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A new design: making local support work for business

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Foreword

The 39 Local Enterprise Partnerships (LEPs) exist to enable growth in the private sector no matter a business' size or sector.

Business support is a resource which every successful business needs to start up and stay current, to compete and grow. This support needs to be timely, easy to find, relevant and effective in meeting its objectives.

Many of the challenges that LEPs face when delivering support are common across England. For example, making sure businesses have the right mix of talent available to them to build a skilled workforce will be a focus all LEPs recognise. So too, making sure businesses are able to access appropriate finance from banks or alternative finance providers, when they need capital to grow. Not to mention the issues around poor roads and rail connections and broadband coverage that local areas are facing.

However, as discussed in this paper, each LEP has its own unique strengths, weaknesses and needs which will inform where they are best able to drive local economic growth. For some areas of the country this may mean helping 'scale-up' firms in a niche sector, while elsewhere the economic opportunity may rest more with start-ups.

The tailoring of bespoke business support packages by the 39 LEPs, will inevitably mean that different parts of the country will receive different services. To simplify the situation, the more LEPs choose to work together when appropriate, the more effectively they will communicate and engage with the business community.

Reaching out to business owners to give them simple, straightforward support isn't easy because they often face time pressures while juggling the commitments of their businesses. As shown in this paper, when provision is complex and fragmented, this only makes providing support more difficult.

The principles in this report provide a clear starting point for all LEPs in thinking about how to organise and deliver effective business support. In particular, LEPs will need to make the delivery of a first-stop shop for businesses through Growth Hubs a core objective.

I suspect that the LEP private sector board members will welcome the opportunity to get stuck in to support the findings in this report in addition to existing LEP priorities.

Alex Pratt OBE JP

Chairman

LEP Network Management Board

Buckinghamshire Thames Valley LEP

Serious Brands Ltd

Foreword from the FSB and ICAEW

Business support has played a crucial role in adding value to businesses and the wider economy where it has been effectively applied, but the policy decisions made nationally and locally over a number of years have not provided a coherent support system that businesses understand.

There has been a failure of co-ordination between public and private sector provision, both of which are crucial to the wider picture. Equally, the low level of evidence in this area means there is limited knowledge of whether many of the interventions put in place have had a positive effect, let alone which provide the best value for money. The current business support framework represents a lost opportunity in terms of local growth and prosperity. Significant investment has been made over many years, and yet there is little understanding of how it has or has not impacted the economy. We are determined to change this and this paper aims to help LEPs and other stakeholders work together to develop a cohesive system of business support that is effective, sustainable, adds value and one that businesses understand.

The development of LEPs and the establishment of Growth Hubs, combined with the review of national business support and planned reviews of local business support, present us with an unparalleled opportunity to think strategically about the kind of support environment that business need. There are LEPs who have adopted appropriate business support design principles. However, many LEPs lack the capacity or capability to do this and will need support to provide coherent and effective support. All LEPs need to develop their business support framework based on evidence which adheres to robust evaluation methods.

This paper sets out the overarching principles of effective local business support, as seen from the small and micro business sector who are the predominant users of these services, drawing on evidence compiled for us by the Enterprise Research Centre (ERC). These principles provide a clear starting point for all LEPs in thinking about how to organise and deliver business support.

The information in this paper is a useful resource for LEPs thinking about how to create an effective support environment for businesses, but this paper is only the first step. It is crucial that LEPs work with businesses large and small, new or established, to build a support landscape that works in the interests of all businesses.

In developing this paper, we are particularly indebted to the ERC who provided the evidence and analysis on which we have based our conclusions. The ERC was set up in 2013 to answer a single question - 'what drives SME growth?', and while we are still only 'in the foothills' of answering this question, ERCs work has already started to take thinking by both Government and those who support business growth in new directions. We need exactly this kind of research capability and input in the UK and we look forward to working with ERC again in future.



Mike Cherry
National Policy Chairman
FSB



Stephen Ibbotson
Director, Business
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Executive Summary

- Despite improving economic performance, the UK still has fundamental economic weaknesses that can be improved by effective business support.
- Economic strengths and weaknesses can also be identified at local and regional level, and vary significantly across the UK. These differences must guide the approach to local interventions.
- Business support is currently under-used, with many businesses unaware of availability, and even their need for support.
- Business support at both the national and local level has been characterised over many years by confusion, duplication and a lack of a comprehensive overarching strategy to define what outcomes support is being designed to achieve, and how initiatives work together.
- Changes have been made to streamline the national business support offer to make it more accessible to businesses, and over the next year LEPs will be asked to follow the same process at a local level – this is a golden opportunity to make local business support more coherent and effective.
- Growth Hubs can provide a single focus for the delivery of business support locally, but it is crucial that LEPs use and co-ordinate their activities with Growth Hubs to ensure that the shared goals of the area are delivered.

Ideas for LEPs to explore

1. Review existing provision in relation to local growth objectives

Take stock of the current provision, whether national or local, public or private sector, to avoid duplication.

2. Consider local economic conditions

Ensure that support reflects the varying local economic dynamics, and local business need, and how that might change the mix of interventions required.

