

Research Bulletin 18/12 | Harnessing the Potential of Micro-Businesses in Northern Ireland

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Summary

Accounting for 20% of employment and over 17% of output, Northern Ireland's 28,500 micro-businesses have significant potential to drive employment, innovation, productivity and economic growth. Despite sustained underperformance in rates of business start-up, attention has been turning to the growth potential of these businesses with Belfast outperforming the rest of the UK in its proportion of small high growth firms. While this share of businesses is very small (3.2% for NI and 4.4% for Belfast), it is a strong signal that NI micro-businesses have the potential to scale-up and make a significant economic contribution. The difficulty to date is that there has been limited data and evidence on micro-businesses in NI and there was a need therefore to facilitate a better understanding and development of policy to support them. In this Research Bulletin Article we present the first comparative data on NI micro-businesses comparing them to other micro-businesses throughout the rest of the UK, Ireland and USA. Focusing specifically on business ambition and innovation we consider what issues policy should consider in driving innovation and growth within this group of businesses.

Introduction

Coinciding with Global Entrepreneurship week, the Department for the Economy published a new paper on 'Entrepreneurship in Northern Ireland – A context paper'ⁱⁱ. In this paper, the ambition is clearly outlined: *'to be a dynamic and enterprising region... with a culture of new business development, higher start-up activity and more businesses realising high growth potential'*. Realising this ambition is where the challenge exists and indeed this is acknowledged in the paper.

In 2017-18, a longstanding trend was sustained with NI recording a lower rate of business start-up activity than for the wider UK: at 27 start-ups per 10,000 population, as compared to the UK average of 50 per 10,000 population. Of those businesses that are started, again NI faces even greater challenges than other UK start-up businesses, with a lower survival rate. Indeed only 50% of business start-ups in Northern Ireland are still trading after 3 years as compared to 55% for the rest of the UK.

In spite of these challenges for promoting 'a dynamic and enterprising region', there are reasons for optimism. This relates to the growth potential – also referred to as scaling-up – of business start-ups. Here we see a somewhat different picture emerging with 2.7% of NI start-ups reaching a threshold of £1m+ revenue after 3 years trading, as

compared to the 1.9% UK average (Figure 1). This is even more marked for start-ups in Outer Belfast and the East of NI (combined) where the highest UK rate of 3.3% was recorded in 2014-17. Similarly, looking at NI's performance in terms of its share of small high growth firms, NI records a rate more than double that of the UK average. Again Belfast stands out as a UK exemplar sub-region, recording 4.4% of small high growth firms as compared to the UK average of 1.5% (Figure 2)ⁱⁱⁱ.

Figure 1: Proportion of Start-ups Generating £1m+ Revenues after 3 years in the UK (2014-2017) - Quartiles

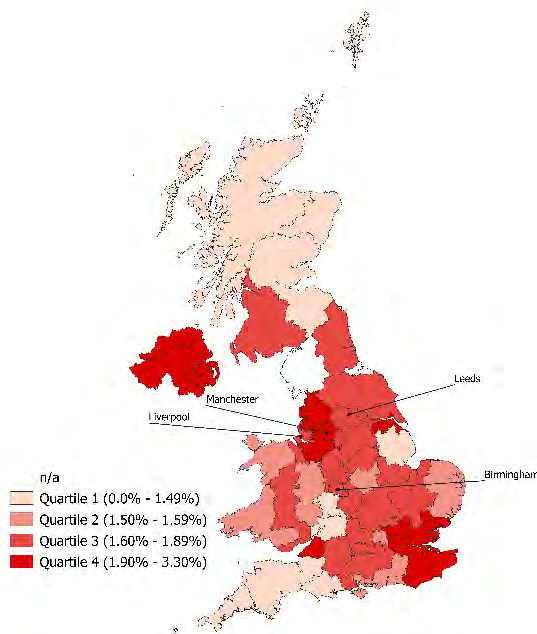
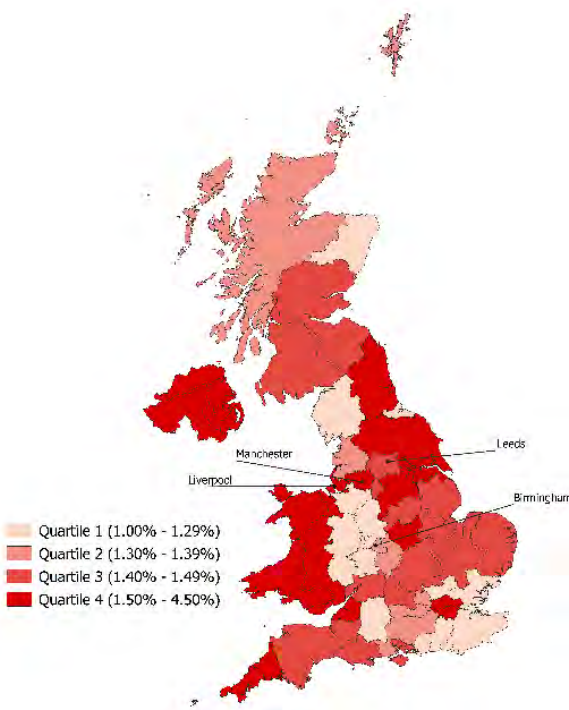


