



BEIS Business Productivity Review
**Response from the Chartered Association of
Business Schools**

6 July 2018

The original consultation documents are available at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/712342/Business_Productivity_Review_call_for_evidence_.pdf

About the Chartered Association of Business Schools

The Chartered Association of Business Schools is the membership body of the UK's business schools and represents over 120 business schools and higher education providers, as well as affiliate stakeholders, corporate members and international partners. The UK's business and management education sector is a valuable source of advice, expertise and consultancy for small businesses, offering access to expert insight, often on a very cost-effective basis. In addition to being the representative body for UK business schools, we also manage the Small Business Charter (SBC) which accredits business schools that play an effective role in supporting small businesses, local economies and student entrepreneurship. The Chartered ABS and its members represent a vital part of the UK's business support ecosystem and have the capabilities to address the UK's productivity challenge through the provision of high quality management and leadership training.

Written evidence submitted by the Chartered Association of Business Schools

The UK's Productivity Challenge

1. Do you agree with our working definition of low-productivity businesses?

We agree with the working definition of a low-productivity business as a business with levels of productivity below the UK median, but would suggest that consideration is given as to how the median productivity varies by sector and size, particularly for SMEs (0 to 249 employees) who represent 99% of UK businesses (Department for Business, Innovation & Skills, 2016). It is also important that the distribution of firm productivity is analysed by sector.

The significant differences between small and medium sized businesses means that it does not make sense to measure a business with five people in the same way as a business with 249 people. In particular more work is required to understand the value generated by microbusinesses which are the largest cohort of businesses in the UK.

We advise caution in the terminology used to describe businesses with levels of productivity below the UK median. A single metric is not suitable to judge all businesses in the country as it cannot account for nuances in strategy, operating markets and business structures. We need to recognise that a certain percentage of the business population considers their business productive even if this is contradicted by the metric as defined by BEIS. The key is to concentrate on those businesses which do want to become more productive even if they do not know how to do this as yet.

It also needs to be recognised that improving economic productivity is not just about developing more technology companies. There are plenty of firms outside the technology sector that have the potential to significantly improve their productivity even if some are unlikely to reach the levels of productivity achieved by some technology firms. A good example of the potential for non-technology firms to improve through reorganised staffing and management structures is Hall's Food Group, a small bakery business from the North-West that was the subject of a case study in the Chartered ABS' report on [*'Business schools: delivering value to local and regional economies'*](#) (2016).

The owner of the company, Joe Hall, joined the LEAD programme run by Lancaster University Management School in 2009, which he would later cite as a "transformational" moment in his business career. The course offered him a new way of exploring his approach to business and provided a rich network of SMEs which formed a number of action research groups to explore difficult business issues in a supportive but challenging way. The business subsequently achieved four years of solid growth which Joe believes are a direct result of the impact made by the LEAD

programme on his business strategy and approach to business relationships.

<http://hallsbakery.co.uk/about/>

2. Is there further evidence to compare the UK's productivity distribution of firms to that of other countries?

Most sectors of the UK economy display very long tails of low productivity firms which co-exist with high productivity firms in the same sectors (Haldane, 2017). Whilst these patterns are also seen in other OECD countries, the UK's long tail may be longer than those in competitor countries. Research by the Productivity Leadership Group (2016) found that around 69% of UK employees work in below-median productivity firms compared to 60% in Germany and 65% in France. While the UK has more highly productive businesses than France and Germany, these only employ 5% of the total workforce.

When comparing businesses in the UK to the US the propensity to accept failure needs to be considered. In the UK, businesses will avoid failure at all costs and retain staff as long as possible, whereas in the US there is less concern about failing and starting again. In the UK such businesses continue to exist whereas in other countries they are more likely to cease trading. This situation does bring benefits (e.g. staff remain in employment, consumer spending is supported, etc) and there is an argument to be made that it is largely beneficial to the wider economy even if the productivity levels of these businesses are below the UK median. A narrow focus on productivity levels risks obscuring this important point.

The UK's per capita levels of technology, R&D, skills training and advanced capital are all low by OECD standards (Wren-Lewis, 2017) and the UK also displays only moderate to average levels of knowledge-investing and innovation dynamism by EU and OECD standards (McCann, 2016). There is some evidence to suggest that these structural weaknesses were masked by the growth in the UK's financial services industry in the years prior to the 2008 financial crisis.

