

**A policy framework for SME  
development: approach of the UK  
Government**

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February 2003**



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# A policy framework for SME development

## Approach of the UK Government

### 1. Summary

The UK Government recognises the importance of small businesses to the economy. In 2000, it created the Small Business Service which was given responsibility for the Government's activities to support small businesses. This paper explains the current policy framework of the UK Government and the role of the Small Business Service in providing development support to small businesses.

### 2. Economic importance of small firms

Small firms and entrepreneurs are the lifeblood of the UK economy - boosting productivity, increasing competition and innovation, creating employment and prosperity, and revitalising communities.

- The promotion of entrepreneurship is important in creating a more competitive economy and more cohesive society. Research<sup>1</sup> shows that economies with more entrepreneurial activity grow faster and create more wealth.
- There are 3.7m businesses in the UK and only 7,000 employ more than 250 people. They contribute 37 per cent of private sector GDP. They are responsible for 44 per cent (that's 12.5 million) of non government jobs and 51 per cent of private sector turnover.<sup>2</sup>
- Since World War II, 50 per cent of all innovations and 95 per cent of all radical innovations, have come from new and smaller firms.<sup>3</sup>
- More people than ever are thinking of starting their own business, either because they want more control over their lives and career, or because they are unable to find work elsewhere. As the nature of work changes and as large firms continue to sub-contract more of what they do, there will be more opportunities for people to run their own businesses. They need to be equipped with the skills that they need.
- Michael Porter of Harvard Business School and his Initiative for a Competitive Inner City has shown the effectiveness of building on competitive economic advantages, rather than addressing social disadvantage, for reviving depressed inner city areas.

### 3. Business support in the UK

Excluding tax measures and Common Agricultural policy (CAP) payments, Government spends about £2.5bn a year on services for business.<sup>4</sup> About a third of that is spent on services which benefit all small firms. If you add in expenditure on CAP, tax measures and local authority expenditure, the total comes to around £7.5bn.

The provision of small business development support and a range of financial support mechanisms is the responsibility of the Small Business Service which has a budget of around £350m.

The Small Business Service was created in 2000 as an Executive Agency of the Department of Trade & Industry. It has a staff of 370 and a budget of £350m. It provides finance to the Business Link network. It manages the Small Firms Loan Guarantee Scheme and a number of equity schemes. It is wholly funded by the Government.

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<sup>1</sup> Global Entrepreneurship Monitor, 2000

<sup>2</sup> Small Business Service, SME statistics, 2001

<sup>3</sup> Prof Jeffrey Timmons, "New Venture Creation", Irwin

<sup>4</sup> 'Cross-cutting review of services for small businesses', Treasury/SBS, 24 October 2002

#### **4. Needs of business**

But what does business needs by way of support? Whilst at the SBS, I spent two years talking to businesses about their needs. Invariably, help with finance was number one on their list. This included raising finance, getting paid on time and financial control. Number two, generally, was staff recruitment. Problems of red tape and regulation were usually around number five. That is not to say that red tape was unimportant – merely that other things were more important. In helping businesses, it is essential to develop customised solutions to address the specific needs of individual businesses. But SBS concluded that there were five generic needs that needed to be addressed:

- Information
- Customer focused advice and support
- Skills and management development (which could be delivered both through development of existing staff as well as through recruitment of additional staff)
- Financial support
- Infrastructure, including workspace.

SBS therefore set out to ensure that all these were available, as well as taking on roles to minimise the burden of red tape and regulation and to champion the importance of entrepreneurship.

SBS has introduced a requirement that every member of staff must spend time every year in, and learning from, small businesses. This is an important way in which civil servants can begin really to understand the needs and aspirations of small businesses. SBS has also been making much use of secondees coming in from the private sector. This has led to greater understanding of business as well as changing some of the ways in which the SBS operates.

#### **5. Vision**

The government has a vision, formulated and agreed in 2000, that, by 2005, the UK should be the best place in the world to start and grow a business.

