

## **Business support as regulatory context: exploring the enterprise industry**

### **Abstract**

This chapter examines the interactions of formal and informal forms of small and medium sized enterprise (SME) business support, characterised as interactions within an 'enterprise industry'. An analysis of the interactions revealed in the existing literature for different forms of business support develops a new conceptual framework for understanding those varied forms of external influence targeted at SMEs that constitute and extend a 'patchwork quilt' of provision. This chapter focuses on how different forms of support and advice interact, the centrality of state influence and how such interactions can be considered part of a firm's regulatory context. This allows consideration of both business support and state regulations to move beyond conceptions of positive or negative impacts on factors such as firm growth. Instead it will establish a conceptual lens for considering how the different forms of external influence can shape the practices and attitudes of SMEs and their owner-managers. Policy-makers and organisations within the enterprise industry seeking to develop effective forms of support or regulation should not consider such activities in isolation or in simple, decontextualised positive or negative terms.

**Key words:** business support; advice; regulation; regulatory context; policy; enterprise industry

## Introduction

This chapter examines the interactions of formal and informal forms of small and medium sized enterprise (SME) business support by reading across the different literatures and debates that relate to different areas of business support. SME business support involves the external provision of services aimed at assisting SMEs in maintaining or improving effective business operations. A high-profile review of these services in the UK concluded that there has been significant growth in their provision, yet this lacks a clear rationale, is overly complex, has low awareness and take-up and lacks evaluation and evidence of impact (Richard, 2008).

The different sources and types of provision can be grouped together as an 'enterprise industry' (MacDonald and Coffield, 1991; Ramsden and Bennett, 2005; Greene, Mole and Storey, 2008), that is the organisations involved in the provision of services (support, advice) or influence (advocacy) relating to SMEs, whether new or established (Bennett, 1998, c.f. the 'entrepreneurship industry' defined by Hunt and Kiefer, 2017 p.233, as 'the goods and services explicitly intended for opportunity discovery and development by current and prospective entrepreneurs'). The enterprise industry is constituted by organisations and actors, including membership, professional services and advocacy organisations, that undertake roles in relation to SMEs on full-time or less frequent bases and that have created a 'patchwork quilt' of provision (Storey, 1994, p.304). This chapter focuses on how different forms of support and advice interact and how such interactions can be considered part of a firm's regulatory context. This allows consideration of both business support and alleged constraints such as state regulations to move beyond conceptions of positive or negative impacts on factors such as firm growth. Instead it will establish a conceptual lens for considering how the different forms of external influence can shape the practices and attitudes of SMEs and their owner-managers.

SMEs employ significant numbers of people in the world's major economies and, in contemporary international debates, are presented as the likely saviours of economies struggling to build sustainable growth. For example, SMEs are acknowledged to create jobs, although many SMEs fail and so they also account for a high proportion of job losses (see Anyadike-Danes, Hart and Du, 2015). Rainnie (1985, p.145) observed that small firms have been cast in political discourse as simultaneously the 'small furry animals' of the economy, needing support and assistance, and the 'shock troops' that will return the economy to prosperity (see also, Matthias, 1969, p.13). This continues to carry resonance today with these firms being targets for government interventions and a range of other initiatives and sources of support and advice in order to achieve ambitious economic goals (Wapshott and Mallett, 2017). The prominence of such debates and the literature focused on different forms of business support within the UK make this country an interesting case on which to focus the present chapter. Having such a focus (albeit one embedded in wider political contexts such as, at time of writing, the European Union) allows understanding of a specific national context to focus analysis of interactions between different sources of influence.

For the purposes of this chapter, SMEs will be defined as those firms employing less than 250 people, therefore including medium (50-249 employees), small (10-49 employees) as well as micro businesses (1-9 employees, OECD, 2005). This broad definition, widely used among academics and policy makers, is necessary when reviewing a range of literature that may become confused if one were to focus on particular, more discrete sizes of business. Nonetheless, irrespective of which definition is adopted, one of the biggest barriers to understanding the influences on SMEs is the heterogeneity of these firms in how they manage the challenges presented by their external and internal environments (Burrows and Curran, 1989; Rainnie, 1991). Perhaps as a result, the provision of business support for SMEs has been criticised for failing to engage with the diverse needs of a wide range of heterogeneous firms, reflected in low-levels of take up (Curran, 2000) and low satisfaction (Bennett, 2008). This may be due to the independence and desire for autonomy that is frequently used to characterise entrepreneurs and SME owner-managers (Curran, 2000). However, it is difficult to evaluate such provision (Curran, 2000; Storey, 2005) and, to fully understand SME support, it is important to consider the range of support available alongside other forms of influence and guidance that may be both formal and informal. This chapter suggests that a valuable focus in considering the eclectic mix of formal and informal support, advice and advocacy provided by the enterprise industry is in terms of a broadly conceived *regulatory context*.

