

Newable

**Submission to
Business productivity review:
Government call for evidence**

Department for Business, Energy and Industrial Strategy

July 2018

Introductory context

- Newable supports around 15,000 businesses each year. We work in all sectors right across the UK. Our clients fall mainly into in the micro, small and medium size categories. The source of our evidence is our first-hand, in-market experience.
- We believe this rich, real world, qualitative analysis can round out the quantitative, academic material referenced in the call for evidence. Our experience being granular and “firm level”.
- Established in 1982, Newable is a company limited by guarantee. We balance profit and purpose. We exist to support businesses working at the heart of the economy. We help companies start, scale and internationalise through our four main areas of activity:

Lending – In the first 15 months of operation, Newable Business Finance provided SMEs with £16,500,000 of Responsible Finance-compliant, unsecured loans of between £26,000 and £150,000.

Equity investment – Newable Private Investing (formerly London Business Angels) closed 35 deals in 2017 that delivered £35m of funding into knowledge-intensive businesses.

Advisory services – Working on behalf of the Department for International Trade, we support smaller businesses in London and the South East to reach target export markets. In the year to April 2017, we helped more than 900 businesses export for the first time.

Workspaces – We have developed 11 light industrial parks around London, turning neglected brownfield sites into economically productive land. These parks currently provide homes to 300 businesses.

Newable believes in creating inclusive economic growth. We recognise that SMEs account for 99% of all businesses in the UK, and that all big businesses were small once.

Section 2: The UK's Productivity Challenge

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

The paper defined productivity as “the total output produced per input”. To that extent, high productivity occurs where there is greater efficiency in the production process and low productivity occurs where there is less. Clearly, this is correct from a technical perspective. However, Newable favours the more positive and ambitious concept of “profitable growth”. This assigns some purpose to the focus on delivering increased productivity.

At the same time, we would urge government to adopt a nuanced and supportive approach to those businesses considered laggards in the productivity stakes. Some, particularly micro, often family owned and run businesses, do not have top quartile productivity as their primary goal. Their number one goal for their business is to sustain their lifestyle. These businesses, which make up many of the 2.2m businesses new to the economy in this decade, provide distinctive colour to and the glue for local communities up and down the country. This is not to suggest government should not encourage these businesses to “always improve” to borrow one of Newable’s values. However, a focus on productivity may not resonate with or impact them and will not materially improve the UK economy.

This is to recognise that the universe of UK businesses is comprised of a wide variety of planets, each with a unique constitution and ecosystem. A catchall approach will not work equally well, everywhere and will inevitably lead to a waste of resources.

Newable recommends developing a taxonomy or segmentation of businesses captured by the working definition of low productivity businesses. This will allow government to understand the drivers causing low productivity with clarity and develop interventions that are more effective.

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

Andy Haldane’s 2017 speech presents the evidence. <https://www.bankofengland.co.uk/speech/2017/productivity-puzzles>

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

Andy Haldane’s 2017 speech presents the evidence. <https://www.bankofengland.co.uk/speech/2017/productivity-puzzles>

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

We are not clear on the meaning of “weaker competition” in UK markets. This might be a reference to the “long tail” of unproductive businesses in the UK. Economic theory would suggest that such businesses would be forced to exit the market by more dynamic and productive players. However, in the UK this appears not to happen routinely. Whilst it would be unfair and disrespectful to consider the long tail as “zombie companies” limping on, it is reasonable to note their resilience. It may follow then that by increasing the quantum of productive UK companies, a Darwinian improvement of the UK economy would follow.

However, our experience is the lack of a sufficient number of strong and highly productive competitors is not the primary reason for the long tail. Rather, we see systemic factors that serve to hold back and drag down productivity.

There are two parts to this. The first is the inequitable relationship between big and small. Smaller businesses find it very hard to access the supply chains of larger public and private entities. A significant number of those small businesses that do end up funding the working capital of the larger entities. This might be the result of straightforward late payment, or the unfair practices of extended payment terms. Frankly, it amounts to the same thing. This acts as a significant constraint on smaller companies. It means they lack both the resources and the motivation to invest in improving their productivity.

The second part is the lack of finance available to SMEs. The British Business Bank reported that traditional finance providers refused 238,000 business loan applications from SMEs creating a £4bn funding gap. These figures are no doubt understated. SMEs know that they are unlikely to receive funding from traditional finance players, so many do not even bother applying. Others, concerned by horror stories in the media, are worried about how they may be treated if they were granted a loan, are thus equally deterred. It is reasonable to assume that the purpose of these loans was to improve, develop and expand SME businesses. The most likely outcome would have been improved productivity.