3. Consider the local economic ecosystem you are trying to impact

Think about the local business support system and the other organisations that will be involved, so that interventions have a clear purpose and extent.

4. Develop co-ordination across the system

Establish governance frameworks and delivery mechanisms to ensure aligned and consistent goals between key partners, and a coherent landscape.

5. Focus on a limited number of initiatives, and get the design right

Concentrate on a small number of schemes to ensure things are easier for business to navigate, and it is easier to assess and get delivery right.

6. Check targeted programmes against key principles

Targeted programmes aimed at developing small firms into growth businesses should follow key principles based on the evidence (See Figure 1).

7. Put evaluation mechanisms in place

Establish a baseline and assess over appropriate time periods to ensure that an intervention is working and represents value for money, and to build the evidence base.

Figure 1 – Key principles of targeted programmes for growth businesses

1. **Enabling self-selection** – setting up the scheme so that it gives a clear indication of what is required and who should apply
2. **Selecting participants** – making sure those who participate are likely to complete the training and successfully benefit from the programme
3. **Recognising impact on wider economy** – selecting to increase the potential for positive spill-overs while minimising displacement
4. **Sustained engagement** – the need to provide continuing engagement over a number of years
5. **Holistic approaches** – looking at the whole of the business and its needs
6. **Partnership based** – drawing on the expertise and networks of a range of local support organisations using and building on existing private sector provision wherever possible
7. **Regionally organised** – providing more opportunities for event attendance and networking

The need for effective business support

Raising national economic performance

Business support should ultimately be contributing to improved performance of individual firms, leading to better economic returns locally, and for the UK as a whole. The UK has some significant economic challenges to address. The economy has started to recover in the last two years after a period of stagnation, with GDP returning to pre-crash levels in 2014. At the time of the economic crisis, productivity fell by just over 4%, and did not regain its Q1 2008 level until Q2 2011. Subsequently productivity declined again to remain 2.5% below its Q1 2008 level in Q4 2012, and has remained broadly flat since¹.

Another concern raised about the UK's economic performance has been the persistent trade deficit, and the inability of the UK to rebalance by increasing exports. Exports grew in the aftermath of the crash, as overseas markets became relatively more attractive when compared to weak demand in the UK. However, since 2012 export growth has remained broadly flat² despite ambitious UK Government aspirations to double the value of exports, and number of exporters by 2020.

Given these challenges, well-targeted, effective business support which adds value could, and should, make a significant contribution to addressing some of the underlying difficulties faced by the UK economy, which include low productivity and the need to re-balance growth across the country. Therefore, the focus for business support should be growth entrepreneurs, growth companies and export-oriented businesses irrespective of business age, firm size and sector.

Informing business support design: local economic performance³

In designing support, LEPs should be wary of looking solely at the UK's national economic performance. There are significant differences in regional and local economic performance. Not only does that increase the importance of well-targeted business support, it should also affect strategic choices about, and the design of, business support that will effectively boost local economies. For example, looking specifically at local economic performance, both growth and incomes per head vary markedly across local economic areas. Evidence suggests most of the differences in output are due to differences in productivity rather than differences in levels of employment, which therefore should be a good starting point to inform the choice of business support.

Moreover, local areas also experienced very different patterns of growth through the recession and post-recession period.

Pre-recession, London and the Core Cities⁴ performance was consistently above the English average from 2003-07. During the recession (2008-09), London's growth rate per head dropped to -4.12%, compared to -1.06% in Core Cities and -2.19% for England as a whole.

1 ONS GDP Figures

2 ONS, UK Trade

3 ERC LEP Growth Dashboard

4 The English core cities are: Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield.

During the recession, Liverpool recorded the highest growth rate (2.5%), and was one of only three Local Economic Areas alongside Manchester and the West of England to record positive growth. Post-recession, North Eastern and the Derbyshire and Nottinghamshire LEP area (D2N2) recorded the highest growth in GVA per head, followed by London. Post 2009, D2N2 and London were also among those Local Economic Areas at the top the table of net job creation. The ERC, in partnership with GrowthAccelerator, has undertaken new unique analysis of all 39 of the UK's LEPs revealing a complex start-up geography across England. The analysis provides a snapshot of growth between 2009 and 2012 and comparative tables of the 39 LEPs based on metrics such as the proportion of fast-growing firms, net job creation and survival rates. ERC will update its analysis using 2014 data early this year.

The data shows that no one local economic area is strong across all metrics, and that while growth may be prevalent in major cities, they are also some of the trickiest areas in which to start up. Four of Britain's major cities are at the bottom of the table when it comes to proportion of employer start-ups that survive three years:

- London – 59.7%
- Greater Birmingham and Solihull – 58%
- Greater Manchester – 57.8%
- Liverpool City Region – 53.3%

However, for those that do survive, the proportion of start-ups which grow to £1 million turnover in three years is at its highest in three of the same cities:

- Black Country – 5.7%
- London – 5.2%
- Greater Manchester – 5.1%
- Liverpool City Region – 5%

Outside of the major cities growth is still prevalent and there are rural and semi-rural areas which rank highly on some key metrics. Northamptonshire and Leicestershire top the comparative tables in terms of net job creation while Cornwall and the Isles of Scilly rank highly on 2009 start-ups surviving to 2012.

