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A Framework For A Stronger Welsh SME Economy

Frontier Briefing

September 2026

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Frontier is an independent advisory initiative supported by MWR Accountants.

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A Framework For A Stronger Welsh SME Economy

A FRONTIER BRIEFING

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September 2026

The Argument in Brief

Wales is already an SME economy. In 2025, 99.3% of active enterprises were SMEs and 94.6% were micro-enterprises. SMEs accounted for 62.3% of employment and 42.5% of turnover. At the same time, non-UK-owned enterprises represented only 0.7% of enterprises but 15.9% of employment. Any credible Welsh economic strategy therefore has to do two things at once: put SMEs at its centre and remain open to the value created by larger and externally owned firms. [1]

The problem is that enterprise policy is often organised as a collection of interventions rather than as a system. Start-ups are supported; high-growth firms receive intensive help; clusters are designated; inward investment is pursued; succession is treated separately when it appears at all. Each activity can be useful. The missing question is whether, taken together, they leave Wales progressively more capable.

Frontier proposes a simple framework: CREATE, CONNECT, KEEP. CREATE broadens the enterprise base and enables progression. CONNECT gives independent SMEs access to capabilities and markets they do not need to own themselves. KEEP retains or recycles the firms, people, knowledge, relationships and capital created when businesses succeed.

Frontier describes the outcome as accumulating indigenous productive capacity: businesses, people, skills, knowledge, relationships and capital located in Wales that can be redeployed to generate further productive activity. “Indigenous” does not mean excluding outside ownership, investment or trade.

THE FRAMEWORK

CREATE builds the enterprise base.

CONNECT helps firms borrow scale through relationships.

KEEP retains or recycles the capability created by success.

CREATE	CONNECT	KEEP
Builds the enterprise base.	Helps firms borrow scale through relationships.	Retains or recycles the capability created by success.
ACCUMULATING INDIGENOUS PRODUCTIVE CAPACITY		

Each stage should make the next generation of Welsh firms easier to create and stronger when they arrive.

Wales should create more opportunity, not prescribe one model of success

The starting point is not that Wales lacks entrepreneurs. Global Entrepreneurship Monitor data recorded total early-stage entrepreneurial activity at 10.8% in 2024, statistically indistinguishable from the UK rate of 12.0%. The more concerning signal was opportunity perception: only 31.9% of Welsh non-entrepreneurs believed there were good opportunities to start a business locally, against 43.2% across the UK. [2]

That distinction matters. An enterprise strategy aimed only at generating more start-ups risks confusing activity with quality. SMEs differ in ambition, capability, ownership and market. The organising principle should therefore be: Enable ambition, do not prescribe it.

A profitable owner-operated business can be a good economic outcome. A microbusiness ready to hire its first employee should be helped through that transition. A firm capable of scaling should receive more intensive support. The objective is not to turn every small business into a large one. It is to make commercially sensible progression easier when opportunity and ambition coincide.

The first employee illustrates why transitions matter. Evidence suggests that demand and sales growth commonly precede first hiring. The policy implication is not to subsidise every sole trader into employership; it is to make commercially ready firms better able to take the step. [3]

CREATE

Encourage a broad enterprise base; treat the first employee as a distinct transition; recognise ordinary growth; reserve intensive support for credible ambition and opportunity.

Small firms can borrow scale through relationships

The first CONNECT question is SME-to-SME: how can independent firms borrow scale through relationships? A ten-person business cannot economically maintain every capability that a larger company can carry internally. It may lack export expertise, specialist equipment, R&D capacity, procurement knowledge or the management time to build each function itself.

