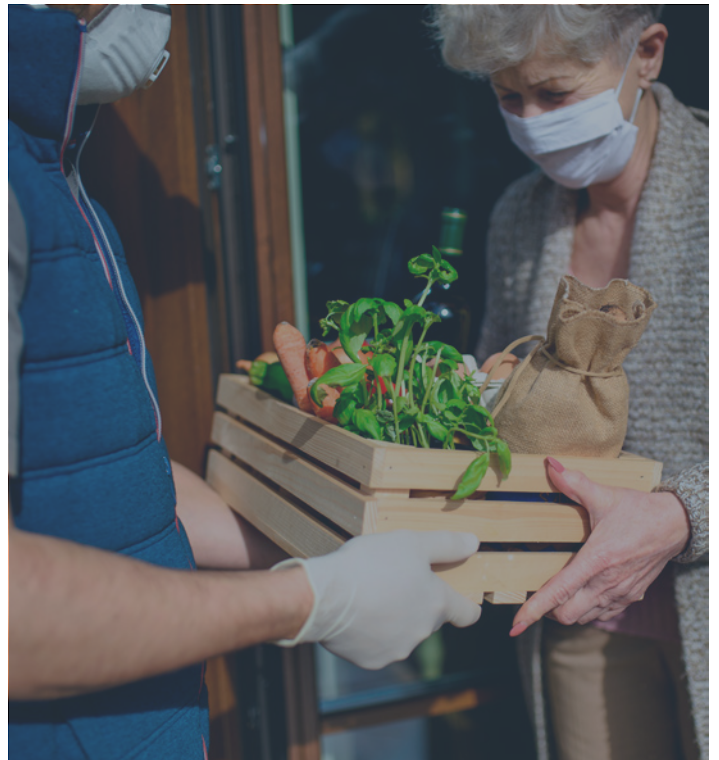




WHAT WE VALUE: SMES AS THE KEY TO REBUILDING WALES' ECONOMY AND COMMUNITIES



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INTRODUCTION – THE VALUE OF VALUES

The Covid-19 pandemic has made us all assess what we value most.

It has led us to redefine our view of what key work is, what services, goods, and support systems we and our loved ones rely upon. It has also highlighted anew the importance of basic security we take for granted to allow us the ability and time to do all things in life that we want to do.

Within the economy, it has exposed the fragility of our systems and reinforced the need to ensure resilience and supply chains. It has proven, too, how we have all been able to adapt to life as restrictions have taken effect.

As individuals and as a society, the pandemic has affected our health and wellbeing in all its forms in a way that has never been seen before in our lifetimes.

To understand how this had shaped small businesses FSB Wales undertook an unprecedented level of engagement with business owners through the 2020 campaign *Our Business is Wales* alongside commissioning a comprehensive survey from September to November 2020. This survey was shaped with an eye to the future, and to shape our agenda for the 2021–26 Senedd term. As such, this agenda is driven by the priorities and motivations of thousands of business owners across Wales.

The questions in the survey were geared at examining the particular motivations, new ways of working, and new drivers arising from the Covid-19 crisis that could be harnessed for the future good of the Welsh business sector and the Welsh economy in the longer term. This will feed into analysis of what interventions are needed to support businesses in this recovery, and to mitigate and help the sector hard hit by the pandemic both economically and in terms of well-being and morale to bounce back.

The pandemic is also likely to accelerate wider processes already in train. While political discussion in Wales has already reflected a move to ‘well-being economics budgets’ as in other countries such as New Zealand, it is likely that different measures of value and values will shift closer to the economic mainstream. The urgent need to decarbonise and provide a sustainable economic model looking toward 2050 is another vital driver to this approach.

A good example of this change is a major recent UK Treasury review on ‘The Economics of Biodiversity’ (the ‘Dasgupta Review’¹). The review advocates a view of the economy as embedded in the world, and looks at the three aspects of productive capital, human capital, and natural capital.

The Dasgupta review also notes how economics has come to be abstract and esoteric, almost ‘self-indulgent’, as something that is alien and outside the experiences of the people it seeks to serve.²

Our survey of SMEs sees a similar disconnect between the ‘micro’ of everyday life and the ‘macro’ of global economy here – of how to discuss economy in a way that is relevant to businesses’ everyday experiences and needs. The Dasgupta review notes that global, state and community action is needed for a sustainable future – and as such, discussion of the economy needs to find a vocabulary that speaks to local communities and businesses.

¹ The Economics of Biodiversity (HM Treasury: 2021):
<https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review>

² *ibid*



Small businesses, as well as contributing to community resilience and provision of vital services outlined above, are vital employers. SMEs are 99.4% of businesses in Wales, contributing 62.4% of private sector employment and 37.9% of turnover.³ SMEs, embedded in their community, wide-ranging in expertise, are vitally important to fulfilling the aims of a good economy that works for all. Indeed, FSB's contention would be that an economic model that fails to value (in both senses of that term) SMEs contribution, and to develop and prioritise their role, will fail in its aims to provide for sustainable locally focused economic gains.

It is for this reason that FSB Wales' manifesto has called for policies to develop the 'missing middle' – the current lack of a strong foundation of small to medium sized firms in Wales. This, alongside our call for an Economic Development Bill that places business at the centre of the opportunities in the new economy, with the measures and values put in their statutory place, looks to provide the clarity of vision for a good economy for SMEs – and so the wider economy – to thrive.

Moreover, our surveys find that SMEs' motivations and values have potential to align well with these new economic values.

SMEs have been among those who have adapted to support others. Many SMEs have modified their ways of working to provide new services, to ensure vital goods were available, have delivered food to the vulnerable, have built new networks of community support, and have banded together to create peer-to-peer networks to ensure our medical staff had the necessary PPE. This report

³ Welsh Government statistical release, Dec 2019, available at <https://gov.wales/sites/default/files/statistics-and-research/2019-12/size-analysis-active-businesses-2019-503.pdf>

Many SMEs have modified their ways of working to provide new services and ensure availability of vital goods



They have built new networks of community support and created peer-to-peer networks

includes only a very few examples – there are so many dotted across every community in Wales.

As citizens, we will all have our own examples of people in our own communities running small firms who have been an active part in helping their communities throughout this outbreak.