Furthermore, the Government sees enterprise as an important driver of productivity growth and local regeneration.<sup>5</sup>

A number of conditions must be met to achieve that simple ambition:

- Government departments must work together more closely and in partnership with external stakeholders such as the banks
- Government departments must resist the urge to regulate and must seek to mitigate the effects of existing regulation
- There must be a world class business support service
- And there is a need to change societal attitudes to enterprise – to raise the index of total entrepreneurial activity as defined by the Global Entrepreneurship Monitor. For the UK, the index is just 5 per cent; whereas for the best countries it is 19 per cent. For comparison, China is at 12 per cent – so you are already doing far better than the UK!<sup>6</sup>

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<sup>5</sup> 'Enterprise Britain: a modern approach to meeting the enterprise challenge', SBS/ Treasury, 27 November 2002

<sup>6</sup> Global Entrepreneurship Monitor, 2002 Executive Report

There is no doubt that the Government wants

- many more people, regardless of their background, to have the ambition, skills and opportunity to start a successful business;
- everyone with the ambition to grow their business is helped and supported;
- a supportive business environment with all small businesses finding it easy to respond to Government and access its services.

The Small Business Service is expected by Government to take the lead and to be a focal point for small business issues, though it cannot succeed without the co-operation of all other government departments.

Its purpose, summed up in its Public Service Agreement target, is to: "Help build an enterprise society in which small firms of all kinds thrive and achieve their potential, with an increase in the number of people considering going into business, an improvement in the overall productivity of small firms, and more enterprise in disadvantaged communities."

## **6. Policy framework: Think Small First**

The vision has the merit of being simple and memorable, but a vision by itself is not enough. So in 2001, the Government published 'Think Small First', which provides the framework for government support for all the UK's Small and Medium Enterprises (SMEs).

'Think Small First' asks every part of Government to think about their role in supporting and promoting small businesses and an entrepreneurial society.

'Think Small First' notes that the Government's first priority is to provide the right macro-economic conditions for business success by providing an economic framework which is stable and helps foster enterprise. However, the Government also has a role to ensure that its policies and programmes support small businesses to meet the challenges of the 21st Century.

Whilst recognising that the private sector is at the forefront of wealth creation and employment generation in the United Kingdom, the Government has an important role to play in creating a culture that stimulates enterprise, encourages innovation and rewards success.

Regulations impose a disproportionate burden on the smallest firms and it is usually the proprietor who has to find the time to comply. This detracts from the real job of growing and managing the business. Regulations are almost always introduced for sound reasons, but government departments should look at alternatives, only resorting to regulation as the last choice. This will help balance the need to regulate with the extra burden it inevitably imposes. Departments should think first about the implications for small businesses, rather than assuming that all businesses will cope. Effective policymaking should follow the principles of good regulation – proportionality, transparency, accountability, targeting and consistency

Working through the Small Business service, the Government is committed to developing the Business Link network and to providing an unrivalled quality of service, in an effort to ensure that Business Link is the natural choice of smaller businesses when seeking advice and support. Business support services should be clearly focused on the needs of business. Services should also be simple, appropriate, rapid, affordable and effective.

## 7. Objectives

'Think Small First' provides a framework, rather than detailed objectives. The Small Business Service, however, has set out seven core strategies – and all Departments and Agencies dealing with small businesses have been asked to identify their own contribution to these strategies:

### ▶ ***Building an enterprise culture***

Cultural factors affect individuals' willingness to start or grow a business. Some of these, such as the 'fear of failure' may be deep rooted, and difficult for Government to influence directly. Others, such as the attitude to enterprise instilled in young people at school, are areas where Government can make a difference.

### ▶ ***Encouraging a more dynamic start-up market***

Government needs to focus on the support it offers to start-up businesses, especially to help them overcome some of the early barriers to success, such as taking professional advice. Effective engagement at an early stage can influence long-term performance and can help more to survive and grow.

### ▶ ***Building the capability for small business growth***

Improving the growth capability of UK businesses will only be achieved by raising performance across a range of areas, such as management skills, workforce development, and innovation and adoption of best practice. This is where the Business Link network can make a real difference.

### ▶ ***Improving access to finance for small businesses***

The UK has one of the most efficient markets in the developed world for providing finance to small businesses, but there are still areas of weakness. Government has acted to address some of these through initiatives such as the Small Firms Loan Guarantee Scheme and Regional Venture Capital Funds.

### ▶ ***Encouraging more enterprise in minority communities and under-represented groups***

There are wide differences in self-employment rates for certain groups that go beyond the differences in employment rates. This suggests that some groups and communities face particular barriers in setting up small businesses. Start-up rates in the best performing areas are ten times those in the worst, contributing to an enterprise gap in our inner cities estimated at 88,000 businesses and £5 billion in turnover. And the entrepreneurship rate in the US is twice that of the UK.

The challenge is to raise levels of enterprise across the UK, but particularly in the areas where the barriers to enterprise are greatest. Starting a business will not be the best option for everyone, but it is a viable option for many more than currently take it up.