Baldwin, Cave and Lodge (2012) present three ways of thinking about regulation. The first is as a specific, formalised set of commands or rules set out by an official body, for example state regulations directing firms to pay a minimum wage or to meet minimum product standards. The second constitutes less direct forms of state influence that are designed to influence the behaviour of individuals or organisations. This second understanding of regulation includes tax incentives or subsidies designed to encourage or discourage behaviours such as business start-up. However, regulation can also be defined in relation to a regulatory context which relates to 'All forms of social or economic influence: includes all mechanisms affecting behaviour, state-based and from other sources' (Baldwin et al., 2012, p.3). That is, forms of regulatory influence including but also beyond that of the state, such as corporations, self-regulators, professional or trade bodies, voluntary organisations and, therefore, the enterprise industry. Such regulation need not be deliberate or designed but could be incidental to other objectives.

Adopting the idea of a regulatory context, this chapter will argue that this conception is valuable for understanding external influences on SMEs, including support and advice services, and particularly for how they interact. The chapter will consider five key areas of SME support and advice: government support; membership organisations such as Chambers of Commerce; educators such as universities; professional advisors such as accountants; and large businesses and supply chains. The chapter will then briefly discuss state regulation as potentially transcending the characterisation of 'red tape' and providing a form of business support. The chapter will then conclude by discussing the value of understanding the different forms of SME support and advice as part of a regulatory context.

## **SME business support**

This chapter argues for the overlap, interdependency and potential contradiction of different forms of external influence on SMEs, suggesting this as a vital means of understanding SME support and traditionally viewed forms of constraint on an SME's ability to operate or to grow, such as state regulation. However, in order to map out key areas of the literature it is still useful to begin with apparently distinct areas of support and advice, especially that provided by governments, membership organisations, educators, professional services and large businesses.

### *Government support*

A key source of SME support in many economies is that provided or subsidised by the government under the auspices of enterprise policies, in the UK running to annual costs of £8bn (Greene et al., 2008), including £2.5bn focused specifically on business support services through the direct provision of advice as well as grants and subsidies that relate to non-governmental support providers (BERR, 2008). Storey (2005, p.474) defines SME policy as 'public policies [...] which use taxpayers' funds to directly or indirectly target primarily or exclusively SMEs'. Such policies commonly seek to address one or more of three types of information imperfection representing a market failure: ignorance of the benefits of business start-up; ignorance of the value of external expert advice; financial institutions over-valuing the risks of smaller businesses, creating a funding gap. Storey explains there may also be a case for government intervention where social returns exceed private returns (e.g. in particular industries or in response to societal challenges such as unemployment or social exclusion) such that private firms will not see the value in providing certain forms of SME support. However, as Storey (2005) remarks, it is often unclear whether the motivation for government subsidies and support relates to these externalities or to perceived information imperfections.

Nonetheless, 'EU countries have [...] introduced an almost bewildering range of policies to assist smaller enterprises' (Storey, 2005, p.486). This has covered a range of different areas responding to SME needs including finance, markets/demand, administrative burdens, premises, new technology and skilled labour and to government agendas, including entrepreneurial skills, entrepreneurial awareness, competitiveness, special groups and regional issues. While such support is popular across OECD countries, the types of market failure identified and addressed in these SME support services vary (Mole, Hart, Roper and Saal, 2008). This leads to

the government provision of support, subsidies and signposting as well as, in their role as powerful economic agents, governments creating opportunities for SMEs but also disadvantaging them, for example through bureaucratic procurement processes.

The social benefits of start-ups and SME growth are widely assumed to make such government intervention worthwhile. However, this can ignore problems such as very few high growth firms being responsible for job creation and the difficulties in identifying and supporting these businesses, with government attempts to do so making repeated failures such as almost exclusively targeting increases in the number of de novo firms (Shane, 2009; Mason and Brown, 2013; Wapshott and Mallett, 2017). Where self-employment is presented as an answer to social problems such as marginalisation and exclusion this also has problems since those best equipped to benefit from SME support are often those least in need such that government investment in the area can risk becoming subsidies for the well-off and well-positioned (see e.g. Mallett and Wapshott, 2015a, 2015b). Further, it can be difficult to ensure a distinctive offering from what is currently available from the private sector (Smallbone, Baldock and Burgess, 2002) and there may be negative impacts of intervention, such as creating perverse incentives but also restricting innovation, for example, due to excessive clustering (Molina-Morales and Martinez-Fernandez, 2009).