In times of crisis or need, small businesses are there at the forefront of their communities, bringing skills, capacity, and capabilities to bear on social challenges. In many ways, this is a reflection in a time of crisis of what small businesses have always done.⁴

Certainly, many SMEs have needed a significant amount of governmental support during the crisis, to keep businesses afloat. Yet, it is important to remember that there are sound reasons for this substantial material support for these sectors.

SMEs are not and could not be merely passive recipients of state aid through the number of support schemes which have been made available in recent months but are drivers to economic success. In turn, in terms of employment, growth and rebuilding communities, this sector will be key to the post-Covid-19 economic recovery. Such support has therefore been an investment in our economy and our communities.

However, as this report recognises, there is huge uncertainty looming on the landscape of the architecture and available funding for business support. Providing clear and effective business support infrastructure is vital not just for SMEs' economic recovery, but in growing them and maximising their contribution to the economy, and ensuring they can play their part in developing more sustainable, supported communities and economy.

SMEs' motivations and awareness of their wider social responsibility can be a catalyst for a prosperous Welsh economy. Harnessing the drives and motivation of SME owners and supporting them to grow and thrive must form a central tenet of any Welsh recovery strategy.

Coming back to what we have learned over a tough year; if we have learned where we place value differently, and the need to build resilient communities in a sustainable economy for the future, then we must also look to value our small firms.

⁴ For a detailed analysis of SME contribution to their communities and well being pre-pandemic see 'Small Business, Big heart (FSB: Feb 2019) available at: <https://www.fsb.org.uk/resource-report/small-business-big-heart-communities-report.html>

POLICY DRIVERS

Covid-19

As well as a health crisis the Coronavirus pandemic has created a huge economic and business crisis, and one that has hit SMEs particularly hard.

In the short term the need has been to support SMEs to survive, and help them back on their feet.

The pandemic has also illustrated the many ways businesses play a key role in their communities. Therefore, in getting small businesses back on their feet and thriving, there are questions of what we value, how we value activities in the economy, and what the shape of any new economy we want to build towards looks like.

In building an economy where local, embedded, sustainable firms can provide for community wealth, growth and quality jobs, SMEs play a vital part in that conversation.



New Programme for Government, and a new Economic Development Bill

Since the establishment of devolution in 1999 and full law-making powers in 2011, no Welsh Government has undertaken legislation aimed specifically to address the Welsh economy and business.⁵ With the democratic institutions in Wales by now well-established, we think now is the right time to embark on such legislation. As such, we have proposed an **Economic Development Bill for Wales**, which would underpin the measures and architecture to help develop many of the ideas included in this manifesto. It is pleasing to see that there are political parties which have adopted this measure in their manifesto proposals.

⁵ A Cheung, A Paun, L Valsamidis, 'Devolution at 20' (Institute for Government: 2019), p 21 available at <https://www.instituteforgovernment.org.uk/sites/default/files/publications/Devolution%20at%2020.pdf>

Such a bill could provide a clear long-term footing for economic development in Wales. It can ensure that our business advice and support services have longevity and stability and are able to react in supporting businesses when crises arise such as has been the case through Covid-19. It can make the safe guardianship of our economy a legal reality. What is clear is that a long-term mission on recovery and economic development requires the stability of that landscape to ensure that those organisations are able to adopt a long-term mission on support.

It can also provide the next steps in growing the Well-Being of Future Generations agenda in developing that work within the remit of economic development, to better reflect developments of economic levers and institutions (such as the Development Bank, Business Wales, and Transport for Wales) now in place in Wales and provide a clear steer for measuring success in a good sustainable economic model that retains Welsh business opportunities and entrepreneurship at its heart.

A Reset on Cross-Governmental Working

Finally, a Bill can provide clear agenda and ways of working across governments. Successful economic policy depends on good relations and alignment of the mutual interests of UK and Welsh Governments on the basis of mutual respect. The arms' length institutional bodies can play a role as an 'honest broker' in convening and coordinating the devolved and reserved policy areas, and navigate the complexity of relative competence the delivery bodies, new funding terrain and infrastructure projects across Wales and the UK.

For SMEs, as the groups viewing the system from 'the outside' as it were, it is important that their experiences and understanding of the economic strategy and business support is seamless and simple. Both governments should work with this in mind.

WHAT MOTIVATES SMES?

Why start a business? What motivates Wales' entrepreneurs to take the leap and get started? Are they motivated purely by economic factors, or is there more at play?

As is to be expected, the results are not uniform. However, the following areas were the ones that came up in the top four when we asked for motivations:

I work in an interesting field/am passionate about what I do	54%
To make money	44%
It gives me control over my work patterns	37%
To contribute to my community/fulfil a wider objective	22%

SMEs are a passionate community, interested in what they do.

This is unsurprising. When we consider the many challenges to running a business, being 'passionate about what you do' in a field one finds interesting is a motivation.

A cohort of people with passion and expertise in an 'area they find interesting' is a resource that needs to be nurtured. This passion is something to be harnessed – a practical resource for future Welsh prosperity that can and should be built and nurtured by the next Welsh Government.

There is a danger, following the Covid business support, to view SMEs as mere passive recipients of aid who need to be shaped to fit the UK or Welsh government of the day's economic agenda. It is important that this is properly viewed and practiced in terms of partnership – SMEs bring the drive and entrepreneurship, and the means which need to be harnessed to achieve their policy ends. As such, SMEs are a vital resource for their drive, passion and expertise in their relative fields.

On the other hand, governments can provide a vital steer, can enable a strong business ecosystem for success, and provide vital support, help develop skills, and build the vital infrastructure SMEs need to thrive. It is a two-way street.

The Covid SME business support from Welsh and UK governments has been vital to the survival of many businesses and the livelihoods of those they employ. It is also an important acknowledgement of how important SMEs are to our communities' economic landscape, and as something to value.

In order to have the capacity to build, provide for employer livelihoods, and for wider employment – businesses need to make money and be profitable and viable, which is the second on the list of priorities above. Business owners work hard to earn a livelihood, which also entails risk. It is this attitude that allows the possibility for their business to develop and our economy to grow.

