that Face all Small Businesses

## Better regulation

The Small Business Forum recognises that regulation is necessary and beneficial to society in general, to consumers, to the environment and to businesses themselves. However, regulation carries compliance costs, and much of these are borne by businesses. In recent years, the Government has taken a number of positive initiatives, including the introduction of Regulatory Impact Analyses for new regulations and the establishment of the Business Regulation Forum. However, small businesses are required to bear compliance costs that are disproportionately high, with a resulting loss of competitiveness.

The Small Business Forum found that the most burdensome regulations for small businesses are those relating to health and safety, employment, and tax and VAT administration.

### The Small Business Forum recommends:

**Existing regulations:** Use the Regulatory Impact Analysis (RIA) mechanism to conduct a systematic review over a seven year period, with annual targets, of existing regulations that have greatest impact on small businesses (Taxation, Health and Safety, and Employment) and amend these regulations to reduce the burden of compliance. The review should complement the work of, and be carried out in consultation with, the Business Regulation Forum.

**New regulations:** During Regulatory Impact Analysis, explicitly consider amendments or exemptions for small businesses. Provide Government departments with specific guidelines on the treatment of small business in that context.

#### Implementation:

- Wherever possible, use a risk-based approach to regulatory implementation and enforcement.
- Allow new regulations to come into effect on only two dates each year to facilitate small businesses to keep track of regulatory change.

**Specific, immediate actions:** The following actions should be taken immediately to benefit small businesses:

- Increase the turnover threshold above which businesses are required to be audited from €1.5 million to the EU limit (currently €7.3 million);
- Increase the turnover thresholds for VAT exemption from €55,000 to €70,000 (on goods) and from €27,500 to €35,000 (on services);
- Allow the preliminary payment of corporation tax to be based on the previous year's assessment where the tax for the previous year is less than €100,000 (currently €50,000); and
- Raise the threshold for using the cash basis of accounting for VAT (for non-retail businesses) to at least €1 million.

**Responsibility:** All Government departments; Business Regulation Forum.

### Balanced Local Authority charges

The rapid growth in the number of households and businesses in recent years has brought about a greatly increased demand for local authority services. Local authority current expenditure increased by 114 per cent between 1996 and 2004, and to fund this increase, commercial rates were increased by 111 per cent and local charging for goods and services (most of which is contributed by the business sector) grew by 112 per cent.

Continually increasing local authority charges are a significant issue for all businesses, but particularly for small businesses. Increased charges – commercial rates, service charges (water and waste), planning and development fees and development charges – are impacting negatively on competitiveness, and stifling growth.

While recognising the Government's reluctance to increase the contribution of households to local authority funding, the Small Business Forum stresses that it is unreasonable – and ultimately economically counter-productive – to expect the business sector to absorb sustained increases in local authority charges.

#### The Small Business Forum recommends:

Collect from the business community only its **fair share** of local authority funding by:

- ▣ Rebalancing the contributions of business, central government and domestic sources by introducing base broadening measures and applying a 'User Pays' principle; and
- ▣ Providing greater transparency and clarity in the preparation of local authority accounts.

**Specific, immediate actions:** The following actions should be taken immediately to benefit small businesses:

- ▣ Base development charges to small businesses on the incremental costs that are directly attributable to the proposed development.
- ▣ Establish a Business Users' Forum in each local authority area to improve consultation with and responsiveness to businesses.

**Responsibility:** Department of the Environment, Heritage & Local Government; Department of Finance; Local Authorities.

### Access to information and advice

Despite having access to a very wide range of information sources, far too many entrepreneurs and small business owner/managers in Ireland are without a readily available single point of contact to answer the questions that inevitably arise at each stage of business development. As a result, they are frequently referred from one organisation or individual to another, and may ultimately get advice that is inappropriate or sub-optimal. At best, this can lead to frustration and wasted time; at worst it can lead to missed opportunities, poor performance and business failure.

A coherent strategy on information provision would mean that entrepreneurs and small business owner/managers would have a single, well-publicised point of contact to deal with all their enquiries at each stage of developing their business.



### The Small Business Forum recommends:

Develop, launch and promote a first-stop '**Knowledge Base**' – a comprehensive central resource of relevant, up-to-date, user-led business information for entrepreneurs, owner/managers and their advisers.

This Knowledge Base will be available to businesses by telephone and over the Internet, and will support a wide range of information channels, including the development agencies and other business advisors.

The Knowledge Base as envisaged will be substantially different from anything currently available from public or private sources, but it will build on the best of those sources.

**Responsibility:** Department of Enterprise, Trade & Employment.

### Infrastructure

The very success of the Irish economy over the past ten years has put a huge strain on our physical and social infrastructure. The National Development Plan (2000-2006) has played a significant role in closing many infrastructure gaps, but despite these investments, deficiencies remain. Infrastructure developments continue to lag behind demand in many parts of the country, particularly in four key areas:

- ❑ **Broadband:** while the Forum recognises that broadband connectivity and penetration are increasing and costs are falling, broadband take-up in Ireland is significantly slower than in many other OECD countries.
- ❑ **Transport:** An efficient transport infrastructure is essential for enterprise development. The Forum welcomes the Government's *Transport 21* plan. However, components contained in the Plan's framework will require prioritisation and must be subject to cost-benefit appraisal to ensure that value for money is achieved.
- ❑ **Energy:** Noting that electricity costs increased by 40 per cent between 2001 and 2004, the Forum is concerned that liberalisation of the energy market is not having the desired effect in reducing prices or improving quality of service. It also notes that very significant investment is needed in order to cater for predicted economic growth.
- ❑ **Waste management:** Waste costs are a major issue for Irish business; the total cost of waste disposal for business in Ireland has risen from €32 million in 1995 to over €800 million in 2004. Lack of access to suitable recovery and disposal outlets has a negative impact on every enterprise in Ireland.

The Forum stresses the critical importance of addressing these issues, noting that their importance is already widely recognised, and that they have been the subject of a number of other reports. Rather than re-analyse these issues in depth and make new recommendations, the Forum emphasises the need for sustained action and accelerated delivery on plans and recommendations already formulated.

## Encouraging More and Better Start-ups

### A National Entrepreneurship Policy

While the State operates many initiatives aimed at inspiring entrepreneurship and supporting start-ups, these supports and initiatives are generally uncoordinated and do not amount to a coherent policy.

As Ireland develops as a knowledge-based society over the coming decade and indigenous businesses assume a more significant role in the overall economy, it is imperative that entrepreneurship be nurtured, so as to maximise the number of new business start-ups and to ensure that they realise their potential for growth and development.

Despite a relatively high rate of new business start-ups generally, levels of entrepreneurship among women are significantly lower in Ireland than in other countries. There are also a number of other sources of entrepreneurship that are relatively untapped.

#### The Small Business Forum recommends:

Government should formally adopt a **National Entrepreneurship Policy** focused on optimising the number of start-up businesses, and in particular on maximising the number of start-ups aspiring to and achieving high growth.

This policy should build upon three specific platforms:

- ▣ Stimulating latent entrepreneurial potential, particularly among women and the immigrant community;
- ▣ Reinforcing entrepreneurship in the education system; and
- ▣ Enhancing the culture for entrepreneurship.

The range of existing initiatives aimed at stimulating entrepreneurship should be incorporated into this policy, to ensure a cohesive, coordinated approach.

**Responsibility:** Department of Enterprise, Trade & Employment; Department of Education & Science.

## Data on the Small Business Sector

Public policy in relation to small business in Ireland is conducted without the benefit of comprehensive, up-to-date statistical information. The statistical information in this report had to be gathered especially for the Small Business Forum, and much of it was extrapolated from a range of sources, which were often inconsistent or incomplete. This situation is unsatisfactory.

#### The Small Business Forum recommends:

Compile and publish an annual **Small Business Release** that presents up-to-date, robust data on a range of indicators relevant to the small business sector. The Release will enable emerging trends to be monitored and key business issues identified.

**Responsibility:** Central Statistics Office.

## Focus of Enterprise Support Agencies

To date, the focus of the enterprise support agencies has been on manufacturing companies and those engaged in internationally traded services. This focus is clearly correct, as these companies are the most significant wealth generators for the Irish economy.

However, as service companies trading on the local market are such a vital part of the overall economy, and as developed economies across the world now typically derive 70 per cent of their wealth from the services sector, it is now essential to ensure that the services sector – including that part of it that trades domestically – performs optimally and that it maximises its contribution to the economy.

In addition, the pace of internationalisation of services needs to be recognised. In recent years, Irish towns and cities have seen the arrival of international chains in retailing (food, clothing, hardware, music, books, stationery, furniture, etc.), in personal and professional services, in restaurants (particularly fast food), in hotels, and in entertainment. These international companies present indigenous companies with intense competition. Such competition is both welcome and necessary, but enterprise policy should now take cognisance of this trend and recognise the potential for Irish services companies to pursue similar strategies and deliver their services locally in foreign markets. The number of Irish companies that are capable of doing this will not be great – at least initially – but with the right support framework, more international players could emerge.

The Small Business Forum proposes that the Government should consider broadening the policy focus of the enterprise support agencies, so that they can meet the needs of locally trading services companies that have the potential to expand to trade locally in foreign markets. The benefits to the economy could include profit repatriation, headquarter operations, sub-supply access and exposure to international trading best practice.

## Implementation

A body should be established to monitor implementation of these recommendations. This body should meet regularly with both the Minister and the Secretary General of the Department of Enterprise, Trade & Employment. Given the experience, interest and involvement of the Forum members, the Small Business Forum is the most appropriate body to serve this implementation role. A member of the Enterprise Advisory Group (established by Government following the report of the Enterprise Strategy Group) should be invited to join this body to help drive implementation of the recommendations regarding the evolution of enterprise policy.

The small business sector is vital to the sustained economic and social development of the country. The recommendations in this report are designed to create a better environment for small businesses, to stimulate their growth aspirations and enhance their capabilities, and to inspire entrepreneurship. Delivery of the recommendations should ensure the continued growth and prosperity of this important sector.

**1** The Economic Impact  
of Small Businesses

page **2**

**2** The Evolving Environment  
for Small Business

page **11**

**3** Create a Better Environment  
for all Small Business

page **15**

**4** Stimulate Growth

page **33**

**5** Inspire Entrepreneurship

page **53**

**6** Implementation: from  
Recommendations to Action

page **58**

# 1

# The Economic Impact of Small Businesses

## 1.1 Small Business in Perspective

In round figures,<sup>1</sup> Ireland has a population of four million people; approximately two million are in the workforce, and of these, 350,000 work for Government departments, State agencies or other public sector bodies (including health and education), and 100,000 work in agriculture. The rest (almost one-and-a-half million people) work in the enterprise sector – manufacturing industry, services, construction, wholesale and retail, hotels and restaurants, transport, self-employed professionals, and so on.

Of this one-and-a-half million, more than half – 777,000 people – work in businesses that employ fewer than 50 people (Table 1.1).

**Table 1.1:** Number of Enterprises by Level of Employment 2005

Business size	50+ employees	20-49 employees	10-19 employees	2-9 employees	1 employee	Total
No. businesses	7,000	4,000	6,000	85,000	131,000	233,000
Per cent	3.0	1.7	2.6	36.5	56.2	100
No. of employees	675,000	138,000	111,000	397,000	131,000	1,452,000
Per cent	46.5	9.5	7.7	27.3	9.0	100

*Source: CSO data. March–May 2005*

These businesses that employ fewer than 50 people are the subject of this report – for our purposes, they are ‘small businesses’.<sup>2</sup> Some 18 per cent of these businesses are limited companies, 12 per cent are partnerships, and the remaining 70 per cent are sole traders.

1 The figures cited in this chapter are drawn from the DKM report commissioned by the Small Business Forum, The Economic Impact of Small Business in Ireland, [www.smallbusinessforum.ie](http://www.smallbusinessforum.ie), January 2006. As the DKM report shows, there is some variation in the estimates of the number of small businesses. For the sake of comparability with employment data, Table 1.1 uses CSO data

2 The EU defines small businesses as enterprises employing fewer than 50 persons with annual turnover and/or annual balance sheet totals not exceed €10 million. Recommendation 2003/361/EC, [http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l\\_124/l\\_12420030520en00360041.pdf](http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_124/l_12420030520en00360041.pdf)

## 1.2 Growth in Small Business Numbers

There are just under a quarter of a million small businesses in Ireland – a number that has grown by more than 50 per cent over the past ten years. Between 1995 and 2000 the number of small businesses grew by an average of 6.6 per cent a year, but in the years since then, growth has slowed to 2.6 per cent. Of all businesses operating in Ireland today, over 97 per cent fall into the ‘small business’ category.

In 2005, Ireland had the highest rate of new business start-ups in the European Union and ranked 5th in entrepreneurial activity across 25 OECD countries, behind New Zealand, the United States, Australia and Iceland.<sup>3</sup>

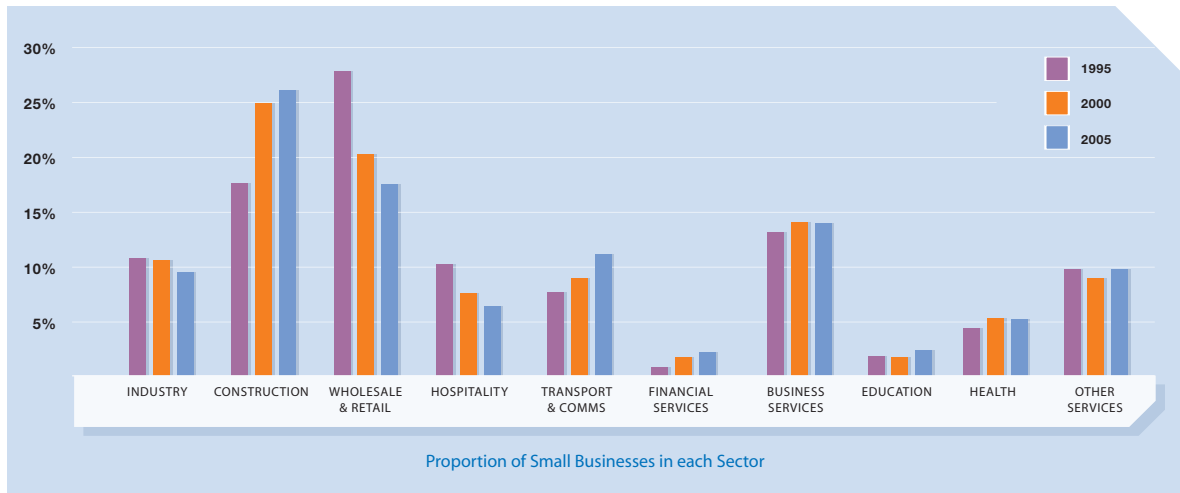
Employment in small businesses has grown by approximately 79 per cent over the ten-year period since 1995, and currently accounts for 54 per cent of private sector, non-agricultural employment.

## 1.3 Business Activities in the Small Business Sector

Small businesses operate across the entire range of business sectors in Ireland. Construction is the single largest sector, accounting for a quarter of all small businesses. The number of small firms in Wholesale & Retail has declined marginally over the past ten years, reflecting some consolidation in this sector. The number of industrial firms grew strongly between 1995 and 2000, but has been static over the past five years.

Figure 1.1 shows the sectoral spread of small businesses and how it has changed over the past ten years. Construction shows the greatest increase in the number of businesses since 1995, while Financial Services shows the largest percentage increase – albeit from a much lower base.

Figure 1.1: Sectoral Distribution of Small Businesses, 1995, 2000 & 2005



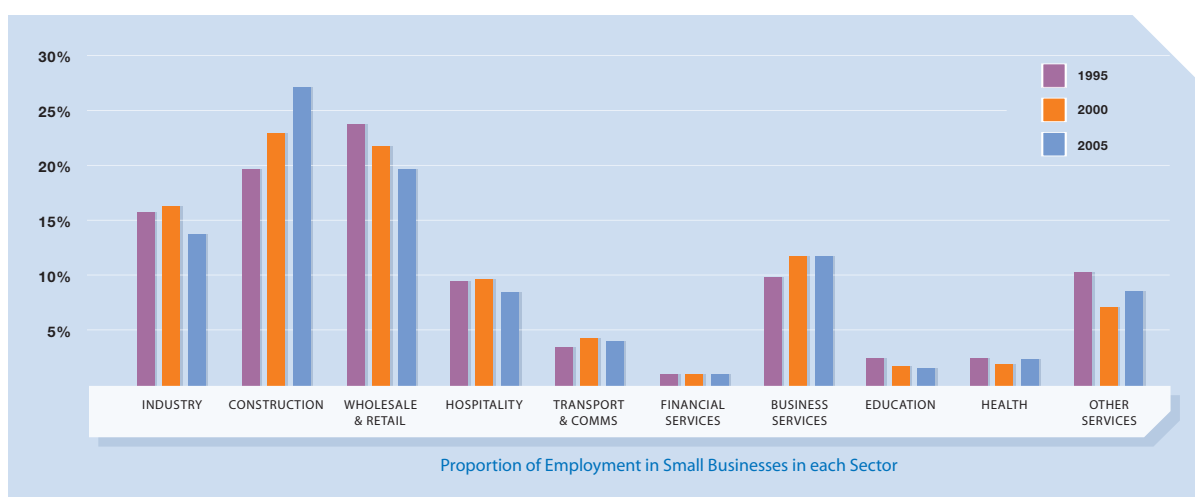
Source: CSO data. March–May 2005

## 1.4 Sectoral Distribution of Employment

Figure 1.2 below illustrates the sectoral distribution of employment among small firms from 1995 to 2005.

The construction sector currently accounts for slightly more than a quarter of all employment in small business. Furthermore, it is worth noting that employment in small industrial enterprises has been contracting since 2000.

**Figure 1.2:** Sectoral Distribution of Employment in Small Businesses by Sector, 1995, 2000 & 2005



Source: CSO, Financial Regulator, IDS MediaGroup, DKM estimates

## 1.5 Sales and Export Performance

The average turnover in small industrial firms in 2003 was €1.9 million, compared with €700,000 in small services firms and €300,000 in small construction firms.

In Industry, in Construction and in Services, the turnover of small businesses declined slightly as a percentage of total sectoral turnover between 2000 and 2005.

Reliable exports figures are available only for industrial firms: average direct exports per small industrial firm were €500,000 in 2003. Larger firms accounted for over 97 per cent of industrial exports. Larger firms also tend to export a much higher proportion of their output (80 per cent) compared to small firms (28 per cent). These figures, however, do not take into account the contribution small firms make to the supply chains of larger exporting companies.

## 1.6 Contribution to the Irish Economy and Society

Small businesses make substantial contributions to the total economy both in terms of contributions to the economic and social infrastructure and in terms of tax and other contributions to the Exchequer.

### *Contributions to Economic Output*

Small businesses make a substantial contribution to gross value added (GVA) in the economy. GVA is defined as the value of output produced minus the cost of intermediate inputs. In the Construction sector, small businesses accounted for over 70 per cent of GVA in 2003 (around €7.2 billion), while in the Services sector (excluding financial services, for which figures are not available), the contribution was over 40 per cent (€15 billion). In indigenous Industry, small businesses contributed approximately one-third (€2.1 billion) of total GVA.

### *Contributions to the Exchequer*

In 2002, small businesses paid 11 per cent of corporation taxes (around €520 million), 37 per cent of income taxes (almost €4 billion), and 50 per cent of VAT in the services sector (over €4 billion)

### *Regional spread*

Small businesses are spread throughout the country and are economically significant in every region, although the balance of large and small businesses varies from region to region.

- Small firms employ almost 70 per cent of those engaged in Services in the Border, Midland and Western (BMW) region, and just over 50 per cent in the Southern and Eastern (S&E) region;
- Industry is comparatively more important as a source of employment in the BMW region than in the S&E region.

The regional significance of small businesses from social, cultural and economic perspectives must be recognised. Goods and services produced and delivered locally are necessary for the creation and maintenance of vibrant communities.

### *Social and economic infrastructure*

The small locally trading services sector forms an essential part of the infrastructure for social life throughout the country, and to a significant extent determines the cost base for both consumers and businesses. For this reason, the health of the sector must be maintained; open competitive markets, efficiencies, quality of product and service, innovation and productivity in the sector are important factors in overall quality of life and standard of living.

### *Supply chains*

Small local suppliers are also an essential part of the supply chain for larger firms. The export figures for the country do not reflect the fact that many of the goods and services produced by small Irish companies are eventually exported, but indirectly, through their client multinational companies.



## 1.7 Trends

It was noted above that growth in the number of small businesses and in the numbers employed in such businesses has been strong over the past ten years. This overall growth, however, masks some trends, not all of which are positive:

- The growth in the numbers of small businesses has slowed appreciably since 2000, and the strongest growth has been in Construction.
- The number of small industrial enterprises has been static since 2000, and employment in them has declined.
- The number of small Wholesale & Retail businesses has declined, as has the number of small hospitality businesses (the latter particularly since 2000).
- GVA per worker in small industrial firms fell between 2000 and 2003, but rose considerably in Services and in Construction.
- Exports from small industrial firms accounted for only 2.6 per cent of total industrial exports in 2003.