While the social benefits of entrepreneurship may be contestable, a key assumption underlying government business support remains the perception that there is a market failure that government needs to address. In addition to 'hard' business support such as loan guarantee schemes, subsidised loans or capital grants, this also leads to 'soft' business support including advisory assistance, sharing best practice and signposting (Ramsden and Bennett, 2005; Wren and Storey, 2002). However, Bennett (2008) suggests that if there was a market failure (e.g. in the 1980s), it is not apparent anymore (see also Greene et al., 2008). Mason (2009) analyses supposed market failures around funding for SMEs and how governments have attempted to intervene to address this, for example in terms of loan guarantee schemes, capital participation schemes and supporting the informal venture capital market, all of which have significant limitations. For Mason (2009, p.550) 'Supporting the informal venture capital market has [...] been largely an act of faith by governments' rather than one based on robust empirical evidence.

An alternative or additional rationale for government support for SMEs is to offset the alleged damage created by state regulation, for example in terms of compliance costs for resource-constrained firms. The assumption is that government imposes many of the burdens facing SMEs (e.g. Bolton, 1971; Priest, 1999) necessitating SME business support, perhaps therefore with a responsibility on government (e.g. Bannock and Peacock, 1998). Dennis (2011) analyses the balance between state-imposed impediments and supports for SMEs such that the different forms of balance produce different environments he classifies as compensating, competing (market oriented), limiting (few resources for support) and nurturing. The nurturing policy approach is where the state offers support while cutting forms of state regulation classified (especially within neoliberal, free market discourse) as 'red tape' and identifying them as the most popular in developed countries, including the UK. For example in the comparative analysis of Capelleras, Mole, Greene and Storey (2008), they identify that England, in comparison to Spain, has both lower levels of state regulation affecting new and small firms as well as greater take up of public sector start up support.

In the balance between impediments and support, Dennis (2011) suggests that it is the former that tend to have wider implications and to be more powerful, perhaps because of the challenges in effectively targeting and delivering supportive SME policy (Bridge, 2010). Further, the heterogeneity of SMEs and the variety of contexts and challenges they may face are such that what presents a form of support for one firm might represent an impediment for another. Particular pieces of guidance or advice, and how they are interpreted, will affect businesses in different ways (benefiting one but potentially proving dysfunctional for another) owing to differences in firm size, age and sector (Arrowsmith et al., 2003; Hart and Blackburn, 2005), competitive conditions and the responses of others in the firm's external and internal environments (Harris, 2000; Kitching, 2006). Discussing unitary effects of external influences such as state provision (or subsidies for) support, advice is therefore too crude. As discussed below, the relatively indiscriminate nature of impediments or constraints also means that where constraints (e.g. state regulations) are removed or reduced, the positives may be lost as well as any negatives. It is therefore vital to develop a fuller picture for forms of support as well

as constraints on SMEs, how they interact and how their effects may vary. A useful starting point are those organisations that seek to influence government but also frequently deliver government-backed support or initiatives.

### *Membership organisations: Chambers of Commerce*

The enterprise industry has, since the 1980s, undergone unprecedented growth (Greene et al., 2008, MacDonald and Coffield, 1991). This can be seen in terms of the number of membership organisations, support and networking groups based on a variety of forms of association along lines of common interest (Bennett, 1998). Those such as the Federation of Small Business (FSB), founded in 1974, very quickly recruited 30 000 members and, more recently, alternatives such as Enterprise Nation, founded in 2005, now claim over 70 000 members. These are large memberships, yet they represent a small proportion of the over 5 million SMEs in the UK (5.7 million, BEIS 2017, a lower number in the 1970s but still far exceeding the membership of the FSB).

