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A manifesto for small business growth and productivity

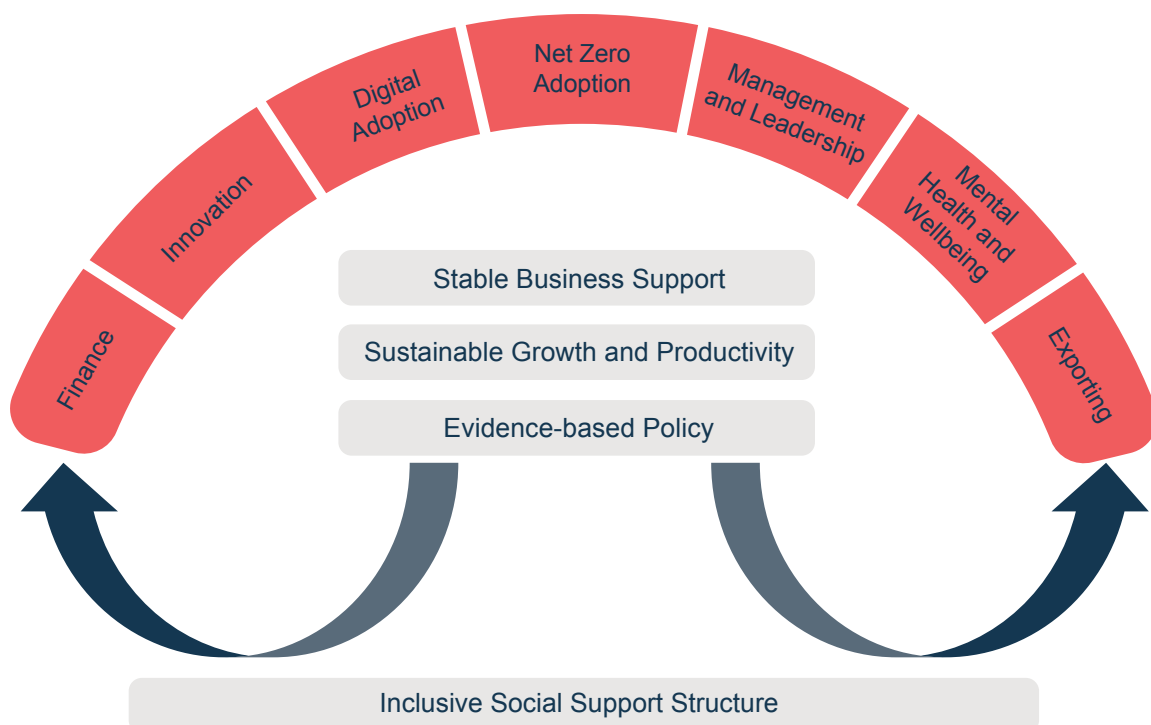
A manifesto for small business growth and productivity

Since the ERC was launched in 2013 with a focus on business growth, we have seen some dramatic changes in the issues faced by the UK's small business community. The decade has been marked by rapid developments in digital technology, growing concerns about the impacts of climate change and the lack of productivity growth, increasing awareness of issues of diversity and inclusion, and of course, in 2020, the massive shockwaves associated with the Covid-19 pandemic.

The ERC's research has shown that the drivers of small business growth and productivity are complex. Our research has also demonstrated clearly that smaller firms experience distinct challenges when compared to larger firms, and that their needs are often not fully understood or properly reflected in enterprise policy. Given the crucial role they play in the UK economy – making up over 99 per cent of the business population, it is vital that going forward small firms receive more coherent and stable policy support that is more tailored to their needs.

Drawing on insights from a decade of enterprise research and insights, we set out in this manifesto the key areas where attention is needed to ensure that the UK's small business community can survive and thrive. These are summarised in the diagram below. The themes we have highlighted do not amount to an exhaustive list, but they are all areas where the evidence indicates that more activity is justified. The themes are interdependent, linked together in an ecosystem that is sensitive to the needs of small businesses and focused on building sustainable growth and improved productivity.