OECD evidence shows why networks matter. For SMEs, relationships with other firms and institutions can ease access to knowledge, technology, skills, finance and markets and

create external economies of scale. Collaboration can include supplier relationships, consortia, shared facilities, joint innovation, strategic partnerships and clusters. [4]

Italy provides unusually strong evidence that collaboration can be formal without requiring consolidation. Its network-contract framework allows independent firms to pursue shared programmes while retaining separate ownership. A peer-reviewed difference-in-differences study finds persistent positive effects on revenues, value added and EBITDA among participating firms, with microbusinesses benefiting particularly when connected to larger partners. [5]

The policy lesson is broader than Italian law. The UK already permits contractual collaboration, consortium bidding and joint ventures. Wales can help SMEs find complementary partners, form credible bids, share capability and internationalise together now, while the UK Government can examine whether a more standardised network-agreement framework would reduce friction further.

A separate question: how should SME ecosystems interact with much larger organisations?

The argument so far concerns relationships between independent SMEs. A separate but related question is what happens when those firms interact with organisations many times their size.

An anchor institution is a large, relatively place-rooted organisation — such as a university, health body, local authority or other major public institution — whose employment, purchasing, assets and convening power can materially shape its local economy. A major private employer or inward investor can play a similar economic role but is not necessarily rooted in the same way.

CONNECT

The objective is not more networking activity. It is more commercial and innovation relationships that change what SMEs can do: larger contracts, better technology, stronger suppliers, new products and wider markets.

Inward investment should sit inside the SME strategy, not substitute for it

An SME-first strategy is not an argument against foreign direct investment. Wales should continue competing for mobile investment. The additional question is whether that investment strengthens the surrounding business ecosystem.

OECD analysis of more than 24,000 firms in Germany, Italy and Romania finds positive SME productivity associations with FDI, with the strongest and most consistent results where foreign buyers purchase from domestic suppliers. The analysis is not proof that FDI caused those productivity gains, and the OECD stresses that outcomes depend on skills, innovation capacity, infrastructure and the strength of the local SME ecosystem. [6]

Jobs and capital invested remain important, but Wales should also ask what suppliers gained new standards, what managers learned, what technology diffused, what new customers Welsh firms subsequently won and whether those suppliers became less dependent on the major customer over time.

A supplier relationship has produced durable economic value when the SME becomes more capable and more independent, not simply larger. The practical resilience test is: would the supplier remain viable if the major customer reduced procurement, relocated or left Wales?

THE TEST FROM A MAJOR RELATIONSHIP

What should exist in Wales twenty years after a major employer or investor arrives that did not exist before it came? Stronger suppliers, better management, certifications, technical knowledge, wider customers and firms able to compete elsewhere are more durable outcomes than dependence on one buyer.

KEEP asks whether capability survives economic transitions

Businesses are sold. Founders retire. Major customers leave. Contracts end. Management teams move. The question is what remains economically useful in Wales afterwards. A supplier that acquired management systems, certifications, technical knowledge and wider customers through a major relationship may remain valuable even if that relationship later ends. A supplier whose turnover disappears with its dominant customer has created much less durable capability.

Succession is one of the clearest immediate Welsh tests. Cardiff Business School's July 2026 review for Economic Intelligence Wales concludes that SME succession planning is significantly underdeveloped and current support fragmented. Its overarching recommendation is a single accessible succession service. [7]

That supports a plural approach to ownership. Employee ownership can be a strong succession mechanism, but it is one tool. Family transfer, management buy-outs, management buy-ins, external investment and trade sales can all be legitimate outcomes. The objective is to preserve viable productive capability and strategic choice, not to privilege one ownership form.

Nor should every sale be treated as economic loss. Research on Scottish technology-company acquisitions describes entrepreneurial recycling: founders use the wealth and experience released by an exit to start, invest in and advise other businesses. A successful exit can therefore become a harvest event if founders, managers, knowledge and capital are redeployed into new Welsh businesses. [8]

KEEP therefore means retain or recycle productive capability. CONNECT builds useful relationships; KEEP asks whether the capability created through them survives the relationship, ownership change or exit.

KEEP

Make succession a normal stage of enterprise policy; widen ownership and finance choices; retain strategic capability where sensible; and turn successful exits into new businesses, investment and experienced leadership.