The symptom is low or no productivity businesses. The cause is lack of access to opportunity and lack of access to funding. Newable suggests that as government is looking for to cure the UK’s productivity sickness, it needs to address the root causes and provide solutions that allow SMEs access to supply chains and finance on fair and equitable terms.

Section 3: 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?

There is a clear cultural dimension underpinning the distribution of business productivity. One of the world's most productive economies is Germany. It is no surprise that they place a high value and importance on the 'mittlestand' and family businesses. We claim that SMEs are the "backbone" of the UK economy, however in Germany it is. Policy is built around their needs. In the UK, policy seems to support the needs of big business. In the UK, family businesses tend to be maligned and the mittlestand is a something of a myth. Consequently, smaller businesses tend to get neither the focus nor the support they require and the government does not get the productivity it demands.

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

As discussed above: access to opportunity and access to finance.

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

The list is comprehensive. It would be both interesting and useful for government to commission a study to determine the relative importance and / or interconnectivity of these characteristics. It may well be both interesting and useful for government to gather further data and insight to correlate these characteristics with the key objectives of the Industrial Strategy.

Section 4: 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?

Newable delivers debt and equity investment into businesses. We also provide expert advice to businesses that unlocks positive commercial outcomes such as export wins or the commercialisation of business ideas. A single management practice consistently emerges as having the biggest impact on productivity across this extensive range of activity. A golden thread if you will. It may sound trite, but it is actually very profound: the companies and managers that are the most clear and most confident about **why** they are in business are almost always those that are the most efficient and competent about **what** they are doing. As a result, they are the most open to considering and adopting new methodologies to improve **how** they do things. These are the companies that are most likely to secure the loans or investment they seek and are almost certainly most likely to be the companies that get their product from drawing board to market or to develop a sustainable sales pipeline overseas.

High productivity comes from companies following their “north star” passion and purpose. The best companies do this by articulating a strategy, executing a plan, measuring the outcomes and improving the results. This is a basic and fundamental business practice. It underpins productivity. However, from our experience, many companies have forgotten or have not mastered these fundamentals.

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

Newable’s first-hand experience working with founders, owners and managers of British SMEs places us in an excellent position to observe the difficulties they encounter. In our experience, there are a number of reasons why management capability can be considered to be lacking in SME managers which helps explain why they are less likely to adopt best practice.

Firstly, an SME manager may also be the owner of the business, or working very closely with them. Many were not born to be managers. A significant number of SME managers tend to fall into the role, or take it on by default. As SMEs have often grown from start-ups, managers come to their roles without significant experience or training. This is compounded by the unique difficulties faced by such SMEs which includes a lack of support staff and funding challenges.

There is an adage that is cited frequently: managers spend too much time working in the business and not enough time working on the business. Frankly, in the real world of running an SME, managers have very little option other than to do this. Their primary concerns are practical rather than strategic: issues such as making payroll, paying rent, and ensuring that HMRC obligations are met dominate over and above concerns such as Brexit or the 4th Industrial Revolution. SME managers also rarely find themselves supported by technical experts, and are therefore forced to tackle complex issues such as GDPR largely and often inefficiently by themselves.

Regarding the active adoption of best practice, few SMEs have a culture of training, often considering it as a cost item depressing the bottom line, rather than an investment to enhance it. Many also feel there is a 'double whammy' with such training. Over and above the direct cost of the training, there is the opportunity cost of not being 'in the business' earning money for the duration. Depending on the sector in which the SME operates, the business may already face a significant amount of compulsory training relating to enforced compliance of one nature or another. This further reduces their appetite to pursue training which might enhance their management capabilities.

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

Newable has a strong track record of assisting businesses in adopting best practices through three distinct types of support: mentorship, advice and consultancy.

Mentorship. A business mentor can be best described as an 'angel on your shoulder'. The Responsible Finance movement, of which Newable is a leading member, provide pre-and post-loan mentoring. Mentoring can make a particular difference to accessing finance successfully. Many SMEs fail to understand how to ensure their business is "finance ready". Once funding has been secured, mentors can then also ensure that it is put to work in the most productive manner. Mentoring is ideal and some would say vital for start-ups, micro and small SMEs. Largely due to their finances, many SMEs would not pay for a standalone mentor separately and directly. However, the cost of this mentor service to clients is "baked in" to the cost of the loan and therefore deemed affordable by the client.

