HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Small businesses and productivity, HC 807

Tuesday 19 June 2018, London

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[Watch the meeting]

Members present: Mark Pawsey (Chair); Vernon Coaker; Peter Kyle; Mr Ian Liddell-Grainger; Albert Owen; Antoinette Sandbach.

Questions 152 - 206

Witnesses

I: Linda Edworthy, Strategy Director, Tees Valley Combined Authority, Angela Middleton, Chair, Middleton Murray, Byron Dixon OBE, CEO, Micro-Fresh, and Heather Dean, Head of Skills and Business Support, Bucks Business First.

II: Mike Cherry, FSB National Chairman, Professor Tim Vorley, Professor of Entrepreneurship, Associate Dean Impact, Innovation & Engagement, Sheffield University, Irene Graham, CEO, ScaleUp Institute and Chris Manson, CEO, Newable.

Examination of witnesses

Witnesses: Linda Edworthy, Angela Middleton, Byron Dixon OBE and Heather Dean.

Q152 **Chair:** This is a formal evidence session on the part of the BEIS Select Committee into our inquiry into small and medium enterprise productivity and scale. It is great for us to be in the ScaleUp Institute rather than in the meeting rooms of the House of Commons, but we are treating this meeting in exactly the same way and are being recorded and transmitted.

Having welcomed everybody here, I wonder whether each of our witnesses might first of all just briefly tell us who they are and where they are from and then we will move into our questions.

Heather Dean: I am Heather Dean from Buckinghamshire Business First, which is the growth hub for the Buckinghamshire Thames Valley LEP.

Linda Edworthy: Hello, I am Linda Edworthy. I am Strategy Director at Tees Valley Combined Authority.

Angela Middleton: Hi, I am Angela Middleton. I have a recruitment and training company, specialising in placement of young people and delivering apprenticeships nationally.

Byron Dixon OBE: Byron Dixon, the CEO of Micro-Fresh International, an ingredient brand in footwear and clothing. I have recently been awarded the OBE, so technically my name is Byron Dixon OBE.

Q153 **Chair:** Congratulations, Byron. I wonder if I might just start off by asking you about SMEs in the UK. There is lots of evidence that our SMEs are less productive than those of our international competitors. We have had a series of initiatives from various Governments over the years that do not seem to have moved the dial on that particular issue. I am wondering perhaps if you might have suggestions as to why that is. We will then move on to what might be done about it. Perhaps Heather first of all, do you recognise that and why do you think it is?

Heather Dean: I was rather hoping somebody else might go first, but I would say that one of the difficulties we have had in this country is the issue over who is providing support. We have had Business Link; it stopped. We had the emergence of the growth hubs. The growth hubs are proving to be brilliant in delivering support, but the funding is sporadic. The support is dependent on what funding is leveraged and it is often very prescribed by the funder. Therefore it is not pertinent to all companies and it can vary dramatically. To give you an example, when the funding runs out, then what do you have? I think most growth hubs are about to lose advisers imminently. In the main, a lot of them are about to lose them, and that is because the funding runs out before any other funding comes down the tubes.

In our part of the world, connectivity inhibits productivity and most businesses in our area have a people problem rather than a skills problem. There are not enough people to be employed and many companies want to take up some of the new and emerging technologies, but they cannot because they need the connectivity to do so.

Another big problem in Buckinghamshire is the lack of suitable commercial property. That is because of the new development rights; a lot of our commercial property has been taken over for residential. Therefore we have lots of companies who want to leave the area, because they simply cannot expand.

Q154 **Chair:** Linda, we have heard from Heather some issues that are probably very appropriate to London and the south-east, but your area is rather different. I wonder if you could perhaps focus on the broader Government initiatives and why those do not seem to have done the trick in incentivising and enabling our SMEs to grow faster and become more productive.

Linda Edworthy: Broadly at the UK level, and from the European funding perspective as well, they have tended to focus on job creation and safeguarding jobs rather than productivity improvement. The creation of jobs does not necessarily improve productivity and likewise that improved productivity does not necessarily support the creation of jobs. It has been that mix for a long time, with an emphasis on job creation. There is then a potential under-achievement on productivity. Also the focus on the growth of the service sector has led to more of a reduction in productivity or an under-reporting in productivity, because there are fewer capital-intensive activities.

Q155 **Chair:** Angela, you and Byron are here from the perspective of fast-growing, successful businesses, but do you recognise the picture of UK SMEs as being less able to grow fast and less productive than those in other parts of the world?

Angela Middleton: Yes, I do. To put this in perspective, I work with literally thousands of small businesses; the majority of our client base are small businesses, and I am one myself. I see there is a big issue with mindset. Yes, there are lots and lots of strategies that are necessary in order to grow a business, but one of the things that I think we do miss in this country is sufficient aspirational role models and stories. You find very often that SME business owners are caught up in the business strategies, the things they have to do on a day-to-day basis. Very often they give up one job, start a business and basically it becomes another job for them. They do not have that mindset of what is possible so they just caught in going from pillar to post and they sort of stagnate. It becomes a lifestyle business, as opposed to a growth business.

Q156 **Chair:** Heather spoke about short-term Government projects and incentives. How aware are you, and how aware do you think other businesses are, of the support, advice and assistance?