Such organisations follow to some degree in the footsteps of Chambers of Commerce which have a much longer history (in the UK for over 250 years) and have been extensively studied by Robert Bennett. Bennett (2011, p.4), in a voluminous history of Chambers, defines them in terms of five key characteristics:

they seek to act as voices of the local business community; are voluntary (hence expressing independent, grass-roots local needs/desires); represent general interests (not individual interests of a firm or sectors); are locally rooted in a specific business community or an area; and their voice is derived from and legitimized by a deliberated process in an open and transparent way (such as consultation required by a memorandum and articles of association)

Bennett (1995) studied the choices involved in membership of these organisations, identifying the crucial element of the specificity of perceived benefits attracting members, requiring the limiting of access to more general benefits derived from the organisation's activities. Member-specific benefits include the local contact networks offered by Chambers of Commerce that serve as a means of meeting potential clients or suppliers (including business support services such as accountants or coaches) but also provide status in the community and often emphasise business referrals on behalf of network members. Newer forms of such organisations, such as Enterprise Nation, with less sectoral or regional specificity and more online forms of engagement have the potential to offer lower membership fees, partly due to infrequent and discontinuous engagement with services but meaning that if businesses materially benefit they receive an excellent cost/benefit ratio.

Advocacy roles relate to efforts by membership organisations to act as 'a voice for small businesses', lobbying government on behalf of their members but, in theory also on behalf of many non-members and in competition (or alliance) with other types of organisation such as think tanks (Arshed, 2017). Many Chambers of Commerce have contracted with government to provide additional services for a fee. Bennett (1995, p.258) notes that 'This income is of considerable significance and does give UK chambers a public role that is higher than any other UK business organisation.' However, such public-sector income is usually so constrained that it provides little financial support for their other activities.

The interactions between different forms of support is demonstrated by approaches whereby, instead of providing alternative support structures, government subsidises existing providers. This is broadly what happened in England where, partly due to its particular franchise systems, Business Link was seen by some commentators as essentially a nationalisation of business support services (Priest, 1999). Michael Heseltine, the government minister who led the creation of Business Link, has stated that he had wanted Chambers of Commerce to lead but that they generally were not up to a sufficient standard to compete internationally (Forte, 2011). Heseltine and others identified a lack of joined up support provision to be remedied using a 'one stop shop' approach that would utilise the expertise of Chambers of Commerce, Training and Enterprise Councils and Local Authorities through a Business Link franchise system. In effect this represented an attempt to rationalise the early development of the enterprise industry.

Bennett and Robson (2004) analysed the different types of franchise holders operating Business Link and found a very variable service, highlighting the importance of understanding the different sources of business support,

including Chambers of Commerce, local government and the private sector, and how they interact. Such forms of government intervention in the activity of the enterprise industry also requires new regulatory frameworks to safeguard taxpayers' money and, in theory, SMEs will ultimately benefit from such state regulation through checks and assurances on the support providers.

The increasing prominence of Chambers of Commerce, alongside other providers of support and advice, as subsidised by government with schemes such as the recent Growth Voucher initiative and, in the age of austerity cuts, increasing reliance on the enterprise industry to provide support to start-ups and SMEs promotes their activities but can also significantly constrain them (Bennett, 1995). For example, with the creation of Local Enterprise Partnerships (LEPs), Chambers of Commerce were again central to their establishment (Bentley, Bailey and Shutt, 2010). However, while policies such as setting up LEPs appear more localised and flexible, they are driven by top-down, centralised targets and bidding processes. One of the key changes from Regional Development Agencies to LEPs was a greater focus on LEPs bidding for funding, which effectively constrained their activities and focused their strategies along heavily regulated, centrally-planned lines (Bentley et al., 2010). It is therefore crucial to understand the ways in which the public and private sectors are interlinked in their influence on SMEs.

#### *Educators: universities*

Universities are an important source of education and preparation of a graduate workforce and are beginning to place more emphasis on the promotion and support of entrepreneurship (Culkin, 2006). Sanderson (1972) describes how universities (in England but representative of broader trends) began to move away from traditions of anything 'applied' being looked down upon and resisted as the perceived economic needs of the country created pressures for change, often pushed by state intervention such as setting certain requirements for state funding. This has prompted calls for universities to develop their role, for example in terms of collaboration with business (Wilson, 2012) and their 'third mission', which has broadened to include wider activity to foster engagement and support for SMEs and regional development (Pugh et al., 2016). The Wilson (2012) report on UK university-business collaboration argues for the benefits of mutual collaboration between universities and businesses in the context of universities as a 'national resource' (p.13). The less profit-oriented nature of universities, their third mission and their engagement with government sources of funding leads them to be focused on the supposed social benefits of entrepreneurship and small business but potentially also to address perceived market failures.