Advice. Newable employs around 100 business advisors. These are senior specialists engaged in delivering contracts on behalf of the Department for International Trade and Innovate UK (as part of the Enterprise Europe Network). The advisory service is free to the end customer, the funding coming from government or government agencies. The support is invaluable to SMEs in unlocking growth. By its very nature, it is aligned to and is charged with targets set by government.

Consultancy. Some areas of business are particularly technical, complex and/or time consuming. Application processes for highly competitive, publicly funded grants are one such area. Our consultancy service helps SMEs maximise their chances of securing grant funding. Again, SMEs struggle with the funding consultants.

Programmes. Where we identify systemic challenges faced by specific cohorts within the SME sector, we develop comprehensive programmes in order to address them. One example is Fuelling Ambition, which seeks to support female entrepreneurs and women-led businesses across the journey from inspiration to investment. The programme includes one to one advisory sessions, workshops, and a major, agenda-setting conference which took place on 10 May 2018 and is to be followed by an investment-pitching event.

Separately to these types of support, our events team delivers over 380 SME B2B events each year designed to build management capability. We find, for example, that webinars work well because the content can be consumed by the SME manager at a time most convenient to them. Workshops, being more interactive and participative while providing networking opportunities, are also useful.

The message is to select the approach best suited to delivering the objective.

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

We welcome the actions taken by the The British Business Bank to support smaller businesses. However, we would urge it to do more. For example, it could provide more support to the community of Responsible Finance lenders. Currently, post-loan mentoring extends for 12 months after funds are received, yet the loan period is typically between three and five years. According to the Office for National Statistics (ONS), the one year survival rate of UK businesses as a whole was at least 90% for businesses born between 2011 and 2015. The most recently calculated five year survival rate is 44.1% – suggesting that mentoring beyond the first year would be invaluable.

We recommend that funding is provided (perhaps via the British Business Bank) to enable Responsible Finance providers to extend mentoring support from 12 to 24 months after loans have been issued to businesses. This mentoring support would be tasked with embedding good management practice leading to improved productivity.

Section 5: 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?

Newable Private Investing, named by the early stage investment bible Beauhurst as the UK's leading angel investment deal maker, facilitates investment into technology companies. In particular, EIS qualifying companies who have developed technology led products and services enabled by the 4th Industrial Revolution. Consequently, Newable's network and EIS fund has significant line of sight into and investment stakes in disruptive technologies and innovations that, we believe, will be quite transformative to the economy. These companies are the evidence of the link between technology and productivity.

The Bank of England's Chief Economist, Andy Haldane delivered an extraordinarily learned and insightful paper on 23rd May this year. <https://bit.ly/2u19ild>. This pretty much tackles and answers this question directly. His conclusion, hopefully not to do it an injustice, is that it is not sufficient to correlate technology or innovation adoption with growth or productivity. It only occurs where the advancement of what he calls "the technological frontier" is combined with physical capital and human capital in the form of the right culture and social institutions. "Then the fuse is lit on higher productivity among companies".

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

If one subscribes to Haldane's analysis, then the main reasons for businesses not adopting new to firm technologies become self-evident.

In the case of SMEs, there is a catastrophic lack of physical capital available to invest in and adopt new technologies. What capital SMEs have is often tied up funding the working capital of their customers, most pointedly the larger corporates.

Haldane argues that the UK has significant deficits in what he called the social infrastructure of "enabling" institutions that help develop a technically skilled workforce, and "insuring" institutions which helps de-risk adopting new to firm technologies through such instruments as financial support.

The consequence of this is a problem that is "particularly acute" in the UK. It is what Haldane calls the "diffusion dynamics" of technology adoption. He reports that there "is a long and lengthening lower tail of companies failing to keep pace with the technologies used in the frontier firms". That tail has lengthened more in the UK than in other countries over the last decade.

He reports that "productivity among firms in the top 1% grew on average by 8% per year over the ten years to 2014 ... the lower 99% of the tail have experienced annual productivity growth of less than 1% over the same period."

Haldane concludes that “the wider dispersion and longer lower tail of companies helps explain the UK’s roughly 30% productivity gap with, say, France and Germany.”

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?

We think it would be an error to attempt to rank the ‘magnificent seven’ technologies listed. Newable has recommended creating a proper taxonomy and segmentation of the UK’s 5.7m small businesses. This would reveal that different individual technologies will impact the productivity of each defined segment to a greater or lesser extent.

However, to return to Haldane, a common underpinning of all these technologies is the “enabling” institutions, such as a robust fibre optic broadband infrastructure.