The small business support ecosystem



The small business support ecosystem needs to be focused on nurturing the ambition, confidence, capabilities, resilience, and innovation of the UK's diverse community of small businesses. It also should be built upon existing collaborations between a range of stakeholders, including national and local government, business support providers, educational organisations, business representative groups and professional bodies, as well as small business leaders themselves.

It is of crucial importance too that the ecosystem is well-funded and constructed for the long-term to avoid being affected by political expediency. Importantly, to work effectively for all, it is vital that the small business support ecosystem should be underpinned by inclusive social support structures that provide a level playing field for entrepreneurs and small business leaders from all backgrounds and social groups, including improved access to childcare support.

We give more detail about the different elements of our small business support ecosystem below, also setting out some priority actions.

Evidence-based policy

We need to develop a small business support ecosystem that is firmly based on the evidence about what small businesses need and what works. Evidence-based policy is one of three foundations of our ecosystem. There are several aspects to this. First, the need for more high-quality evaluation of interventions is now more important than ever, as is the need to publicly share findings, building on the good work done over recent years by the What Works Network and Innovation Growth Lab. Second, we need to make better use of the full and growing range of data sources available to drive more intelligent policymaking. Third, we also need to make sure that there are systems in place to monitor and track the multiple sources of support received by small businesses. Fourth, we need to ensure that enterprise policies and strategies are grounded in the real-world experiences of small business leaders themselves.

Actions needed:

- Ensure that all major enterprise support initiatives are properly evaluated, and the results shared publicly in an enterprise policy insights hub.
- Develop better systems to monitor and evaluate the multiple sources of public support received by small firms over time and ensure good practice is identified in the UK nations and beyond.
- Create a step-change in the use of longitudinal business register data in the development of small business policy.
- Embed stronger stakeholder engagement structures that allow a diverse range of small business leaders to feed into policy development and generate more meaningful policies, including developing a Small Business Council.

Sustainable growth and productivity

We need to develop a small business support ecosystem that is focused on creating the conditions for creating sustainable growth and improving productivity. This is the second foundation of our small business support ecosystem, and it builds on ERC evidence which has identified many of the key drivers of growth and productivity. We know that there are complex patterns of start-up, survival and growth which have tended to be ignored when developing policy. Success is not all about business size or high growth, and it is important to understand the key relationship between age and size when developing policies related to scaling. The local economic context is also crucial to understanding this relationship and how this can vary over time in response to wider economic influences. ERC research has identified a very

small group of firms that increase their productivity over time by increasing both revenue and jobs, but the former at a significantly faster rate. Similarly, there are a small number of micro-enterprises that grow exponentially over time to become significant businesses in the economy.

Actions needed:

- Policy needs to recognise that growth in the minds of small business leaders takes on many definitions and is not solely related to jobs and revenues. Embracing Sustainable Development Goals (SDGs) is a sign of ambition alongside profitable growth and needs to be embedded in any policy initiatives on scaling.
- Initiatives are needed to boost the number of small businesses increasing their productivity, and it is imperative that the recent call for a National Productivity Commission made by the Productivity Institute has a clear focus on small firms.
- Policy needs to focus on the process of scaling and avoid the simple categorisation of firms as 'high growth' on the basis of erroneous definitions which can lead to misleading policy conclusions and actions.
- Micro-enterprises are an important source of jobs and revenues for individuals and local communities and should not be excluded from policy initiatives.
- Start-up policy needs to be more focused on the initial scaling process rather than simply celebrating increased numbers of start-ups on an annual basis.

Stable business support

The UK needs a coherent, joined-up, stable government-funded business support system tailored for small businesses. ERC research has shown the positive impact that well-designed business support and advice can have on business survival and growth. The support needs of small firms are not static and change over time. Running a small business is also inherently risky, and threats to business survival are common and varied. But many small firms do not seek business advice, and many only do so when they are already in a position of crisis.

