Quarterly Survey of Small Business in Britain

2014

Special topic: networking trends
Acknowledgements

The research team would like to thank the many SME owners and managers who invested time and effort in completing our questionnaire. Our aim in this report is to represent their views and experiences as accurately as possible. In doing so, we hope to provide a useful, timely and objective source of evidence about small and medium-sized firms that can be used to inform future policy and practice. We also wish to acknowledge the work of BDRC in managing the telephone survey and the support provided by Barclays Bank and The Open University. The Quarterly Survey is editorially independent and any opinions expressed may not reflect those of The Open University or any other organisations.

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Jason Hesse, 3 February 2014

Extreme weather risk poses major threat to small businesses
Will Nichols, 5 February 2014

‘Don’t bar us from cheap flood cover scheme’ plead bosses who risk spiralling premiums and excesses Helen Loveless, 9 February 2014

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Next quarter’s topic: goals, values and success
Summary

SMEs and the UK economy

Our analysis of several prominent SME research studies and UK macroeconomic data presents a broadly similar set of messages, with output continuing to grow. There are also increasing signs of optimism regarding future growth prospects, with improved manufacturing activity and forecasts. Though all regions are exhibiting signs of growth, London and the South of England appear to be leading the recovery. It is important to note that summary statistics of this kind necessarily mask large differences in the experiences of individual firms.

Networking trends

This quarter, we examine the way that SME owners and managers engage with business and professional organisations and informal networks. We also examine the reasons why some businesses choose not to become involved in formal and informal networks, and look at the impact of new online and social media technologies:

- Two thirds of those who say they are involved in formal or informal networks (66%) think that the growth of the internet and social media has changed how they engage with those networks.
- More than half (51%) of the relatively larger firms (i.e. those in the £5m+ turnover band) said they are members of at least one business or professional organisation, as compared to less than one third (30%) of those in the smallest turnover band.
- Common reasons for not being a member include: insufficient time for networking activity; costs associated with membership; lack of perceived benefits of membership; doubts over the quality of services provided; and personal lack of interest in socialising / networking.
- Almost one third (32%) say they ‘mainly’ engage with these organisations online and 80% report using some combination of face-to-face and online communication; only a small minority (12%) communicate ‘mainly’ through face-to-face methods such as meetings and social gatherings.
- The most commonly identified benefit from being a member of a business or professional organisation is to provide a source of general advice and information (59% of current members). Other benefits include: providing shared experience and social contact (48%) and obtaining more specific advice on technology or best practices (41%).
- Overall figures for the proportion of firms engaged in informal networks were surprisingly low (18%), with the highest proportions recorded for firms in the business services sector (28%), followed by Hotels and Restaurants (23%) and Transport, Storage & Communication (23%).
- Only 14% of respondents who engage with informal networks say that their informal networking is ‘mainly online’, while almost half (47%) use a combination of face-to-face and online channels.
- Sharing experience and social contact are seen as main benefit of being a member of an informal network of business owners (65% of those who engaged with such networks). They are also seen as sources of useful business advice and information (58%), and for advice on technology or best practice (38%).
- The accompanying case studies explore the recent networking experiences of three UK businesses and the views of their owners and managers on issues raised in this report.
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SMEs and the UK economy

This section reviews the current state of the UK economy and the performance of its small and medium-sized firm population over the period covered by this report. It is based on our analysis of a number of prominent SME research studies and UK macroeconomic data. These varied sources present broadly similar messages, with output continuing to grow. There are also increasing signs of optimism regarding future growth prospects, with improved manufacturing activity and forecasts. Though all regions are exhibiting signs of growth, London and the South of England appear to be leading the recovery. It is important to note that summary statistics of this kind necessarily mask large differences in the experiences of individual firms.

The UK economy and SME performance

Our review begins with a comparison between GDP figures, which provide an indicator of overall economic performance\(^1\), and recent data from the Barclays Small Business Activity (SBA) Index. The SBA data, which is derived from the banking activity of over 200,000 small firms (Chart 1) has fluctuated since early 2012 while the UK’s GDP growth rate has remained relatively stable over the same period, until a sharp year on year rise in GDP in the second quarter of 2013 which has continued through Q3 and Q4. After rising from -10 in Q1 2013 to +4 in Q3, the SBA fell to -1 in Q4, whilst GDP continues to rise in each quarter and exhibited and overall increase of +2.7% between Quarter 4 2012 and Quarter 4 2013, the highest annual rise since Q1 2008.\(^2\) The Barclays Stock and Activity Index (Chart 2) estimates the number of ‘mainstream’ businesses, based on the number of business accounts held with them and an estimate of their market share. This quarter’s figures suggest a break in the recent trend for net increase in the business stock in England and Wales over the past five years. There was a net decline of -2,400 businesses, representing the first net decline since Q1 2008. There appears to be a return towards pre-recession rates, with the number of new starts dropping sharply to 92,500, the lowest since Q4 2005 and closure rates falling to 94,900 the lowest since Q3 2010. This also resulted in a 12 month increase of only 0.9% in the business stock, representing the lowest annual increase since Q3 2009. The net fall in the business stock at this point in the business cycle can be seen as evidence of rapid growth in GDP and employment prospects, and reflects a long-observed lag between starts, closures and the business cycle\(^3\).

\(^1\) The Office for National Statistics has recently reviewed a number of alternative measures of economic well-being. They report that one of these measures, GDP per capita (which adjusts for population growth), shows little sign of recovery since 2008. ONS (2014) Measuring National Well-being: Economic Well-being (7 April 2014). Available at: http://www.ons.gov.uk/ons/dcp171766_358832.pdf


\(^3\) Second estimate UK GDP data was released on 26\(^{th}\) February 2014.

In a deep cycle, there can be an initial increase in the stock of businesses as business starts rise much more quickly than closures. Paradoxically, stock levels can fall as the economy grows: more people are able to find employment, so fewer go into business, but at the same time closures can still be high as many of the “necessity starts” (i.e. people forced into self-employment during the downturn) cease trading as the economy grows.
The latest ONS UK labour market statistics, published February 19th 2014, point to a further growth in self-employment, with a net increase of 172,000 between October and December 2013, resulting in an overall figure of 4.37 million in self-employment. There was another quarter of overall employment increase, with the employment rate up by 0.3%\textsuperscript{4}.

Chart 1: Barclays Small Business Activity Index versus GDP (latest quarter on corresponding previous quarter)

Chart 2: Mainstream businesses in England and Wales, starts and closures and net change (thousands), four quarter moving averages. Source: Business Economics, Barclays

Review of other SME survey findings

The **Federation of Small Business ‘Voice of Small Business Index’**\(^5\) for the first quarter of 2014 reported that their measure of small business confidence: ‘The Small Business Index (SBI) is at a record high and has now surpassed the previous high in Q3 2013.’ Confidence is now widespread throughout the UK and forecast indexes for employment, exporting and investment intentions are all showing robustly positive numbers, suggesting that: ‘The record-breaking Index score indicates that GDP is likely to reach pre-recession levels in 2014.’ It indicates that confidence was at +35.7%, above the previous highest level of +33.5% recorded in Q3 2013. Confidence is rising in all sectors and all regions, with the exception of the North East, where ONS data suggests unemployment rose by 0.3% throughout 2013, compared with an overall decline for the UK as a whole. With regard to sector, technology firms continue to exhibiting most confidence at +59%, but with a marked rise in confidence amongst manufacturers which are now placed second at +54%. Growth intention for the next 12 months continued to rise, up to 62.2% from 56.6% reported in Q4 2013. The net balance for those experiencing rising exports was +9.2%, whilst the reported prospects for increasing exports in Q2 was +23.9%. Over one quarter of small businesses plan to increase capital investment over the next 12 months; 26.6% representing a rise from 23.2% in Q4 2013. More firms were hiring rather than firing staff for the third quarter in a row, and the prospects for Q2 2014 are for further improvement at +7.6%. The proportion of small businesses with skills requirements remains similar to Q4 2013, representing a potential barrier to growth for one quarter of small businesses.