Finally, it is also most relevant to remember that not every implementation of technology is successful. The consistent learning is not to over-specify, customise or complicate the solution. This recommendation was repeated in the CBI’s recently published ‘productivity guide’, “Be More Magpie”.

In advocating technological solutions as a way to unlock productivity gains, government would be wise to consider recommendations on how to implement technology successfully in businesses.

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?

Newable, we would humbly suggest, represents an illustrative case study. Eighteen months ago, we launched an ambitious goal to triple the size of the business in five years. We call it 3x 5y. The business has in house capability providing a range of IT and digital services to third party clients. As part of the plan to deliver our goal we took the strategic decision to pivot our digital offering. We concluded that there was far more value to us in placing digital capability at the forefront of everything we do, than selling IT services to others. Since then we have completed a move to cloud based computing, used technology to enable our people to work in a flexible and agile way, we have rolled out Salesforce CRM across the business and designed a cutting edge company intranet. It is our firm belief that our growth and productive ambitions would be undeliverable without the enabling factor of technology.

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

Haldane proposes a solution: “diffusion spokes”.

He comments that “at the upper end, the UK seems to have as many high-productivity companies as its main competitors. That fits with the UK’s standing as a global innovation hub”. He goes on to say that institutions like the Catapults – to which one might add Innovate UK and the Scale-Up Institute amongst others – have cemented this position by “acting as innovation hubs rather than diffusion spokes”

Haldane goes on to pinpoint a major issue: “the UK does not currently have the diffusion infrastructure for its companies enjoyed by Germany.”

The UK does have “diffusion spokes” in place for its export support however. The Department for International Trade provides central direction, management and co-ordination acting as the exporting ‘hub’. Delivery Partners (including Newable) act as the ‘diffusion spokes’ with responsibility for specific regions, representing DIT through International Trade Advisors who engage directly with a predominately SME client base.

Section 6: 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?

The main reasons that businesses do not utilise support are:

- a lack of awareness of the existence of the support
- the complexity of accessing the support
- a perception of the lack of relevance of the support to their specific business needs
- uncertainty whether the support will still be available in a few weeks' time
- the variable quality of the support provided
- the opportunity cost of the time required to access the support.

By way of illustration, Newable works with Hummingbird an agri tech business and one of the UK's leading high growth companies. Our innovation team delivered the Innovate 2 Succeed mentoring programme for them. Our grant team helped them secure a £1.5m grant from the European Space Agency. Our knowledge intensive EIS fund, invested £1.5m of equity in them. Our advisory team delivers specific scale-up support funded by Innovate UK to them. Our International Trade Advisors support their export drive on behalf of the Department for International Trade. Support for such companies is out there. The challenge is for small businesses is to identify, navigate and secure this support as it is too fragmented currently. Ensuring that support is high quality is another issue. However, perhaps the most pressing issue is the long-term sustainability of that support given that a significant amount of funding comes from the EU.

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

We take this to be a rhetorical question. If it were effective, there would be no need for the current review and arguably no "productivity puzzle" to solve.

Business support comes in two flavours: formal and informal.

Formal support to SMEs is available through public agencies and private consultancies. SMEs are largely "priced out" of the support offered by private consultancies or independent consultants. This support is aimed at MSBs and above.

In terms of the formal publically funded business support, SMEs can apply for any number of programmes. In practice, these programmes are often disjointed and siloed, making it difficult for individual businesses to find what they need. The quality of advice also varies greatly across the different schemes and regions of the UK. There are too many small scale pilots initiatives that pop up and disappear. These are costly to run and have limited impact.

As a result, awareness is extremely low as is uptake by smaller businesses. As the Longitudinal Small Business Survey reported, only 1% of SMEs seek advice from one of the 39 LEPs and just 5% from the local authority.

The focus of business support programmes to date has tended to be businesses who do not have productivity problems. Resource has been channelled towards the scale-ups. The other main beneficiary of business support programmes have been under-represented groups in business activity such as BAME or women.

This is not to criticise such activity but to recognise that there is no concerted programme of business support available to address “raising productivity ... one of the Government’s key priorities and ... core to the UK’s Industrial Strategy.”

The main source of advice available to and accessed by SMEs is from accountants, solicitors / lawyers, trade associations and peer networks. Whilst this support is welcome, it is informal, unstructured and by definition inconsistent. The government cannot expect this source to do the heavy lifting and that deliver against the specific goal of increasing productivity.