At the present time, business support provision in the UK is highly fragmented and patchy, by both geography and sector. Recent funding changes associated with the UK's exit from the European Union have made the landscape even more complex and uncertain which the UK Shared Prosperity Fund (SPF) is struggling to address. There is also marked variation in the way that under-represented groups of entrepreneurs (e.g., women and ethnic minorities) are engaged by existing support services, indicating a need for more tailored and accessible support that addresses the needs of these entrepreneurs. Business support schemes should not be biased towards an exclusive and elusive group of pre-defined 'high growth' firms, but inclusive and focused on creating a pipeline of micro and small businesses ready to receive and action support with the potential for sustained growth. The UK spends a significant amount of money on business support, and it is important that this is based on evidence on what works.

Actions needed:

- Ensure there is a stable, coherent support service available that is accessible to all types of small businesses, built on existing relationships, personalised support and responsive to local context.
- Professionalise business support roles through improving qualifications and career development routes that better recognise the pivotal role played by teams of good advisers and stops the loss of talent in the sector.
- Develop a UK-wide policy on inclusive entrepreneurship alongside new business support services dedicated to underserved groups (especially female, ethnic minority and disabled entrepreneurs) that are focused on realising their growth potential.

Finance

We need to ensure that the UK's small businesses are better informed about the finance options available to them, that finance is more inclusive, and that the enduring late payment problem is properly tackled. Research by ERC and others shows that access to external finance (both debt and equity) is positively associated with faster growth and productivity in small businesses. The range of finance options has never been so plentiful and sophisticated, yet many areas are a mystery to most small business leaders. As a result, most small firms are permanent 'non-borrowers'. Private and public sector policy interventions are not just a simple matter of 'matching' demand with supply – providers need to understand the business leader's mindset and ambition, and recognise that awareness will drive demand, and that this will be based on previous experience in seeking and raising external finance. Start-ups and smaller businesses tend to find it more difficult to access finance compared to their larger counterparts. The underlying issues for this are varied and complex, but there is evidence that business leaders from disadvantaged groups are particularly affected, which has been exacerbated by the post-pandemic economic context. It is important that these issues around uneven access to finance are addressed, building on the success of existing schemes. Recent years have seen substantial rises in the costs of doing business, which have affected smaller firms particularly badly, and in this context tackling issues around late payment are more important than ever.

Actions needed:

- Raise awareness of the full range of external finance options amongst small businesses and improve the financial literacy of entrepreneurs at all stages of the business development journey.
- Address financial discouragement amongst female and ethnic minority entrepreneurs by ensuring providers put into place more inclusive practices, such as those set out in the Investing in Women Code.
- Understand whether/how the range of products available are addressing the needs of a widely diverse small business population – especially from an EDI perspective.
- Make improvements to the all-round financing ecosystem, integrating leadership and management support with a full range of suitable financing along the finance escalator.
- Continue to address the stark geographical disparities in terms of the availability of growth finance particularly for firms in rural areas and those located in less well-served communities by understanding the factors underlying these outcomes.
- Tackle the late payment problem for small firms by collecting more robust data to expose poor practices and imposing penalties accordingly.

Innovation

We need to enable more innovation activity in small firms and address the disparities in innovation between places. One of the threads running through the ERC's research has been the importance of innovation activity for business dynamism, growth and sustainability. There are many positive aspects of current and recent approaches to policy support for innovation in the UK. Our research has shown that public support measures have had significant benefits for business growth. Innovation grants, loans and measures such as R&D tax credits can all help to de-risk innovation decisions for smaller firms, enabling innovative activity to take place. Promoting collaboration can also support knowledge sharing between firms, and help further to de-risk innovation, something which is particularly important for small firms. However, during the past few years small firms have lost ground in terms of innovation relative to larger firms, and there are marked, enduring geographical disparities in terms of the extent of innovation activity across the UK. Redressing this imbalance in innovation activity needs to be a key policy objective.

