

Discussion Paper - Business Start-ups

Version Control

Version	Author	Date of amendment
Version 1.0	Matt Shufflebotham	14 th June 2011
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1. Introduction

- 1.1.1. This short paper highlights the current situation with regards to business start-ups in Staffordshire and Stoke-on-Trent, while also attempting to highlight issues that may be preventing businesses from being created or moving to the area.

2. Overview of the current situation

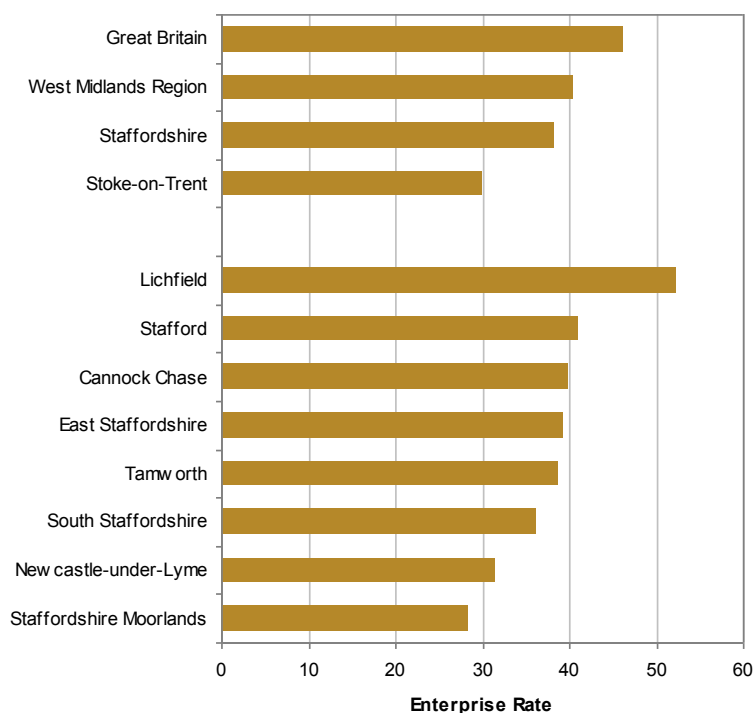
2.1. Enterprise Levels

- 2.1.1. Enterprise levels are often measured by dividing the number of new businesses registering for VAT or Pay as You Earn tax¹, by the resident population of an area aged 16 and above. This is known simply as the “enterprise rate”.
- 2.1.2. Enterprise rates tend to display a general pattern of higher levels of enterprise in the southern parts of Staffordshire when compared to the north, as shown in figure 1. By far the lowest business birth rates in Staffordshire in 2009 were in Stoke-on-Trent, Staffordshire Moorlands and Newcastle-under-Lyme.
- 2.1.3. Overall, Staffordshire County is shown to have a lower business start-up rate (38.2) than both the regional (40.4) and national (46.1) averages. In Stoke-on-Trent there were just 30 business start-ups per 10,000 16+ resident population in 2009, some 16 less than in Great Britain as a whole. Of course, the number of business start-ups will have been affected by the economic downturn, although it should be noted that the business start-up rates in Staffordshire and Stoke-on-Trent have been significantly below the national average for a number of years.

¹ This is often referred to as a business birth, a business which exists in the reference year but not in either of the previous two years. Births do not include entry into the population as a result of mergers, break-ups, split offs or other restructuring, but may include businesses that have previously existed and not previously registered for VAT or PAYE purposes.



Figure 1 - Enterprise - Proportion of business births per 10,000 resident population aged 16 and above



Source: Business Demography 2009

- 2.1.4. While the overall figures appear to show that entrepreneurship is relatively low within the County, there are significant differences within the Staffordshire Districts. In Lichfield there were 52.2 business start-ups per 10,000 16+ resident population in 2009, a much greater level than any other Staffordshire District and the average for Great Britain as whole. This compares to Staffordshire Moorlands and Newcastle-under-Lyme which had business start-up rates of just 28.3 and 31.5 respectively in 2009. In general there has been a clear north-south divide in terms of enterprise levels that has existed for some time.