Culkin (2016, p.9), in a review of Higher Education Institution (HEI) activity supporting entrepreneurship, suggests that 'There is value in an entrepreneurial university taking a lead – within a region – in terms of being a focal point for thought leadership and initiatives'. As Culkin makes clear, HEIs can also be a focus of financial resources and government action, as for example seen in the case of England's University Enterprise Zones, which included 'a new £15 million pilot scheme [that] will allow universities to push through local growth plans and support entrepreneurship and innovation' (BIS, 2015, n.pag.). However, summarising criticisms of HEI engagement, Thorpe and Rawlinson (2014) argue that HEIs, and in particular business schools, fail to adequately engage with businesses and that 'students are poorly prepared for practical management, roles in small and medium-sized enterprises (SMEs), and entrepreneurship' (p.381). Further, the limited forms of support provided by HEIs are often decontextualised and inattentive to the needs of heterogeneous small firms (Devins and Gold, 2002).

Powell and Houghton (2008) present a case study of a university project using networking and action learning to address poor take up of traditional business support by SMEs and low levels of business engagement with HEIs. This evidences success for peer-to-peer action learning supported by HEI and reflects a common SME preference for events (e.g. networking, group based) rather than consultancy (Prochorskaite, 2014). A potential avenue for government funding is through HEIs and the relationship between government, universities and small firms seen as particularly important by some commentators (e.g. Wilson, 2012). For example, Mallett, Richter, Whitehurst and Sear (2016) present research on a government funded programme through which an HEI capitalised on its reach, reputation and resources to bring together managers from large

businesses and small businesses seeking to develop their managerial capabilities. In this way, different sources and forms of support from government (funding), HEI (expertise, facilitation) and large businesses (expertise, experience) interact to develop a successful SME support programme.

Pugh et al. (2016) argue that HEIs can (and should) broaden their activities, for example including

designing and running programmes to support entrepreneurship, innovation and business growth; engaging with policy-makers at the local, regional and/or national levels; acting as regional animateurs, engaging with businesses and communities in their localities for economic and wider social benefit (p.1358)

While much of the academic literature focuses on enterprise education and more traditional activities, HEIs may be potentially well equipped to engage with other forms of SME support. Understanding how different forms of support can productively interact may be key to utilising the unique resources and expertise of HEIs.

### *Professional services: accountants*

State regulation encourages and, in some circumstances, requires contact with external advisers such as accountants and solicitors. This relates to how to comply with state regulations and requirements such as how to file tax returns but also extends to more general support and advice. Accountants are one of the more popular and impactful sources of business advice due to perceived legitimacy, long term relationships and the development of trust, in contrast to less familiar sources such as government provision (Bennett and Robson, 1999; Mole, 2002; Scott and Irwin, 2009). Gooderham, Tobiassen, Døving and Nordhaug's (2004) study of small firms in Norway, found that the 'quality, rather than the longevity, of the relationship between firm and authorized accountant is an important antecedent of the degree to which small firms use accountants as business advisers' (Abstract). This makes sense where businesses tend to stick with the same accountants, even if they are unhappy with them (Marriott and Marriott, 2000). The advice received can extend far beyond traditional areas of accounting.

In Jarvis and Rigby's (2012) study they focused on human resource and employment advice, finding extensive advice and support from signposting to sharing their own experiences to accompanying their clients to employment-related meetings. Jarvis and Rigby's findings illustrate the development of perceived expertise through previous encounters with clients as well as internal experience of, for example, HR-related issues. This experience was supplemented by online resources and templates and some forms of training, especially in relation to state regulation. However, the degree to which such limited expertise could be tailored to the ends of different clients is unclear. Perhaps as a result, there were some concerns, especially amongst the smallest accountancy firms, about giving advice in areas in which they lacked expertise (e.g. reputational damage, litigation). Perhaps as a result, the accountancy firms, especially where mid-sized, employed HR-qualified staff or entered into partnership with HR specialists.

Assessing accountancy around the turn of the century in the context of deregulation and increasing IT use, Marriott and Marriott (2000) interviewed small firm owner-managers about the information they receive from their accountants. At a basic level, Marriott and Marriott found a desire amongst business owners to better understand the financial information in order to aid their business. Further, these owner-managers were positive about the move to 'management accounting' services where more strategic and easily understood and acted-upon information is provided by the accountant. Therefore, partly in response to government deregulation, accountants began to extend their provision to small firms in terms of providing information and advice that impacts upon the strategic direction and decision-making of the business. This provides an interesting example of interaction where support and advice is built on a basis of ensuring compliance with state regulation but also where, especially with deregulation, this support and advice moves into the gap created, extending the form of influence.