Actions needed:

- Promote the uptake of support available for innovation among smaller firms and re-consider the accessibility of innovation incentives to smaller firms.
- More strongly support innovation partnerships by requiring collaboration in publicly supported innovation projects.
- Make university facilities/resources and partnerships more accessible through collective gateways such as the Scottish Interface programme.
- Empower devolved innovation strategies and clusters which can capitalise on local technology strengths and address spatial disparities.
- Re-consider the activities eligible for R&D tax credits to better support innovation related investments in creative industries.

Net zero adoption

The UK's small businesses urgently need access to information and advice to help them adopt net zero practices and measure their effectiveness. Small and medium sized businesses are estimated to account for around half of all UK business emissions, and as such they will play a crucial part in the net zero transition. ERC research has shown, however, that there is much room for improvement when it comes to the adoption of net zero practices in small firms in the UK, especially amongst the smallest firms. The evidence shows that the problem with adoption is not around intentions when it comes to sustainability – but more around bandwidth, prioritisation and capability. At present the net zero support landscape is fragmented, with only a small minority of firms receiving support. Access to trusted and actionable information is vital in supporting firms to implement sustainability practices, with government, professional and industry associations all playing potentially important roles. There are also potential advantages in designing future policy support that grasps the complementary benefits of net zero and digital adoption.

Actions needed:

- Set out more clearly the benefits to small businesses of their adoption of more sustainable business models.
- Develop a standard recognised approach to measuring environmental impacts and monitoring progress towards net zero for small businesses.
- Make a step change in the availability and quality of information for small firms at each phase in the net zero journey.
- Create a more coherent national system of net zero support for small businesses.

Digital adoption

We need more UK businesses to adopt digital technologies that can in turn improve their productivity. ERC research has shown that digital adoption is important for improving productivity in small firms. Targeted support programmes and peer networking have been shown to be helpful in raising the confidence of business leaders in terms of technology adoption. However, digital readiness is key to adoption, and creating more 'digitally ready' firms should be a policy focus. There are potential productivity benefits in targeting those firms that do not currently recognise the benefits of digital transformation for their businesses.

Actions needed:

- Improve digital literacy amongst small firms so firms are more digitally ready and able to take advantage of the technologies best suited to them.
- Develop more peer networking opportunities for small firms to share learning of digital technology adoption.
- Expand bespoke support to enable the digital transformation of the most engaged firms along the lines of the successful 'Made Smarter' programme.
- Improve the quality of broadband and digital infrastructure in more remote rural areas to counter the digital divide.

Management and leadership

We need to challenge the mindsets of small business leaders, developing their growth ambitions and enhancing management and leadership skills. A consistent finding of ERC research over the decade has been the important role played by management and leadership capabilities and practices in business survival, productivity, and growth. It is now recognised that one of the keys to raising productivity within firms is the adoption of good management practices. In the post-pandemic context, good management and leadership takes on an even higher importance. The events of recent years have demonstrated more than ever the need to ensure that small business leaders are equipped with the management and leadership skills and support to steer their businesses through periods of turbulence. Not enough small businesses are using the management practices that we know are associated with higher productivity. Training programmes tailored to small businesses that involve an element of peer learning play an important role in challenging the mindsets of business leaders, raising ambition and confidence.

Actions needed:

- Raise aspirations amongst entrepreneurs and small business leaders to create well-managed and led businesses.
- Improve awareness and knowledge amongst small firms about what constitutes good management and leadership practices and how to measure and evaluate their own practices.
- Increase the use of good management practices through increasing the take up of recognised and tested management standards and training (such as that provided by the Chartered Management Institute) amongst small businesses.
- Continue the investment in publicly funded leadership and management programmes such as Help to Grow: Management that involve peer learning and coaching elements and seek solutions to ensure all small businesses can access the expertise of UK's leading business schools.
- Provide small firms with free access to tools and advice to help build better business resilience.