The **Charterhouse Research Business Confidence Index (CRBCI)**\(^6\), representing 3,430 UK businesses ranging from start-ups to £1bn sales turnover surveyed between September and November 2013, presents mean scale scores on an index where higher scores represent a high percentage of businesses that are confident in terms of the state of the UK economy. This revealed the highest quarterly mean score of 57 since the CRBCI Index began in the third quarter of 2011 (up from 53 in the previous quarter). More businesses continued to be positive than negative for the second successive quarter and it is the first time that the majority of businesses have been positive; 51% were either fairly or extremely confident compared to 21% that were either fairly or extremely negative. Larger businesses with over £1m sales turnover were most confident, with a mean score of 61, compared to a mean score of 57 for both established SMEs and start-ups in the last year. Confidence is greater in Wales, the Midlands and South of England with mean scores ranging between 58 and 60, compared to the North of England which has a mean score of 52 and Scotland which has a mean score of 55. With regard to sectors, the production sector exhibits the greatest mean confidence score of 61, followed by business services at 59.

The **CBI Quarterly Manufacturers Survey**\(^7\), published on 20\(^{th}\) March 2014, indicated that: ‘The picture in the manufacturing sector remains positive. Overall, demand continues to rise and output growth is robust.’ However, recent quarters have shown that export orders have underperformed relative to overall orders as the UK’s domestic recovery has taken hold faster than key trading partner economies, notably in the Eurozone. The survey reports that the recent Chancellor’s 2014 Spring Budget announcement of the doubling of the export loan scheme to £3 billion, with more favourable borrowing terms, ‘... should help businesses to break into faster growing markets and underpin an improvement in the UK’s export performance.’ Some 29% of

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\(^5\) FSB Voice of Small Business Index, Q1 2014: [http://www.fsb.org.uk/frontpage/assets/q1%202014_cebr%20index%20final.pdf](http://www.fsb.org.uk/frontpage/assets/q1%202014_cebr%20index%20final.pdf)

\(^6\) CRBCI, published on 9\(^{th}\) January 2014: [http://www.charterhouse-research.co.uk/Asp/uploadedFiles/File/Press/Business%20Confidence%20Q4%202013.pdf](http://www.charterhouse-research.co.uk/Asp/uploadedFiles/File/Press/Business%20Confidence%20Q4%202013.pdf)

firms reported that total order books were above normal in March, with 23% indicating that they were below normal, producing a net balance of +6%, down from +12% in December 2013, but well above the survey’s long run average of -17%. Output growth was at +15%, down from the record level of +29% recorded over the last two quarters of 2013, but well above the survey average of +2%. Exports being above normal exhibited a net balance of -10%, compared with +11% in December 2013. However, overall growth expectations for Q2 are stronger than they were for Q1, with a net balance of +19% compared with +16% for the previous quarter.

The English Business Survey (EBS) is classified as ‘experimental official statistics’ and it has been announced that the series will end in April 2014. The survey uses balance statistics but they are not directly comparable to other data reported in this section, or to findings of the other SME surveys reviewed in this section. For example, it is based on individual workplaces rather than firms (though as the EBS points out, 97% of all enterprises are based on a single workplace). In addition, the EBS excludes the smallest non VAT and PAYE registered businesses, which may represent 55% of all SMEs. The most recent EBS data for the 2013 fourth quarter to January 2014, based on 9,000 workplaces and published on 28th March, is very positive with net balances of +27% reporting higher output and +11% reporting increased employment, respectively the second highest and the highest since the series began with Quarter 4 2011.

Larger businesses reported higher output balance scores than their smaller counterparts. Businesses with more than 250 employees reported the highest estimated balance of +47%, while micro businesses (with 10 or fewer employees) registered the lowest, +7%. All sectors registered positive output balance score estimates. The Education, Health and Public administration and defence sector registered the highest balance estimate of +36 while the Agriculture/Production sector registered the lowest balance of +17%. All regions reported increased employment balances, but with weaker performance in Yorkshire and the Humber. Across all business sizes, there were reported increases in employment levels with larger businesses reporting the highest balance estimate with +21%. The construction sector was the only sector to have reported a negative balance estimate of -3%, while the ‘Other’ services sector reported the highest with +12%.

A higher proportion of exporting businesses reported an increase in exporting activity than a decline, leading to a national balance score estimate of +13% for Q4, which is 13 percentage points higher than in the same period the previous year. Expectations for future exports were equally positive in England with exporting businesses reporting a positive balance estimate of +17%, 5 percentage points higher than for the same period in the previous year. During the past 12 months English business performance has been consistently improving, with output balance scores comparing to 12 months previously increasing each quarter in 2013 since Quarter 1, with results for Q2, Q3, and Q4 being the highest since the survey began. Output is also expected to improve in Q1 2014, with a net balance score of +11%. Improvements are forecast across all English regions, with the strongest results in London +19% and in the South of England, with weaker results in the North, particularly in Yorkshire and Humber +2%.

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Conclusion

Our review of the most recently available UK SME data indicates increasing and sustained business confidence, matching the rise in national GDP and manifested in increased employment levels. This conclusion is underpinned by several indexes, which are registering at their highest levels of confidence in recent years. Whilst there has been a slow-down in new business formation, this is also now mirrored in lower death rates, with a return towards pre-recession rates. The signs are that existing businesses are taking on more employees, contributing to a net rise in employment. There continue to be signs of positive output growth, with manufacturing firms showing positive growth and forecasts for the next quarter and with technology and business services, education and health all performing well. From a regional perspective, there is output growth and improved performance in all regions, but this has been strongest in London and the South and less strong in the North, notably in the North East and Yorkshire and the Humber. Whilst all business size categories are exhibiting growth, the larger businesses are growing faster and exhibiting greater confidence. The proportion of small businesses with skills requirements has come to the fore in the FSB survey in the last two quarters, representing a potential barrier to growth for one quarter of small businesses.

Another regular performance indicator, the British Chamber of Commerce (BCC) Quarterly Economic Survey report was not available at the time this report went to press.
Networking trends

This quarter, we examine the way that SME owners and managers engage with business and professional organisations and informal networks. We also examine the reasons why some businesses choose not to become involved in formal and informal networks, and look at the impact of new online and social media technologies. The main telephone survey findings are complemented by additional qualitative findings obtained from our online survey respondents and three in-depth case studies.

Introduction

The role of business networks and networking has become an important area for researchers, policy-makers and practitioners. The term can encompass a wide range of individual- and firm-level connections, from informal social gatherings to local chambers of commerce, national trade associations, and supply chains. However, it has been some time since the topic was last covered by the Quarterly Survey (Q2, 2002) and, while many aspects may be unchanged, it seems likely that both patterns and practices have been influenced by the rapid spread of new communications technologies.

In this report we examine some of the more conventional questions (e.g. why do small and medium-sized firms engage with formal and informal networks?; how do they make use of their networks?; why do some businesses prefer not to engage?) with a particular focus on emerging forms of networking, via online platforms and social media tools such as LinkedIn. Are the new communications technologies revolutionising the way people interact in business networks, or is their impact exaggerated? We consider the experiences and views of a variety of owners and managers as they seek to manage their networks. We also explore the continuing roles played by the more traditional forms of business network (i.e. local community, trade associations etc.) in the light of the new communication technologies.

We begin with an initial assessment of whether online and social media technologies have changed the way people engage with formal and informal networks. We then look in more detail at formal networking through business and professional organisations, before turning our attention to more informal types of network. The final section focuses on the ways that formal and informal networks can help to promote marketing and deliver other types of business support to small and medium-sized businesses. This is followed by a series of case studies that

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examine the connections between these issues based on the networking experiences of three contrasting businesses.

**Have online platforms and social media changed networking?**

Two thirds of those who say they are involved in formal or informal networks (66%) think that the growth of the internet and social media has changed the way they engage with those networks (Chart 3). There is a slight size-related trend, with a higher proportion of the relatively larger firms stating that they have been affected by these technological innovations (Chart 4).

