

Measuring enterprise impacts in deprived areas

Report to the
Small Business Service

Fergus Lyon
Marcello Bertotti
Mel Evans
David Smallbone
Gareth Potts
Peter Ramsden

summary

December 2002

URN 03/870

Key findings

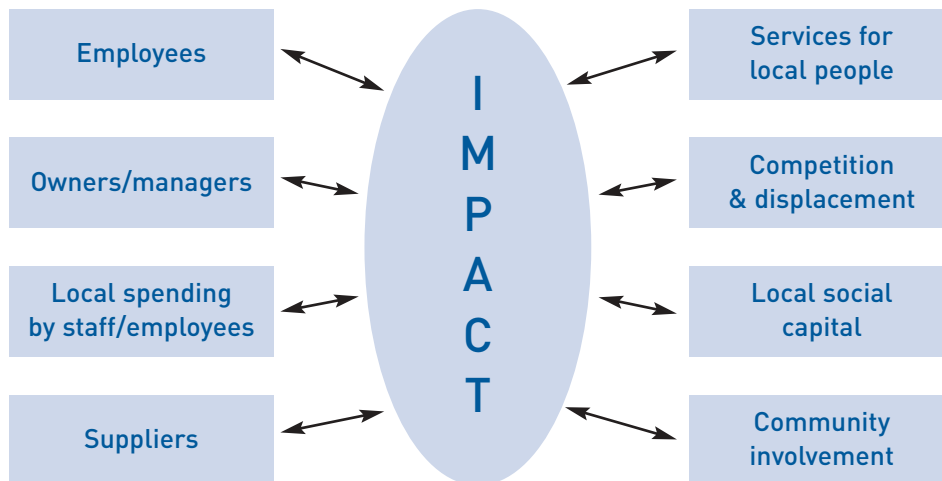
- A wide range of indicators measuring the impact of enterprise in deprived areas can be collected. In addition to jobs created, other impacts include provision of services, local money flows, benefits to supply chains, building social capital and community contributions.
- While some indicators can be quantified, qualitative impacts such as job satisfaction, quality of life and personal development are also important indicators of impact.
- Impact studies should assess the extent to which benefits are received by people resident in deprived areas and from disadvantaged groups. The impact of enterprise upon deprived areas comes from both those firms located in deprived areas and those firms outside these areas but employing deprived area residents.
- By drawing on a range of research approaches (including academic studies, social auditing, money flow studies, corporate social responsibility assessments), ways of collecting these indicators have been identified.
- Through a rigorous pilot testing and exploratory study, the methodology has been refined and three types of survey have been identified.
- Follow up studies are required that measure the impacts of a larger sample in order to compare the impact of different types of enterprise and provide the evidence base for policy making. The indicators can also be adapted for use by individual enterprises measuring their own impact.

There has been a growing interest amongst policy makers concerning the role of enterprise development in deprived areas. At present there is a lack of robust empirical evidence to demonstrate the actual contribution of enterprises to the alleviation of deprivation. While many existing studies rely on measuring the number of jobs created, this report presents a new methodology for measuring the contribution of different types of enterprises to disadvantaged areas using a wide range of economic and social indicators.

The report begins by offering a conceptual overview of the types of impacts. The framework recognises the range of impacts received by a wide range of stakeholders, as shown in the figure below.

The issue of enterprise success in deprived areas offers the promise of uniting the Government's interests of economic competitiveness, social inclusion and neighbourhood renewal. In addition to a wide range of local and regional government policy, the types of national policy include: the Small Business Service's Phoenix Fund and Business Link support services, the Department for Education and Skills' New Entrepreneur Scholarship scheme, the Department for Work and Pensions' New Deal for the Self-employed, H.M. Treasury's Stamp Duty Relief, the Office of the Deputy Prime Minister's Business Improvement Districts, the Department for Environment, Food and Rural Affairs' support for rural businesses as well as many other non governmental initiatives aimed at enterprise development in deprived areas.

The multiple impact and stakeholder model



Using the methodology developed, future studies will be able to compare the impact of different types of enterprise. These comparisons include: social versus conventional enterprises; high skill versus low skill enterprises; inward investors versus indigenous enterprise; large versus small enterprises; established versus new enterprises. Data is also needed to ascertain whether impact varies between types of sectors and location such as inner cities, coalfield areas, coastal towns, rural areas and market towns.

The purpose of this study is to develop an impact assessment methodology in the shape of a conceptual framework, guidelines for future studies and the piloting of key impact assessment questions. The use of the methodology allows those implementing projects in and around deprived areas to assess the relative impact of different types of enterprise and identify specific types of businesses that might receive priority in terms of business support. Such an approach might also be used to measure the impact of many national, regional and local policies in terms of how they allow different firms to impact upon populations in deprived areas.

