

MICROBUSINESSES AND THE CITY

Prof Donald Houston

University of Portsmouth

donald.houston@port.ac.uk

Dr Darja Reuschke

University of Southampton

d.reuschke@soton.ac.uk

Acknowledgment: This research is funded by the European Research Council of the European Commission (ERC-StG-639403).



European Research Council
Established by the European Commission



Horizon 2020
The EU Framework Programme
For Research & Innovation

WORKANDHOME project (www.workandhome.ac.uk)

The significance of microbusinesses

- Microbusinesses (those that employ less than 10 people) represent a significant proportion of the economy: 95.6% of all UK businesses, one third of employment and just below one fifth of turnover (Department for Business, Innovation and Skills, 2014).
- Microbusinesses grew in number in the UK by 55 per cent between 2000 and 2013, compared to an 18 per cent increase in SMEs (those employing 10-249) and a five per cent decline in the number of large enterprises with 250 or more employees (ibid.).
- The majority of private sector employment growth in the UK over the period 1998-2013 came from microbusinesses (Anyadike-Danes *et al.*, 2015).
- Most high-growth firms and large firms of the future are currently micro.
- Underlying social change, economic trends, technological shifts and evolving industrial organisation are likely to see microbusinesses continue to increase in number and significance in the future (Sayers, 2010).
- Microbusinesses have been neglected in urban economic research and policy, which have focussed more on flagship investments and large firms.

Research questions

- Are microbusinesses in cities more likely to grow than outside cities, and what types of microbusinesses in cities are most likely to grow?
- What features of the urban environment are important to microbusinesses?
- Is housing important in incubating microbusinesses?

Data and Methods

- Tracking the evolution of 943 businesses that were micro in 2004 and were still trading in 2008, by using the UK Survey of Small and Medium Sized Enterprises' Finance (UKSSMEF) – a unique repeated ('panel') survey that surveyed the same businesses in 2004 and again in 2008
- New primary data collection via a survey of 185 microbusinesses in Edinburgh, which gathered information on:
 - features of the urban environment that are important;
 - use of housing space or equity for the business;
 - neighbourhood of residence, to which 2011 Census and Scottish Index of Multiple Deprivation (SIMD) data were attached;
 - use of neighbourhood contacts.
- Inclusion of unregistered businesses in both these surveys, which are excluded from published business population statistics.
- Statistical techniques used to control for confounding effects of location, industry and business characteristics (see 'Further Reading').

Key findings

Are microbusinesses in cities more likely to grow than outside cities, and what types of microbusinesses in cities are most likely to grow?

- Analysis of the UKSSMEF revealed that microbusinesses in cities are more likely to display employment and turnover growth than those in other locations (see Annex, Tables 1 and 2).
- Employment growth is higher among microbusinesses in cities largely because microbusinesses in cities are more likely to operate in high-growth sectors – chiefly wholesale & retail, construction and real estate, renting and business activities.
- Turnover growth, however, is greater in cities even after controlling for sector.
- Businesses run from the owner's home are serious businesses that display growth, particularly in cities.

What features of the urban environment are important to microbusinesses?

- The most important features of the urban environment, as stated by microbusinesses surveyed in Edinburgh, are as follows (in brackets: per cent of businesses citing as important or very important – see Annex, Table 4):
 - Fast broadband/internet (85%)
 - Home proximity (68%)
 - Access to transport network (66%)
 - Parking close-by (61%)
 - Appearance/image of premises (61%)
 - Appearance/image of area (60%)
 - Proximity to customers (52%)
 - Proximity to local workforce with specific skills (37%)
 - Meeting room (33%)
 - Proximity to collaborators/business contacts (30%)
 - Access to business support services (27%)
 - Proximity to suppliers (13%)

- From the above list it can be seen that the most important feature of the urban environment for microbusinesses, by a large margin, is fast broadband/internet – cited by 85% of businesses as important or very important.

- Next most important, cited by around two-thirds of surveyed businesses, is a set of factors relating to accessibility – proximity to the business owner's home, access to the transport network and the availability of car parking.

