



CONTACT | USEFUL LINKS

Introduction

5.1 Entrepreneurship has become a critical part of the social, political and economic agenda around the world. Britain needs a business climate which supports the rapid creation of many more new and innovative enterprises, so vital to the dynamism of our economy. Our business climate must help - and never hinder - the growth and success of all of our companies, new and old. In the fierce global fight for capital, skills and investment, our business climate must help us attract the best people and overseas firms to the UK.

5.2 Government's role is to create the business, financial and regulatory framework needed to realise this vision and to remove unnecessary barriers to enterprise. Government must help create an ambitious business culture, which enables people from all walks of life to realise their creativity, innovative ability and entrepreneurial potential. We must help any person with the will and the ability to create and grow a successful business. And honest business failure should not mean that you cannot ever have another go.

5.3 We have already done much to promote a more entrepreneurial climate in the UK. This chapter shows the additional key actions we propose to take, including:

- significantly relaxing insolvency rules so that honest businesses and individuals who go bankrupt have a better chance of starting again quicker, while cracking down on the fraudulent and irresponsible; and
- a new pro-competitive role for the Office of Fair Trading to spot existing and proposed regulations which hold back dynamic and competitive markets.

Our Goal

5.4 Our goal is for the UK to be recognised as the enterprise hub of Europe. Our business climate, regulatory framework and social attitudes towards business success - and failure - must be attuned to meeting this goal.

Where the UK Stands

5.5 Since 1997 we have taken action across a wide range of areas to encourage a more favourable entrepreneurial climate:

- against upheaval and uncertainty in global markets, a key task has been to create predictability in the economic environment through low interest rates, low inflation and consistent policies on tax and regulation. With the lowest rates of corporation tax ever in the UK and a stable macroeconomic environment, businesses can focus on the competitive challenge;
- competition and anti-trust laws have been updated. We have announced a new approach to mergers which is more transparent and imposes the least possible burden on the business community, whilst promoting consumers' interests. We have strengthened consumer protection policy; our new

Consumer Enforcement Forum brings business, consumers and enforcers together to help achieve more coherent consumer protection. We have implemented an Electronic Communications Act which will transform the way Government works and interacts with its citizens and businesses. We have produced a *Communications White Paper* (Cm 5010) which sets out a new framework for communications regulation;

- we have made clear our commitment to a major overhaul of company law. We expect an independent review team to produce wide-ranging and detailed proposals for consideration in May, with a clear 'think small first' approach;
- through our Fairness at Work agenda - with measures such as the National Minimum Wage, the Employment Relations Act 1999 and the Working Time Regulations - we have put in place a framework designed to promote fairness in the workplace and support the development of a modern, flexible labour market;
- we will continue to ensure that the labour market framework promotes competitiveness, assessing regulatory proposals against the four criteria that they should encourage labour market participation, encourage the acquisition and retention of skills, promote flexibility and mobility, and support the development of good relations at work;
- we have promoted investment in new technology from the UK High Technology Fund, launched in July 2000, which has now reached its target investment level of £125 million. The fund is investing through specialist fund providers including Merlin Bioscience, Amadeus, Advent and MTI. It is helping to support a range of technologies including novel vaccines; ultra-cheap plastic microchips to endow everyday products with 'intelligence'; a new cardiac monitoring method; new cancer therapies and a new WAP search engine. The fund will also support a new method of electronic protection for intellectual property transmitted across the Internet.

Fender Sturrock Ltd

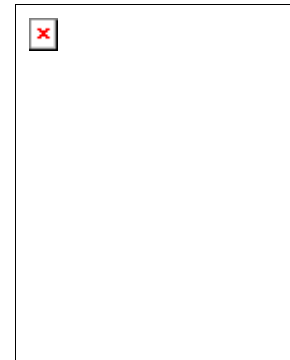
Whilst studying for a law degree Jenine Parkynn did numerous part-time promotions for the drinks industry. This gave her the idea for her own thriving company, Fender Sturrock, which she set up November 1998. The promotions and marketing company provides blue chip clients with skilled staff for publicity campaigns at clubs, pubs and trade shows across the UK. They also provide marketing ideas for product launches and promotions and carry out field marketing activities for major banking institutes. Starting out of a tiny office in Edinburgh, Fender Sturrock now employs 225 full-time staff across the UK.