## 1.8 International Productivity Comparisons

By looking at GVA per person employed, an overview can be obtained of the average contribution to the economy of each individual employed in each sector, and this can be compared with similar figures from other countries.

### 1.8.1 International comparisons: manufacturing<sup>4</sup> (Table 1.2)

The data for GVA per person in the total manufacturing sector shows that Ireland in 2003 was by some distance the leader among the ten countries examined. This can be explained in part by the effects of large-scale foreign direct investment.

However, this overall positive performance masks the significant difference in productivity performance across different employment-size categories. This shows that out of ten countries, productivity in Irish manufacturing companies ranks:

- 5th in companies with between 1 and 9 employees;
- 8th in companies with between 10 and 19 employees; and
- 4th in companies with between 20 and 49 employees.

**Table 1.2:** Manufacturing per employment size classes  
2003 Gross value added per person employed (apparent labour productivity)

Country	1-9 Employees GVA/€000	Rank	10 – 19 Employees GVA/€000	Rank	20-49 Employees GVA/€000	Rank	50 – 249 Employees GVA/€000	Rank
Bel	32.3	8	71	1	51.6	2	65	2
Den	51.7	1	46.1	3	50	3	54	6
Ger	27.8	9	32.6	10	42.7	8	50.4	9
Fra	35.6	6	39.1	7	41.8	9	45.3	10
Ire	36.6	5	36.7	8	48.8	4	89.7	1
Ita	24.2	10	33.7	9	41.6	10	51.3	7
Neth	33.3	7	51.8	2	53.3	1	63.7	3
Aus	37.1	4	41.7	6	46.4	6	57.7	4
Fin	46	3	45.4	4	46.3	7	55.5	5
UK	50.1	2	45.2	5	47.1	5	51.1	8

Source: Eurostat and UK Office of National Statistics

4 Statistical Classification of Economic Activities in the European Community (NACE), Classification D

## Overall Manufacturing Performance

Manufacturing industry has a key role to play in the creation and expansion of added value in the Irish economy. While large companies have driven recent productivity gains in Ireland's manufacturing sector, there is considerable scope for productivity improvements in the small business manufacturing sector. Such improvements are of central importance to the indigenous economy.

### 1.8.2 International comparisons: selected services

Eurostat data divides services into three main categories (Hotels and Restaurants; Transport, Storage and Communications; and Real Estate, Renting and Business Activities). The productivity performances of small businesses in each of these services sectors in Ireland and in eight other EU countries are examined below.<sup>5</sup>

#### Hotels and Restaurants<sup>6</sup> (Table 1.3)

In terms of productivity, when compared with similar sized businesses in eight other countries, the Irish hotels and restaurants sector ranks:

- 5th for businesses with 1 employee;
- 6th for businesses with between 2 and 9 employees;
- 8th for businesses with between 10 and 19 employees; and
- 7th for businesses with between 20 and 49 employees.

**Table 1.3:** Services – Hotels and Restaurants per employment size classes  
2003 Gross value added per person employed (apparent labour productivity)

Country	1 Employee		2 - 9 Employees		10 - 19 Employees		20 - 49 Employees		50 - 249 Employees	
	GVA/€000	Rank	GVA/€000	Rank	GVA/€000	Rank	GVA/€000	Rank	GVA/€000	Rank
Bel	15.7	7	18	7	17.7	7	22.7	5	43.4	1
Den	32.8	1	23.1	4	18.4	6	17.8	8	19.1	9
Ger	21.3	6	17.5	8	15.8	9	16	9	22.1	6
Fra	30.6	2	26.1	2	30.1	2	30.1	3	31.1	3
Ire	22.8	5	20.5	6	17.5	8	19.2	7	21.6	7
Ita	14.4	8	15.7	9	22.8	5	27.4	4	30.2	5
Neth	2.4	9	23.8	3	29.8	3	21.2	6	19.9	8
Aus	26.1	3	21.5	5	26.5	4	30.5	2	30.8	4
Fin	25.2	4	29.8	1	31.7	1	33.7	1	32.5	2

Source: Eurostat

#### Transport, Storage and Communications<sup>7</sup> (Table 1.4)

In terms of productivity, when compared with similar sized businesses in eight other countries, the Irish transport, storage and communications sector ranks:

- 6th for businesses with 1 employee;
- 6th for businesses with between 2 and 9 employees;
- 2nd for businesses with between 10 and 19 employees; and
- 8th for businesses with between 20 and 49 employees.

<sup>5</sup> UK figures for these services sectors in the same employment size classes were not available

<sup>6</sup> Statistical Classification of Economic Activities in the European Community (NACE), Classification H

<sup>7</sup> Statistical Classification of Economic Activities in the European Community (NACE), Classification I

**Table 1.4:** Services – Transport, storage and communication per employment size classes  
2003 Gross value added per person employed (apparent labour productivity)

Country	1 Employee GVA/€000	Rank	2 - 9 Employees GVA/€000	Rank	10 - 19 Employees GVA/€000	Rank	20 - 49 Employees GVA/€000	Rank	50 - 249 Employees GVA/€000	Rank
Bel	57.9	3	48	3	61.1	3	56.1	2	57.1	4
Den	129.8	1	63.9	1	51	4	54.8	3	55	5
Ger	105.4	2	43.6	5	43.7	6	48.2	6	49.1	7
Fra	41.1	5	35.3	8	37.9	9	38.9	9	38.8	9
Ire	39.8	6	40.1	6	64.1	2	39.9	8	171.7	1
Ita	20.2	8	31.1	9	41.4	7	43.2	7	39.3	8
Neth	14.8	9	60.7	2	64.7	1	51.5	5	53.8	6
Aus	39	7	35.6	7	40.6	8	51.7	4	62.2	2
Fin	47.3	4	48	3	48.2	5	57.3	1	62.2	2

Source: Eurostat

*Real Estate, Renting and Business Activities<sup>8</sup> (Table 1.5)*

In terms of productivity, when compared with similar sized businesses in eight other countries, the Irish real estate, renting and business activities sector ranks:

- 6th for businesses with 1 employee;
- 2nd for businesses with between 2 and 9 employees;
- 6th for businesses with between 10 and 19 employees; and
- 2nd for businesses with between 20 and 49 employees.

**Table 1.5:** Services – Real Estate, Renting and Business Activities per employment size classes  
2003 Gross value added per person employed (apparent labour productivity)

Country	1 Employee GVA/€000	Rank	2 - 9 Employees GVA/€000	Rank	10 - 19 Employees GVA/€000	Rank	20 - 49 Employees GVA/€000	Rank	50 - 249 Employees GVA/€000	Rank
Bel	48.4	5	59.6	4	72.5	2	73	3	82.8	1
Den	101.7	3	84.4	1	77.2	1	77.5	1	82.4	2
Ger	148.7	1	50.4	8	57.6	4	57.7	7	49.3	8
Fra	132.2	2	50.6	7	52.5	7	54.8	8	55.6	7
Ire	46.4	6	70	2	55.3	6	76.4	2	65.7	4
Ita	29.5	8	33.6	9	39.3	9	40.5	9	41.8	9
Neth	25.4	9	51.7	6	57.3	5	59.3	6	59.6	6
Aus	45.6	7	67	3	59.5	3	65.2	4	72.5	3
Fin	64.4	4	55.3	5	51.2	8	62.5	5	61.8	5

Source: Eurostat

### Overall Performance in the Services sector

Overall, the productivity of Irish firms with fewer than 50 employees in these three services sectors has generally been low compared with the other countries. Given the importance of the services sector to today's economy, the Small Business Forum is particularly concerned that the issue of productivity in services be addressed.

## 1.9 Levels of Entrepreneurial Activity

Ireland continues to perform well on international scales of entrepreneurial activity. The Global Entrepreneurship Monitor (GEM) Irish report 2005 estimates that one in ten of the adult population is either actively planning to set up a new business or has recently done so. This level of entrepreneurial activity ranks Ireland fifth of the twenty-five OECD countries that participated in the GEM project in 2005. These estimates, however, also show a relative decline in levels of entrepreneurial activity between 2001 and 2004.

GEM estimates that at present, one in every seven men and one in every 20 women in Ireland are actively planning or have recently established a new business venture.

## 1.10 Shortage of Comprehensive Data for Policy-making

In an attempt to arrive at a definitive statistical framework for its work it was necessary for the Small Business Forum to commission a profiling study of the economic impact of the small business sector in Ireland. The purpose of this work (undertaken by DKM Consultants) was to establish the size of the small business cohort, its sectoral and regional distribution, the levels of employment in it, its contribution to value added, and other related facts.

The statistical information relating to small businesses that is included in the DKM report is based on a range of sources, including the Central Statistics Office, the Revenue Commissioners, and DKM's own estimates. In some cases, the figures arrived at have been extrapolated from a number of sources, which are often inconsistent or incomplete. The simple truth, however, is that we don't know the exact figures in every case, and this is in itself an obstacle to the development of clear policies. We lack, for example, comprehensive data on family businesses and economic contribution by region.

The lack of comprehensive statistical information must now be addressed. The Central Statistics Office (CSO) is currently engaged in an extensive profiling survey as part of the process of resolving a number of data quality issues in relation to its business register. Once this process is complete, it is expected that a fully developed business register containing a range of information on enterprises across the majority of economic sectors will be in place. This information should be leveraged to assist policymakers and other interested parties in better understanding the role and evolution of the small business sector.

### 1.10.1 Recommendation: Improve data for policy-making for the small business sector

#### The Small Business Forum recommends:

Compile and publish an annual *Small Business Release* that presents up-to-date, robust data on a range of indicators relevant to the small business sector. The Release will enable emerging trends to be monitored and key business issues identified.

**Responsibility:** Central Statistics Office

Appendix D illustrates the type of information that such a release should include.

## 1.11 Increasing Importance of Indigenous Sector

It has been stressed elsewhere that indigenous industry will assume increasing importance in the Irish economy over the coming years, for a number of reasons:<sup>9</sup>

- To create new employment opportunities as low-value-added activities migrate to lower cost economies;
- To exploit the State's substantial investment in R&D and assert Ireland's position as a knowledge creator and innovator, and by doing so to add significant economic value; and
- To continue to facilitate the attraction of higher value-added inward investment.

In this light, we must recognise that one of the future economic engines of the country will be indigenous companies that have grown – and in some cases grown rapidly – to win market share. The small business sector is the incubating ground for these companies. Not all companies have the desire and the ability to grow into large companies – indeed the proportion of such companies is probably quite small – but they will form an important segment of the economy in the years ahead, and we should provide both the environment and the supportive interventions that will enable all businesses to reach their potential.

## 1.12 Conclusions

Small businesses form a very significant component of the Irish economy, in terms of employment, regional spread, contribution to the Exchequer, and the role they play in the social and enterprise infrastructure.

In the years ahead, as Ireland moves towards a knowledge-based economy, the importance of the small business sector will increase, and the vitality and dynamism of the sector must be supported, in order to ensure continued economic growth and high living standards throughout the country.

# The Evolving Environment for Small Business

## 2

Twelve years ago, the Task Force on Small Business was set up to examine the needs of the small business sector and to make recommendations to ensure its survival and growth. The Task Force issued its report in March 1994.

At that time, the business environment was characterised by low disposable incomes, high taxation and high interest rates. In the intervening years, the business environment has been transformed. The economy is now vibrant and dynamic. It offers greater market opportunities for businesses, and provides one of the most strongly supportive cultural contexts for entrepreneurial activity in the world. The fact that the number of small businesses in Ireland has grown to almost a quarter of a million is ample evidence of this.

However, this economic transformation has brought with it new challenges and changes at both global and local levels that will have increasing influence on the development of Irish businesses in the years ahead.

## 2.1 Global Challenges

### 2.1.1 Global Competition

While globalisation and international market liberalisation have opened up many foreign markets to Irish business, they have also resulted in a greater international presence in the Irish locally traded market, where the great majority of Irish small businesses trade. Local businesses in Ireland now have to compete with some of the world's biggest international chains in every sector, from retail and entertainment, to tourism and the professions, attracted by the increased local demand from Ireland's growing population and wealth.

Those Irish businesses trading internationally are competing against companies that can produce products and deliver services at a much lower cost, have globally-focused business models and operate with economies of scale unavailable to smaller players. To compete in this global market, Irish businesses need to stay up to date across a range of developments and innovations – standards, regulations, management practices, technologies and markets. In addition, they need to offer superior levels of innovation, service and quality.

Competition in mass-market globally traded goods and services is especially strong from the newer member states of the European Union and from other rapidly developing countries, such as China and India, where wage rates and other costs are considerably lower.

### 2.1.2 The Growth of eBusiness

The Internet has changed business models and consumer behaviour in a variety of ways. Some of these changes work to the advantage of small businesses, that can use the technology to address much wider geographical markets for specialised products and services, and can source supplies from around the world. However, large companies with global distribution capabilities are increasingly using the technology to dominate world markets, to the detriment of those small businesses that traditionally depend on local custom.

Consumers are also using the Internet, not only for purchasing from suppliers around the world, but also for comparing prices and sharing information on product quality and back-up service. These better-informed consumers are less likely to buy from the local supplier, unless that supplier is competitive in all respects with the best in the world.

## 2.2 Local Factors

At local level, there have been enormous changes in the Irish business environment. The potential rewards for risk-taking have increased and policies and attitudes are generally pro-enterprise.

- The investment environment has been greatly improved due to high levels of asset appreciation and the halving of the capital gains tax rate, from 40 per cent to 20 per cent.
- The barriers to accessing funding for small business have lowered considerably as the investment environment has improved and short term interest rates have fallen.<sup>10</sup>
- For the vast majority of small companies, the corporation tax rate has decreased<sup>11</sup> and personal tax rates have been significantly reduced since 1994 – all companies now qualify for a 12.5 per cent rate of corporation tax on trading income, and the higher rate of personal income tax has dropped to 42 per cent.

Despite these positive developments, Ireland's competitiveness is now under threat from rising input costs and a tighter labour supply.

### 2.2.1 Input Costs

High inflation over the past few years has contributed to a sharp rise in business costs. For example:

- Electricity costs increased by 40 per cent between 2001 and 2004.<sup>12</sup> In September 2005, the Commission for Energy Regulation approved a further rise of 5.2 per cent on tariffs for SMEs during 2006.<sup>13</sup>
- Waste disposal costs have risen rapidly. Forfás research shows that in 1999, the average landfill gate fee was €30; by 2005, it had risen to €135. This is one of the highest costs in the EU; for example, average landfill gate fees in Denmark are €101 and in Scotland are €53.

10 As a member of the European Monetary Union, Ireland enjoys relatively low interest rates which (with small fluctuations) have been below 4% since 2002. This contrasts with the situation in the early to mid 1990s, when interest rates of 6–7% were common

11 The corporation tax rate for trading income in the broader services sector has been reduced. However for those small companies engaged in manufacturing or certain internationally traded services, the rate has increased from 10% to 12.5%. This has been accompanied by a number of measures to broaden the tax base

12 Statement on Prices and Costs, National Competitiveness Council, September 2004

13 [www.cer.ie/CERDocs/press090905.pdf](http://www.cer.ie/CERDocs/press090905.pdf)

## 2.2.2 Employment and Labour Supply

The success of the Irish economy over the past ten years has seen a considerable rise in levels of employment and opportunity. Levels of unemployment have fallen from over 12 per cent in 1995 to around 4.2 per cent in 2005 – one of the lowest in the EU.<sup>14</sup> One of the consequences of this is that the labour market is now much tighter, and many businesses have difficulty finding and retaining suitable staff. As a result, wage rates in general are increasing and wage demands are further fuelled by rising consumer prices and in particular by the high cost of housing.

## 2.3 Challenges Facing Small Businesses in Ireland

In this changed business environment, the research carried out and submissions received by the Small Business Forum are in broad agreement on the challenges facing small businesses today. In summary, the main issues identified are:

- **Access to finance:** Small businesses continue to report difficulties in gaining access to appropriate levels of finance for start-up and growth. This difficulty appears to be more pronounced for businesses in the services sectors, with limited capital assets, and for businesses that are ineligible for support from the enterprise development agencies.
- **Regulatory burden:** Businesses are regulated by law in a variety of ways to ensure an orderly market that protects both themselves and other businesses, consumers and employees, and to ensure compliance with environmental, social and fiscal responsibilities. The cost of compliance, however, is significant, and is proportionately higher for small businesses than larger enterprises.
- **Infrastructure:** The growth of the economy over the past ten years has placed huge strains on the communications, energy, transport and social infrastructure, which have a negative impact on the performance and growth of businesses.
- **Management capability:** Entrepreneurs and small business owner/managers do not place enough emphasis on developing management capability – usually because of time or cost constraints, or because the available training programmes are not perceived to be relevant.
- **Innovation, both technological and non-technological:** Small businesses have particular difficulty in accessing, absorbing and exploiting new knowledge to create innovative products and services.
- **Entrepreneurship:** There is currently no coordinated national approach to encourage or support entrepreneurship, and there is no systematic programme of entrepreneurship education at primary, secondary and third-levels.
- **Local authority charges:** Local authority charges, and particularly development charges, can act as a disincentive to growth.
- **Access to information:** There is no single comprehensive information resource from which entrepreneurs and small business owner/managers can access information relating to starting up, developing and growing a business.



## 2.4 The Need for Action

As indigenous businesses will play an increasingly important role in ensuring Ireland's continuing prosperity in the years ahead, it is critical to create conditions now that will enable the small business sector to thrive and grow. Given the current strength of the economy following the past decade of growth, the Small Business Forum emphasises that it is now both opportune and appropriate to address the issues identified in this report, and respond to them promptly, comprehensively and convincingly.

The issues are dealt with in the next three chapters:

- Chapter 3 sets out the Forum's analysis and recommendations for improvements to the operating environment for all small businesses. It deals with the regulatory environment, local authority charges, access to information and advice, and infrastructure.
- Chapter 4 sets out the Forum's strategy for assisting those small businesses that are trying to grow. It deals with the key issues facing such businesses – finance, management capability, innovation, and the adoption of information and communications technology.
- Chapter 5 deals with the issue of entrepreneurship and business start-up.

The final chapter deals with the roles of the small business development agencies, and the implementation of the Forum's recommendations.

# Create a Better Environment for all Small Businesses

## 3

Certain issues are faced by all small businesses, irrespective of their sector, size, stage of development, or rate of growth. These issues – which are vital to the health of the whole small business sector – are dealt with in this chapter. These include the regulatory environment, the burden of local authority charging, the ease of access to information and advice, and quality infrastructure.

### 3.1 Better Regulation

In principle, regulations are designed to protect businesses, consumers and employees, and legislation and subsidiary regulations have a critical role to play in key areas of economic and social life, including

- To protect and enhance the rights and liberty of citizens;
- To promote an equitable, safe and peaceful society;
- To safeguard health and safety and to protect citizens from hazards;
- To protect consumers, employees and vulnerable groups;
- To promote the efficient and orderly working of markets;
- To protect the environment and promote sustainable development; and
- To collect revenue and ensure it is spent in accordance with policy objectives.

Good regulation is effective and efficient – it protects without being unduly restrictive or burdensome, and it encompasses the principles of transparency and proportionality. Such regulation is essential in creating a positive environment within which small business can flourish.

### 3.1.1 The regulatory environment in Ireland

The Small Business Forum commissioned original research from Indecon to examine Ireland's regulatory environment as it affects the small business sector.<sup>15</sup> In Ireland, the current regulatory framework includes a wide range of requirements with which businesses must comply. These include:

- Tax compliance
  - Income tax and PRSI
  - Corporation tax
  - VAT
  - Excise
  - Local taxes (e.g. rates, waste disposal)
- Annual accounts and auditing
- Annual returns to the Companies Registration Office
- Environmental legislation
- Operating licences
- Statistical returns
- Trade-related compliance (e.g. tariff collection)
- Intellectual property legislation
- Legislation dealing with quality of goods and services
- Working conditions, including health and safety
- Employment contracts, employee participation, dismissal regulations
- Equality legislation

Ireland has evolved a regulatory structure that is for the most part transparent and efficient. Compared with other countries, regulatory requirements in Ireland are relatively light. For example, in 2006, the World Bank benchmarked business regulation in 155 countries and ranked Ireland 11th in terms of ease of doing business.<sup>16</sup> In particular, Ireland ranked well on the ease of starting a business and on taxation. In the area of employment regulation, however, Ireland's performance was poorer. This issue was also identified by small businesses in consultation with the Small Business Forum.