Angela Middleton: A multitude of different options become available and then are not available. Sometimes there is a very lengthy process to go through in order to obtain the help that is advertised, so very often—I have definitely had this myself—it is easy to give up and just plough ahead without taking advantage of that help. In the end, you can become quite jaded as a business owner, because you think, "We have seen this sort of option before". The red tape involved in obtaining that help, whether it is financial, strategic or educational, is such that it takes up too much time.

I personally have had some examples of that. The Goldman Sachs programme was something that I had to actively seek out. Obviously, it was not a Government incentive or suggestion in the first place.

Q157 **Chair:** Byron, your business has grown very fast. What advice, support and guidance were you able to get hold of that enabled you to do things that other businesses might not have been able to do?

Byron Dixon OBE: Mostly I did it myself the hard way; "schlepping" I think is the term that has been used in the past. But when we reached a certain level, as I mentioned before, I was approached by a friend who advised me to do the Goldman Sachs programme. The short answer is it was just built the hard way, on old-fashioned worn-out shoe leather. Plane tickets—I flew to China and just met somebody at a hotel and opened a China office. We did some work with UKTI, as it was then. They did advise and help, but it is very difficult, seeking out that external help. Also, as Angela quite rightly said, it is time-consuming. When you are running a small business, your focus is on growing the business, and in some cases, like my case, I am the focus of the business, so my time is more valuable in front of clients and potential clients to bring more jobs to our area.

Q158 **Peter Kyle:** I am going to start with Heather and Linda. It strikes me that there is not one type of SME. I co-founded a business in 2004 and when we finally moved into shared space, it was very apparent that the other businesses that were doing the same thing as our business were doing it in a very different way and had very different characters. How can you, Linda, reach into that market when there is such diversity within it and use one set of tools that will attract a very different set of businesses?

Linda Edworthy: You are completely right, there is no typical SME in that sense. In Tees Valley, over 80% of our SMEs are microbusinesses. What we find is that you need to tailor the support to the individual business. So you might have a programme of activity, but within it you need a small cohort of businesses so that you can do a deep-dive diagnostic with the business and identify its needs and opportunities at a very individual business level, rather than just provide the same product to a multitude of businesses and hope that it works.

Q159 **Peter Kyle:** You have just said "deep-dive diagnostic". When I was in business, I would not have known what that meant, and I still struggle. How are you able to translate public sector speak into something that people who are there in the front-line—

Linda Edworthy: It is ideally having not people like me but business advisers—people who understand individual businesses and can talk to each business as a likeminded person, get to understand that business and who are respected by that business. Local government officers are not necessarily the people to go into the businesses themselves.

Peter Kyle: Heather, anything to add to that?

Heather Dean: I completely agree. We have 11,000 business members belonging to Buckinghamshire Business First. That is exactly one third of the total business population, and I do not think there are two businesses in that lot that are the same. We speak to them very regularly. What is important—I will echo what Linda just said—is that we have a place that all businesses can identify with where they can seek out support. Then the advisers, when they are providing that support, have a plethora of opportunities that they can direct and signpost, as is required by that business. But I do not think we should ever stifle their differences. I think it is one of the massive opportunities that we have. In Buckinghamshire we only have 75 businesses in the whole county that have more than 250 employees, so being the micro capital, bring it on. There are some fantastic opportunities there.

Q160 **Peter Kyle:** I guess my question, to be more precise, is about how you encourage small businesses to do the kind of capacity building when they are quite hard to reach. We all know the usual suspects within any community, and they are always the people you call first and foremost, but how do you get people and organisations that are buried down quite deep and get them to want to do the capacity building that will lead to an increase in productivity?

Heather Dean: I can answer that by saying that we communicate fortnightly with our 11,000 business members. It has taken us six years to get to where we are from a zero base. What we now have is the businesses helping each other and we have plenty of evidence to support that. If you can get hard-to-reach businesses supporting each other, they are going to be bigger believers in what their peers might say than what appears to be Government funding, even though it is the Government funding that will facilitate it.

Peter Kyle: Angela, do you have a response from the other side of the coin to what you have heard?

Angela Middleton: There are two things. I have just very recently launched a campaign at the House of Commons for a radical overhaul of careers advice, and I think the same thing applies for SMEs, both start-up and development. The first thing is that the way information is provided needs to be in a format that people these days want to receive. They want to receive information when they want it, which is not necessarily during the day, and they want to receive it in the format that they can take it, for example, via a podcast, on YouTube or another social media platform that we all use these days. That is one of the things that we need to look at—the method by which we deliver information. You can do that in a co-ordinated fashion.

I do believe as well that there is a framework that can apply to every single business, both start-up and scale-up, no matter where they are. This framework basically touches all parts of the business. The components are growth, innovation, marketing, sales, finance, optimisation, your fan base and trust. If you look at all of those elements—obviously you can go very deep into each of those elements—that will enable you to shift a business forward, no matter where it is. There is a methodology to do that; I personally use it all the time. That is what needs to be made available across the board. Make sense of the world of business. What do we need in this country to maintain our position as a global leader, what are the business opportunities and how do we start?

If someone has an inclination towards a business area—such as yourself, you started a business—how do they go about starting up? They need to have growth goals, they need to understand who their client is. Why is that client going to buy from them as opposed to somebody else and so on and so forth? There is a series of questions within that framework that they can start to answer; that will enable them to put together a business plan and then after that, implement the answers in each of those areas.