It is important to note that a substantial response in our survey was also given to 'contribute to my community/fulfil a wider objective'. Many businesses have a wider objective (such as environmental and social good) as *the* core reason for their work, but many will also work with the idea of their community at the forefront. This mirrors previous FSB research before the pandemic that showed that 84% of FSB members in Wales (80% in UK) have contributed to their local community or charity in the past three years, and more than a quarter (27%) of FSB small business owners hold a position within their local community in conjunction with running their business.⁶

In terms of wider economic imperatives – these motivations show SMEs' view their work that align with wider community imperatives, around views around flexible and remote working practices, and to contribute to wider ends.

⁶ 'Small Businesses, Big Heart' (FSB: 2019)

84% of FSB members in Wales have contributed to their local community or charity



27% of FSB small business owners hold a position within their local community

Helping Out Community Health needs

As was widely reported as the Covid restrictions came into force, there was a shortage in PPE and other materials for the NHS. The dependence on supply chains which were largely from China and based on cost was a large part of this.

Hywel Dda Health Board faced these challenges by focusing on procuring from local suppliers. They utilised the South Wales Additive Rapid Manufacturing ('SWARM') originally set up by a loose network of businesses with Swansea University, who then came together to:

- coordinate local PPE production
- ensuring the standards were up to NHS stringent standards,
- provided coaching and upskilling of manufacturers, and proactive help to reach standard

SWARM issued a call to action, including across social media, to ask for help in producing materials for their Local Health Board. As a result much equipment of fairly stringent and complex standard was sourced locally, as well as simpler things such as furniture.

Opening up demand in Hywel Dda led to local businesses filling substantial gaps – due to the crisis, many of these SMEs repurposed their manufacturing skills to do so. Support through the peer-to-peer networks helped bring products to strict standards, but also provided upskilling that could then be used in future.

This illustrates that opening procurement demand means that it often can be filled – in this case it was often as SMEs felt the need to help their community with lives at stake. The question is how to do this in normal times, and how we can repurpose our systems to help recovery and build wealth and skills in our communities and in SMEs.

Hywel Dda were surprised to see that they found that costs locally were less high than anticipated, and any additional costs could be made up for by the fact they were quicker in turnaround. Local suppliers achieved the prices – or very near the prices – when aimed at. This is unexpected and shows these suppliers can compete at close to price with global chain in many areas. Moreover, the experience points to the need to balance cost, with security of supply chains, as well as wider community benefits.

Key policies for recovery

What does this mean in practice?

We asked what SMEs' key policies for recovery were:

1	Reducing the cost of doing business	51%
2	Schemes to help create jobs	40%
3	Skills investment for those already in work	28%
4	Renovation/repurposing of empty units in town centres	26%
5	Improving Digital infrastructure and skills	24%

While the cost of business is top priority especially given the economic toll of Covid-19, it is important to note the wider encompassing priorities identified here, and the importance SMEs attach to retaining and creating jobs.

Entrepreneurship in Difficult Circumstances

The questions we asked on entrepreneurship show how – even in the toughest year in living memory – business owners' resilience and drive to continue and grow their business remains in place, reinforcing how they can be tapped as a motor for recovery at the micro level.

There are significantly differing views about the outlook for business and the wider economy in Wales over the next five years. Although most small business owners are very or fairly optimistic about their own enterprise (63%), optimism falls away the wider the perspective of the economy is taken.

As illustrated in Figure 6 below, optimism falls to 57% when considering the relevant sector/industry, while even less small business owners are optimistic about the small business sector in Wales (26%) or the Welsh economy (17%) over the next five years.

Figure 1: Optimism concerning the Welsh economy



Interestingly, this survey fits with the general ONS data that has shown that businesses' confidence in their survival has remained constant over the pandemic, with only 15% thinking they would have to close throughout 2020.⁷

⁷ 'Business insight and an impact on UK economy' (ONS: Jan 28 2021), available at <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/businessinsightsandimpactontheukeconomy/28january2021>

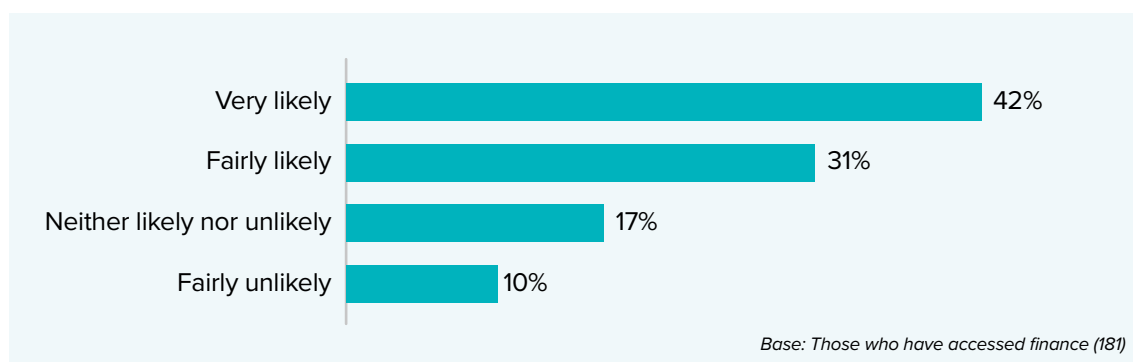
In general, this also reflects a disconnect between SMEs lived experiences and wider discussions on the economy. As noted in the Dasgupta review⁸, closing this chasm in communicating economic aims is important to provide a sense of a shared mission, and to steer toward a good future economy. Engaging SMEs is important to this process, but this also requires Welsh Government providing the necessary clarity on practical long-term goals, measures, values, and visions. FSB see the early development of an Economic Development Bill as providing this foundation and to provide a strong start to that conversation.

Future Investment in Business

We asked the question of whether respondents were looking to use Covid support to invest – or whether this was going to be to address cash flow. Of those that had accessed finance, 73% said they were likely to use the finance to invest further into their business.

It should be noted that this survey was conducted for November 2020, ahead of substantial further winter restrictions. However, it remains the case that the first instinct of business owners is to look at building their business first. This is true even at a time of crisis, indicating a strong drive toward using opportunities to develop their business. This should be understood in building SME access to finance (a long-standing issue) in future as being a means to business growth and economic recovery.