3. Is there further evidence on how the UK's firm-level productivity distribution has changed over time?

Research by the Enterprise Research Centre and Aston Business School has shown that the contribution of high-growth firms (HGF) to the UK economy has fallen since the recession, as evidenced by a reduction in the average level of employment generation by each UK HGF. The 2002 to 2005 cohort of HGFs produced an average of 167 net jobs per HGF, compared to only 83 net jobs per HGF between 2010 and 2013 (Sherry Coutu, 2014). Although this reduction in job generation may have been at least partly driven by the recession, there is evidence that the trend started before 2009.

4. Is the long tail of low productivity firms being driven by weaker competition in UK markets?

The evidence on this question is inconclusive but we know that firms which export outside of the UK are more productive than those which don't, and there is some evidence that UK firms who operate in the domestic market only but on a national basis are more productive than those confined to local markets (Centre for Cities, 2018). It is also important to highlight that many of the firms considered part of the 'long tail' have goals that they consider to be more important than simply generating profit. As they do not have to serve shareholders they have the freedom to act in other interests e.g. the needs of the local community, a desire to be creative, etc.

Understanding high and low productivity businesses, and the firm-level characteristics driving the performance of each

5. Is there further evidence from the UK or internationally, on what drives the distribution of business productivity?

The economic geography of the UK tells a story of a longstanding lack of **technology diffusion** between regions, to a degree which is almost unprecedented in other OECD countries, especially because short distances and a strong institutional framework should theoretically enable rapid and efficient technology diffusion across all regions. Yet it is still largely unclear why these productivity linkages and spillovers fail to travel and diffuse across the UK.

The geographic distribution of productivity in the UK tends towards concentration and centralisation around the economy of the capital in a manner which is very different to many other advanced countries (OECD, 2018). Both smaller economies such as The Netherlands and Denmark, and larger economies such as Japan and Germany, exhibit far more equal distributions of productivity on a regional basis than the UK, but standard growth accounting approaches tell us almost nothing about why this is the case. The difficulty in attracting high productivity exporters to cities outside of the South-East is believed to be a strong factor driving the regional productivity divide, and calls for fundamental improvements in the benefits that such cities can offer potential investors e.g. skilled labour (Centre for Cities, 2018).

The experiences of firms participating in the Productivity through People (PtP) programme, an innovative **leadership development** programme delivered by the Universities of Aston, Bath, Lancaster and Strathclyde in partnership with Be the Business, have shown that in certain regions the recruitment and retention of staff can be a challenge because of the tendency of employees to gravitate towards London to take up higher income opportunities.

Logistics are also an issue in certain parts of the country such as the South-West where distribution networks are less extensive, and this is compounded when disruption occurs e.g. train strikes. It would appear that export networks are London/South-East centric which makes it uneconomical to export from more isolated locations such as Cornwall. On the other hand, production costs are generally lower in the South-West, so there is definitely a trade-off between production costs and distribution costs for businesses operating outside of London and the South-East. We are in full support of local solutions to address the UK's productivity challenge as a 'one-size-fits-all' approach would not reflect the nuances of regional economies.

6. What do you think are the most important firm-level factors that impact productivity?

The key factors impacting upon firm-level productivity are leadership and management skills, adoption of new technology, innovation, internationalisation and logistics networks. According to research by the Confederation of British Industry (CBI), the UK's best performing businesses are highly innovative, moving first to adopt the latest in cutting-edge technology or creating innovation themselves. In contrast, 'follower firms' that underinvest in contemporary technology are less likely to invest in future cutting-edge technologies, leading to a lag in adoption that endures over the long-term and compounds the overall drag on innovation diffusion.

Management practices, including leadership, are key to improving productivity and are believed to account for 10-15% of the productivity gap between the UK and the US (CBI, 2017). Leadership and management skills facilitate the adoption of new technologies and help firms innovate. However, UK businesses underperform on the take-up of effective management and leadership styles relative to

top performing countries, with the UK ranked sixth in the G7 for average management scores based on The World Management Survey. Ambitious managers who are willing to experiment with new ideas and take risks are essential for raising productivity, but according to McKinsey's Organizational Health Index, UK managers are more likely to be risk averse than managers in other G7 nations.