Q161 **Albert Owen:** My question is specifically to Heather and Linda, following on from what the Chair asked earlier about what the Government can do. They have produced their industrial strategy and there is a great emphasis on how it can help and support small business in productivity. What do you think the Government should do? Is the information accessible on that, Angela? What advice do you have for the Government? Our main remit is to scrutinise the Government, so they will be coming in front of us. It would be useful to hear your ideas on whether they are having an impact now and what they should do to have greater impact on productivity.

Linda Edworthy: One of the things for me is continuity of activity. We jump from one initiative to another and it is very confusing. I think we need a period of stability for businesses in very uncertain times. They need to understand what is available. Not all businesses will realistically be able to improve their productivity. How can we identify those that do have the opportunity and ability or could have the ability and then identify the appropriate support? Some support that was available previously no longer exists—things like the Manufacturing Advisory Service—particularly in the manufacturing sector, which gave very intensive support in that sector to help grow supply chains, to help diversify exports. That is really critical and very productive in the north-east of England, but that will be a big challenge moving forward, with new opportunities at the same time. It is important that there is visibility on what is available, but in very simple messaging; it should be very clear how to access it.

Q162 **Albert Owen:** Angela spoke about using YouTube and social media and things—about speed and access. Is that something the Government should encourage more? They tend to have a website and regional meetings when they are devising their policy. Do you think we should be coming into the 21st century?

Linda Edworthy: Potentially. I think with the SME base, a lot of it is about local information, not just national. A lot of our businesses will not necessarily look to national products, what is available. If you are based in Tees Valley, you look to see what is available locally. It may be a national offer, but it is whether it is available locally that is important.

Q163 **Albert Owen:** Heather, do you think the Government understand about local business support and regional business? Because they are based predominantly in London, and Whitehall is quite London-centric, do you think they do understand that, and are their policies geared up to spreading wealth across the United Kingdom?

Heather Dean: Yes and no, if I am honest. I think the local delivery is imperative, because different regions are entirely different in character and there needs to be some sort of local hub in order to be able to deliver that. But they ought to be the hub, with the specialisms coming out from that and working closely with Government. The architecture of the current arrangements is probably in place, but it is feast or famine with programmes and what is happening. They come and go. I find it extraordinary that I can hold meetings with all the national players—Innovate, ATN, the Catapults, HMRC and the IP Office—and when we get everybody into a room together we find that many programmes or projects have changed. If we, as advisers, in providing the support for business, struggle to keep up with this, a business can't even begin to go there. On top of that you layer a postcode lottery and then you have funding running out, so do you have advisers or not?

Q164 **Albert Owen:** Is your message to Government to build on the success that is already there, rather than creating a raft of new policies?

Linda Edworthy: Absolutely, 100%.

Chair: We are now going to move on to Antoinette, who has questions for Angela and Byron.

Q165 **Antoinette Sandbach:** Yes. You both did the 10,000 Small Businesses programme from Goldman Sachs. You have answered this in part already, but what lessons do you think you have learnt from the programme that other SMEs could learn locally or nationally?

Byron Dixon OBE: For our business, I learnt several lessons. One of the best modules was about leadership; I learned about myself as a person and that the people I engaged with or as a business had to have similar values. That makes life a lot easier. Everything around our business has to have similar values—our suppliers, our customers, our employees, even local support that we can talk to and engage with, otherwise it becomes a very long and arduous process.

Several other things I learnt: things that you need to know when you are running a business. The numbers are quite important and also you need to have a strategy and a growth plan. We now strategise for the future. We did not do that before, until four years ago. We just grew randomly, almost organically, but now we have a strategy, so we have a five-year growth plan to grow to £25 million, with all the strategic partners and people and funding in place. That is one of the major things that we learned from the Goldman Sachs programme. We also learned to network with similar aspirational business owners like Angela, which we can feed off as well.

Antoinette Sandbach: Do you have anything to add, Angela?

Angela Middleton: Obviously I would echo what Byron said there about having clear growth goals. It does sound strange, but so many businesses, myself included, can run a business for a long time and if they are asked, "What are your growth goals?" they do not have a very clear answer. If you do not know where you are going, the cliché is true, you do not get there. But one of the things that I do want to emphasise is the importance of providing aspiration and inspiration to business owners. Byron explained that he got on a plane and went to China. A lot of business owners will not do that because they are full of fear about the wasted time, what is going to happen while they are not there, whether it is worth it.

When you look at achievement, the theory says that 80% of it is about your mindset and only 20% is strategies. We have a plethora of strategies and programmes and opportunities within this country, but if you go to America, it is nothing but aspirational stuff on the TV. If you look at motivational speakers on social media such as Gary Vaynerchuk and Tony Robbins, they have a huge UK following of business owners, who are desperately seeking that sort of motivation. It can really wear you down being a business owner. You tend to be the sort of person who is quite hard on yourself; no matter how much growth you see, it is still not good enough.

You need that sort of drive and energy and you need someone to help you with that, so I think that we could do a lot more work in the UK on that, building a picture of what is possible for business owners and keeping them going through tough times.

Q166 **Antoinette Sandbach:** Byron, you spoke earlier about the support that you had received from UKTI. Was that the only support that was available for you in terms of exporting your products, and what difference did it make to your productivity and turnover? The same to Angela, if it is relevant.