- Appearance and image of premises and area are next most important, with a large majority citing these factors (60% and 61%, respectively).

- 'Clusters' of economic activity and density of business networks stressed in urban agglomeration theory are among the least important – proximity to suppliers (13%) and proximity to collaborators/business contacts (30%) – although proximity to customers is cited by the majority (52%).

Is housing important in incubating microbusinesses?

- 82% of the microbusinesses surveyed in Edinburgh had used housing or neighbourhood resources for their business (defined as running the business from home, using space in the home for the business, using housing equity to finance the business, or obtaining business advice from neighbours).

- The majority of microbusinesses in Edinburgh (54%) had been run from the owner's home, either when founded or now. Of those in commercial premises or with no fixed premises at the time of the survey, over one quarter (26%) used additional space in their home for business purposes.
- Business growth is a dominant reason for moving from the home into commercial premises, cited as a reason by 90% of businesses making this relocation. Business owners who live in a flat (versus a house) are less likely to use their home for the business, even after controlling for other characteristics of the business and business owner.
- Almost one-quarter (23%) of microbusinesses in Edinburgh had used housing equity for funding their business. The use of housing equity for the business is closely linked to business growth.
- Almost one-third (32%) of microbusinesses in Edinburgh had used business advice from a neighbour. Business owners most likely to use advice from neighbours are those who started their business because of job loss and those with fewer employees.
- Home-based businesses are *less* likely to use advice from neighbours. The use of business advice from neighbours is not connected to likelihood of business growth (positively or negatively), or to neighbourhood characteristics (although business owners live overwhelmingly in the most affluent parts of Edinburgh).
- Analysis of the UK Survey of SME Finances showed that, in cities, microbusinesses based in the business owner's home substantially out-perform those in commercial premises on turnover growth and are more likely to become an employer (i.e. move from having no employees to having at least one).
- Almost double the proportion of home-based businesses (HBBs) in UK cities made the transition over the £100,000 turnover threshold between 2004 and 2008 compared to those in commercial premises – 83% of HBBs versus 43% of non-HBBs.
- Although HBBs are less likely to display employment growth, almost half grew out of their micro status between 2004 and 2008, while a sizeable proportion (11%) employed 50+ staff four years later.

Conclusions and policy implications

- **Microbusinesses are serious businesses that display growth**
There is likely to be merit in cities engaging with micro (and small) business owners through business associations and forums etc. in order to hear, and respond to, their specific needs and challenges.
- **Home-based businesses in cities are substantially more likely to display turnover growth than those in commercial premises but less likely to create jobs.**
The reasons for this are not simple or fully understood, but this finding is consistent with leakage of job creation out of a local economy due to businesses meeting growing demand through sub-contracting rather than moving into commercial premises. Well-functioning commercial property markets with adequate supply and affordable rents are likely to help retain employment growth in a local economy.
- **The majority of microbusinesses are, or have been, run from the owner's home**
There may be scope to increase the number of home-based businesses through flexible building design, less restrictive planning regulations regarding use, and the removal of clauses in tenancy agreements forbidding social and private renters from running businesses from residential property.
- **Internet connection speed is overwhelming important**
It is difficult to see how any local economy in Scotland can thrive without world-class internet connectivity.
- **Appearance/image and accessibility are central to how microbusinesses value urban environments**
Top-quality urban design and spatial and transport planning that create attractive, accessible and well-functioning urban environments in which to both live and work is likely to benefit the local economy.

Further reading (contains more detail on data, method and results)

Houston, D. and Reuschke, D. (2016) Microbusiness growth and the urban economy. *Urban Studies*, forthcoming (Mimeograph available on request from the authors)

Reuschke, D. and Houston, D. (2016) The importance of housing and neighbourhood resources for microbusinesses. *European Planning Studies*, 24:6, p.1216-1235. Open Access at:
<http://www.tandfonline.com/doi/abs/10.1080/09654313.2016.1168364>

Reuschke, D. (2016) The Importance of Housing for Self-Employment. *Economic Geography*, DOI: 10.1080/00130095.2016.1178568, Open Access at:
<http://www.tandfonline.com/doi/pdf/10.1080/00130095.2016.1178568>

References

Anyadike-Danes, M., Hart, M. and Du, J. (2015) Firm dynamics and job creation in the United Kingdom: 1998-2013. *International Small Business Journal*, 31:1, p.12-27.