The Irish government is committed to continually improving the regulatory environment. The Government's White Paper *Regulating Better* (2004) set out the principles of good regulation (necessity, effectiveness, proportionality, transparency, accountability and consistency) and a programme of actions across a wide range of areas including the introduction of Regulatory Impact Analyses (RIAs) for new regulations. A Better Regulation Group, chaired by the Department of the Taoiseach and with representatives of key Government Departments, sectoral regulators, the Director of Consumer Affairs and the Competition Authority, is overseeing the implementation of the action programme set out in the White Paper.

The establishment of the Business Regulation Forum in November 2005 is also a very positive development. The Forum is mandated to advise the Minister for Enterprise, Trade & Employment on outdated, inefficient or disproportionate regulation, and expert representation is drawn from business, Government Departments and Agencies.

15 Regulating the Small Business Sector: Report for the Small Business Forum, Indecon International Consultants, April 2006, [www.smallbusinessforum.ie](http://www.smallbusinessforum.ie)

16 Doing Business in 2006: Removing Obstacles to Growth, World Bank, September 2005

The regulatory burdens on small businesses are also explicitly recognised as an issue at broader EU level. The objectives of the Lisbon Strategy are to drive growth and competitiveness in the EU over the next four years. A key objective is to improve and simplify the regulatory framework within which business operates in EU member states. In this context, the European Council recently stated that a simple, transparent and easy-to-apply regulatory environment is required throughout Europe.<sup>17</sup> This environment should be one in which the principle of ‘Think Small First’ is systematically applied, and this principle should be a guide for all relevant legislation at Community and national levels.

### 3.1.2 Costs of compliance

The costs to business of complying with regulations can be in the form of:

- **Substantive compliance costs** (costs that businesses incur in order to comply with their obligations – for example the cost of installing physical facilities to comply with working conditions regulations), and
- **Administrative compliance costs** (costs that businesses incur in complying with the information obligations in a regulation).

Despite the positive efforts of Government, both survey research<sup>18</sup> commissioned by the Small Business Forum and submissions received by the Forum indicate that compliance costs are increasing for small business.

Seventy-one per cent of respondents to the survey of small business believe administrative burdens have increased and 23 per cent believe that the increase has been significant. A number of regulations are considered to be either a ‘significant burden’ or a ‘very significant burden’ by a large percentage of respondents. These include health and safety regulations, employment regulations, and tax and VAT administration.

While the precise cost of regulatory administrative compliance in Ireland is not known, an indication may be gleaned from experience elsewhere. In the Netherlands, for example, studies have shown that the cost of administrative compliance is approximately 3.6 per cent of GDP<sup>19</sup> (around €16 billion), while the UK’s Better Regulation Commission reports similar percentage costs for the United Kingdom.

### 3.1.3 Disproportionate burden on small business

The burden of regulatory compliance is not spread proportionately across companies of different sizes. Several UK studies have demonstrated that average compliance costs fall as business size increases,<sup>20</sup> and that the disproportionate cost of compliance is the primary issue affecting small business.<sup>21</sup> It is estimated that small businesses in the UK with two employees spend over six hours per month per employee on Government regulation and paperwork, while those with over 50 employees spend less than two hours per employee.<sup>22</sup>

17 Brussels European Council 23/24 March 2006 Presidency Conclusions

18 Survey undertaken on behalf of the Small Business Forum by Lansdowne Market Research and Indecon International Consultants, 2005

19 Dutch Bureau of Economic Policy Analysis, April 2004

20 The Impact of the Budget on the Small Business Economy, Chittenden, F., Poutziouris, P., and Michaelas, N., Manchester Business School, 2000

21 Estimating and Alleviating the Goods and Services Tax Compliance Cost Burden upon Small Business, Pope, J., Department of Economics, Curtin University, 2002

22 Survey of Small Business, SBRC/NatWest, 2003

**Table 3.1:** : Time spent per month on Government regulation in UK, by size of business

Number of Employees	Total Hours	Average Hours per Person
1 – 2	12.8	6.4
3 – 4	16.4	4.1
5 – 9	23.8	3.4
10 – 19	31.8	2.4
20 – 49	41.1	1.4
50 +	76.7	1.3
All Companies	22.6	3.9

Source: *Quarterly Survey of Small Businesses in Britain, Vol. 16, No.3. Small Business Research Trust, NatWest. 2000*

In the United States, it is estimated that firms with fewer than 20 employees face an annual regulatory cost of \$6,975 per employee – nearly 60 percent above that facing a firm with more than 500 employees.<sup>23</sup>

Separately, the OECD has estimated that the regulatory burden on businesses with fewer than 20 staff is five times greater than that on businesses with more than 50 staff.<sup>24</sup>

### 3.1.4 The small business sector and regulation

Government policy needs to recognise that compliance costs are significant for small business and not add to that burden unless the benefits clearly outweigh the costs. Steps must be taken to address the effect of increasing regulation on business in general, but in particular on small businesses, where it has a disproportionate and negative effect.

While the Forum welcomes the introduction of the requirement to conduct Regulatory Impact Analyses (RIA) for all significant new regulations, it notes that the regulations already in force have not been subjected to this process.

Areas of regulation that small businesses consider a significant burden include:

- Tax and VAT administration;
- Health and safety regulations; and
- Employment regulations.

Appropriate RIA methodologies should be applied to existing regulations in these areas and these regulations should subsequently be amended to reduce unnecessary regulatory burdens on small businesses.

Impact analyses on existing regulations can be very demanding on time and resources, however, and for that reason, they should be undertaken only for those regulations identified as most directly impacting upon small businesses. To identify such regulations, Government departments should be required to plan for a systematic review of the existing stock of regulations and then undertake a detailed analysis of the most burdensome in the regulatory areas highlighted above. Such a process could be expected to take seven years to complete, and should be subject to annual targets. The review should complement the work of, and be carried out in consultation with the Business Regulation Forum.

23 The Impact of Regulatory Costs on Small Firms, Small Business Administration, September 2005

24 From Red Tape to Smart Tape, OECD, 2003

### 3.1.5 New regulations

The Government's 2004 White Paper *Regulating Better* recognised that the planned Regulatory Impact Analysis (RIA) procedures should take specific account of the effects of regulation on small businesses.

This should be made more explicit. Government departments should formally assess the merits of exempting small businesses from new regulations or of modifying such regulations to make allowance for the special needs of small business. Officials preparing RIAs should be made aware of the problems and costs that compliance can pose for small firms, and given additional guidance on how to assess regulatory impact on small businesses. In particular, they should identify new regulations that bear disproportionately on small firms, and consider options such as thresholds and exemptions for small business that could be introduced in that context.

### 3.1.6 Risk-based approach to regulation

When implementing regulations, Government departments and their agencies should ensure that the requirements imposed on small businesses are proportionate to the risks arising from non-compliance. The objective of such a 'risk-based approach' is to place the most significant burden on those businesses that operate in the areas that pose greatest risk to the objective of the regulation. As the burden is relative to the risk, it minimises the cost of compliance on those businesses whose activities do not pose significant risk.

A similar attitude should be adopted to the on-going enforcement of regulations. Applying a risk-based approach to enforcement while maintaining appropriate regulatory standards will result in greater efficiencies. For example, low-risk businesses would no longer need to over-invest simply to comply with regulations that may not be directly relevant to their activities. A risk-based approach could also allow regulatory bodies to direct their resources more effectively and efficiently towards areas of greater need.

For example, in the area of Health and Safety legislation, while the overall benefits cannot be strictly measured against costs, small businesses do incur substantial compliance costs. As some activities are clearly more dangerous than others, it is reasonable that enforcement efforts should focus on these areas. The Health and Safety Authority already applies this principle in some areas, and further moves are desirable, especially in the context of the Safety, Health and Welfare at Work Act 2005.

Other countries are increasingly focused on risk-based enforcement as a means of reducing the administrative burden on business. The Hampton Review in the UK<sup>25</sup> argued that 'scarce resources should not be used to inspect or require data from businesses that are low-risk, either because the work they do is inherently safe, or because their systems for managing the regulatory risk are good'. Similarly, in its Workplace Health and Safety Strategy to 2015, the New Zealand Government clearly set out the requirements of its health and safety regulatory regime in which regulatory enforcement 'is targeted at the worst offenders, including those responsible for the greatest number and severity of work-related illnesses and injuries'.

All regulatory implementation and enforcement bodies in Ireland should apply these principles, and those that are already doing so should ensure that they are applied as extensively and consistently as possible.

### 3.1.7 Timing of new regulations

Small businesses are required to know the regulations that apply to them, but they generally lack the resources to keep up to date with new regulations and with amendments to existing regulations. The Small Business Forum believes that, as far as possible, new or amended regulations should be introduced on a maximum of two days in any year, and that they should be supported by a targeted publicity campaign co-ordinated across Government departments. This would enable small businesses to track and plan for new regulations and any additional costs that might arise.

In the UK, two common commencement dates (April 6th and October 1st) have been set for the introduction of new and changed regulations in all domestic policy areas.

The Small Business Forum recognises that it may not be possible to deal with changes to social welfare or taxation regulations in this way, nor with the transposition of some EU legislation.

### **3.1.8 Immediate actions proposed**

The Small Business Forum proposes immediate actions on the following regulations.

#### *Audit requirement*

There are clearly advantages to obliging companies to undertake statutory audits, given their limited liability status. However, these advantages can be outweighed by the costs of compliance for companies with relatively low turnover. This is particularly the case where the shareholders are the directors of the company, where the risk to them as shareholders is negligible.

At present, the turnover threshold above which an Irish company is obliged to be audited is €1.5 million, whereas in the UK (including Northern Ireland) the threshold is set at the EU maximum, currently €7.3 million.

Increasing the audit threshold to €7.3 million will bring Ireland into line with its nearest competitor and a number of other EU member states. The requirement that all companies maintain accounts in which their finances are accurately recorded will remain, whether or not they are exempt from the audit requirement.

Many small companies whose turnover falls below the threshold undertake an annual audit for their own reasons – for example, to satisfy their own requirements or those of investors, customers or bankers. Increasing the threshold to the EU limit will, however, give approximately 5,000 additional small companies a choice that they currently do not have, with a consequent opportunity to reduce their costs.

#### *VAT turnover thresholds*

The operation of VAT is an administrative burden on all businesses, but especially on start-ups. The Small Business Forum recognises that Ireland, together with the United Kingdom, already has the highest VAT registration thresholds in the EU. (Several EU members have no threshold at all.) The fact that Ireland has a threshold for VAT registration is of benefit to many small companies with low turnovers, as it saves them the related bureaucracy.

The turnover thresholds for VAT registration remained unchanged from 1994 until they were increased in the 2006 Finance Act from €25,500 to €27,500 for services and from €51,000 to €55,000 for goods. Businesses with turnovers below these levels are exempt from VAT and while the increased thresholds are welcome, they are relatively modest and will affect only a limited number of companies. Many small companies remain above the thresholds.

If the VAT registration thresholds had been simply increased in line with inflation over the past ten years, the current thresholds would stand at around €35,000 for services and around €70,000 for goods. Increasing the VAT thresholds to these levels would cost around €55 million, and would benefit approximately 8,000 small businesses.

#### *Preliminary payment of corporation tax*

At present, most companies must pay preliminary tax based on their projected liability for the current year. However, there is a concession for companies whose Corporation Tax liability for the previous year was below €50,000. These companies have the option of basing their preliminary tax payment on their liability for the preceding year. As well as being a potential lower liability, which would aid cash-flow, this option eliminates the risk of underpayment, which can give rise to a significant liability for penalty interest.

This is an important concession for those small companies that qualify. The Forum believes that the threshold should be increased to €100,000, and that this will benefit approximately 2,000 small firms.

### *Cash basis of accounting for VAT*

At present, once turnover in a business exceeds €635,000, the business is required to remit VAT on invoices raised in the current period, irrespective of whether or not payment has been received.

This can result in serious cash-flow difficulties for relatively small enterprises, often at a critical time in their development, and it can act as a disincentive to growth.

Raising the threshold for using the cash basis of accounting for VAT (for non-retail businesses) to at least €1 million will help alleviate this problem for many small businesses.

### *Employee financial participation*

Employee Financial Participation enables companies to share the benefits of success with their employees, whether through share ownership, profit-sharing or gain-sharing. Having a financial interest in the company's success can stimulate employee commitment to the achievement of corporate goals, and thereby help firms to perform better. Both the National Competitiveness Council and the Enterprise Strategy Group have recommended employee financial participation as a way of enhancing performance and productivity.

To encourage small businesses to practise employee financial participation, a number of barriers in the current tax-incentive schemes need to be removed in consultation with the small business representative bodies. The Small Business Forum considers that the following measures would be beneficial:

- Increase the maximum value of shares that can be purchased out of an employee's own resources from 7.5 per cent of basic salary to an option of an aggregate amount of €100,000 over 5 years.
- Remove the requirement that each participant must receive at least one free share for each share purchased. Unless this is done, the number of small businesses who will be interested in participating is likely to be extremely low.
- Replace the requirement that participation in schemes must be open to all employees with the requirement that a minimum of 50 per cent of employees should be eligible.
- Waive the Revenue requirement that approved profit-sharing schemes must use a trust, and simplify the conditions for Revenue approval.

### *Online tax returns*

At present, individual taxpayers who file their returns online receive a three-week extension. This provides an incentive for taxpayers to file online, with benefits for both taxpayer and the Revenue Commissioners. A similar incentive should be considered for small businesses – this would incentivise additional online filing (consistent with the Government's policy of encouraging eCommerce) and help to reduce the administrative cost of filing tax returns.

### *Employment law*

Issues relating to employment legislation and the role of the various employment rights bodies in that context are of particular concern to small businesses. The Employment Rights Bodies Review Group was established to review the role and relationships of the employment rights bodies and to recommend options that would enhance the coherence and user-friendliness of the employment rights adjudication and enforcement systems.



A number of submissions to the Review Group, which are included in the final report,<sup>26</sup> pointed out overlap and duplication of activities and procedures between the employment rights bodies. Others pointed to an increasing trend in legal representation, which is eroding small employers' ability to represent themselves and adding significantly to costs.

For all businesses, and especially small businesses, the current system is time-consuming, extremely complex and expensive. The experience for small businesses of claims brought before the Employment Appeals Tribunal is that, in many cases, the employer is presumed liable, and proving otherwise can be a difficult and costly exercise.

In the light of these serious issues, the establishment of the Employment Rights Group (ERG) in 2005 was a welcome initiative. The ERG draws its membership from the Department of Enterprise, Trade & Employment, the employment rights bodies and the social partners. It is mandated to address the issues raised and recommendations made by the Review Group to improve the services provided by the individual employment rights bodies. The ERG is also to consider how best to simplify and streamline the complaint, appeal and enforcement procedures and documentation across all the various employment rights bodies.

The Small Business Forum sees the various employment rights bodies as crucial to maintaining and developing an agreeable labour environment in Ireland. The full implementation of the Employment Rights Bodies Review Group recommendations and the work of the Employment Rights Group will be important in delivering an employment rights system that is balanced, effective and efficient.

#### *Removing restrictions to entry in the legal profession*

Regulations that inhibit competition in professional services can unnecessarily add to the costs incurred by businesses. Restrictions in Ireland's professional sector and in particular the legal sector are of interest to small businesses, given that they are major consumers of such services.

Proposals to improve and reform the functioning of the market have been made in recent years, including in a Competition Authority report.<sup>27</sup> The Small Business Forum believes that the proposals made by the Competition Authority should be implemented as a priority. Over time, their implementation would have the effect of improving service, lowering legal costs and increasing value for money for service users.

A specific example is conveyancing services. The Competition Authority has shown that reforms in the UK led to a fall in prices for consumers, and recommended opening this aspect of the market to licensed conveyancers.

26 Report of Review Group on the Functions of the Employment Rights Bodies, Department of Enterprise, Trade & Employment, April 2004

27 Assessment of Restrictions in the Supply of Professional Services, Indecon for the Competition Authority, March 2003

### 3.1.9 Recommendation: Better regulation

#### The Small Business Forum recommends:

**Existing regulations:** Use the Regulatory Impact Analysis (RIA) mechanism to conduct a systematic review over a seven-year period, with annual targets, of regulations that have greatest impact on small businesses (Taxation, Health and Safety, and Employment) and amend these regulations to reduce the burden of compliance. The review should complement the work of, and be carried out in consultation with the Business Regulation Forum.

**New regulations:** During Regulatory Impact Analysis, explicitly consider amendments or exemptions for small businesses. Provide Government Departments with specific guidelines on the treatment of small business in that context.

#### Implementation:

- Wherever possible, use a risk-based approach to regulatory implementation and enforcement.
- Allow new regulations to come into effect on only two dates each year to facilitate small businesses keeping track of regulatory change.

**Specific, immediate actions:** The following actions should be taken immediately to benefit small businesses:

- Increase the turnover threshold above which businesses are required to be audited from €1.5 million to the EU limit (currently €7.3 million).
- Increase the turnover thresholds for VAT exemption from €55,000 to €70,000 (on goods) and from €27,500 to €35,000 (on services);
- Allow the preliminary payment of corporation tax to be based on the previous year's assessment where the tax for the previous year is less than €100,000 (currently €50,000).
- Raise the threshold for using the cash basis of accounting for VAT (for non-retail businesses) to at least €1 million.

**Responsibility:** All Government departments; Business Regulation Forum.

## 3.2 Balanced Local Authority Charges

### 3.2.1 The contribution of local authorities

Local authorities contribute significantly to quality of life, providing a wide range of services that make communities throughout Ireland attractive places in which to live, work and do business. Individuals and enterprises, small and large, benefit. An efficient, well-administered and properly funded local authority structure is an absolute necessity if the objectives of national economic growth and shared prosperity are to be achieved.

### 3.2.2 Challenges facing local authorities

The rapid growth in the number of households and businesses in recent years has brought about a greatly increased demand for local authority services. Local authorities have generally risen to such challenges by providing more and better quality services. EU Directives, many with environmental objectives (for example in the areas of waste and water quality), are also placing long-term demands on the nature, cost and scale of services provided by local authorities.

### 3.2.3 Local Authority Expenditure

The increased levels of service in recent years have resulted in very significant increases in local authority current expenditure – total expenditure on services increased by 114 per cent between 1996 and 2004. Specifically:

- Expenditure on environmental protection increased by 177.7 per cent;
- Expenditure on road transportation and safety increased by 118.9 per cent; and
- Expenditure on water supply and sewerage increased by 120.3 per cent.

Other key areas of increase have been in local authority staffing levels and in pay rates. For example, local authority employment increased by 23.2 per cent over the period 1996–2002 while pay rates increased by 45 per cent.<sup>28</sup>

#### *Funding local authorities*

Funding of local authorities comes from three sources:

- Central Government;
- Households; and
- The business sector.

In 2004, Government grants and subsidies accounted for 23 per cent of funding, while the general purpose grant provided 21 per cent (this is funded by both motor taxation receipts and the Exchequer).

There are essentially five types of local authority charge: commercial rates, water charges, waste charges, planning and development fees, and development charges.

Charges for goods and services increased by 112 per cent between 1996 and 2004, and accounted for 31 per cent of funding in 2004. While it is not possible to get an exact breakdown, the business sector pays a very substantial proportion of these charges.<sup>29</sup>

Commercial rates increased by 111 per cent between 1996 and 2004, and accounted for 25 per cent of funding in 2004.

Such increases in local authority charges are a significant issue for all businesses, but particularly for small ones. Increased charges are impacting negatively on competitiveness, and will stifle growth. These concerns were clearly expressed in the Small Business Forum's consultation meetings and in a number of the submissions made to the Forum.

### 3.2.4 Future required funding levels

Indecon was tasked by the Minister for the Environment, Heritage & Local Government to undertake a comprehensive review of local authority funding. Their brief included:

- Projecting likely local authority expenditure and income requirements to 2010;
- Assessing alternatives and options in relation to both income and expenditure; and
- Examining and identifying potential improvements in local authority service delivery.

Their report released in February 2006 made a number of key recommendations. Most fundamentally, the report called for significant changes in the system of local government funding, including:

- New approaches to achieving efficiencies in local authorities – for example through the provision of certain services on a shared regional or national basis, or by private sector supply;
- A move towards more locally based sources of funding, comprising increases in local charges (including the extension of water charges on an equitable basis); and

28 Indecon Review of Local Government Financing, Report Commissioned by the Minister for the Environment, Heritage & Local Government. Indecon International Consultants and the Institute of Local Government Studies, University of Birmingham, October 2005

29 Local Government Financing – Business Pays, Chambers Ireland, 2005

- The introduction of selected and targeted local taxation (including the introduction of mechanisms to secure a contribution from non-principal private residences and from commercial buildings not covered by commercial rates).

These and other recommendations were formulated following detailed projections on the future funding requirements of local government to 2010. Based on current policies, the report estimates that there will be a requirement by 2010 for additional expenditure of between €1 billion and €2 billion per annum (in nominal terms) compared to 2004 expenditures, if current service levels are to be maintained. Taking existing sources of revenue into account, this equates to an estimated funding gap of between €415 million and €1.5 billion and €1.5 billion for 2010.