Byron Dixon OBE: With UKTI—or DIT, as it is now effectively known—we received a lot of support, a lot of guidance. I lived in Denmark for four years, and I made a lot of international contacts while I was there. Rather than say, "This is how you do it", UKTI said, "When you do it, we are here to support you and to give you some guidance". We used the OMIS structure, the Overseas Market Introduction Service, and it worked really well for us.

We have also engaged with Innovate UK. Our product prevents micro-organisms growing. I am from a council estate and I had problems as a child with asthmatic conditions due to mould. We worked with Innovate UK and we developed a version for plaster for lower socioeconomic groups. That was partly funded with Innovate and we would not have been able to do it without them, so we have had a lot of support, which we are really grateful for.

Angela Middleton: In addition to the Goldman Sachs programme, I just completed a leadership programme with CBI. They run a six-month programme primarily for people with FTSE 100 companies. I just thought, "I will apply and see" and got accepted on to it because the thing that we offer in our business is relevant to those individuals. It gave me the opportunity to network with people who are running much larger businesses who have a different mindset. They took us to Westminster, to Washington, to Brussels and we learned some really great things and built a great peer group as well, so more things like that to let small business owners have access to the bigger picture I think helps. It certainly did for me.

Q167 **Antoinette Sandbach:** For all of you, how developed are the local networks and collaboration in your areas between SMEs, local government and universities and how important is that for sharing lessons and best practice and exploiting innovation?

Byron Dixon OBE: I did the Goldman Sachs programme at Aston, so now we collaborate with Aston on research projects. We collaborated with the University of Leicester initially when we created our product, so we are quite used to working with universities and we see the value of using those high-level university brains to do the research for our product. It is crucial for us. I think it is a lot easier than most people imagine. I quite regularly talk to other business owners to say, "You can turn up at your local university, talk to a business engagement manager and work together. They do make it quite easy". But that message needs to be out there in the public domain for the SME network.

Heather Dean: I have worked extensively in Oxfordshire and separately in Buckinghamshire. The two counties are right next to each other and they are entirely different with businesses and how they work or do not work. They work with the universities in Oxfordshire and do not do nearly as much in Buckinghamshire. It is quite extraordinary. I think it is down to the local area and the businesses in Oxfordshire; there are many science-based R&D companies that naturally have a gravitation to the local universities. It is not perceived in Buckinghamshire that the universities can put on services for business, so I would say it is patchy. Probably Oxfordshire is one of the better places in the country just because of what is going on there. But I think it is very definitely an area that could be improved with all of the services. I think there are so many businesses that do not have the first idea of what is available.

Q168 **Albert Owen:** We had a session before this formal session and the scale of the challenge was pointed out to us on a graph, where the UK ranks third for start-ups, but 13th for scale-up. Why do you think that is? A question to you all.

Angela Middleton: One of the things with our small businesses is that they have the business demand, but they have an issue in delivering that demand, so they tend to be quite good at sales, but do not necessarily deliver when it gets to volume. One of the reasons for that is that they do not have the skills internally. Even if the skill is available outside in the market, they cannot afford it; they do not have the budget to access that skill. One of the things that we do as an apprenticeship provider is a huge amount of education with small businesses about the way the apprenticeship scheme works. It never ceases to amaze me how organisations just do not know. We are still seeing the small business volumes of apprenticeships going up, but that is because we are actively telling them about this and then explaining the proposition and how it can work in their business. It is very much a business consultancy piece.

This is one of the reasons. They have the demand, but they just are not equipped to deliver to it. The apprenticeship solution is a great one, bringing young people into their business. We quickly see them going up the ladder, but it also enables businesses to upskill individuals already in their business. This is something that there needs to be much more communication and education about. For our part, we realise that we have to do that education with businesses and the same thing at the schools as well, to let people who are about to leave school know what their options are. It is not just about university options, there are other great opportunities as well.

Q169 **Albert Owen:** Do the Government get this, do you think, and are they trying to address it?

Angela Middleton: Funnily enough, I provided some evidence at the parliamentary Education Committee exactly on this point and said these same things. The messages are there, but it is not an easy thing to do. We are working on communication and we need to do more of it. Again, it boils down to the method by which we are delivering this information. We have to deliver it on platforms that people are now using. If you look at the number of users on Instagram and Facebook, not just LinkedIn, that is where we could get this message out. The technology to get messaging out is amazing now; you can target small businesses, you can target businesses of very precise sizes as well.

Q170 **Albert Owen:** Byron, do you recognise that? Is that how you interpret it? You have a fast-growing business and you have scaled up, but as a country, the UK is struggling. It is high on start-ups, but not on scale-ups.

Byron Dixon OBE: Yes. Just a slight correction; we are scaling up because we always want to be scaling up. We see a skills shortage and we find there are other aspects of scaling that frighten people. Running a business is a lonely place and it takes a huge amount of energy. I have always had a huge amount of energy, so I just take it in my stride. I lived in Denmark for four years and in Denmark they have a policy that you finish work and you go home, and you do not e-mail after hours. We try to do that in our business, because I have a family. I have all the normal things going on like everybody else has. Scaling a business—something Angela said earlier—that is not familiar to the UK mindset, if you like.