**Chart 3:** Has the growth of the internet and social media changed the way you engage with formal and informal business networks? (n=522)

<table>
<thead>
<tr>
<th>Yes, 66%</th>
<th>Don't know, 3%</th>
<th>No, 31%</th>
</tr>
</thead>
</table>

**Chart 4:** Has the growth of the internet and social media changed the way you engage with formal and informal business networks? – by turnover

- **All:** 66%
- **Less than £100,000:** 62%
- **£100,000-£249,999:** 60%
- **£250,000-£499,999:** 63%
- **£500,000-£999,999:** 66%
- **£1m-£5m:** 73%
- **£5m+:** 63%

The pattern is similar when size is measured in terms of employee numbers, with relatively little difference between the percentage of the largest firms (50-250 employees band) (69%) and the smallest of the micro-businesses (1-4 employees band) (62%). There were no strong sectoral
variations and responses were also broadly similar across the regions and nations of the United Kingdom. The notable exception is London, where 81% of respondents think that the growth of the internet and social media has changed the way they engage with formal and informal business networks. This may in part reflect the distinctive profile of businesses in the capital, which has the highest level of internet users in the UK: currently 90.0% (91.5% for Inner London), compared to a national average of 86.7%\textsuperscript{11}.

When we asked respondents to explain how the internet and social media had changed their network engagement, many of the responses referred to faster and easier communication with customers and others\textsuperscript{12}. Perhaps unsurprisingly, the comments suggested that many smaller businesses that are happy using email and the internet have so far resisted social media applications. The following selection of verbatim comments illustrates some of the positive changes and also some more sceptical views about negative effects:

‘It has been all e-mail contact etc. since we first started in 1998.’
‘Almost instant communication allows for more rapid arrangement of events, more sharing of news and information.’
‘All international contact by Email - certainly for all documentation plus Skype for conversations.’
‘As a result of the growth of the internet we now have a website which brings in many new jobs.’
‘Easier to engage internationally.’
‘Faster responses and more accessible information.’
‘FSB has a weekly and monthly latest business trends and regulatory matters. NFU on prices for stock and grazing rents.’
‘Immediate email responses/direction saves need for frequent formal meetings/discussion.’
‘Informal networks: we now have a (sales) website and discuss with other retailers some of the practices common to us all. This is very useful.’
‘I now use an online course marketing service that links to my Facebook business page automatically.’
‘I use LinkedIn a huge amount, and most networks now have ‘Group Pages’ for sharing questions and information.’
‘Email is a quick way to exchange information and ideas. Social media plays no practical part in good communications.’
‘I use e-mail and the internet extensively. I am averse to social networking, believing that it collects far too much information on me without, in my case, fulfilling any useful purpose. I do not advertise, as news of a void in any of my properties rapidly becomes known, and tenants approach me.’

\textsuperscript{11} Office of National Statistics (2014) \textit{Internet Access Quarterly Update, Q4 2013}. Available at: \url{http://www.ons.gov.uk/ons/dcp171778_353031.pdf}. Another commonly observed characteristic of London-based businesses is that there is often less sense of local community as many business owners and managers commute a considerable distance to work in the capital.

\textsuperscript{12} Our previous (2002) survey did not examine how businesses engaged with their networks. However, we did comment on possible sectoral differences: ‘Business service firms are more likely than those in other sectors to network with other business owners in other trades and localities. These firms often make heavy use of technology and may well have found that email and other Internet resources, such as newsgroups and forums, mean that they can more easily keep in touch with business owners all over the country or even the world.’ \textit{Quarterly Survey}, Q2 2002, p.26.
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‘Internet has changed it to the extent that I use emails much more than telephone calls, far more efficient and audit trail often helpful re follow up issues. I have refused to engage in social media because of concern that it would add daily pressure to a busy diary.’

‘Internet search facilities opening up knowledge of available organisations. We do not use social media because our business is industrially focused.’

‘It is hard now to see people face to face … everyone is so busy - so email and follow up calls on mobiles is the only way we can pin people down for decisions.’

Business and professional organisations

Business and professional membership organisations such as Chambers of Commerce remain an important part of the small business landscape in Britain. They also represent an important example of a ‘formal’ business network (i.e. the network is actively organised and has features such as membership lists, appointed officers and a calendar of events)\(^{13}\). We asked respondents whether they belonged to any business or professional organisations (e.g. your local Chamber of Commerce, Federation of Small Businesses, Federation of Private Businesses, Institute of Directors, ACCA, RICS). In this survey, 41% report that they are members of at least one of these organisations. This proportion is somewhat lower than the headline figure in our 2002 survey, where 69% of the small businesses taking part said they were members of one or more business associations, networks or clubs. However, this may in part be due to slight differences in the wording of the question\(^ {14}\).

The survey findings suggest a broad size-related pattern, with more of the respondents in relatively larger firms tending to report membership of business or professional organisations (Chart 3). More than half (51%) of the relatively larger firms (i.e. those in the £5m+ turnover band) said they were members of at least one of these formal networks, as compared to less than one third (30%) of those in the smallest turnover band. However, firms in the £250,000-£499,000 band (48%) did not fit this overall pattern\(^ {15}\). Some of these organisations, including national trade associations and professional bodies, tend to attract relatively larger businesses. Others, including the FSB and some locally-based organisations, are more oriented around small and micro-businesses\(^ {16}\).

\(^{13}\) The trading relationships between SMEs and other supply chain actors can also be regarded as a type of formal network; they tend to be more significant in particular industry sectors (e.g. food manufacturing and retailing).

\(^{14}\) The equivalent question in the 2002 survey was worded: ‘Are you a member of any business association, network or club?’ and the samples are not directly comparable (n.b. the survey now includes more medium-sized firms).

\(^{15}\) Possible explanations include the sectoral composition of firms in this size band, and that they may include a higher proportion of higher growth-rate businesses.

\(^{16}\) For example, the FSB has approximately 200,000 members in the UK; the average workforce size of its membership is 7.38 people according to the latest ‘Voice of Small Business’ Member Survey, available at: http://www.fsb.org.uk/Member-Survey-2012
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Chart 5: Firms belonging to one or more business or professional organisations (e.g. local Chambers of Commerce, Federation of Small Businesses, Federation of Private Businesses, Institute of Directors, ACCA, RICS) – by turnover

There are also some sectoral variations in the percentage of respondents belonging to business and professional organisations (Table 1). Manufacturers and business service firms were those most commonly reporting membership (50%), closely followed by firms engaged in transport, storage and communication. The lowest figures were recorded for firms in health, education, leisure and other (29%) and agriculture, forestry and fisheries (26%)\(^{17}\).

Table 1: Firms belonging to one or more business or professional organisations (e.g. local Chambers of Commerce, Federation of Small Businesses, Federation of Private Businesses, Institute of Directors, ACCA, RICS) – by industry sector

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Services</td>
<td>50%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>50%</td>
</tr>
<tr>
<td>Transport, Storage &amp; Communication</td>
<td>49%</td>
</tr>
<tr>
<td>Retail</td>
<td>42%</td>
</tr>
<tr>
<td>Construction</td>
<td>37%</td>
</tr>
<tr>
<td>Hotels &amp; Restaurants</td>
<td>34%</td>
</tr>
<tr>
<td>Wholesale</td>
<td>34%</td>
</tr>
<tr>
<td>Health, Education, Leisure, Other</td>
<td>29%</td>
</tr>
<tr>
<td>Agriculture, Forestry, Fisheries</td>
<td>26%</td>
</tr>
<tr>
<td><strong>All</strong></td>
<td><strong>41%</strong></td>
</tr>
</tbody>
</table>

\(^{17}\) The result for Agriculture, Forestry and Fisheries should be treated with caution due to the relatively small size of the relevant sub-sample (31 firms).
Networking trends

We asked our regular respondents to describe up to three business or professional organisations that they engaged with most actively. The most commonly cited organisations were local Chambers of Commerce and the Federation of Small Businesses (FSB). Others included the Institute of Directors, the main professional accounting bodies (e.g. ACCA, ICAEW) and a wide variety of professional organisations. The following summary indicates the sheer diversity of organisations involved:


Reasons for not being a member

We also asked those who do not belong to any business or professional organisations to explain why they are not involved. Most of the verbatim comments revolve around one or more of the following six issues:

- Insufficient time for networking activity
- Costs associated with membership
- Lack of perceived benefits of membership
Networking trends

- Doubts over the quality of services provided
- Unable to match specific needs of the business
- Personal lack of interest in socialising / networking

The following direct quotations illustrate the kinds of comments received on this issue.

