Eurofound

Restructuring in SMEs: United Kingdom

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Introduction

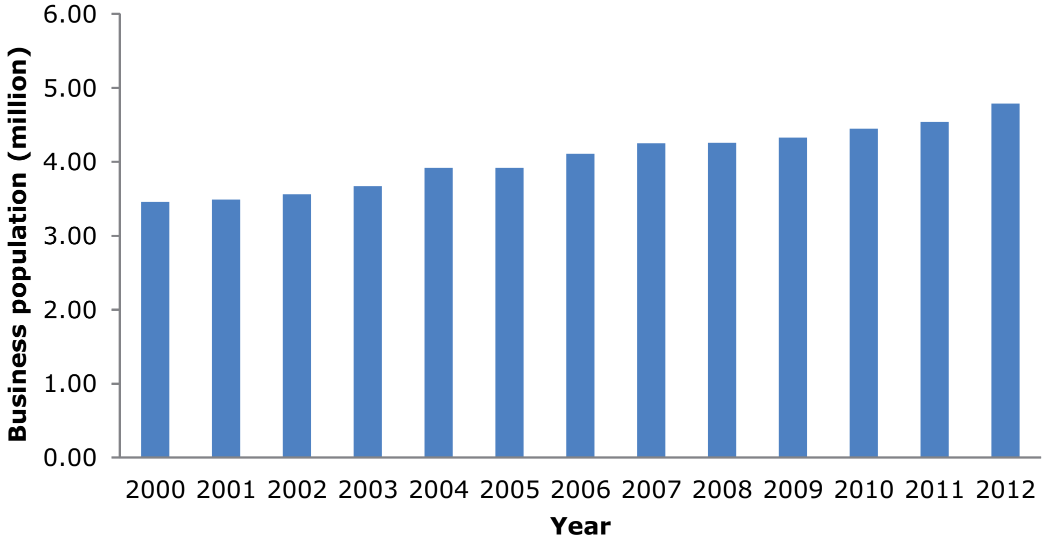
This report examines viewpoints and data relevant to providing an understanding of restructuring in UK small and medium-sized enterprises (SMEs). It looks at the available research literature and identifies omissions and weaknesses in the evidence base. All businesses, large and small, have to adapt to changing circumstances if they are to survive and thrive. Adaptation might involve regular, substantial transformations in business practices and/or products or, perhaps more commonly, occasional minor changes. In this report, we investigate seven distinct types of SME restructuring in the UK, before turning to examine the effects, conditions and characteristics of restructuring. In the remainder of this introduction, we sketch the contours of the UK economic and political landscape.

Following the turbulence brought about by the financial crisis of 2008, the UK economy has been unsettled throughout 2009–2012. After five consecutive quarters of output decline in 2008–2009, Gross Domestic Product (GDP) has grown fitfully in the last three years, including a second period of recession during 2011–2012 (ONS 2013). The recovery remains fragile, with many commentators warning of a 'triple-dip' recession; indeed, preliminary figures for Q4, 2012 indicate a fall in GDP of 0.3% on Q3. The UK government has pumped £375bn (approximately €435bn) into the economy through its policy of 'quantitative easing' in order to stimulate growth but GDP still remains 3% below its pre-recession peak. Other macroeconomic indicators also point to the fragile state of the UK economy in 2012. Unemployment remains stubbornly high at 2.49 million (7.7% of the working age population), inflation remains above the government target of 2%, and the Bank of England base rate has continued at a record low 0.5% for almost four years. In March 2012, whole economy investment and industrial production were both 3% lower, and household consumption 1% lower than a year previously (HM Treasury, 2012a). Problems in the Eurozone, with several countries at risk of debt default or in receipt of bailouts, have added to the prevailing mood of economic and political uncertainty. A disorderly unplanned default in any country would be likely to impact negatively on the UK economy, weakening business and consumer confidence and possibly causing a new 'credit crunch', due to the interconnections between financial markets.

The economic climate remains a predominant concern for small businesses (OUBS 2011, BIS 2011). Sluggish demand, late payment and restricted access to credit continue to hamper many small businesses, with adverse consequences for sales, investment, financial well-being and business confidence (FSB, 2011a, 2011b, 2011c; OUBS, 2011), although some report a recent upturn in small business confidence (FSB, 2012; CBI, 2012). Company insolvencies have fallen below the very high levels of 2009 but remain above pre-recession levels (Insolvency Service, 2013a).

Despite difficult circumstances for small enterprises, official sources suggest there were an estimated 4.8 million active businesses at the start of 2012, comprising an increase of 253,000 from 2011 (BIS, 2012). New business starts exceeded exits every year from 2000 to 2012, including both recession years of 2008 and 2009. The business population increased by more than one million during this period, and as most businesses are small, this suggests small businesses are a hardy population, able to survive in even the most testing economic conditions (Kitching et al, 2011).

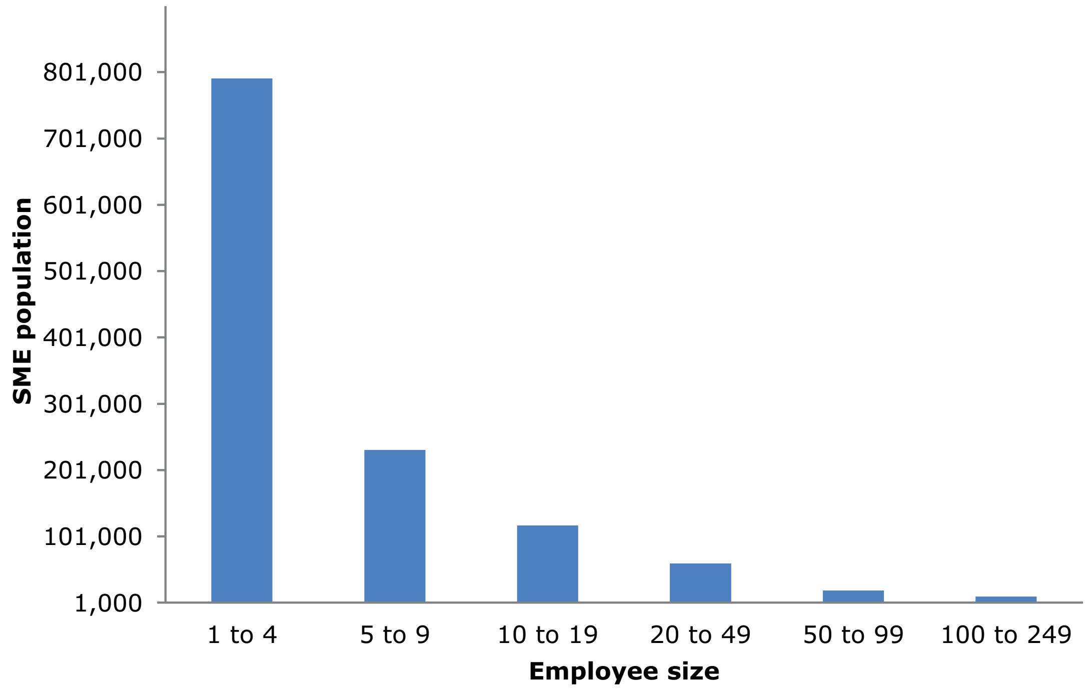
Figure 1: *UK SME business population (million)*



Source: *BIS (2012)*

Like most advanced economies, the vast majority of businesses in the UK are micro and small enterprises. Micro businesses (defined as those with fewer than ten employees) constitute 95% of the private sector stock; small firms (with 10–49 employees) comprise a further 2%. The UK SME population, segmented by employee size, is shown in Figure 2. The figure does not include one-person enterprises – businesses that do not employ regular staff.

Figure 2: *UK SME business population in 2012, by employee size*



Source: *BIS (2012)*

In response to the waves of industrial restructuring and economic crisis in the 1970s and 1980s, the policies of successive UK governments have stressed the need to create and to foster an enterprise economy. The contribution of SMEs to the competitiveness and prosperity of the economy has been recognised by the UK government with the publication of the Bolton Committee report in 1971. In the ensuing decades, national enterprise policies have generated numerous initiatives and measures aimed at advising and supporting SMEs. One of the most significant initiatives was the introduction of the Business Link support programme in 1992 (Üztel and Martin, 1998), although the Business Link network was scrapped in 2010 as part of a major reduction in public expenditure. The enterprise policy has encouraged restructuring within SMEs. There has been a growth in research and development support for SMEs through initiatives such as the Science Enterprise Challenge, and Smart Scheme launched in 1999, to stimulate innovation, and there has been encouragement of the internationalisation of SMEs through services provided by British Trade International Services, established in the same year (Stevenson and Lundström, 2001).

Since the recent 2008 global financial crisis, the UK government's principal policy objective is the accelerated reduction of the budget deficit as a precondition for sustained economic growth (HM Treasury/BIS, 2011; HM Treasury, 2012b). Major reductions in public expenditure have been implemented and are likely to constrain consumer spending and business investment in the short to medium-term. The government has emphasised the role of the private sector, and SMEs in particular, in generating economic growth. Its policy aims are to stimulate SME growth through tax and regulatory reform, and various forms of financial and non-financial support. Project Merlin, set up in 2011, for example, comprised an agreement between the government and a number of high street banks to increase lending to businesses, especially small firms. During 2011 the banks agreed to lend £190bn (approximately €233bn) to businesses, of which £76bn (€93bn) was earmarked for SMEs – these targets were not met, however,[1] leading the government to introduce the National Loan Guarantee Scheme, a credit easing programme intended to make £20bn (€25bn) available to small firms over the next two years (HM Treasury, 2012b). The *Plan for Growth* has, as one of its four aims, to make the UK one of the best places in Europe to start, finance and grow a business (HM Treasury/BIS, 2011). At the same time, the public business support infrastructure is being transformed; the Regional Development Agencies have been abolished and Local Enterprise Partnerships are planned to replace the existing Business Link network by the end of 2012 (HM Government, 2010).