It is difficult, and support is needed. When I go to the US, I see it is a natural mindset to scale businesses. In Denmark they have structures, so you get to a certain level. There are people around and organisations that will take you to the next level. You do not have that in the UK. Some of the things we spoke about earlier—that scaling businesses generate jobs; that we attract people to our business because we are exciting, they can see where we are going and they see us in the press; that we are a scaling business. I think that is something—

Q171 **Albert Owen:** Do you think the Government are now understanding that and are helping to scale up on a local level?

Byron Dixon OBE: My opinion is no. I think it should be made more accessible. We spoke earlier about the definition for scaling business—the 20% growth in employees and turnover. I think those businesses should be identified and you should seek out and support them to grow in the future.

Albert Owen: Linda, you were agreeing with Byron. Do you have something?

Linda Edworthy: Yes. The Government solution at the moment is growth hubs. In Tees Valley, the growth hub gets around £260,000 per year to deliver a service to all of our SMEs in Tees Valley. As I said before, over 80% of those are microbusinesses, so that is an awful lot of very small businesses to work with.

In terms of scale-up activity, there was a desire from the civil servant side to put greater emphasis on that and potentially provide more funding for it, but the Treasury did not believe their case was made. As a result, scale-up was just bolted on to what growth hubs need to deliver with £260,000.

Q172 **Albert Owen:** Byron said this is a UK mindset. Do you think it is resources?

Linda Edworthy: Part of it is resources. It does feel like research institutes and organisations such as the ScaleUp Institute have led the policy debate and Government have followed it and are putting more emphasis on it. But follow-through with delivery and support for delivery is not happening. At the moment we have £13 million of European funding going into our growth hub and our growth hub would not be able to deliver the services necessary without that.

Albert Owen: Heather, do you have anything to add?

Heather Dean: Not particularly, other than to say that it is a combination of aspiration and support. In Buckinghamshire there are many businesses that frankly do not want to grow. They have set themselves up as a small business and if you said, "We are here to help you to scale up", they would probably run a mile, frankly. They are quite happy where they are. The trick is to separate those companies you are supporting to keep at a steady state and creating aspiration in others that do want to grow.

The other thing I would simply say is that many of the national programmes are simply not geared up to your average—if there is an average—SME. If you said Innovate UK, the competition for loans, R&D etc., they are great for some businesses in that particular niche area, but they are not suitable for everything else. The Catapults, Enterprise Europe Network, the KTNs etc.—there are thousands of businesses that that simply does not cover. I think some of the Government structures are missing most of the businesses.

Q173 **Chair:** Heather has made the very point there, which is that we have exceptional businesspeople with us today in Angela and Byron, who have very progressive, dynamic ideas. Lots of small businesses are family businesses; they want to do everything around the kitchen table. Is it legitimate for that very large number of businesses to be lacking in ambition and how do you sift them out, Heather, and identify those that are in that category, but those that, if given the opportunity, would be able to make the leap to something different?

Heather Dean: I will give you an example of a chocolatier who wanted to grow and wanted to start exporting. It was in the days when DIT was called UKTI, but the problem was that UKTI seemed just far too big, too scary to even go anywhere near. But they did have an aspiration and it was only working with them over the long term and being a bit of a translator between UKTI, our local advisers and them that we got them into exporting. I think it is about long-termism, working with those businesses and creating that aspiration long term and short term.

Q174 **Vernon Coaker:** It is interesting that in answer to our questions, you have drilled down to what happens at the sharp end of all of this, which will be really helpful for our report. Just to re-emphasise, if you feel as though you are repeating it, it does not matter, because it is really important.

Last week we heard that UK SMEs suffer from management and leadership gaps at times, but we have also seen in evidence, and we have heard from you this morning, that there are other things: access to finance; digital knowledge and capacity; infrastructure and access to skills and all of those different issues. That is stopping a lot of SMEs from scaling up. If I could ask Linda and Heather—I will come with a slightly different focus to Byron and Angela—at a local level, what is it that is stopping businesses that want to scale up scaling up? How can that be addressed? We have an opportunity in our report to say to Government, "You need to do this". These are the issues that the people you come into contact with face. How can they be addressed and what are they?

Heather Dean: Of the businesses that we talk to, almost without exception I think they would all say people. If they had the right people, they would scale up. Their biggest blockage right now that is being reported to us is lack of people, and that is almost over and above skills.

Q175 **Vernon Coaker:** Actual physical bodies, rather than somebody who is a brilliant IT specialist or something?

Heather Dean: Within reason, yes.

Vernon Coaker: Interesting.

Heather Dean: Yes, which is why we had a roundtable very recently with some of our businesses, and it was interesting to hear that two or three of them in the room had said, "We are not going to recruit because of the time it takes and the sheer energy and the amount of money to get nowhere at the moment". It is too big a resource, so they stopped recruiting and have a new plan, which is to see how they can automate and bring in robotics in order to cover the loss of people.

Vernon Coaker: Interesting; very high employment rates. Linda.