Urban Splash

Tom Bloxham MBE and Jonathan Falkingham have founded no fewer than five companies, collectively called Urban Splash. Their business, with a turnover of £14

million, is based on property development. Tom and Jonathan were the first people to create loft living spaces outside London and their work is highly rated by regeneration agencies, such as English Partnerships. They have a reputation for taking on sites that other property companies will not touch and turning them into desirable locations. Their inspiration comes from the oath of the ancient Athenians - loosely translated as 'leave our city not less, but greater, better and more beautiful than it was left to us'.



5.6 The UK compares well to its competitors in terms of its business and regulatory framework. The Institute of Management Development Survey 2000 found that we have the second most supportive institutional and political environment among the seven leading industrial nations. OECD data suggest that in the UK the corporate tax burden is relatively light compared with the rest of the EU. The business environment we have created is both pro-competitive and pro-innovation. Many aspects of our labour market are highly flexible, compared to other countries. But in a fast moving global environment, where other nations are not standing still, we must continue to work hard to maintain and improve on this relative advantage.

5.7 The UK also compares relatively well on the conditions for entrepreneurship, particularly in the commercial and professional infrastructure and the developed venture capital industry. But according to the Global Entrepreneurship Monitor (GEM) Report 2000, we also lag our competitors in significant respects. In particular, the level of new business start-ups is significantly behind countries like the USA, Australia and Canada, and the entrepreneurial culture - particularly the tendency to identify and exploit business opportunities - is not well developed.

The Inner Tube

Inspired by the way recycled tyre inner tubes are used to make products ranging from water carriers to shoes in many third world countries, Julie McDonagh began to test market the commercial opportunities in the UK for products made from recycled inner tubes. She identified a market for high fashion bags and hand luggage, and started her business in 1996 with a £2,000 loan from The Prince's Youth Business Trust and £1,000, which she raised by selling her car. Initially, Julie operated from a small factory unit using a second hand sewing machine to produce 10 bags a week for a handful of customers.

Four years later the business has grown from

producing 10 bags a week to 200 per day. Her products, which also include bikinis, vases, sunglasses cases, cosmetic bags and mirrors, are now sold in 50 designer stores in the UK, and are exported as far afield as New York and Hong Kong with distributors worldwide. Over the last year exporting has become a major part of the business, and currently accounts for 60 per cent of turnover.

January 2001 saw the opening of the first Inner Tube retail outlet in Portsmouth. Inner Tube Ltd has also secured contracts with large buying groups who require exclusive designs. In 1999 Inner Tube launched its website www.innertube.co.uk and has seen a steady growth of sales in this area.



What the Government will do

Enhancing Entrepreneurial Culture and Modernising Insolvency Law

5.8 We need to promote the acceptance across our whole society that identifying opportunities and exploiting them with a new business is appropriate as a career choice and can make a contribution to the good of society as a whole. The Global Entrepreneurship Monitor Report 2000 identified this as one of the key issues to address in increasing further levels of entrepreneurial activity in the UK, together with that of education on business skills.

5.9 Entrepreneurship involves balancing potential risks with possible reward. For many business people, success comes only after numerous attempts. We should not deal with business failure in a way which creates a barrier to future success.

5.10 An entrepreneurial economy needs to support responsible risk taking. Insolvency Law must be updated so that it strikes the right balance. It must deal proportionately with financial failure, whilst assuring creditors that it is handled efficiently and effectively. The law currently makes no distinction between someone whose bankruptcy comes about as a result of their fraud, and someone who fails because they have, for example, guaranteed a company's bank overdraft.