All GrowthAccelerator businesses undertaking the initial diagnostic process were also asked what they considered to be the main barriers to growth. The major reason, cited in 26 of the 39 LEP areas, was strategy and management. Only three LEP areas gave finance as their major barrier – two in the North and one in the far South West with the remaining 10 LEPs citing skills and staffing as the key issue.

This data gives LEPs a clear signal as to the issues facing businesses in their areas, and identifies where investment and effort should flow to drive economic performance. The data can be accessed through the ERC website⁵.

⁵ <http://enterpriseresearch.ac.uk/news/lep-growth-dashboard/>

Current business support: a confusing landscape with low take-up

Business support can have a positive effect on businesses, helping overcome information and knowledge gaps which are particularly evident in the smallest and youngest businesses⁶. Though business support can deliver benefits for businesses, the available evidence suggests that formal business support is underused by small businesses. 2011 research for BIS found that an estimated 28 per cent of SME employers had an unmet need for formal business support over the last three years. Half of these businesses did not recognise their need for support, despite experiencing unresolved problems⁷. This may be attributed to a lack of information and awareness about available support⁸, lack of trust in the value of advice or support⁹, or lack of trust in the impartiality of advice.

Many businesses, particularly those with limited time and resources, which by definition tend to be the smallest firms and start-ups, have found it difficult to navigate a complex environment for business support. The UK business support landscape has been characterised by confusion, duplication and a lack of an overarching strategy to define what outcomes support aims to achieve. In 2012, there were nearly 900 different sources of local financial support for small firms and 18 access to finance schemes in operation nationally and locally¹⁰. The Breedon Review of 2012 commented on the 'alphabet soup' of initiatives¹¹- many of which have duplicated existing private and public sector provision, with little evidence base demonstrating their effectiveness. The characteristics of small businesses and their tendency to under-utilise support makes effective design and clear and well marketed routes to support an even more critical part of local economic strategy. It should therefore be self-evident that when LEPs look at local business support, they should make it an absolute priority not to add to this already crowded landscape.

This crowded landscape has also made communication of the right schemes for business a significant challenge, leading to the lack of awareness mentioned. While some tools are available to help businesses identify appropriate resources, both nationally and locally, communication in both a general sense, and in terms of ensuring individual businesses access the right support at the right time, is key.

Equally problematic is that the evidence base for effective business support is distinctly lacking, and the quality of evaluation that has taken place has been criticised, with the National Audit Office noting that none of the evaluations relating to business support were 'at the threshold for evidence that the programme has caused the reported impact'¹².

6 Chrisman J J, McMullan W E, 2004, "Outsider assistance as a knowledge resource for new venture survival" *Journal of Small Business Management* 42 229-244

7 CEEDR (2011) Research to understand the barriers to take up and use of business support. <https://www.gov.uk/government/publications/research-to-understand-the-barriers-to-take-up-and-use-of-business-support>.

8 Bennett R J, 2008, "SME Policy Support in Britain Since the 1990s: What Have we Learnt?" *Environment and Planning C-Government and Policy* 26 375-397

9 Scott J M, Irwin D, 2009, "Discouraged advisees? The influence of gender, ethnicity, and education in the use of advice and finance by UK SMEs" *Environment and Planning C-Government and Policy* 27 230-245

10 FSB, *Enterprise 2050*, February 2013

11 Breedon Report, 'Boosting Finance Options For Business', March 2012

12 NAO (2013) 'Evaluation in government', Report, December, p.23. See also Gibbons, S McNally, S Overman, H (2013) 'Review of Government Evaluations: A report for the NAO', December. Available at: <http://www.nao.org.uk>.

Recent developments in business support at national and local levels

It is because of these problems that the provision of business support has come under significant scrutiny during this Parliament. In 2014, the Government initiated a 'Star Chamber' exercise to examine the effectiveness and value of national schemes, leading to a process of reforms to focus the offer, and to produce a series of tools to help businesses find the support they need.

As part of a general drive to simplify national schemes for all businesses, the Business Growth Service, aimed at businesses with growth potential, has been launched focusing on three key pillars: advice, exporting and finance. This service is to be delivered to businesses by a single point of contact, around business needs, and aims to address some of the problems that have been identified around marketing and evaluation. It should also be noted that there are additionally aspects of support which have been generally well-received by businesses, particularly those focused on more tailored support, such as Innovate UK and the Manufacturing Advisory Service.

In an ideal world, LEPs and other providers of local support would be able to draw on a wide evidence base of different business support interventions to inform their choices, but this evidence is currently lacking. However, there has been an encouraging emphasis on building this evidence base, in particular the establishment of some new dedicated research capability through the ERC and the What Works Centre for Local Economic Growth (WWG). The WWG is a collaboration between the London School of Economics, Centre for Cities and Arup, which is funded by the Government to carry out reviews into policy evaluations relating to local economic growth, with a view to finding out 'what works'.

