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Gearing up for Growth Vouchers – lessons from the Nesta Creative Credits RCT

This year's Budget announcement of Growth Vouchers was widely welcomed. Growth Vouchers are being tested in a pilot project designed as a randomised control trial (RCT). Stephen Roper, Director of ERC, suggests some key lessons for Growth Vouchers based on the experience of the Nesta Creative Credits project, the only previous UK industrial policy RCT. One key lesson relates to the period over which the impact of Growth Vouchers is measured before any decision on expanding the scheme beyond the pilot is taken. There may also be potential value in helping Growth Voucher recipients to identify the most effective external partners.

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One of the key small business measures announced in the budget this year was Growth Vouchers which will be available to micro firms and small firms with less than 50 employees. The proposal for Growth Vouchers is to jump start small businesses' take up of specialist help by way of a voucher scheme. Lord Young secured funding of £30 million at the Budget for the programme. With a face value of up to £2000, and a need for firms to also invest an equal amount, these are intended to encourage SMEs to seek external advice from accountants, business advisers etc. to help them grow. The evidence which is available suggests this should work - small firms which do seek external advice do seem more likely to survive and do grow faster.

But what about Growth Vouchers? Will this particular policy instrument actually work? Well, the government is hoping to find out by setting up Growth Vouchers as a randomised control trial (RCT) or policy experiment. Some – randomly chosen -firms will be given a Growth Voucher and some won't. Comparing what happens next to both groups of firms should then help us to see the effect of the Growth Vouchers. Of course this type of RCT experiment is familiar from drug testing but is very unusual in terms of industrial policy.

Indeed, to date there has only been one UK experiment of this type. This related to the 'Creative Credits' which were vouchers designed to encourage small firms in Manchester to work with creative companies – e.g. designers, or web-designers – on an innovation project. The focus is different but the idea is similar to Growth Vouchers in some important ways, - that is, to encourage small firms to work with an external specialist partner for the first time. The Creative Credits project, which was initiated and co-ordinated by Nesta and which ran from 2009-2010, has been described in detail in a research report and suggests some key lessons for the Growth Vouchers pilot project.[1]

Before considering the lessons from the Creative Credits project its worth being clear how the Growth Voucher pilot is likely to operate. Five regional pilots (one in Manchester) are planned as RCTs and will hopefully start towards the end of 2013. Regional intermediaries will encourage firms to register on–line and then provide either an on-line or face-to-face audit or diagnosis of the business. After the diagnostic it will be suggested to firms which type of advice they should take. Five different types of advice will be available: raising finance, increasing sales through marketing, developing leadership and management skills, expanding the workforce and exploiting digital services and e-commerce. Some firms will then randomly be assigned a voucher and provided with information using a website which lists potential advisers. Firms not getting a voucher will be given some more general information on other sources of potential support. Measuring the difference between the subsequent performance of voucher recipients and non-recipients will then tell us whether Growth Vouchers work or not. It may also help to tell us which types of advice are most valuable to firms.

The Growth Voucher pilot also includes one other rather interesting test of the marketing of business advice. We know from earlier research that both word of mouth and direct marketing can be effective in attracting firms to seek external advice[2]. In the Growth Voucher "Marketing RCT" firms which are being notified about tax changes are also being informed about potential sources of business advice. Different forms of communication are being used to test their effectiveness in attracting firms to take-up business advice.

Some of the broad similarities between the Creative Credits project and the Growth Vouchers pilot are striking. Both are/were regional. In both cases the target was/is micro and small firms. The size of each firm's project was similar in both cases (£4-5,000), and voucher recipients in both schemes were asked to identify their partner from a website. The Growth Voucher project has the advantage of much greater scale, however, involving perhaps 25,000 companies compared to the 622 in the Manchester Creative Credits project.

Perhaps the most striking lessons from the Creative Credits project are about the 'impact period', that is, how long do you need to wait after the end of the Growth Voucher advice to see any effects on business behaviour and/or performance. Well, of course, some changes in attitudes and behaviour may occur immediately as a result of the advice and these can be captured by quick surveys. But effects on sales, exporting or e-commerce will only be evident after some months or perhaps years. Effects may also grow and diminish as time passes. In the Manchester Creative Credits project for example, we found very positive effects on sales growth and innovation 6 months after the end of the voucher period but these effects disappeared after 12 months. So the benefits were positive but transitory.

So, in terms of the Growth Vouchers RCT patience will be a virtue. Positive results after 6 months may be illusory and provide only a poor guide to the longer term impacts of the scheme and its value for money. Decisions made on expanding or ending the scheme at this point may also – with hindsight – turn out to be wrong. Data covering a longer impact period – probably a year or more – are likely to be necessary before robust decisions can be made about the value of turning Growth Vouchers from a pilot into a national programme.

Another recent project (to be published soon) undertaken by ERC researchers also emphasises the importance of patience in assessing outcomes. This project used longitudinal information on firms taken from the Business Structures Database to assess the longer-term growth effects of Business Links intensive support. Business Links has now gone of course but it seems its legacy effects on growth still persist! Firms which received intensive support had slightly more rapid growth after 2 years but have also significantly outperformed non-recipients over a 5-7 year period. Accurately assessing the full benefits of Business Links really required this type of longer-term evaluation.

The Creative Credits RCT also suggested the difficulty of maintaining contact with firms, particularly those who did not get a voucher. In the Creative Credits project over two years we lost around 50 per cent of non-recipients who refused to continue to provide us with information despite intensive efforts to stay in touch. This problem of attrition may make it difficult to robustly assess impacts in the Growth Voucher RCT and will require significant resources to maintain contacts with firms which both receive and do not receive Growth Vouchers. It is valuable in this respect that the Growth Voucher pilot proposals also include proposals to use administrative data to follow-up scheme participants. Control groups could be established using administrative data such as VAT and PAYE records to monitor longer-term impacts by matching Growth Voucher recipients to similar firms.

One other aspects of the Creative Credits project may also suggest lessons for the delivery of Growth Vouchers. Both schemes rely on voucher recipients selecting their advisor or partner from a website. In the Creative Credits scheme this led to quite a number of ineffective partnerships with the small firms telling us that they would have liked more help with selecting an appropriate partner. This may have been one reason why the longer-term outcomes of the Manchester project were weak. Providing some assistance at this stage of the process may help to maximise the impact of the Growth Voucher scheme.

The use of an RCT to assess the effectiveness of Growth Vouchers is a real first in the UK, and a significant – and welcome - enhancement to the type of evaluation usually adopted for industrial policy initiatives. It has the potential to deliver robust evidence of effectiveness before an initiative is scaled nationally. It also provides the opportunity for rapid learning about the most cost-effective ways of delivering business support. This should ensure that Growth Vouchers are only introduced as a national programme if they are going to deliver value for recipient firms and UK growth.

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[1] The full report on the Nesta Creative Credits project is available at: http://www.nesta.org.uk/library/documents/CreativeCreditsJune13.pdf. See also Bakhshi, H et al. (2013**) "**An Experimental Approach to Industrial Policy Evaluation: the case of Creative Credits", ERC Research Paper No 4. Available at: www.enterpriseresearch.ac.uk.

[2] See for example Mole, K. F., et al. (2008). "Differential Gains from Business Link Support and Advice: A Treatment Effects Approach." Environment and Planning C 26(2): 316-334.