Department of Business, Innovation and Skills (2014) *Business population estimates for the UK and Regions 2014*. National Statistics Statistical Release. Available at:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/377934/bpe_2014_statistical_release.pdf

Sayers, J.G. (2010) Home-based businesses in the city. *Small Enterprise Research*, 17(2), p.165-176.

Annex – Selected descriptive results (further data and modelling results available in publications and from authors on request – see ‘Further reading’)

Table 1. Microbusinesses by employment growth measures and type of location (column percentages)

Employment in 2004 and 2008	Type of location			Total
	Major conurbation	City	Town	
Less than 10 staff in 2004 and 10+ staff in 2008	57.0	55.4	46.9	50.4
Less than 10 staff in 2004 and 50+ staff in 2008	15.2	20.9	15.9	15.5
Less than 10 staff in 2004 and 2008	43.0	44.6	53.1	49.6
Became employer (no staff in 2004 & 1+ staff in 2008)	91.1	87.3	72.4	76.7
N (<10 in 2004)	79	139	358	943
N (no staff in 2004)	45	63	181	438

Note: UKSSMEF 2004 and 2008, unweighted data; authors’ compilation

Table 2. Microbusinesses with <10 staff and turnover below £100,000 in 2004 by turnover growth measures and type of location (column percentages)

Turnover in 2004 and 2008	Type of location			Total
	Major conurbation	City	Town	
Below £100,000 in 2004 & £100,000+ in 2008	69.4	86.3	67.4	72.4
Below £100,000 in 2004 & £250,000+ in 2008	63.9	71.2	57.6	60.6
Below £100,000 in 2004 & 2008	30.6	13.7	32.6	27.6
N	36	73	172	439

Note: UKSSMEF 2004 and 2008, unweighted data; businesses with a turnover of over £100,000 in 2004 are not displayed because they are not included in the subsequent modelling; authors’ compilation

Table 3. Growth measures by city location and home-based business (HBB), per cent

Growth measures (2004-08)	HBB			Non-HBB		
	City	Outside City	total	City	Outside City	Total
Less than 10 staff in 2004 and 10+ staff in 2008	50.0	42.4	43.3	58.8	56.2	56.7
Less than 10 staff in 2004 and 50+ staff in 2008	20.4	9.4	10.7	21.1	19.6	19.8
Became employer (no staff in 2004 & 1+ staff in 2008)	90.6	74.0	76.1	83.9	76.3	77.5
Below £100,000 in 2004 & £100,000+ in 2008	82.5	47.5	51.9	43.4	39.6	40.3
Below £100,000 in 2004 & £250,000+ in 2008	62.5	37.9	41.0	39.1	35.0	35.8
N employment growth	54	394	448	85	409	494
N non-employment business growth	32	219	251	31	156	187
N turnover growth	40	282	322	69	303	372

Notes: UKSSMEF 2004 and 2008, unweighted data; authors’ compilation

Table 4: Location preferences of microbusinesses in Edinburgh (rows add to 100%)

Variable	Not important at all	Not important	Important	Very important
Proximity to customers	14.1	33.7	29.4	22.7
Proximity to suppliers	41.3	46.3	11.3	1.3
Proximity to collaborators/business contacts	24.4	45.6	24.4	5.6
Proximity to local workforce with specific skills	32.3	30.4	25.5	11.8
Access to transport network	13.0	21.1	42.9	23.0
Access to business support services	24.8	48.4	23.0	3.7
Appearance/image of premises	23.9	15.3	28.8	31.9
Appearance/image of area	18.4	22.1	33.7	25.8
Meeting room	40.1	26.8	19.7	13.4
Parking close-by	17.8	20.9	32.5	28.8
Fast broadband/internet	6.3	8.9	20.9	63.9
Home proximity	11.3	20.8	37.1	30.8

Note: N=165 businesses.

Source: own survey