The search for more robust evidence has led to an increasing interest in experimental evaluation methods involving randomised control trials¹³ (RCTs) which are common in medicine, social interventions relating to education or training and development economics¹⁴, and have been incorporated by the UK Government into a number of policy interventions.

In particular, the following business support programmes have included RCTs in their design, which should provide information about the effectiveness of the interventions, and what particular aspects have provided better value:

- **Growth Vouchers** - launched in 2013 this RCT with a budget of around £30 million aims to evaluate the effectiveness of external advice in promoting small business growth. Five different types of business advice are being 'tested' in a project involving up to 20,000 companies.
- **Small Business Charter Growth Voucher Programme** – Part of the Growth Vouchers Programme, this is a distinct project exploring the value of business school-SME mentoring and training support. It was launched in October 2014.
- **Growth Impact Pilot** – Part of the Growth Accelerator programme - this project launched in 2014, is using an RCT to assess the impact of providing business coaching to firms who are identified as having high growth potential and are receiving leadership and management support.

¹³ In this case firms would be asked to apply for a support scheme and then once they have applied they are randomly allocated to a control group (who do not receive the support) and a treatment group (who do receive support).

¹⁴ Banerjee, A V and E Duflo. 2008. "The Experimental Approach to Development Economics," NBER working paper.

The results of the Growth Voucher RCT in particular, should provide useful insights that can inform local business support policy in the medium-term. The early performance impact results are expected in 2016.

Encouragingly, three LEPs (Enterprise M3, Northamptonshire and Sheffield) are now carrying out simplification pilots to determine how business support should be organised locally. These pilots will lead to a wider series of reviews by LEPs of how local business support is organised in their area. This could include a role for businesses and other stakeholders in ensuring that local business need are met. In the past the local business support landscape has mirrored the problems encountered at a national level. In particular there has been widespread duplication of both private and public sector support, few clearly defined goals, and a proliferation of poorly thought out, ineffective schemes. The main problem seems to be that individual local authorities, as part of the LEPs, have developed a full range of business support interventions for the purpose at demonstrating that they are in place rather than responding to need and proving that they are effective.

The review by LEPs of the local business support offer provides a vital opportunity to rethink the way support is provided and delivered, and most importantly, the goals it seeks to achieve where this paper provides some clear insights. The WWG is working with the ERC to encourage experimentation in business support across the LEP network with the objective to add significantly to the evidence base on impact.

Another current initiative aimed at addressing some of the problems described are Growth Hubs, as mentioned above. Growth Hubs are designed to simplify the local business support offer and provide signposting of both public and private sector support to businesses – a need Lord Heseltine identified in his 2012 report 'No Stone Unturned'. They are currently being rolled out across England, based on LEP areas, with an aim to ensure each LEP has an equivalent Growth Hub by March 2016. This should provide one-stop access to integrated leadership support, training and financing opportunities through a new, dedicated business support hub. The Growth Hub will draw on and co-ordinate the resources of universities, local authorities, government agencies, industry bodies and private sector advisory sources such as law and accountancy firms.

There were four Pathfinder Growth Hub initiatives launched between late 2011 and March 2013 and the key learning points to emerge were¹⁵:

- simplify the offer
- spend time to develop key strategic partnerships
- secure and leverage funding to scale interventions
- engage with businesses to assist design
- develop strong governance alongside monitoring and evaluation – measuring value for money

The establishment of Growth Hubs to co-ordinate and signpost local business support is welcome and has the potential to reduce complexity. However, Growth Hubs exist at a number of stages of development, with many newly operating, and others yet to be established. As yet we have concerns

¹⁵ ICF GHK (2013) Research on Understanding Localised Policy Interventions in Business Support and Skills, BIS Research Paper 156 (December 2013). The Growth Hubs examined were Greater Manchester Business Growth Hub; Plymouth GAIN, New Anglia Business Information Portal and West of England Charter Mark

about how clearly their role has been defined centrally, which may cause difficulties in establishing their purpose. They currently lack clear performance measures against which they can be assessed, are not consistently engaged with the evidence base on either their local economic performance or business population or on 'what works'. Importantly, they lack the power to affect and shape the local business support environment.

The Government has started to establish a framework for evaluation of the impact of Growth Hubs, and the simplification pilots will be crucial in establishing where impact can be achieved. If the business support offer is to become more focused and simplified, and crucially be better communicated to businesses, it is vital that LEPs use the capacity afforded by Growth Hubs to both establish goals, and deliver support in such a way that achieves those goals.

One more established example of a Growth Hub is Buckinghamshire Business First, set up in advance of the Buckinghamshire Thames Valley LEP in 2012, before the establishment of the wider Growth Hub network. It has had a longer period to demonstrate the Growth Hub model, providing greater coherence in the support offer. It now has 6,000 businesses in membership representing 60 per cent of the private sector employment base and has so far delivered support to over 4,000 businesses, to which they attribute to the creation of over 1,000 jobs.

Getting design right: the principles of effective support

The following section sets out the principles of effective support, drawing on insights from academic sources and those involved in the design of business support programs. The goal should be to dovetail support provided at the local level, whether private or public, with national schemes, noting recent efforts to simplify and better signpost the offer and thereby reinforcing their effects.