Figure 2: Proportion of Small High Growth Firms 2014-17 - Quartiles



Source: UK Local Growth Dashboard using ONS Business Structure Database (BSD)

The evidence is clear: while the rate of entrepreneurial activity in NI continues to lag behind the UK average, the potential to grow a business is higher in NI than almost anywhere else in the UK. So this leads to the question: How can more NI firms Scale-up (to £1m+ revenue after 3 years of trading) and grow?

To answer this question requires a better understanding of entrepreneurial start-ups and micro-businesses than we have had to date, with many official surveys only collecting detailed data on firms with 10 or more employees. Responding to this evidence-gap, in early 2018, the UK Enterprise Research Centre^{iv} conducted a survey of 9,700 micro-businesses, comprising 6,200 in the UK (including 495 in NI), 1,500 in Ireland and 2,000 in the USA. In this Research Bulletin Article we highlight some of the key findings on the profile of NI's micro-businesses, their ambition to grow and how this is evident in their innovation activity.

Profiling NI's Micro-Businesses

In Northern Ireland, micro-businesses account for a slightly larger share of the workforce (111,000 employees - 19.7%)^v and output (£10.4bn or 17.2% of that by all NI firms), than in the wider UK^{vi}. Employing between 1 and 9 employees, these businesses include plumbers, builders, hairdressers and mechanics as well as architects, designers, artisans, lawyers and accountants etc. Most micro-businesses start small and stay small, but for others, their micro-business is the launchpad for scale-up.

NI micro-businesses are similar to that elsewhere in terms of employing on average, 3 to 3.5 workers (Table 1). Typically, these businesses are not recent start-ups, but on average, have been trading for almost 29 years – slightly longer than micro-businesses in the rest of the UK, Ireland and the USA. Given their greater age it is unsurprising to see that a slightly lower share of founders are still involved in the business as compared to other areas, however this still remains high at 80.2%. Of greatest significance is the share of family owned business with NI having a higher proportion (78.1%) than the UK as a whole and the USA, albeit a similar share to Ireland. This is extremely important as family dynamics are likely to have an influence on firm behaviour and performance in almost 4 out of every 5 NI micro-businesses. Understanding NI micro-businesses is therefore intricately interwoven with understanding family businesses.

Table 1: Profiling Micro-Businesses: NI, UK Average, Ireland and USA

	Employment (Avg)	Age of Business (Yrs)	Home Based (%)	Family Owned (%)	Founder Still Involved (%)	Size of Leadership Team (No.)	Exporting (%)
Northern Ireland	3.3	28.7	48.8	78.1	80.2	1.9	35.8
UK Average	3.3	22.9	52.9	70.2	81.9	2.0	33.4
Ireland	3.1	24.7	47.3	76.6	84.9	1.8	40.7
USA	3.5	19.2	41.3	71.0	95.2	1.9	30.9

Source: QUB / ERC

Despite broadly similar average levels of employment, NI micro-businesses reported slightly higher average turnover of £673k, £9k above the UK average of £664k and significantly above that in some other regions (Scotland £482k and the North East £494k). Micro-businesses in Ireland had slightly higher average turnover at current exchange rates of £687k. Average sales growth in the year prior to the survey (2017-18) also varied significantly by area and region. Again, micro-businesses in NI reported growth of 2.6 per cent, close to the UK average of 2.8 per cent but below the 3.2 per cent achieved in Ireland.