‘I did think about joining my local business networking group but was put off by the high joining fees and the difficulty of getting to the meetings at the prescribed hours.’

‘We’ve tried many of them in the past and they don’t work for us.’

‘Don’t believe in ‘clubs’. They seem to serve large business needs only and just add another load of unnecessary ‘stuff’ to deal with that barely benefits the business.’

‘I have belonged to such organisations in the past, but never found it at all beneficial. I was also appalled to find that so many sub-standard companies were members.’

‘They generally lack the depth of knowledge and act as funnels to feed businesses to advisors that charge commercial rates.’

‘Lack of actual work experience of the people running these organisations. I have found that none of them have actual working / hands on knowledge [construction industry] but are basically desk boffins. The advice they give is based on theory not practical and is most frustrating.’

‘Over a long period of time I have found all the business organisations I have encountered not to be of any real use to me. They are time consuming to belong to and largely irrelevant in the market sector my company trades in.’

‘Used to belong to local chamber of commerce and business association, also [Local] City Challenge, [but they] became so political the genuine business people were forgotten, also they had a living to earn, not try to score political and racial points.’

‘[I] follow the Groucho Marx dictum of not joining anything that would have me as a member.’

‘We just get on with the job. Don’t want to socialise/get involved.’

It is also worth noting that levels of engagement in these formal networks are likely to vary over the lifespan of the firm, and in relation to the current circumstances (including life stage) of the owners or managers, as the following comment suggests:

‘Not really interested in having to attend meetings / seminars etc. any more - slowing down a bit ready for retirement.’

How do you engage with these organisations?

Online communication is an increasingly important feature for members of business and professional organisations. Almost one third (32%) say they are ‘mainly’ engaging with these organisations online and eight out to ten (80%) report using some combination of face-to-face and online communication. This leaves only a small minority (12%) who report communicating ‘mainly’ through face-to-face methods such as meetings and social gatherings (Chart 6).
We asked our regular respondents to give an example of how their communication with professional and business organisations works in practice. Patterns of communication are extremely varied and may reflect particular characteristics of the firm’s industry sector. For example, the following respondent operates in the field of direct marketing and has an explicit strategy to communicate either via online channels or by telephone, which is likely to influence the ways in which they engage in business networking:

‘We do not meet anyone, neither client nor supplier face-to-face. We aim to do everything online and over the phone. This saves a great deal of time travelling and preparing meetings. It also means that we have an office with lots of staff at their desks, ready to take calls, enquiries and orders.’

Other respondents referred to a range of electronic communication channels including telephone calls, webinars, members’ forums, online newsletters and email updates. They also detailed a number of face-to-face channels such as seminars, business lunches, exhibitions, overseas visits and meetings. These different channels are often combined or coordinated (e.g. one respondent described ‘networking meetings followed up by LinkedIn’). The following quotation describes a typical pattern for firms reporting a mixture of online and face-to-face networking, with pragmatic use of the communication channels that are best suited to particular purposes:

‘Keeping up to speed on industry trends through regular newsletters; occasional consultation of websites when investigating specific issues. Occasional attendance at webinars and physical workshops.’

However, it is also worth noting that some firms do not engage very actively in the business and professional organisations that they have joined:

‘I read emails and newsletters. I sometimes contact other individual members. Other individuals sometimes contact me. Overall, I am a mainly passive participant.’
There are also differences in the ways that business and professional organisations engage with their memberships. For example, several of our respondents who are members of the Federation of Small Businesses (FSB) commented on the way this organisation manages to combine an online presence with telephone-based advice services and face-to-face meetings:

‘Information received from [another membership organisation] is on-line and that is the only engagement with them. For the FSB this is much more proactive – [we] engage with meetings as well as information.’

‘BDA and FSB are primarily online, telephone based. Coaching group is face to face with video calls and email.’

‘I have a problem. I phone FSB. They try to help.’

Respondents highlighted a number of distinctive benefits of face-to-face meetings over purely online interaction; these include an opportunity for trust-building gaining legitimacy and the chance to express views directly to policy-makers:

‘Visit of UKDTI to explain services - then approach for funding opportunities. This way one knows what is realistic for both parties and no waste of effort. Government institutions want low risk firms to give grants and support.’

‘During the horse meat saga last year, FDF [the Food and Drink Federation] were able to organise a meeting with Jim Paice, then a Minister, so that companies involved in the problem could explain their views to the government.’

Finally, another respondent commented on how well face-to-face communication can work, despite the proliferation of technologies:

‘Well one person stands in front of another person and without looking at their mobile phones once [and] actually talks – it’s really amazing!’

**Benefits of membership**

The most commonly identified benefit from being a member of a business or professional organisation is to provide a source of general advice and information; this item was selected by more than half of respondents who are currently members (59%) (Chart 5). Other benefits include: providing shared experience and social contact (48%) and obtaining more specific advice on technology or best practices (41%). Just under one third of member firms (31%) referred to the marketing-related benefit of securing new customers, while a quarter (25%) saw them as a way of identifying new suppliers. A relatively low proportion (15%) see help in finding new staff as a benefit, but this may reflect the fact that many smaller businesses are not recruiting new staff on a regular basis.
The ranking of these nine categories of benefits is the same as that recorded in our 2002 survey, which is reproduced below (see also: Chart 10 for informal networks). The percentages differ between the surveys, which are not directly comparable due to differences in the underlying sample and because the earlier question combined benefits derived from membership of business organisations, informal networks and supply chains. However, it is interesting to note how the relative importance of particular issues is unchanged and, in particular, the role that these organisations play in providing business advice and information in both surveys, a topic that was addressed in a recent Quarterly Survey report\(^\text{18}\).

\(^{18}\) Quarterly Survey of Small Business in Britain, Q3 2013, special topic: business advice and information. Available at: [www.open.ac.uk/quarterly-survey](http://www.open.ac.uk/quarterly-survey)
We asked regular respondents to give a practical example of one of these benefits. The comments illustrate how these formal networks share advice and information that might not otherwise be available in the form that it is needed (n.b. several respondents mentioned that they used the FSB’s legal advice service):

‘Advice as to what’s going on the insurance broking sector [and] representation of our sector.’

‘Advice on technology and updates, particularly in the form of regular newsletters, presentations by manufacturers of new products, or HSE [Health and Safety Executive] on regulatory updates.’

‘Early information on new regulations and legislation, of which there is much around that is well-intentioned but ill-informed.’

‘Chamber of Commerce is very helpful in finding what support may be available for your problem and pointing you in the right direction.’

‘I have to renew my lease in three years’ time. FSB will help with legal matters if required.’

Other benefits of membership include access to staff development and training opportunities, providing sales leads and giving the firm legitimacy:

‘[Membership] enables us to demonstrate our commitment to training and development which recruits in the past have told us is an attraction.’

‘European network provides leads to potential agents.’

‘F2F networking opportunities provide me with very good access to my target market.’

‘Having DMA [Direct Marketing Association] logo on our website reassures new clients that we are trustworthy organisation and that if things were to go wrong, there is a body they can complain to. The world of data is full of cowboys and con men and much of our marketing effort is devoted to ensuring that we are not perceived as yet another company who will rip off clients.’

‘It is a Chartered body. Membership is professionally earned and not just purchased. As a result, I am able to register as a competent consultant, and buyers refer to the register.’