The case for why a coherent, effective business support offer is needed at the local level is clear. Research has identified seven principles of design to follow when devising business support at the local level.

1. Review existing provision in relation to local growth objectives

The starting point for any review of business support must be to consider the current landscape in the context of local growth objectives and the evidence base. As a first step, existing provision, whether national or local, public or private sector, should be reviewed, to identify what gaps in the market it is filling, an assessment made of duplication, and where possible the effectiveness of the scheme in delivering its stated goals. Not doing so will almost inevitably lead to further duplication.

For example in the recent past local programmes have been aimed at financing start-ups, despite the presence of the national Start Up Loans scheme and a plethora of other initiatives (e.g. under the Regional Growth Fund) to provide funding to start-ups. Given the range of other schemes in the marketplace designed to provide finance, particularly to start-ups, this is simply duplicating the offer and crowding out the market - diverting scarce resources from more pressing local needs.

Once a local body has a clearly mapped out view of the support already available, it can identify where there are gaps, and where co-ordinated local effort and investment, public and private, could add value.

2. Consider local economic conditions

As set out earlier when examining local economic performance, different areas have different local economic dynamics and challenges, and as such, different needs that business support should seek to address. Local economic factors should be considered in detail when deciding which areas need support. For example, introducing a measure targeted at creating more start-ups in an area which has an above-average level of start-up creation, but poor levels of start-up growth and survival would be a waste of resources.

3. Consider the local economic 'ecosystem' you are trying to impact

LEPs are well placed to draw together the wide number of different stakeholders required to participate and ensure maximum effectiveness of a given policy. It is vital that the whole system is considered at the design stage, so that interventions have a clear purpose and extent. Figure 2 gives an example of the range of the local and national private and public sector actors that may need to be considered.



Figure 2 - An example of what an ecosystem may look like. Each local ecosystem will also have a number of local stakeholders.

A local economic system is one in which the array of organisations involved form a coherent whole, has a unified function or objectives, and has clear boundaries that can be identified¹⁶.

An approach that takes into account the local economic ecosystem is desirable from a number of points of view. Above all, it assists co-ordination and therefore maximises the impact of local talents and the capabilities of individuals and organisations. This includes universities and their research base, business organisations and networks that can provide support themselves, through to local colleges and the supply of skilled labour. Such a holistic view also allows for effective support for firms as they go through the various phases (or 'transitions') in their development and growth, from start-up to those seeking private equity and venture capital investments. Such an overview will ensure there are no 'gaps' in the local business support eco-system, that the key transitions are effectively managed, and individuals/firms are routed to other more appropriate support organisations.

Local agencies can play a key role in the assessment and management of the local entrepreneurial system, profiling capabilities and identifying bottlenecks which result in lower levels of wealth creation¹⁷. A lack of incubator capacity or grow-on space in a particular area may, for example, constrain the establishment and growth of firms despite high levels of entrepreneurial aspiration.

4. Develop co-ordination across the economic ecosystem

To make sure that policies are effectively implemented, mechanisms need to be put in place to ensure there are shared goals which are consistent across a local area, and the local economic ecosystem is thoroughly mapped and reviewed on a regular basis.

LEPs and Growth Hubs should have a clearly defined role in these regards, by bringing stakeholders, including the private sector, together and providing a co-ordinated approach across a local area. They need to show leadership and work closely together. Those involved in delivery must be aware of the goals being sought, and focus their contribution on achieving those goals. They also need to think about how they can assess the needs highlighted by business themselves whether through regular consultation or not.

Ensuring that the local offer links with the wider provision of existing support is another important aspect of co-ordination. For example businesses using UKTI's regional support network experienced between 8 per cent and 15 per cent increased turnover growth¹⁸. Export support should not be developed by LEPs or others separately given the existence of an extensive UKTI regional network. Instead, general support should aim to support exporting ambitions and provide clear signposting to existing UKTI services, and other export services.

The wide range of actors within a local economic ecosystem point to the importance of Growth Hubs in simplifying the offer for businesses, but it is crucial that the focus for Growth Hubs should be based on evidence of emerging local need. They should have the responsibility to develop a range of innovative actions to address the key barriers to growth for the business population in the LEP – based on latest research to identify what makes small businesses grow, survive or fail and what will drive local economic performance – to develop the right support.

¹⁶ Edquist, C. 2004. *Systems of Innovation - a Critical Review of the State of the Art*. Oxford University Press.

¹⁷ Ács, Zoltán J.; Erkkö Autio and László Szerb. 2014. "National Systems of Entrepreneurship: Measurement Issues and Policy Implications." *Research Policy*, 43(3), 476-94.