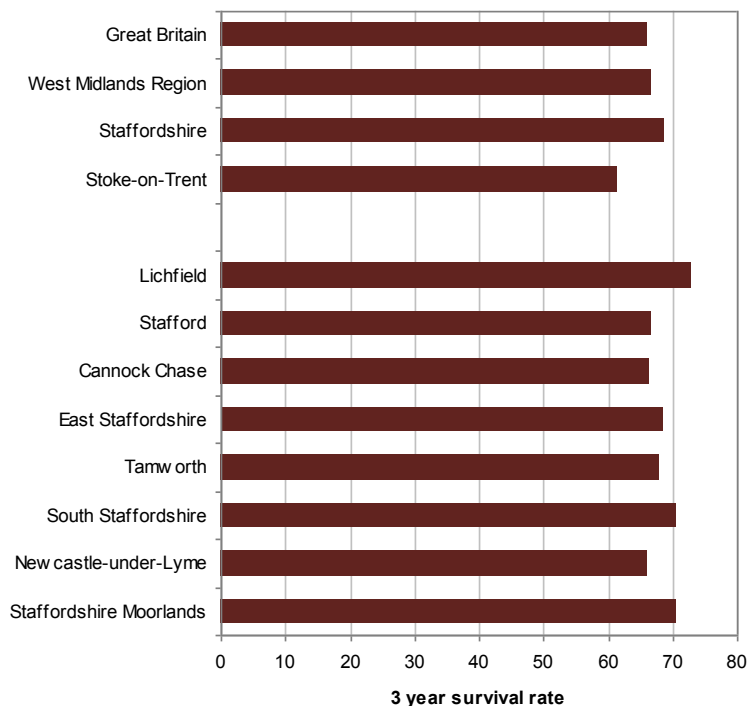
2.2. Business Survival

- 2.2.1. In addition to the creation of new enterprises, the survival of businesses is of crucial importance to the longer term sustainability and viability of the economy. Business survival rates provide a useful yardstick against which it is possible to measure the success of newly formed businesses in an area and the likelihood that they will still be operational within given periods of time.
- 2.2.2. Figure 2 shows the proportion of businesses born in 2006 that were still operating 3 years later in 2009. Overall in Staffordshire County, the 3 year survival rate (68.9) is shown to exceed both the regional (66.6) and national (66.1) averages. This appears to show that businesses that are created within Staffordshire are



more likely to survive than in the rest of the Country as a whole, on average. In Stoke-on-Trent, just 61.4% of businesses born in 2006 were still in existence in 2009, far below the regional and national averages. Therefore, Stoke-on-Trent not only has below average levels of enterprise but also poor rates of business survival.

Figure 2 – Survival – Proportion of businesses born in 2006 that were still operating 3 years later



Source: Business Demography 2009

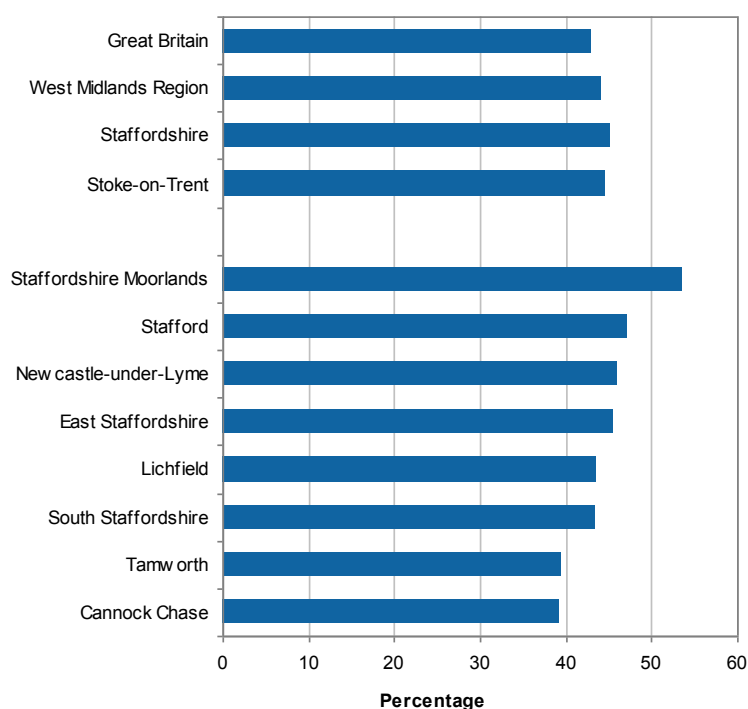
- 2.2.3. Similar to rates of enterprise, the levels of business survival amongst the Staffordshire Districts are also quite variable. As well as having the highest level of enterprise amongst the Staffordshire Districts, Lichfield is also shown to have the highest rate of business survival. Therefore, issues relating to enterprise and business survival are likely to be of least concern within Lichfield District. In contrast, despite having relatively high levels of business start-ups in comparison to the other Districts, business survival rates within Stafford Borough and Cannock are shown to be poor. This indicates that there may be problems relating to the turnover of businesses within these two Districts that need addressing.
- 2.2.4. Newcastle-under-Lyme is shown to not only have low levels of business creation, but also a poor business survival rate. This is similar to the pattern shown in Stoke-on-Trent and is possibly a reflection of the close links between the areas and traditionally lower levels of enterprise in the North Staffordshire area.