**Informal networks**

The survey produced surprisingly low figures in response to the question: ‘Are you part of any less formal networks of business owners?’ Overall, less than one in five firms (18%) stated that they were involved in one or more informal networks of this kind. By contrast, our 2002 survey found that 43% of small firms felt that they were part of a less formal network of business owners who can turn to each other for advice and information. Our review of the source data suggests that this discrepancy may, in part, be attributed to the additional detailed options types of informal networking that were included in the 2002 survey, coupled with its higher representation of relatively smaller firms\(^{19}\). However, there is support for the seemingly low levels of engagement in other research, a theme that we return to in the Conclusion\(^{20}\).

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\(^{19}\) In addition, a higher proportion of business services firms in the 2002 sample (30% of the total) in comparison to the current survey may have contributed to the difference.

There current survey also shows marked sectoral differences in the proportion of firms engaged in informal networks (Chart 8). The highest proportions were recorded for firms in the business services sector (28%), followed by Hotels and Restaurants (23%) and Transport, Storage & Communication (23%). The overall proportion for Agriculture, Forestry and Fisheries (19%) was much lower than that recorded in the 2002 survey (62%). However, it is striking that most of the informal networking in that sector was with other local businesses in the same trade. As noted in the 2002 survey, farmers are known for having a ‘community spirit’, which is likely to be reflected in their informal networks.

Levels of engagement in informal networks are broadly similar across the size range, with the exception of the very smallest firms in our sample (12%) (Table 2). This is in contrast to the membership organisations discussed earlier, where smaller firms appear less likely to be engaged as compared to their larger counterparts (Chart 5). These differences may reflect the...
Networking trends

contrasting marketing and support needs of micro, small and medium-sized firms, coupled with the broad tendency for relatively larger firms to be more growth oriented. In addition, there are fewer direct costs associated with informal networks (i.e. membership subscriptions and fees), and fewer indirect costs when they are based in the local area (e.g. travel and time-related costs), which may make them more accessible to smaller firms.

Table 2: Are you part of any less formal networks or business owners? (e.g. local business owners operating either in the same trade, or in different trades)? – by turnover band

<table>
<thead>
<tr>
<th>Turnover Band</th>
<th>Yes</th>
<th>No</th>
<th>Don’t know</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>£5m+</td>
<td>21%</td>
<td>78%</td>
<td>1%</td>
<td>162</td>
</tr>
<tr>
<td>£1m-£5m</td>
<td>20%</td>
<td>71%</td>
<td>2%</td>
<td>297</td>
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<tr>
<td>£500,000-£999,999</td>
<td>19%</td>
<td>71%</td>
<td>3%</td>
<td>133</td>
</tr>
<tr>
<td>£250,000-£499,999</td>
<td>23%</td>
<td>76%</td>
<td>1%</td>
<td>127</td>
</tr>
<tr>
<td>£100,000-£249,999</td>
<td>18%</td>
<td>81%</td>
<td>1%</td>
<td>140</td>
</tr>
<tr>
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<td>12%</td>
<td>87%</td>
<td>1%</td>
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<tr>
<td>All</td>
<td>18%</td>
<td>80%</td>
<td>1%</td>
<td>1108</td>
</tr>
</tbody>
</table>

Reasons for not being involved

We also asked those who say they are not involved in informal networks to explain their reasons for not engaging in networks of this kind. Most of the verbatim comments revolve around one or more of the following four issues:

- **Insufficient time for informal networking activity**
- **Lack of perceived benefits of engaging with informal networks**
- **Absence of suitable networks in the local area**
- **Personal lack of interest in socialising / networking**

‘I am not aware of any in this area. I should explain the business is based in an intensely rural area in which there are no other similar businesses;’

‘I don’t feel they would help me in my line of business.’

‘I export over 80% of our output with virtually no local sales.’

‘I used to use local networks, but more for “personal development” rather than for securing business. I’ve reached a stage where I don’t get enough benefit from this to justify the time spent on it.’

‘I would like to form a network of local businesses along the stretch of road where I trade but I do not have sufficient time or energy to run it.’

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22 The percentage figures shown are subject to small rounding differences.
‘[Businesses in my industry sector] tend to be very insular and do not seem to want to engage with local competitors. I speak on a fairly regular basis with another operator approximately 7 miles away but have others closer who are not at all receptive.’

‘Micro-businesses have [so much to do] keeping up with official paperwork, government regulations and health and safety paperwork that there is barely time left to run the business never mind taking time off to exchange hot air!!!!!!’

‘We are in very niche business and in our area there are perhaps 5 -10 prospective customers so networking is only useful for general business problems and not for commercial suppliers or customers.’

There is also some evidence of under-recording of informal networking activity where respondents have not included their own social interactions with business contacts – perhaps because they are seen as social activities. This is evident from the following verbatim comment:

‘I like my independence and I deal with folk of the same mind. It’s informal, direct and effective without labelling it a network. I wouldn’t even call how I operate “networking”.’

**How do you engage with informal networks?**

Online communication is becoming a more important feature of informal networks, but appears to be less widely adopted in comparison with more formal business and professional networks. Only 14% of respondents who engage with informal networks say that their informal networking is ‘mainly online’, while almost half (47%) use a combination of face-to-face and online channels (Chart 9). The combined figure (61%) is considerably lower than the equivalent for members of business and professional organisations (80%) (Chart 4), and the figure for those engaging mainly face-to-face are correspondingly higher at 37% (compared to 12% for members of business and professional organisations).

**Chart 9: How do you engage with informal networks? (n=199)**
Benefits of informal networks

Sharing experience and social contact are seen as main benefit of being a member of an informal network of business owners; this issue was identified by almost two thirds (65%) of those who engaged with such networks (Chart 10). They are also seen as sources of useful business advice and information by more than half of these respondents (58%), and by more than one third (38%) for advice on technology or best practice (see also: Chart 5 for benefits of membership of business and professional organisations).

Chart 10: Benefits from being a member of an informal network of business owners

We asked regular respondents to give a practical example of one of these benefits. The comments illustrate the sheer diversity of ways that owners and managers can benefit from their informal networks, including some that extend into the social sphere. Very few respondents made any reference to family and friendship networks in this survey, though these are often identified in the research literature as sources of financial and non-financial support. A possible explanation is that respondents did not see the term ‘informal networks’ as relevant to these relationships.

‘Discussing and influencing local District Council to adopt group’s proposal of new car parking concessions in town centre. Trial scheme has now started.’

‘Get assistance with complex jobs or assist others.’

‘New work referrals and building e-marketing lists.’

‘No real business benefit – the only benefit is socially knowing our neighbours.’

‘Sharing of machinery and labour reduces the costs to the participating businesses.’

‘We are in a buying group specifically aimed at getting better deals.’

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‘We exchange tax and vat information as well as ideas for new markets/products.’

‘Working with Gay Business Forum to increase business for all.’

Networks, marketing and business support

Lastly, we looked at how membership of formal and informal networks might influence the marketing activities of small and medium-sized firms. The findings indicate that the firms most active in formal networks are those with business customers (i.e. ‘B2B’ firms) and those that are more active in international markets. In general terms, we can conclude that formal networking activities are associated with the creation of a broader customer base, incorporating larger firms and a more geographically dispersed market. A firm’s engagement in informal networks also has some association with having a customer base that includes larger firms, but the relationship with international customers was not evident. However, it is important to note that these variables are likely to be closely ‘co-dependent’ with firm size (i.e. as more of the relatively larger firms also tend to report being members of formal networks, size-related variables tend to produce similar results in relation to firms’ core markets).

Chart 11 shows responses to the question: ‘Which of the following would you describe as your main customer base?’ (n.b. respondents were able to select more than one category to allow for a more accurate representation of their particular market conditions). This shows, for example, that 50% of respondents report that individuals and households represent all or part of their main customer base. Similarly, Chart 12 shows responses to the question: ‘Where is your main customer base located?’ (n.b. respondents were again able to select more than one category). This shows, for example, that 15% of respondents report that all or part of their main customer base is located outside the UK. Chart 13 summarises the views of these respondents on the importance of their network relationships, both for sales purposes, and as a way of securing other types of support for the business.