¹⁸ Godel, M., and Mantovani, I. (2012) Evaluation of the impact and cost effectiveness of UKTI's regional network support. London, UKTI

Crucially, Growth Hubs should provide a single point of reference for start-ups and established businesses to access support in the following areas, wherever possible tapping into existing private sector expertise:

- support to start a new venture and survive
- access to different stages of funding
- leadership, strategy and management development
- sales
- marketing
- customers: local and exporting/internationalisation/supply chains/procurement
- access to talent and skills
- innovation, technology, and knowledge transfer
- networks, environments, and infrastructure

5. Focus on a limited number of initiatives, and get the design right

It is understandable that many organisations, both nationally and locally, have sought to intervene wherever they have encountered specific problems. However, as noted earlier, in the UK this has led to duplication, proliferation, and above all confusion about what is available to businesses. As discussed earlier, at the local level the desire to demonstrate a range of initiatives has detracted from the core growth objectives. Any scheme which does not achieve the goals that have been set, or duplicates provision should be scrapped or not initiated.

The streamlining of the offer is important. It helps with ensuring awareness, while minimising the risk of crowding out private provision, and the potential unintended consequences of a large number of interventions interacting with each other. It will also make it easier for LEPs and Growth Hubs to focus on effective delivery and assessment of effectiveness.

From the available evidence, two broad insights clearly emerge:

- Established businesses contribute more strongly to high net job creation rates. Therefore, schemes intended to boost job creation should focus on established firms¹⁹; and
- Business advice consistently produces better outcomes on productivity and output than on employment²⁰.

The Scale-Up Manifesto, authored by Sherry Coutu, has also identified important lessons around the most effective interventions to help scale up firms with growth potential (See Figure 3).

19 ERC analysis of ONS data – Anyadike-Danes, M and Hart, M (2014) "Are all LEPs Equal? Workplace and job dynamics 1998-2012", ERC Working Paper.

20 What Works Centre for Local Economic Growth, Evidence Review – Business Advice, May 2014

Figure 3 – Key points from the Scale-Up Manifesto
(<http://www.scaleupreport.org/>)

The Scale-Up Report, led by Sherry Coutu identified scale-up companies, which had average annualised growth in employees or turnover greater than 20 per cent per annum over a three year period, and with more than ten employees at the beginning of the observation period. The report notes that this relatively small number of scale-ups are responsible for a significant proportion of job creation and economic growth, noting that a one per cent increase in scale-up population would drive an additional 238,000 jobs and £38 billion to GVA within three years.

Several key points emerged from the report for LEPs to consider around developing companies with the ability to manage rapid growth. They include the need to provide managerial and leadership training for more rapidly growing companies, echoing evidence cited earlier in this report, and to target relevant mentoring schemes on scale-up companies.

A number of case studies are included in the report which may help inform LEPs in developing support to boost these firms with growth potential.

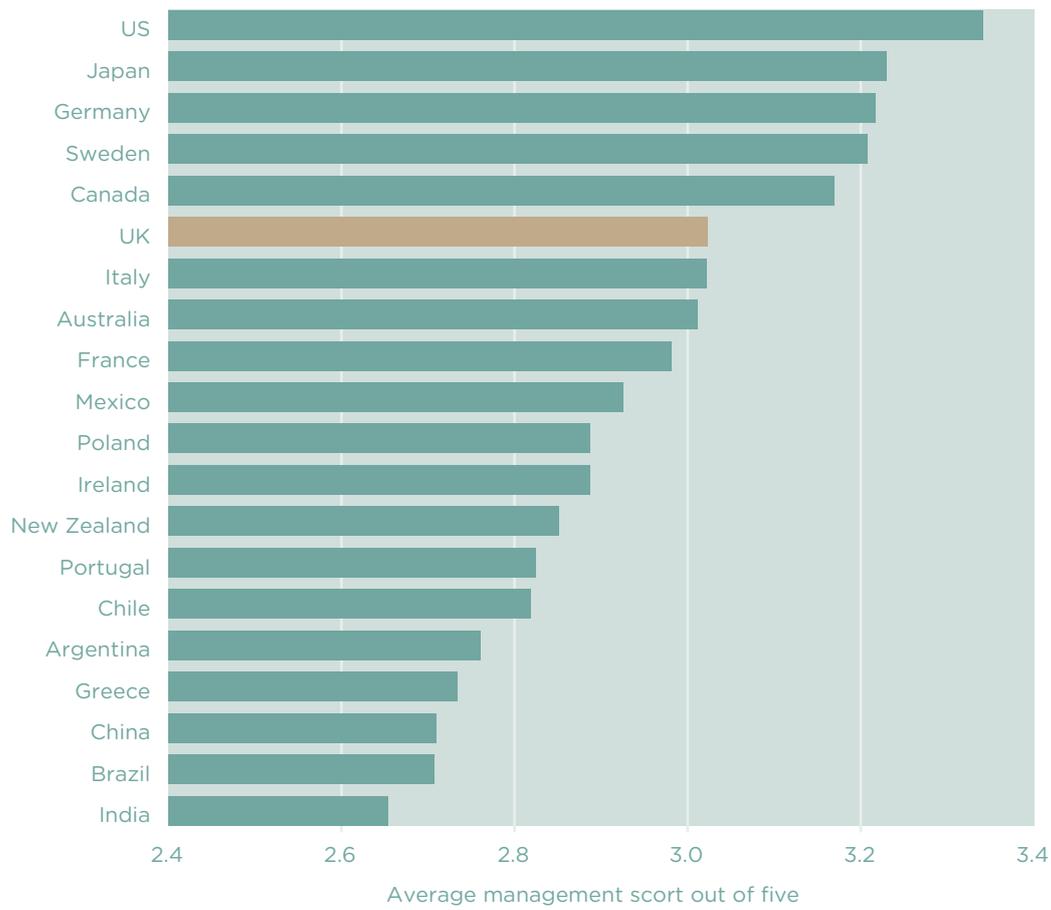
One clear finding from the local data discussed earlier is that businesses which have accessed GrowthAccelerator in the vast majority of LEP areas identify strategy and management as the main barrier to growth. In the UK, management capability is lacking compared to a number of high-performing competitors such as the USA, Japan and Germany. In particular, UK management performance is dragged down by a 'long tail' of poorly performing businesses (See Figure 4 and 5).