Linda Edworthy: For us, there is an element of that, the skills and people, but a lot of it is about the leadership and management and about the ability to take time out of the business. I think there is always the problem of being a bit scared to step back from the business. A lot of these people are owner/managers who have established the business. It is their baby, and it gets to a point where they need to step back from it. They might not be the right person to take that business forward and that is not an easy thing to accept. So it is a question of working with some people who can put the mirror up to that for them and help them through that process. We have had scale-up activity programmes in Tees Valley and the feedback from many of those business owners has been that sending them on a programme does not necessarily sort it. They learn lots of lessons and it is great, but then they go back to the business and the people in the business think, "Oh, that is great. You have had your course. We will just get on and do what we are going to do". It is about working in the business with the whole management team and other members of staff, and it is not just the one person who happens to be the owner/manager person at the top of the business. A lot of it is about starting with that person, but then working in the business and potentially bringing someone to work in the business. It could be another person who has been through that journey of scaling up and is able to advise them, in an ongoing non-exec director role.

Q176 **Vernon Coaker:** It is some of these practical issues, rather than a theoretical jump through goodness knows how many intellectual hoops; it is, "Where do I get the people from who are reliable and I would wish to employ? Where do I get them from?" That is over and above skills, and then it is things like, "What practically makes a difference for my business? If I am away two days, who is running the business for me?"

Linda Edworthy: Yes.

Q177 **Vernon Coaker:** For yourselves, Angela and Byron, what held you back and how did you overcome that? What practically needs to happen to make a difference, to share your enthusiasm? You can see from your personalities that enthusiasm and dynamism will be part of the answer, but how do you replicate that? What can you practically do to drive that forward for other SMEs?

Angela Middleton: All the components are available. It is bringing them together and making them available and then—

Q178 **Vernon Coaker:** How does that happen? Sorry to interrupt.

Angela Middleton: We have talked about mindset, first of all, so that needs work and you need input for that. As an individual, I personally go and seek that sort of content out, but if it were more readily available in one place, that would help people. We bring young people into our business all the time. We start to provide them with content that completely changes how they think and they transform before your eyes, so that is the first thing.

The second thing is people, that is true, and we have a mechanism now of upskilling and bringing new people into the business from schools and via the apprenticeship programme. But we also have the mechanism for upskilling people while they are working for us, and that is through various Government-funded programmes.

Then the other thing is finance. It is knowing where to look for finance. You can go to a number of high street banks and depending on what your current situation is with finances, often it stretches a small business. You can get "yes" or "no" or "maybe". It is not easy. I think if all of these things are brought together in a single platform and combined with the motivational stuff behind it, they enable you as a business to have the drive and keep on. It is not easy. There are basic components that need to be addressed. All of these different programmes do work, but business owners cannot find them or if they can find them—

Q179 **Vernon Coaker:** It is a maze, isn't it?

Angela Middleton: It is a maze, but if they can find them, do they have the drive and commitment to go through with them? It is hard work. If we can bring that all together in one single market, make sense of the world of business and say, "Okay, here is your mindset stuff. You need to do this, this and this. Here is the access to young people from school; this is how upskilling works; here is access to finance". I was at an event where a Minister was talking about a new initiative for financing of small businesses. I had a C-level person sitting next to me from one of the big high street banks, who said to me, "I do not even know about that". He was e-mailing his team while we were listening to it.

Q180 **Vernon Coaker:** Just on that, British Business Bank has done a survey and they said that 100,000 SMEs have had their loan applications turned down. It strikes me as a directive to get all the chief execs and the big banks in and say, "We bailed you out. Why don't you help small business a bit more than you do, actually do much more than a load of initiatives?" But that is enough on that.

Angela Middleton: It can be very frustrating and you have to keep on at it, basically.

Byron Dixon OBE: I will make this concise, as always. We do a couple of things. I get asked quite often to talk to smaller businesses to inspire them, because people say to me, "Byron, look what you are doing and look at what you have done. Can you feed that to some smaller businesses to give them inspiration?" It is amazing, because we do not see what we are doing, we just think we are running a business and we are paying everybody and everybody is happy, but other smaller businesses look up to you in a way that you would never imagine. Conversely, then when I mix with people through the Goldman Sachs programme, it is a similar thing, but on a higher level. It is surrounding yourself with people who are similarly inspirational.

Also internally in our business, we can now attract good people. We can pay well above market rates. We are in the fortunate position of being able to do that. It is extremely difficult, and one of the comments—which I can't qualify—is people around me saying, "If your business was in London, your growth plan would happen in half the time, because you would have a constant stream of good people" which we do not have. We are in Leicester, by the way.

Chair: Thank you, Byron, and thank you, everybody. We need to bring this to a close, but we have heard some very interesting points from Byron about the regional differences and also from Heather about the shortage of people driving a route to automation and robotics. One of the things we are interested in is how small businesses become more productive, and how we raise productivity. What you are saying is that it is having to happen because of the lack of people. Perhaps both of those points, and the regional differences that Byron has drawn attention to, are things we can take up with our second panel. Thank you very much for giving us the time to come and join us this morning.

Examination of witnesses

Witnesses: Mike Cherry, Professor Tim Vorley, Irene Graham and Chris Manson.

Q181 **Chair:** Good morning. Thank you for joining us for our second panel session. We are looking at the growth and productivity of small businesses. We heard in the previous session about the evidence that the UK is running behind its competitors in terms of productivity and we are not as effective at scaling up our SMEs. I wonder if you can give us some guidance as to why that might be. I might start with Professor Tim Vorley, please.