24 Detailed analysis of the findings revealed that members of formal networks have: (i) less likelihood of a main customer base of individuals and or households (45% compared to 54% for non-members), and (ii) a greater likelihood of a main customer base of larger businesses (44% compared to 35% for non-members). Both of these relationships are statistically significant (sig <0.5). Members of formal networks also had: (i) less likelihood of a main customer base located in their local area (i.e. village or town) (40% compared to 52% for non-members), and (ii) a greater likelihood of a main customer base located outside the UK (19% compared to 12% for non-members). Both of these relationships were also statistically significant (sig <0.1).

25 For example, twice as many firms in the £1m-£5m turnover band report that their main customer base comprises larger businesses (51%), as compared to those in the less than £100,000 turnover band (25%). Multivariate analysis would be required to isolate the relative importance of formal and informal network membership on the main customer base of these firms.
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Chart 11: Main customer base of respondent firms – by type

Chart 12: Main customer base of respondent firms – by location

Chart 13: Perceived importance of formal and informal networks in:
(a) Securing new customers and / or new business from existing customers;
(b) Supporting your business in other ways (i.e. other than sales promotion)

Locations were defined as follows: ‘Locally’ (i.e. in my village or town); ‘Regionally’ (i.e. in my country / city region); ‘Nationally’ (i.e. elsewhere in the UK); ‘Internationally’ (i.e. outside the UK).
Conclusion

This report has looked at how SME owners and managers engage in formal networks, with particular reference to business and professional organisations, and with informal networks of various kinds. We began by looking at the impact of online platforms and social media in recent years. Two thirds of those engaged formal and informal networks (66%) thought that these new communications technologies were affecting their own networking activities. We then took a more detailed look at how networking was actually taking place, firstly in business and professional organisations, then in its more informal settings. In each case, we examined the different ways that businesses engaged, the benefits they obtained and the reasons why some businesses choose not to become involved.

Networks are often presented as a panacea for small firms, and the report has provided evidence to suggest that many businesses find them useful, primarily as sources of general advice, support and social connection. However, the findings also point to a relatively low level of engagement in these networks, and particularly in the more informal variety. While 41% of our respondents say that they are members of one or more business or professional organisations, fewer than one in five (18%) say that they are active in less formal networks of business owners – the kinds that typically comprise a collection of businesses operating in the same trade or of other local businesses operating in a variety of trades. There has been a strand of research that has identified a similar pattern of low levels of engagement. For example, a study of small firms in Outer London concluded that:

‘The findings from the study suggest that notions of small business owners embedded deeply in local affairs, willing to harness their entrepreneurial energies to promote and sustain local social and political activities, are difficult to support in relation to this area of London. Instead, the results imply disconnected, internally fragmented groups of small business owners, largely alienated from local social and political life, concentrating narrowly on their own business activities. The findings from the interviews with the representatives of the chamber of commerce and other support agencies endorse this characterisation, in that their links with their small business constituents appear frail. The findings also uphold the idea of a long-term decline in small business owners’ local participation among those running the longer established mechanical engineering firms and a failure to develop much participation among those owning the newer business services firms.’

While many of these points resonate with our own research, we have also seen counter-examples (including our case studies) where firms are gaining significant benefits from networks, and some whose very survival depends upon these webs of personal and inter-organisational connections. With regards to the concluding point, our findings point to business services firms as amongst the most engaged in today’s formal and informal business networks.

In the next section, we explore these issues through three case studies of business networking. These cases provide a deeper insight into the special topic. They explore how individual SME owners and managers engage with business and professional organisations, as well as more informal networks, and how this aspect of their business life has been affected by the spread of online and social media technologies.

28 Curran et al. (2000) p. 139.
Case studies

Introduction

These case studies are based on a series of interviews conducted by Deneise Dadd of The Open University. They examine in greater depth issues discussed in our special topic section on networking trends. The interviews were conducted during March 2014 and are based on a subsample of respondents to the Quarterly Survey of Small Business in Britain. The interview material has been complemented by additional evidence related to the organisations and their industry context. We are grateful to all of our interviewees and to other members of the online panel for taking the time to be involved in this project. This case material can be reproduced for non-commercial educational purposes provided that the source is fully acknowledged.

- Case A: Lydbury English Centre Ltd.
- Case B: Wern Watkin Ltd.
- Case C: Newson Gale Ltd.

Case study A: Lydbury English Centre Ltd.

In October 1985 Rita and Duncan Baker founded the Lydbury English Centre (LEC). The business is located in the Shropshire countryside and offers students residential immersion courses lasting from one weekend to four weeks, each tailored to the student’s specific learning needs. They provide short and intensive courses in English language, soft skills, cross cultural and teacher training for business and professional purposes. Students can take courses as individuals on a one-to-one basis, as part of an open group or as part of closed groups of up to six people. There are 14 employees including a full time trainer, freelance trainers, support staff, and Rita and Duncan, who are both trainers. Clients come from a range of professional roles, such as engineering, science, marketing and sales as well as middle and senior managers from international companies, large and small. Rita has developed a proprietary language training system called The Global Approach™. She describes it as, ‘…a radically different, whole brain, visual, kinaesthetic and accelerated way of understanding and learning English’. LEC estimates that students can learn three times faster on average with this approach, as compared to the traditional academic way of teaching English. Rita plans to launch the product internationally.

LEC is accredited by the British Council and is a member of the Federation of Small Businesses (FSB), Enterprise House Bishops Castle, UK Trade & Investment (UKTI), European Enterprise, EnglishUK and Business EnglishUK (a specialist group within EnglishUK whose setup was initiated and launched by Rita). She and Duncan are also individual members of the International Association of Teachers of English as a Foreign Language (IATEFL) and the IATEFL Business English special interest group (BEsig). We asked Rita about their experience with these formal and informal business and professional networks. She explained that these networks are important sources for new clients and even provided a recent example. LEC has just completed a Polish-European project that was instigated through one of its networks. This project involved Rita training 30 Polish primary
school teachers working in conjunction with BEST in Bath (a language school that is also a member of EnglishUK) using The Global Approach™. Following this, she has been interviewed on Polish television and has also been asked to take the approach over to Poland, where she will be training other local primary school teachers.

Rita concedes that membership in professional networks, such as EnglishUK and BusinessEnglishUK are primarily, ‘... for publicity and for endorsements. I don’t know if it has directly brought us anybody but it gives us credibility really.’ Nevertheless, EnglishUK and IATEFL are important networks for them, particularly BEsig. In fact, Rita is a recognised presenter at IATEFL and IATEFL BEsig events, where she gives a number of workshops. She disclosed that the firm’s biggest client was a contact made by networking through BEsig. She expanded on this by explaining that through BEsig she met the language training manager. Also, a lot of in-company trainers from other companies working abroad are members of BEsig. They want to know where to send students for English language training, ‘so I meet them professionally as colleagues and then they will recommend students to come here. So that’s quite a good source of promotion and marketing, really.’

We also asked Rita about their experience with social media. She and Duncan have personal LinkedIn accounts but she candidly admitted, ‘I haven’t yet fully exploited LinkedIn ... because I haven’t really leveraged my contacts but I was planning to do that when I launch my material [The Global Approach™].’ However, there are Lydbury accounts for LinkedIn, Twitter and Facebook but she added, ‘I don’t think that brings us a lot, it just sort of creates awareness of our existence’. 

We asked Rita what advice she would give other small businesses in her sector about connecting with people through these avenues. Rita believes that it is essential that small businesses are part of business networks, ‘... otherwise I would think you’d become pretty isolated’. She added that it is also really important to belong to professional networks or else, ‘... you just don’t know what the latest trends are and what developments have been and what materials are out there and that’s essential for professionals, for staying at the leading edge...’ Since they started LEC, she and Duncan have always been very much involved within their profession and industry and have always networked because, ‘otherwise, you just don’t feel part of anything, you just feel completely on your own.’ Membership of business and professional networks has additional benefits, ‘... you need it both for skills development and you also need it for building up networks and for marketing and promotion and so forth.’ Rita concluded our interview by emphasising the importance of being engaged in business networks, whether formal or informal: ‘It is absolutely essential otherwise you’d just become a fossil and you get out of date and very isolated, I would think.’