Figure 2: likelihood of investing in business, given access to finance due to Covid-19



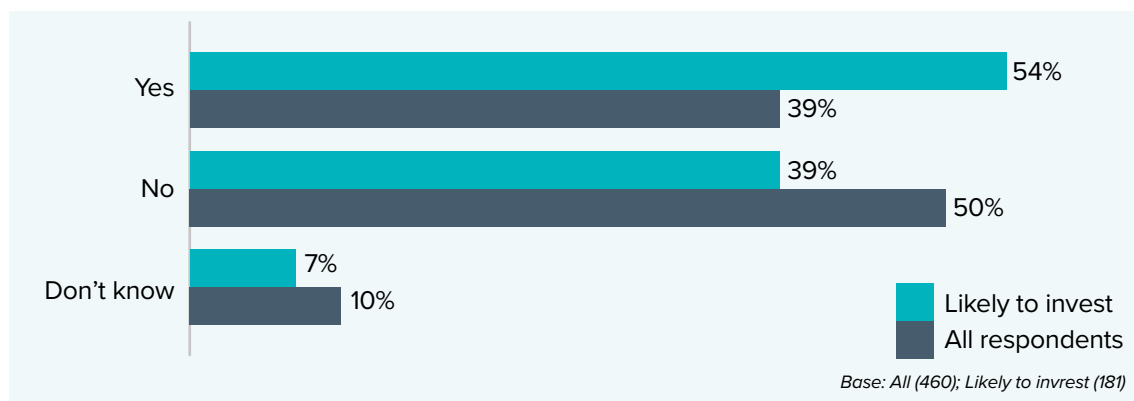
We also asked whether businesses were likely to expand to new market areas in the next 12 months. Given the background of Covid-19 and Brexit, there was a strikingly substantial minority of all respondents who were ready to expand (39%).

Of those ‘accessing finance and likely to invest’ in their business the numbers were reversed with 50% likely to expand into new market areas. Those ‘likely to invest in business with access to finance’ were also more likely to look to expand into new markets (54%).

Around half (55%) of small business owners have accessed finance to manage cashflow due to the Covid-19 pandemic. When asked if this would make business owners more likely or less likely to invest in their business, almost three quarters (72%) of these small business owners say they are more likely to invest in their business over the next few years.

⁸ The Economics of Biodiversity (HM Treasury: 2021)

Figure 3: Likelihood of expanding into new market areas in the next 12 months



This illustrates, that despite the huge knocks of the last year – SMEs have retained their impetus and entrepreneurial spirit. One of the learnings from Covid-19 is that they need access to finance to harness that spirit.

Donna, SignSpeed

During the pandemic, SignSpeed has undergone a huge amount of change. They initially closed during the first wave and used the flexible furlough scheme to bring everyone back by July 2020.

In November 2020, the original owners of the business sold it to new directors Donna and Sam who also moved the business to Carew Airfield Business Park. They have diversified their customer base and are building up the side of the business that caters to vehicle branding, and to do this are advertising for two new roles through the UK Government Kickstart Scheme. The business has undergone a huge amount of change through the most difficult of years but has an incredibly bright future ahead of them.

Anna Burke, Animated Technologies

“2020 was challenging for our company like many others. But also as a parent having to home school it was really tough. But Animated Technologies has been able to grow despite a challenging year to a team of 5. Partly due to a project we were awarded through Innovate UK and the Covid framework. This project will be a real development in the world of hybrid events that will solve many of our current pain points with online events and conferences. Watch this space.”

At the time of survey, a significant minority expected to employ more staff in a year, 2.5 times more than expected to employ fewer staff:

More staff	27%
Fewer staff	11%
About the same number of staff	55%
Don't know	7%

While this may have changed in the interim, it nevertheless points to a significant part of the sector that at a time of economic crisis, were looking to develop and grow. With support and investment to do so, these businesses can make a substantial contribution to an economic recovery.

Nevertheless, while there are ways in which finance can be useful tool and many SMEs will use it to develop their businesses, access to finance has been a long running issue. From analysing bank branch closures mapped against postcode lending data *Move Your Money* estimate closures dampen SME lending growth by 63 per cent, which climbs to 104 per cent for areas with their last bank in town closing.⁹ They estimate this impact to be £1.6m less lending per year for postcode affected. This was the context that exacerbated issues around loans during Covid-19, and there are lessons to learn here to ensure that SMEs can access finance for the future.

Moreover, our UK survey in December noted SMEs' worries on debt, and the need to provide for a fair Covid-19 debt repayment plan. If confidence is not restored on these issues there is the possibility of it dampening recovery.

- As a result of the Covid-19 crisis, the proportion of small businesses carrying some form of debt has increased from 56% (pre-Covid) to 69% (post-Covid).
- Of those small businesses carrying debt, the proportion that describe their level of borrowing as 'unmanageable' rose from 13% (pre-Covid) to 40% (post-Covid). For those that borrowed for the first time due to Covid-19, this figure rises to 49%.
- Of those small businesses carrying debt, less than a two-fifths (39%) say they are confident that their lender would treat them fairly should a dispute arise and only 18% felt confident that they would have fair redress through the Financial Ombudsman or other mechanisms.

Despite understandable worries on debt, our data shows SMEs are resilient.

Even in the face of a once-in-a-century pandemic, and a bleak view of the Welsh economy, we see a resilient cohort of firms that can see a positive future for themselves and their sector. Many have even started a business in the middle of a pandemic.

Shayne Yates, All Business Solutions

Shayne Yates left his former employed role giving 12 months' notice prior to Covid-19 after being there for 15 years. He launched All Business Solutions which is made up of 25 years' experience gained across the private and public sector to support UK businesses during the pandemic. Shayne's firm provides a range of services to businesses across the UK, and has helped support them through the pandemic.

As we go forward Shayne aims to develop a stable income line for himself and the business and hopes to have the opportunity to help others who are setting up as new or existing businesses who need support to grow and develop, I see my role as a real privilege, I love the world of business and I get to be part of this on a day to day basis, really special.

⁹ Travers Smith, Fionn, 2016. Abandoned Communities: The Crisis of UK Bank Branch Closures and their Impact on Local Economies

SMEs know their own sector well. When asked about the area they know well (their own business and their own sector) they see themselves as able to navigate and traverse the storm. This aligns to the view that they are passionate and informed about what they do. It is a view that suggests the role of Government as enabling them to do what they see as best for the best economic results.