Structure of the report

The next two chapters examine the different types of restructuring and consider the availability of studies on the subject. Then follows an analysis of the drivers of restructuring: What motivates SME owner-managers to undertake restructuring activities? What conditions facilitate or encourage SME restructuring? The distinctive characteristics of SME restructuring in comparison with larger enterprises are then presented, followed by an investigation into the challenges and constraints SME owner-managers experience in contemplating and implementing restructuring. Public and private sector support utilised by SMEs in order to undertake restructuring is then discussed. Finally, the report examines the outcomes of restructuring and concludes by briefly considering policy implications. The methodology and the literature search criteria used to complete the review are discussed in the Appendix.

[1] http://www.bankofengland.co.uk/publications/Pages/other/monetary/additionaldata.aspx

Relevance of different types of restructuring

The evidence base on the restructuring activities of UK SMEs is limited, in comparison to other research areas within the small medium-sized enterprise field. Topics including financing, growth, exporting and policy have consistently been of greater interest to academics and policymakers, compared with restructuring. The types of restructuring applied in the project and based on the European Restructuring Monitor (ERM)[2] of the European Foundation for the Improvement of Living and Working Conditions (Eurofound) are often used in studies which examine restructuring within the context of large organisations, rather than their smaller counterparts. As such, evidence of restructuring activities from the field of small business and entrepreneurship tend to emerge from other conceptual and empirical debates within the UK context. Although these studies provide a partial insight into SME restructuring, the research base is restricted. Further research is required to examine restructuring practices within UK SMEs.

Relocation

Consistent with the overall gaps in the restructuring literature, studies that examine the strategy of relocation were particularly limited in the UK context. This may suggest that relocation may not have been viewed as an important restructuring practice by academics studying the UK, or indeed by policymakers who are often more concerned with issues of SME growth. Subsequently, location-based studies of UK SMEs have often implicitly focused on the start-up locations or geographical expansion of SMEs, through development incubators (Tamasy, 2007), or the expansion of franchise networks, rather than the role of relocation as a restructuring practice. While it is not discussed whether or not the supply of flexible workspace has facilitated mobility, or whether it is demand-led, Galbraith et al (2008) argue that innovative high-technology firms are more likely to be located near highly skilled labour forces, where social networks can be maximised. Subsequently, innovative firms may be less mobile, preferring to remain close to social networks, suppliers and favourable regional attributes that support a competitive firm strategy, rather than to conform to a simple neo-classical, cost-location relationship.

In contrast, less innovative technology producers are more likely to locate in areas where they can reduce labour costs (Galbraith et al, 2008), as they tend to imitate, rather than innovate, are less reliant on skilled labour forces and are more footloose, enabling relocation to be used as an option to achieve a competitive advantage. This supports the notion that relocation can be used as a restructuring practice, which has also been supported by a study from the Institute of Management Services (Management Services, 2004), which suggested how SMEs were moving to shorter term leases in the UK to take advantage of flexible workspace. This enables SMEs to adjust their premises and location, based on levels of business demand. This implies a shift towards flexible relocation within particular regional markets by UK SMEs. Kitching et al (2011) have highlighted how UK SMEs, as part of their restructuring during the 2008–2009 economic recession and subsequent, faltering, recovery, have relocated to cheaper and smaller premises, in order to reduce overheads and to match demand. Interestingly, it was also suggested that businesses, in some cases, were restructured to become home-based, to reduce costs further in the recession.[3]

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[2] http://www.eurofound.europa.eu/emcc/erm/index.htm

[3] Note: The sample of businesses in Kitching et al (2011) has particular characteristics. All surveyed firms rent or used to rent work premises from Workspace Group Plc, which provides business premises throughout London. It has not been assessed how many firms have relocated. The firms that have relocated have mainly moved within Workspace Group premises by scaling up or scaling down their space. A small number relocated out of the Workspace property.

A comparative study of firm migration (including complete relocation and branch movement) in the UK and the Netherlands found that 251,289 firm movements were registered in the UK between 1988 and 1999, involving 31,767,466 jobs (using the English CREDO database[4], which presented head office migration in 1988–1999). There was an increase in the number of business movements during the late 1980s and the early 1990s followed by a sharp fall in the mid-1990s. Since the late 1990s, the numbers have been on the rise. Most of the moves are short distance movements within the regions (82%), the majority of migrant firms are single-location small companies, and about a third of migrant firms employ one to four people (Mariotti and Pen, 2001). It has been suggested that relocation is strongly associated with business growth and expansion and tends to fall when business confidence subsides (Prism Research, 2001 in Mariotti and Pen, 2001). However, this contradicts the above evidence of small firms relocating, not only in order to expand, but also to reduce their costs in the recession times. This would suggest that relocation by small firms is undertaken as a revenue-generating action, as well as a cost-cutting one.

Outsourcing

According to the report by Surrey Business School (2012), half of UK SMEs outsource some of their activities, including accountancy (payroll and bookkeeping), IT and web development, and HR and marketing.

Compared with research on relocation as a strategic restructuring practice, the evidence base concerning the outsourcing of business functions and the acquisition of products by UK SMEs is more substantial. This body of research may reflect the growing interest of policy-makers and practitioners on the development of innovation and new markets through outsourcing, and/or the ability for UK SMEs to complete some tasks more efficiently, cheaply and flexibly, while maintaining capacity. Despite this, compared with academic studies on other areas, such as growth, UK SME studies remain sporadic and dated, backed by a limited volume of research. Studies on outsourcing in the UK can be broadly divided into two - those which:

- focus on the outsourcing of administrative tasks within the business, such as payroll functions, accounts management, and marketing campaigns;
- concern the outsourcing of core activities such as the production of goods and services, and the management of wider supply chains.

Regarding the outsourcing of business administration, it has been argued that the use of external advice and outsourcing has grown substantially since the 1980s (Bennett and Robson, 1999; Robson and Bennett, 2000). The use of external marketing and business consultancy services has also increased to manage the challenges of an increasingly knowledge-based economy (Robson and Bennett, 2000). External advice is often used extensively by medium-sized firms (Bennett and Robson, 1999), and can be considered as a type of organisational restructuring, where they are becoming more complex as they grow. Subsequently, UK SMEs require additional specialist services as they grow, but look to outsourcing, as they may not be necessarily large enough to employ in-house specialists. Similarly, insight from the grey literature[5] has also suggested that SMEs are able to benefit from outsourcing particular business functions, when they are not growing, but are looking to increase efficiencies and to redeploy internal resources.

[4] Credo database (Company Relocation and Economic Development Observatory) was developed by Prism Research consultancy and recorded the firm relocation process in the UK from 1988 to 2001.

[5] ‘Grey literature’ refers to private sector reports, articles from industry orientated magazines and bulletins.

O'Regan and Kling (2011) have suggested that smaller firms with lower research and development budgets tend to outsource more of their research activities than larger firms.

Offshoring

Offshoring is closely related to outsourcing as a restructuring practice, in that it essentially refers to the external sourcing of goods and services, but from a business located overseas. The term offshoring has often been widely used in the study of large organisations, where it generally refers to the outsourcing of standardised, labour-intensive production and service activities, to developing economies that have low labour costs and/or lax labour regulations, to assist in the maximisation of profit (Coe et al, 2008). Alternatively, offshoring has often been used as an off-hand reference to the reengineering of business structures to facilitate tax avoidance and evasion, where wealthy individuals and corporations locate their headquarters or business functions in states with low tax rates (Wainwright, 2011). As such, the term offshoring is not frequently used in the context of UK SME restructuring, although studies concerned with supply chains, from an international perspective, offer some insight into the offshoring of SMEs. In addition, while studies on internationalisation are often concerned with exporting (Crick, 2004; Crick and Spence, 2005), reflecting the interest of policymakers, there is also a limited literature on importing (Jones, 2001), which can be viewed as a form of offshoring used by SMEs that offshore to and import from countries where goods are cheaper. One of the reasons why offshoring may appear to be less useful in examining SME restructuring, compared with the case of larger organisations, is that smaller SMEs are more likely to struggle to identify offshoring opportunities and to act on them, due to their limited resources. Moreover, offshoring may simply not be relevant to small scale firms that operate predominantly in domestic or regional markets.

Despite these issues, there is a limited and sporadic literature on offshoring, emerging from that on internationalisation and supply chain management debates. For example, Gurău (2007) has drawn attention to the rapid internationalisation of UK biotechnology firms, often purchasing inputs from overseas, through global outsourcing. However, as has been highlighted earlier, with regard to supply chain management in SMEs, difficulties can arise in managing offshore supply chains (Barton and Thomas, 2002), which are arguably more difficult to control over long distances. Regarding sector-based studies, Carmel and Nicholson (2005) have highlighted how British software SMEs are beginning increasingly to acquire programming functions offshore from countries such as India. Further research suggests that offshoring, as a form of overseas outsourcing, is often used when SMEs rely on obtaining components not available in their local or domestic economy, and which have to be obtained from overseas (Barton and Thomas, 2002).