### *Large businesses and supply chains*

Larger businesses are not necessarily an obvious source of SME support but they do exert powerful influences on SMEs. Rainnie (1989) has argued that small firms who find themselves dependent on larger organisations, or otherwise subject to their influence indirectly, have very limited scope for determining management action. Moreover, the constraints operating on these dependent small firms serve to limit scope for employees to contest the ways they are managed and negotiate better terms and conditions of employment. Further, large businesses, especially those conceptualised as anchor institutions because of their involvement with and support for local communities (Smallbone et al., 2015), can provide formal forms of business support.

Beaumont, Hunter and Sinclair (1996), writing about businesses of various sizes, suggest how supply chain relationships can exert influence on employment relationships and practices both directly and indirectly. Direct influence might include auditing requirements asking specific questions (e.g. Investors in People), whereas indirect influence refers to relationships in which 'increased customer demands for improved supplier performance, increasingly supported by the results of auditing instruments, necessitate the supplier organization making internal changes to their management systems and techniques, and their working practices/arrangements in order to meet the increased expectations and demands of customers' (p.13). In this instance, the client may require cost-savings that indirectly require their suppliers to change work practices and train their staff as a consequence of these changes.

Large firms also, in their wider engagements and large scale local employment, inevitably develop informal influence, support and guidance, for example, in developing the skills and expertise of owner-managers or other employees they come into contact with (Wapshott and Mallett, 2015). An increasing part of the emphasis placed on corporate social responsibility has related to social purpose issues, including small firm development (Luetkenhorst, 2004). In the case of small firm support, Smallbone et al. (2015) highlight that much learning and development in these firms takes place on an ad hoc, informal and experiential basis. It may, therefore, be derived from 'participation in working activities and from interaction with suppliers, customers, employees and others' (p.vii). In addition to formalised interactions these are the informal and indirect elements of the SME support environment that supplements and perhaps supplants government and other national initiatives. Large firm requirements for their supply chains can be considered as a key element in the regulatory context but cannot be separated from potentially positive and supportive forms of influence on practices within the SMEs they engage with.

The sources of support, advice and influence discussed above are not intended to be exhaustive. The importance and prevalence of informal, often localised advice accessed by many SMEs from business angels, solicitors and bankers but also customers, family, friends and employees (Bennett, 2008) is often overlooked. Nonetheless, what this brief overview has sought to demonstrate is that the complexity highlighted in the influence of large firms can be extended to other forms of business support which can be usefully considered in terms of a regulatory context. Before outlining the value of this conceptualisation it is also worth considering traditional state regulation itself.

### **Regulation as support?**

Business regulation represents an attempt by governments and other bodies to influence or control organisational practices, for example in maintaining open markets but also in areas such as protecting employee rights. In this context, state regulation is frequently considered as disproportionately over-complicated, unnecessary and burdensome for SMEs (Edwards, Ram and Black, 2004). These discussions, in political discourse and many academic studies, focus on the negative effects of regulation, for example in constraining the growth of firms and supporting loud calls for deregulation (Mallett, Wapshott and Vorley, forthcoming). However, the complexity of the effects of state regulation on these firms, which can take dynamic, direct and indirect forms, merits further consideration (Kitching, Hart and Wilson, 2015; Kitching, Kašperová and Collis, 2015; Atkinson, Mallett and Wapshott, 2016).



Perceptions of state regulations and how these shape, among other things, business processes, management practices and investment decisions are important. Perceived impacts by regulatory requirements on strategic choice, for example in terms of how much control a business may have in setting its preferred goals and path to growth, can have real constraining impacts. For example, a belief in the dangers of state regulation may prevent a business owner from wanting to grow their business for fear of state interference. Further, state regulations requiring particular rates of pay, working conditions or other employee rights perform a vital social function but, at the same time, may make it more difficult for owner-managers in competitive environments to compete on price or to manage their labour force in the way they believe would most benefit their operational requirements.

As discussed above, state regulation can also have other, indirect effects on SMEs in terms of the support services they encourage engagement with, whether in terms of legal advice, accountancy or mediation. For example, Gooderham et al., (2004) highlight how, while some SMEs will access business support and advice through their accountant there is a large amount of variability driven by factors such as strategic intent. Where regulatory compliance encourages engagement with forms of external advice, claimed market failures where SME owner-managers may not have valued such sources of advice and support (Storey, 2005) may be overcome. In this way, market failures are overcome not by government subsidies or provision but through their regulatory actions. Traditional discussions of SMEs and forms of state regulation are at odds with such a focus since they tend to focus on state regulation in isolation.