2.3. The Age of Local Businesses

- 2.3.1. Areas with a high proportion of businesses that have been in existence for 10 years or more may indicate places where there is a core group of businesses that are committed to the area. It is important to look at this because supporting established businesses could be just as important as promoting new enterprises. Interestingly, both Staffordshire County (45.3%) and Stoke-on-Trent (44.6%) are shown to have a greater proportion of businesses that have been operating for 10 years or more when compared with the regional (44.3%) and national averages (42.9%), as shown in figure 3.

Figure 3 - Business Age - Proportion of businesses in 2010 that have been operating for 10 years or more



Source: UK Business: Activity, Size and Location 2010

- 2.3.2. While Stoke-on-Trent is shown to have had a low level of business start-ups and poor survival rates in recent years, there is a large number of businesses present in the area that have been there for a long time. Given the difficulties there have clearly been in attracting new businesses to the area, supporting the development and expansion of companies already present within Stoke-on-Trent may prove to be more beneficial in terms of increasing employment opportunities.
- 2.3.3. While Staffordshire Moorlands had by far the lowest level of business start-ups in 2009, the District is also shown to have by the greatest level of mature businesses in the County. In 2010, just over 53% of all businesses in Staffordshire Moorlands



had been operating for 10 years or more. This highlights that there will be variation in the issues affecting job creation in different parts of Staffordshire. While business start-ups have traditionally been low in Staffordshire Moorlands in particular, this District has a strong base of businesses that appear to be committed to the area. Therefore, supporting existing companies in the area in any expansion plans may be more successful in terms of job creation than trying to attract new firms to the area.

3. **Economic theory behind barriers to business start-ups**

3.1.1. The strand of economic theory that attempts to explain why business activity is not spread evenly across geographic areas is spatial economics. Spatial economics is still very much developing as a field of interest and therefore does not offer a full explanation as to why businesses decide to locate where they do. However, factors that may affect the location decisions of firms, as discussed in some of the seminal papers on spatial economics include:-

- Ability of firms to make profit, related to business rates and cost of resources including wages
- Accessibility to customers, suppliers and resources (including finance)
- Skills and matching skills requirements to skills of population
- Desire of businesses to cluster for benefits such as knowledge sharing, creating economies of scale and reducing transport costs between producers and suppliers
- Planning issues including planning restrictions, land availability and the cost of land
- People with entrepreneurial qualities
- Leaders who drive innovation
- Government policy such as spending on regeneration projects and enterprise zones
- Technological improvements such as broadband allowing firms to locate further away for consumers
- Quality of the environment
- Availability and quality of surrounding services
- Preferences of each individual firm. For example, some firms may locate in Great Britain because they wish to be known as a British firm.
- Wider economic issues such as globalisation / deindustrialisation and the continuing impact on manufacturing employment. Exchange rates and interest rates also affect the competitiveness of the national economy given the impact on trade and the attractiveness of our exports.



- 3.1.2. Of course, this does not offer any answer as to what are the most significant issues affecting business start-ups in Staffordshire and Stoke-on-Trent. However, the issues are likely to vary for each individual firm, with a logistics firm being most concerned with accessibility and an accounting firm wanting their offices to be located in a high quality environment, for example.
- 3.1.3. While the barriers to businesses locating within the County is likely to vary for each individual firm, getting the 'package' right that we offer to businesses is likely to mean addressing a range of these issues. Some issues are clearly always going to be out of the control of any local authority within the area, particularly the wider economic issues such as exchange rates. However, the issues that we do have some control over need to be looked at to make sure that they are as 'business friendly' as possible.