Anecdotal evidence suggests that many businesses that would be considered part of the 'long tail' based on their productivity levels do not measure their success in terms of growth in revenue but according to other measures e.g. creating employment opportunities for young people, providing training opportunities, being recognised as experts, etc. The ethos of a business is therefore a strong influence on the weight it places on growth relative to other potential measures of success.

Integration with global value chains is another factor known to be crucial in boosting productivity, and in particular holds the potential to unlock growth for SMEs who may at present have limited or no exposure to international markets. A study of nearly 10,000 SMEs in 33 European countries found that internationally active SMEs achieve higher growth in turnover and employment (European Commission, 2010). Operating in international markets forces firms to adapt to more intense competition and offers exposure to different technologies and management approaches.

Research by Centre for Cities (2018) suggests that businesses that are more likely to sell beyond their local markets – either nationally or through exports to other countries – tend to be more productive than those focused solely on local markets. This analysis found that non-financial exporting firms in the UK account for only 6% of the bottom 33% of 'laggard' firms as measured by productivity levels, with businesses defined as local services accounting for the remaining 94%. This suggests that in order to tackle weak productivity there needs to be a focus on firms that already export – or at least have a reasonable chance of exporting – as the nature of local service businesses means they have more limited growth prospects.

We also need to understand why businesses vary in their ability to translate new skills, knowledge and practices into improved performance, a question frequently overlooked in mainstream productivity analyses. Following the Taylor Review on modern work practices there is a growing research agenda exploring the relationship between job quality and productivity outcomes which deserves further investigation as a potential influence on productivity.

7. Would you add any further characteristics of high productivity businesses as set out in paragraph 3.9?

A recent survey of businesses that graduated from The Goldman Sachs 10,000 Small Businesses (10KSB) UK programme of business development and leadership support highlights several other characteristics that are important in raising business productivity:

- **Internationalisation** – 10KSB UK graduates are twice as likely to sell directly to overseas customers as other UK small businesses – 44% versus 22%.
- **Product Innovation** – 58% of 10KSB UK graduates have brought totally new products to market, compared to 31% for all UK businesses.
- **Process Innovation** – 81% of 10KSB UK graduates have introduced new or significantly improved forms of organisations, business structures or processes, compared to 36% of all UK businesses.

It should be noted that companies must apply to participate in the 10KSB programme which suggests that participating firms recognise the importance of improving their management practices, a mindset that does not exist within all small businesses in the UK.

Leadership and Management

8. Is there further evidence on the links between management practices and productivity? If so, which management practices have the biggest impact on productivity?

For developed economies such as the UK, it is estimated that at least 55% of labour productivity growth will come from firms adopting existing best practice, known as innovation diffusion. The remaining 45% of productivity growth is expected to come from innovation creation, in which firms create new possibilities through technological, operational and business innovations (McKinsey Global Institute, 2015).

Strengthening the management capabilities of small businesses is central to improving the survival rates and productivity levels of the UK's SME sector. Growing the internal structure of an organisation is a lot more challenging than simply growing sales revenues – transitioning from being a small to a mid-sized company is very difficult and requires new structures and processes that may be unfamiliar to existing management.

Many SMEs arrive at a point where they must adapt and change if they are to continue to grow. For this to occur they must be able to plan systematically for that growth which requires an understanding of best practice approaches to management. Evidence suggests that deficient management skills are undermining the UK's economic productivity and that about a third of differences in productivity between countries can be attributed to management (Bloom, Sadun and Van Reenen, 2013).

The use of Key Performance Indicators (KPIs) is crucial to identifying areas where a business needs to improve and the actions that must be undertaken to address the issues identified. These mechanisms are strengthened further if a firm's performance is benchmarked against firms of comparable size in the same sector.