### 3.2.5 Funding challenges

If there are no changes in the structure of funding, local authorities will face major funding challenges over the coming years. And given recent trends, there is a real danger that business will be required to absorb sustained and disproportionate increases in local authority charges.

The Small Business Forum endorses the findings and the recommendations of the Indecon report. While recognising the Government's reluctance to increase the contribution of households to local authority funding, the Small Business Forum stresses that it is unreasonable – and ultimately economically inefficient – to expect the business sector to absorb sustained increases in local authority charges. The continued upward trend in the amount charged to business is unsustainable and contrary to broad national enterprise objectives. The business community, like households and central Government, should be required to pay only its fair share of local authority funding. Applying the 'Polluter/User Pays' principle will not only provide a more equitable basis for local authority funding, it will also contribute to the achievement of broader national and EU environmental and economic objectives.

### 3.2.6 Principles of local authority charging

The Small Business Forum believes that local authority charges should be based on five clear principles: Consistency, Transparency, Equity, Efficiency and Accountability.

Greater transparency and clarity is required around the preparation of local authority accounts and especially around development charges. Currently, there are no clear guidelines setting out the charging methods for local authority services. The introduction of such guidelines would provide greater transparency and would clarify the economic basis for local authority charges.

### 3.2.7 Development charges

A development charge is a contribution paid to a local authority towards the cost of the infrastructure that facilitates the development – including roads, water supply and sewerage. Development charges are levied on both domestic and commercial/industrial properties.

The Chambers Ireland study cited earlier found that in 1999, development charges covered 3.9 per cent of total local authority gross expenditure; in 2003, they covered 6 per cent. Between 2002 and 2003, development charges grew by 43 per cent: in 2003, local authorities received over €215 million from these charges.

Businesses have a clear responsibility to pay for developments from which they directly benefit. However, excessive development charges can act as a disincentive to small companies that want to expand. Development charges should be imposed on small businesses based on the costs that are directly attributable to the proposed development.<sup>30</sup>

30 This recommendation is intended to benefit small businesses wishing to expand and that currently incur development charges. It would exclude property developers

### 3.2.8 Accountability and responsiveness

From the submissions it received and from its consultation meetings, the Small Business Forum formed a clear view that better consultation with the business community is necessary to improve the responsiveness of local authorities. With this in mind, each local authority should establish a Business Users' Forum to improve consultation and responsiveness to the specific needs of business in their area.

Strategic Policy Committees are already in place in local authority areas to assist City and County Councils in the formulation, development and review of policy in relation to functions of a strategic nature.<sup>31</sup> A Business Users' Forum in each local authority area could be used to complement and inform these committees.

The proposed Forum should include representatives of local business (including small businesses) and be chaired by the County or City Manager. This Forum will improve relationships between each local authority and their business customers through improved accountability and transparency.

### 3.2.9 Recommendation: Balanced Local Authority charging

#### The Small Business Forum recommends:

Collect from the business community only its fair share of local authority funding by:

- ❑ Rebalancing the contributions of business, central government and domestic sources by introducing base-broadening measures and applying a 'User Pays' principle; and
- ❑ Providing greater transparency and clarity in the preparation of local authority accounts.

**Specific, immediate actions:** The following actions should be taken immediately to benefit small businesses:

- ❑ Base development charges to small businesses on the incremental costs that are directly attributable to the proposed development.
- ❑ Establish a Business Users' Forum in each local authority area to improve consultation with and responsiveness to businesses.

**Responsibility:** Department of the Environment, Heritage & Local Government; Department of Finance; Local Authorities.

### 3.2.10 Other considerations

Without full implementation of the recommendations in the Indecon report, the funding structure for local authorities is likely to remain unchanged, and unless steps are taken to prevent it, the business sector will suffer increases in costs that will place them at a serious competitive disadvantage. In light of these realities, the Small Business Forum believes that Government should consider alternative approaches to local authority funding, including those outlined overleaf.

31 These policy areas typically include housing and community services, environment, roads and transportation, development and planning, and recreation, amenity and culture. Strategic Policy Committees in each local authority are made up of councillors and representatives of outside bodies

### *Apportion any uplift value on re-zoned lands*

Ireland is one of the few countries in Europe that allows the full increase in the value of land following rezoning to accrue to the landowner.<sup>32</sup> A detailed consultation process was recently completed in the UK on this specific issue following a recommendation in the Barker Report.<sup>33</sup> The UK government is currently considering responses to the consultation process and discussions with stakeholders are continuing.

In Ireland, many proposals have been put forward over a number of years to deal with this issue, most notably the Kenny Report in 1973.<sup>34</sup> The issue was revisited in the context of the review of private property undertaken by the All-Party Oireachtas Committee on the Constitution.<sup>35</sup>

Such proposals warrant further examination in the present context, as they could offer alternative sources of funding for local authorities. For example, consideration should be given to auctioning the development rights of the land to be rezoned and retaining the proceeds within the local authority area. Alternatively, applying a higher capital gains tax rate on the uplift value of rezoned lands could offer a viable source of funding.

### *Impose a cap on business contributions*

The imposition of a cap on the contribution of businesses to local authorities should be considered (the cap could be increased annually only in line with inflation). This would provide cost certainty for businesses, and at the same time drive greater efficiencies in the use of local authority resources. Ultimately, the imposition of a cap should be designed in a manner that recognises the business sector's responsibility to pay its fair share, while at the same time removing the business sector from its current role as 'funder of last resort'.

## 3.3 Enhanced Access to Information and Advice

### 3.3.1 The role of information

Information plays a key role in helping entrepreneurs and owner/managers to create, develop and grow their businesses. To identify business opportunities and make appropriate and timely decisions, they need ready access to comprehensive, relevant and up-to-date information. As small businesses typically operate under severe time and capacity constraints, they are often unable to search through the wide range of available sources in order to discover the relevant items, or to carry out the in-depth research needed to answer their specific questions.

Similarly, those advising entrepreneurs and small business owner/managers need access to high-quality business information so that they can maximise their role in assisting businesses.

### 3.3.2 Sources of information

Entrepreneurs and small business owner/managers in Ireland currently have access to a very wide range of information sources, particularly over the Internet.

The Business Access to State Information and Services database (BASIS) ([www.basis.ie](http://www.basis.ie)) was developed by the Department of Enterprise, Trade & Employment in response to the recommendations of the 1994 Small Business Task Force. Its aim is to provide business with a single point of access to all Government information and services. While BASIS is seen as a strong first step in organising business information, a number of shortcomings have been identified in its operation, including:

32 Providing Affordable Housing and Infrastructure Choices for Ireland: A Report for ISME, Casey, J., 2004

33 A Review of Housing Supply, Barker, K., March 2004

34 Report of the Committee on the Price of Building Land (Kenny Report), 1973

35 Private Property, All-Party Oireachtas Committee on the Constitution, April 2004

- A low public profile;
- Limited capacity to address and respond to users' specific needs; and
- Limited use of interactive business information tools, such as templates and case studies.

The State development agencies (for example Enterprise Ireland, and the City and County Enterprise Boards) also play a significant role in information provision, as does the private sector (for example accountants, bankers, solicitors, industry representative organisations and websites such as [www.startingabusinessinireland.com](http://www.startingabusinessinireland.com)). However, while these resources can often be very helpful, the information that entrepreneurs and owner/managers currently obtain from them varies in breadth, depth and quality. None of these sources can be seen to offer a comprehensive one-stop business information point.

Overall, the general perception is that the available sources are often:

- Incomplete;
- Of uneven quality and reliability;
- Supplier- rather than user-driven;
- Difficult to find; and
- Difficult to use.

### 3.3.3 A gap in business information

It is apparent from many of the submissions received by the Small Business Forum and from discussions in the consultative meetings held around the country by the Forum that entrepreneurs and small business owner/managers in Ireland are simply not getting the information they need to help them create, develop and grow businesses here.

Research reinforces this anecdotal evidence: one-third of the Irish respondents to a 2004 Eurobarometer survey found it difficult to obtain sufficient information on how to start a business.<sup>36</sup>

### 3.3.4 No single point of contact

At each stage of business development, the entrepreneur or owner/manager faces many questions. The lack of a readily available single point of contact to answer these questions may result in frequent referrals and a rising frustration on behalf of those seeking the information. A further problem is that some people looking for initial start-up business information may not be aware of where best to access such information and may resort to a source that is ill-suited to their needs.

A coherent strategy on information provision would mean that entrepreneurs and small business owner/managers would have a single, well-publicised point of contact to deal with all their enquiries at each stage of developing their business.

### 3.3.5 Lessons from local initiatives

While some initiatives have been undertaken to address this issue at local level in Ireland, these efforts have been somewhat piecemeal: there is no evidence of a joined-up nationwide strategy. These local initiatives have, however, identified a number of the key challenges in providing business information domestically, including:

- The cost of designing and implementing suitable information resources;
- The need to secure broad public and private sector buy-in; and
- The importance of dedicated project management in such initiatives.

36 Flash 160 "Entrepreneurship" Eurobarometer Report, EOS Gallup Europe, June 2004, [http://europa.eu.int/comm/public\\_opinion/flash/fl160\\_en.pdf](http://europa.eu.int/comm/public_opinion/flash/fl160_en.pdf)

### 3.3.6 International practice

The Small Business Forum has examined how other countries respond to the issue of information access. In general, countries with a strategic approach to business information report positive results. For example, New Zealand's Business Information Zone (BIZ) is seen as a good example of comprehensive business information provided via a web portal supported by telephone, e-mail, fax and face-to-face advisory and mentoring services (see case study).

### 3.3.7 Recommendation: Enhance access to information and advice

#### The Small Business Forum recommends:

Develop, launch and promote a first-stop 'Knowledge Base' – a comprehensive central resource of relevant, up-to-date, user-led business information for entrepreneurs, owner/managers and their advisers.

This Knowledge Base will be available to businesses by telephone and over the Internet, and will support a wide range of information channels, including the development agencies and other business advisors.

The Knowledge Base as envisaged will be substantially different from anything currently available from public or private sources, but it will build on the best of those sources.

**Responsibility:** Department of Enterprise, Trade & Employment.

### 3.3.8 Impact

A properly resourced, well-managed Knowledge Base with a high level of co-operation between the public and private sectors would ensure that quality, uniform and up-to-date business information is provided through a broad range of channels to aspiring entrepreneurs and owner/managers. This would have the effect of improving the information flow to potential entrepreneurs, as well as improving the capability and sustainability of small businesses.

### 3.3.9 Implementation

The development and maintenance of the Knowledge Base will require a project manager who is clearly focused on the users' needs. The project will require cross-department and private sector commitment at the highest level, both during the initial gathering of the content and in the key task of keeping it up to date.

The design and implementation of the resource should draw on best international practice. The business information should be provided in a user-friendly manner and organised by stage of business development. The Knowledge Base will stop short of providing advice, but it will provide links to the most appropriate sources of business advice, along with interactive business tools, such as templates and case studies.



## Case Study:

## New Zealand's Business Information Zone

New Zealand's Business Information Zone (BIZ) ([www.biz.org.nz](http://www.biz.org.nz)) provides business information for SMEs via a web portal supported by telephone, e-mail, fax and face-to-face advisory and mentoring services.

The continued provision of accessible, appropriate and relevant business information through BIZ has been an important element in New Zealand's enterprise policy, and a budget of NZ\$9.9 million (approximately €5.3 million) has been allocated to further extend the functionality of BIZ over the period 2005 to 2009.

A critical success factor for the resource has been the project structure, which involves cross-ministry support, complemented by groups of business stakeholders and information providers. The project as a whole has been coordinated by a designated portal director. This has ensured strong cross-sector buy-in in both the content and management of the information.

The resource is organised in a simple, user-friendly manner, with business information categorised into four stages of business life:

- Considering starting a business;
- Starting a business;
- Growing a business; and
- Closing, selling or winding up a business.

A wide range of business tools is available for the user, including:

- Online training facilities;
- Relevant online transactions and forms; and
- An online library of business publications.

Useful links are provided throughout the resource, including site links and contact details of various organisations that can provide additional information for the user.

The New Zealand government's overall approach to small business has resulted in New Zealand being ranked first in entrepreneurial activity in the Global Entrepreneurship Monitor in 2004 and 2005.

### 3.3.10 Cost

An adequate budget to fund the development of the Knowledge Base, as well as its active promotion and on-going management, is clearly central to its success.

Based on the outlay for the New Zealand BIZ model and the costs of BASIS,<sup>37</sup> it is estimated that implementation of this recommendation would accrue a total annual cost of between €1 million and €1.5 million.

<sup>37</sup> Costs allocated for the operation of BASIS in 2005 were approximately €533,000. Source 2006 Revised Estimates for Public Services, Department of Finance 2006

## 3.4 Required Infrastructure

An excellent physical infrastructure is necessary for long-term, sustained economic development. However, the very success of the Irish economy over the past ten years has put a huge strain on our physical and social infrastructure. The National Development Plan (2000-2006) has played a significant role in closing many infrastructure gaps, but despite these investments, deficiencies remain, and infrastructure developments in many parts of the country are lagging behind demand.

The views and concerns expressed by small businesses in the course of the Forum's consultation meetings and in submissions made directly to the Forum revolved around four key areas: Broadband, Transport, Energy, and Waste.

### *Broadband*

Broadband connectivity and penetration are increasing and costs are falling. These are positive developments and demonstrate the high priority the Government has given to the transition to broadband technology. The Small Business Forum acknowledges this priority, and welcomes initiatives such as the Metropolitan Area Network (MAN) and the Group Broadband Schemes. However, Ireland continues to lag behind many OECD countries in broadband take-up, and these positive developments may not be happening fast enough. Improving the competitiveness of small business in the regions through broadband availability, take-up, quality and choice will be a central element to future productivity gains and competitive advantage in small business.

### *Transport*

An efficient transport infrastructure is an essential condition for enterprise development, as it provides the basis for significant improvements in small business costs through reduced journey times, improved journey time predictability, and better labour mobility.

With the launch of *Transport 21* in late 2005, the Government outlined an extensive range of projects for the road and interurban rail networks, and for rail projects in cities, principally in the Greater Dublin Area. Provisions for both Dublin and provincial bus development were also outlined. *Transport 21* identifies the major suite of projects that will be delivered under the next National Development Plan. The total capital cost of *Transport 21* has been estimated by the Department of Transport at just over €34 billion over the period 2006 to 2015 inclusive. While *Transport 21* is welcome, components contained in the Plan's framework will require prioritisation and must be subject to cost-benefit appraisal to ensure value for money is achieved.

### *Energy*

An efficient and resilient energy infrastructure is crucial for economic development. The Small Business Forum recognises the significant capital investment that has been made in renewing and extending the electrical transmission and distribution systems in recent years. It is likely that similar investments will be required in the future on the basis of predicted economic growth.

The Small Business Forum also acknowledges on-going work between the Department of Communications, Marine & Natural Resources and the Northern Ireland Department of Enterprise, Trade & Investment to develop an all-island energy market. The objective is to provide competitive, sustainable and reliable markets in electricity and natural gas on the island of Ireland at the lowest cost possible. This will have positive implications for the entire enterprise sector, including small business.

Such initiatives are urgently required. Submissions to the Small Business Forum highlighted increased energy costs as a major concern. A number of them noted that the liberalisation of the energy market is not having the desired effect in reducing prices. Consistency in the quality of service provided by the main utilities was also an area of concern, and in particular the relative unresponsiveness of the main utilities to small businesses in the event of network failures.

## Waste

Population and economic growth have driven an increase in municipal, industrial and hazardous waste over the past decade. Waste costs are becoming a major issue for Irish business: the total cost of waste disposal for business in Ireland has risen from €32 million in 1995 to over €800 million in 2004.<sup>38</sup> Lack of access to suitable recovery and disposal outlets is impacting on every enterprise in Ireland.

Ireland's dependence on landfill remains high relative to other countries. Limited progress has been made in delivering other waste treatment options, such as thermal treatment and biological treatment. Specific infrastructure requirements have been identified in the *National Hazardous Waste Management Plan*<sup>39</sup> and the *Draft National Biodegradable Waste Strategy*<sup>40</sup> as well as in regional waste management plans, but these have not been implemented, due mainly to lengthy delays in the planning process.

## National Development Plan 2007–2013

The National Development Plan is currently being formulated for the period 2007–2013. The Small Business Forum views this as an important opportunity to build on the infrastructure successes of recent years, to address current deficiencies and to anticipate future infrastructure requirements. However, planning and regulatory process issues remain as constraints to the timely implementation of projects of strategic importance. In this context, the Forum welcomes the publication in February 2006 of the Strategic Infrastructure Bill. The fast-tracking of major projects through the planning process will accelerate the delivery of important infrastructure and improve cost-effectiveness. However, the time taken for judicial reviews of planning cases has been identified as one of the main causes of delays and must be addressed if the planning process for major infrastructure projects is to be expedited.

### 3.4.2 Action needed

The Forum stresses the critical importance of addressing these infrastructural issues, noting that their importance is already widely recognised, and that they have been the subject of a number of other reports. Rather than re-analyse these issues in depth and make new recommendations, the Forum emphasises the need for sustained action and accelerated delivery on plans and recommendations already formulated.

38 Annual Competitiveness Report, National Competitiveness Council, November 2005

39 National Hazardous Waste Management Plan, Environmental Protection Agency, 2001

40 National Biodegradable Waste Strategy, Draft Strategy Report, Department of Environment, Heritage & Local Government, April 2004

# Stimulate Growth

# 4

The Terms of Reference for the Small Business Forum placed considerable emphasis on achieving greater economic growth from the small business sector. Within the total cohort of small businesses, there is a significant subset that has both the capacity and the ambition to grow. Based on its examination of the factors that facilitate or constrain growth, the Forum identified four key areas that should be prioritised for attention to supplement the interventions already in place from the enterprise support agencies and the measures for the business environment recommended in Chapter 3. These are:

- Access to appropriate levels of finance;
- Management capability;
- Innovation, both technological and non-technological; and
- The exploitation of ICT.

It is critical that these issues are addressed in a comprehensive, co-ordinated and timely way, so as to realise the potential of the indigenous small business sector. The analysis and recommendations of the Forum in relation to these issues are set out in this chapter.

## 4.1 Broaden Access to Finance

In a survey conducted on behalf of the Small Business Forum, small business managers identified the difficulty of accessing adequate levels of finance as the single greatest barrier to the growth of their businesses.

Companies have two main types of financing needs:

- Finance for investment, expansion and growth; and
- Working capital to finance day-to-day activities.

All small businesses, regardless of their stage of development require working capital; growth capital, however, is needed by companies at the start-up and development stages, as they seek to increase capabilities, assets and market share. In this section, the issues surrounding growth capital are addressed first, followed by those relating to working capital.

### 4.1.1 Growth capital

There are a number of potential private sources from which businesses can source debt and equity finance for start-up, expansion and growth. In addition, the State (through agencies such as Enterprise Ireland and the City and County Enterprise Boards) provides a range of financial supports, including grant aid and equity investment, to companies in the manufacturing and internationally traded services sectors.

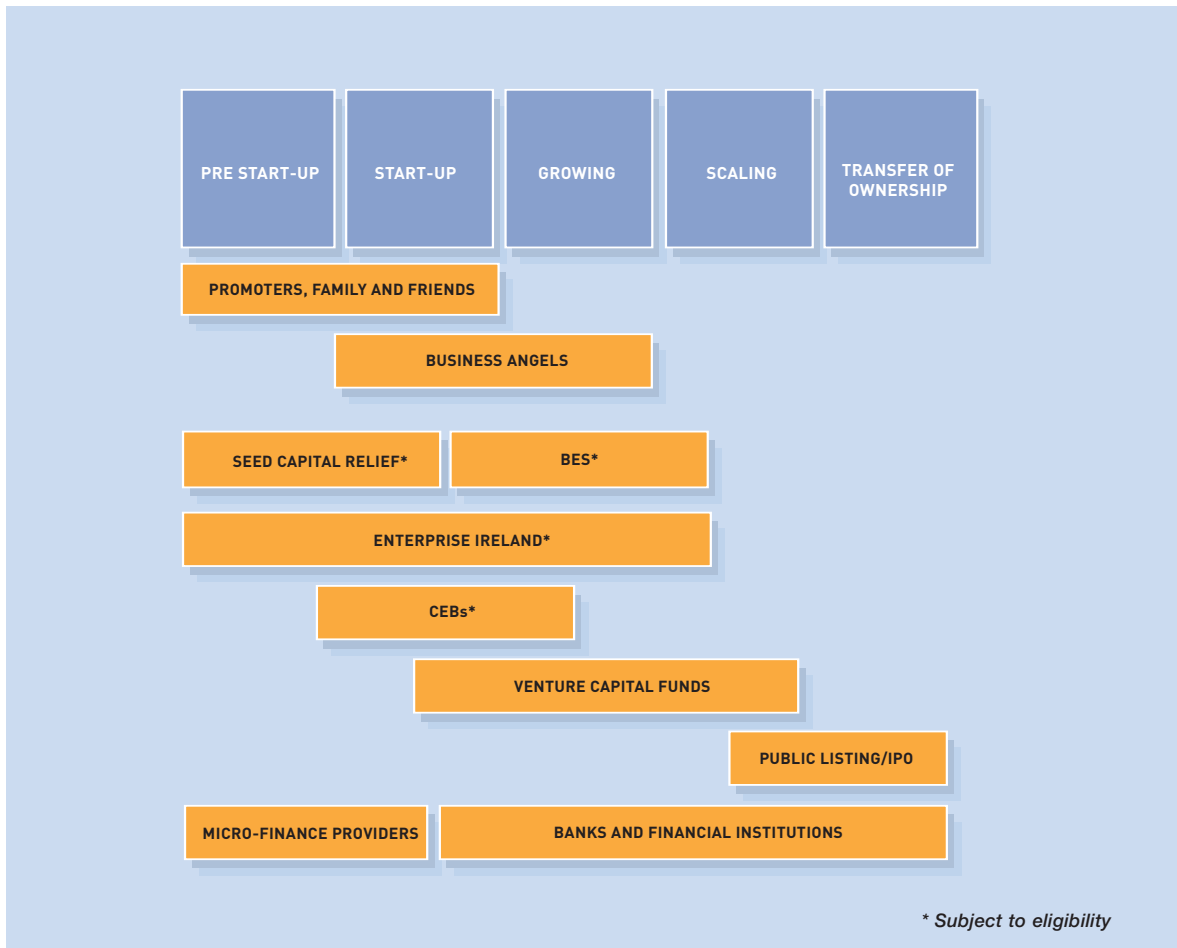
The type of finance that is appropriate for an enterprise, and its ability to raise it, depend largely on its stage of development. Figure 4.1 illustrates the potential sources of finance available to small businesses at different stages of development.