Company websites: www.lydbury.co.uk / www.theglobalapproach.co.uk
Case study B: Wern Watkin Ltd.

Around 11 years ago Andrew Fryer began Wern Watkin. It is a 30-bed bunkhouse located high on the Mynnedd Llangatock (Llangattock Mountain) in the Brecon Beacons National Park, near Crickhowell, Wales. From there, guests can enjoy lovely views across the Sugar Loaf and the central Brecon Beacons, down to the Usk valley. The building is a converted stone built barn with direct walking access to the mountainside, ancient woodland, caves, cliffs, unusual wildflower meadows, rare marshland, a wildlife pond and industrial heritage sites. It is often frequented by large groups of migrating house martins and at night features a large colony of bats with, ‘their own floor’ in the bunkhouse. Guests are usually educational, corporate, family, social or special interests groups, including scouts, ramblers, canoeists, cyclists, and cavers who participate in a wide variety of activities. These include walking, archery, caving, quad biking, cycling, pony trekking and riding, rock climbing and visits to the Blaenavon World Heritage Centre and Big Pit, which is about a 20 minutes’ drive away. There are no direct full-time employees at Wern Watkin other than Andrew, though six people work there on a part-time basis. The accommodation is self-catering but caterers can be provided. Wern Watkin is graded five stars by Visit Wales and has the ‘Green Dragon’ environmental certification. It is walker and cyclist accredited and also operates as Youth Hostel Association (YHA) Llangattock Mountain.

Andrew runs a number of businesses, including the bunkhouse, a community renewable energy business, as well as tutoring on an Open University course. We recently caught up with him to discuss this quarter’s special topic, business networks and social media specifically relating to Wern Watkin. He is involved with a number of tourism cooperatives and associations including the Brecon Beacons Tourism Association, Crickhowell Tourism Association, the Bunkhouse Association, as well as the environmental associations Green Dragon Wales and Farr World (a cavern and cave diver training organisation). He sees these networks as important to small businesses because they provide a number of activities, such as marketing, including web marketing and training. Andrew has found their networking activities particularly helpful, ‘being a tourism operator, they provide opportunities for meeting other operators to provide referral business.’ He explained that, ‘because I’m an accommodation provider I’m always interested in finding activity providers, caterers and so on.’ This has been an integral part of his business and he couldn’t really operate without these networks since he is in a deep rural area, ‘it’s virtually the only way of building up a network of fellow co-suppliers.’ He also added that working with formal networks such as the tourism association is vital for small businesses in his sector, ‘in a rural area it’s the only way of establishing a destination as a tourism venue via the tourism association as part of that destination.’

More informal networks are also vital to Wern Watkin. Andrew says he’s involved with networks, ‘around green tourism, which we meet up fairly regularly and talk about green tourism type things and also technology, accreditation and marketing.’ His link with the Bunkhouse Association began at the start of the business and provided a starting-point for some useful informal networking: ‘When I set up the business I spent a lot of time talking informally to people who ran and set up bunkhouses. So the design of our bunkhouse is very much based on that experience.’ He now shares his own experience with other prospective bunkhouse operators who want to understand the bunkhouse business and the sorts of things they should be anticipating: ‘I often have people coming here who..."
are doing the exact same thing.’ Andrew explains that bunkhouses are a niche business so, ‘you can’t operate independently’ – these networks are a vital part of the business.

Although Wern Watkin has a strong web presence they do not use social media heavily to promote the business. Their customers are generally groups, such as boards of directors, school groups and family reunions. Therefore, there is usually one person making the purchase: ‘We don’t really use social media because it is a big purchase; people buying 30 beds at a time. So we have quite a strong web presence and then we get into email correspondence and that leads to bookings.’ However, Andrew mentions that, ‘a couple of networks have explored using social media to drive people to websites and we found it actually works better if the networks run the social media.’ For example, Brecon Beacon Tourism has employed people to run their Twitter and Facebook accounts, aimed at getting people to the local websites. Andrew believes that, ‘social media is all about understanding in some depth what are the characteristics of your customer base…’ So other bunkhouses and hostels that take individuals, such as backpackers, are in a different market segment than he is, ‘and if you’re in that market segment then absolutely you need to be locked into the sorts of social media that those customers are using.’ These businesses need to have a strong presence on sites such as Twitter, Reddit and Instagram but he is not entirely convinced about Facebook. He also understands that for some of his customer base, ‘the reason they are coming to me is because I have no mobile coverage.’ – in other words, these customers just want to get offline for a while! Despite this, being able to communicate online remains crucial for Andrew – as well as being the only way to make a booking at Wern Watkin. As he describes it, ‘I’m sitting on top of a mountain, long way from anywhere …’ but can still be handling 300 or 400 emails a day, ‘so I’m all the time networking and linking with a whole range of different people on a whole range of different propositions.’

Company website: www.wernwatkin.co.uk

Case study C: Newson Gale Ltd.

In 1988 Ernest Kochmann formed Newson Gale Ltd., acquiring Cenelectex, a static control business that had operated since 1982. The company, which is based in Colwick, Nottingham, manufactures static earthing equipment for hazardous area industries, ‘serving industries where processes generating static electricity have the potential to ignite flammable or combustible atmosphere.’ Over the years Newson Gale has received a number of industry awards. For example, in 2005, they received The Queens Award for Enterprise for International Trade for increasing overseas sales by 70% in three years and in 2011, the ‘Achievement in International Business Award’ at the Best East Midlands Awards Ceremony, sponsored by Enterprise Europe. The company also won a Technical Innovation award for its ‘Earth-Rite MGV’ (Mobile Ground Verification) equipment at the 2012 International HazardEx Awards. As Newson Gale’s reputation has increased, they have focused on expanding internationally and now export around 80% of their products. There are two subsidiary offices in New Jersey, USA (opened in 2005) and Essen, Germany (2011). Newson Gale employs around 50 people worldwide, some of whom have been with the original company, Cenelectex, since it was founded. They also have a network of experienced distributors to handle customers in other countries.
Recently, we spoke with Ernest about his company’s experience using business networks and social media. Newson Gale customers are typically large industrial groups that operate in a number of countries. Since it is such a niche business there are no formal trade business networks in their specific area. However, they do connect with the UK Trade and Investment (UKTI) Export Support, and with their local Chamber of Commerce, who are helpful for general business problems. The company is an associate member of a trade association, the International Liquid Terminals Association (ILTA). Ernest explained that, ‘we are very niche so we try to get our name around to other [related] networks.’ ILTA is their main formal network and for the last eight years they have been participating in its annual exhibition, which is held in Houston Texas. This has resulted in Newson Gale generating more customers, ‘and every year we seem to be more established in the industry and more taken seriously.’ The hazardous area industry is very slow to adapt and it, ‘takes a long time for people to trust you in terms of safety products’. Therefore, to build its reputation the company also participates in two or three other major exhibitions every year.

A key part of their global strategy is providing multi-language websites to help spread the company name. Newson Gale representatives support each site, whether employed in the UK, at a subsidiary office or via a local distributor. The message is simply, ‘we are a UK company but we have an office and we’re right there.’ In addition to British English, there are websites in: US English, German, Spanish, Italian, French, Chinese, where the company has, ‘a local presence in the market’. Newson Gale also has exclusive and non-exclusive distributors in various markets. These are distributors of other hazardous area equipment, who are generally active in trade-specific informal networks in their local areas.

Ernest points out that, since their target audience are engineers and safety personnel, they do not have a Facebook account. However, they do have a Twitter account, an open LinkedIn group and a YouTube channel. He tells us about how they capitalise on their LinkedIn network. Each month they prepare an article about how a particular problem can be solved by applying one of their products, which is then posted in their group. They also prepare ‘white papers’ on their research or information on their work and post it to the group, as well as to industry magazines. Through Google Analytics they have discovered that these monthly articles have generated good sales leads. These leads are automatically fed into their CRM (customer relationship management) package from the websites.