Around 90 per cent of micro-businesses in NI traded profitably over this period, the highest proportion of any UK region, and a notably higher proportion than in either Ireland (85%) or the US (83%). It is possible that this is linked to the higher average age and higher share of family owned micro-businesses in NI compared to other areas. Further analysis would however be required to better understand this result.

Business and Personal Ambition

With around 4 out of 5 NI micro-businesses being family-owned with the founder still involved, understanding business ambition must be considered alongside individual ambition of the owner-manager. While micro-businesses offer the potential for employment and economic growth, achieving this requires the micro-business to be ambitious and aspire to grow.

In NI, the majority (77%) of micro-businesses want to keep their business similar to how it operates now, with only 18% seeking to build a national and/or international business – a lower proportion than for the other areas (Figure 3). In relation to personal ambition, the priority is to gain freedom and flexibility from running a micro-business. Reflecting the share of family businesses in NI, over half of owner-managers stated that their personal ambition was to build a business to hand on to family (Figure 4) with two-thirds aiming to retire.

Figure 3: Indicators of Business Ambition

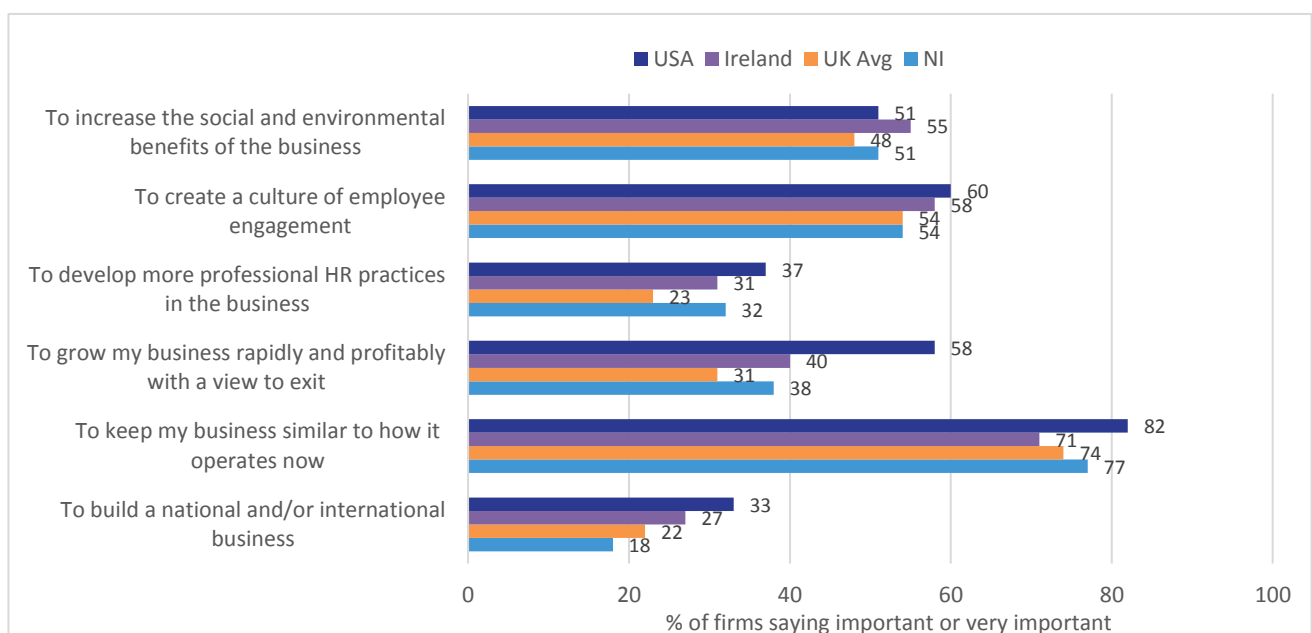
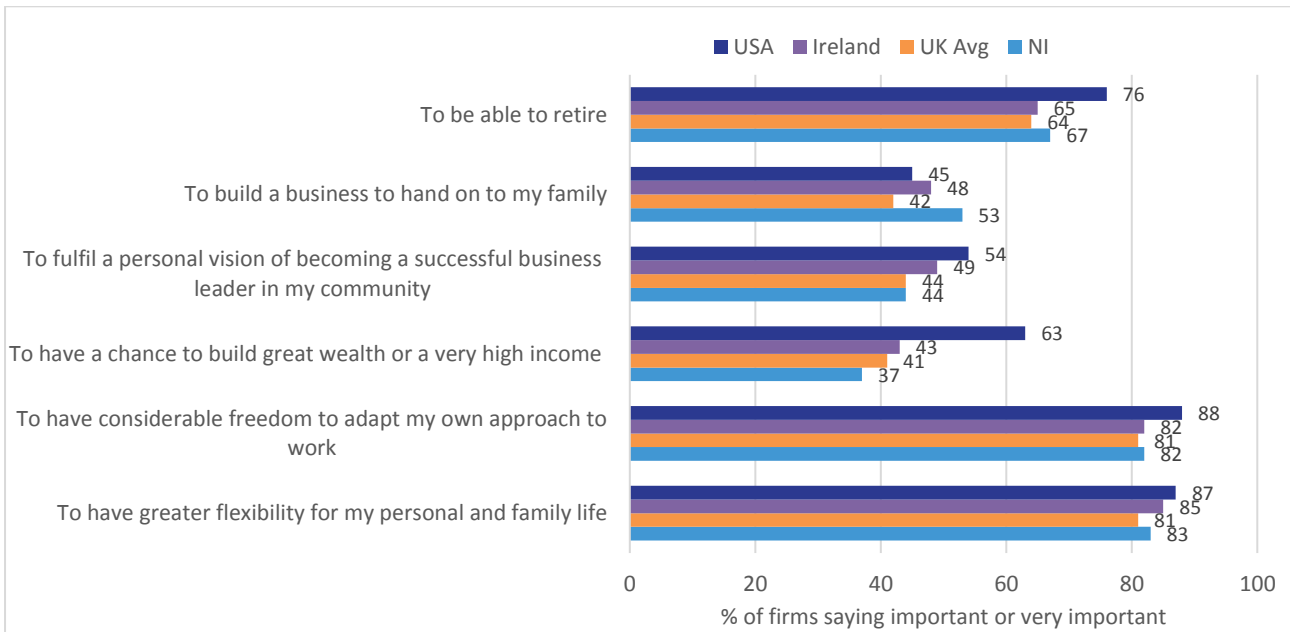