### Difficulties in accessing finance

Despite the broad range of finance sources, and the fact that interest rates are at historically low levels, small businesses continue to report difficulties in obtaining sufficient finance for start-up and growth.

Preliminary results from the 2005 SME Finance & Equity Survey indicate that while the finance environment for small businesses has improved significantly, 35 per cent of small businesses were unable to satisfy their financing requirements over the previous three years.<sup>41</sup>

Figure 4.1: Sources of capital at stages of company development



### Gaps in finance market

The 2005 SME Finance & Equity Survey indicates that small businesses have difficulty in raising money for start-up and growth, particularly at three levels:

- Amounts of less than €100,000;
- Amounts between €250,000 and €500,000; and
- Amounts over €2 million. While only a small number of small businesses require funding at this level, they are typically seeking to achieve significant growth and scale, and are thus important to the Irish economy.

Anecdotal evidence suggests that these barriers are most pronounced for businesses that are not eligible for development agency assistance (businesses operating outside the manufacturing and internationally traded services sectors), and for businesses with few capital assets.

41 The 2005 SME Finance & Equity Survey - conducted by ForTás on behalf of the Department of Enterprise, Trade and Employment - is based upon a survey of 1,000 clients of Enterprise Ireland and City and County Enterprise Boards

During the Forum's consultation process, it was repeatedly suggested that the availability of equity investment was severely constrained because Irish investors are more likely to choose one of the many asset-backed investment options than take equity stakes in small companies.

Failure to obtain growth capital may result in small business managers resorting to a steady-state or low-growth strategy, and may also result in business owners exiting a company before it has realised its growth potential.

#### 4.1.2 Improving access to finance

The principal sources of private finance and the relative ease of accessing funds from them are discussed below.

##### *Access to bank finance*

The core activity of retail banks is supporting creditworthy projects with fixed asset finance and working capital.<sup>42</sup> They perceive new and developing companies as high risk, and thus usually require security in the form of assets and/or personal guarantees before funding such companies. However, many small businesses, particularly those in the early stages and those in the services sector, have few or no capital assets against which to secure bank finance, and thus have difficulty obtaining bank loans.

Furthermore, loan finance is rarely provided for product or process research or market development. Owner/managers seeking R&D finance are encouraged by the banks to approach third-party providers, such as venture capitalists or development agencies, for this type of support, as the banks view such funding as beyond the scope of conventional bank lending.

The barriers to accessing debt finance are less acute at the micro level. Most entrepreneurs and established businesses are able to obtain sums of up to €25,000 from financial institutions. Personal loans, overdrafts and credit cards are often used as start-up capital. In addition, a number of bodies, such as First Step (a private-sector, non-profit body) and some credit unions, make small loans available to individuals setting up new businesses.

##### *Providing guaranteed loans*

Difficulty in accessing bank finance is not unique to businesses in Ireland. In other countries, loan guarantee schemes have been established to help overcome market failures and increase bank lending to small and start-up enterprises. For example, the UK operates a Small Firm Loan Guarantee Scheme, under which the UK Treasury covers between 70 per cent and 85 per cent of defaulted balance on loans to small businesses approved under the scheme.

The European Investment Fund (EIF), a subsidiary of the European Investment Bank, operates a range of partial loan guarantee schemes targeted at SMEs. These include an SME loan guarantee scheme, a micro-loan guarantee scheme and an ICT loan guarantee scheme. The EIF also operates a guarantee scheme to cover equity investments in SMEs. By comparison with other EU countries, Ireland has historically underutilised these supports. Over the period 2001-2005, for example, Ireland accessed only €3 million of EIF portfolio guarantees, compared with €170 million in the Netherlands, and €40 million in Denmark.

The State should work with the financial services industry to provide low security loans to start-up firms and entrepreneurs in all sectors. The institution providing the loans should access the EIF SME Loan Guarantee Schemes available under the 2007-2013 Competitiveness and Innovation Framework Programme. The EIF guarantees are intended to mitigate the risk to the institution or body responsible for reviewing applications and administering the loan fund.

The objective of this initiative would be to address the identified gap in the market for growth finance in the €25,000 to €100,000 range, and would be open to businesses in all sectors.

This initiative would have the added benefit of enabling small and start-up businesses establish a credit history with financial institutions.

The cost to the State of such a scheme would be minimal, as the revolving pool of credit would be provided from private sources.

### *The current Business Expansion Scheme (BES)*

The Business Expansion Scheme is underutilised as a channel for investment in small business. The scheme needs to be reviewed and amended in order to ensure that it performs the function for which it was established.

The BES was introduced in 1984 as an income-tax based incentive for private investors to invest long-term equity in companies in certain sectors of the economy – in particular, companies that might otherwise find it difficult to raise such funding. BES relief is available only on investment in approved companies operating in a number of defined sectors, including manufacturing, internationally traded services, tourism, horticulture, and leasing.

The take-up of the BES has been somewhat limited in recent years. For example, in 2004, 320 companies raised a total of €50.1 million through the BES (an average of €156,000 per company).

Several characteristics of the BES have been identified as limiting its attractiveness, both to investors and to businesses seeking investment:

- Under the BES, an individual investor may claim income tax relief on investments up to a maximum of €31,750 a year. In the current economic environment, property investment is generally perceived as lower risk than equity investment, and so individuals with significant amounts to invest are more attracted to property.
- The limit on individual investments means that a company wishing to raise larger amounts has to find and deal with several investors, which not only requires considerable extra effort, but also imposes additional administration costs and professional fees.
- The maximum amount that a business can raise through the BES during its lifetime is €1 million.

### *Enhancing the Business Expansion Scheme*

The Business Expansion Scheme should be enhanced in the following ways, in order to encourage increased investment in small business, particularly for amounts of between €250,000 and €500,000 and for amounts approaching €2 million:

- Extend the lifetime of the BES beyond its current expiry date of 31st December 2006 to 31st December 2013;
- Increase the amount that a business can raise through the scheme from €1 million to €2 million;
- Increase the individual investment ceiling from €31,750 to €250,000 – the limit on the use of specified tax reliefs (including the BES) for high-income individuals as introduced in the 2006 Finance Act;
- Allow businesses to raise one further round of equity investment through the BES scheme (up to €2 million) for the purposes of significant expansion, after a minimum period of three years from the initial BES supported investment. Eligible businesses would have to receive certification from a relevant agency to attest that the investment is for the purposes of expansion; and
- Promote the BES to both potential investors and small businesses.

### *The current Seed Capital Scheme (SCS)*

The Seed Capital Scheme was introduced as an adjunct to the BES in 1993. Its objective is to help employees, unemployed persons and those made redundant to acquire additional funds with which to start their own business. As with the BES, eligibility for SCS relief is restricted to approved enterprises operating in the same sectors. The size of the tax refund depends on the amount of the individual's investment and is limited to the tax the individual has paid in previous years, subject to an investment limit of €31,750 per annum for six years.

Like the BES, take-up of the SCS has been somewhat limited, with approximately 445 companies raising capital through the mechanism since its inception in 1993. A total of 107 investors claimed relief under the scheme in 2004.<sup>43</sup> Take-up of the scheme has been limited by its low public profile and an application process that is seen to be cumbersome.

Neither the BES nor the SCS is well-known among their target companies. The preliminary findings of the 2005 SME Finance & Equity Survey show that only 64 per cent of companies were aware of the existence of the SCS; and of those who were aware of the two schemes, 43 per cent did not know whether they were eligible for BES, and 56 per cent did not know whether they were eligible for the SCS. This is particularly surprising, as all of the companies surveyed operate in sectors eligible to access the schemes.

### *Enhancing the Seed Capital Scheme*

The Seed Capital Scheme should be enhanced in the following way, in order to facilitate entrepreneurship, and help address the gap in the finance market for amounts of less than €100,000:

- Extend the lifetime of the SCS beyond its current expiry date of 31st December 2006 to 31st December 2013;
- Increase the investment ceiling against which tax relief can be claimed to €100,000 per annum over six years;
- Significantly improve promotion and awareness of the scheme; and
- Simplify the scheme where possible, for example by making relief available on all forms of income, not just PAYE income.

### *Benefits of proposed enhancements*

- By increasing the individual thresholds to €250,000 (BES) and €100,000 (SCS), the current risk-reward imbalance in favour of property investment incentives should be somewhat mitigated. The other proposed measures, such as additional and more effective promotion and simplification of the schemes, should also help boost the flow of investment into business equity and start-ups;
- At present, the individual company investment limit is generally too low to attract a significant number of investment funds. By increasing the limit to €2 million, more investment funds could be attracted to use the scheme to invest in companies; and
- The estimated cost to the exchequer of the complete suite of proposed BES amendments would be an additional €30 million - €40 million per annum. The estimated cost to the exchequer of the complete suite of proposed SCS amendments would be an additional €2 million - €3 million per annum. It is anticipated that these costs would be offset by reduced levels of tax relief granted in other areas and increased PRSI and income tax receipts.

### *'Business angel' investment*

A 'business angel' is a private individual who invests capital in an early-stage business and may also contribute know-how or experience to its operation and development. Such investment is an alternative to bank financing or venture capital, neither of which may be available to the business at that early stage. Business angels typically invest amounts between €25,000 and €300,000.

This type of investment is very often the most appropriate for companies at the earliest stages of development.<sup>44</sup> However, there is currently relatively little business angel investment activity in Ireland, and growth-orientated start-up businesses have little choice but to seek investment from venture capitalists.

Other countries have fostered this type of private investment by setting up business angel networks. These bring together groups of wealthy individuals to consider potential investment opportunities.

43 Data sourced from the Department of Enterprise, Trade & Employment and Revenue Commissioners

44 Review of Seed and Venture Capital Funds Programme, Enterprise Ireland, unpublished



### *Establishing Business Angel networks*

Stimulating increased private investment would help address the gap in the market for early-stage finance.

The Dublin Business Innovation Centre currently operates the HALO Business Angel Partnership, supported by Enterprise Ireland and InterTradeIreland.<sup>45</sup> This initiative acts as a matchmaker between companies and the individual investors on the HALO Business Angel register.

The development agencies should encourage investment by private individuals and syndicates in seed and early stage businesses by stimulating the development of further Business Angel networks, and in particular syndicated business angel networks or clubs.

Syndication is the process whereby a group of business angels co-invest in a business. The benefits of this type of investment include:

- The investment risk is shared between a number of parties;
- Each investor can spread their investments over a number of companies; and
- The companies are more likely to raise the full amount of finance they need.

The long term vision for the business angel community in Ireland would be of a vibrant investment environment where both individual business angels and syndicates or clubs of high net worth individuals regularly consider investments in seed and early stage businesses. Optimally, the business angel community would work closely with venture capital funds to help businesses continue to develop and grow.

The State may need to stimulate business angel investment more actively, for example by co-investing, in a manner similar to that used to stimulate the venture capital market in Ireland. The Scottish Co-investment Fund provides a potential model for such an initiative.

### *Venture capital*

The market for venture capital in Ireland remains immature, and is characterised by a number of structural weaknesses. Accordingly, the Forum would welcome continued support by Enterprise Ireland for the venture capital market, through co-investment and partnerships with the private sector in future seed and venture capital programmes.<sup>46</sup>

#### **4.1.3 Working capital**

Successful day-to-day business operations need a predictable, realistic and adequate cash flow. Inadequate cash flow inhibits a business's growth prospects, and at worst can result in business failure. In this regard, payment terms and late payments are significant factors.

### *Current legislative framework*

In August 2002, the EU Directive on Late Payments in Commercial Transactions came into force. This is implemented in Ireland by the European Communities (Late Payment in Commercial Transactions) Regulations 2002, and applies to payments for commercial transactions in both the public and private sectors. (The Prompt Payment Act had previously applied only to payments by public sector organisations.)

The objective of the Directive is to ensure that, unless otherwise contractually agreed, payment from a customer to a supplier for goods or services is made within 30 days of receipt of invoice. The directive also provides that suppliers who are not paid on time are entitled to payment of penalty interest on the amount outstanding, at a rate 7 per cent above the European Central Bank rate.

45 This initiative was established in late 2005, and it is as yet too early to evaluate its progress

46 Enterprise Ireland, through its Seed and Venture Capital programme, has been actively stimulating the development of seed funds to address gaps in the financing of business start-ups. The current Seed and Venture Capital programme runs until the end of 2006

### *Impact of Late Payments legislation*

A Department of Enterprise Trade & Employment survey in June 2003 showed a high level of awareness of the late payment regulations, but very limited application of them. The key findings were:

- Since the regulations came into effect, there had been an increase of 7 per cent in respondents paying their bills within 30 days; and
- Over 70 per cent of respondents believed the regulations had not made any difference to payment periods, either to or from their business.

Respondents to the survey also felt that there should be stronger enforcement of the legislation by the State, and that late payers should be publicly identified.

These findings were confirmed by an ISME survey in June 2005, which found that only a quarter of SMEs were receiving payment within 30 days, and that 33 per cent were experiencing delays of over three months. The survey also showed that the problem of late payments is actually getting worse.<sup>47</sup>

Internal research by the Bank of Ireland shows that 92 per cent of SME customers fail to pay on time and that on average SMEs are owed twice as much as they owe.<sup>48</sup>

Current late payments legislation permits a representative organisation (such as the Small Firms Association, Irish Small and Medium Enterprises, or Chambers Ireland) to take legal action on behalf of its members, in order to prevent large companies applying unfair contractual or payment terms to small suppliers. However, few, if any, such cases have been taken.

### *Reasons for late payment*

There appear to be two main reasons why small suppliers are not receiving payment within the default payment period of 30 days stipulated in the Late Payments legislation:

- In order to secure and/or retain large customers' business, many suppliers reluctantly accept payment terms that are less attractive than these default terms, and
- Many customers are not observing the legislation, and are not being challenged by their suppliers for fear of losing custom.

### *Improving working capital*

The Companies Acts should be amended to require large companies to publish in their annual accounts details of average creditor days.<sup>49</sup>

In the UK, an annual Private Sector Payment Performance League Table is compiled by the Federation of Small Businesses with support from the Department of Trade & Industry and the Better Payment Practice Group.<sup>50</sup>

The publication of audited statistics of creditor days, as outlined above, should:

- Encourage companies to be more prompt in paying their suppliers, and
- Strengthen the position of plaintiffs (individual companies or their representative organisations) against companies that impose unfair terms or breach contractual agreements.

47 [www.isme.ie/press-page8995.html#Monday%201st%20August%202005](http://www.isme.ie/press-page8995.html#Monday%201st%20August%202005)

48 Bank of Ireland submission to the Small Business Forum

49 'Creditor days' is calculated by dividing the total for trade creditors shown in a company's accounts by the cost of sales and multiplying by 365. The result indicates the average number of days taken by the company to pay its creditors

50 [www.creditscorer.com/sites/PaymentScorer/index.cfm](http://www.creditscorer.com/sites/PaymentScorer/index.cfm)

#### 4.1.4 Recommendation: Improve access to finance

##### The Small Business Forum recommends:

**For Growth capital:** Encourage financial institutions to provide European Investment Fund-guaranteed loan finance to small businesses.

Enhance the Business Expansion Scheme (BES) and the Seed Capital Scheme (SCS) as follows:

- Extend the lifetime of both schemes to 2013;
- Increase the individual investment ceiling for the BES to €250,000 and for the SCS to €100,000;
- Increase the BES/SCS investment ceiling to €2 million per company; and
- Simplify the operation of both schemes, and promote them more actively.

Further develop networks of 'Business Angels' in order to encourage investment by private individuals in seed and early-stage businesses.

**For Working capital:** Amend the Companies Act to require large companies to publish in their annual accounts details of their average creditor days.

**Responsibility:** Department of Finance; Department of Enterprise, Trade & Employment; financial institutions; Enterprise Ireland.

## 4.2 Develop Management Capability

Economic progress in Ireland over the coming decades will depend heavily on the performance of the indigenous sector, which consists largely of small businesses. It is thus critical that these businesses achieve their full potential.

### 4.2.1 Labour Supply and Skills

As the Enterprise Strategy Group pointed out in 2004, raising education levels and upskilling the existing workforce are critical. The benefits of investing in human resource training, in terms of increased productivity and revenue, are well proven.

However, SMEs in Ireland have traditionally invested proportionately less in education and training for their employees than larger companies.<sup>51</sup>

A number of focused, short-term initiatives aimed at increasing enterprise investment in training and development are already underway. These include the accelerated roll-out of FÁS and EU co-funded training programmes and the expansion of the Skillnets scheme facilitating industry-led training networks.

The Department of Enterprise, Trade & Employment, in conjunction with the Expert Group on Future Skills Needs (EGFSN), is currently developing a National Skills Strategy. The strategy will outline

- A description of the Irish economy in 2006 with associated skills profile;
- Projected skills gaps by sector and occupation to 2010;
- Economy scenarios in 2020 with associated skills profiles; and
- Prioritised skill development targets to meet the needs of the economy to 2020.

51 White Paper on Human Resource Development, 1997; Continuing Vocational Survey 1999, Fox, 2001; Hannon, McCoy & Doyle, 2003

Along with policy aimed at upskilling the existing and future workforce, the strategy will also deal with ways of drawing upon external labour resources to address Ireland's current and future skills and labour shortages. The Government is currently considering the implementation of a National Economic Migration Policy based upon that recommended by the EGFSN.

The Small Business Forum endorses these initiatives. Given that these issues are already being addressed in these major policy reviews, the Forum is not making any recommendations in the area of labour supply and training, except in the area of management development, where the needs of the small business sector are particularly acute.

The performance of a small business depends in large measure on the competence and capability of its management. Recent research conducted by McKinsey and Company, in conjunction with the Centre for Economic Performance at the London School of Economics has highlighted this relationship.<sup>52</sup> The work – which analyses management practice in medium-sized companies across Europe and the US – illustrates a strong association between management practice and firm performance in terms of productivity, profitability and sales growth.

#### 4.2.2 Benefits of management development

A 2003 assessment by the OECD of management development in SMEs found a positive relationship between the degree of management development and the bottom-line performance of a firm.<sup>53</sup> This study drew on a range of research into the effects of management competence and management training on small and medium firms. While 'inexperienced management' was cited as a principal cause of bankruptcy in Canada, the positive effects of management training were also demonstrated: work in the US illustrated that formal management training programmes – embodying specified training techniques – were associated with increased company profits of \$4,000 per employee per year; and in the UK, formal management training was found to reduce small business failure rates by up to half.

#### 4.2.3 Management competence in Ireland

There is considerable scope for improving the level of management competence in Irish small businesses. Survey work by the Expert Group on Future Skills Needs showed that the level of general management skills in Irish small businesses is perceived to be relatively poor.<sup>54</sup> It identified deficiencies in specific functional skills – particularly human resources, marketing and finance – and weakness in forward planning. Strategic management skills were assessed as 'very weak'.