9. What are the main reasons for businesses adopting or not adopting management best practice?

The receptiveness of businesses to adopting management best practice depends on the existing mindset of the business owners and the current circumstances of their business. Feedback from our members who operate business support programmes highlight a variety of mindsets, ranging from owners who say their business doesn't need to improve (even if data shows otherwise) to those who admit there is room for improvement. For instance, a recent survey of 6,254 microbusinesses in the UK found that 74% of all respondents aimed to 'keep their business similar to how it operates now' (Enterprise Research Centre, 2018). However, our members have also found that once managers broaden their horizons by participating in a business support programme they realise the great potential to improve their existing operations.

Anecdotally we know that many small business owners feel they are too busy to stand back at a distance and take a detached view of their business, and this is particularly the case for low margin businesses accustomed to operating in survival mode. For many SMEs, short-term business pressures are prioritised over the potential for long-term growth, and change may also be perceived as a risk. The cost of paying for business support programmes can also be an obstacle to accessing training in best practice. The very successful Goldman Sachs 10KSB programme is free of charge, but the participation rates would likely have been significantly lower if a fee had been required. In general small business managers are reluctant to pay for a programme upfront if they don't know what the impact will be.

According to research by the CBI (2017), firms that are successful at adopting management and technology innovations share a number of important characteristics. These include exposure to strong competition; prioritisation of training and effective embedding of skills and processes; securing appropriate finance for adoption; accessing high quality communications infrastructure; a mindset to take considered risks; and operating in a mobile labour market to enable access to relevant skills for adoption.

The UK government's Industrial Digitalisation review found that the low adoption of industrial digitalisation had several potential causes, including difficulty for firms in identifying best practice and lack of access to people with the right skills. Anecdotal evidence also suggests that some UK companies lack a growth mindset and are happy with the status quo as long as they are making a certain level of profit. Many firms do not benchmark their performance against comparable firms which means they are not aware of areas for improvement.

10. Are there further examples, from the UK or internationally, of approaches that have worked to increase the adoption of management best practice?

In our experience one effective approach to encouraging small businesses to adopt management best practice is the influence of other small businesses and peers in their sector. A change in only a couple of businesses in a sector can result in a substantial ripple effect. Our responses to questions 13 and 21 provide case study evidence on the effectiveness of peer-to-peer support in enabling new businesses to boost productivity and become more innovative.

11. What actions by the public or private sector would be most effective to facilitate effective adoption and embedding of management practice?

We need a national scaled-up programme that incorporates what we already know are best practice approaches to management. The Chartered ABS/Small Business Charter can deliver this programme through quality controlled, anchor institutions that provide technical assistance on business basics and sustainable growth. The activities already undertaken by UK business schools offer us a strong foundation, but only a large scale programme can significantly boost SME productivity, and this is not possible without financial and political support from government.

Technology and innovation adoption and diffusion

12. Is there further evidence to demonstrate the link between technology or innovation adoption and a business' productivity growth?

A study of firms in manufacturing and business services in 24 OECD countries found that the labour productivity gap between frontier firms – the 5% of firms with the highest labour productivity by year - and non-frontier firms has widened significantly over the last decade and is weighing on aggregate productivity growth (OECD, 2016). The slow pace at which innovations spread from early adopters throughout the economy is likely to contribute to the growing divergence between leaders and laggards.

13. What are the main reasons for businesses adopting or not adopting new to firm technologies?

Larger organisations are much more capable of adopting new technologies than smaller firms, but 99% of UK companies are SMEs. Industrial SMEs frequently lack the information, expertise and skills, training, resources, strategy and the confidence to adopt new technologies. Furthermore, it is important not to overlook the increasingly complex range of complementary investments that firms need to make in order to adopt new technologies, such as skills, organisational change, process innovation, new systems and new business models (Haskel and Westlake, 2017). This is an additional barrier to innovation through technology, particularly for small firms.

A recent analysis of a sub-sample of sole-proprietorships and micro-businesses in the Longitudinal Small Business Survey found that innovating micro-businesses are most likely to have formal business plans, use external advice or information and be aware of business support available from the government (Henley and Song, 2018). Findings from a new survey by the Enterprise Research Centre (2018) show that collaboration with external partners is a strong intangible factor supporting the innovations of innovative micro-businesses, again highlighting the importance of peer-to-peer support networks in helping businesses develop.

14. How important are the seven identified 'best practice' technologies (identified in paragraph 5.14) to enhancing productivity at the firm-level, and which offers the greatest return? Are there other technologies which offer greater potential?