Government has responded with a series of measures concentrated on 2,000 "Enterprise Areas" that represent the most deprived communities across the UK, for example, supporting independent organisations that deliver business support services and provide community development finance.

► **Improving small businesses' experience of Government services**

The SBS works with other Government Departments and Agencies in an attempt to ensure a more coherent approach to service design and delivery, a reduction in duplication and an increase in customer satisfaction SBS is aiming to ensure that, by the summer of this year, there is a single web portal for small business.

► **Developing better regulation and policy**

Independent analysts consider the UK in general to be a relatively lightly regulated economy. Surveys<sup>7</sup> of burdens on business rate the UK amongst the most lightly regulated.

For example, the Economist Intelligence Unit survey, which looks at considerably more than just regulation, gives a good feel for the places where it is easier to start and grow a business. Its last survey included some 60 countries and showed the Netherlands at the top followed by the US and the UK.

But all small businesses see is more and more regulation. It is essential that all new policies and regulations are designed and implemented in a way which minimises the burdens.

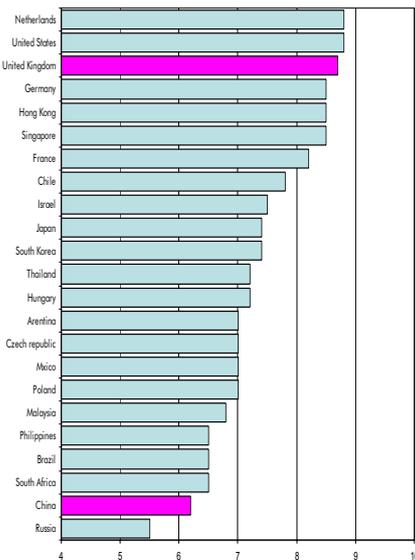
The SBS has a role to ensure that Government policy makers take full account of small business views when drawing up proposed regulation. It has a role in encouraging local and national enforcement agencies to enforce regulations fairly and proportionately. It is vigilant in pressing for business to have access to timely and user-friendly guidance.

The SBS works with the Small Business Council, the Regulatory Impact Unit and the Better Regulation Task Force to help other Government departments in all this.

**8. Buy in**

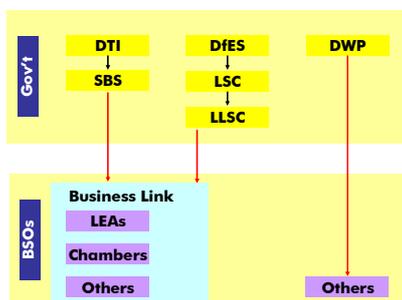
A major challenge for any administration is how to achieve “joined-up government”. Following the publication of ‘Think Small First’, Government Departments were challenged by No 10 to prepare implementation action plans and to report of their progress.

The Government has now established the “Whitehall Group” – a group of senior people from all the departments and agencies that have key interactions with small business. It appears that it is pulling together the small firms effort quite effectively. As a result of Treasury encouragement and some key non-executive appointments to departmental Boards, the Government now has a cadre of people in post in all departments and agencies whose objectives are to make a positive impact for small business and who have a shared interest in making things happen. They have initiated a number of cross-Departmental initiatives.



Source: EIU

<sup>7</sup> See, for example, ‘Not Just Peanuts’: The 2001 Not Just Peanuts report was developed in cooperation with Andersen. See [www.notjustpeanuts.com](http://www.notjustpeanuts.com)



The network known as Business Link is the principal provider of business advice and support for small businesses in England. Business Link contractors are partnerships, usually of enterprise agencies, Chambers of Commerce and other business support initiatives. Most are constituted as not for profit companies.

There are 45 contractors each of whom receive finance from SBS. SBS's total budget for Business Link is £150m.

In addition, Local Learning & Skills Councils, with a budget from the Department for Education & Skills, provide as much again for workforce and management development.

Business Link contractors are free to raise money from other sources (including EU Structural Funds) and to earn income by charging fees.

The Department for Work & Pensions provides some money to enable people who are unemployed to learn about starting business.

## 9. Role of the Small Business Service

The Small Business Service was created in 2000 to take responsibility for all of the government's business support activities. This included developing and maintaining a world class business support service – delivered through a network known as Business Link – and a range of financial support.