The evidence base on offshoring is particularly limited. It could be interpreted that the lack of literature implies how offshoring, in its 'traditional' sense, is not relevant to SMEs. Although UK SMEs may be indirectly reliant on inputs produced overseas, they do not use offshoring as a deliberate form of restructuring, in contrast to their larger counterparts. It is unclear from the literature what specific barriers affect offshoring, or what specific forms SME restructuring may take, but there is an overall lack of study as to firm size, turnover, and sector as to why firms offshore business functions. A potential area for research is the applicability of offshoring in the context of SMEs, and how it differs to that of larger firms.

Bankruptcy

Empirical studies on bankruptcy and the closure of UK SMEs, as a type of restructuring, are limited. While there is a narrow literature in small business and entrepreneurship that explores the notion of failure and business closure, the focus is mainly on the attitudes to business failure and the post-closure stage in the lifecycle of a firm. Specifically, academic studies on SME closure tend to focus on the learning experiences of business owners, through bankruptcy. Only one empirical study was identified in the literature search, which looks at the causes of business failure, in the context of public houses (Pratten, 2004). The marginal interest in bankruptcy is surprising, given that in the UK, there are a variety of different insolvency procedures for dealing with businesses that go bankrupt. Typically, a court can make a bankruptcy order once a bankruptcy petition has been presented either by a debtor, or by one or more creditors who are owed at least £750 (€935) of unsecured credit. Once a bankruptcy order is issued by a court, an official receiver is appointed, who acts as a trustee, responsible for administering bankruptcy and protecting a debtor's assets. Insolvency practitioners can also be appointed as trustees in this capacity. Their responsibility is to dispose of a debtor's assets and make payments to creditors. If a business goes bankrupt, the company is usually closed and employees dismissed. Employees may be able to claim any outstanding wages, holiday pay, payment in lieu of notice, and redundancy through the National Insurance Fund (The Insolvency Service, 2013b). Subsequently, bankruptcy can be viewed as one of the most extreme types of restructuring practices, which in the context of UK SMEs, often leads to the termination of a business, rather than a restructuring.

One in 120 active companies in England and Wales went into liquidation in the year to June 2009 through compulsory liquidation and creditors' voluntary liquidations (a 39% year-on-year increase) or other corporate insolvencies during the same period (a 23% increase). Individual insolvencies, which are relevant to unincorporated firms, also increased 27% in the year to June 2009. This includes 18,870 bankruptcies (up 15.3% from previous year) (Insolvency Service, 2013a). It is difficult to differentiate insolvency data by business size. According to the Business Insolvency Index from Experian, SMEs with 1–100 employees saw an improvement in insolvency rates from the previous year (failure rate of 0.12% in June 2012 from 0.19% in June 2011) while larger businesses employing 101–500 people saw a slight increase in insolvency (from 0.12% in June 2011 to 0.15% in June 2012).[6]

Merger

Studies that examine SME mergers are relatively limited, which is consistent with the thin evidence base on restructuring measures in the UK more generally. This provides a stark contrast to studies on mergers between larger companies that are often enacted through private equity investor partnerships or where large companies use mergers to rescue weak or distressed organisations, which provides them with access to additional resources products and services (Cartwright and Schoenberg, 2006). Studies of SMEs in the UK context tend to refrain from referring to mergers and prefer to use terms such as business transfer, or acquisition. A notable feature of SMEs, being smaller, having fewer resources and employees, is that they are more likely to close or be sold to another entity, rather than exiting the market through a formal merger, which tends to have complex financial, legal and operational ramifications. Subsequently, it could be argued that mergers, as a restructuring practice, are less relevant to SMEs, as suggested by the restricted literature.

Despite this, there are some studies which illustrate how successful and larger SMEs can be acquired by larger organisations through more formal, market-orientated mechanisms. While not strictly a merger, UK SMEs can be acquired and merged with larger organisations through equity ownership, which has emerged through the development of stock exchanges orientated around the requirements of larger SMEs. However, in this context the SMEs are the targets, rather than the agents. This can involve purchases by organisations such as venture capital funds and angel investors, although this is a far less frequently used mechanism of financing (Poutziouris and Wang, 2004), and should be considered more as a transfer of control and ownership, rather than a 'classic' merger. In contrast, Foreman-Peck and Nicholls (2008) have highlighted the acquisition of smaller, productive and innovative firms, by larger organisations seeking to capture their innovative capacity or products, to offset their lack of 'internal entrepreneurship'. Similarly, Martin et al (2002) suggest that UK SMEs which develop successful and niche products remain attractive to buyers, where novel products and services provide them with a competitive advantage.

[6] http://press.experian.com/United-Kingdom/Press-Release/smes-lead-the-fall-in-business-insolvencies-during-june-2012.aspx

Similarly, a pertinent, yet dated observation by Barnett and Storey (2000) reveals how SMEs are often acquired by their customers, who rescue them from financial difficulties, in order to maintain the coherence of their supply chain.

The limited literature suggests that fewer SMEs are merged or acquired, but that they exit the market, or are transferred. This is not surprising, given the substantial overall 'churn' of business entry and exits in the sector. Studies on SMEs, with the exception of Barnett and Storey (2000), tend to examine implicitly the merger of SMEs as a mode of restructuring for both parties, but not as a response to financial distress. Subsequently, given the integral role of UK SMEs and outsourcing through supply chains, as examined earlier, a conspicuous gap in the literature is how firms are merged and acquired under distress, particularly in the current recession, as SMEs attempt to purchase suppliers to maintain their productive capacities. This raises further questions as to in which sectors supply chain mergers occur, in addition to a contrarian perspective regarding demergers of business units as a form of restructuring.

Internal

In contrast to the earlier report sections, the literature concerning internal restructuring was more diverse and extensive. As internal restructuring as a term has a broad remit, it covers a wide range of business practices. One weakness of this area is the broad coverage of different practices, but in limited depth, which occurred during times of economic growth, in a buoyant economic environment. As such, there is a limited literature on restructuring in economic downturns. One of the few contemporary studies (Kitching et al, 2011), which does address restructuring under economic stress and uncertainty, highlights how businesses face a common dilemma (Silberston, 1983). On the one hand, they can cut costs in the short-term to survive, and in doing so, risk reducing their capacity to grow during a recovery. Or, on the other hand, UK SMEs can maintain high costs to retain capacity, which brings its own risks, but which enables the business to seize new opportunities quickly when the recovery emerges.

However, these studies assume that SMEs participate within the formal economic sector, and in highlighting the boundary between formal and informal, Ram et al (2001) have drawn attention to how firms under external pressure may move towards the edge of legitimacy, or even outside government regulation. While no studies on the informalisation of SME work in the current recession were found in the literature search, it is not an unrealistic assumption that this practice of restructuring may be carried out.

Turning to pre-credit crunch studies of internal restructuring, these have examined the restructuring and repositioning of UK SMEs to develop new markets, through the creation of new innovative products and services.

This has particularly affected the manufacturing and textile sectors, forcing UK SMEs to restructure and innovate to create new products and services (Martin, 2004; Millward and Lewis, 2005; McAdam and McClelland, 2002), which are often developed internally. However, the importance of external firms in networks has been acknowledged in other studies (Mosey, 2005), which have emphasised how learning and collaboration within regional networks, national and global networks can assist in SME innovation (Cumbers et al, 2003). The development of new products and services often utilises the inputs of suppliers and customers, in addition to outside expertise in universities (Owens, 2007; Mosey, 2005).

The diverse, yet rather dated literature on internal restructuring provides insight into how UK SMEs undergo organisational change. These studies tend to focus on the internal amendments and changes undertaken by UK SMEs in periods of economic growth, as they develop new products, markets, and refine operational issues. While these studies provide some sector-specific insights into restructuring, in addition to the characteristics of firms undergoing change, there is a dearth of study into how firms restructure in a deteriorating economic environment, and how they mix practices of retrenchment, and growth as suggested by Kitching et al (2011). However, as UK SME studies tend to focus on particular geographical areas or sectors, overall they are too limited in scope to capture the full story of internal restructuring. In order to understand the wider complexities of restructuring, further research is required.

Business expansion

In theory, one would expect a rapid growth phase in a business, or a long period of sustained growth to be followed by some form of restructuring as the organisation adapts to the new conditions that are being created. This is likely to apply particularly where growth has been achieved through acquisition. Although the latter is less common in small firms than in large enterprises, one might expect growth-related restructuring to be particularly important in the case of young, rapidly growing firms because of proportionality effects. Unlike some other forms of restructuring, one would not expect jobs to be lost but rather changes in the job requirements to occur as the firm adapts to its new conditions.

At the same time, empirical evidence to support or refute the propositions implicit in the paragraph above is rather thin on the ground. However, research into the characteristics of ‘gazelle’ companies in the US and Europe report a high incidence of acquisition in both continents. Some recent research has qualified the largely negative assessment of post-merger and post-acquisition performance. For example, Hussinger (2007) finds that acquired firms with a patent portfolio tend to retain their most productive inventors, as their departure could be detrimental for the newly merged entity. Mergers and acquisitions constitute a disruption to inventors’ working environment and trigger mobility of inventive labour force. The departure of inventors or a decline in their productivity following acquisition harms the technology creation process within the merged entity and runs counter to the aims of the acquisition. Outstanding people employed by the acquired firm can therefore be an important criterion for firm acquisitions. In the high-growth firms that are acquired, the evidence is that, in a large number of cases, the firms that were acquired continued to operate with the original founding team retaining senior management positions. In these cases it appears that acquisition by a large organisation is used by the founders as a method of sourcing further growth finance and gaining access to the networks and infrastructure that large firms offer (BERR, 2008). This opportunity to join a large organisation may be particularly important for UK high-growth firms as these firms have a smaller domestic market, which makes exporting more important in achieving further growth.