As such, SMEs will need support and capital to build on their capacities and capabilities. FSB calls for:

- Prioritising through an Economic Development Bill developing 'medium' sized firms in Wales, providing financial support towards that end
- Make SME friendly procurement a legal duty
- Developing the foundational economy by adopting three Foundational Economy Challenges; in social care, decarbonisation of housing and food production
- Put the Development Bank of Wales on a statutory footing for a long-term outlook
- Ensure better Access to Finance for SMEs, both through the Development Bank for Wales, and with UK Government pressure on the big banks and lenders to ensure fair access to finance
- UK Government to apply pressure on lenders for fair repayment terms for SMEs over a fair time period according to their circumstances after the pandemic
- Ensure tax incentives aimed at business growth are accessible to SMEs
- Develop management skills toward business growth and investment in SMEs through training
- Maintain the Business Wales brand and develop the service further to support the aims identified through an Economic Development Bill
- Take the opportunity of a new funding landscape to look anew at priorities to support SMEs.

Social Responsibility and SMEs

SMEs are aware of their responsibilities.

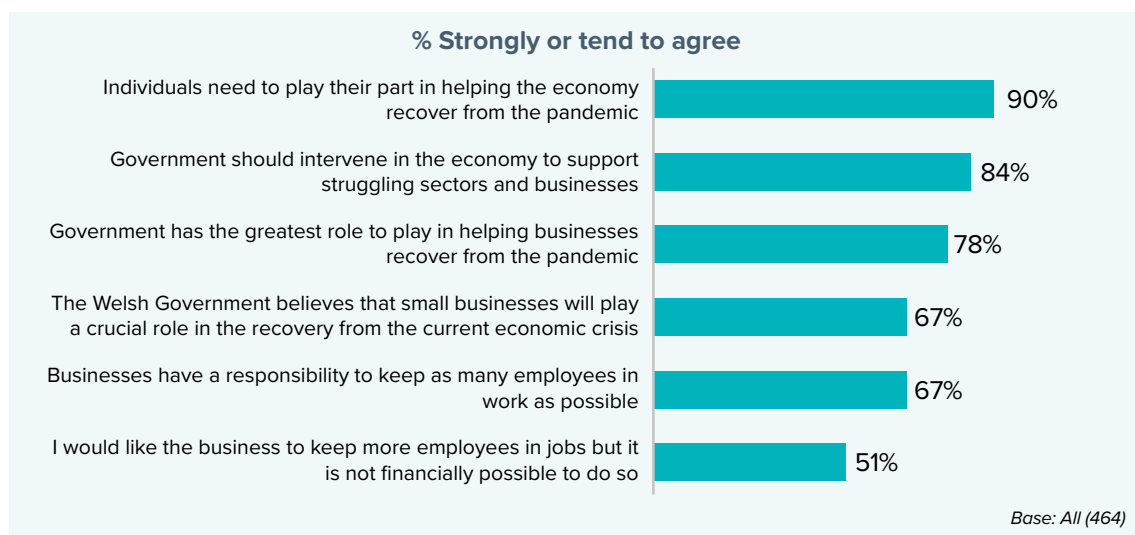
Small businesses are inextricably linked to their communities and are often leaders in their communities. In having a stake in their society and as local wealth creators, they have an important role. We found that they take that role seriously.

Ceri Jennings, Sparkles!

Ceri described the year since the pandemic as a 'rollercoaster'. Due to her daughter's disability, Ceri immediately moved to run Sparkles Cleaning Services from her kitchen table to shield with her family. Initially, the business shut down, before Ceri and her team decided to diversify the business and qualify their staff in construction cleaning so that they could rely on a base of customers who would not be required to close down due to Covid restrictions. The team have also become accredited living wage employers during this time. They changed their business structure and fast-forwarded some plans in order to adapt to the new circumstances, and Ceri says that she is incredibly proud of the 'achievements that I've had from my kitchen table'.

We were interested to see what SMEs had to say about where they saw small businesses' role in society, and where they saw a role for government. The survey asked where responsibility should lie in relation to both the Covid economic and employment response and the environment, looking at how respondents viewed the relative role of individuals, business, and government:

Figure 4: Responding to the Covid-19 pandemic



These results demonstrate that small businesses take on a substantial amount of responsibility and view it as their role to do so.

67% of respondents believe businesses have a role to play in keeping as many employees as possible during the pandemic, and this certainly fits with the anecdotal concerns FSB has heard from employers concerning their employees.



'Neges': Dylan's and Menter Môn Covid-19 Food Delivery

"There were times during the lockdown that we couldn't get out even for essentials – both my daughter, who is on the autistic spectrum, and I suffer from anxiety and depression and the food parcels were regular and ensured we had the essentials we needed."

'Neges' was a food parcel delivery service led by Dylan's Restaurant and Menter Môn, with the support of several partners including the Food Technology Centre, Gwynedd Council and Anglesey County Council. The Neges food delivery service began in March 2020 in response to the pandemic, with the project becoming active on the 13th of April, and was aimed at supporting vulnerable people and NHS workers in Anglesey and Gwynedd.

Over 14,500 food parcels were distributed from April to the end of July 2020. A survey of those receiving the food parcels found that they had been very important to many of those supported.

Ingredients for the Neges food parcels were purchased from nine local food businesses (all micro or small businesses).

- Becws Môn: bakery based in Gaerwen, Anglesey
- Blas ar Fwyd: food and drink producer and distributor, based in Llanrwst, Conwy
- Bwydydd Madryn: a supplier of Welsh food brands based in Conwy
- Dolmeiniir Meats: local meat suppliers based in Llangefni, Anglesey
- Dylan's: a producer of take-away food and a bakery operating from a production kitchen in Llangefni, Anglesey
- Edwards of Conwy: local meat supplier based in Conwy
- Harlech Foodservice: a food distribution company based in Llanystumdwy, Gwynedd
- M Hughes & Sons: fruit and veg supplier based in Llandudno, Conwy
- Popty Bakery: a bakery based in Llanllechid, Gwynedd

Those businesses identified several benefits including the obvious commercial benefit of supplying the project at a time when other sources of income had been substantially reduced or even disappeared completely. Purchases from local suppliers totalled £112,483. This will also have generated a multiplier impact within the local economy.