Newson Gale is a marketing-led company and their mission is to have the best products and to be, ‘recognised as the industry leader in hazardous area static control’. There is one person managing advertising initiatives such as paper and online magazines that also have responsibility for social media marketing. Ernest added that, ‘social media needs to be a part of that [marketing plan]; it won’t do all the work for you.’ He believes that, ‘the more you can do in all the different things and be active I think is what brings you up forward in that ranking [of companies].’ He believes that having someone in the business with responsibility for social media helps a lot. We asked Ernest what advice he would give to other small businesses about using social media to connect with people: ‘Certainly I think you need to evaluate the sort of customers that you’re after. If you’re after retail then obviously a Facebook type account is better than LinkedIn, which is generally much more career and business orientated.’ However, he cautions that there needs to be a balance between online and paper marketing, ‘even when you have everything online people still like to see a nice brochure ...’ – though this also depends on the type of product you are selling. In any case, Ernest advises small business to work on social media and their website, including the analytics: ‘You need to be able to follow it through [and ask yourself], “why haven’t they bought it?”’

Company website: [www.newson-gale.co.uk](http://www.newson-gale.co.uk)
How the survey is carried out

This is the 118th survey report completed since the Quarterly Survey of Small Business in Britain was created in 1984. The small and medium-sized firms that respond to the survey are drawn from a large telephone omnibus survey and a parallel online survey. The aim of the sampling strategy is to provide a fair representation of the SME population while also enabling the research team to explore the inherent complexity and richness of business life today. It should be noted that the survey sample is not a panel, nor is it fully random. The online survey continuously recruits new members to reflect the national distribution of small firms but also seeks to retain respondents over the longer term in order to support the more in-depth questions and case studies, and to provide insights into the changing experiences of SME owners and managers over a more extended period.

The survey combines the questionnaire responses of our regular online sample (i.e. owners and managers of small businesses who had previously volunteered to take part) with responses from telephone interviews conducted on our behalf by BDRC as part of their Business Opinion Omnibus survey. The link to the online questionnaire was emailed to regular respondents on 28th January, 2014 and a reminder email was sent to non-respondents on 18th February, 2014. In total, 264 of these regular participants responded, with 234 valid usable responses in total. A total of 875 telephone interviews were carried out in two monthly waves. In the first wave, a total of 437 telephone interviews were conducted between the 13th and 23rd January 2014. In the second wave, a further 438 telephone interviews were conducted between the 3rd and 13th February 2014. This generated an overall total of 1,109 responses. The online survey was conducted using Qualtrics survey software. The two sets of survey data were combined, checked and analysed using the SPSS statistical package.

There are some differences in the composition of the two sub-samples. For example, the telephone survey does not include firms with a turnover below £50,000 and few of the online survey respondents have more than 50 employees. The telephone survey sample includes more firms established since 2006, compared to that obtained from our regular online respondents. There are also some sectoral differences (e.g. there is a higher proportion of telephone respondents in the business services and manufacturing sectors, but somewhat lower proportions in health, education, leisure & other and hotels & restaurants).

For tables by number of employees, we have adopted the BIS definition of a firm with no employees. This is where a self-employed sole proprietor or partners work on their own with no employees, or where a limited company has a single employee director (n.b. a firm with one sole proprietor and one employee is counted as a one employee firm; a company with two employees is counted as a two employee firm). Barclays Bank also provides its latest estimates of small business closures and starts, and their Small Business Activity Index, which are used as indicators of recent performance. A full set of historical tables is available on request, and will continue to be available as a resource for researchers. For more information on the survey, please contact oubss-enterprise@open.ac.uk.

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USE OF DATA: The details requested are for the purpose of carrying out research into small firms and will not be passed to third parties for the purpose of unsolicited advertising or any other unauthorized purpose. The Open University strictly adheres to the Data Protection Act, and this information will be treated in confidence.

1. What is the legal status of your business?
   Private (limited) company; Partnership; Self-employed sole trader / sole partnership; PLC; Other

2. In which of the following ranges is your firm’s annual turnover (excluding VAT):
   Less than £50,000; £50,000 - £99,999; £100,000-£249,999; £250,000-£499,999; £500,000-£999,999; £1m-£5m; £5m-£10m*; £10m-£20m*; Over £20m* [* responses not included in final sample]

3. Are the owners of the business...
   Male; Female; Joint Male/Female

4. Including yourself, how many people work in the business including both full and part-time workers?

5. How many years have you been running a business?

6. How many years has your present business been trading?

7. Please describe in a few words the precise nature of your business:

8. What county or large city is your business located in?

9. Please enter your Business Postcode:

10. Entrepreneurial firms are more competitive, growth-minded and innovative than other firms. Where would you put your firm on a scale of 1 to 10? - 1 = not at all entrepreneurial, 10 = extremely entrepreneurial.
   1; 2; 3; 4; 5; 6; 7; 8; 9; 10

11. Is your business wholly or largely owned and controlled by members of one family?
   Yes; No; Don’t Know

The next set of questions explores the kind of business networks that are operating today, both face-to-face and online.

12. Do you belong to any business professional organisations? (e.g. your local Chamber of Commerce; Federation of Small Businesses; Federation of Private Businesses; Institute of Directors; ACCA; RICS).
   Yes; No; Don’t Know.

12a. Please describe up to THREE organisations that you engage with most actively.

12b. Please explain why you do not belong to any organisations of this kind.

13. How do you engage with these organisations? Would you say...
   Mainly face-to-face; Mainly online; A mix of face-to-face and online; Other; Don’t know.

13a. Please give an example of how this communication works in practice
14 Which of the following benefits do you feel you get from being a member of a business or professional organisation?

Joint marketing / sales campaigns; Group buying / discounts on purchases; Source of new customers; Source of new suppliers; Help in recruiting staff; Advice on Technology / best practice; Other general business advice / information; Shared experience / social contact; Other.

14a Please give a practical example of ONE of these benefits.

15a How important are your formal networks in: (Please rate each factor on a scale of 1 to 5 where 1 is ‘not at all important’ and 5 is ‘very important’)

a) Securing new customers and / or new business from existing customers (i.e. other sales promotion)?

b) Supporting your business in other ways would you say …?“

15b Please give an example to illustrate how you make use of business or professional organisations for these purposes.

16 Are you part of any less formal networks or business owners? (E.g. local business owners operating either in the same trade, or in a different trades)?

Yes; No; Don’t know.

16a Please describe the network(s) that you engage with most actively.

16b Please explain why you are not part of any networks of this kind.

17 How do you engage with these informal networks? Would you say…?

Mainly face-to-face; Mainly on-line; A mix of face-to-face and online; Other; Don’t know.

17a Please give a recent example of how this works in practice.

18 Which of the following benefits do you feel you get from being a member of an informal network of business owners?

Joint marketing / sales campaigns; Group buying / discounts on purchases; Source of new customers; Source of new suppliers; Help in recruiting staff; Advice on technology / best practice; Other general business advice/information; Shared experience / social contact; Other.

18a Please give a practical example of ONE of these benefits.

19a How important are your informal networks in: (Please rate each factor on a scale of 1 to 5 where 1 is ‘not at all important’ and 5 is ‘very important’) 

a) Securing new customers and / or new business from existing customers (i.e. other than sales promotion)?

b) Supporting your business in other ways would you say …?

19b Please give an example to illustrate how you make use of your networks for these purposes.

20 Has the growth of the internet and social media changed the way you engage with formal and informal business networks?

Yes; No; Don’t know.

20a Please explain your response to the previous question, including a practical example if appropriate.

21 Which of the following would you describe as your main customer base?

Individuals and / or households; Other small businesses; Larger businesses; Public sector organisations.

22 Where is your main customer base located? Would you say…?

Locally (i.e. in my village and or town); Regionally (i.e. in my country / city region); Nationally (i.e. elsewhere in the UK); Internationally (i.e. outside the UK).

23 Please enter any comments you have on the issues raised in the questionnaire.
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2013

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