#### 4.2.4 Barriers to development

Despite the deficiencies identified by the Expert Group on Future Skills Needs, the survey found that small firms are engaging in management training and development only to a very limited extent. Three principal reasons are offered for this:

- **Time:** the many demands on the owner/manager of a small business leave little time for attendance at training courses; absence from the business for prolonged periods is perceived to be near impossible; and even outside normal 'office hours' it is difficult for the owner/manager to commit to regular attendance on a training programme;
- **Cost:** the available management training programmes are often seen to be too expensive; the participation fees are more affordable and justifiable for large companies; and
- **Relevance:** in many cases the available management training programmes are not perceived to be relevant to the needs of small businesses, and, again, seem to be more appropriate for management in large companies.

In this respect, Ireland is not unique. OECD research has shown that smaller firms are less likely than larger enterprises to provide external training to all grades of workers, including managers, due to financial constraints and lack of awareness of the benefits of management training.<sup>55</sup>

52 Management Practices across Firms and Nations, McKinsey & Co, London and the Centre for Economic Performance, London School of Economics, June 2005

53 Management Training in SMEs, OECD, Paris, 2003

54 SME Management Development in Ireland, Expert Group on Future Skills Needs, 2006

55 Management Training in SMEs. OECD, Paris, 2003

The supply side – providers of management training – has been relatively unresponsive to the types of management training demanded by small business managers. Whereas supply is concentrated on the provision of generic courses, often of long duration, delivered in a classroom setting, the demand among small enterprises is for short, practical, business-specific and individualised interventions, delivered, where possible, at the place of business.

#### 4.2.5 Training preferences of small business managers

Provision of management training programmes must meet the needs and learning styles of owner/managers. Recent research, including interviews with small firm owners and managers, found a clear preference for:

- Informal peer group management support activities;
- Peer group management development courses involving periodic structured learning sessions supplemented by mentoring;
- Short basic courses in specific applied management skills;
- One-to-one mentoring; and
- Continuous integrated company interventions by training consultants over longer periods.

Future programme development and delivery should attempt to address these preferences. The first two imply that delivery through networks of small businesses would be particularly useful.<sup>56</sup>

#### 4.2.6 Demand for training

Demand for management training is low among small businesses in Ireland, and this is due largely to a lack of awareness among owner/managers of the business benefits to be derived from such training.

Similar issues arise in other countries. For example, in the UK, the Council for Excellence in Management and Leadership was established in 2000 to create a strategy for developing world-class leaders and managers. From the report of the Council's SME Working Group,<sup>57</sup> it appears that attitudes to management training in the UK are broadly similar to those in Ireland. The Working Group recognised the importance of both raising the demand for management training and simultaneously providing training solutions that meet the demands of owner/managers. The Working Group made a number of recommendations, including:

- Stimulate the demand for management training and development, by encouraging entrepreneurs to undertake preliminary diagnostic assessments of their management competence and by promoting business success stories founded on management development;
- Enable entrepreneurs to assess their own management development needs, by developing and testing a self-administered diagnostic tool; and
- Guide entrepreneurs towards appropriate management development solutions.

In order to implement this strategy, the Working Group recommended that intermediaries, including small business representative organisations, become involved and that a major marketing campaign to inform both entrepreneurs and training providers be undertaken.

In the case of Ireland, there may be considerable merit in pursuing a similar strategy to raise awareness of the benefits of management development and drive demand for training.

56 SME Management Development in Ireland, Expert Group on Future Skills Needs, 2006

57 Joining Entrepreneurs in their World: Improving Entrepreneurship, Management and Leadership in UK SMEs, SME Working Group, Council for Excellence in Management and Leadership, London, 2002

#### 4.2.7 Public funding for management development

At present, resource constraints are not the primary barrier to enhancing management competence in the small business sector. Research undertaken on behalf of the Small Business Forum shows that approximately €35 million per annum in public funding is available between 2006 and 2008 to support management training and development (including non-financial supports, such as mentoring), particularly in SMEs.<sup>58</sup>

The public money available for in-company training under the National Development Plan 2000-2006 has so far been substantially under-spent. It is not clear what level of funding will be available for in-company training after 2008, but in the meantime, the existing funds represent a major opportunity for management development in small companies.

The available resources for 2006 include:

- FÁS has budgeted €12 million in public funding for management development. This has been driven in part by a series of strategic alliances with small business representative organisations and training providers;
- Enterprise Ireland will provide some €8 million for training almost 3,000 managers; and
- An estimated €9 million will be available to the 35 City and County Enterprise Boards to support entrepreneurial and capability development in micro-enterprises and business start-ups. A high proportion of these resources goes towards enhancing the management capability of owner/managers.

A similar level of expenditure is expected in 2007 and 2008.

In addition to these resources, Skillnets – the enterprise-led training network funded outside the NDP envelope – has recently been allocated €55 million in public funds for the years 2005-2010. This will effectively enable Skillnets to double its annual financial supports for network training in the years to 2010. Over 80 per cent of Skillnets grants support network training in SMEs, and some 55 per cent is provided to managerial, supervisory and professional workers.

#### 4.2.8 Recommendation: Develop management capabilities

##### The Small Business Forum recommends:

Raise the standard of management in small Irish businesses to the level of best international practice, by:

- Stimulating demand among small business owner/managers for management development initiatives; and
- Establishing a Management Development Council to ensure that the supply of management programmes meets the needs and learning styles of owner/managers, through continuous monitoring and evaluation of the available programmes.

**Responsibility:** Department of Enterprise, Trade & Employment.

The two aspects of this recommendation are elaborated overleaf.

## Case Study:

## Management Development

Advance Pneumatic Technology – a small family-run business – was set up by John Hughes in 1990. The company manufactures, distributes and installs pneumatic transport systems which are used for a range of purposes, such as carrying cash from tills to safes in retail outlets, transporting blood samples and other materials around hospitals, and a range of other purposes. Currently based in Balbriggan, the company employs 16 staff.

From its establishment in 1990 until about 1995, the company enjoyed moderate success, but lacked any real strategic direction. This prompted executives in the firm to participate in management courses centered on writing business and marketing plans, delivered through Meath County Enterprise Board. The results were immediate: after an internal reorganisation of business functions, the company experienced significant sales growth, and new staff were hired.

In 2003 the company again took stock of performance and sought tailored, firm-specific services from training providers Constructive Intervention, in conjunction with FÁS. Areas of lost opportunity were diagnosed, and training in relevant areas – particularly sales and customer care – was undertaken. Again the benefits were striking: turnover grew by €1 million in the following two years. The same staff levels were maintained during this time, so as far as the company is concerned, this growth is solely attributable to the identification of a gap in management competence and remedial action in the form of training.

While the company's management does recognise the time commitments required for training and development, bottom-line indicators clearly show that benefits have far outweighed costs. In terms of financial costs, outlays have been negligible when compared with sales and profit growth, and the company has benefited from some support from FÁS.

John Hughes, Managing Director of Advance Pneumatic Technology, is now taking his management development one step further. Like many successful entrepreneurs, John has no third-level qualifications. Through participation in the Biz-Path programme however, he is now eligible to enrol on a targeted MBA programme delivered at Dundalk Institute of Technology commencing in September 2006.

### 4.2.9 Stimulating demand for training

Owner/managers will participate in training only if they see a clear connection between specific programmes and the success of their business. This may be difficult to achieve, as it requires the owner/managers first to recognise the areas in which their knowledge or skills are deficient, and then to identify suitable ways of rectifying the deficiency.

A significant awareness campaign will be needed to generate demand for management development programmes. This should be organised by the Department of Enterprise, Trade & Employment, in concert with the major State training providers and the small business representative organisations.

Small business owner/managers also need help in assessing their management development needs, so that they can identify and participate in the most appropriate programmes. Assessment methods could range from management quizzes in the business and sectoral press to customised, interactive diagnostic toolkits delivered on CD-ROM or over the Knowledge Base (see chapter 3). The content and form of these assessment instruments should be agreed with the small business representative organisations, and a budget of €2 million should be provided for this purpose.

#### 4.2.10 Ensuring an adequate and appropriate supply of training

Many small business owner/managers feel – rightly or wrongly – that the available training options are not relevant to their needs. This perception must be seriously examined: there is little point in stimulating demand for management training if the supply is inadequate or inappropriate.

To ensure a good match between supply and demand – or, initially, between supply and need – a Management Development Council should be established under the aegis of the Department of Enterprise, Trade & Employment to ensure that the available training programmes adequately cater for the needs of small business owner/managers. This may involve actions such as a review of existing programmes and delivery mechanisms, and signposting to appropriate offerings.

The Council should include representatives of the main providers of management training – public and private – and of the small business organisations who will have a particularly important role in filtering through the training needs of owner/managers. The primary purpose of the Council will be to bring together the ‘suppliers’ and ‘demanders’ of management training to ensure that appropriate training programmes are available.

### 4.3 Stimulate Innovation

Technological progress is a key driver of economic growth, and this depends to a large extent on research and development (R&D). Accordingly R&D strategies and supports form a fundamental pillar of modern enterprise policy.

This is true of policy at both national and European level: under the Lisbon Agenda, the EU has set comprehensive targets for substantially increasing overall R&D spend in the years to 2010, and as part of this focus, the Irish Government has set a target for R&D spending of 2.5 per cent of GNP.<sup>59</sup> The Government has also recognised the centrality of R&D to future prosperity by establishing Science Foundation Ireland in 2003 and committing €2.48 billion to R&D under the National Development Plan, 2000-2006.<sup>60</sup>

However, R&D in this sense is tightly defined, and in order for an activity to be classified as such, it must satisfy very specific criteria. Potential R&D projects must contain elements of novelty and problem resolution. In short, R&D is creative work undertaken on a systematic basis in order to create new or improved products, processes, services or other applications. The Small Business Forum acknowledges that R&D and technological innovation are critical to the further development of the economy, and that businesses that can conduct in-house R&D, and those that can effectively exploit R&D carried out elsewhere, will be a particularly important segment of indigenous industry in the years immediately ahead.

However, relatively few small businesses in Ireland have either the technical expertise or the financial resources to develop, absorb or exploit new scientific or technological knowledge. The remaining small businesses – and these are the vast majority – are still operating in a market where their competitors are constantly introducing new products, new processes, new services, new customer interfaces and new business models. To maintain their market position, small Irish companies must use existing knowledge, existing technologies and current best practices to boost productivity and enhance performance – in short they must innovate. Broadly, innovation is the commercial application and exploitation of existing knowledge in a new context.

Innovation can take a variety of forms. While technological innovation is the type most widely recognised, other forms of innovation are important drivers of business growth. For example, organisational innovation can involve adapting business models through new methods of distribution, finance or supply chain management, and presentational innovation includes innovative activities in areas such as design and marketing.

59 Building Ireland's Knowledge Economy: The Irish Action Plan for Promoting Investment in R&D to 2010, Forfás, August 2004

60 The majority of publicly funded R&D is performed in the higher education system. Of the total public R&D expenditure of €585 million in 2004, €395 million (68%) was spent in the higher education sector, €128 million (21%) in government bodies, €50 million (9%) in private enterprise and €11 million (2%) in 'extramural' projects. (Forfás Science Budget)



### 4.3.1 Innovation in small businesses

Innovation in the small business sector, and particularly in services, is seldom based on scientific R&D. It is more often based on making incremental improvements to business processes, improving service levels or delivery methods, or applying well-proven technologies or techniques. These kinds of innovation – where the business does something new, or does something old in a new way – will be the basis for enhancing the performance and productivity of the majority of small businesses.

#### *Innovation in services*

The need to enhance the performance and productivity of the services sector is of particular relevance to the work of the Small Business Forum, given the preponderance of small services businesses in the economy.

Innovation in the service sector can take a variety of forms, any of which can have technological and non-technological dimensions:<sup>61</sup>

- New business models/concepts: Services businesses can sometimes innovate in ways that involve a substantial change in the way they generate revenues and profits. Business model innovations can give a firm a strong and sustainable competitive advantage. This implies, however, that services companies must continuously rethink their organisational arrangements in order to accommodate new business models, as value migrates within and between sectors or players in a sector;
- New customer/delivery interfaces: Companies can innovate by improving the dynamic exchange of information with their customers – a key element of any service function. The customer interface may be face-to-face, remote, or entirely electronic; in all cases, it depends heavily on the staff employed, the technology used and the timing of the exchanges. Technology may be a key enabler of such innovations, although it is rarely a driver in its own right; and
- New service-product offerings: This type of services innovation is the most analogous to traditional manufacturing innovation. Services companies need to introduce new services in order to respond to customer demand or competitor pressures, in much the same way as a manufacturing company.

#### *Innovation Vouchers*

As part of a new innovation awareness initiative, owner/managers should be made aware of the positive impacts that innovation can have on business performance, and thereby encouraged to pursue innovation and productivity-enhancing opportunities. The Small Business Forum recommends that a pilot Innovation Voucher scheme should be set up in Ireland to enable small businesses to avail of external sources of advice, expertise and information. The proposed scheme would operate in a way that is similar in many respects to one recently introduced in the Netherlands (see case study).

Under the proposed pilot scheme, vouchers - worth approximately €5,000 - would be allocated on a semi-competitive basis to small businesses with proposals meeting basic criteria. The vouchers could then be exchanged for knowledge and expertise from accredited providers (for example, private firms providing eligible services and expertise, Institutes of Technology, public research organisations), or for related purposes.

The types of innovation targeted by this initiative include:

- New business model development;
- New service delivery and customer interface;
- New service development;
- Training in innovation management; and
- Innovation/technology audit and strategy development.

If the scheme is well publicised and successful case studies highlighted, it will help to engender a broad culture of innovation across the economy.

The types of activities eligible under this initiative could include any kind of innovation, including the forms listed above. The types of knowledge that small businesses are expected to use the vouchers to obtain include:

- Efficiency audits, process change, supply chain management and logistics;
- Strategic intelligence gathering;
- Design and branding; and
- Product and service testing and economic impact assessment.

For this scheme to be a success, application and compliance procedures must be kept simple, while simultaneously minimising scope for abuse. Some structural features to achieve this may include:

- A brief application form detailing the proposed use to which the voucher would be put;
- Basic qualification criteria which must be satisfied – for example, the proposed project must conform to guidelines regarding the types of activities eligible; the ‘innovation partner’ or knowledge provider must be clearly identified; expected benefits of the project must be understood and must demonstrate commercial applicability; and
- Responsibility of compliance would lie primarily with knowledge providers, who would be bound by guidelines and subject to spot-checks.

To foster an innovation culture across the economy, small businesses that meet the basic qualifying criteria should be allocated vouchers on an equitable basis.

For larger proposals, groups of up to five firms may apply in concert for a pooled voucher valued at up to five times the normal rate.

Evaluation mechanisms should be built into the pilot scheme from the outset, and control, evaluation and measurement of impact could be aided by allocating vouchers on a broad sectoral basis.

The Small Business Forum recommends that a budget of €2 million a year for three years be allocated to operate the pilot scheme, subject to annual review. When viewed in the context of the State’s substantial financial commitment to R&D, this level of spending would represent significant value for money in promoting a culture of innovation, and in particular in the services sector.

## Case Study:

## Lessons for Operation: Dutch Innovation Voucher Scheme

In the Netherlands, a similar scheme – although focused primarily on technological innovation – has recently been put in place by SenterNovem, the Dutch Innovation Agency. For our purposes, the mechanisms for allocating vouchers and the general operation of the scheme may be worthy of consideration.

Under the initiative, eligibility is confined to SMEs who – for the purposes of conforming to state aid guidelines – have not received more than €92,500 in subsidies in the previous three years. Companies apply for vouchers by means of a very simple application form, and vouchers are allocated by means of a lottery.

The vouchers – which can be used with approved knowledge providers – are worth €7,500 and can be used by individual firms or groups of up to 10 firms for larger collaborative projects.

While the full scheme is not long in place (it was established as a structural measure in 2006), evaluations of pilot programmes in 2004 and 2005 show positive results, the key conclusion being that it does stimulate enterprises to engage in innovative activities. It was found that out of every ten vouchers, eight were used for a project that would not otherwise have been undertaken, one was used for a project that would otherwise have been conducted, and one was not used.<sup>62</sup>

### 4.3.2 R&D and small businesses

Very few small businesses are engaged in R&D: in 2003/04, 395 small businesses – most of them in high-tech sectors such as software and electronics – performed R&D costing in excess of €100,000.<sup>63</sup>

Government policy must continue to support the existing small business R&D performers, as well as seeking to augment their number by encouraging more small businesses to become R&D performers.

In *Transforming Irish Enterprise*, Enterprise Ireland set out plans to double the number of indigenous businesses engaged in ‘meaningful’ R&D (that is, spending more than €100,000 per annum on R&D) and to treble the number of firms conducting ‘significant’ R&D (spending more than €2 million annually)<sup>64</sup>. Such moves are essential if Ireland is to make the transition to a knowledge-driven economy as articulated by the Enterprise Strategy Group in 2004.<sup>65</sup>

The scale of many small businesses acts as a considerable barrier to their performing R&D and restricts their capacity to absorb and apply new technologies. Nonetheless, there is a significant cadre of companies with some scientific or technological capacity engaged in sophisticated commercial activity. These companies should be encouraged and supported in making the transition to R&D performance.

The intermediate step for such companies is to form significant productive relationships with outside sources of knowledge and technology such as public research facilities, large private enterprises, and in particular with the Institutes of Technology and other third-level institutions. At present the Institutes of Technology – a publicly-funded resource – are seriously under-utilised by industry in Ireland. This situation must be addressed so that the enterprise sector reaps the benefits of knowledge and expertise in the higher education system, and so as to derive greater commercial and societal value from the substantial public investment involved.

62 Do innovation vouchers help SMEs to cross the bridge toward science? CPB Netherlands Discussion Paper No. 58, February 2006

63 Forfás Business Expenditure on R&D (BERD) Database

64 Transforming Irish Enterprise: Enterprise Ireland Strategy 2005-2007

65 Ahead of the Curve – Ireland’s Place in the Global Economy, Enterprise Strategy Group, July 2004

### Knowledge Acquisition Grants

The Small Business Forum recommends that Knowledge Acquisition Grants be provided to enable small businesses in the manufacturing and internationally traded services sectors to access existing technology or knowledge from higher education institutions, research bodies and large private enterprises. Grants of up to €20,000 are envisaged,<sup>66</sup> covering a maximum of 60 per cent of the total cost involved, subject to State aid parameters.

The Institutes of Technology operate research centres that specialise in a broad range of activities, such as knitwear technology, bioanalysis, food product development, software technology and multimedia design. Many of them actively seek collaborative work with local enterprise, and this scheme would promote such linkages.

The small businesses targeted by this initiative are those that lack the capability and capacity to carry out R&D in-house, but that have the potential to benefit from advancements made outside their own firms. Eligibility for the grants should therefore be confined to firms not already in receipt of State supports for R&D.

The types of activities supported here could include:

- Product and process design and prototyping;
- Information and communications technology development;
- Engineering services; and
- Industrial design.

While there may be scope for this type of activity under existing schemes, such as Enterprise Ireland's Innovation Partnerships programme, this action is a targeted, specific measure aimed at drawing existing technological knowledge out of the education and research bodies and large firms, and into small business.

#### 4.3.3 Recommendation: Stimulate innovation

##### The Small Business Forum recommends:

- Make Innovation Vouchers available to small businesses in every sector, to be exchanged for advice, expertise and information from accredited knowledge providers. A budget of €2 million should be provided for these vouchers each year for three years.
- Provide Knowledge Acquisition Grants to enable small businesses in the manufacturing and internationally traded service sectors to gain access to research-based knowledge, expertise and facilities in higher education institutes, research bodies and large private enterprises, on a co-funded basis.

**Responsibility:** Department of Enterprise, Trade & Employment; Enterprise Ireland; City and County Enterprise Boards.

66 Indicative funding level, based on rate of intervention in comparable schemes

## 4.4 Drive Adoption of ICT

Information and communications technology (ICT) is a key driver of productivity growth and economic progress. It is an essential component in the pursuit of a high-value, knowledge-based economy.

Around the world, studies have shown a positive relationship between the use of ICT and growth in productivity,<sup>67</sup> and there is evidence to show that differences in the rate of ICT take-up were responsible for differences in labour productivity between Europe and the US in the 1990s.<sup>68</sup> The productivity gains to be reaped from ICT stem both from the levels of fixed investment in hardware and software, and from the proportion of the workforce that is ICT-enabled.

The effective use of ICT across the entire population of Irish small businesses will thus be critical to sustained productivity and growth in the years ahead.

### 4.4.1 The eBusiness Strategy

The Department of Enterprise, Trade & Employment's eBusiness Strategy *Optimising Usage of ICTs by Irish SMEs and Microenterprises* is aimed at encouraging and assisting SMEs, including micro-enterprises, across all sectors of the economy, to use ICT to maximise their competitive advantage.

The Strategy identifies several factors that are important for the development of eBusiness, including:

- An appropriate level of ICT management skills and ICT user skills in the workforce;
- Good telecommunications infrastructure;
- A good legal framework, including effective enforcement of rules against fraudulent or malicious behaviour online; and
- Effective IT security policies at the level of the firm.