This support and advice will constitute not only formalised interactions but also the overlooked informal and indirect elements of the SME support environment that supplements and perhaps supplants government and other national initiatives. The relevance of forms of business support, for example, have an important influence on how state regulation affects SMEs. As highlighted by Atkinson et al. (2016), in different firms the ways that state regulation is interpreted, enacted, ignored and negotiated produces a variety of unpredictable interactions between the formal rules and the informality associated with routines developed through owner-manager prerogative, external influence and employee negotiation. For Kitching (2016) 'external support networks play a - or perhaps *the* - pivotal role in shaping employer understandings of legal obligations to employees'. Providers of external support, such as the accountants discussed above, mediate the understanding and effects of state regulation within the firms for which they provide guidance and advice. Further, Kitching highlights the importance of informal forms of support, for example including seeking advice in interpreting state regulation and advice from family members who are also business owners, accountants, solicitors or other relevant occupations.

State regulation can have significant, direct positive effects, for example in protecting smaller businesses in terms of their property rights or from unfair business practices from their larger and better resourced competitors. But state regulation can have other positive effects more akin to the forms of influence categorised as business support. For example, Baldock et al. (2006) studied health and safety regulation in relation to small firms and identified that sales-turnover growth was significantly correlated with undertaking compliance-related improvements, especially in relation to visits from inspectors. It is possible that particular actions taken to ensure compliance with a particular form of state regulation, such as the introduction of clear policies or the formalisation of particular practices, could help to develop management skills and support SME performance or growth (Scott, Roberts, Holroyd and Sawbridge, 1989). It is in this way that state regulations have the potential to constitute a form of business support. However, very little research has examined this (Mallett et al., forthcoming).

### **Rethinking the regulatory context**

The brief overview of SME support provided in this chapter suggests the importance of considering forms of SME support and constraint in a more holistic way than tends to inform debates in this area. To achieve this, it suggests conceptualising the different influences on SMEs as mutually overlapping, interdependent and potentially contradictory and not in simple binary, positive or negative terms. This final section of the chapter will consider this reconceptualisation in terms of a regulatory context that relates to 'All forms of social or

economic influence: includes all mechanisms affecting behaviour, state-based and from other sources' (Baldwin et al., 2012, p.3).

This is not to discourage an emphasis on one type of approach over another but rather to place the different approaches to SME support in a broader context. Gibb (2000) highlights the potential implications of government policy that seeks to influence a particular type of external environment. In Gibb's analysis, the political discourse surrounding SMEs and entrepreneurship promotes particular ways to be an entrepreneur in the pursuit of growth and particular sources from whom to seek support and assistance (such as accountants, bankers) who reinforce these assumptions and instil forms of dependency. In this way, the different forms of advice and guidance (together with traditionally conceived forms of constraint such as state regulation) need to be considered together and in terms of the influence they exert on SMEs. This may have productive effects but may also dissuade or discourage different forms of SME activity such as giving less status to lifestyle businesses that fail to pursue business growth. Verduyn and Essers (2017) describe an example in which support providers can give guidance to migrant entrepreneurs that (perhaps inadvertently) reinforces us-them divisions even while attempting to integrate people into Western forms of entrepreneurship, limiting any emancipatory potential in terms of how this is experienced, for example by women ethnic minority entrepreneurs who do not 'fit' with this discourse.

Gibb (2000) describes how state policy has tended to focus on support for SME development, creating support structures which often involve subsidised programmes of training, finance and counselling; reinforcing an image of SMEs being in need of assistance from an enterprise industry of advisers, consultants and accountants as opposed to less formal, less commercially-oriented forms of support within a firm's operating environment such as personal networks as well as, potentially, HEIs or some forms of membership organisation. As a result, smaller businesses become customers and government intervention is focused upon the market that is subsequently created. Later work by Ram et al. (2013) suggests that such a subsidised industry creates vested interests where many intermediaries are constantly having to ensure they win government funding to secure their own futures. Vitally, Gibb persuasively argues that much of the activity undertaken in this domain is based on assumptions or myths that reflect and reinforce particular world views in relation to SMEs such as their need for guidance and advice and the appropriate ways to support them. Without regard for the robust research evidence and a deeper understanding of external influences on SMEs that may contest these myths, such perspectives and practices continue to create ignorance about the issues facing these businesses.