The suppliers also highlighted the fact that they wanted to participate in the project to support the local community during the pandemic.

"Well because we are a local business, and it was for local people. We didn't make any money, we did all of the stuff at pretty much cost price, but it felt like the right thing to do to get involved. It was quite a strange phase we were going through, and we could do it, so it felt right. The big influence was the fact that it was (for) local people." – Supplier

Suppliers' responses also noted that the activity meant added protection for their workforce:

"It stopped our staff from being furloughed... It was quite uncertain at the beginning what would happen... Neges meant we didn't have to reduce hours." – Supplier

The network has created ongoing benefits, with the online platform for local produce 'siop.io' growing from the networks, as well as further interventions to help the community currently being planned.

Of course, the view of value encompassing social, economic and environmental issues must also allow for the economic as a key part, and the financial muscle is necessary to promote what employers want to do. It is a concern that 51% say they would like to keep more employees but are unable to do so. It therefore follows, that in another question on key policy for Covid-19 response, financial support and incentives for employment gains substantial support.

Again, the key point is that there is a will among those unable to keep all employees to do so, but that this is aligned to a realism about their financial position.

- SMEs see a positive role for government in economic recovery, particularly in struggling sectors.
- Welsh Government should provide an analysis for support over the long term of business sectors and geographical areas in danger of being economically 'left behind' in Covid-19's wake, and tailor ongoing support accordingly.
- Generally, employers take their role as *employers* seriously, and will look to keep staff as far as possible and moreover, a large majority see this as their responsibility to do so. This aligns with the experiences FSB have had anecdotally throughout the pandemic.

Good Business Charter

FSB have partnered with the Good Business Foundation to help adapt the Good Business Charter and make it accessible to businesses with less than 50 employees.

Founded by Julian Richer, founder of Richer Sounds, the UK's hi-fi retailer, the Good Business Charter is an independent not-for-profit organisation with a mission to encourage and recognise responsible business practices. To sign up to the charter, a business must meet, or be working towards meeting, the ten components of the charter. These are:

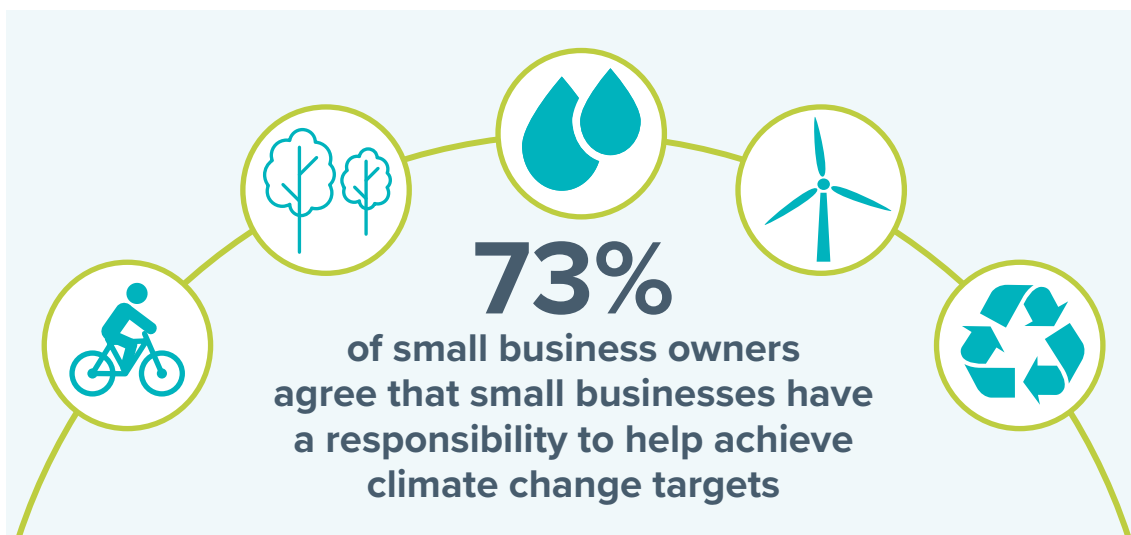
- real living wage
- fairer hours and contracts
- employee well-being
- employee representation
- diversity and inclusion
- environmental responsibility
- paying fair tax
- commitment to customers
- ethical sourcing
- prompt payment.

Being part of the Good Business Charter demonstrates a clear message to current and potential customers that your business is committed to operating responsibly and treating staff with respect and fairness.

Figure 5: Perceptions of environmental policy



73% say that small businesses have a responsibility to help achieve climate change targets. Only 30% of businesses view environmental legislation as impacting on their business' financial position, and this links with our previous work showing SMEs view this general agenda in terms of bringing opportunities. In our 2019 report on infrastructure, we found that 26% thought a low carbon economy was an opportunity for their business, with 49% not seeing it as having an impact, and only 15% viewing it as a threat, matching similar UK surveys we have done previously.¹⁰



¹⁰ 'Are we There Yet?' A Roadmap to Better Infrastructure in Wales (FSB:2019); The Price of Power (FSB: 2017)

In a question for this report's survey, 79% supported the 'polluter pays' principle, indicating that this environmental responsibility is seen as more than skin deep and is understood within taxation. 88% agreed that 'the government should use tax breaks to help create incentives for growth and investment'.

However, only 24% feel they 'know enough' about Welsh Government policy on the environment, which indicates a substantial knowledge gap which suggests the needs of a much clearer articulation of such policies for business by the next government if businesses are to be a part of the solution.

- COP26 provides an opportunity to raise awareness among SMEs on Welsh and UK government's 2021 environmental strategy and the expectations of, and opportunities for, SMEs.

Fortunately, these issues are in areas that can be addressed by government policy.

Our recommendations for Welsh Government are in our recent report 'The New Normal: SMEs and the Environment'. These include:

- Provide an advice line for SMEs on environmental issues
- Consider including business premises in schemes such as Arbed, targeted at landlords to improve energy efficiency, with incentives such as low cost or 0% APR loans
- Set out a roadmap for our transition towards electric vehicles
- Ensure new recycling and waste regulations understand SMEs' needs

Self-Employment

When considering the benefits of self-employment, 3 out of 5 small business owners (62%) are in agreement that the current situation with Covid-19 makes self-employment less attractive, while only one fifth (20%) disagree.

