

How can government support business growth in the uk

[Government](#)



How Can Government Support Business Growth in the UK? Judging from major shopping centres and high streets, it is easy to conclude that the UK is dominated by large successful businesses. “ However, Office for National Statistics figures (2008) show that 89% of all UK enterprises have less than 10 employees and 98. 1% have less than 50 employees; the very largest companies account for just 0. 4% of all UK business enterprises” (Birchall, 2009). Although there are several advantages of being a small firm, most businesses want to grow and this inspires the question: “ What is business growth? LinkedIn (2012) defines business growth as “ an innovation that delivers solutions to customers while adding value both internally and externally to our processes as well as increasing customer value while increasing profits”. In less complex terms, a business is said to be growing when it gets a better return on its investment. In this essay, I will be discussing the ways the government can support business growth. In doing this research, a question popped in my head, “ Why should the government support business growth? ” One of the major problems facing the UK currently is unemployment.

Once a business starts growing, it is essential to hire more people to help power the development and ensure stability. As such, the problem of unemployment will be considerably reduced. Secondly, Stokes and Wilson (2006) have argued that “ in recent times, small firms have proved to be an abundant source of very inventive ideas however, they lack resources to put them into practice without external assistance”. They also highlighted the fact that small firms are essential to compete with larger companies by

providing alternating sources of supply thereby playing an immeasurable role in the anti-monopoly policy.

Insufficient finance is a major cause of business failure and this is one of the major hindrances encountered by businesses in their pursuit of growth. “ Finance is critical for starting, maintaining and growing small and medium businesses therefore, it is vital that both start-ups and existing businesses have access to the full range of debt and equity financing options” (Department for Business Innovation and Skills, 2010). Cameron (2011) in his speech about the role of small businesses expressed his shock at the way small and medium enterprises are blocked out of procurement and acquisition opportunities.

In applying for bank loans, a business is required to possess a form of collateral or guarantee to support the application. Unfortunately for most businesses, they do not have sufficient collateral to back the application. The government can therefore set up schemes to help entrepreneurs obtain finance from financial institutions by agreeing to guarantee loans. For example, in 2011, Hong Kong launched the SME Loan Guarantee Scheme which was aimed at helping small and medium enterprises (SMEs) obtain loans from financial institutions and in one year, there has been tremendous growth in several industries (SME Fund, 2012).

In addition to guaranteeing loans, the UK government can also help firms or industries attract external investors or experts in specific fields – private individuals and companies. This can be achieved by either providing certain incentives to the investors and experts who will not only provide the funds needed to run the business but possess the knowledge and expertise

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required to grow the business; or creating a platform for entrepreneurs to present their ideas to these investors. In 2005, the British Broadcasting Corporation, backed by the UK government launched a show, Dragon's Den (BBC, 2012).

This was aimed at giving entrepreneurs the opportunity to pitch their businesses to five of the most wealthy business moguls in the UK. Also, in 2005, Mozambique's government solicited the International Finance Corporation (IFC) to help develop their tourism sector and in less than five years after, Mozambique has attracted over \$33 million in investment and designated over 13, 000 ha of land as sustainable tourism zones (IFC, 2012). The government can help the unemployed and disadvantaged start-up businesses of their own through special schemes.

In 1999, the government recognised the need to encourage start-ups in disadvantaged companies so the Phoenix Fund was set up (Open Forum, 2012). The major objective of this scheme was to encourage investment in new and growing businesses. However, the unemployed population are still being ignored and some of them genuinely want to work but have met with one difficulty or another (Open Forum, 2012). The government can help by creating enabling opportunities for people to set up their own businesses at home. They can also set up Enterprise Allowance Schemes which will serve as incentives to these entrepreneurs.

Furthermore, the government can interfere with the free market and save failing businesses. However, there are two sides to this coin. On one hand, government's intervention through policies would result in a better controlled trading environment and can stabilise faltering economies. An <https://assignbuster.com/how-can-government-support-business-growth-in-the-uk/>

example of this is the 2008 financial crises when the UK government stepped in to help the large banks and struggling automakers. On the other hand, government's interventions may result in inefficiency such as price floors e. g. EU's Common Agriculture Policy which created huge surpluses (excess butter to make a cube of butter with 125m sides) (Debate Org. 2012) Another way the UK government can support business growth is to lighten the burden of taxation and administrative processes required to start up and run a business. The Bolton Committee suggested that taxation policies should reflect the government's encouragement of entrepreneurial activity and improve the marketability of small businesses i. e. improving the degree to which an asset can be traded in the market without affecting its price (Stokes and Wilson, 2006). The government responded to this suggestion by giving small firms the advantage of benefitting from lower corporation tax rates.