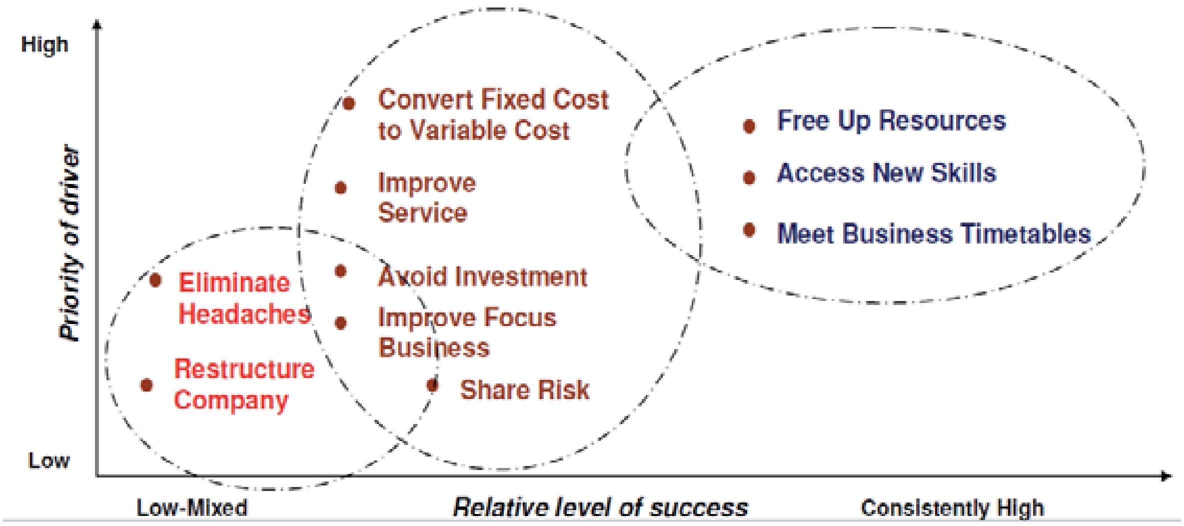
Drivers of restructuring

Contemporary studies of UK SMEs, which have directly or indirectly discussed restructuring, have often been situated within the context of the UK's weak, stagnant and negative phases of growth. As such, one of the most important drivers of restructuring amongst UK SMEs has been the poor performance of domestic and global markets, especially struggling EU economies. One effect has been a general decrease in demand for the goods and services of UK SMEs, which has acted as a driver of restructuring to facilitate survival or growth (Kitching et al, 2011). Similarly, UK SMEs have struggled to absorb the price increases of particular products from suppliers (Kitching et al, 2011), a scenario that has emerged from growing inflation, spurred on from the fragility of the global economy. This increase in cost pressures has driven UK SME owner-managers to look to forms of cost-cutting such as outsourcing to save on costs (Berg, 2009; Kitching et al, 2011). However, even in research which has studied UK SMEs in a period of growth, it can be seen that these businesses are still subject to competition driven by 'the market', or conditions created by the collective actions and activities of other SMEs, businesses and stakeholders.

Product and service markets create pressures and drivers external to the firm, which can stimulate restructuring, so that firms can remain competitive. In periods of growth, firms have often turned to outsourcing or offshoring to enable them to lower their costs and to focus on their core activities (Carmel and Nicholson, 2005), which can provide them with efficiency savings and flexibility (Reynolds, 2007), or internal resources for growth.

Figure 3, from the National Outsourcing Association, illustrates some of the drivers and potential results that SMEs can obtain from outsourcing. A major company restructuring is rarely undertaken by SMEs and is considered to have a relatively low or mixed success in terms of outcome. This may be due to a higher risk associated with major changes to core products and services. However, any restructuring event in a micro firm, as opposed to medium-sized company, can have a major impact. Less radical changes, such as conversion of fixed cost (for example, a full time sales employee) to variable cost (for example, a commissioned sales person) is a more common and successful form of outsourcing. Likewise, outsourcing peripheral activities, such as administrative work, can free up resources and enable businesses to focus on core activities.

Figure 3: *Outsourcing drivers and results*



Source: *NOA (2011)*

Competition outside a weak economy also continues to drive restructuring through innovation, to create new products and markets to facilitate growth (Gray, 2006). Such demand is often driven externally from customers, driving UK SMEs to restructure, so that they are able to create, or participate in new markets (Cumbers et al, 2003). Additionally, firms also restructure through the adoption and innovation of new systems, such as adopting e-commerce. The adoption of new technological systems by competitors may drive UK SMEs into restructuring, or they may independently adopt new service innovations to create internal efficiencies, to become more competitive, or to grow by entering new markets (Martin, 2004).

An additional external non-market driver that affects UK SMEs is the change of existing, or the introduction of new, government regulation. This can have substantial implications on the activities of UK SMEs, requiring them to undertake restructuring. The introduction of the National Minimum Wage (NMW) in the UK (1999) was a law that led UK SMEs to restructure in a variety of ways:

- raising product prices;
- reducing employment, workers' hours and work intensification;
- cuts in training and non-pay benefits;
- product and process innovation (Ram et al, 2001, 2003; Heyes and Gray, 2001, 2004; Gilman et al, 2002; Arrowsmith et al, 2003; Druker et al, 2005; Morris et al, 2005).

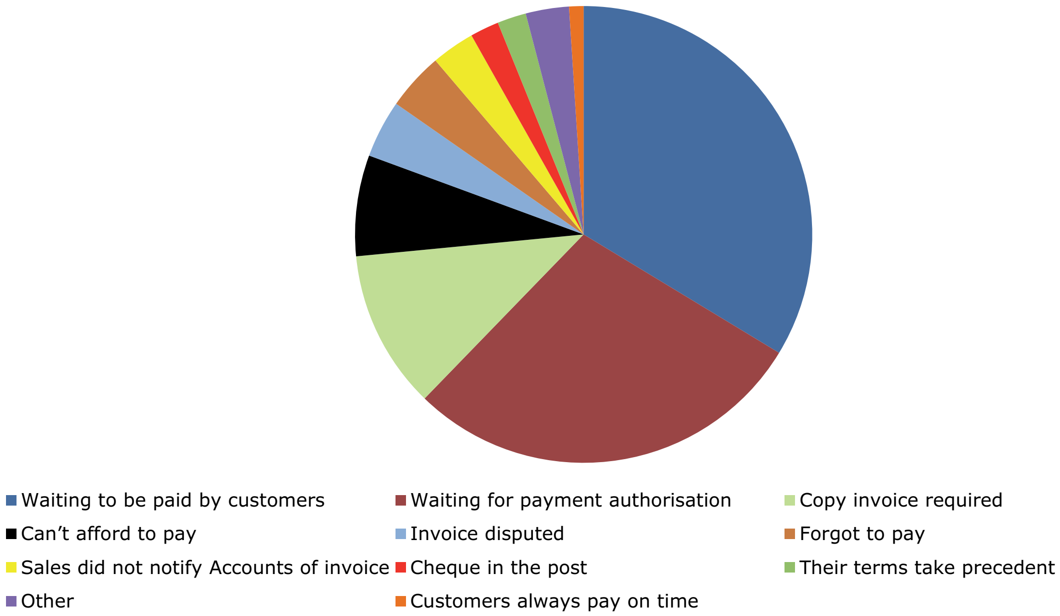
Interestingly, some firms absorbed wage rate increases with no further adaptations to business practice, although non-compliance was reported in UK SMEs in the highly competitive clothing manufacture and restaurant sectors (Ram et al, 2003; Jones et al, 2006a) and specifically in relation to the employment of illegal immigrants (Jones et al, 2006b).

Legislation to protect the environment has also emerged as an additional external trigger that has attempted to change the behaviour of UK SMEs, which has required operational changes and amendments, driving restructuring for compliance (Revell and Blackburn, 2004). The effect of new or altered regulation does not necessarily have detrimental effects on UK SMEs. Kitching et al (2010) have suggested that some businesses benefit from restructuring to comply with new regulation, improving SME performance and creating new market opportunities. One example, as highlighted by Bennett and Robson (1999), is how SMEs have outsourced business functions to external lawyers and accountants, to manage compliance activities. Simultaneously, this has also created new market opportunities for professional service SMEs to meet this demand.

While the UK SME literature provides insight to a series of drivers behind different restructuring processes, emerging from markets, government and technology, the evidence base on current restructuring under the economic recovery is exceptionally thin. The literature tends to view drivers of restructuring as emerging externally, from market pressures, for example, but this often neglects the agency of owner-managers who could drive restructuring independently. This is an area where there is a particular dearth of empirical research, as when restructuring is framed as an internally initiated practice (Freel and Robson, 2004), it is often assumed that all owner-managers actively seek to grow their firms or make them more efficient and profitable. This assumption emerges from a series of origins, where policymakers want small firms to grow, economists assume that firms should seek to maximise returns, while scholars often follow the politics of entrepreneurship, often complementing SME research, where growth is key to entrepreneurial behaviour. Interestingly, the uncritical assumptions underlying motivations for growth within SMEs provide limited insight into what drives owner-managers to grow. For example, Laforet and Tann (2006) have suggested that successful restructuring and innovation is often driven by a particular owner-manager's ability to exercise leadership and to foster a pleasant working culture. It is also reasonable to suggest that firms may not deliberately intend to restructure and grow, but do so as a matter of course as demand for their products and services increase (Cumbers et al, 2003).