4. Further views on barriers to business start-ups

- 4.1.1. Robert Weaver, an employee at business improvement consultancy Winning Moves, often discusses the issue of business start-ups through Twitter² and his blog³. He disagrees with the Chambers of Commerce and Federation of Small Businesses (FSB) view that red-tape⁴ is a major barrier to business creation, arguing instead that the major market failure at the moment is a lack of any support to those wanting to start in business. The lack of support may be financial but could also just as easily be guidance on regulations or advice on filling out forms. This is compounded by the current situation regarding Business Link, and therefore developing a strong business support function in Staffordshire and Stoke-on-Trent may have significant benefits in terms of business creation. It is also interesting to note that discussions with the local Chambers of Commerce has highlighted business support as being a major issue, with many local services offering business support but this not being joined up.
- 4.1.2. Winning Moves also strongly support research by the Kauffman Foundation, the World's largest foundation devoted to entrepreneurship. Their research shows that established businesses may actually destroy jobs due to factors such as continually striving for efficiency savings, although for every job lost by existing businesses three are created by new businesses (in a functioning economy). Of course, once again the issue here is whether the local economy is functioning properly and addressing any barriers that exist that are stopping new business creation. Therefore, rather than supporting existing businesses to expand, the Kauffman Foundation argue that the focus should be on creating new business start-ups. However, it remains uncertain whether an area such as North Staffordshire will be able to generate a vastly higher number of new businesses

² <http://twitter.com/#!/robweaverwm>

³ <http://robweaverregen.wordpress.com/>

⁴ Red-tape is often defined as excessive regulation or processes that are overly bureaucratic. Business groups such as the FSB often consider the tax system and the sheer amount of paperwork that needs to be completed when starting a new business to be excessively complicated.



and therefore it may be argued that supporting the existing businesses in the area may be a more suitable course of action.

4.1.3. Ron Botham, from the University of Strathclyde⁵, also supports the view that generating more business start-ups is the key factor behind job creation. One of his pieces of research⁶ shows that there is a very strong correlation between business birth rate and job creation, while an absence of high-growth businesses does not necessarily restrict employee job growth. It is therefore argued that generating as many business start-ups as possible will be a more successful job creation strategy, rather than attempting to support high-growth businesses within certain sectors.

4.1.4. Anecdotal evidence gathered through discussions at local business forums, and from the responses of local economic development officers in order to support the development of the Staffordshire Local Economic Assessment⁷ suggests that restrictive planning constraints⁸ and the continued lack of affordable finance from major lenders are major issues hindering business growth locally. Indeed, the success of schemes such as the Staffordshire Business Support Fund highlights the continued strong demand for access to affordable finance locally.

4.1.5. Discussions with the Federation of Small Businesses (FSB) also suggest that access to finance is a considerable issue, with a great deal of finance being removed during the economic downturn. The FSB also believe that accessibility may be an issue for businesses locating in the East and South-East of the County, while skill levels and environmental quality may also be significant issues in attracting firms to the County overall.

5. Conclusion

- Overall, business start-up rates in Staffordshire and Stoke-on-Trent are poor, while the rate of survival for newly formed businesses is actually quite good. This suggests that the correct measures may not currently be in place to create new businesses, although there is good support available once businesses are born.
- Stoke-on-Trent is shown to perform particularly poorly in terms of business start-up rates and business survival.

⁵ <http://www.rbotham.co.uk/home/reports-and-papers>

⁶ Ron Botham and Andrew Graves. University of Strathclyde and TBR. Regional variations in new firm job creation: The contribution of high growth business start-ups. 2011.

⁷ <http://www.staffordshire.gov.uk/lea>

⁸ Restrictive planning constraints can relate to a variety of things including the availability of land, ease of gaining planning permission and the efficiency of Development Control.



- Within Staffordshire County, the performance of Lichfield far exceeds that of any other District in both business births and survival. There is perhaps an opportunity to learn from why Lichfield has been so successful and see how things could be done better in the rest of the County.
- Staffordshire and Stoke-on-Trent has a relatively high level of established businesses, and it therefore may be prudent to support such businesses in further job creation. This is particularly true in North Staffordshire where business start-up rates have been poor in recent years.
- Establishing the barriers to business start-ups and any necessary interventions is a difficult task, largely because each individual business is likely to have a different set of requirements for a location. However, commentators within Staffordshire suggest that a major barrier at present is a lack of business support services for those people looking to start a business. Establishing a strong business support function may prove to be highly beneficial, although this should not be looked at in isolation from other factors that may be restricting business start-ups such as restrictive planning constraints, access to finance, accessibility, skill levels and environmental quality.

6. Possible further research

- An investigation into why certain parts of the County have been successful in terms of business start-ups, and how this can be replicated in other areas.
- A consultation exercise with businesses to gain their views on potential barriers to business start-ups that currently exist in Staffordshire and Stoke-on-Trent.