The Strategy also contains several recommendations designed to drive the uptake of ICT and eBusiness by SMEs, including:

- Building awareness of the legal framework for online trading;
- Establishing a database of all relevant training courses in ICT management skills;
- Exploring the feasibility and desirability of developing further third-level courses in the area of ICT management skills; and
- Promotion of ICT and eBusiness development supports as part of an overall approach to enterprise development.

The Strategy is currently being implemented by a cross-departmental/agency implementation group and the Small Business Forum recognises and supports the ongoing work of this group.

The eBusiness Strategy found that SMEs need to:

- Make better decisions about IT investment;
- Better manage the IT facilities they already have; and
- Make more use of these facilities.

The Strategy pointed out that anecdotal evidence suggests that these issues apply also to micro-companies. Encouraging better use of ICT will ultimately increase ICT engagement levels. Companies that make the most of the IT facilities that they already have will also be more likely to invest further in IT when their business environment warrants such investment. The Small Business Forum agrees with this assessment.

67 ICT and Business Productivity: Finnish Micro-level Evidence, Maliranta, M. and Rouvinen, P., Office for Economic Co-operation and Development 2004; IT Use by Firms and Employees: Productivity Evidence across Industries, Shikeb Farooqui, British Office for National Statistics, 2005; It Ain't What You Do It's the Way that You Do I.T. – Testing Explanations of Productivity Growth Using U.S. Affiliates, Nick Bloom, Raffaella Sadun and John Van Reenen 2005

68 Fostering Productivity: Patterns, Determinants and Policy Implications, Gelauff, Klomp Raes and Roelandt, 2004

#### 4.4.2 Uptake in Ireland

However, the use of ICT among small business is low, particularly amongst micro-enterprises. It is true of basic applications, such as e-mail, as well as more sophisticated uses.

Table 4.1, for example, based on 2003 data, shows the proportion of micro-enterprises (employing fewer than ten people) in manufacturing and services that use different ICT applications.<sup>69</sup>

**Table 4.1:** : Uptake of ICT Applications in Irish Micro-enterprises, 2003

Application	Manufacturing	Services
Use e-mail	63%	34%
Have a website	32%	12%
Able to accept e-commerce orders	24%	5%

Source: CSO data

#### 4.4.3 Stimulating the adoption of ICT by small businesses

The low uptake and limited use of ICT by small businesses are due to three main reasons:

- Owner/managers don't fully appreciate the contribution that ICT systems can make to their businesses;
- Small businesses often lack the skills to evaluate, implement and fully exploit ICT; and
- The costs associated with ICT are perceived to be too high.

The Small Business Forum believes that solving the first of these issues will overcome the second two: the main problem is that small business owner/managers are unaware of the potential benefits of ICT adoption. Consequently, there is a need to raise awareness amongst small businesses of the productivity-enhancing benefits of the effective use of ICT systems.

#### 4.4.4 Recommendation: ICT audits for small businesses

The Forum believes that awareness of the benefits of ICT usage could be heightened by the introduction of an ICT Audit Scheme intended to enable small businesses to access professional advice on how to use ICT more effectively and strategically. Clearly, such a scheme will be limited in the number of companies supported, but it should be structured and promoted in a manner which will highlight to a much larger number of small companies the benefits of ICT usage to their businesses.

##### The Small Business Forum recommends:

Drive awareness and understanding of the role of ICT in improving business performance, by creating a subsidised scheme costing €2 million a year for three years to help small businesses to avail of an ICT audit. This audit will enable businesses to access customised, independent, professional advice on the use of ICT to improve productivity and foster growth.

**Responsibility:** Department of Enterprise, Trade & Employment; Enterprise Ireland; City and County Enterprise Boards.

The proposed ICT audits are intended to enable small businesses to access independent professional advice on how to use ICT – and particularly their existing ICT investment – effectively and strategically over a range of business functions, such as accounts, stock management, customer relationship management, communications, and graphics. The proposal is designed to complement the objectives and recommendations of the eBusiness Strategy.

The objective of the scheme is to raise awareness of how the effective use of ICT can drive productivity improvements within the small business sector, and to stimulate a significant and permanent behavioural shift in the manner in which small businesses think about and use ICT across their business functions. It is also designed to help such companies make better decisions around ICT investments in the future.

The Forum recommends that €2 million be provided for the scheme per annum over the next three years. It also recommends that the scheme be co-funded, to ensure that the companies applying for funding are those who wish to grow and have a willingness to invest their own resources in that growth.

#### Case Study:

## Information and Communications technology

**Conor Geoghegan Jewellers** – a small family business – was established in Wexford in 1982.

In 2005, the firm sought to enhance efficiency and productivity through better use of information and communications technology. Staff and management felt that there were significant benefits to be made from reorganising a range of routine business tasks, such as stock management and ordering, accounting and point-of-sale.

As with many small businesses, the company already owned a PC, but felt that it was not being used to its full potential. After some initial web research into available technology, and attendance at a trade fair in Birmingham, the firm settled on an electronic point-of-sale package that it felt would suit their purposes and lead to improvements in performance and productivity.

Along with the necessary software, some new hardware was required – a specialised cash drawer, barcode scanner and receipt printer – but the investment has proved entirely worthwhile in terms of efficiency gains. The new system is fully integrated with the shop's accounts and payroll, allows for maximum/minimum stock control, automatically generates orders, provides customer records, and tracks best performing products and suppliers.

## 4.5 Campaign to stimulate growth aspiration and potential

The key recommendations made by the Small Business Forum in this chapter have the fundamental objective of stimulating both the aspiration and the capability of small businesses for growth. The implementation of these recommendations should be backed by an integrated awareness campaign to promote new and existing supports.

The State should launch a campaign to promote the range of new and improved services and supports for small businesses, such as the Innovation Voucher scheme, the Knowledge Acquisition grants, the enhanced Business Expansion Scheme and Seed Capital Scheme, the ICT Audits, as well as the range of available management development opportunities. It should include widespread dissemination of best practice, and case studies of successful innovations, and direct interested parties to the new business Knowledge Base.

The campaign should specifically target small business owners and potential entrepreneurs. It should use a variety of media, for example, national, local and trade press, local and national radio, in order to reach as broad a small business audience as possible.

Work carried out on behalf of the Small Business Forum by Tansey, Webster, Stewart & Company, and independently verified by a leading advertising agency, estimated the cost of an advertising campaign promoting management development at €3 million. The Forum believes that the campaign should be broadened to cover all the elements mentioned above.

# Inspire Entrepreneurship

# 5

While the rate of new business start-up in Ireland has increased in recent years, there are a number of issues that need to be addressed if the quantity and quality of start-up enterprises is to continue to meet the country's economic needs. This chapter deals with those issues.

## 5.1 Benefits of entrepreneurship

The economic and social benefits of entrepreneurship have been repeatedly demonstrated by research, in terms of employment, wealth creation, stimulating innovation, and regional development.<sup>70</sup>

In their report, the Enterprise Strategy Group (ESG) recognised these benefits, stating, 'Given the significant contribution entrepreneurial behaviour can make to economic development, specific initiatives to promote entrepreneurship should be supported'.<sup>71</sup> The ESG report also placed major emphasis on the need to grow the base of indigenous firms in Ireland, in order to balance and complement the contribution of foreign direct investment to the economy.

## 5.2 What is an entrepreneur?

The Small Business Forum adopts a broad definition of 'entrepreneurs' as individuals who orchestrate, operate and assume risks for a business venture.

Entrepreneurship can occur in any sector and type of business; it applies to the self-employed and to firms of any size; and it applies throughout the various stages of business development. Entrepreneurship is relevant for all types of business, technological or otherwise, and for different ownership structures, such as family businesses, firms quoted on the stock exchange, and not-for-profit organisations engaged in economic activities.<sup>72</sup>

70 EU Green Paper Entrepreneurship in Europe, January 2003, [http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/com/2003/com2003\\_0027en01.pdf](http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/com/2003/com2003_0027en01.pdf); EU Action Plan; The European Agenda for Entrepreneurship, February 2004, [http://europa.eu.int/comm/enterprise/entrepreneurship/promoting\\_entrepreneurship/doc/com\\_70\\_en.pdf](http://europa.eu.int/comm/enterprise/entrepreneurship/promoting_entrepreneurship/doc/com_70_en.pdf)

71 Ahead of the Curve – Ireland's Place in the Global Economy, Enterprise Strategy Group, July 2004

72 Adapted from the definition in the EU Paper Entrepreneurship in Europe, January 2003



## 5.3 Business start-ups in Ireland

In Chapter 1, we noted that the level of early stage entrepreneurship in Ireland is strong and continues to be one of the highest in Europe. Global Entrepreneurship Monitor research in 2005 indicates that Ireland has reversed the downward trend of recent years and is moving towards a rate of new business start-up that is equal to the most entrepreneurial of the OECD countries.<sup>73</sup>

Two weaknesses have been identified, however:

- A significantly lower percentage of women in Ireland set up new businesses than in the most entrepreneurial OECD countries; and
- The vast majority of start-up businesses in Ireland remain small.

Further, while the numbers who have recently set up new businesses (new firm entrepreneurs) are high, the main difference between Ireland and other highly entrepreneurial countries is that the number of individuals in Ireland who are at an advanced planning stage of setting up new businesses (nascent entrepreneurs) is much lower. This poses a threat to the continued high levels of entrepreneurship in Ireland.

Most Irish start-ups are one-person operations, and never grow beyond this size. Most are in the transformative sectors<sup>74</sup> and in consumer services.<sup>75</sup> The person starting the business is typically male, aged 30+ and skilled in one (often technical) area.

## 5.4 Key Drivers of Entrepreneurship

The rise in entrepreneurial activity in Ireland in recent years has been driven primarily by perceptions of opportunity.<sup>76</sup> The cultural and social environment for entrepreneurship in the country has also improved in recent years, particularly for male entrepreneurs. According to GEM research, early stage entrepreneurs are now more confident in their own skills and abilities, and are more aware of other successful entrepreneurs.

As perception of opportunity is the key driver of entrepreneurship in Ireland, the current levels of entrepreneurial activity might not be sustained if domestic macroeconomic activity were to slow. Specific initiatives need to be taken if we are to embed and reinforce the recently developed strong entrepreneurial spirit in Ireland for the future.

## 5.5 Existing Support for Entrepreneurs

The State, through the development agencies and through sponsorship of privately operated initiatives, provides a wide range of supports and initiatives to stimulate entrepreneurship.

At present, the Department of Enterprise, Trade & Employment is ultimately responsible for supporting entrepreneurs and start-up enterprises through a range of bodies and instruments including:

- Enterprise Ireland, which supports high growth potential start-up enterprises;
- The City and County Enterprise Boards, which support start-ups and enterprises with fewer than ten employees;
- The Community Enterprise Centres and Business Innovation Centres, which provide practical support and assistance to entrepreneurs at local level;

73 Global Entrepreneurship Monitor, Fitzsimons, P. and O'Gorman, C., April 2006

74 The transformative sectors include construction, manufacturing, mining, wholesale distribution, and the physical transportation of goods and people. In Ireland, most start-ups are in construction

75 Consumer services include retail, restaurants and bars, lodging, health, education, social services and recreation

76 The numbers of Irish adults perceiving opportunities for new business ventures increased in 2005 to 52%. Of the EU and OECD nations, only in New Zealand (57%) and in Denmark (66%) is the adult population more aware of opportunities for entrepreneurial ventures. Global Entrepreneurship Monitor, Fitzsimons, P. and O'Gorman, C., April 2006

- FÁS, which provides training to nascent and actual entrepreneurs; and
- BASIS, which provides online information on State supports.

In addition, a number of other Government departments are responsible for other aspects of policy relating to entrepreneurship, including:

- The Department of Education & Science, which is responsible for the delivery of entrepreneurship within the education system;
- The Department of Community, Rural & Gaeltacht Affairs, which is responsible for rural enterprise development through Údarás na Gaeltachta and the LEADER programme;
- The Department of Arts, Sport & Tourism, which is responsible through Fáilte Ireland for the development of tourism enterprises; and
- The Department of Finance, which oversees fiscal incentives for enterprise establishment and equity investment.

## 5.6 A National Entrepreneurship Policy

While it is clear from the above that the State operates and supports many initiatives aimed at inspiring entrepreneurship and supporting start-ups, these supports and initiatives are generally uncoordinated and do not amount to a coherent policy.

### 5.6.1 **Recommendation:** Inspire entrepreneurship

#### **The Small Business Forum recommends:**

Government should formally adopt a National Entrepreneurship Policy focused on optimising the number of start-up businesses, and in particular on maximising the number of start-ups aspiring to and achieving high growth.

This policy should build upon three specific platforms:

- Stimulating latent entrepreneurial potential, particularly among women and the immigrant community;
- Reinforcing entrepreneurship in the education system; and
- Enhancing the culture for entrepreneurship.

The range of existing initiatives aimed at stimulating entrepreneurship should be incorporated into this policy, to ensure a coherent, coordinated approach.

**Responsibility:** Department of Enterprise, Trade & Employment; Department of Education & Science.

#### *Stimulating latent entrepreneurial potential*

There are a number of relatively untapped and underdeveloped sources of entrepreneurship in Ireland, particularly women, returning Irish emigrants, and the immigrant community. By optimising the level of entrepreneurial activity in these sections of society, Ireland could become the most entrepreneurial country in the world.

Several actions could be taken to stimulate these sources of entrepreneurship:

- The State should review and, where appropriate, reinforce its current initiatives in the areas of relatively low entrepreneurial activity, such as the EMERGE initiative (aimed at ethnic minorities) and the 'Enterprising Women' network initiative operated by the City and County Enterprise Boards.
- The State should develop further initiatives to stimulate entrepreneurial activity in underrepresented cohorts. These initiatives should be predominantly non-financial and be delivered at a local level by the relevant State agencies and representative organisations.
- The representative bodies and the development agencies should make existing networking initiatives more accessible to female entrepreneurs, and facilitate female entrepreneur networks. Such networks should bring nascent or early-stage female entrepreneurs into contact with established female entrepreneurs, enterprise development agencies, and potential investors.
- The small business representative bodies, in conjunction with the enterprise support agencies, should publicise entrepreneur role models, and in particular establish case studies of successful female and immigrant entrepreneurs.
- The enterprise support agencies should establish a specific mentoring service by and for women.

#### *Reinforcing entrepreneurship in the education system*

There are currently a number of initiatives aimed at developing commercial awareness and fostering entrepreneurial mindsets among students at each level of the education system (for example, Junior Achievement, Student Enterprise Awards, and Shell LiveWire Awards). However, these initiatives are not operated on a widespread basis, and only a relatively small number of primary, secondary and third-level students participate in any of these initiatives.

While the secondary curriculum includes a number of business-related subjects, such as business studies, accounting and economics, these do not provide students with a broad suite of concepts and practical skills that are required for entrepreneurship, such as creativity, risk-taking, commercial awareness and communications skills. The Leaving Certificate Applied and Leaving Certificate Vocational Programme syllabi do cover some of these topics, but these syllabi are taken by relatively few students.

Mainstreaming entrepreneurship education across the education system would greatly increase the exposure of less entrepreneurially active cohorts of society, such as women, inward migrants, and individuals from socio-economically disadvantaged areas, to the possibility of entrepreneurship as a career option.

The Enterprise Strategy Group (ESG) report recommended a range of measures to embed commercial awareness and entrepreneurship at all levels of the education system, and to enhance the perception of entrepreneurship as a real career option. These include:

- Entrepreneurial skills should be included in the syllabus for the senior cycle and any necessary curricular changes made at primary and junior cycle level.
- Support should be provided for widespread operation of award schemes aimed at encouraging entrepreneurship in primary and secondary levels of education.

The Small Business Forum considers it essential that steps be taken to encourage entrepreneurship among the young through a number of measures:

- Full implementation of the Enterprise Strategy Group's recommendations relating to entrepreneurship. The Department of Enterprise, Trade & Employment should work with the Department of Education & Science to bring about implementation of the recommendations. Specific indicators should be established to monitor progress on the implementation of these recommendations.

- As a part of their education at teacher training colleges, secondary teachers should be equipped with the skills and knowledge to deliver commercial thinking and entrepreneurship courses.
- Responsibility should be allocated for promoting entrepreneurship and commercial awareness in second- and third-level education.
  - At second-level, the Business Studies Teachers Association of Ireland, through its members, should champion the introduction of appropriate modules in the school curriculum. Transition year provides an ideal opportunity for the implementation of such modules.
  - At third-level, the heads of Business and Entrepreneurship departments should champion the introduction of entrepreneurship modules for students completing courses across all faculties.

### *Enhancing the culture for entrepreneurship*

GEM research shows that there has been a significant improvement in societal attitudes to entrepreneurship and risk-taking in recent years. This has primarily been driven by rapid economic growth, which has opened up many new opportunities.

Nevertheless, fear of failure is a more pronounced deterrent to entrepreneurial involvement in Ireland than it is in the majority of OECD countries, even in those that are much less entrepreneurial. In this regard, Ireland is ranked 16th out of 25 participating countries.<sup>77</sup>

Furthermore, cultural attitudes to risk continue to inhibit individuals from leaving secure employment to become entrepreneurs. Although these attitudes are changing, there remains considerable scope for improvement.

A number of steps should be taken to promote entrepreneurship with the objective of improving attitudes to entrepreneurs, risk-taking and failure, such as:

- The small business representative bodies and the development agencies should promote the achievements of entrepreneurs, highlighting the economic benefits that entrepreneurs and small businesses confer on the economy, and illustrating the risks that successful entrepreneurs have borne before reaping rewards.
- The small business representative bodies and the enterprise development agencies should promote and support serial entrepreneurship. This could be done through case studies of serial entrepreneurs, illustrating the positive implications of venture failure and serial entrepreneurial activity.

<sup>77</sup> Approximately 38% of Irish people are deterred from entrepreneurship by fear of failure. In contrast, the rate is 23% in the US, 25% in New Zealand, and 29% in the Netherlands. Global Entrepreneurship Monitor, Fitzsimons, P. and O’Gorman, C., April 2006

# 6

# Implementation: from Recommendations to Action

## 6.1 Bodies Supporting Small Business

The principal bodies charged with supporting small businesses are Enterprise Ireland and the network of City and County Enterprise Boards located throughout the country. Each has different areas of focus, and each provides its clients with a range of financial and non-financial supports. There are also a number of other agencies and programmes of relevance, including Business Innovation Centers, FÁS, Údarás na Gaeltachta and LEADER.

### *Enterprise Ireland*

The core mission of Enterprise Ireland is to accelerate the development of world-class Irish companies so that they achieve strong positions in global markets. The broad focus of Enterprise Ireland's SME activities is to assist Irish companies with between ten and 250 employees in the manufacturing and internationally traded services sectors that are actively selling into, or attempting to break into, international markets. Enterprise Ireland also provides support to start-up and micro-enterprises (fewer than ten employees) in the same sectors, provided they have the potential to achieve rapid growth and international expansion.

### *City and County Enterprise Boards*

The 35 City and County Enterprise Boards (CEB) provide financial and non-financial supports and assistance to micro-enterprises in their respective areas. The principal focus of the CEBs is on micro-enterprises operating in the manufacturing and internationally traded services sectors, although there is some flexibility in this respect.

### *Business Innovation Centres*

Business Innovation Centres (BIC) operate in five cities – Dublin, Galway, Cork, Limerick and Waterford. The BICs foster innovative and technology-orientated start-ups and small businesses by providing services directed at the development of new ideas and their conversion into real business projects. This involves advice, guidance and one-to-one mentoring. The BICs do not provide financial supports from their own resources, but are funded through Enterprise Ireland and also raise income by charging early-stage companies for some services.

## *FÁS*

FÁS is the State training and employment authority. It provides a range of training and employment programmes, recruitment services, and support for co-operative and community based enterprises. FÁS has a broad client remit, offering services for businesses, job seekers and employed people seeking training, and its business service programmes are available to all sectors of industry and commerce and to all sizes and types of firm whether indigenous or foreign-owned.

Specific programmes operated by FÁS for small businesses include:

- Start Your Own Business programmes, which provide advice and training to those interested in setting up their own enterprises.
- The Small Firm Cluster Programme, designed to help owners/managers of small businesses improve management skills and practices.

## *LEADER*

LEADER is the EU Community Initiative for Rural Development which provides approved local groups with public funding to implement multi-sectoral business plans for the development of their areas. The aim of LEADER is to encourage the emergence and testing of new approaches to integrated and sustainable development in rural communities. There are 38 LEADER companies currently operating in Ireland. These are independently managed but responsible to the Department of Community, Rural & Gaeltacht Affairs.

## *Údarás na Gaeltachta*

Údarás na Gaeltachta works to develop the economies of Gaeltacht areas and to encourage the preservation and extension of Irish as the principal means of communication in the Gaeltacht. In this context, Údarás promotes productive schemes of employment through the development of local natural resources, skills and entrepreneurial abilities, and supports community development initiatives. Údarás-supported industries include audio-visual activities, textiles, engineering, electronics, tourism, aquaculture and other natural resource-based enterprises.