One of the main triggers behind the increase in liquidations and bankruptcies in UK SMEs is the rising occurrence of late payments during the recession. Previously, it may have been assumed that SME failures could be attributed to poor management, unrealistic business models, or competition but, in the UK during the credit crunch, healthy SMEs are under increased pressure due to the late payments of their business customers, stemming from a reduced supply of credit (House of Commons Treasury Committee, 2009). SMEs in particular, are argued to be particularly vulnerable to changing capital market conditions (for example, FSB, 2009). This has resulted in cash-flow problems, exposing many SMEs to a greater threat of bankruptcy. According to research commissioned by Hilton-Baird Collection Services, in six months to July 2011, 67% of SMEs saw an increase in the time it took customers to pay their invoices (Hilton-Baird, 2011). As shown in Figure 4, delays in payment are not necessarily due to the inability of SMEs to pay, because the firm has failed, but rather as a consequence of cash-flow problems, stemming from delays by other customers. This can be problematic for viable businesses, which could face bankruptcy due to cash-flow difficulties from their customers.

Figure 4: *Most common reasons for late payment*



Source: *Hilton-Baird (2011)*
Due to rounding in the original data, the proportions do not add up to 100% (n=360)

Barnett and Storey (2000) have suggested that innovation can be viewed as part of the long-term evolution of SMEs, as they restructure to respond to changing markets. Internal restructuring may be driven by external factors, as Barnett and Storey (2000) argue that customers act as stakeholders who influence the development of firms. This is important, as while studies have suggested how outsourcing and offshoring can help SMEs, global competition can also see business move overseas to low-wage economies through outsourcing.

Distinctive characteristics of restructuring in SMEs

The limited evidence base on UK SME restructuring provides only a partial insight into the distinctive characteristics of SMEs that undertake organisational change. Research that covers issues of SME restructuring usually does so as a peripheral part of a wider study. Consequently, there is limited qualitative and quantitative data available on SME characteristics in restructuring. However, one of the distinctive characteristics of UK SMEs overall, is that they are very different to larger organisations and their experiences of restructuring. One of the main reasons is that SMEs, by definition, are smaller organisations, which are run informally due to their size, and are not organised in a structured way (Wilkinson, 1999), with jobs and tasks being shifted and shared between different employees. As such, SMEs can be considered to be amorphous, constantly changing in minor ways, in comparison to their larger counterparts where job roles and activities are standardised and well defined. In the context of the latter, restructuring is a more complex, planned, coordinated and formal activity. If an SME is restructured and the desired results are not achieved, it is simpler, than for a larger firm, to reverse the restructure (Kitching et al, 2011).

In the context of new product development, unlike large firms that normally have a formal structure for different stages and milestones of the development process, small firms are less structured (Woodcock et al, 2000). For instance, smaller firms are less likely to measure their performance, review progress of the new product development, keep records of the process, or carry out formal competitor analysis. With comparatively limited resources for new product development and a need to give priority to other areas of business, small firms pay less attention to the process of product development.

It is interesting to note that, whether in a recession or not, innovation has been viewed as being central to SME success, which requires restructuring in order to implement the development, design and creation of new products and services. The characteristics of owner-managers are often important in determining the restructuring activities of SMEs, especially those that alter their business to achieve growth through innovation. Owner-managers who can foster an innovative and complementary working culture (Laforet and Tann, 2006) which seeks to grow can be considered as one defining characteristic of UK SMEs which facilitates successful restructuring.

Studies of UK SMEs have suggested that innovations can take the form of knowledge-intensive developments, or as smaller, modest and incremental developments and adjustments (Cumbers et al, 2003). While locally embedded firms are more incremental innovators (Freel, 2000; Freel, 2003), there is a positive relationship between novel product innovation and growth in employment for manufacturing firms (Freel and Robson, 2004). Internal innovations can also include the development of new business processes within SMEs, with Daniel et al (2002) and Martin (2004) highlighting the adoption of e-commerce to enhance SMEs organisation. This can include communicating with suppliers, related to the earlier outsourcing section, but also to communicate to customers and to manage online orders and payment facilities, in addition to facilitating overseas trade (Martin, 2004).

Innovative SMEs are also more likely to be involved in merger and acquisition activity, as a form of restructuring. Martin et al (2002) argue that SMEs need ‘to be “fit for exit” and have some substance’ for them to be of interest to a buyer, meaning many smaller, less innovative SMEs will not be considered ‘purchasable’ by owner-managers or investors. Foreman-Peck and Nicholls (2008) argue that SMEs with a successful performance over 5–20 years are more likely to be merged, and that they are more likely to be based in London or the south east. Unsurprisingly, other restructuring characteristics are related to manufacturing firms that innovate and, as a result, restructure and grow (Freel and Robson, 2004). Elsewhere, Daniel et al (2002) have highlighted how the professional service sector is one of the heaviest adopters of new ICT management technologies, owing to innovation in the sector and the need to manage knowledge, leading to firm restructuring.

In contrast, UK SMEs do not always seek restructuring to achieve growth, but do so for survival. UK SMEs characterised by operating in cost sensitive sectors which face pressure from global competitors (Martin, 2004; Millward and Lewis, 2005; McAdam and McClelland, 2002) often restructure through innovation to create new products to add value (Millward and Lewis, 2005; McAdam and McClelland, 2002), not necessarily to grow, but arguably to maintain market share and to survive. Turning to events emerging from the recent recession in the UK, SMEs that are orientated to servicing weaker areas of the economy, such as entertainment, have been affected by reduced consumer spending (Blackburn and Wainwright, 2010), arguably triggering a responsive mode of restructuring. Subsequently, sectors characterised by being less innovative, cost sensitive and exposed to reduced consumer demand, may seek restructuring for survival, whereas innovative firms in different sectors will perhaps seek restructuring for growth.

Turning to the restructuring characteristics of SMEs related to bankruptcy, in the context of the UK, a Company Voluntary Arrangement (CVA) is a useful vehicle in creating a space for SMEs to restructure, providing opportunities for businesses and employees to continue into the future, rather than to terminate the SME through bankruptcy. Unlike 'informal arrangements' where debtor companies and their creditors come to a mutually acceptable agreement, the CVA is a more formal version of this option. It involves courts and enlists the assistance of an authorised insolvency practitioner (Insolvency Service, 2013b). Cook et al (2011) found that SMEs pushed into bankruptcy because of temporary financial difficulties are more likely to succeed in a CVA if they have strong resources, particularly the quality of management. On the other hand, poor management is identified as the single most important indicator of a CVA failure (Cook et al, 2011), which is unsurprising, as managers will need to be able to restructure the business effectively under the CVA. Despite this, there is limited information on the effect of bankruptcies on different types of SMEs.

Within the context of outsourcing, UK SMEs are often entangled within a series of different supply chains, consuming products and services, and producing components or services, to be consumed by other businesses further along the chain, where they are able to specialise in a particular stage of the production process, while being able to draw upon the flexibility and efficiencies of a supply chain. It is easier for resource-poor SMEs to restructure a business to use external services and products as inputs, than it is to attempt to restructure and diversify their activities further, to enhance growth. SME outsourcing can be diverse, moving beyond product sourcing to innovation, where it has been viewed as being more efficient to outsource innovation, where innovative inputs are externally purchased.

The outsourcing relationships of SMEs vary by sector, some characterised by a sophisticated, organised supply chain, such as automotive component production (Dainty et al, 2001) in addition to less sophisticated sectors such as construction, which are characterised by one-off bespoke projects (Briscoe et al, 2001). It has been suggested that one way in which UK SMEs may become more efficient on outsourcing and restructuring, is to utilise the internet and IT to coordinate and manage their supply relationships (Wagner et al, 2003). Studies in business management have examined the adoption of such technological strategies by larger firms, but in relation to restructuring by SMEs, many have not utilised sophisticated management practices (Wagner et al, 2003).

In their London-based study, Kitching et al (2011) identify a series of activities aimed at adjusting to the major economic downturn, categorised as cost cutting, revenue generation and combining elements of both growth and retrenchment. The study illustrates the complexities and multiplicities of restructuring in firms, including:

- non-replacement of staff;
- redundancies;
- salary freezing;

- renegotiations with suppliers;
- lowering the cost of goods and services;
- moving to cheaper premises.

Restructuring to enhance growth also included investments in new equipment, services, marketing and advertising (Kitching et al, 2011). Interestingly, in comparison with larger firms, SMEs were presented as being more nimble than their larger counterparts enabling them to switch between restructuring practices and strategies, if they were not satisfied with the results.

