The Survival and Non Survival of Micro Firms in the UK *

D.J. STOREY
SME Centre, Warwick Business School, University of Warwick, Coventry CV4 7AL

and

P. WYNARCZYK
Centre for Urban and Regional Development Studies, University of Newcastle upon Tyne, UK

Abstract. This paper examines a combination of firm characteristics, characteristics of the owner and finance/strategy variables to explain the survival/non-survival of micro enterprises in the UK between 1985 and 1994. The theoretical underpinning of the paper derives from Frank who articulates the notion of entrepreneurial talent. The measures of 'talent' used in the paper do not adequately explain survival/non-survival.

Key words: Small firms, survival, failure, talent.

I. Introduction

All sizes of business are prone to death but it is clear that, whatever the definition used, small businesses are more likely to die than larger firms. Indeed it has been argued by the current authors that it is the much higher likelihood of death that, other than size per se, is the main feature which distinguishes small from large firms. (Storey, Keasey, Watson and Wynarczyk, 1987).

It may be that it is because failure is so endemic to the economic system, that economists have devoted comparatively little effort to understanding the reason some smaller businesses fail and others survive. Only recently has the subject become of interest, reflected in the work by Baden-Fuller (1989), Reid (1991), Holtz-Eakin et al. (1994a,b), Mata and Portugal (1994), Dunne and Hughes (1994), Wagner (1994) and Van Praag (1994).

Several of these papers utilise the theoretical frameworks of Jovanovic (1982) and Frank (1988). These models recognise there are variations in the talent which an

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individual has in acting as an entrepreneur. The key assumption is that individuals do not know of their abilities as an entrepreneur until they are ‘in the job’ and, by implication, others cannot also know about these talents.

This paper makes five contributions to knowledge about small business survival/non-survival. Its prime contribution is to challenge the key assumption noted above. It examines whether there are indicators of talent which can be used to determine whether or not businesses will survive. Of particular interest are indicators of talent which could be used by financial institutions to forecast, at start-up, whether or not a business will fail.

A second contribution is to highlight the real differences between empirical studies which have focused upon the survival/non-survival or life duration of businesses (Mata and Portugal, 1994; Wagner, 1994; Dunne & Hughes, 1994) compared with studies which examine the exit from, or duration of individuals within, self employment (Holtz-Eakin, 1994a, b; van Praag, 1994). Business-based studies have tended to focus upon industry characteristics and ignore the characteristics of the individual, whereas the self employment duration/exit studies have placed much less emphasis upon sector and more upon the individual. This paper emphasises that the definitions of exit from self employment on the one hand and business exit on the other are far from identical. Entrepreneurial and business failure are therefore not identical (Storey, 1990).

The third contribution of this paper is, having clearly set out the definitions of business survival, to use both sector and personal characteristics to better understand the survival/non survival decision. In this it is responding to the plea from Wagner (1994) who, having failed to ‘explain’ small business survival/non-survival in Lower Saxony using industry characteristics, refers to the need to incorporate human capital endowments of the entrepreneurs, the strategies of the firms, local environmental characteristics. All these elements are included in our analysis.

The fourth contribution is to examine micro business survival/non survival primarily outside the manufacturing sector. These are mainly micro-sized firms with ten or less employees. All the above business-based studies have focused exclusively upon the manufacturing sector. This paper includes manufacturing firms, but only in proportion to their contribution to the stock of businesses in the UK. For this reason the businesses are primarily outside the manufacturing sector.

Fifthly the paper examines how the survival/non-survival of micro enterprises varies over the short and longer term and in different macro economic situations.

Section two of the paper provides a brief theoretical context by reviewing the use of entrepreneurial decision models, with a particular focus upon identification of the talent variable. In the third section the data for the analysis is presented, being derived from a representative sample of UK small enterprises which existed in 1985. The empirical analysis in the remainder of the paper seeks to identify the factors influencing whether or not these businesses survived until 1994.