15. Do you have any examples, from the UK or internationally, of public or private sector approaches that have increased the adoption of best practice technologies or new to firm technologies?

The Small Business Charter intends to make a consortium application for the Business Basics funding to trial a number of different techniques across the UK related to facilitating the adoption of best practice technologies.

16. What actions by the public or private sector would be most effective in driving effective adoption of new to firm technologies?

Peer-to-peer networks are worth considering as a means of driving effective adoption of new to firm technologies, as these are proven in facilitating the transfer of new knowledge and expertise, in addition to acting as a means of support to overcome challenges. In this respect, the role of business schools as anchor institutions means they are able to provide continued support to businesses they have engaged with and can help ensure that new to firm technologies are successfully embedded.

The UK market for business support and advice services

17. What are the main reasons for businesses utilising or not utilising public and private business support?

See answer to question 9.

18. How effectively is private and public business support provided in the UK?

Training and support for small businesses is available in a variety of forms, ranging from formal qualifications to informal peer networks to allow SME managers to learn from others with similar experiences (these networks are often hosted by universities or professional bodies). The importance of mentoring and professional support schemes is underlined by a finding from 'The Scale-up report on UK Economic Growth' that 80% of respondents believed that they would be able to grow their company faster if effective mentoring and support services were available locally. It is important, however, that support is designed in a manner which accommodates the time limitations of SMEs, which small business managers perceive as being one of the key barriers to undertaking more management training.

Business schools are already providing very effective business support programmes across the following broad categories:

- Applying research to identify the issues and knowledge gaps.
- Teaching – ensuring that future managers understand productivity issues and are prepared for the challenges. This includes corporate education programmes.
- Consultancy – many business schools are now providing consultancy assistance to smaller companies supported by Knowledge Transfer Partnerships (KTPs) - including through Innovate UK - and ERDF grants.

Businesses involved in the Productivity through People (PtP) programme – a collaboration between several UK business schools and Be the Business - have welcomed its ethos of practical application and have contrasted this to the more formal lecture style approaches where they are 'talked at'. The latter approach is seen as frustrating as there is limited scope for participants to develop solutions tailored to the specific needs of their business. Effective business support requires participants to 'get their hands dirty' and find solutions that can be implemented immediately. In contrast to large multinational corporations, SMEs have limited resources to address problems and need to make the most of any support available.

The PtP programme is one of many initiatives run by business schools that focus on improving key capabilities within small businesses and core to its approach is the use of a range of interactive methods which establish a direct relationship between the mentor and the business owner. The PtP initiative is currently only available in three regions of the country but has strong potential to be rolled-out on a national basis using business schools that hold the Small Business Charter (SBC) accreditation. The PtP programme in the South-West region run by the University of Bath School of Management includes action learning sets in which four to seven small business owners are placed in a group with an academic practitioner, and the business owners are able to work through specific issues affecting their business in a structured way. This approach has received very positive feedback as participants value one-to-one mentoring.

19. Do you have any examples, from the UK or internationally, of approaches that have worked to increase the uptake of business support?

In addition to being the representative body for UK business schools, we also manage the Small Business Charter (SBC) which accredits business schools that play an effective role in supporting small businesses, local economies and student entrepreneurship with expert advice, training and courses. The SBC initiative is tailored to the needs of SMEs and is assessed by small businesses for small businesses.

Although it is a relatively new award, with the first set of qualifying business schools receiving the accreditation in 2014, business schools who have held the award for more than two years are already demonstrating positive outcomes in their levels of engagement with SMEs. There are now 36 SBC-accredited business schools across the UK which have directly supported more than 18,750 small businesses. SBC schools are working with small businesses across a range of sizes, including those at the larger end of the scale which are actually quite significant enterprises (i.e. those with around 200 employees) and they are also able to respond to the needs of local businesses.

SBC award holders provide several facilities designed to support growth of early stage businesses, including start-up space, accelerators, incubators and co-working space, in addition to a number of specialised programmes aimed at the SME sector e.g. Productivity through People, Goldman Sachs 10KSB, and the Lancaster University LEAD programme, among others.