Regarding the effects of the recession on employment, Lyonette and Baldauf (2010) suggest that there has been an increase in flexible working during the recession, particularly through part-time staff. It was suggested that some employees became part-time voluntarily, whereas others were forced into part-time work, to reduce costs as part of wider efficiency drives. This resonates with previous work, which highlighted a shift towards flexible working practices (Dex and Scheibl, 2001), where smaller firms are able to implement flexibility within their business, due to the informal management structures. A detailed study by Whyman and Petrescu (2011) provides insight into the responses of SMEs in Lancashire to the recession, regarding human resources and flexible working, too. They identified several practices including redundancies, recruitment freezes, shifts to temporary contracts, a move to home working, flexitime and pay cuts. Interestingly, Whyman and Petrescu observed an increase in training, perhaps related to staff fulfilling different roles, but also showing how SMEs are seeking to invest and grow, concurring with the study of Kitching et al (2011).

Based on the limited studies of SME restructuring characteristics more generally, it can be argued that the characteristics of restructuring firms can vary across different sectors, based on the innovative nature of firms, and the characteristics of owner-managers, and if firms are seeking growth.

Numerous actors, besides owner-managers, play a role in restructuring events among UK SMEs. Managers in innovative organisations are often receptive to new ideas and give considerable autonomy to their staff (McAdam and McClelland, 2002), which can foster creativity that leads to innovation. Skilled labour is a key to successful innovation in SMEs, particularly in the labour intensive industries (Barnett and Storey, 2000). Technology-based firms, for example, are often dependent on highly skilled workers in order to innovate. Moreover, successful innovative firms operate in the environments where collaboration with a wide range of players and networks help them compete in global markets. These include networks of other firms, suppliers, neighbours, professional and trade associations, but also customers who can provide valuable information for new product development. Innovative SMEs that act as suppliers often work with customers, such as engineers in research and development to develop new ideas and products. Interestingly, high-tech firms are also more likely to have a written strategy of cooperation (Barnett and Storey, 2000). Cooperation with clusters and networks of competitor firms for innovation purposes occurs beyond high-tech industries as illustrated in the study of SMEs in tourism (Novelli et al, 2006). On the contrary, Romijn and Albaladejo (2002) found that the development of industry networks and close customer relations did not boost technological performance of small high-tech firms.

Obtaining external advice is positively associated with growth, particularly with regards to advice on business strategy and staff recruitment (Robson and Benett, 2000), although the direction of causality is uncertain. The case studies of EMS Technical Personnel Ltd and TWO Services Ltd, conducted as part of this project, show that SMEs wanting to expand their business often seek help from business consultants for advice on day-to-day running of the business as well as support during the events of restructuring.

Despite the substantial literature on SME growth, restructuring as a process has not received attention from SME researchers. Most of the literature is concerned with the identification of high-growth companies, enabling and constraining factors influencing growth in SMEs but we could find no studies specifically dealing with restructuring following, or associated with, the growth process. Finally, it must also be remembered that not all SMEs are growth-oriented and the percentage achieving high growth is very small indeed.

Main challenges and constraints facing SMEs in restructuring

There is a dearth of detailed information on the constraints and barriers to restructuring: studies that cover 'restructuring' often do so as a secondary or peripheral concern, which precludes study into the direct barriers to restructuring amongst UK SMEs.

The main challenges and constraints that affect SME restructuring are closely related to the characteristics of SMEs. One of the main challenges to restructuring is the limited resource base of businesses (Gray, 2002), which can take many forms. One particular issue for SMEs is the ability of the owner-manager to manage the restructuring process, as they are often engaged in the day-to-day activities of running their business, which can distract them from more strategic issues such as planning innovation and restructuring (Woodcock et al, 2000). Gray (2002) further suggests that SMEs can, in some cases, resist restructuring due to the difficulties and uncertainty that it can present. Additional internal constraints emerge from how many UK SMEs tend to finance themselves internally (Watson and Wilson, 2002), so the internal resources available for investment are limited, which makes it difficult for businesses to expand and innovate. This may explain why many small businesses tend to grow through outsourcing, as resources can be concentrated on the specialisation of a particular product or service area of the value chain, while other work is subcontracted. A further issue, which concerns small businesses, is the ability to recruit sufficiently trained staff, especially if relocating (Galbraith et al, 2008).

A particular constraint that can affect restructuring through supply chains is the ability to manage uncertainty, where distrust also acts as a barrier to the smooth implementation of outsourcing (Briscoe et al, 2001). This can be hampered by the informal working cultures and a lack of skills to manage supply chains effectively through projects (Briscoe et al, 2001). One of the common barriers that smaller firms face in introducing restructuring, especially to manage supply networks, or to innovate, is the lack of professional IT and management systems, in addition to an informal culture where SMEs prefer to maintain relationships through established business and supplier contacts (Wagner et al, 2003).

Berg (2009) argues that it is becoming easier for UK SMEs to outsource, as squeezed professional service providers are prepared to offer services to SMEs as they search for new opportunities in the recession. This is particularly important during the current volatility of recession and recovery in the UK. However, despite the proclaimed benefits of outsourcing SME administration and operations, there are some suggestions that owner-managers are uncomfortable at outsourcing particular roles such as IT, as they harbour concerns about security, but are also unsure about service quality and control over managing technical issues (Datamonitor, 2007).

Being cautious of outsourcing is not a misplaced concern. Carmel and Nicholson (2005) have highlighted that, in addition to the benefits of offshoring, SMEs struggle to maintain the quality of the inputs that they obtain from overseas, in addition to their offshore supply chains more generally (Barton and Thomas, 2002), which are arguably more difficult to control over long distances. This can limit the ability and/or confidence of SMEs to restructure though outsourcing and offshoring. Although there has been a shift to e-commerce to manage procurement, in common with larger organisations, SMEs often lack the tailored advice and resources necessary to implement such systems (Martin, 2004), and to restructure through outsourcing and offshoring.

In contrast to their larger counterparts, which have multiple investors, SMEs are often opaque, when it comes to measuring the value of their goods and intangible assets, as well as evaluations of the market (Martin et al, 2002). As such, investors or potential businesses which may seek to acquire SMEs find it difficult to find the information necessary to initiate the acquisition process, with buyers often coming from a local geographical market where they can more easily access information (Martin et al, 2002). In turn, this limits the restructuring of SMEs within a wider context of mergers and acquisitions.

Small firms are not often involved in mergers as a restructuring practice, which may be explained by information asymmetries and the opaque nature of SMEs. Martin et al (2002) have suggested that mergers or sales of UK SMEs can be restrained by several characteristics regarding transparency, which is not assisted by business owners' limited access to good quality advice. This may help explain why many businesses are often 'wound down', transferred or sold only prior to the retirement of the owner-manager (Ryan et al, 2011). Informal flows of market information may also explain why mergers and transfers are affected by the local economy, where demand for mergers and purchases can come from a regional economy's clusters (Martin et al, 2002), which may be seeking complementarities.

The limited resources of UK SMEs often affect their ability to implement restructuring practices. UK SMEs tend to finance themselves internally (Watson and Wilson, 2002); their ability to access the financial and time resources for restructuring is comparatively limited (Woodcock et al, 2000). Arguably, this will particularly affect 'larger' SMEs that seek to implement more formal and capital intensive restructuring.

Liquidation rights in the UK disproportionately favour banks (Franks and Sussman, 2005). This appears to be unbalanced considering that SMEs obtain only 40% of their debt from banks, whereas the majority consists of trade credit. Although the usual response of UK banks is to try to rescue SMEs, they are often very tough in negotiating deals.

A number of studies draw attention to labour availability as a potential constraint on growing businesses. For example, one recent study identified employing people and managing their work as one of the major challenges for SME owner-managers (SBRC Kingston University and Babson College, 2008). Failure to recruit sufficient numbers to win business and support sales weakens the push for growth; over-recruitment incurs unnecessary costs that may inhibit adjustment. Controlling labour costs involved some firms in locating employment overseas in low-cost environments or in outsourcing.

Business support from public and private sources

There is a limited range of research on the support sought by SMEs in the UK context. Studies on support often tend to focus on the quality of support programmes and advice, often taking a 'top-down' approach to the effects of such programmes. Consequently, they rarely provide detailed insight into the demand for support from SMEs. Despite this, research by Robson and Bennett (2000) has suggested that SMEs often seek external advice, with up to 84% of firms using external advisers. Advisers are often sought to plug gaps in an SME's knowledge base and to develop growth or to enhance the performance of firms. Robson and Bennett (2000) argue that external advice is often used to implement one-off changes or to change processes, suggesting that advice is sought externally for restructuring purposes, in addition to managing innovation. It is suggested that firms seek advice not only in phases of growth, but also to manage decline, which marks out the important roles of advisors in restructuring for growth during a downturn. Robson and Bennett (2000) argue that the demand for external support has grown since the 1980s, as discussed earlier, to meet regulatory compliance needs, but also to advise on activities associated with restructuring. Important sources approached for advice are identified as accountants, followed by banks and lawyers; although businesses also seek support from other sources including suppliers, customers and business friends (Robson and Bennett, 2000).

In a more recent study, Scott and Irwin (2007) suggest that UK SMEs primarily seek advice from accountants (35%), followed by family and friends (25%–30%). In examining the demand and consumption of services, they ascertained that graduates were more likely to use accountants and solicitors for advice, rather than public sector sources or friends and family, while O/A level educated owner-managers were more likely to seek advice from family, friends and the public sector. In providing a wider overview, Robson and Bennett (2000) argue that private sector sources of advice are more important in facilitating the restructuring associated with enhancing performance, in comparison to public sector sources. Robson and Bennett (2000) conclude that public sources have a generally negative or insignificant effect on performance. More recently, Bennett (2007) has suggested that overall the satisfaction level for Business Link, until recently the main UK supplier of public service advice, was 79%. While SMEs were seen to demand general advice from Business Link, it was less likely to meet expectations in less used, bespoke areas, where Business Link would be better referring SMEs to specialist expert advice (Bennett 2007). In short, public sector advice services may not provide tailored enough advice for more complex and specific issues that may be concerned with restructuring. As such, this may reflect why more detailed advice for restructuring may be sought from professional advisors such as accountants.

