

Institution: University of Reading
Unit of Assessment: 19 Business and Management
Title of case study: Enhancing Government (UK Trade and Investment) performance through improving UK SME sector exports
<p>1. Summary of the impact</p> <p>An economic theory of entrepreneurship developed by the University of Reading's Mark Casson (at Reading since 1969) clarified the case for UK Government business support to small to medium-sized UK exporters and provided new research instruments with which to measure its impact. UK SMEs had previously received subsidies from UK Trade and Investment (UKTI) but the economic rationale was contested. Casson's work addressed the need for more evidence and better analysis. Under Casson's leadership, the University identified a critical role played by the Government in supporting trade, and developed key methods to evaluate the impact of policy support on UK business performance. In the words of the UKTI Director of Economics and Evaluation at the Department of Business, Innovation and Skills, these have made 'a major contribution to UK policy thought'.</p> <p>2. Underpinning research</p> <p>The principal research findings underpinning this impact all have their origins in Casson's <i>The Entrepreneur</i> (1982). This body of research was the first successful attempt by any economic theorist to synthesise the mainstream approach to competitive markets, characterised in theory by perfect information and stable equilibria (thus assuming away entrepreneurship), and the alternative theories, which emphasise the significance of innovation and entrepreneurship. Since 1982, Casson's original and successive research contributions have collectively transformed the theorising of entrepreneurship in economics and business and management. This research has been published in 3* and 4* journals and is among the most highly cited research in the field of entrepreneurship worldwide. (See Alvarez, Wright and Godley, 2014 for a review.)</p> <p>Through his work, Casson developed an understanding of markets that emphasised the importance of information costs. Mainstream economic theory assumes that all market participants have 'full' information, that information is effectively costless and that markets are 'perfect'. (The value of this assumption is that it enables the mathematical representation of equilibrium analyses in mainstream economics.) But if information is scarce and costly, then entrepreneurs can be understood as 'co-ordinators' of economic activity, or 'intermediators' between other economic agents to facilitate market transactions in what are, in reality, imperfect markets, characterised by market failure of one kind or another.</p> <p>Casson's principal contribution in this area has been to enable entrepreneurship and innovation to be incorporated more widely into mainstream economic theory. This has important implications for public policy, as traditionally UK policy makers have been wedded to mainstream economic approaches. Put simply, Casson's work emphasised the importance of trustworthy and competitively priced information in the performance of small to medium-sized enterprises (SMEs) in order for them to be confident and successful exporters. Casson's research highlights that SMEs suffer from two particular sources of market failure, from information asymmetries (meaning they easily miss opportunities) and the risk of non-protectable proprietary knowledge leaking from the firm (meaning SMEs need to invest in extensive and therefore costly screening of any potential partners before they can trust them with commercially confidential information). Given these two risks the rational response of SMEs is to withdraw from certain kinds of economic activity, where they perceive they have major information disadvantage. The area of economic activity where SMEs are potentially most at risk from these sources of market failure is when they enter new markets.</p> <p>The cost to the UK economy of allowing such market failure to persist is therefore fewer exports from SMEs than would otherwise be the case. Because these sources of market failure both originate in SMEs mistrusting sources of potential information about new opportunities or potential new partners, so Casson's research suggested that government can intervene in imperfect markets as an honest broker, facilitating flows of information that would otherwise be blocked</p>

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because of mis-trust between SMEs and their potential overseas' partners. Government therefore can play a useful role here. The UK's large international network of embassies and consulates provides UK exporters and investors with valuable sources of local information that can be exploited to improve the international competitiveness of UK SMEs.

The key researcher was Professor Mark Casson, Professor of Economics at the University of Reading throughout. Other contributors included James Pemberton (Professor of Economics, retired 2011), Nigel Wadeson (Lecturer in Economics throughout) Simon Burke (Senior Lecturer in economics throughout), Kerry Patterson (Professor of Econometrics throughout), Andrew Godley (Reader to 2005, then Professor in Business History and Management), Phil McCann (Professor in Urban Economics until 2005, then moved to University of Otago, New Zealand).

3. References to the research

Casson, Mark C. (2005) Entrepreneurship and the theory of the firm, *Journal of Economic Behaviour and Organization*, 58, 327-348. (ABS 3*); DOI: 10.1016/j.jebo.2004.05.007.

Casson, Mark C. (2003) *The Entrepreneur: An Economic Theory. Second Edition.* (2,200 Google citations);

Casson, Mark C. (ed.) (1996) The comparative organization of large and small firms: An information cost approach, *Small Business Economics*, 8, 329-345 (ABS 3*); URL: <http://www.jstor.org/stable/40228685>

Casson, Mark C. and Wadeson, N. (2007a) Entrepreneurship and macroeconomic performance, *Strategic Entrepreneurship Journal*, 1(3-4): 239-262 (ABS 3*); DOI: 10.1002/sej.35

Casson, Mark C. and Wadeson, N. (2007b) The discovery of opportunities: extending the economic theory of the entrepreneur. *Small Business Economics*, 28 (4). pp. 285-300 (ABS 3*); DOI: 10.1007/s11187-006-9037-7

Alvarez, S., Godley, A., and Wright, M. (2014) Mark Casson: *The Entrepreneur at Thirty - Continued Relevance?* *Strategic Entrepreneurship Journal* 8 (2): forthcoming.

Grants: Design and Analysis of a Survey of UK Trade & Investments Trade Development and Inward Investment Activities and Compilation of Case Studies, Department of Trade and Industry, 2005, D04/875441.

Evaluation Methodology or UKT&I Based on Case Studies, Department of Trade and Industry, 2006, project number J31086.