This study reviews the main literatures used to examine business impacts with a view to identifying what tools already exist. The following approaches were reviewed:

- Aggregate statistics on deprivation – such as the Index of Multiple Deprivation. This can be used to identify patterns of deprivation over a range of scales from wards to the national level and can also demonstrate changes over time.
- Economic approaches – conventional impact assessment studies concentrate on quantifiable indicators such as jobs created, increases in income and turnover of businesses. Much attention has been given to measuring job displacement (i.e. how new jobs are created at the cost of displacing existing jobs).
- Social Audit approaches – These measure the wider impact on the stakeholders shown in the figure above (including local communities and employees). Indicators of business community relations are also included which involve measures of the explicit impacts such as donations, sponsorship etc, and the less obvious impacts such as community cohesion, trust and supporting people from a diverse range of groups.

- Monitoring local money flows – Multiplier effect studies aim to provide information on where money coming into a community goes and the extent to which it circulates within the local economy.

A set of questions was developed from these reviews which was then empirically tested in two locations, one rural and one urban. From this pilot testing, the research approaches of measuring impacts were refined and some new issues identified. The empirical study was also used to explore the types of impact in more detail and to make classifications of the types of impact that are commonly reported by enterprises.

Implications for research and impact assessment studies

This study has developed and tested a methodology to measure both social and economic impacts of enterprise. The table below presents the types of impact, measurable indicators, means of measurement and the types of survey. Three types of surveys are recommended by the study. The choice between methods being dependent on the information needs. Some impacts are easier to measure than others and this project has categorised the indicators into three types, based on the depth of impact study that is appropriate.

These types are:

1. **Comprehensive qualitative and quantitative studies** – These can provide the most detailed understanding, combining both qualitative and quantitative indicators of all aspects of impact. The methodology would use both a questionnaires and a range of qualitative methods such as interviewing, discussions of critical incidents in the enterprise's life, and focus groups.
2. **In depth quantitative surveys** – When detailed quantitative information on a wide range of indicators is required and there are not resources for a detailed qualitative study, in depth location-specific questionnaire studies can be used. These could be collected through face to face extended interviews.
3. **Short quantitative surveys** – For less in-depth studies that aim to generate information from large samples, a smaller number of easily identifiable indicators are set out. These could be collected through interviewing enterprise owner managers and employees by telephone or face-to face

To measure the impact of enterprises on residents of deprived areas, it is necessary to use a two pronged approach: firstly measuring the impact of firms located in deprived areas and secondly measuring the impact of enterprises located elsewhere but employing residents from deprived areas. Identifying the firms located outside the deprived areas requires surveys of the residents living in the deprived areas.

Future work on impact assessment methods could be used to develop an index of impact for different types of enterprise. As there are a large number of indicators used, such an index would require some indicators to be weighted differently to others. Establishing the weighting values would depend on negotiations between the different stakeholders involved

in the impact study and the research questions being explored. For example, studies of the impact of social enterprises may place less value on the role of job creation compared to the service provision.

Discussion and findings

The tables on pages 7-11 demonstrate that it is possible to collect a wide range of social and economic indicators. These can be used to measure the multiple impacts of different types of enterprises and therefore provide evidence from which informed policy decisions can be made. While the testing of the methodology has resulted in the development of a comprehensive methodology for measuring the impact of enterprise, each set of indicators raises a number of research questions with implications for how impact assessment can be carried out in future. The key findings are as follows:

Extent and quality of jobs for people from deprived areas

The impact on employees depends on the extent to which enterprises employ those from the deprived areas and in particular people from disadvantaged or socially excluded groups resident within such areas. This study found that a large proportion of employees of enterprises in deprived areas live outside the area although the extent to which people in deprived areas travel elsewhere for work is not known. It is important to gain a greater understanding of the distance socially excluded people are willing to travel and, if necessary, what can be done to encourage them to look for opportunities further afield. The analysis of the 2001 census will add to our knowledge on 'travel to work' patterns.

The methodology developed in this study can be used to assess whether the needs of the socially excluded are best met by encouraging firms to establish themselves in deprived areas or to set up in a location where they perceive that they will grow faster and therefore employ more people. The benefits of having local jobs (in terms of reduced travel times, less congestion, access for those without access to cars or public transport, and helping those who want to be near to childcare) should also be recognised. This methodology can also be used to assess which types of firms create more jobs for the socially excluded, and therefore might be supported in deprived areas. For example the growth of specialist 'knowledge intensive' firms may be of less benefit to those with few skills than other types of enterprise.