Professor Vorley: I think scale-up is an interesting issue and listening to the previous panel some of the things that are really key are about ambition. One of the big things we certainly see is the need to instil a culture of more ambition. If we try to identify those scale-up firms, ambition is probably one of the biggest triggers to that. How we are going to develop and grow that is the perennial challenge and the scale at which that is to be achieved is also an issue. Looking at how that is working in the centralised political system but also at the role of LEPs and growth hubs within that are some of the big challenges that we see.

From our point of view, both in my role on the Small Business Charter Board and at the University of Sheffield, it is really thinking about some of the things we have heard earlier. It is about joining up the systems to identify how we can best support those firms that demonstrate the potential for scaling up but also making sure the landscape more broadly— the framework conditions—are amenable to business growth across the board.

Q182 **Chair:** Mike Cherry from the Federation of Small Business, do you recognise that our small businesses are less able to scale up than some of our competitors?

Mike Cherry OBE: Whether you are looking at scaling up or at addressing the productivity question—I do not believe the two are necessarily the same—I think there is a lack of ambition, but that starts in the education system. I think we also need to recognise that the difference between those start-ups and those scale-ups compared to the rump of the rest of the business community that wants to grow steadily is not being recognised sufficiently or supported sufficiently. The generic term "SME" does not help that one iota. You need to recognise the micro businesses, the smaller and the small businesses, their lack of resource both financial and people, and give them the support they need.

Q183 **Chair:** We are going to go on to Irene Graham. Irene Graham and the ScaleUp Institute are working with those very fast-growing companies, just 0.5% of all SMEs. Is there is a danger, Mike, that we neglect the remaining 99.5%?

Mike Cherry OBE: I do not think it is the 99.5%. You need to recognise those businesses that are the lifestyle businesses but you need to get the right support, and that support needs to be based on the need of the business. I suggest that, whether it be the LEPs or whether it be the Growth Fund, somebody is tasked with identifying first and foremost what support is needed by the different types of business and the different sizes of business. That need should also be reflected in what is the need for the skills base. Most small businesses will do a lot of their training on the job, and that is not recognised generally.

Q184 **Chair:** Irene Graham, from the ScaleUp Institute, you are our host today so thank you for that. Can you tell us why you think we are lagging behind other countries in encouraging our small businesses to grow and develop?

Irene Graham: We think segmentation, picking up Mike's point—that is very clear—and targeting aligned to the business need. We are third in the world at start-ups because we have had a very good set of policies and initiatives on start-up and we need to maintain those.

In terms of ScaleUp's agenda, we see that for businesses that are scaling—you heard this earlier—some of the challenges are in accessing the right talent, building the leadership capacity, getting into the right markets, whether that be corporate procurement, Government procurement or international markets, obtaining finance and risk capital in particular and having the right infrastructure.

When we compare ourselves to other markets, we see some gaps and differences. If you look at the US market, one of the clear ways they have achieved that alignment and scaling up and encouraged small businesses to scale, is having strong procurement rules around anchoring small businesses and scale-ups into the supply chain through the Small Business Administration. They also have institutional investors playing a key role in the finance dynamics of that.

If you look at Scandinavia, you see a very close local co-ordination of national services with local businesses and relationship management of that. We think those are policies and mechanisms that we need to build on here. We should utilise that local environment and examples from other markets in order to drive this forward. We should utilise the data we have to pinpoint and segment in a more effective way.

Q185 **Chair:** Chris, you have started and sold businesses and you have scaled them up. Do you accept that we are less good at doing that as a country than others and why do you think that might be?

Chris Manson: The example I always look at is Germany. It has a huge mittelstand of family-run businesses. I think the lesson to be drawn from that is a cultural one. A family-run business in Germany is seen as the paragon of good business practice whereas in the UK, rightly or wrongly, we tend to see big business as the paragon of good business practice.

It is an infrastructure issue as well. In Germany the regional Landesbanken are very good at supporting local businesses, but also having the needs and aspirations of the local economy right at the heart of their individual agenda. As we have seen, banks have withdrawn significantly from delivering that kind of local network of bank manager relationships, and that has left a big gap. The tide has gone out.

It is a real challenge for us to think about how we get up to the scale of competitiveness of Germany. We run the Department for International Trade's advice programmes, and I was interested to hear Byron's feedback on that earlier. We are always beaten with the stick that Germany is exporting four times as much to China as we are, but that is partly about the infrastructure and culture they have in place.

Q186 **Chair:** If it is a cultural thing, are we seeking in our Committee to stop the tide? If it is a cultural thing and that is the way we are, do we just have to accept it?

Chris Manson: No. I think it is about having a consistency of national strategy that is then delivered locally through some of the excellent work we have heard about today. From my perspective, we see insufficient attention given to a national strategy and then having that delivered locally.

Q187 **Peter Kyle:** Irene, thanks again for allowing us to use the facilities. They are absolutely amazing and it is brilliant to visit here. From your experience, how do we get through to all SMEs that need to upscale rather than just those that are easy to reach? Do we use a differentiated approach, a segmented approach, a sectoral approach? How can we drive deeper down to those people who are hard to get through to?

Irene Graham: As we have heard from the earlier panel, fragmentation is absolutely vital and how we use data and knowledge locally to drive that is key. One thing we are very focused on at the moment with Government is the fact that, while we have Companies House data available, it does not cover all SMEs. Many do not file at Companies House. Nor, indeed, does it cover all scale-ups. We are looking at how the data that HMRC holds in VAT and NI records can be better harnessed and how businesses can be communicated with to connect them into local services that are available through growth hubs and also the private sector. We think that use of data is absolutely critical to getting better at targeting, segmenting and reaching through digital channels as well as local face-to-face channels. We think that is absolutely vital.