Many offer Entrepreneur in Residence schemes, in which schools partner with a successful entrepreneur who provides technical support and advice to students and aspiring small business owners. A majority of SBC award holders report a change in the number of SMEs engaging with their institution since achieving the SBC award, with the increase in the number of engagements over the last 12 months averaging 45%.

After achieving the SBC award, many schools increased the delivery of workshops and events or introduced them for the first time if they were not previously offered. As a result hundreds of SMEs have attended events as the schools scaled-up the delivery of their activities in order to reach a greater number of aspiring entrepreneurs.

The activities of the SBC schools are closely aligned with the objectives of Be The Business, which is an online resource launched by the Productivity Leadership Group in 2017 with the aim of enabling businesses across the UK to connect and collaborate. Be The Business operates according to the same ethos as the SBC, which is that knowledge sharing is a strong catalyst for business growth. At the heart of Be the Business is a view that businesses can – and should – learn from one another, and that knowledge transfer by businesses who have already achieved high levels of growth can catalyse growth in others.

20. What actions by the public and private sector would be most effective to facilitate uptake of business support?

Business support programmes must be accompanied by demand stimulation activities so that managers develop an understanding of how their business could benefit from advice and support. Informal peer-to-peer learning can be helpful in creating the space where business owners can develop a strategic vision and realise that they could benefit from external assistance.

For example, Lancaster University has a multi-faceted approach using a range of media channels (e.g. newsletters, mailshots, social media feeds, etc) and working partners to ensure that programme recruitment is coordinated with the local Chambers of Commerce, LEP, local business networks and other stakeholders. The university uses media channels to raise awareness of programmes, and also runs events such as masterclasses to provide SMEs with a relaxed, low-risk

entry point into the university (as for many SMEs it can be quite daunting to approach universities), which provide further opportunities to publicise the university's programmes.

Lancaster University also employs dedicated Business Liaison Officers within its Business Engagement Teams. Their role is to support recruitment of SMEs onto SME business programmes and to help ensure that the programmes are the right fit for interested firms. Once an SME has expressed interest a key task is to have a more detailed one-to-one discussion to diagnose the needs of the business and determine whether the programme is indeed the right fit for them. This is important as a means of achieving high rates of participation and retention for firms joining the programme.

Having a clear route into business support programmes is important, and masterclasses can be used as a good entry point to market more comprehensive programmes. LEPs are important in offering a clear route through to business support and clear signposting between LEPs and business schools is crucial. We would like to see BEIS mandate that LEPs and Growth Hubs should actively engage the business schools in their area. The private sector can also play an important role in making sure that business schools are linked in to their activities, with both sides signposting to each other's available programmes, thereby tackling information failures within the market. The SBC would be happy to work as a facilitator in this objective. There is scope for the private sector to play an expanded role in the business support market if more firms were to introduce targeted programmes similar to the Goldman Sachs 10,000 Small Businesses (10KSB) programme.

In regards to the public sector specifically, at present businesses struggle to identify where to obtain support and, even if they do find it, they might not get what they need. The landscape in Scotland is very different. Scottish Enterprise, for example, is known to be very effective and in Northern Ireland firms naturally go to Invest NI, whereas in England people are less informed about where to go as the support system provided by the government has not been stable and is arguably too fragmented. Businesses need to trust in the organisation that is providing support and this requires evidence of a solid track record. There is also a lack of understanding of the purpose of LEPs and Growth Hubs.

The government should consider creating more LEPs/Growth Hubs that operate on a wider, regional basis, similar to the Greater Birmingham and Solihull LEP/Growth Hub which is delivered by Greater Birmingham Chambers of Commerce, Aston Business School and Birmingham City University (the latter two schools are both SBC accredited). This is a good example of a regional public sector entity acting as a single point of contact for business advice and providing targeted support through a partnership approach. Similarly, the ERDF-funded Aston programme for Small Business Growth has used support from the public sector to foster growth amongst ambitious early-stage businesses. This programme is currently on its fifth cohort of businesses and all of the 2015 participants surveyed after completing the programme are anticipating significant growth in turnover with 60% expecting turnover growth in excess of 200% and 48% also projecting employee numbers to grow in excess of 200% by 2018.

21. Do you have further evidence of what forms of business support are more effective at improving firm level productivity?