4. Details of the impact

Mark Casson's research has made, in the words of the UKTI Director of Economics and Evaluation at the Department of Business, Innovation and Skills (BIS), 'an outstanding contribution' to Government policy in the area of prioritising subsidies for export support services for SMEs since 2007 [1].

He was approached by an economist at the then Department for Trade and Industry (DTI, now UKTI Director of Economics and Evaluation) after presenting a paper at the Industrial Economics conference at Nottingham University in 1998. The DTI was interested in applying Casson's conceptual framework to policy concerns in the area of international trade and investment. The DTI provided Casson with complementary knowledge of how economic analysis is used in the government policy-making process. This senior government economist has remained in contact with Casson, and has used his work in a number of business support evaluation research projects over the years.

In 1998 Casson successfully bid for a contract to evaluate the economic impact of the UKTI's Export Explorer programme of market support services for SMEs [2]. The conceptual framework pioneered the use of social cost benefit analysis for measuring the impact of government support for SME exporters. Beginning from the original Government priority of encouraging SME

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productivity growth, Casson and the team of economists at Reading (collectively the Reading Business Group – see section 3 for details) demonstrated that a lack of trustworthy and affordable information did indeed lead SMEs to miss out on overseas opportunities.

In 2001 the University won a tender to design a performance monitoring system for UKTI, which quickly led to the invitation to design and implement the Public Sector Agreement (PSA) Performance Indicators for UKTI in sixteen quarterly reports from 2002 to 2005, followed by several summary reports [3]. This represented a substantial data gathering exercise by the Reading Business Group over the period 1998 to 2005.

The long period of data gathering from 1998 until 2005 helped to inform a series of improvements and refinement to the Government export services offered to SMEs. In particular, the emphasis on the significance of 'market failures' in the Reading report led to a change in Government intervention. In the words of the UKTI Director of Economics and Evaluation, market failures 'prevent a business from fully realising the above benefits on its own. It is these [market failures] which create the potential for Government to intervene usefully, and this is the area in which Mark Casson's analysis was most influential. In particular, he succeeded in explaining the 'trusted intermediary' role, which private sector unaided is less well able to play, and which forms one of the most important roles for Government. Mark succeeded in explaining this in a way that was understood and credible to both economists and lay people, and this role has been reflected in the 5 roles for Government set out in the conclusions of DTI 18 [p. 92 in source 6], and in its successor paper with same title, BIS Economics Paper 13 (2011) [source 1 referring to source 7].'

The identification of the role of government as 'trusted intermediary' or 'honest broker' first led to a more nuanced approach to government-sponsored business-networking activities. The systematic refinement of the market support services led to UKTI increasing its provision of market sensitive information by a trustworthy Government-backed source and at a price well below a 'market' price, therefore overcoming the principal 'market failure' threat of SMEs disengaging from exporting. In consequence, the return to the UK economy from UKTI spend increased further (reaching £22 of profit for every £1 spent by UKTI on trade support services, according to p. 23 in [8]). The support for UKTI's international trade advisors has increased from 27% of all UKTI spending on trade development in 2006-07 to 38% by 2011-12 [p. 31 in 8]. Successive UKTI annual reports show that spending on export support services has increased from £57.6m in 2007-08 to £235.6m, whereas spending on other UKTI activities has been reduced [compare p. 31 in source 8, and p. 8 in source 9]. The number of UK businesses helped by these services has risen very substantially, and the net economic benefits to the UK from assisting more SMEs to export than would otherwise have been the case have been very significant.

The research also had significant impact on the activities of UKTI through an innovation in the methodology of the reporting by the University of Reading team. The PSA Performance Indicator reports authored by Casson and his colleagues [3] translated the benefits of the improved targeting of export support subsidies into one of the first applications of performance measurement of this business support policy within the framework of the Comprehensive Spending Reviews. This provided a clearer metric that translated the receipt by an SME of some Government support into subsequent improved business performance. In the words of the Director of Economics and Evaluation at UKTI, 'UKTI continued to use that metric as the basis for Spending Review targets until very recently, and it is still reported and used in the PIMS (Performance and Impact Monitoring Survey) reporting. It has stood the test of time as a good metric because it is well aligned with the needs of the businesses being supported - so has proved robust in protecting against the risk that targets can sometimes skew behaviour against the interests of the true aims of policy.' [1]

In sum, this University of Reading research has had an outstanding impact on UK Government policy since 2007. Its direct beneficiaries include: UKTI, BIS, FCO, HM Treasury, and its indirect beneficiaries include: exporting SMEs, subgroups of SMEs, and the UK taxpayer generally.

5. Sources to corroborate the impact

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[1] UKTI Director of Economics and Evaluation, Department of Business, Innovation and Skills. (Contact details provided separately)

[2] Performance Measurement Study for Major Overseas Projects (UKTI) 2001.

[3] Public Sector Agreement (PSA) Performance Indicators for UK Trade & Investment, 16 Quarterly Reports, 2002-5

[4] Mapping the Sectoral Match between UK Exports and Demand in Fast-growing Markets: A Study of Trade in Services and Outward Foreign Direct Investment (UKTI Asia Task Force) 2007.

[5] Review of Evaluations of DTI Business Support Programmes, with special reference to Programmes supporting Innovation. 2010.

[6] *International Trade and Investment – The Economic Rationale for Government Support* DTI Economics Paper No. 18, 2006. <http://www.bis.gov.uk/files/file32297.pdf>

[7] *International Trade and Investment – The Economic Rationale for Government Support* BIS Economics Paper No. 19, May 2011.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32106/11-805-international-trade-investment-rationale-for-support.pdf

[8] *UKTI Annual Report and Accounts 2010-11* (London Stationery Office).

[9] *UKTI Annual Report and Accounts 2012-13* (London Stationery Office).

(All available on request)