Figure 4: Indicators of Personal Ambition



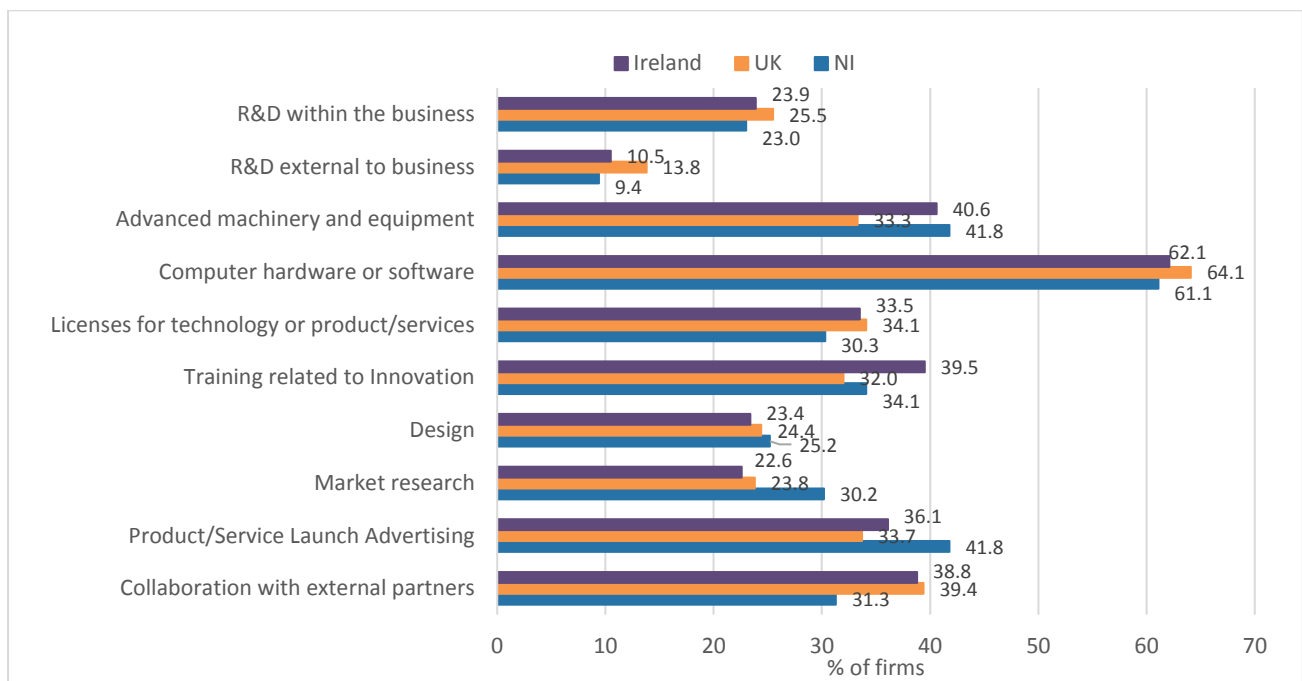
Source: QUB / ERC

Investment and Innovation

Planning for succession in family businesses is critically important and while NI has the highest proportion (90%) of micro-businesses reporting profitability in 2017-18, they were also the least likely to have invested in the business in the previous year: 8% in NI as compared to 13% in Ireland and 10% in both the UK and USA. It is perhaps unsurprising that NI micro-businesses were also the least likely of all UK regions to have introduced product or service innovation: 27% compared to the UK average of 32.5%, 35.6% in the USA and 40% in Ireland.

Disaggregating the types of investment that micro-businesses were undertaking in innovation illustrates that not only are NI micro-businesses less likely to be investing in R&D but they are also less likely to be collaborating with other firms and organisations. More constructively, a higher proportion of NI micro-businesses were undertaking market research, investing in computer hardware or software, investing in design and advertising prior to product/service launch (Figure 5). Unfortunately this was not translating into sales, with NI micro-businesses reporting the lowest share of sales from new or improved products/services at 6.5%, behind the UK average of 9.4%, USA at 10.2% and Ireland at 10.7%.

Figure 5: Proportion of Innovating Firms Undertaking Investment in Innovation



Source: QUB / ERC

Conclusions

Micro-businesses are a substantial and potentially, very significant part of the economy. While recent data on scaling-up and high growth firms positions NI as a leading region, challenges exist in translating this to the wider group of micro-businesses where scaling to become a national and/or international business is less of a priority. Instead, business ambition is strongly correlated with the desire to pass a family business to the next generation. Yet, these are profitable firms and well positioned to invest in R&D and other activities to drive innovation, productivity and business growth. Supporting micro-businesses to increase their awareness of the benefits of innovation and an understanding of technological and market/consumer needs in influencing their investment decisions are obvious policy implications arising from this data.

Similarly, with strong social networks in NI, efforts to increase collaboration between businesses and/or other organisations such as universities is also likely to result in changing business attitudes toward innovation. This change in the attitude and intentions of businesses towards innovation will in-turn lead to behavioural changes as profits are not drawn-down but rather reinvested in innovation. Ultimately, the wider economic benefits of micro-businesses will only be realised where there is a greater ambition to scale and a focus on product/service innovation as a driver of this.

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ⁱ A survey of NI micro-businesses was undertaken by DETI in 2014. See:

<https://www.economy-ni.gov.uk/sites/default/files/publications/deti/micro-business-innovation-survey-2014-report.pdf>

ⁱⁱ <https://www.economy-ni.gov.uk/sites/default/files/publications/economy/Entrepreneurship-in-Northern-Ireland-context-paper.pdf>

ⁱⁱⁱ <https://www.enterpriseresearch.ac.uk/publications/ni-local-growth-dashboard/>

^{iv} <https://www.enterpriseresearch.ac.uk/>

^v <https://www.enterpriseresearch.ac.uk/publications/understanding-micro-businesses-northern-ireland/>

^{vi} In the UK, in 2017 there were 1.11m micro-businesses, employing around 4.09m people (17.6% of the workforce) and generating £552bn in sales (14.7% of all UK firms).