



MICROBUSINESSES AND THE CITY

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Briefing Paper

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Summary

- *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.*
- *Microbusinesses grew in number in the UK by 55 per cent between 2000 and 2013.*
- *The majority of private sector employment growth in the UK over the period 1998-2013 came from microbusinesses.*
- *Microbusinesses are serious businesses that display growth – more so in cities than elsewhere.*
- *Home-based businesses in cities are more likely to display turnover growth and are more likely to become an employer than those in commercial premises.*
- *The majority of microbusinesses are, or have been, run from the owner's home.*
- *Internet connection speed is overwhelming important to microbusinesses.*
- *Appearance/image and accessibility are central to how microbusinesses value urban environments – much more so than the existence of business clusters and networks.*
- *Microbusinesses and home-based businesses are neglected in urban economic theory, policy and practice.*
- *Measures to ease planning and tenancy restrictions on running businesses from home may be beneficial to city economies.*
- *Adequate availability of affordable and suitable commercial premises, and support and encouragement for microbusinesses to make the transition from the owner's home into commercial premises, may help facilitate the growth of microbusinesses.*

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 (BIS), 2014).
- Although microbusinesses are less prevalent in cities than in rural areas, they display higher growth. Microbusinesses occupy an important niche in city economies, with some becoming the large firms of tomorrow. All firms started out as micros.
- 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 (BIS, 2014).
- The majority of private sector employment growth in the UK over the period 1998-2013 came from microbusinesses (Anyadike-Danes *et al.*, 2015).
- Underlying social change, economic trends, technological shifts and evolving industrial organisation are likely to see microbusinesses and home-based businesses in cities continue to increase in number and significance in the future (Sayers, 2010).
- Microbusinesses have been neglected in urban economic research and policy, which have too often focussed on flagship investments and large firms. We currently know very little about how microbusinesses operate in cities.

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?
- Are housing and neighbourhoods 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 (Inter-Departmental Business Register).
- 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?

- Microbusinesses in UK cities are more likely to display employment and turnover growth than those in other locations (see Annex, Tables 1 and 2).
- Between 2004 and 2008, 87% of surviving microbusinesses in cities who had no employees in 2004 became an employer, 55% of all microbusinesses in cities grew out of their micro status, and 21% grew to have 50+ employees.
- 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.

- Enhanced turnover growth, however, is a unique city effect.
- Home-based businesses (HBBs) in cities out-perform microbusinesses in commercial premises. The opposite is true outside cities – a possible explanation being that there are more commercial premises available in cities for growing HBBs to move into.
- 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 surviving HBBs versus 43% of non-HBBs.
- In cities, HBBs are more likely than non-HBBs to become an employer, with 91% of surviving micro HBBs in cities becoming an employer between 2004 and 2008 versus 84% of non-HBBs.
- HBBs in cities are equally likely to become a medium or large employer (50+ employees), with 20% of surviving HBBs and 21% of non-HBBs making this transition between 2004 and 2008.

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%)
 - Business is close to the owner's home (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%)
- The most important feature of the urban environment for microbusinesses, by a large margin, is fast broadband/internet.

- Next most important, cited by the majority 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.
- ‘Clusters’ of economic activity and density of business networks stressed in much contemporary urban theory and policy are among the least important, in particular proximity to suppliers and proximity to collaborators/business contacts.

Are housing and neighbourhoods 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 – possibly due to storage, parking and tenancy restrictions (in the case of renters).
- 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.

Conclusions and policy implications

- **Microbusinesses are serious businesses that display growth – more so in cities than elsewhere.**

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 more likely to display turnover growth and are more likely to become an employer than those in commercial premises – and some high-growth businesses were founded in the owner's home.**

Well-functioning commercial property markets with adequate supply and affordable rents are important to facilitate and retain employment growth in a local economy. Support and encouragement for business owners in making the transition from home to commercial premises may be beneficial.

- **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 inhibiting 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 – much more so than the existence of business clusters and networks.**

High-quality urban design and spatial and transport planning that create attractive, accessible and well-functioning urban environments are likely to benefit the local economy. These are too often seen as luxury items only affordable once a local economy is growing.

Further reading

For more detail on data, method and results reported in this paper:

Houston, D. and Reuschke, D. (2016) Microbusiness growth and the urban economy. 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 advance on-line publication available at: <http://www.tandfonline.com/doi/abs/10.1080/09654313.2016.1168364>

Reuschke, D. and Houston, D. (2016) Microbusinesses and the city: what is missing from urban economic theory. Mimeograph available on request from the authors.

For more information and analysis of the role of housing:

Reuschke, D. (2016): The Importance of Housing for Self-employment, *Economic Geography*. Open Access advance on-line publication available at: <http://dx.doi.org/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	Village/rural area	
Less than 10 staff in 2004 and 10+ staff in 2008	57.0	55.4	46.9	50.4	50.4
Less than 10 staff in 2004 and 50+ staff in 2008	15.2	20.9	15.9	13.1	15.5
Less than 10 staff in 2004 and 2008	43.0	44.6	53.1	49.6	49.6
Became employer (no staff in 2004 & 1+ staff in 2008)	91.1	87.3	72.4	73.2	76.7
N (<10 in 2004)	79	139	358	367	943
N (no staff in 2004)	45	63	181	149	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	Village/rural area	
Below £100,000 in 2004 & £100,000+ in 2008	69.4	86.3	67.4	72.2	72.4
Below £100,000 in 2004 & £250,000+ in 2008	63.9	71.2	57.6	58.2	60.6
Below £100,000 in 2004 & 2008	30.6	13.7	32.6	27.9	27.6
N	36	73	172	158	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