The prominence of specific myths of mischaracterisations (Wapshott and Mallett, 2017) is partly reinforced and reproduced by the centrality and influence of the state in many forms of SME influence. Curran (2000) suggests that, despite significant growth in publicly-funded SME business support, the evaluation of policies in this area has tended to lag behind their proliferation, suggesting, perhaps, that the benefits of such initiatives are taken as an act of faith rather than rigorous judgement. Curran identifies three important methodological concerns when evaluating government policy and support: additionality (reliably attributing outcomes to the specific programme), which needs to be offset against the deadweight (outcomes which would have resulted anyway) and displacement (firms not involved in the programme are negatively impacted). The difficulty of overcoming these measurement problems presents a significant challenge and potential limitation to evaluations of SME policy and support (see also Devins, 1999). This further highlights the necessity to unpick and understand different forms of influence and their interactions in developing a more holistic approach.

## **Conclusion**

This chapter offers two core contributions. Firstly, forms of influence on SMEs can be seen through too restrictive a lens if they are considered as 'positive' business support and 'negative' state regulation. There are a variety of overlapping, interacting influences on SMEs, many of them indiscriminate or poorly targeted. Some forms of advice or guidance may be positive for one firm and negative for another, with similar differences in the way state regulation is experienced. Kitching, Kašperová and Collis (2015) provide the excellent example

of SMEs being granted less regulatory burden by being able to file abbreviated accounts but, as a result, experiencing powerful knock-on effects such as making it more difficult to access finance from potential lenders less able to assess a firm's performance and potential risk. The different sources of overlapping, interacting influence derived from both the state and the enterprise industry are best understood as a regulatory context that will be experienced in different ways and at different times amongst the incredibly heterogeneous SME population of a given economy.

Secondly, central to many of the overlaps and interactions identified in this chapter and shaping many of the forms of influence on SMEs is government. This can be seen from direct provision to the subsidisation of forms of support to encourage SMEs to engage with forms of consultancy, the funding for initiatives delivered by membership organisation and HEIs to the push towards professional services firms to meet compliance with state regulations and accounting requirements. Local Enterprise Partnerships represent a particularly interesting case where, at a local level, different organisations including, potentially, local businesses, membership organisations, local government, HEIs and other regional stakeholders collaborate together to develop the region's economy (including support for SMEs). However, the provision developed by these organisations has been identified as constrained by a reliance on state funding, which requires bidding processes and conformity to centralised state targets (Bentley et al., 2010). This suggests that at the heart of the enterprise industry, and shaping much of its activity, is central government and the £8bn a year invested, directly and indirectly, into a wide variety of activities under the heading of enterprise policy.

Offering support while cutting state regulation is an example of the contradiction at the heart of free market neoliberalism: policies designed to lessen one form of government intervention while spending large amounts of money on other forms of government intervention. Deregulation is rarely a straightforward matter of ending particular compliance activities. In many economies, new state regulation is constantly being introduced together with the replacement of existing state regulation and resulting interrelations and implications (Aalbers, 2016). Considering the overlap, interaction and potential for contradiction between SME support and state regulation, this also represents an example of reregulation. Reregulation involves the pressures for compliance moving from one source to another, such as accountants or large businesses, in terms of codes, rules or standards such that 'there is a multiplicity of regulatory sites, spaces and actors whose relationships define the pattern and efficacy of regulation [and] notions of 'deregulation' often involve the movement of regulatory function between actors' (MacKenzie and Martínez Lucio, 2005, p.500; cf Aalbers, 2016). There is therefore not necessarily a clear reduction in, for example, compliance costs or reluctance to grow a business.

This is important where governments, researchers or organisations attempt to evaluate or conduct some form of cost-benefit analysis on SME support activity or state (de)regulation. For example, in UK government programmes that have attempted to improve state regulation by aiming to 'remove or simplify existing regulations that unnecessarily impede growth' (HM Government, 2011, p.3). This involved assessing regulations in terms of their costs to support a 'one in one out' approach (later one in two out) such that any new regulation was accompanied by a 'deregulatory measure (an 'OUT'), which relieves business of the same net cost as any 'IN' (ibid). This chapter suggests that policy-makers seeking to develop effective forms of support or state regulation should not consider such activities in isolation or in simple positive or negative terms.

Various forms of business support and advice, together with specific commands and rules, are ultimately about influencing SMEs and can be understood as part of Baldwin et al's (2012) broader definition of a regulatory context. This overview of literature across different forms of influence on SMEs develops understanding of the businesses' regulatory context in terms of understanding how different forms of influence, advice and support interact. This may partially account for perceived market failure and low take-up of these services where SME owner-managers often want independence and are wary of bureaucracy (Curran, 2000). Understanding the regulatory context of SMEs in this way should also develop insights for policymakers keen to develop an effective entrepreneurship ecosystem (Mason and Bown, 2014). This chapter has therefore sought to make a

contribution to our understanding of business support relevant to academics, practitioners and to public policy.

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