Mental health and wellbeing

We need to transform understanding amongst small business leaders of the importance of good mental health and wellbeing for productivity and improve management behaviour in this area. The pandemic and subsequent cost of living crisis has had major implications for the mental health and wellbeing of the workforce and for business leaders, with serious implications for business performance. ERC research has shown that presenteeism has increased and has now surpassed pre-pandemic levels, and that new working practices have brought new challenges. Although awareness of mental health issues amongst employers has increased and more initiatives to improve support for employees have been introduced, there is still considerable room for improvement, particularly amongst the smallest firms. Looking ahead, firms will need to be more engaged with the range of initiatives, advice and support available and more carefully consider the wellbeing impacts of their management practices. More attention needs to be paid specifically to the training and support of line managers, who are often in the front-line in dealing with the mental health issues experienced by employees. Small business leaders and entrepreneurs themselves also need access to support in dealing with the mental health challenges associated with running a business in times of financial uncertainty and insecurity.

Actions needed:

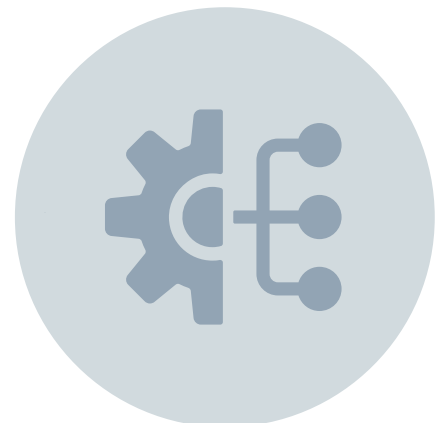
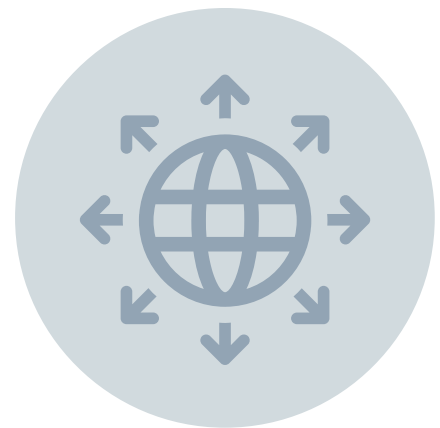
- Provide more incentives for small businesses to regularly review and monitor the mental health and wellbeing of their workplaces and improve access to expert advice on how to improve management practices and ways of working.
- Increase the availability of dedicated training for line managers on how to manage mental health and wellbeing issues at work, for example by expanding the Managing Minds at Work training programme.
- Develop mental health peer support networks for entrepreneurs to help them better navigate the mental health challenges associated with running a small business.
- Set up a new centre for excellence/research hub on workplace mental health wellbeing and productivity to share best practice with businesses and policymakers, building on the work already done by the Mental Health and Productivity Pilot Programme.

Internationalisation

We need to encourage and support more small firms to export. The external shocks and crises of Brexit and Covid-19 have had a negative impact on export activity that has hit smaller firms the hardest, and there is an urgent need for policy action here, given the magnitude of the impacts on businesses and the wider economy. ERC research has shown that there are close links between international trade, growth ambition and innovation activity. There is a clear rationale going forward for policy action to jointly promote exporting and innovation in UK firms, targeting firms at different points in their export journey. This will involve action on a range of fronts, including government, education and business representative associations.