Improvements in management are known to impact significantly on business performance, and there are examples of successful programmes in this area from which lessons can be drawn. A single point improvement in management practices (rated on a five-point scale) is associated with the same increase in output as a 25 per cent increase in the labour force or a 65 per cent increase in invested capital²¹. As such, this is an area that local support could focus on, working with private sector or local Higher Education and Further Education partners. In particular the launch of the Small Business Charter is providing more opportunities for collaboration between small businesses, business schools and students.

21 BIS (2012), Leadership & Management In The UK - The Key to Sustainable Growth

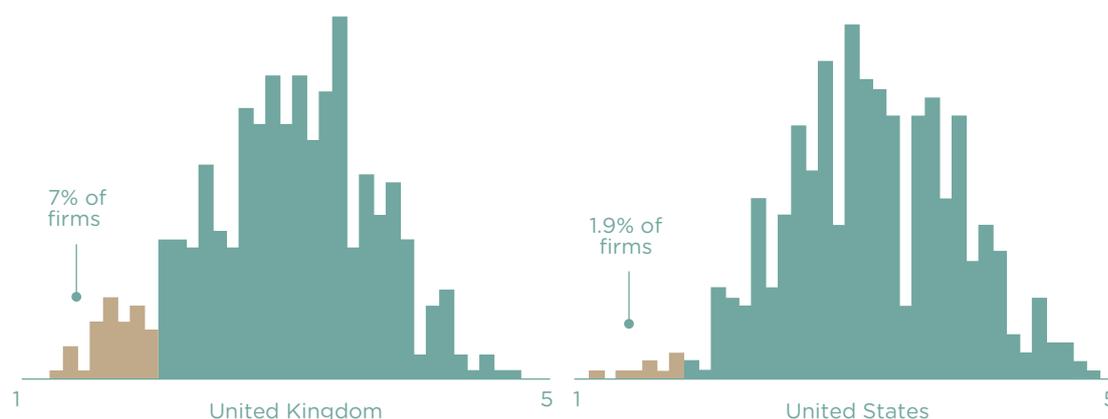
Figure 4²²

International comparison of leadership and management capabilities



22 BIS (2011), Constraints on Developing UK Management Practices.

Extended tail of UK companies with weak management practices²³



The success of the Goldman Sachs 10,000 Small Businesses (10 KSB) programme may provide some insight into what an effective business support programme targeting strategy and management might look like²⁴. The scheme is designed for the leaders of established small businesses with growth ambitions, and provides a practically focused business and management education, and access to a wide range of quality business support. It also emphasises the importance of peer-learning and networking among the participants. The most recent report describes the results of control group analysis designed to identify programme impact through rigorously comparing participants' performance with that of similar but non-participating businesses. This analysis suggests that the 10KSB UK programme increases participating businesses' growth by between 10 per cent and 25 per cent, relative to what their growth would have been without the programme. This boost to growth comes on top of the relatively high growth that the participating businesses were already experiencing.

Lancaster University's LEAD programme, established in 2004, similarly provides an intensive ten month programme based on foundational research into management and entrepreneurial learning. It has a rigorous selection process and also emphasises the importance of peer learning. The programme has seen participating businesses increase productivity, turnover and employment²⁵.

Connecting businesses with mentors can be a valuable tool in boosting business performance. Businesses can find a mentor through the Mentorsme portal at mentorsme.co.uk, which is operated by the British Bankers' Association. The portal helps businesses to find a mentor with the right skills and experience, according to the life stage and location of their business. Businesses using Mentorsme have reported a series of positive impacts, with 65 per cent having had a positive effect on international expansion; 62 per cent a positive impact on turnover; 55 per cent a positive effect on profit; 62 per cent a positive impact on increasing products, markets and business services; and 67 per cent increased productivity²⁶.

²³ Ibid

²⁴ Two Progress Reports have been published by Goldman Sachs to date: "Empowering Entrepreneurs, Accelerating Growth", Progress Report, November 2014; "Stimulating Small Business Growth, Progress Report, April 2013.

²⁵ George, M. (2013). Evaluation of the LEAD programme: a ten-month leadership development initiative for SME owner-managers.

²⁶ Scale-up Report, 2014 <http://www.scaleupreport.org/casestudies/mentorsme/pdf>

6. Check targeted programmes against key criteria

Because the ultimate goal of business support is either to boost productivity and/or to increase job creation, targeted programmes should be aimed at impacting the transition of the owner and firm in developing from a small firm to a larger scale growth business.