Blackburn et al (2010) suggest that accountants may be more likely to provide business advice, related to restructuring, as they are used initially for compliance services, prior to supplying business advisory services. Accordingly, accountants develop trust with clients while undertaking client compliance work, while developing an understanding of the owner-manager's business (Mole 2007), which can lead to demand for the provision of business advice support. As with evaluations of Business Link (Bennett 2007), SMEs reported evidence of an expectation gap between clients and suppliers (Blackburn et al, 2010). Specifically, while the market for business advice is competitive, SMEs often seek highly specific industry knowledge from accountants, to assist in repositioning their business (Blackburn et al, 2010). The demand from SMEs varies, with 'self-directed' owner-managers tending to seek advice only when restructuring and changing their business, due to a sale, succession or changes in regulation, for example, whereas other managers often seek advice for the purposes of 'decision confirmation' (Blackburn et al, 2010).

Bankruptcy law in the UK has evolved over the years, reflecting wider government support for the promotion and fostering of entrepreneurship (Cook et al, 2011). Some of the alternatives to bankruptcy for businesses in financial difficulty include various informal arrangements, voluntary arrangements and administration. The 1986 Insolvency Act introduced two new rescue procedures: administration and CVA. These procedures provide financially distressed companies with temporary protection from creditors, which provide time to facilitate restructuring. The introduction of the CVA ended the earlier dominance of administrative receivership, which favoured creditors and incentivised liquidation (Cook et al, 2011), terminating SMEs, rather than providing them with an opportunity to restructure. The Insolvency Act of 1986 also makes a provision for a more balanced allocation of rights in bankruptcy across secured and unsecured lenders.

Outcomes of restructuring

One pattern that runs consistently through literature associated with SME restructuring is the limited reference to temporal dimensions within studies on restructuring events. Studies in the field are often quantitative and capture a snapshot of data on firms at a given time. Subsequently, the absence of longitudinal studies and comparatively fewer qualitative studies, which use a narrative perspective to examine restructuring events over time, means that the field provides limited insight into activities and scenarios that occur after restructuring events. This is a substantial shortcoming in the literature, as there is limited research on the outcomes of restructuring events in the periods of recession and more generally, but more importantly, the evidence base on which restructuring strategies and practices can be considered successful or not is limited. This makes it more difficult for policymakers and support agencies to consider which types of restructuring could be promoted to assist UK SMEs in the recovery.

Despite the paucity of research on restructuring, there is anecdotal evidence as to its outcomes, although these scenarios should not be read as representative. As such, the outcomes can be mixed and varied, with positive and negative implications. For example, responses to changes in legislation have required the outsourcing of internal business functions that require expertise often affect smaller businesses that are not large enough to legitimise having their own internal legal consul or accountants (Robson and Bennett, 2000), which would not necessarily affect the operations of SMEs but can increase the costs associated with the additional compliance. However, as suggested by Kitching et al (2010), the development of new regulation can include the creation of new markets for UK SMEs, or the expansion of existing markets, such as the creation of an SME compliance market for accountants. Similarly, it has been argued that the development of new markets through the innovation of new novel products as a type of restructuring, can be linked to a growth in employment, as well as developing high firm performance and graduate employment (Gray, 2006).

Referring to the earlier review of outsourcing, as a strategy to reduce costs, and to increase flexibility, in common with the US-style ‘lean production’ strategies of larger organisations, SMEs are also able to extend their operations without needing to expand the structure of their business vertically, by sourcing product and service inputs externally. For example, Wynarczyk and Watson (2005) illustrated how UK SMEs, which have developed strong inter-firm relationships within their supply chain, enjoyed higher growth rates. Arguably, well organised relationships allow firms to specialise in adding value to goods and services that pass through other chains, enabling them to grow. This is not to suggest that outsourcing always has positive outcomes, and in this sense restructuring can have negative repercussions on UK SMEs. Research has suggested that restructuring by outsourcing can be detrimental to UK SMEs, particularly those operating in the textile and clothing sectors, which have less power in supply chains, and often work ‘downstream’ in an unpredictable and volatile environment (Bruce et al, 2004). Similar research on SMEs in food production has also suggested that they can become victims to larger buyers (Wenger et al, 2002), highlighting how restructuring through outsourcing is not universally beneficial to UK SMEs.

Turning to issues of restructuring that affect employment, outsourcing can lead to the reduction of permanent workers in SMEs; an under-researched area of outsourcing relates to the unsecure self-employed contractors that fulfil outsourced work. This can include sales teams in operation in the UK, which are technically self-employed, but work exclusively for one business (Stanworth et al, 2004). Another outcome of restructuring that produces uneven outcomes related to employment is the acquisition of UK SMEs. Owner-managers involved in selling their larger business may acquire new executive positions and resources to grow the new ‘business unit’ within a larger parent company (Foreman-Peck and Nicholls, 2008), but once intellectual property has been acquired through a merger, the previous SME plant may be moved or closed, creating redundancies and removing activity from regions, as the business becomes vertically integrated into the parent company.

Regarding the outcomes that emerge from bankruptcy, as a mode of restructuring, business closures are generally perceived as being negative events. However, in distinguishing between closure and failure, closure can provide learning experiences for owner-managers which they can use in future enterprises (Stokes and Blackburn, 2002; Cope, 2011). For example, in a study by Stokes and Blackburn (2002) the majority of business owners (62%) reported having developed new ventures, following their business closure. In contrast, another outcome of SME failure, bankruptcy, can be more negative. Cope (2011) suggests that failure has a significant influence on an entrepreneur's life, generating stress, while also having a negative impact on personal and business relationships, self-efficacy and propensity to risk-taking. This is an important aspect of restructuring outcomes in the UK context, as Storey (2011) has highlighted that there is a more negative attitude to business failure in Europe in contrast to the USA. Arguably, there is a culturally based fear or stigma surrounding business failure in Europe and it is more difficult to restart after failure, especially because of European legislation that favours creditors, in comparison with the US which places greater emphasis on encouraging business restarts (Storey, 2011).

The impacts of restructuring on UK SMEs, however, remain uneven. For smaller firms, which are less attractive acquisition targets, the situation is reversed, as owner-managers nearing retirement fail to sell or transfer their business (Ryan et al, 2011), leading to a restructuring with other firms, or the business may be wound down, leading to job losses for employees. However, studies which have looked retrospectively at restructuring in UK SMEs have highlighted how the reduction of headcount, or a move to part-time workers (Whyman and Petrescu, 2011) may have provided viability for UK SMEs in the short-term, providing security for the remaining employees, while an outcome of this stability can arguably include further recruitment, as SMEs seek to grow after restructuring (Kitching at al, 2011).

Conclusions and policy issues

Research on UK SMEs tends to emerge from a different series of conceptual or theoretical debates in academic fields in business management and the social sciences, in addition to policy reports. Due to the limited formality of restructuring debates, empirical research in the UK tends to lack focus, resulting in a sporadic field of literature. Consequently, it is difficult to compare, for example, the restructuring activities undertaken in UK SMEs in times of stable economic growth with those undertaken in response to recession in the UK. The result, in the UK context, is that the limited research base makes it difficult to develop a comprehensive systematic view of the UK SME sector. There is a lack of restructuring research, particularly, which views SMEs by size, whether by employees, or turnover, in addition to the different types of sectors which have undertaking restructuring, especially across the six types of restructuring set out in this report.

One reason for the paucity of information on restructuring in UK SMEs may be explained by the demographics of the UK SME sector. In comparison with countries which have 'larger' SMEs, by definition, such as the US (<500 employees[7]), the vast proportion of the UK SME sector accounts for smaller organisations, including the self-employed, micro and small businesses, which tend to favour informal and flexible working practices, as opposed to formalised and rigid structures with stringent divisions of labour and production. Arguably, SME working practices may be viewed as being flexible, in a constant state of flux, as opposed to undergoing formal restructuring when necessary, as present in larger firms, as seen in the wake of the UK's recession. With modest resource bases and staff there is less to restructure, so many of the contemporary terms used to describe restructuring, often in larger organisations, may not be as relevant in understanding the flexibility of 'smaller' UK SMEs, hence the limited evidence base.

There is an exceptionally limited amount of literature on the relocation of UK SMEs, although the evidence suggests that SME technology manufacturers that are more orientated around less innovative production are more easily able to relocate to spaces of lower cost labour to develop competitive advantages. Similarly evidence has suggested that SMEs are relocating to different sized business units, to manage variations in demand in the recovery, which has included moving some businesses to operate as home-based enterprises. The literature review provided no evidence as to the distances moved by firms, although SMEs that have a tightly controlled supply chain tend to move close to valued suppliers providing lock-in for some firms and associated competitive advantages.

Although there is evidence that suggests that relocation is used as a practice of restructuring by UK SMEs, there is scant research into relocation strategies more generally in the UK. This not only raises questions as to the emergence of flexible workspace prior to the recovery (was it demand or supply led?), but there are also more fundamental research gaps. For example, there is a particular lack of knowledge on which sectors are most likely to move, in addition to other basic data on firm size by employees and turnover. Arguably, firms with fewer employees are more mobile, but moving larger firms is more complex. There is also a lack of understanding as to the the frequency with which firms relocate and their decision-making processes, particularly about how they choose the distance from existing markets and suppliers.