Impacts on owners and managers

The survey found that a large proportion of owners and managers were not resident in the deprived areas selected for the pilot study. However, a greater proportion of smaller businesses were found to have owners living in the deprived areas and therefore contributing to the locality, compared to larger businesses with more than 10 employees.

Provision of products and services

Enterprises in deprived areas can provide valuable retail services for those without access to transport; this is particularly important in rural and some suburban areas. Social enterprises have a much greater

emphasis on delivery of local services especially in under-served communities. The impact on the environment (built and natural) of business activity can be both positive and negative. Enterprises (conventional and social) can have the objective of improving the physical environment reclaiming brown field land and saving buildings from dereliction, while others may have significant negative impacts on water, air and land quality.

Supply chains and subcontractors

Some sectors and types of firms are more 'embedded' in local supply chains than others resulting in more of their expenditure circulating and a greater multiplier effect for their contribution. Identification of these types of firms may be required in order to target support that has the greatest impact. We suggest that enterprises trading in less specialist products and services will also source more locally and have more local customers. An exception to this may be clusters of specialised companies that gain competitive advantage through working closely together and using 'Just in time' approaches.

Competition and Displacement

The extent of displacement within different sectors is not known. At present evaluations of enterprise development use crude estimates and there is a lack of information about which types of enterprise have the higher rates of displacement. Levels of displacement can be found by collecting information on the amount of competition within different geographic areas, the extent of each firms markets and the uniqueness of their products.

Social capital and inter-business links

While there is considerable policy interest in supporting clustering and the nurturing of social capital, the ability to measure these phenomena is limited. This study has identified a range of questions that can offer some measurable indicators that are easily collected, as well as identifying the issues that need to be investigated in more detail. Types of collaborative activities include sharing equipment, ideas and information, referrals, and joint projects.

Community involvement by businesses and employees

This study has identified a wide range of community benefits to which enterprises may contribute. These come in the form of donations of money, and resources, as well as participating in community groups, providing encouragement and guidance to other members of the community and helping other local businesses. While 'corporate social responsibility' has received much discussion in relation to larger businesses, this study shows how information on smaller businesses, and their impacts within their communities, can be collected.

The multiple enterprise impact framework

Types of impact	Types of indicators	Specific indicators	Means of measurement	Types of survey Compre- hensive In-depth quant. Short quant.
Jobs for people from deprived areas	<p>The types of employment currently available to people in deprived areas</p> <p>Number of employees and extent to which staff match local labour market and disadvantaged groups</p>	<p>Location of employment for people in deprived areas</p> <p>Quality of employment opportunities (see below)</p> <p>Number of jobs (full and part time)</p> <p>Number of full time equivalent jobs</p> <p>Proportion of socially excluded/low skilled amongst recruited staff</p> <p>Proportion from different ethnic groups</p> <p>Proportion of men and women</p> <p>Proportion from different age groups</p> <p>Methods of recruitment</p> <p>Proportion of employees that are casual/seasonal labour</p>	<p>Resident survey in deprived areas</p> <p>Estimation of owner/manager and comparison to aggregate statistics</p> <p>Estimation of owner/manager</p>	<ul style="list-style-type: none"> • • • • • • • • • •

Types of impact	Types of indicators	Specific indicators	Means of measurement	Types of survey Compre- hensive In-depth quant. Short quant.
Quality of jobs	Wage levels Skill development and learning	Wages of different levels of staff (Managerial, professional, artisanal/skilled, less skilled) Amount of formal training provided Percentage of staff claiming to have gained skills and earning potential Perceived change in specific skill aspects including technical, communications, negotiation, research, organisational and managerial skills Staff turnover in past three years Perception of satisfaction	Estimation of owner/ manager Estimation of owner/ manager Interview sample of employees	<ul style="list-style-type: none"> • • • • • • •
Changes in quality of life	Changes in quality of life	Perception of quality of life	Estimation of owner/ manager Interview sample of employees using likert scale and qualitative research	<ul style="list-style-type: none"> •
Workplaces as arenas for social cohesion	Workplaces as arenas for social cohesion	Extent of intra firm mixing and examples of how this has had an impact	Interview sample of employees using likert scale and qualitative research Qualitative inquiry	<ul style="list-style-type: none"> • •