A few examples from programmes delivered by SBC schools demonstrate just how effective business support can be in improving firm-level productivity as measured by growth in revenue and employment, especially if targeted at SMEs with high growth potential. The Goldman Sachs 10,000 Small Businesses (10KSB) UK is a comprehensive programme of business development and

leadership support for small businesses and has supported over 1,400 entrepreneurs from across the country since 2011. The 10KSB programme is a partnership between Goldman Sachs and leading UK universities, including Aston Business School and Leeds University Business School, both of whom are members of the Small Business Charter.

A recent survey of over 400 UK businesses who graduated from the 10KSB programme four years ago found that the firms achieved a 22% increase in productivity - as measured by growth in turnover and employment - in excess of what they would have achieved without participation in the programme (Goldman Sachs, 2018). In addition, the survey also found that 10KSB UK graduates show higher levels of engagement than other UK small businesses across a range of areas associated with increased productivity, including leadership, digital adoption, innovation, and their capability to export. This also suggests that a focus on these areas may be the answer to unlocking increased productivity for UK small businesses in general.

The most effective forms of business support tend to be longer-term programmes of engagement with the business owner, encompassing different forms of learning and sharing experiences and challenges with peers. Through long-term engagement the business advisor is able to develop a more detailed understanding of the business and devise a suitable plan to unlock growth potential. Programmes that combine academic knowledge with the practical experience of private sector experts are particularly effective, and are an integral feature of Lancaster University's programmes.

For example, the Productivity through People (PtP) programme for the North-West region, developed at Lancaster University and delivered in conjunction with Be the Business and major corporate partners BAE Systems, Siemens and Rolls-Royce, uses the power of peer-to-peer learning among SME managers, stimulated by examples of excellence from the corporate partners. The programme aims to incentivise productivity enhancements in small businesses in the North-West through improved leadership and management capability. This programme is in its early stages but has already achieved impact for crystal manufacturer, Cumbria Crystal, which has reported increases in turnover of 90% since its Managing Director joined the PtP programme. The first cohort of participating firms in the South-West pilot of the PtP programme run by the University of Bath School of Management reported a number of impacts, including improved communications, leadership and employee engagement.

In addition, Lancaster University's LEAD programme, established in 2004, provided an intensive ten-month programme based on foundational research into management and entrepreneurial learning. An evaluation of the programme in 2013 by the Economic and Social Research Council (ESRC) found that three-quarters of participants reported improved labour productivity, by an average of £8,800 per year. Lancaster University Management School's Graduates of Lead Development (GOLD) programme, which focused on the leadership and management skills of SME owner-managers, achieved strong impact by experimenting with having a Non-Executive Director (NED) in the owner-manager's company and at the same time giving them a chance to practice being an NED in another company. The outcome was that six participants saw combined increases in turnover and staff numbers of 78% and 17%, respectively, over a two-year period.

The 20Twenty Leadership Programme run by Cardiff School of Management aimed to enhance the leadership skills of aspiring leaders and managers of SMEs, and an independent evaluation of the programme revealed that 56 new businesses were created as a result and 49 companies reported notable increases in profits, with one company reporting an increase of 300%. New business was also obtained by 25 of the participating companies.

Knowledge transfer between peers has been demonstrated to be both effective and cost-efficient in increasing firm-level productivity. Fundamental to the SBC programme is the facilitation of peer-to-peer learning by bringing together aspiring business owners and entrepreneurial experts. An excellent example of this is the Growth Advantage Programme run by Strathclyde Business School, which delivers practical learning for the leaders of growth-focused businesses in Scotland. The programme combines world class executive education with peer learning and has a proven track record of impact with over 50 ambitious entrepreneurs on track for significant growth. The average annualised growth in employment and sales of the participating cohort exceeds the OECD high growth threshold of 20% and has been attributed to several factors, including greater business clarity and changes in management structures and personnel.

22. What is the role of public sector in ensuring the uptake of private sector business support?

LEPs, as part of their business gateway role, should be encouraged to emphasise the need to work in a way which stimulates the commercial business support market, enabling growing companies to link with private sector sources of advice. Hence public programmes in recent years have been developed that involve diagnostic support that brokers further support from private consultancies. Lancaster University's ISIS programme provides a best-practice approach to support SMEs in any sector to identify their technology needs, to make the right investments and, crucially, to build relationships between the client and the private ICT suppliers.