The underpinning rationale for this support is whether there has been a market failure. In other words, if the market already provides or could reasonably be expected to provide, a specific service, then there is no reason for government to step in. But if there is a need for a service, say the provision of start up support, but no market provision, perhaps because likely users cannot afford to pay, then there is a reason for government to intervene.

The Small Business Service does not argue that Business Link should provide all the support that business needs, but recognises that the support network has a crucial role to play. SBS is anxious, where possible, to introduce programmes in such a way that the private sector can be stimulated to continue after public subsidy is withdrawn. That was the approach, for example, with the Regional Venture Capital Funds. SBS believes that business support, particularly for start ups, will always need an element of public support.

The Small Business Service is now aiming to position itself as:

- a **centre of expertise**, developing and disseminating ideas and new thinking, driving changes in behaviour across government and in small businesses, and thus improving performance and increasing productivity and employment and making a difference in policy formulation.
- an **innovator**, which takes that knowledge and uses it to develop new ideas and new approaches which will better meet the needs of small business.
- an **engine for change** demonstrating just what can be done, measuring progress against outcomes in the market place, and taking action at national, regional and local levels to raise achievement. SBS will **champion** the needs of small business.

For small businesses, this will result in

- an SBS which listens to their needs and influences all of Government to "Think Small First";
- more coherent delivery of services from Government departments, by sharing objectives and working collaboratively at all levels: nationally, regionally and locally;
- a Business Link service in England which provides access to a wide range of information and advice from the best expertise in the private, public and voluntary sectors.

## 10. Role of business support organisations

Business support organisations see their role being to encourage people to think about starting in business, providing support to help them actually to start, and then helping those with the potential to grow to achieve that goal.

They generally provide support in the form of advice, consultancy and training. Many of them have their own loan funds – and they will certainly have good relationships with providers of both equity and debt finance. Many, too, will have their own incubator workspace.

Business support organisations are generally not for profit companies, whose roots are in the community and who have an understanding of what support people need to start and grow a business.

They will be keen to ensure good relationships with other stakeholders locally, including the Regional Development Agencies.

There are many different business support agencies, but probably the most common are the local enterprise agencies.

## **11. Public finance for business support organisations**

The main focus for direct delivery of support to businesses is through the network known as Business Link. (Business Link only operates in England, but there are similar arrangements in Scotland, Wales and Northern Ireland).

The Small Business Service has around £150m to provide financial support to Business Link. This used to be done, more often than not, on the basis of programmes dreamt up by Government. But SBS has moved away from programme funding. The level of finance is determined by a number of factors including the number of businesses which already exist in an area and the potential to create more businesses. Each Business Link has to prepare a business plan each year, setting out what they intend to do and providing targets and milestones. The business plans have to demonstrate how the work of the Business Link fits into the regional economic strategies prepared by the Regional Development Agencies. Business Links' business plans are agreed with the Small Business Service through a contract.

Business Link contractors are independent, though much of their income comes from the public sector. The Small Business Service's contracting arrangements allow them to set local priorities, depending on local need.

Business Links are encouraged to be entrepreneurial. They are encouraged to earn income. Whilst they are unlikely ever to be commercially sustainable without government grant aid, they can achieve much more if they are given the freedom to innovate.

Some services are provided nationally, on the basis that it is cheaper than if every Business Link replicated the service.

The Small Business Service, for example, undertakes national advertising, though this is often supplemented locally. There is a national telephone number, with a distributed call answering arrangement so that the calls are taken by, and can be transferred around, the network.

There is a national website, though most of the Business Links have developed their own websites as well. However, they can utilise the information that is available nationally rather than recreating it all.

The Small Business Service has also created a corporate university, the Business Link 'U', to drive staff development which is seen to be an essential component of driving up the quality.

The Small Business Service gathers data from the individual Business Links but supplements this with nationally commissioned research and surveys.

## **12. Government promotion of small business support**

Government has a role to promote both the importance of enterprise and to the availability of support services. This is far better done nationally than by individual agencies, though the business support organisations can add to this with local promotion and press stories.

The Small Business Service's most recent promotional campaign – on television, through the press and over the web – has used the theme of "grown up advice". This has featured children talking about ways of making money, and then cut to an end line of "for grown up advice, talk to Business Link". It has been very successful.

### **13. Government support for other initiatives**

The UK government does not channel all of its support through the Business Link network, particularly when it comes to promoting the importance of small business.

*LiveWIRE* is an initiative originally launched by Shell to encourage young people to think about starting their own business. It is now running in some 20 countries round the world. In the UK, the government gives it around £140,000 each year, and the Regional Development Agencies a further £200,000 – which together accounts for about 10 per cent of the budget. But the government gets excellent leverage – *LiveWIRE* last year dealt with over 140,000 enquirers.