The Small Business Forum gave consideration to the nature of State involvement in the development of small business and its future role in that context as the economy evolves. It was also the subject of some comment in the submissions received by the Forum and in detailed discussions with key stakeholders.

A number of concerns have emerged, as outlined overleaf.

## 6.2 Duplication of Services and Levels of Co-ordination

There is general acceptance that the roles of Enterprise Ireland, the City and County Enterprise Boards and the other enterprise-related entities are relatively well established and defined at the strategic level – that is, there is clear understanding of the broad remit of the agencies, and the eligibility for support from the agencies.

However at a more operational level, concerns have been raised regarding possible duplication and overlap of services, as it is possible for some companies to meet the eligibility criteria of different agencies. While acknowledging that a formal working agreement has been drawn up between Enterprise Ireland and the City and County Enterprise Boards, and a Memorandum of Understanding was agreed between Enterprise Ireland and the Business Innovation Centres in 2004, deeper co-ordination between the principal enterprise development agencies for small business is required.

The optimum structure to ensure closer coordination was considered in some detail in a 2003 Review of the County and City Enterprise Boards.<sup>78</sup> This review made a number of key recommendations in relation to the mechanisms for delivering support to SMEs. These include:

- The City and County Enterprise Boards should renew their focus on their core enterprise and entrepreneurship responsibilities, minimising the wider local economic development activities with which they had increasingly become engaged.
- The City and County Enterprise Boards should gradually shift the emphasis of their activities away from the provision of grant aid support towards repayable supports, the provision of business information, advice, training and capability enhancement.
- A central City and County Enterprise Board Co-ordination Unit should be established within Enterprise Ireland, to provide leadership, direction, technical support and shared services for the network of City and County Enterprise Boards. This should help ensure a greater level of consistency across the network as a whole.
- The National Micro-Enterprise Co-ordinating Committee should operate fully and meet regularly. Furthermore, it should cover all agencies and not be restricted to City and County Enterprise Boards and LEADER supports.

The Small Business Forum endorses these recommendations, and believes that their full implementation will ensure greater co-ordination between the principal bodies responsible for the development of the small business sector, and lead to greater effectiveness, efficiency and impact.

As discussed above, the Fitzpatrick Review recommended that the City and County Enterprise Boards should gradually shift the focus of their activities away from the provision of grant aid toward repayable supports and the provision of information, advice and training. LEADER companies – as part of their broader rural development remit – also provide some supports for enterprise development. Accordingly, the Forum believes that to the extent that LEADER is involved in enterprise development it too should aim to move away from traditional grant aid toward greater use of repayable financial supports and ‘soft’ supports.

78 Review of the Role of County and City Enterprise Boards in the Development of Micro-Enterprises, Fitzpatrick Associates, November 2003

## 6.3 Focus of State Enterprise Supports

The enterprise support agencies and related bodies typically operate within remits specified by the relevant Government department or within the confines of legislation. Enterprise Ireland for example operates in the context of the 1986 Industrial Development Act (as amended) and the Department of Enterprise, Trade & Employment's 1998 Policy Statement.

Current enterprise policy largely focuses support on the development of companies in the manufacturing and internationally traded services sectors. These companies are significant wealth generators for the Irish economy and they typically operate internationally (or have clear plans to do so in the future). This focus is clearly correct.

However, by far the biggest proportion of the enterprise sector operates outside the manufacturing and internationally traded services sectors, and so is currently ineligible for support. Typically, these are enterprises operating solely on the domestic market, although a number of them aspire to significant growth. The question now arises whether the State has any role in supporting the growth of such companies, and if so, on what basis should it intervene to provide that support.

### 6.3.1 Changes in the local trading environment

Our future success will require that businesses trading locally are world class in terms of efficiency, effectiveness and innovation. In the past, significant parts of the locally traded services sector operated in a relatively sheltered regulatory and competitive environment. Today, globalisation and advances in technology mean that locally trading firms have to compete not just with other indigenous companies, but with international chains and technology-driven traders.

This new type of competition is causing significant displacement of indigenous companies, as Irish towns and cities see the arrival of international chains in retailing (food, clothing, hardware, music, books, stationery, furniture, etc.), in personal and professional services, in restaurants (particularly fast food), in hotels, and in entertainment. These international companies present indigenous companies with intense competition, often leading to the closure or acquisition of indigenous companies that lack the scale and competencies to compete.

### 6.3.2 Developing competencies in Irish businesses

Such competition is both necessary and welcome. However, over the coming years, we must ensure that a number of Irish businesses adopt similar strategies and become 'brand builders', so that they can achieve the scale required to compete not just on our domestic market but on domestic markets internationally. This is a significant challenge, not just because our locally trading companies are less developed for historical reasons (such as restrictive practices, absence of sophisticated customers, weak competition and under-developed management skills), but also because of the small size of our domestic market.

### 6.3.3 Benefits of trading in international markets

If Irish companies that currently trade locally in Ireland expand to establish and trade locally in overseas markets, the Irish economy will benefit in a number of ways, including:

- Profit repatriation;
- Headquarters operations;
- Sub-supply opportunities; and
- Management development through exposure to international trading best practice.



While these benefits are not as substantial as those accruing from manufacturing or internationally traded services (because most of the employment created by this activity will be employment in other economies), they are nevertheless significant. Further, at Ireland's stage of economic development, the services sector is increasingly important, and so the productivity and profitability of the services sector is a key element in overall economic health and wealth generation.

Ireland needs, therefore, to grow a cadre of companies that have the resources and the capabilities to deliver locally traded services in international markets.

#### 6.3.4 Support for locally traded services

The locally traded sector already receives supports through a variety of agencies/programmes, including City and County Enterprise Boards, LEADER, FÁS and Skillnets.

The challenge is to re-direct some of the support to a much smaller number of companies who have the ambition, capabilities and potential to achieve significant growth that will lead to them expanding into international markets.

The strategies for dynamic growth are entirely different from the strategies for incremental growth, and the potential dynamic growers – who will be self-selecting by virtue of investing their own funds – will need to be given support and encouragement.

#### 6.3.5 Support for growth in manufacturing and internationally traded services

In manufacturing and internationally traded services, Enterprise Ireland has already recognised the importance of dynamic growers and the imperative to grow companies of scale. Based on their recently launched strategy,<sup>79</sup> the agency now has:

- A dedicated High-Potential Start-Up Division, which has the resources to work with entrepreneurs who are establishing enterprises with high export growth potential, from start-up to the growth phase of their development; and
- An SME Scaling Division, which will help to accelerate the growth of Irish SMEs. Enterprise Ireland rightly believes that a cohort of companies with sufficient scale to compete internationally will have a significant positive impact on the Irish economy.

#### 6.3.6 Support for dynamic growth in locally traded services

The Small Business Forum believes that it is now appropriate, in light of international competition, to apply this same logic to accelerate the growth of a cohort of locally trading companies capable of achieving significant growth that culminates in them establishing and trading locally in overseas markets.

Given that the benefits to the State from this cohort will not be as significant as those from manufacturing or internationally traded services, State intervention should consist primarily of intensive use of soft supports such as:

- Management capability development, specifically dealing with running a growth-oriented business;
- Access to professional mentors with sectoral knowledge in domestic and international markets;
- Access to innovation supports;
- Access to Enterprise Ireland's overseas network; and
- Introductions to public/private venture capital funds.

These supports should be made available following a competitively structured programme, which would be open to companies with significant growth potential.

79 Transforming Irish Industry, Enterprise Ireland Strategy 2005-2007, Enterprise Ireland, May 2005

## 6.4 Implementation of the Small Business Forum's Recommendations

The Small Business Forum has made key recommendations that have three fundamental objectives: creating a better environment for small business, stimulating the growth aspirations and capabilities of small business, and inspiring entrepreneurship. These have been designed specifically to stimulate sustained growth in the small business sector.

An implementation body is required to monitor progress in terms of implementation, and to encourage timely delivery of the recommendations. This body should meet with both the Minister and Secretary General of the Department of Enterprise, Trade & Employment, every six months to 2009. Given the experience, interest and involvement of the Forum members, the Small Business Forum is the most appropriate and best placed body to serve this implementation role. In order to facilitate this implementation process:

- The Department of Enterprise, Trade & Employment should publish an implementation status report twice a year for consideration by the Implementation Body and which would provide a basis for the bi-annual discussions between the Minister and the Implementation Body;
- Targets and indicators against which the progress and impact of recommendations can be measured should be established;
- All new and amended schemes and initiatives recommended by the Forum should be formally reviewed and assessed after three years, to ensure performance against objectives and value for money;
- A member of the Enterprise Advisory Group (established by Government following the report of the Enterprise Strategy Group) should be invited to sit on the Implementation Body, in order to help drive implementation of the Small Business Forum recommendations regarding evolutions in enterprise policy.
- This implementation body should replace the current Round Table for SMEs. Consideration should be given to augmenting the composition of the implementation body with representatives of other organisations active in the small business sphere.

The Small Business sector is vital to the sustainable economic and social development of the country. Delivery of the recommendations in this report should ensure the continued growth and prosperity of this important sector.

# A

## Appendix A:

# Terms of Reference

The terms of reference of the Small Business Forum were as follows:

The over-arching task of the Forum is to consider in broad terms the current environment for conducting small business in Ireland and to advise on the adequacy and appropriateness of the public policy responses in the context of that environment, including the interventions by the enterprise development agencies.

The Forum should consider whether there are new or revised strategies that would be beneficial in assisting small business to contribute to the growth of the economy. Any proposals for such new or revised strategies should be complementary to, and be consistent with, the revised enterprise strategy adopted by the Government in response to the Enterprise Strategy Group report.

In particular, the Forum should:

- ❑ Consider whether the strategies being followed to support and develop the spirit of entrepreneurship in Ireland are effective and appropriate;
- ❑ Consider how the pattern of growth of small businesses in Ireland compares internationally and seek to identify the particular characteristics that tend to lead to the growth of small businesses or inhibit such growth;
- ❑ Review the existing environment for accessing finance by small businesses at each stage of development;
- ❑ Review the propensity of the small business sector to conduct research and development and to innovate and to consider the capacity of the sector to access the programmes aimed at the promotion of such activities; and
- ❑ In the light of the foregoing, consider what additional or revised actions could be taken to help more small enterprises grow their businesses in a manner that contributes to the overall growth of the Irish economy.

In conducting this review, the Forum should take account of the relevant priorities for action set out in the revised Lisbon Agenda, including the actions contained in the European Charter for Small Enterprises.

## Appendix B:

# Membership of the Small Business Forum

# B

## Members of the Small Business Forum

The following were appointed to the Small Business Forum:

<b>Mr Joe Macri</b>	Microsoft Ireland (Chairperson)
<b>Ms Mary Bennett</b>	The Treasure Chest, Galway
<b>Dr Joan Buckley</b>	John C. Kelleher Family Business Centre, University College Cork
<b>Mr Des Cummins</b>	National Recycling Ltd, Dublin (Nominated by the Small Firms Association)
<b>Mr Daniel Hickey</b>	All in All Ingredients Ltd, Dublin (Nominated by the Irish Small & Medium Enterprises Association)
<b>Mr Michael Johnson</b>	Dun Laoghaire/Rathdown Enterprise Board
<b>Ms Jacqui McNabb</b>	Carlow Chamber (Nominated by Chambers Ireland)
<b>Ms Breda O'Driscoll</b>	Ultrasonic Scientific Ltd, Dublin
<b>Mr Conor O'Mahony</b>	Department of Enterprise, Trade & Employment
<b>Mr James O'Sullivan</b>	M&P O'Sullivan Ltd, Cork
<b>Prof. Frank Roche</b>	University College Dublin
<b>Ms Rosemary Sexton</b>	Enterprise Ireland
<b>Ms Rita Shah</b>	Shabra Plastics & Packaging Ltd, Monaghan

## Secretariat

**Secretariat to the Forum was provided by the Enterprise Division of Forfás:**

**Ms Marie Bourke**  
Department Manager

**Mr Edmond Hearne**  
Assistant Economist

**Ms Maria Hurley**  
Senior Policy Analyst

**Mr Enda McDonnell**  
Senior Policy Analyst

**Mr Alan Quirke**  
Graduate Trainee

**Mr Andrew Stokes**  
Policy Analyst

# C

## Appendix C:

# Submissions Received

The Small Business Forum received submissions from the following individuals and organisations:

- Air Electric, Research and Development
- Association of EC Business & Innovation Centres in Ireland, The
- Association of International Accountants
- Bank of Ireland
- BGM Consult Ltd
- Border, Midland and Western Regional Assembly
- Boyle, Tommy
- Burke & Co
- Callanan, Dr Sarah
- Chambers Ireland
- Cork Business Innovation Centre
- Cork City Challenge
- Council of Directors of Institutes of Technology
- D'Arcy Smyth & Associates
- Donegal County Enterprise Board
- Dublin Business Innovation Centre
- Dublin Chamber of Commerce
- Dublin Institute of Technology, Faculty of Business
- Emerge
- Enterprise Ireland
- ESB Customer Supply
- First Step Microfinance
- Fitzpatrick Associates
- Foras na Gaeilge
- Fullard, Frank
- Galway Chamber of Commerce
- Galway County Council
- Idir Technologies
- Industry Research and Development Group
- Institute of Certified Public Accountants in Ireland, The
- Institute of Chartered Accountants in Ireland, The
- InterTradeIreland
- Irish Bankers Federation
- Irish Business and Employers Confederation
- Irish Euro Info Centre Network
- Irish Exporters Association
- Irish Franchise Association
- Irish National Organisation of the Unemployed
- Irish Rural Link
- Irish Small and Medium Enterprises Association

- Irish Software Association
- Irish Tourist Industry Confederation
- Irish Venture Capital Association
- Kerry County Enterprise Board
- Labour Relations Commission
- Lavin, Declan
- Lavin, Geraldine
- Limerick City Enterprise Board
- Longford Women's Link
- M50 Enterprise Platform Programme
- Macroom Motor Factors
- Maher, John
- McGillicuddy, Miriam
- Michael McCabe and Associates
- Mulcahy, Diane
- National Centre for Partnership and Performance
- National Qualifications Authority of Ireland
- Network of County and City Enterprise Boards
- Oak Tree Press
- O'Sullivan, Finbarr
- Park Hotel Kenmare
- PLATO Ireland
- Sligo County Development Board
- Small Firms Association
- South Tipperary County Development Board
- TASTE Council
- Teagasc
- The Three Little Pigs Co
- Thornes, Peter
- University College Dublin, School of Business
- University of Dublin, Trinity College, School of Business Studies
- Van Der Laan, JJ
- Vincent Tully Ltd
- Western Development Commission
- Westmeath County Development Board

# D

## Appendix D:

# Suggested Format of Small Business Release

As discussed in Chapter 1, the Small Business Forum commissioned DKM Economic Consultants to compile a statistical profile of the small business sector. Due to the absence of comprehensive, consolidated data relating to the economic impact of small business, this piece of work was essential, in order that the Forum's deliberations and recommendations be informed by empirical evidence.

In order to address the existing dearth of reliable data on the economic activity of the small business sector, the Forum recommends that the Central Statistics Office compile and publish an annual Small Business Release. This Release should present robust, up-to-date data on a range of indicators relevant to small business.

**For illustrative purposes, presented below are a number of these indicators. In some cases data are available and need only be separated out for small business; in others, available data are limited or non-existent. The tables below are for illustrative purposes only – where data are included they are drawn from the DKM report.**

# 1 The Number of Small Businesses and Sectoral Distribution

Data below are drawn from the DKM study, the *Economic Impact of Small Business in Ireland*

## Estimation of Number of Small Enterprises by Sector

NACE Classification	Number of Small Enterprise ('000)			Annual Average Growth	
	2005	2000	1995	2000-2005	1995-2000
C-E Industry	22	22	16	0.1%	6.3%
F Construction	63	53	27	3.4%	14.4%
G Wholesale and Retail	42	43	43	-0.2%	-0.1%
H Hospitality	15	16	16	-1.3%	0.4%
I Transport, Communications	27	19	12	7.6%	9.6%
J Financial Services	5	3	1	8.2%	32.5%
K Business Services	34	30	20	2.6%	7.7%
M Educationa	5	4	3	6.5%	6.0%
N Health	12	11	6	2.1%	11.2%
O Other Services	24	19	15	4.7%	4.4%
<b>Total</b>	<b>250</b>	<b>220</b>	<b>160</b>	<b>2.6%</b>	<b>6.6%</b>
<i>Small Firms as % of Total</i>	97.0%	97.5%	98.0%		

# 2 Numbers Engaged in Small Business

Data below are drawn from the DKM study, the *Economic Impact of Small Business in Ireland*

## Estimation of Workforce in Small Enterprises by Sector

NACE Classification	Number of Persons Engaged			Annual Average Growth	
	2005	2000	1995	2000-2005	1995-2000
C-E Industry	108	109	69	-0.1%	9.4%
F Construction	213	154	86	6.7%	12.4%
G Wholesale and Retail	154	145	105	1.2%	6.7%
H Hospitality	67	65	42	0.4%	9.5%
I Transport, Communications	33	29	16	2.2%	13.2%
J Financial Services	9	7	5	4.3%	7.8%
K Business Services	92	80	43	3.1%	12.8%
M Education	14	12	11	3.5%	1.6%
N Health	18	14	12	6.1%	2.5%
O Other Services	68	48	45	7.4%	1.1%
<b>Total</b>	<b>777</b>	<b>664</b>	<b>435</b>	<b>3.2%</b>	<b>8.8%</b>
<i>% Total Private Non Agricultural Workforce</i>	53.5%	51.5%	49.1%		



### 3 Regional Distribution of Small Business

Limited data currently available by NUTS 2 region, ideally the data to populate the following table must be compiled.

#### Regional Distribution of Small Business (NUTS 3)

NACE Classification	DUBLIN	SOUTH EAST	MIDLAND	SOUTH WEST	BORDER	MID WEST	WEST
C-E Industry	-	-	-	-	-	-	-
F Construction	-	-	-	-	-	-	-
G Wholesale and Retail	-	-	-	-	-	-	-
H Hospitality	-	-	-	-	-	-	-
I Transport, Communications	-	-	-	-	-	-	-
J Financial Services	-	-	-	-	-	-	-
K Business Services	-	-	-	-	-	-	-
M Education	-	-	-	-	-	-	-
N Health	-	-	-	-	-	-	-
O Other Services	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-
As % all small Businesses	-	-	-	-	-	-	-
Small Businesses as % of total	-	-	-	-	-	-	-

### 4 Contribution of Small Business to GVA

Summary of GVA are presented below by broad sector, The Small Business Forum believes that these dates should be compiled and published by NACE classification.

#### Summary of GVA Data for Small Firms

	INDUSTRY	SERVICES	CONSTRUCTION
<b>Aggregate GVA</b>	€m	€m	€m
2003	2,403	14,787	7,222
2000	2,649	9,908	5,361
1995	1,622	n/a	2,292
<b>As % of Toal Sectoral GVA (note 3)</b>	<b>Total</b>	<b>Traditional</b>	
2003	5.7%	11.1%	70.5%
2000	7.5%	15.5%	74.9%
1995	10.4%	12.3%	89.8%
<b>GVA per person engaged</b>	€	€	€
2003	39,600	38,400	44,700
2000	46,200	34,100	34,700
1995	31,600	n/a	31,300

## 5 Turnover and Exports of Small Business

Limited data are available here, although in the services sector, only firms with greater than 20 employees are included and in industry, only firms with greater than three employees are included. Complete data should be collected here by NACE classification where available. Data below is drawn from the DKM study, *The Economic Impact of Small Business in Ireland*

### Summary of Turnover and Export Data for Small Firms

	INDUSTRY	SERVICE	CONSTRUCTION
<b>Total Turnover by Small Firms</b>	€m	€m	€m
2003	7	58.24	15.95
2000	7.54	44.65	12.55
1995	5.06	n/a	5.21
<b>Average Turnover by Small Firm</b>			
2003	1.92	7	3
2000	1.94	7	2
1995	1.50	n/a	2
<b>As a % of Total Sectoral Turnover</b>			
2003	7.2%	46.4%	67.0%
2000	7.4%	49.3%	71.4%
1995	10.7%	n/a	82.1%
<b>Total Exports by Small Firms</b>			
2003	2.18	276.0	n/a
2000	2.0	n/a	n/a
1995	1.72	n/a	n/a
<b>Exports by Small Firm</b>			
2003	535	95	n/a
2000	619	n/a	n/a
1995	510	n/a	n/a
<b>As a % of Total Sectoral Exports</b>			
2003	2.6%	4.0%	n/a
2000	3.2%	n/a	n/a
1995	5.9%	n/a	n/a

**Small Business is Big Business**

*Report of the Small Business Forum*

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