Research on outsourcing in the UK is more considerable, highlighting that SMEs have outsourced specialist knowledge-based functions such as marketing, and compliance to other firms and to release resources for core business activities. This in itself has created growth opportunities for SMEs focusing on these professional sectors, such as in accountancy and law, although security concerns have meant that many IT functions remain in-house. Studies that examine outsourcing referring to specific business inputs have highlighted how specialisation in SMEs has enabled them to outsource specific business functions, of products and services, including innovation. However, the professionalism and organisation within different sectors and cross-sector supply chains is mixed and uneven. Extending outsourcing overseas through offshoring has been less popular for SMEs than larger organisations, as UK SMEs can struggle to

[7] http://www.sba.gov/content/what-sbas-definition-small-business-concern

manage offshore supply chains. In contrast, UK SMEs that do outsource often do so for inputs that they cannot acquire in the UK, or in areas to reduce workload, such as programming in IT.

One of the main weaknesses of the dated literature on UK SME outsourcing is its indirect focus on restructuring. It predominantly examines how firms can grow through outsourcing, or how they can slowly enhance efficiencies by outsourcing particular business functions and supply chains. What remains unclear, and poses a particularly important gap to the research base, is how UK SMEs utilise outsourcing to downsize after an economic shock, and what the implications are for product quality and employees. There is also little evidence to suggest how SMEs manage the exit or closure of key suppliers or large customers in the financial recovery, and the effect this has on the usefulness of outsourcing as a restructuring measure.

Bankruptcy, as a form of restructuring, often sees the termination of a business. In this sense, it tends to be perceived as a negative outcome for SMEs and business owners in financial and employment terms, and it also has physical and psychological implications. On the other hand, bankruptcy can have a positive learning effect for entrepreneurs who are able to use their experiences to start a new venture. The promotion of voluntary agreements and CVAs can be viewed as a more constructive option, putting the needs of the SME on a more balanced footing, as opposed to favouring the creditors under bankruptcy. As such, involuntary agreements and CVAs provide opportunities:

- for businesses to restructure, potentially retaining staff;
- for growth;
- to be purchased.

However, as suggested earlier, there is limited empirical evidence on how SMEs react to, anticipate, plan and prepare for bankruptcy, CVAs, informal agreements and closure. Similarly, there are important gaps concerning how businesses and owners manage this processes and what kind of restructuring is open to them. Moreover, sectoral studies of bankruptcy and closure are also limited, along with firm size. SMEs in sectors that have particular assets may be able to restructure more easily than others, affecting the usefulness of particular types of bankruptcy and CVAs. The outcomes of organisational and employment effects of bankruptcy and closure in the context of SMEs also require further research.

Studies on mergers and acquisitions are limited and often examine how larger firms target UK SMEs for acquisition to capture new innovations, although firms that are usually purchased or acquired tend to be more innovative or possess competitive advantages or assets that are useful or purchasable. Access and transparency to information tends to limit acquisitions, although firms in supply chains can be likely to acquire struggling suppliers to minimise business disruption.

More common within UK SME restructuring are internal practices such as:

- innovation of products and services;
- changes to employment including redundancies;
- non-replacement of staff;
- increases in part-time working;
- pay cuts and pay freezes;
- lowering the costs of goods and services.

There are a range of reasons why UK SMEs undertake restructuring, which can be identified from the literature. Restructuring has recently been driven by the need to manage excess capacity caused by reduced demand during the UK's recession and recovery. However, it has also been highlighted that restructuring for growth and innovation more generally is required as UK SMEs change or expand over their lifecycles. Interestingly, changes in regulation have driven firms into undertaking restructuring to comply with regulations. However, it is suggested that the motivations behind restructuring for growth are mixed and based on the characteristics of owner-managers, a study area that is generally limited. It is suggested that smaller SMEs operate more informal practices and are more flexible, and are less likely to view change as restructuring, which could be considered to be more planned and formal by owner-managers. Anecdotal evidence suggests that firms often undertake restructuring to accommodate the development of new innovations, which are more likely to be in manufacturing or service sectors as they seek growth. While these businesses may voluntarily undertake restructuring to grow, firms in low value, cost-sensitive sectors, such as textiles, were more likely to be forced to restructure, by external forces.

The challenges faced by UK SMEs in restructuring are shaped by the characteristics of firms, where smaller SMEs can struggle due to their limited access to financial resources needed to restructure for growth. The limited internal resources of busy owner-managers that do not have time to plan for restructuring can also create difficulties.

In common with other research areas, the literature on advice and support to help overcome the challenges associated with restructuring is limited, emerging from research on support more generally. Research by Robson and Bennett (2000) has highlighted how SMEs frequently seek external advice, with up to 84% of firms using external advisers. External advice is often provided by a range of formal and informal sources, including accountants and solicitors, in addition to friends and family, and suppliers, although it has been suggested that public sources of advice in the UK are often not able to assist UK SMEs in more complex aspects of change, including restructuring. Further research is needed to understand the complex interactions of support on SMEs, informal and formal advisers and the outcomes, to understand how advice networks are best organised.

There are a series of prominent research gaps on the demand for support from SMEs, and much of the existing literature on advice is also dated. First, there is limited insight into the particular variation in demand for business advice based on a series of demographic characteristics, including SME size and sector. For example, larger and more complex firms may require more specific and technical advice to restructure, while this could potentially vary by different sectors, which will require particular knowledge, as suggested by Blackburn et al (2010). It is recommended that the government commissions more detailed research on:

- how advisors are chosen;
- how often suppliers are changed;
- pricing structures of advisors;
- the frequency by which advice and support are sought.

This would provide additional insight into the particular issues of restructuring, paying particular attention to the implications for labour, which would provide an informed basis for future policy actions.

The outcomes of UK SME restructuring are mixed, but often enable businesses to concentrate resources on their core business activities, while developing new and innovative markets. In other cases restructuring can provide SMEs with stability in recessions, although restructuring through firm mergers can have negative impacts on employment. Despite this, it can be argued that the stability of firms could be increased through restructuring in a recession, providing security for the remaining employees when SMEs seek restructuring for survival, rather than in some cases risking failure.

In summary, further empirical research is needed to understand practices of restructuring in UK SMEs. This is of particular importance in the formulation of evidence-based policy and support programmes in the continued recovery. Evidence is required to understand more clearly the different types of restructuring and amendments that SMEs make, which are differentiated away from larger firms, in addition examining those which are more successful, to assist in providing appropriate business support.

The demise of the Business Link network will leave a significant gap in business support provision. In this context, it is important that the support offered extends beyond high-growth businesses to embrace firms that are restructuring. Although there may be job losses, there may also be a need for assistance in order to secure as many of the current jobs as possible.

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Appendix

Methodology and search criteria

In order to identify studies examining the restructuring behaviour of UK SMEs, a structured search was undertaken to find relevant papers and research. Three separate academic databases were used to find academic papers, *ProQuest*, *Science Direct* and *Business Source Premier*, in addition to *Google Scholar*, a search engine providing a wide coverage of different databases. The use of the three databases and search engine enabled a thorough search of the existing literature. For each restructuring theme, a series of primary search terms were developed by the research team, as illustrated in below. Four separate searches were undertaken for each primary search term, (see Table 1) prefixing and affixing different secondary search terms: 'SME'; 'small businesses; 'UK' and 'Britain'. For example, the primary search term 'insolvency' would be searched for as '*SME insolvency UK*'; '*SME insolvency Britain*'; '*small business insolvency UK*'; '*small business insolvency Britain*'. The use of these secondary search terms extended the possibility of identifying additional relevant papers for the literature review.

Table 1: *Restructuring themes and primary search terms*

Restructuring themes	Primary search terms
Relocation	'relocation', 'branch', 'branches', 'move', 'geographic relocation', 'geographic expansion'
Outsourcing	'outsourcing', 'reorganisation', 'supply chain', 'suppliers'
Offshoring	'offshoring', 'internationalisation', 'delocalisation', 'overseas supplier'
Bankruptcy	'bankruptcy', 'insolvency', 'closure', 'takeover', 'closure', 'failure', 'administration'
Merger	'merger', 'demerger', 'acquisition', 'business sale', 'takeover'
Internal	'downsizing', 'innovation', 'reorganisation', 'growth', 'job cuts' rationalisation', 'job share', 'casualisation' 'product development', 'restructuring', 'pay cuts', 'pay freeze'
Expansion	'innovation', 'growth', 'diversification'
Drivers	'motivations', 'profitability', 'turnover', 'growth', ambitions', 'recession', 'downsizing', 'crisis', 'economy'
Challenges	'regulation', 'competition', 'demand', 'finance', 'skills'
Support	'weak ties', 'networking', 'business contacts', 'trade associations', 'demand for support', 'government'
Outcomes	'survival', 'growth', 'increased turnover', 'increased profits', 'new clients', 'new market', 'innovation', 'increased market', 'increased demand'

Following the project guidelines, only empirical, qualitative and quantitative studies of UK SMEs were included. Initially, papers from 2005 onwards were going to be included in the review, to provide a state-of-the-art analysis although, as the literature available for the different types of restructuring was limited, the search frame was extended to identify papers published earlier.

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