

“It’s all about jobs” - an SME perspective on the economic crisis

Our survival in this crisis depends on business, from small shopkeepers at the heart of their communities, to large multinationals. Businesses are the crucial asset on the UK PLC balance sheet, because we generate jobs, wealth and taxation revenues, whether that's on dividends, personal tax of our employees, or tax on profits. This is what in part pays for the wages of our nurses, teachers, soldiers - and civil servants pensions. Because of our ability to create wealth, we're at the heart of this crisis; but it's not just an economic crisis, it's a social crisis too. And it's all about jobs.

Micro, small and medium-sized enterprises, SMEs, are key. An SME is defined by headcount, turnover or balance sheet, with micro defined as up to 10 employees, small up to 50, and less than 250 employees classified as medium-sized enterprise.

SMEs represent 99 % of the estimated 23 million enterprises in the EU and provide around 75 million jobs, about two-thirds of all employment.

And therein lies a major challenge to job creation. Personally, as someone who has created and grown several successful micro enterprises, and taken YTKO through rapid growth from 24 to 47 to 83 employees in the past 2 years, I know that there is a vast, fundamental difference at three key stages of the business journey. These are: taking on that first employee, going through the 10 employee family, and then growing through the 50 employee challenge to become a proper company.

But we formulate our regulatory, business support and financial policy for **ALL** SMEs. This is far too large a grouping, too blunt an instrument, to make an effective stimulus to the UK business base, which is largely micro and small. Nearly 90% of all UK businesses have less than 10 employees, and 98% have less than 50.

Lumping these very different business types, with very different needs, into one policy target, acts as a deterrent to growth and job creation. SME should be redefined to a maximum of 100 employees; there is far less difference between 101 and 1001 than there is between 1 and 100. I'll give you three examples of why treating companies with up to 250 staff as a homogenous group doesn't work.

In our public sector work, all of which is not for profit, we're one of the UK's leading experts on helping people from the most disadvantaged backgrounds, and from our most deprived areas, to become self-employed. Every year we enable the creation of well over 400 new jobs and businesses through our Outset brand, and we're on a mission to create or support the growth of over 6000 businesses by 2020, who together will contribute £1b each year to the UK economy.

Now, all these businesses, no matter what size, have to wrestle with the same regulatory policy – Agency Workers directive, Working Time directives, VAT, Maternity Pay, Employment law, H&S - as does a multinational with huge resources at its disposal. Yet the impact of getting it wrong is both massively more likely and far more dangerous for a micro or small business. It's no wonder that so many of the 2000 people and businesses we work with each year, say to me that they would like to grow but have chosen not to, due to all the additional stress and worry that comes with creating employment.

In particular, our employment law, and the ease with which vexatious claims can be threatened and brought, is a key barrier to new job and wealth creation for small and micro businesses. As a successful entrepreneur, I now have to employ two people purely to keep us legal and compliant, and this comes straight off the bottom line.

Secondly, a much more finely grained and highly targeted approach to business support would see resources focused only on those ambitious businesses who DO want to grow to the next level, particularly from 1-2, 10 – 50, and 50 upwards. This would do a great deal to unlock job creation potential, strengthen and reprofile the SME business base, and stop the decline in VAT or PAYE registered businesses – now nearly 4% in the last three years.

We know exactly what the barriers are, and have robust evidence of what works to overcome them and accelerate business growth, turnover, profitability, exports and job creation, as well as getting people off benefits and into enterprise. For example, for women-owned businesses, our national research showed that with just 226 women who were ‘stuck in achieving their growth potential’, overcoming those barriers would increase their turnover from £47m to £232m, and create nearly 3000 jobs, in three years.

Instead of targeting support for those ambitious micro and small companies, those 98% of our businesses, our government has chosen to procure a couple of days coaching support ONLY for those enterprises with “high growth potential” – by their own definition, a maximum of 6% of all UK companies. This cherry picking might help the private equity market, but what about the rest who need a bit of help to grow?

Thirdly a more differentiated approach regarding finance will reap rewards for the economy. Employers NI is a tax on jobs. My tax penalty for growing YTKO and creating all those new private sector jobs is well over a £250,000 this year. Why? What incentive is that for me to take on even more people and reduce unemployment?

If I hired an unemployed person claiming JSA, and paid them £18,000 a year, the government would not only save £3500 annual benefit cost, but receive the same amount again in personal tax, plus another £1600 for my employer national insurance. Net return to the govt around £8500. So you can afford to give me a NI break, Mr. Osborne - go ahead, make my day!

Or alternatively, give me a stimulus through R&D tax relief to encourage me to take the risk of investing in developing more innovative business products that, if successful, will help me become more productive, efficient and competitive, and enable me to create more new jobs and pay the government more taxes. I’m ambitious to grow my service business through innovating better than my competitors, and building a global brand. So why do you restrict these R&D tax allowances purely for resolving scientific or technological uncertainty?

Although it’s bad enough that we spend so little of our GDP on R&D, at just 1%. That’s not going to create the high value, high skilled jobs and world beating, value-added products and services that we’re going to need to compete with the BRIC economies. Our fine and long British tradition of great invention also needs to be

balanced with much greater knowledge of innovation – taking a new product or service to market and generating wealth from it. Improving our commercial and management skills is badly needed – I see that all the time.

So stimulating investment in SME skills, and more specifically getting education right, is a key imperative. As Lord Digby Jones says, it's a national scandal that nearly 20% of adults are functionally illiterate after 11 years free education.

There are fewer and fewer jobs for these unskilled people, because as a nation we can't compete on price and cheap labour any more, we've already been overtaken; and as unemployment increases, social cohesion breaks down and the spiral of welfare dependency takes hold. This is particularly so for young people: if you take away their future, they've got nothing to lose.

We stifle aspiration and self-worth at our peril. All people must be equipped for the world of work in a global economy. Yet we spend more than twice as much on welfare as we do on education. How can we take on India, China and Brazil if we don't have a numerate and literate workforce, and when it doesn't pay for able people to take responsibility for themselves, both socially and economically?

In conclusion, redefining 'SME' to accurately reflect the UK's business profile and its needs, and incentivising growth and ambition at the critical stages within that profile through more refined policymaking, will reap rich rewards.

Finally, I'd like to leave you with a parting thought about a different kind of job. As UK plc, we select, employ and pay our politicians to serve us, just like, as a small business, I interview and employ people to carry out our work.

So, why can't we put knowledge and expertise before politics, setting job descriptions for MPs that includes first hand experience of the real world of small business – the vast majority of MPs who make our laws have none. Or degrees in science, maths or engineering, all vital to this country's future. None of the current cabinet has one. And for Ministers, a requirement for a sectoral background and expertise in their Ministry.

That way we might create policies based on real knowledge, understanding and experience, that enables, stimulates and supports, rather than stifle, business growth and job creation.

Bev Hurley
Chief Executive, YTKO