Only 20% of respondents agreed that 'The Welsh Government values the achievements of those that run their own business'.

- Together these figures point to a clear priority for Welsh Government to provide a Self employment strategy as a matter of urgency, along with exploring whether there is a need for more support for self-employed and incentives for start-ups as an area of particular need.

Moreover, 62% believe that Self-employed are treated less favourably than larger business and 68% disagreed with the statement 'Self-employed people have largely the same rights and protections as those that are employed'.

- This suggests that there is a need to look deeper into the Fair Work Wales Commission's recommendations on looking at self-employment and fair work, with which there has been a relatively low level of engagement with Welsh businesses
- The Covid-19 funding, while welcome, illustrated the lack of flexibility available to government when dealing with self-employment, and better response in support for self-employed in future should form part of any self-employment strategy

Despite all this, 58% agreed with the statement that 'Self-employment is an attractive way to make a living', with only 14% disagreeing. This perhaps shows the importance of values of self-reliance and 'being your own boss' in the sample.

Mental Health – Where small employers need support too

As noted, Covid-19 has placed extraordinary strain on individuals across the world, not merely in terms of the health threat, but the uncertainty of week-by-week restrictions, the strain on family relationships and to one's own well-being.

There has – rightly – been a focus on mental health in the workforce during the pandemic. In conversations with FSB members over the course of the last year, the impact on employees has been consistently stated as an area of concern – to whom employers feel an obligation. It is also important to note the strain on those employers who manage those employees while also facing the wider strain on their livelihood and families.

Barry Kirby, K Sharp

The divide between work life and home life has always been pretty thin, but during the lockdowns it pretty much disintegrated and this was hard on the family, having to deal with the constant Zoom calls etc. This was compounded by the ability to work longer hours which we did. Weekdays and weekends seemed pretty pointless distinctions.

On the plus side, the type of work we do is in defence and that need never went away, We found ways to engage with our clients remotely and they trusted us to deliver, and the team stepped up and we did that. It gave me opportunities to get involved in other community activities, such as the face shields which gave us an ability to feel like we were doing our bit.

These responsibilities must take a toll.

As far back as September 2020, IPSE survey noted that from the beginning of the pandemic, there was a rise from 6% to 26% of self-employed stating their mental health was 'poor' or 'very poor'.¹¹ The decrease in those reporting good mental health was highest for women (54% decrease).¹²



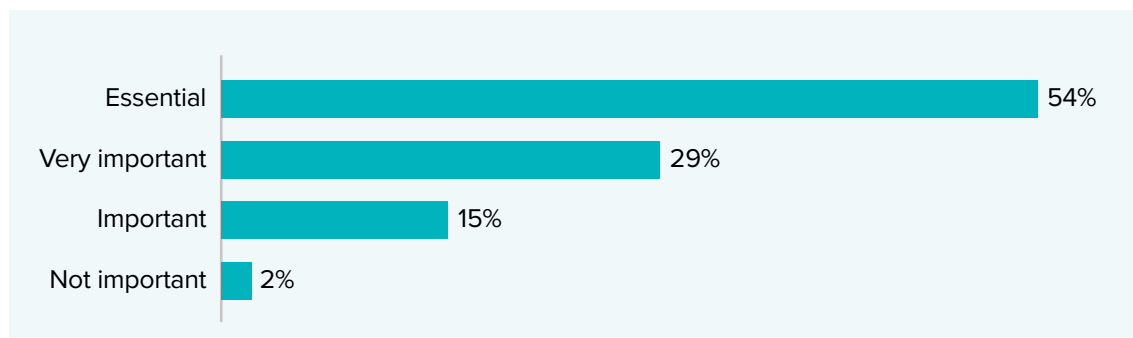
¹¹ <https://www.ipse.co.uk/ipse-news/news-listing/one-four-self-employed-mental-health-covid-turmoil.html>

¹² <https://www.ipse.co.uk/policy/research/the-impact-of-the-coronavirus-crisis.html>

From early on in the crisis, FSB partnered with mental health charity Mind to produce a suite of resources, and members can access FSB Care for support on mental health.¹³

Given the wider figures, it is perhaps unsurprising that this affects SME employers too. When asked about how important different issues are to your business, asking on a long list of issues ranging from ‘access to broadband’, to taxes, and finance, it was noticeable that ‘my own health and wellbeing’ came out as most important to businesses, with only 2% viewing it as unimportant. 54% view it as essential to running their business.

Figure 6: prioritising health and wellbeing



In some respects, this would of course be a worry at the forefront of respondents’ minds during a pandemic. Nevertheless, the question asked in a ‘business’ framing highlights another aspect of vulnerability.

As noted, SME employers take on a lot of responsibility – and view much of this as their duty as seen earlier. However, taking on this responsibility at times of crisis is bound to have an impact on them. Small business owners are also family members, community leaders, and as we have seen feel responsibility to look after their workforce needs and retain employment where possible. Anxieties for the future, uncertainty about one’s family, employees and their livelihoods are bound to take a toll. Where wider research has shown that the home working burden has fallen disproportionately on women during the pandemic, this is also likely to have impacted on female entrepreneurship as well.

Sarah John, Boss Brewing

“The biggest challenge for me personally through this pandemic has been running my business without the usual childcare support for my five-year-old daughter. It’s a challenge in normal times of course, but at times lockdown has meant all of the demands of being a business owner without the let-up of school and after school club helping me to find that balance. As a female entrepreneur, I’ve overcome this through totally tearing up the normal schedule! It’s meant working for a few hours in the morning while my daughter is still asleep and late in the night when she’s gone to bed and whilst still working through the day, embracing the fact that it would be more of a ‘dipping in and out’ approach as and when I can. Mostly, I’ve dealt with it through being kind to myself and having total acceptance that I’m doing the best I can in what are not normal times.”

¹³ <https://www.fsb.org.uk/resources-page/checklist-looking-after-your-mental-health-during-covid-19.html>
<https://www.mentalhealthatwork.org.uk/toolkit/small-businesses-and-the-self-employed-taking-care-during-the-pandemic/>

The focus on mental health in the workplace is often on employers' obligations, and there are responsibilities of care and a healthy workplace. However, workplace mental health strategy needs to consider that in SMEs that employers are themselves also workers and are also in need of support.