To encourage more business people to start or re-start businesses after failure, we will radically reform Insolvency Law. We will ensure that those whose failure is honest are not punished or stigmatised, while at the same time increasing the penalties for those who set out to defraud, and those who are otherwise culpable.

5.11 For individuals in England and Wales, we will sweep away many of the outdated and unnecessary restrictions which apply to all bankrupts, regardless of their culpability, as we already have for London taxi drivers - such as being a member of Parliament, a school governor, a trustee of a charity, or a local councillor. We will also cut by two thirds, to 12 months, the maximum default period during which people against whom a bankruptcy order has been made are subject to the remaining restrictions, with the majority being discharged much earlier. But

we will do more to identify those whose failure is irresponsible, negligent, or dishonest, and make them subject to restrictions for up to 15 years.

5.12 In addition, we will investigate the viability of providing a single scheme, unifying bankruptcy and the County Court Administration procedure, to deal with all personal insolvency.

5.13 For companies we will introduce new legislation, as soon as Parliamentary time allows, which will bring business insolvency law and practice right up to date. We are consulting on possible further measures to help promote a rescue culture. These will build on the changes already introduced in the new Insolvency Act 2000, which will make it easier for companies in difficulty, particularly small firms, to reach voluntary arrangements with creditors and speed up the disqualification of unfit company directors.

5.14 Last November we announced the adoption of a more commercial approach on the part of the Inland Revenue and Customs and Excise to rescue proposals put to them by companies in short term financial difficulty. We also announced that a new Inland Revenue/Customs and Excise Unit will be set up from 1 April 2001 to ensure that:

- rescue proposals receive individual consideration and are considered in the same way as commercial creditors; and
- the Inland Revenue and Customs and Excise publish and stick to strict timetables in dealing with proposals.

5.15 The Revenue departments will also ensure that their staff have a better understanding of the problems businesses face. Businesses and ultimately all taxpayers will see real benefits from this more commercial approach.

Competition and Markets

5.16 Strong competition in our domestic markets makes for strong businesses. It provides a spur for firms to innovate, increase productivity and provide real choice for consumers. It equips them to compete in the global market place. Conversely, anti-competitive behaviour is a burden on the economy; a burden on businesses which want to grow by offering better value; and a burden on ordinary consumers who have to pay more for less. Cartels and abuse of market power stifle the growth of new businesses. As technologies and business strategies change, so too do the dynamics of monopoly and competition.

5.17 Regulation is vital to the effective functioning of markets, and to achieving our social and environmental objectives. It can, however, have unintended impacts on the dynamics of markets. We need to ensure we fully achieve our legitimate regulatory objectives without imposing undue burdens or distorting competition.

To encourage more businesses to start up and compete in new markets, we will give the Office of Fair Trading (OFT) and other regulators a new role to assess when laws and regulations create barriers to entry and competition, or channel markets in a particular direction, thereby holding back innovation and progress.

5.18 The OFT will:

- with assistance from DTI and other Whitehall departments, identify key

sectors where competition concerns have been identified and undertake in-depth studies to examine the need for action. Ministers are currently considering a report the OFT has submitted on restrictions on competition in certain professions. In some sectors there may for instance be unnecessary barriers to new entrants based on outdated analysis, or regulatory requirements. These may focus excessively on inputs, perhaps requiring expensive investment (for example the need for a particular type of machinery) rather than on outputs (for example meeting a particular safety or quality threshold);

- draw the Government's attention to any regulatory barriers to entry which emerge during investigations under competition powers; and
- work with the Regulatory Impact Unit and other Whitehall Departments in order to provide Ministers with more information about the impact of proposed regulations on competition.

5.19 It would be open to the devolved administrations to make similar use of the OFT's expertise if they so wish.

5.20 It will remain the responsibility of Ministers to weigh up the many important factors affecting any individual regulatory decision.