For example, a company with profits from ? 50, 000 to ? 300, 000 has a tax rate of 19%. However, once profits increase above this range, they are liable to the full 30% tax rate (UK Legislation, 2012). Similar to all other businesses, even the very small firms are responsible for health and safety on their premises for all workers and customers. For example, The Safety at Work Act (1974) and the Offices, Shops and Railway Premises Act (1963) give employers thorough responsibilities ranging from machinery safety to even the temperature of the working environment.

Another example is the Disability Discrimination Act (1995) which requires employers to take steps to ensure disabled employees are not discriminated against. Small firms have experienced major difficulties in following these

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regulations to the letter. The government can help here by reducing its requirements regarding very small firms and by encouraging their inspectors to increase their awareness of smaller firms' interests (UK Legislation, 2012). The third way in which the government can support business growth is in the provision of information and advice.

Of all the factors initiating growth, the most important is luck and the ability to be aware of chance opportunities (Gill, 1985). In 1993, the UK government launched what Stokes and Wilson (2006) refer to as “ a network of independent local business information and advice centres offering a range of services to the business community, designed to enhance the competitiveness of local companies”. This network is known as Business Links. The government can develop this initiative by providing online information and services thereby, reaching a larger range of businesses.

However, Office for National Statistics (2008) show that 24% of SMEs lack online presence. Therefore, in addition to providing online information, the government has to encourage these companies to log on to the internet. Business owners and entrepreneurs tend to value advice from experienced business moguls. Therefore, the government can set up “ business mentoring organisations that will provide practical advice and contacts for other businesses, based on hands-on experience” (Department for Business Innovation and Skills, 2010).

In 1972, on the recommendation of the Bolton Committee, the Small Firms Service (SFS) was set up to provide information through a network of 13 Small Firms Centres (SFCs); however, this service packed up in 1990 due to the irresponsibility and negligence of the management. In spite of the failure <https://assignbuster.com/how-can-government-support-business-growth-in-the-uk/>

of the service in the UK, other governments recognised that if these organisations were successful, the benefits cannot be over-emphasized (Open Forum, 2012). They therefore set up similar schemes e. g. the United States Small Business Administration, the Australian business services portal of the Department of Industry, Tourism and Resources and the Small Business Directorate in the Ministry of Economic Development in New Zealand (LinkedIn, 2012). Business growth brings improved survival prospects through larger market shares, diversification into different markets and greater finance. It also brings an increased feeling of status and power. Most importantly, it enables a firm enjoy economies of scale. Wikipedia (2012) defines economies of scale as “ the cost advantages that an enterprise obtains due to expansion”.

The common sources of economies of scale are purchasing - bulk buying of materials through long-term contracts, managerial - increasing the specialization of managers, financial - obtaining lower-interest charges when borrowing from banks and having access to a greater range of financial instruments, marketing - spreading the cost of advertising over a greater range of output in media market and technological - taking advantage of returns to scale in the production function. In the 1990s during the Asian economic crises, Tesco saw this as an opportunity to enter the market and once the economies started to recover, they emerged stronger.

Today, they are the market leader in Thailand (Floyd, 2011). Whereas growth is encouraged, there are a number of possible problems arising from growth. Firstly, expansion brings pressure on a firms' liquidity e. g. as a result of offering additional credit to encourage sales, and on its level of gearing. Also,

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although growth may have been planned efficiently by managers, they may find that this growth makes the firm's various functions or projects more difficult to co-ordinate and to control, and its communication procedures slower.

In addition, there is no guarantee that what is popular in the UK market will become equally popular overseas, because of local and national differences (e. g. due to culture). Control and co-ordination also become more difficult as a result of international expansion. A good example of when business growth has been a huge disadvantage to a company is General Motors Limited in the USA (Open Forum, 2012). In conclusion, the three ways in which the UK government can support business growth are by improving access to finance, making information and advice available to people and by lightening tax and administrative load.

However, even though supporting business growth is essential, it is important that this growth be controlled because even though small firms make less profit than the larger ones and have low chances of surviving in the dynamic world of business, they offer a better and more flexible service to customers and their staff often benefit from high levels of motivation. They are also able to exploit their size and take advantage of the opportunities presented by diseconomies of scale suffered by large firms.

Most importantly, they play an important role in ensuring the economy remains balanced. Reference List * Birchall, N. (2009) 'Survival of the smallest', Business Review Journal, (Sept 2009), pp. 5-7 * British Broadcasting Corporation (BBC) (2012) Dragon's Den [Online]. Available at: <http://www.bbc.co.uk/programmes/p01009mj> (Accessed on 13th October 2012) <https://assignbuster.com/how-can-government-support-business-growth-in-the-uk/>

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