

## How can we drive better innovation and productivity in UK SMEs? ERC Roundtable at the 2017 Conservative Party Conference



The Enterprise Research Centre (ERC) hosted a private roundtable at the 2017 Conservative Party conference in Manchester, focusing on the theme of driving better innovation and productivity in UK SMEs.

The discussion was particularly timely given that innovation has been placed at the heart of the Government's new Industrial Strategy. The evidence is clear that innovation has a crucial role to play in solving the UK's productivity problem. We know that innovating firms are more productive, grow faster, and are also more resilient in challenging times.

The roundtable brought together a small expert group of small business leaders, policy makers, parliamentarians and other experts to discuss how the Government might better promote and support growth through innovation in UK SMEs. Following some initial remarks by the speakers, a lively discussion took place, which was chaired by political journalist Andrew Gimson, and held under the Chatham House Rule.

Professor Stephen Roper, the ERC's Director set the context for the discussion by highlighting the findings from recent ground-breaking ERC research on the impact of innovation grants. Stephen noted that the evidence shows that the UK does currently have effective policy instruments in place for innovation, but that the focus has been on the top performing 20 per cent of companies. He argued that innovation policy could be more effective if there was more targeted support for firms with lower levels of productivity.

Robert Courts MP, Chair of the APPG for Small and Micro Businesses then reflected on the ERC's research findings, drawing attention to the value of the robust data for policy makers. He emphasised the importance of ensuring that the spillover effects of innovation are maximised, and felt throughout the SME community more widely to avoid superheating specific areas of the economy. Baroness Neville-Rolfe made some additional observations about the importance of taking a 'whole economy' approach to the UK's productivity problem rather than focusing on success at the only at the elite level. This means that in terms of solutions, there is no single 'magic bullet'; rather a range of actions are needed, with the absorptive capacity of SMEs being particularly important, underpinned by an effective education and skills system.

A range of themes were covered in the discussion that followed the speakers' opening remarks. The first of these was the issue of the general lack of awareness amongst many UK SMEs about the existing tax incentives that are available for firms investing in innovation, and the need for action to improve this situation. Linked to this was a view that many SME leaders find the business support landscape as a whole too complex, a situation which is not helped by the fact that is in a continual state of change in some areas of the UK. It was noted that busy SME leaders need more support to help them to navigate the system, and lessons can be learnt from some areas (such as Scotland), which have benefited from long-term stability in support structures.

The crucial importance of management and leadership skills also emerged as a dominant theme in the discussion. It was recognised that the deficiencies in management capability in the UK compared to other competitor countries are now widely acknowledged. Most people starting businesses are not experts in how to effectively lead and manage. Rather, they tend to have technical knowledge or interest in the area in which they set up their business. In addition, many SME leaders do not have the confidence to employ the most ambitious people, due to a fear of being undermined. There was strong agreement about the need to inspire more confidence in SME leaders. The potential offered here by the Apprenticeship levy was highlighted, which can be used to develop management and leadership capabilities amongst existing employees regardless of their previous qualifications, a fact that is not recognised by enough SME leaders.

The discussion then moved on to highlight the potential of supply chain support for SMEs in promoting improvements in innovation and productivity. Larger businesses have much to offer in terms of support to SMEs in their supply chains, sharing their knowledge, expertise

and training for example, with mutual benefits. A number of positive examples of this happening in practice were highlighted, and it was felt that there was scope for more large businesses to get involved in these kinds of activities, with industry associations potentially stepping forward to take a role in making linkages. It was suggested that in future funding and incentives might operate at the supply chain level rather than at the level of individual firms to encourage this. A central point made during the discussion was that innovation is not all about leading edge, high-tech activities. Rather, at a basic level is it about 'doing things better'. The changes made in a business do not have to be dramatic. Small and marginal improvements all add up, making a big difference at the industry, and ultimately, whole economy level.

Towards the end of the discussion, attention turned back to the valuable role data can play in driving SME growth – a theme at the very heart of the ERC's mission. It was agreed that that better use needs to be made of the vast array of data that exists, both by individual businesses in benchmarking performance and identifying areas for improvement, and by policy makers too. Good data analysis not only allows us to identify problems, but also to find potential solutions that promote innovation, growth and prosperity across the whole economy.