5.21 We will also keep under review the new competition regime introduced through the Competition Act 1998, to ensure it is working effectively to encourage dynamic competition and prevent companies with market power abusing their position in any way. If the new regime proves to be too weak, we will consider sensible improvements drawing on international experience. Greater co-operation between competition authorities is part of this process. We will work with the USA and the EU on exchange of information in anti-trust cases.

Regulation and 'think small first'

Regulations are not an end in themselves - they should enable markets to operate effectively, fairly and safely. Regulations are not intrinsically anti-business. They benefit businesses by opening up markets and enabling newcomers to compete on equal terms with existing companies. They spur innovation by imposing new standards of quality and safety, for example in the environmental field. By increasing consumer protection, for example in e-commerce, they widen market potential and demand for more products.

Rights at work...

The knowledge economy is changing working patterns. The UK's regulatory framework must keep up with the evolving workplace. The Government's role is to facilitate adaptation to these new conditions on fair terms. Rights at work are not the same as red tape. Minimum regulatory standards encourage partnership in the workplace, promote social inclusion, and give employees confidence. Employers also benefit. Reputable firms are protected from unfair competition. Workers are more motivated if allowed to balance their work and private lives. Staff turnover and absenteeism are reduced.

Avoiding over-regulation...

But we recognise the risks of over-regulation and the disproportionate effect it can have on smaller firms. It is the Government's role to support small businesses to meet the challenges of the 21st century. That is why the Government published 'Think Small First' in January 2001. It asks every

government department to think about their role in supporting small business and developing an entrepreneurial society. The Government has asked the Small Business Service (SBS) to drive forward Think Small First and asked all departments to consult the SBS at an early stage whenever UK regulations are being considered. Working with other departments, the SBS will aim to reduce the burden of compliance for existing regulations and will consult small business to ensure their voice is heard at the heart of Government. We are already acting on these aims, for example, the Prime Minister recently announced new arrangements to give businesses more time and guidance before new laws are introduced. The Small Business Service will launch the Business Link National Information and Advice Service in April 2001. This will provide a single point of access to advice and guidance on a wide range of regulatory and business issues.

The Best Financial Climate for new Business and Growth

5.22 We have already looked in Chapter Three at the availability of finance to business. It is also crucial that we provide the right financial environment to encourage the flow of finance from individuals, companies and institutions to business.

5.23 An essential prerequisite for the development of the venture capital market and other forms of early stage finance is an available 'exit route' through a trade sale or initial public offering (IPO). The environment for IPOs for fast growing technology companies has improved with changes to the Listing Rules now enabling technology companies to obtain a listing without needing a three year trading record. Further initiatives are planned. The Financial Services Authority will shortly be launching a full-scale review of the UK Listing Rules to look at updating and, where appropriate, streamlining requirements. However, given the central importance of this area to growth and competitiveness, the Government will continue to keep under review the effectiveness of quoted equity markets as exit routes available to venture capitalists.

5.24 We have also asked Paul Myners to conduct an independent review of possible distortions to institutional investment decision-making that discourage investment in small and medium sized firms. He will report in time for this year's Budget.

5.25 We will further improve the fiscal environment through proposals announced in the Pre-Budget Report to reduce the impact of VAT on small businesses. We will also expand the Enterprise Management Incentive Scheme to help smaller companies recruit more key employees, and we have introduced measures to reduce the uncertainties arising from National Insurance liabilities created by share options.

5.26 Besides ensuring that firms have access to the finance they need at all levels, it is equally important for firms to know what external investment is on offer and what it means for them to take the plunge. Some firms may hold back from seeking external finance because they are unsure about the practicalities and worried about the complications. Others may not be aware that they are in a position where external finance can help them out or can facilitate a new level or dimension of operation.

The Small Business Service (SBS) will therefore launch, by the summer, a set of initiatives to help small businesses understand external investment better and become better prepared to take it on. We will be looking for innovative approaches to assist small firms on this issue and will encourage interested parties to come forward with a range of ideas on how the SBS can support, build on and spread best practice, using the Business Link network as appropriate.