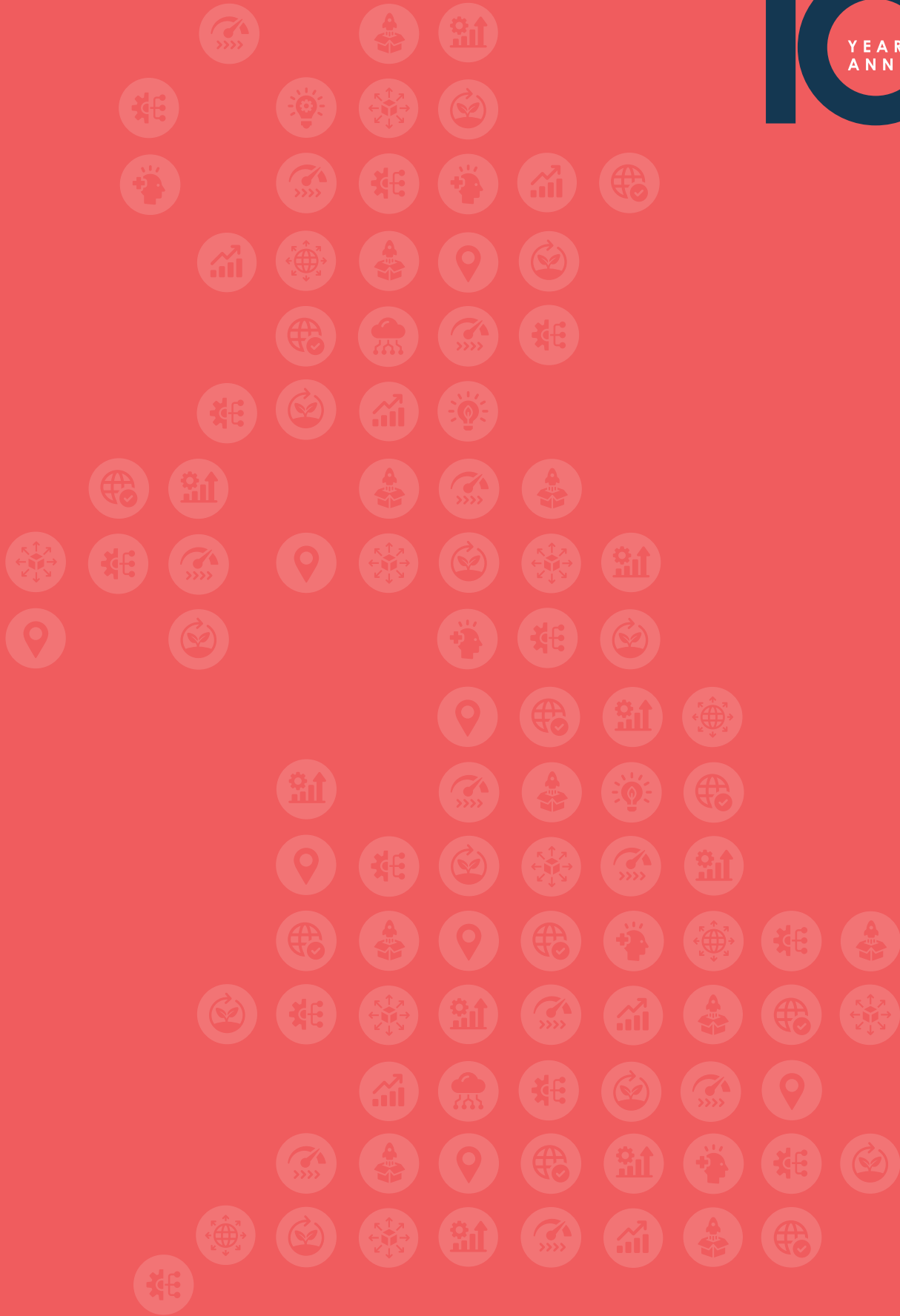
Actions needed:

- Extend the reach of trade support organisations and provide more targeted promotion of support to small firms alongside monitoring support uptake.
- Provide tailored advice that aids firms in evaluating the feasibility of exports, exploring new export markets, delivering timely and consistent market intelligence and advice.
- Develop and promote specialised support to help firms grappling with multifaceted challenges, including support for small creative industry firms exporting to the EU. This could include advice and grants offered to alleviate administrative burdens.
- Revive support for firms that have ceased exporting, developing digital resources and advisory programs to stimulate and assist previous exporters in resuming their international trade operations.
- Inspire innovation in exporting by showcasing inspiring case studies of firms delving into new export markets and approaches and fostering new platforms for industry insights and best practices.
- Ensure continued alignment between the UK and the EU on intellectual property protections, product standards, sustainability measures, and data protection and strengthen alignment on professional qualifications between the UK and EU member states.



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