The Government also supports Enterprise Insight, an initiative to promote the importance of enterprise and entrepreneurship primarily within the education sector.

### **14. Measuring success**

The Small Business Service understands the need for good statistical evidence to demonstrate its success. Sources include:

- supporting information from the Total Entrepreneurial Activity Index supplied by the Global Entrepreneurship Monitor;
- data collected on productivity in SMEs compared to productivity in all businesses;
- a comparison of VAT registrations per 10,000 resident adults, or self-employment data as an alternative.

SBS already collects, or plans to collect, data on:

- Awareness (perception- survey)
- Understanding (perception-survey)
- Use of Business Link services (penetration)
- Financial efficiency (VfM)
- Customer satisfaction (perception-survey)
- Intensive assisted users (penetration/impact)
- Perceived business benefit (perception/impact-survey)
- Change in Gross Value Added (impact)

The most recent statistics suggest that Business Link is becoming better known and is being used more:

- The target for Business Link is to support 150,000 businesses per quarter. In the last quarter of 2002, they achieved 158,000, up 12 per cent on the second quarter.
- It is estimated that around 320,000 businesses will make use of Business Link during the year. This represents a market penetration of nearly 13 per cent.
- Traffic to the website is growing quickly – the last quarter was 27 per cent better than the previous quarter – with an expected two million user sessions during the year.

- The Business Link call handling system received almost 18,000 calls in the last quarter.
- The 2002 survey reported 74 per cent awareness of Business Link. 76 per cent customer satisfaction with efficiency and 70 per cent satisfaction with the quality of service.

### **15. Policy guidance for BSOs**

Ultimately it is Ministers that make policy, though the Small Business Service is the key agency which is advising Ministers, both developing ideas for new policy and advising on proposals being made by others. One of the benefits that come from attracting secondees and others who are not civil servants into the Small Business Service is that they can contribute expertise and experience that comes from being practitioners.

As far as the Business Link network is concerned, it is the Small Business Service that sets the policy, usually in consultation with Ministers and Regional Development Agencies. The SBS communicates this to Business Links when they give annual guidance on the business planning process – and often at other times as well.

But individual Business Links are free to offer other services if they are able to find the money to cover the cost – either by looking for grant aid elsewhere or by persuading clients to pay for it.

### **16. Government procurement as a support mechanism**

Government recognises that small firms can be deterred from selling to the public sector for a variety of reasons. The SBS and the Office for Government Commerce (OGC) are working closely together to try and level the playing field for small businesses. Measures currently being taken forward include:

- The publication of 'Tendering for Government Contracts'. Launched jointly with OGC and widely distributed to all points of contact for SMEs.
- Advice and information on the Business Link website and a new web-site, [www.supplyinggovernment.gov.uk](http://www.supplyinggovernment.gov.uk), is being developed to provide a 'one-stop shop' on all issues on procurement.
- Monitoring the per centage of contracts awarded by Government departments to SMEs.
- "Smaller Supplier..better value" was published jointly by the Small Business Service and the Office of Government Commerce (OGC) in 2002. It highlights the benefits of procuring from small businesses and shows how to reduce the barriers that prevent small businesses competing for government contracts.
- A change to the OGC's online procurement guidance, which relaxes the requirement to provide accounts for the past three years and, in the absence of audited accounts, (in the case of new firms, for example) other information can be provided for assessment purposes.
- The Better Regulation Task Force is working with the Small Business Council to examine whether SMEs are securing a fair share of the multi million pound market in public sector goods and supplies.

### **17. Conclusion**

The role of government is to create an enabling environment – to create the conditions in which small businesses can flourish. Government has a legitimate role to protect consumers, workers and the environment – but it needs to recognise that tightening the straight jacket too much will discourage entrepreneurs. Often, too, government needs to step in where support – in the form of advice and finance – is missing or inadequate.

It is important to retain a clear customer focus – ensuring that support mechanisms meet the identified needs of individual clients.

There will be some requirements shared by many businesses, such as finance and workspace, which also need to be provided, since the best advice in the world cannot overcome these needs.

Indeed, a combination of support which includes access to finance and workspace is the most effective in ensuring growth and prosperity of the firms assisted.

Business support organisations should be given the freedom themselves to be creative. This can be uncomfortable for government, but if government wants the business support organisations to be as entrepreneurial as their clients, then they have to live with them being independent and having different ways of doing things.