Policy here, is not an abstract understanding of cold numbers and 'business cycles', but about providing confidence, trust and a foundation for the future for small businesses – *and the people who build and develop them.*

FSB recommends on mental health that:

- UK and Welsh Government ensure mental health in the workforce also looks to the mental health of SME employers as vital parts of their business (and without whom the business may not function at all)
- Welsh Government develop NHS mental health support tools for employers and managers
- Governments investigate the impact of Covid uncertainty on the well-being of entrepreneurs, with a focus on Female Entrepreneurs and whether any disproportionate allocation of gender home roles during Covid has had a detrimental impact on this sector in particular
- That Welsh Government look into the understanding that business support provides for wider mental health as well as economic benefits, including preventative aspects of well-being
- Mental health be put at the heart of Welsh Government engagement with business

Covid business support and the future

Small businesses received substantial public funding support during the pandemic. Many would not have survived without it.

The quantity of support reflected SMEs' importance to the wider economy and to our communities. In this sense, society and government have a stake in SME success, as an entrepreneurial culture and local businesses doing well are essential to a good economy.

There are some sectors that with an ease in restrictions can carry on with little further support. For others ongoing issues such as social distancing will continue to place a question on the viability of businesses.

Moreover, there is a tranche of businesses who are in a position where with recapitalisation and access to finance can look to grow their businesses and increase employment. We should not lose sight of these opportunities.

The ground is uncertain, and this is where government can help provide some foundations.

Welsh Government should provide an ongoing analysis on where support should go in the longer-term, and what shape that could take, depending on the wider shape of business support funding, and the role of the Development Bank of Wales. This should:

- Ensure that there is a needs-based approach, ensuring that some geographical areas and economic sectors are not 'left behind'
- Any analysis should look at particular areas of business activity that may have been left behind in terms of support, and this should also involve looking at gender and race in where public funding has gone
- Ensure that where there are SMEs looking to grow, capital is available to facilitate this
- The Economic Development Bill should look to clarify the wider priorities, aims and objectives of economic policy and this should help mainstream approaches across all sectors and areas

However, there is currently very significant uncertainty as to the future of business support for SMEs in Wales and how this will be delivered. This is a major concern to FSB.

The Business Wales service and the support it delivers has evolved positively to become an important part of the architecture of business support. FSB analysis in Wales and at UK level as well as research conducted by Cardiff Business School have repeatedly pointed to its effectiveness and the value-for-money benefit of its services for smaller businesses. It has become a recognised and respected brand among smaller businesses. Its role as a ‘one-stop-shop’ coordinating the Covid-19 pandemic support has further highlighted its effectiveness.

Funding for the Business Wales service is leveraged by existing European funding streams which expire later in 2022. UK Government’s plans for the long-anticipated ‘Shared Prosperity Fund’ remain unclear and the precursor ‘Levelling Up’ and ‘Community Renewal’ funds being administered by UK Government via local authorities, currently lack co-ordination enough to allow for a portion of that funding to be used to plug the gap in lost funding for an all-Wales business support service. Furthermore, we are concerned at real risk of duplication in certain areas of business support or a significant regional variation of the business support offering available to businesses in Wales.

UK and Welsh Governments need to urgently come together to agree how to ensure continuity of support for businesses in Wales and allow them to grow and develop. Furthermore, there needs to be agreement on how to fund use the developed architecture of the Business Wales service to ensure that support to help businesses deliver economic value to the economy.

Bringing it all together: From Values to Economic Value

While the pandemic has been a once in a generation challenge it also has the potential to be a catalyst to work afresh and build anew.

For Wales, this can and must mean more than merely getting back on track. It is an opportunity to look again at longstanding, complex, and intractable issues that have dogged Wales for many years, including a sluggish economy that has often seemed ever further away from the prosperity of other parts of the UK and Western Europe.

All this is while responding to future challenges and to our duties as global citizens. The pandemic experience allows for new ways of working, the exposure of issues such as secure supply chains can provide for new approaches, and a blank slate to get ahead of trends already in motion that have been greatly accelerated by the Covid response. It also allows us as people, communities and nations to address again what we really value.

Wales’ small businesses, and the people that run them, have experienced the hardship and uncertainties, the health and economic risks to families and colleagues, as well as to their livelihoods and vocations. It has often been a privilege for us as a business organisation to see the efforts SMEs have gone to in their communities to help. In their resilience, innovation, community-mindedness and adaptability they have shown – often against traditional and unfair stereotypes of small business – key traits that should be embraced and harnessed for future prosperity.

Small business, and their owners who have navigated their way through the devastation to their businesses and communities, deserve the chance and support to rebuild and to grow, and a vision that seeks to provide them opportunities to develop in – and help to develop – a prosperous Welsh economy.



FSB believe that small businesses have so far met the challenge of Covid-19, and stand ready to meet the moment in rebuilding and recovery for our communities.

To grasp that opportunity, we believe it is Welsh Government's role is to build a bold, ambitious and clear vision to meet the moment and the new government must demonstrate that it has Welsh SMEs at the heart of its thinking.

FSB have called for legislative agenda that provides a solid foundation, a clear mission, and values small business through an Economic Development Bill. This would also provide for the means and mechanisms to economic success, the duties to the public sector to economic development, and outlining clearly what we value. This agenda would look to address anew the longstanding issues around Wales' economy, while providing a pillar for business growth that allows for us to fulfil the wider duties to decarbonisation and wider values to underpin developing a good economy for the future.

FSB Wales looks forward to working with the new Welsh Government, our Senedd and all parties in Wales to further an agenda to ensure that Wales is a place where small business and entrepreneurship can thrive in building a good economy for the future in Wales, and for all its citizens.

APPENDIX – METHODOLOGY

The survey was designed and conducted by Diffley Partnership on behalf of FSB. It was issued to small business owners in Wales and was open to both members of the FSB and non-members. A supplementary telephone survey was conducted in conjunction with the online survey to boost response rates. A total of 496 responses were received from small businesses owners in Wales.

The fieldwork was conducted online between 29th September – 27th November 2020 while telephone fieldwork took place between 20th October – 12th November 2020. Several reminders to non-responders were issued during this time.



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