There are three measures government can implement to address this issue. First, government should survey the customers of current support programmes to determine awareness, usage and attitudes. The survey would establish what businesses need as well as review what is available. The output would be a gap analysis. Second, the government should pool all budgets assigned to current business support programmes. Third, the government should develop a coherent, easy to access high quality, strategic resource modeled on the ITA network which exists for the Department for International Trade.

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

We believe the ‘hub and diffusion spoke’ model used by the Department for International Trade to deliver support for firms looking to export has been a notable success story.

The Department for International Trade provides a set of readily available, self-serve digital resources (through the great.gov.uk portal) as well as sector specialist teams at the central hub. Nine regional diffusion spokes operated by regional Delivery Partners, including Newable, deliver the service across the company to SMEs. Newable’s network comprises specialists working in sector specific teams. The sector experts also help companies identify opportunities in markets abroad, connecting them with the right people in those markets and getting them ready to sell overseas.

The service is free to the end client. However the Delivery Partners and the individual ITAs are challenged to meet exacting targets comprising new export wins and gross values of new export sales. All aligned to the policy priorities set by government.

Last year Newable helped 9,400 companies in London and the South East achieve £2bn of export sales – clearly demonstrating the value of this model of delivery.

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

Given the effectiveness of the UK's international trade advice support service, we recommend the government establish a 'mirror' service of domestic business advisers.

These business advisers would be managed and directed by BEIS, with the service delivered by major, private sector delivery partners. They will be charged with delivering productivity enhancing initiatives aligned to the Industrial Strategy with appropriate, transparent and measurable targets set and monitored.

We would welcome the opportunity to discuss how this could work in practice.

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

See above for our discussion of DIT's international trade advice service.

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

As described above the public sector can fund the support delivered by the private sector. The government can therefore ensure relevant business support for companies struggling to unlock improvements in productivity. Support that is aligned to the achievement of the major policy goals outlined in the Industrial Strategy.

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

The medium for those seeking to access information is the internet. The DIT's digital resource is a great example of the right solution to a correctly identified need.

It is more cost effective to localise a central resource and promote it, than it is to create and maintain a myriad of under-resourced and under-utilised local sites such as those provided currently via Growth Hubs. Perhaps utilising the resources on www.bethebusiness.com.

Without criticising the work conducted by "network navigators" and the like, government should understand that Growth Hubs are effectively opportunistic bolt-ons to LEPs, funded, largely, by soon to expire ERDF programmes. LEPs themselves were created to deliver the Localism Act and the requirement for integrated local plans. It is difficult to understand how this legacy of 39 LEPs can be the most fit for purpose mechanism to deliver the goals of the emerging Industrial Strategy.

The government should take the opportunity to review the patchwork quilt that exists currently when the ERDF funding expires. The objective must be to introduce a tailored solution created specifically to solve the productivity puzzle.

Section 7: 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?

There is no 'one-size-fits-all' solution to raising productivity. Support has to be tailored to the needs and ambitions of individual businesses. Women led, high growth potential, family owned, life-style are all common types of small businesses, but they all have very different characteristics and needs. Only by having a proper classification system for the hugely diverse small business sector, can government identify the issues that constrain gains in productivity. Understanding these issues will enable government to make targeted, cost effective interventions that will unlock gains in productivity and growth.

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

The 'symptoms' of constrained productivity is the result of some larger and significant causes. For small businesses, these are around access to finance, access to opportunity, and access to support. Positive intervention by government in these three areas is required in order to cure the symptoms and unlock productivity gains.

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

Paradoxically, the crowded market for business support and advice services also represents a significant impediment. The Government should reform this market, addressing the 'patchwork quilt' of initiatives that are difficult for businesses to navigate and are of varying quality. We recommend a strategic programme of support delivered via a domestic version of the Department for International Trade's International Trade Advisor network. This would be supported by a comprehensive digital resource.

Managed and directed by BEIS, with the service delivered by major, private sector delivery partners. The business advisers will be charged with delivering productivity enhancing initiatives aligned to the Industrial Strategy.

We believe that this could be neutral in cost terms, as it could be funded by centralising and redeploying existing expenditure. However, as the resource will be strategic and more accountable to the Department the impact will be significantly larger for the UK economy.

Newable's three main proposals, summarised above, meet the Government's definition of productivity, as they will increase the total output per input. We therefore hope that government will consider their adoption.

Newable is are keen to support the government as this work progresses, and would welcome the opportunity to offer further detail on any of the points we have raised.

Thank you for offering Newable the opportunity to contribute to the Business Productivity Review.

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