Intellectual Property

5.27 More businesses are recognising that competitive advantage comes from knowledge and new ideas. That means companies must develop and protect intellectual property. It is therefore hardly surprising that there has been an explosion in patenting, particularly in the USA. We need to ensure that British businesses have every opportunity to benefit from the system internationally. Innovation and ideas must be adequately rewarded at home, particularly through patent protection.

Intellectual Property boosts the Bioscience sector in Manchester

ManIP is a very successful Manchester based consortium, supported by the DTI's Biotechnology Exploitation Platform Challenge, which aims to help the transfer of intellectual property into industry. The UK is very strong in bioscience but the UK public sector is poorly equipped to manage its intellectual property to benefit UK companies. Several universities, NHS Trusts and technology transfer organisations are collaborating to turn science into products. Launched in 1998, the consortium has identified 120 good ideas which are ripe for exploitation, and has some 35 patents.

5.28 To encourage more UK firms to file and get patent protection more effectively, the Government is committed to reform of the European and international regimes by:

- continuing to push for EU patent protection that is as simple and inexpensive to obtain as its international equivalents, via agreement on a single Community Patent by the end of 2001. This will allow British and other European businesses to protect their entire home market via a single patent, as their US counterparts can in the USA;
- pressing for measures to reduce the time and cost of taking out and defending patents, for example via further reform of the European Patent Organisation and a quicker and more uniform litigation process. To promote increased international co-operation we will seek to align the European Patent Convention more closely with other international agreements; and
- pressing for better protection of digital content on the Internet through the construction of an international copyright framework.

5.29 As a further encouragement to British firms, the Patent Office will look at how they can make the patent system more helpful for small firms. We will also work with Universities UK and the Association of University Research and Industry Links to ensure that universities also improve their management of intellectual property in line with leading private, public and international practice. A recent development has been the launch of an Intellectual Property Web Portal, which acts as a

gateway to a wide range of advice on IP rights, and results from work initiated by the Creative Industries Task Force.

Delivering Support for Business

5.30 Many businesses find Government business support confusing and difficult to access. We need to deliver help more quickly and with less bureaucracy, taking full advantage of advances in technology. And we need to identify more effectively the forms of support that best meet business needs.

5.31 We will market our support in a way which responds more directly to business needs. The Small Business Service will establish the Business Link National Information and Advice Service as our key channel for informing firms about the support available. We will also reduce the bureaucracy under each support scheme, and set a goal for processing applications for DTI and SBS support schemes within 30 days, depending on their complexity.

5.32 We must ensure that DTI works effectively across Government to create the right conditions for the growth industries of the future. To achieve this, we will set up cross-functional teams with a broad membership drawn from Government and the private sector. These teams will identify and tackle barriers to growth and target practical and measurable improvements in performance against international competitors.

Improving Services through Electronic Government

Interactions with Companies House will be transformed. Over the next decade paper forms and microfiches will gradually become a thing of the past. Companies will be able to update their own records and access information through powerful search tools.

The Insolvency Service will have full electronic capability. Multi-channel access will be provided for customers, many of whom are 'technologically excluded' by becoming bankrupt. The Service will build on e-business networks with the Small Business Service, the courts, the Stationery Office and the Inland Revenue, so that all its routine dealings will be electronic.

The Patent Office will have all its key services available online by 2005. Renewals, searches and filing of applications for patents, trade marks and designs will all be available at the click of a mouse.

The Small Business Service will launch the Business Link National Information and Advice Service in April 2001. This will provide a single point of access to advice and guidance on a wide range of regulatory and business issues and will be supported by a call centre giving direct access to a network of locally delivered, high quality business advice services. It will also provide tailored advice to women starting up in business for the first time, as well as established women entrepreneurs.

Regional Selective Assistance and Enterprise Grant applicants can access the DTI's and Government Office's websites for guidance and application forms. A full online service should be available by 2002. We are streamlining RSA procedures to fit better with companies' own planning, and to devolve more decisions to the regions.

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