Types of impact	Types of indicators	Specific indicators	Means of measurement	Types of survey
Impacts on business owners/managers	<p>Avoiding unemployment and low wages</p> <p>Change in income</p> <p>Change in quality of life</p> <p>Skill development and learning</p> <p>Personal development</p>	<p>What were they doing before starting</p> <p>Percentage change in income for past 12 months compared to before starting</p> <p>Increase or decrease in income, stress, leisure time, family time, and general perception of quality of life</p> <p>Amount of formal training gained</p> <p>Perceived change in specific skill aspects including technical, communications, negotiation, research, organisational and managerial skills</p> <p>Perceived changes in confidence, self esteem and ability</p>	<p>Only applicable to those starting up recently</p> <p>Only applicable to those starting up recently</p> <p>Only applicable to those starting up recently</p> <p>Qualitative e.g. critical incident analysis</p>	<p>Comprehensive</p> <p>In-depth</p> <p>Short quant.</p>
Local spending (by employees and owners)	Multiplier effects of spending patterns	<p>Extent of staff and owners spending in locality</p> <p>Extent to which local retailers purchase locally</p>	<p>Estimations of owner managers and a sample of employees</p> <p>Interview retailers</p>	<p>Comprehensive</p> <p>In-depth</p> <p>Short quant.</p>

Types of impact	Types of indicators	Specific indicators	Means of measurement	Types of survey
Provision of products and services	Service provision for people in deprived areas	<ul style="list-style-type: none"> Size of sales (turnover) Number and percentage of customers from deprived areas and disadvantaged groups using service Impact on people from deprived areas 	<ul style="list-style-type: none"> Estimation of owner/manager Estimation of owner/manager 	<ul style="list-style-type: none"> Comprehensive In-depth Short quant.
Supply chains and subcontractors	Local purchasing and generating local business	<ul style="list-style-type: none"> Extent of enterprise's spending in locality Extent to which local suppliers purchase locally 	<ul style="list-style-type: none"> Estimation of owner/manager Interview suppliers 	<ul style="list-style-type: none"> Comprehensive In-depth Short quant.
Competition	Potential for displacement	<ul style="list-style-type: none"> Number of direct competitors in locality Extent to which market for goods or services is saturated 	<ul style="list-style-type: none"> Estimation of owner/manager Comparison with aggregate statistics 	<ul style="list-style-type: none"> Comprehensive In-depth Short quant.
Social capital and inter-business links	<ul style="list-style-type: none"> Helping other local firms Participating in business networks and clubs 	<ul style="list-style-type: none"> Number of collaborative links Examples of helping each other Membership of business networks and clubs Extent of involvement 	<ul style="list-style-type: none"> Estimation of owner/manager Qualitative critical incident analysis Estimation of owner/manager Qualitative critical incident analysis 	<ul style="list-style-type: none"> Comprehensive In-depth Short quant.

Types of impact	Types of indicators	Specific indicators	Means of measurement	Types of survey
Community involvement by businesses and employees	<p>Donations and sponsorship</p> <p>Participation in and managing community activities</p> <p>Apprenticeships, student placements</p> <p>Improving the image of a locality</p> <p>Encouraging people to move into the locality</p> <p>Encouraging people to start, sustain or grow a business through advice and mentoring</p>	<p>Amount of donations and sponsorship for deprived areas</p> <p>Use of company resources (time, space, equipment, vehicles etc) for deprived areas</p> <p>What types of activities</p> <p>What management roles or committee membership</p> <p>Number and length of apprenticeships over past three years</p> <p>Number of student placements over past three years</p> <p>Whether enterprise is involved in promoting image</p> <p>What kind of involvement</p> <p>Describe examples of cases where you encouraged others to move</p> <p>Describe examples of cases where you encouraged other businesses</p> <p>Types of support</p>	<p>Estimations by owner/managers and employees</p> <p>Qualitative critical incident analysis with owners and employees</p> <p>Estimations by owner/managers</p> <p>Qualitative critical incident analysis with owners and employees</p> <p>Qualitative critical incident analysis with owners and employees</p> <p>Qualitative critical incident analysis with owners and employees</p>	<p>Comprehensive</p> <p>In-depth</p> <p>Short quant.</p>

Fergus Lyon, Marcello Bertotti, Mel Evans, David Smallbone
Centre for Enterprise and Economic
Development Research (CEEDR)
Middlesex University Business School
The Burroughs, London NW4 4BT
Tel: 020 8411 6856/5460 Fax: 020 8411 6607
f.lyon@mdx.ac.uk
and Gareth Potts, Peter Ramsden
New Economics Foundation

Further copies of this publication can be obtained from:

SBS Research & Evaluation
Level 2
St. Mary's House
c/o Moorfoot
Sheffield S1 4PQ

Or by phone through SBS Research
Tel: 0114 259 7181

Reports are available electronically via the SBS Website:
www.sbs.gov.uk/research/

URN 03/870