The system should be designed to accumulate capability

The three pillars reinforce one another. More enterprises create a larger pool of potential employers and innovators. Better connections increase what those firms can achieve without requiring them all to become large organisations. Stronger succession and recycling mean that each wave of business success leaves more capability behind.

Pillar	What should become more abundant in Wales?
CREATE	Viable firms, employers, founders, management experience, products and intellectual property
CONNECT	Supplier relationships, collaboration capability, certifications, market knowledge and innovation networks
KEEP	Experienced managers, successors, investors, technical talent, headquarters capability and entrepreneurial capital

A founder starting a business in Wales ten years from now should inherit a richer environment of experienced people, suppliers, investors, customers and peers than a founder starting today.

This is what Frontier means by indigenous productive capacity. It is dynamic rather than protectionist: a Welsh SME should be able to sell abroad, buy from the best supplier, take external investment or be acquired. The policy concern is whether the wider Welsh economy becomes more capable as those transactions occur.

Business support should follow the business, not the institutional map

A system view also changes how support should be organised. Businesses experience transitions, not government programmes. A founder considers starting, begins trading, takes on people, encounters management constraints, seeks finance, collaborates, enters new markets and eventually faces succession. The public system should be legible across that journey.

This does not necessarily require a new institution. Business Wales, Development Bank of Wales, universities, local authorities, Cwmpas and private advisers already provide substantial capability. The problem is fragmentation at the points where the need crosses institutional boundaries.

The practical test is whether a business owner can find the next useful capability without first understanding which organisation owns the policy category. CREATE needs a visible route through enterprise transitions. CONNECT needs partner formation and shared capability, not merely events. KEEP needs a succession service that works across ownership models and finance routes.

A BETTER ORGANISING QUESTION

At each stage ask: what is stopping this viable SME from taking its next commercially sensible step, and which combination of public, private and peer capability can remove that barrier?

Wales needs an SME scorecard that measures progression and accumulation

Programme activity is useful management information, but it is not the economic outcome. Grants awarded, advice sessions delivered, cluster members enrolled and businesses attending events do not tell policymakers whether the SME economy has become more capable.

A compact Welsh SME Economy Scorecard should therefore follow the three pillars. The precise indicators require data development, but the framework can be fixed now.

Pillar	Headline measures
CREATE	Enterprise formation and survival; non-employer to first-employee transition; ordinary employment/turnover progression; high-growth rate.
CONNECT	SME-to-SME collaboration and trade; joint bids/projects; collaborative innovation; network-assisted UK/international market entry; anchor-supplier diversification.

KEEP	Succession preparedness and completed transitions; strategic capability retained where measurable; founder reinvestment/new ventures; recycling of experienced management and technical talent; customer diversification and resilience among firms developed through major-customer relationships.

Several data gaps are themselves policy findings. The Trade Survey for Wales is still classified as official statistics in development and cannot support a simple "leakage rate" [9]. Wales does not routinely publish a clean non-employer-to-employer transition measure. Entrepreneurial recycling is barely measured. If these outcomes matter, the data architecture should develop accordingly.

What should change

1. Put SME development at the centre of the Welsh economic model.
Welsh Government should treat the enterprise lifecycle — formation, employment, growth, connection and succession — as a coherent policy system, while keeping inward investment as an important complementary strand.

2. Adopt "Enable ambition, do not prescribe it" as the principle for enterprise support.
Maintain broad support for viable enterprise, but intensify help when demand, capability and ambition justify transitions into employment, growth and scale.

3. Make SME-to-SME ecosystem development an explicit economic objective.
Support consortia, shared capability, collaborative innovation and joint market access. Test an Italian-inspired network-agreement support model under existing UK legal structures.

4. Make relationships with major organisations build independent suppliers.
Supplier-development programmes around anchor institutions, inward investors and major projects should measure capabilities acquired, certifications, additional customers and market diversification — not only contracts won from the large organisation.