The government can play an important function in certifying the quality of business support advice as there is much confusion in the small business world as to what constitutes quality business support. The government should consider certifying schools with the Small Business Charter accreditation as quality and trustworthy sources of support.

23. How can Government promote self-sustaining business support ecosystems, where firms seek and access information, advice and tools that improve their performance?

At present many SMEs are not seeking the technical assistance they need or are often confused by the bewildering array of training options available. This calls for a central focal point for the UK's business support ecosystem through which SMEs can be quickly sign-posted to appropriate advice and support. As anchor institutions with deep local knowledge, strong technical expertise and excellent facilities, business schools are in an unrivalled position to deliver this support.

Leadership development support for small firms needs to be conceived differently and the plethora of provision coordinated cohesively so that SMEs are directed to those areas, initiatives, providers and individuals who can best manage their support needs. Business schools do not pretend to be able to offer every type of business development training, but they can make a contribution in areas where they have specialist expertise.

The Entrepreneurs-in-Residence (EIR) network run by SBC business schools is proven to develop self-sustaining business support ecosystems. The EIR network consists of a group of entrepreneurs who are affiliated with business schools which have been awarded the SBC accreditation. Through the regional contacts offered by the network, aspiring entrepreneurs are able to quickly access business insight, knowledge, and learn from others' experiences, providing a platform to help them overcome initial hurdles. Peer-to-peer networks like EIR are self-sustaining because participants learn from each other, develop valuable business relationships, and feedback the knowledge gained into their business schools which improve their business support systems as a result.

One of the biggest challenges faced is the identification and engagement of firms that could benefit from support and instead of just focusing on supply side issues also work on identifying and developing appropriate mechanisms to stimulate demand. Managers often need to be drawn into an understanding that they will benefit from advice and support, and they also need to have a good initial experience of such support before they will undertake what might be considered a “formal” course of study.

The careful selection of training recipients would help to ensure the effective use of public funds and the SBC can support this process in several ways, including through the potential use of HMRC data to identify companies most suited to receiving training. The SBC business schools are already collaborating extensively with government agencies focused on SME growth (e.g. Local Enterprise Partnerships) and there is scope to deepen this partnership to the benefit of small businesses across the UK. Peer-to-peer networks have impact and need more overt recognition, funding and support from government. Local engagement between SMEs and the education system needs to be increased and incentivised as traditional work experience placements and careers advice have their limitations.

Summary

24. Do you agree that we are focusing on the right set of businesses? Do you agree that there are opportunities to increase productivity in the long tail?

25. Are there any other firm-level factors that we should be focusing on, that are not covered in this call for evidence?

It is important to bear in mind that many of the benefits created by small businesses are not necessarily financial and relate to non-economic factors such as innovation, community support, staff development through training, etc. Small businesses should not be made to feel that they are not making a productive contribution to society just because they are not growing in terms of a narrow measure like revenue.

Our experience also tells us that SMEs are reluctant to spend money on development when there is no guarantee of the outcome they are seeking. When devising training interventions to improve business productivity, the government should look for alternatives to up-front funding from the businesses themselves. There are numerous alternative approaches and we are happy to work with BEIS to draw up a suitable plan.

26. Where do you think the main opportunities are for the UK to drive business productivity growth?

The Small Business Charter is an award scheme for business schools who have been assessed by an independent SME, an academic and a member of Enterprise Educators UK to have met the stringent requirements around the support they give to students and SMEs in their local area. This includes having evidence of working with other parts of the university and with external agencies such as LEPs and growth hubs.

There is a fantastic opportunity for the Government to use this network to help deliver the strategy and drive forward productivity within the smaller businesses in the UK. These schools are reassessed on a regular basis to ensure they are delivering and therefore the Government can be confident that this is a mechanism to be trusted.

Business schools are located regionally and are well connected within their own communities. Further, they have a longevity which makes them a reliable partner for the business community. This contrasts with the reliance on political support for the likes of LEPs, which may disappear or be transformed by the next Government.

The SBC and the schools with the award are keen to work with Government in this area and welcome further discussion.