Clearly, firm growth is determined by a wide range of factors. However, looking specifically at business support design, the OECD suggests seven design or implementation guidelines for local measures aiming to support sustained growth²⁷.

- 1. Enabling effective self-selection** - a strong element of self-selection is inevitable in the provision of support for growth firms. Enabling effective self-selection by firms requires a clear proposition from the scheme as well as a clear statement of required commitments. The proposition needs to be both ambitious and emotionally engaging, participating in the scheme needs to carry a certain cachet.
- 2. Selecting participants** - a strong element of selectivity by the scheme itself is also necessary as these programmes are typically intensive and often involve peer-group and shared-learning activities.
- 3. Recognising spill-overs and displacement** - selection should consider the impact on the wider economy, recognising positive spill-overs and additional benefits to the local economy, which may be stronger from some SMEs than others, and displacement, shifting value between firms rather than creating added value, which should be minimised.
- 4. Sustained engagement** - schemes to support sustained growth are likely to involve continued engagement with a business over a period of years. That again underlines the need for consistency and not duplication and reinvention of schemes made earlier.
- 5. Holistic approaches** - supporting sustained growth is likely to require a holistic rather than thematic support model, with a dual focus on the development of the business and the capabilities of the firm's leadership team.
- 6. Partnership based** - measures to support sustained growth should be partnership based, drawing on the expertise and networks of a range of local support organisations, both private and public.
- 7. Delivery is likely to be regionally organised** - a regional model has proved valuable in facilitating attendance by firms at scheme events and sessions and making face-to-face mentoring and peer-group sessions more feasible.

²⁷ Roper, S and Hart, M (2013) Supporting sustained growth among SMEs – policy models and guidelines, Enterprise Research Centre, White Paper 7.

7. Put evaluation mechanisms in place

For obvious reasons it is crucial to know if an intervention is working. Although this might seem simply good business practice, more often than not such evaluation mechanisms are not built into many business support schemes, meaning taxpayer money is not used efficiently as poor schemes persist rather than be wound up.

With LEPs examining the support that is offered locally, this provides a valuable opportunity to gather more evidence of the effectiveness and value of various interventions, across a range of providers, and in a range of circumstances.

The current limited availability of policy evaluation of business support is obviously problematic. Both national and local decision makers do not have as much evidence as would be ideal on which to base their interventions. However, initiatives to review and simplify local business support over the next year will also provide a significant opportunity to increase the evidence base, through incorporating evaluation into both existing schemes that continue, and new schemes that are introduced as a result of a review.

Not all LEPs will have the capacity to design and carry out detailed evaluations of interventions. As such there may need to be a role for organisations such as the ERC and the WWG, or the Government itself, in supplementing the evaluative capacity of the LEP network if we are to build the evidence base we need to provide insights into what interventions work, and ideally which provide the best value for money.

Conclusion

By following these seven principles, local bodies can avoid many of the problems that have beset the provision of effective support in the past, and through robust evaluation, develop the evidence we are missing on effective support.

It will remain a significant challenge to co-ordinate the many different aspects of the provision of local business support into a coherent whole, but this document is designed to provide a starting point from which a much more effective, consistent landscape can be built.

Further information

This paper sets out evidence and information to assist in developing local business support. The following resources may also be helpful in determining what support exists and how to apply the seven principles.

Business is GREAT campaign - www.greatbusiness.gov.uk

Provides a range of information and tools for businesses including a diagnostic tool to help businesses find the right kind of support for them.

UKTI - www.gov.uk/government/organisations/uk-trade-investment

Provides information on the range of schemes and support services available to exporters and potential exporters.

British Business Bank - www.british-business-bank.co.uk

Administers UK finance schemes for business and provides advice on how to secure business funding.

Business Finance Guide - www.british-business-bank.co.uk/bfg

A joint initiative between the British Business Bank and ICAEW, supported by 17 other organisations, providing advice and tools to help businesses secure finance at every stage.

Mentorsme - www.mentorsme.co.uk

Mentorsme provides a gateway for businesses to access a wide range of business mentors across the country, offering a variety of skills and experience which firms can draw on.

Enterprise Research Centre - www.enterpriseresearch.ac.uk

Provides insight into research around SME growth and entrepreneurship.

What Works Centre for Local Economic Growth - www.whatworksgrowth.org

Carries out reviews of existing policy evaluations in a number of areas relevant to local growth policy.

Small Business Charter - www.smallbusinesscharter.org

Established following Lord Young's report 'Growing Your Business', and designed to bring business schools and entrepreneurs closer together to deliver support for small businesses and drive local economic growth.

Federation of Small Businesses - www.fsb.org.uk

Representing around 200,000 members, organised through a regional structure, providing advice on where to seek support and networking opportunities.

Better Business Finance - www.betterbusinessfinance.co.uk

Set up in 2011 and managed by the British Bankers' Association (BBA) in collaboration with its business and finance partners, providing impartial information and support to businesses and entrepreneurs looking to develop and grow; whether the business is seeking finance, or starting out or exporting abroad.



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