5. Make succession and entrepreneurial recycling mainstream economic development.
Implement a single accessible succession service and connect exited founders, managers and technical talent to new Welsh opportunities.

6. Publish a Welsh SME Economy Scorecard.
Measure progression, relationships and capability retained or recycled, and distinguish economic outcomes from programme activity.

Who can act?

Wales can act now through economic-development support, Development Bank finance, skills, network and supplier-development programmes, succession support,

procurement practice and data and evaluation. Most of the framework can therefore be tested using existing Welsh powers. [10][11]

UK action is required for most taxation, company and business-association law, employment law, competition and substantial areas of financial regulation. A statutory Italian-style network framework or changes to employee-ownership taxation would therefore require UK action. [10]

From interventions to accumulation

Wales does not need to choose between entrepreneurs and inward investors, small firms and scale-ups, local ownership and external capital. Those are false binaries. The more useful distinction is between economic activity that leaves capability behind and activity that does not.

CREATE, CONNECT, KEEP offers a way to make that distinction operational. Create more viable enterprises and make progression easier. Connect independent firms so that they can borrow scale, innovate and reach larger markets. Keep or recycle the people, knowledge, relationships and capital created when those firms succeed.

The ambition is cumulative. A founder starting a business in Wales ten years from now should inherit a denser network of experienced managers, investors, suppliers, customers and peers than a founder starting today.

The test is not simply how much economic activity policy generated this year, but whether Wales is becoming more capable of generating opportunity for itself next year.

The evidence behind the framework

This briefing synthesises three Frontier Reports. The fuller international evidence, methodological qualifications, recommendations and source archives are set out in those publications.

CREATE — Creating Businesses, Creating Employers — enterprise formation, first employment, ordinary growth and scaling.

CONNECT — The Missing Middle — SME networks, shared capability, consortia, clusters, major organisations and market access.

KEEP — Keeping Value in Wales — succession, ownership, strategic capability and entrepreneurial recycling.

References and archive links

The links below provide the principal sources used for propositions that recur across the framework. The CREATE, CONNECT and KEEP Reports contain the fuller supporting archive.

1. Welsh Government (2026). Size analysis of businesses: 2025. Source / download

2. Welsh Government / Global Entrepreneurship Monitor (2025). GEM UK Wales report 2024. Source / download

3. Coad, A., Nielsen, K. and Timmermans, B. (2017). My first employee: an empirical investigation. Small Business Economics 48. Source / download

4. OECD (2023). OECD SME and Entrepreneurship Outlook 2023. Source / download

5. Pieroni, V., Lattanzi, N. and Riccaboni, M. (2024). The dynamic impact of inter-firm network agreements. Small Business Economics 63, 939–969. Source / download

6. OECD (2026). Connecting FDI and SMEs for Productivity and Innovation in Europe. Source / download

7. Economic Intelligence Wales / Cardiff Business School (2026). SME Business Ownership Succession Planning. Source / download

8. Mason, C.M. and Harrison, R.T. (2006). After the exit: acquisitions, entrepreneurial recycling and regional economic development. Regional Studies 40(1), 55–73. Source / download

9. Welsh Government (2024). Trade Survey for Wales 2022 — official statistics in development. Source / download

10. Government of Wales Act 2006, Schedule 7A, as amended — reserved powers framework. Source / download

11. Welsh Government (2026). Cabinet handbook — Section 6: Legislation and the law, paragraphs 6.1-6.7. Source / download

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Use of artificial intelligence

Artificial intelligence tools were used in the preparation of this publication as research and editorial aids. They assisted with:

- identifying, cross-checking and corroborating sources and factual claims;
- testing internal consistency, including terminology, evidence strength and, where relevant, constitutional competence;
- improving the structure, clarity and readability of the text; and
- identifying claims or areas requiring further verification.

The selection and interpretation of evidence, analysis, arguments, conclusions and recommendations are those of the author. Sources cited in the publication were checked against the underlying material before inclusion.