This approach, however, allows many successful approaches to flourish. The trick, then, is to capture the learning and share it around all the business support organisations so that all can benefit.

Government needs to recognise that businesses in the early stages of development are unlikely to be able to afford the full commercial price for support, though if they are already in business there is no reason why they should make a contribution.

It is highly unlikely that the provision of business support, at least to start ups, can ever be commercially sustainable. The British Government is committed to developing and maintaining a world class business support service. It will continue to provide substantial funding for the foreseeable future.

Perhaps I can conclude by reminding you of the importance of thinking small first. The latest report from the EU on the implementation of the European Charter on Small Enterprises starts by commenting that “The Charter commitments embody the ‘*Think Small First*’ principle and the recognition that small enterprises are the backbone of Europe’s economy and the key to our competitiveness”.<sup>8</sup>

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<sup>8</sup> Report from the Commission to the Council and the European Parliament on the implementation of the European Charter for Small Enterprises, 21 January 2003

## **Appendix 1: European Charter for Small Enterprises**

The European Charter for Small Enterprises was approved by EU leaders at the Feira European Council on 19-20 June 2000. The Charter calls upon Member States and the Commission to take action to support and encourage small enterprises in ten key areas:

- Education and training for entrepreneurship;
- Cheaper and faster start-up;
- Better legislation and regulation;
- Availability of skills;
- Improving online access;
- Getting more out of the Single Market;
- Taxation and financial matters;
- Strengthening the technological capacity of small enterprises;
- Making use of successful e-business models and developing top-class small business support;
- Developing stronger, more effective representation of small enterprises' interests at Union and national level.

## **Appendix 2: BEST practice in the EU**

The European Commission has made considerable effort to identify elements of good practice from European approaches to the provision of business support, including the identification of what they refer to as “top-class” services, and also comparative studies of the different levels of provision within the EU.

They have identified seven types, or levels, of support:

- reception, facilities and basic information, referral (Includes diagnosis and signposting)
- professional information services (legislation, technical, financial etc.)
- advice and direct support (business planning, mentoring, advice on functional activity)
- SME specific training (start-up, growth and development, targeted training)
- Finance (grants and subsidies, loans and loan guarantees, equity)
- Premises and environment (incubation, technology parks etc.)
- SME specific strategic measures (trade missions, cluster promotion, etc.)

They have drawn 15 conclusions, which they suggest are treated as recommendations for the provision of top-class business support services across the European Union:

### **A2.1 Client focus**

- Client focus has to be a fundamental principle of support service provision

### **A2.2 Comprehensive provision**

- Entrepreneurs must be able to get convenient access to all the support services they need

### **A2.3 Coherence & rationalisation**

- Coherent support services are required, so that entrepreneurs can easily access a package of services covering all the main management functions
- New stand-alone initiatives should be avoided. Public authorities should take a strategic approach to the support that they provide or sponsor and ensure that it is co-ordinated with other provision
- All support services (core and specialised) should be based on an approach which assists enterprises to develop their own management capacity

### **A2.4 Responding to differing needs**

- Provision should take account of the different needs of different types of SMEs, by offering distinct packages of services for entrepreneurs, start-ups, established etc.
- There must be procedures in place which help determine the best advice available for the client and subsequently manage and follow up their access with specialist staff, including those in other agencies

### **A2.5 Responding to the modern economy**

- It is important that rather than launching completely new initiatives, new elements should be effectively integrated into existing provision
- Recent developments in ICT need to be fully exploited in the delivery of services

### **A2.6 Delivering top quality services**

- Public authorities responsible for service provision should ensure that support organisations have access to the necessary human and material resources to provide top-class services
- The development of a distinctive professional culture needs to be encouraged among staff by the implementation of demanding recruitment training and development policies
- Quality assurance systems need to be routinely implemented

- Regular evaluation of the effectiveness and efficiency of support services has to become an integral part of the culture of support services provision

#### **A2.7 Promoting take up of services**

- Consistent and effective promotion of support services needs to be undertaken among well-targeted audiences of enterprises and potential entrepreneurs
- Coherent pricing policies should be developed for the various categories of support service and clear policies developed on the relationship between public and private provision

Overall, EU studies suggest that better specialisation, accessibility, reliability and efficiency of suppliers would probably facilitate higher demand for business support.

The one area where the EU recommendations fall short is in the lack of a recommendation about rigorous performance measurement.