Q188 **Peter Kyle:** We heard from the previous panel that there is some data that people could not get their hands on. Is there any data that Government should release that they are not releasing, in your view?

Irene Graham: I think we could harness data that businesses file in VAT and NI records through HMRC. We could harness it better across Government at a local level. We are encouraged by the fact that HMRC are starting to analyse that data with their colleagues and looking at how they can reach out to businesses in a more proactive way. I think that is a critical aspect that we need to look at and build on—how that connects back into the local areas as well as how ONS data can be used better.

Ultimately it would be great if a business could send a note in and get a reflection back through APIs etc. to say, "I am scaling up here, Mr Finance Provider or others. I am a great company and this is what is showing through that". It is how we harness that better. We are encouraged by some of the progress.

Q189 **Peter Kyle:** Professor Vorley, is all that data available to you? As a researcher are you frustrated that some data just simply is not released? Irene leaves us with the impression that the data is there. It is the way it is analysed that is the problem.

Professor Vorley: The availability of data in the UK has been an issue, and it is improving. Certainly some of my colleagues through the Productivity Insights Network are working with ONS and we know that better data is coming and that would certainly aid the point Irene makes about being able to segment.

The ability to identify that data on a more micro and disaggregated level, like our Scandinavian counterparts, and drill down in the data, allows us to distil where we might be able to segment regionally but also individuals, firms, etc.

Q190 **Peter Kyle:** Is there anything you can do with the data when you have it that we are not doing now? Are there doors we can knock on that we are not knocking on where we know people are not active in the market, the development market, the scale-up market?

Professor Vorley: Colleagues with the Business Data Government Research Centres funded by UKRI would be able to identify and drill down those and be able to target some of that better, so yes would be the answer.

Mike Cherry OBE: You have an issue here around communications that aligns with data to some extent, but it comes back down to having consistency of offer and consistency of support. If that is there and Chris has highlighted Germany as an example, you have always known what is available if you are an exporter in Germany. It has been there consistently. The support has always been there for you. Back here in the UK we have had successive Governments providing initiative after initiative after initiative. We see this in education as well. I touched on that earlier.

If there was consistency of offer, you would not need to focus so much on collating new data or not having the data that you want. It is having it there, and businesses would know where to get it. I think we need to get away from initiatives and get into medium-term support that is benefiting business over a consistent period.

Irene Graham: Can I just add one point to give an example? If you have the right use of data you can reach into a business that is already exporting and then say it is very highly likely that they want to export more and they want to export to more markets. So, by that knowledge that is held centrally you can start to align DIT resources even more effectively.

Q191 **Peter Kyle:** What do you mean reach? I am trying to figure if this is a business that is not imagining it needs help and then suddenly you—

Irene Graham: It is being much more proactive in relation to reaching out to the business in a bespoke way based on the knowledge of their growth and their aspirations, and connecting that into the local environment in a more effective way. That is what is not occurring in the best possible way today.

Q192 **Chair:** I will come to Vernon Coaker in a second, but I want to pick up with Mike the bit about regional differences. We heard in the last session about how a shortage of people was leading some small businesses to invest in robotics that they might not otherwise have invested in. That strikes me as a pretty overheated-London and the south-east thing that is not likely to be replicated elsewhere around the country. Your organisation covers the country as a whole. How do you see the regional variation between businesses that want to grow and their ability to do so?

Mike Cherry OBE: Our quarterly surveys repeatedly show that around one third of our members have trouble with finding people with the right skills.

Q193 **Chair:** The point that was being made is that it was not skills. It was just finding people.

Mike Cherry OBE: It is people, to be quite frank, with the right attitudes, who are prepared to come along to engage with the business and be trained by that business. I think this is where we need to get small businesses much more known with schools. We need to inspire our young people to look at their small businesses as a means of employment but also to inspire them to look at self-employment perhaps as a route for their future path.

Chair: That leads us neatly on to Vernon Coaker's question.

Q194 **Vernon Coaker:** What you have just been saying is really interesting, Mike, but let us try to roll all of this up. There is this plethora of initiatives all over the place to try to improve productivity, yet many SMEs are either unaware of them or choose not to use them. We know, for example, a couple of facts. I saw that the Institute of Directors found that 21% of members surveyed were aware of support offered by the British Business Bank. Only half recognised support such as start-up loans. We have all this out there. Why is the Government failing to get its message across? What is the problem and how do we do something about delivering that more joined-upness? Everyone talks about it, but how are we going to do it?

I absolutely agree with what you just said, Mike. There are thousands of initiatives. Half the people do not know about them. Government spend a fortune with it. You sometimes think that if they wrote a cheque for a few people it would have more effect and would save a load of money at the same time. I am not being cynical. Do not get me wrong, but it is something that is frustrating, I think. We accept that there is a problem, but how are we going to deal with this so the Government's policies have a real impact, are more joined up and we get the message across? That is a huge question, but you understand. Mike, do you want to start with that? I would ask you to be quite brief with that if you would not mind.

Mike Cherry OBE: I will try to start on that. Clearly communication, as ever, is one of the biggest problems, but knowing what is out there on a consistent basis is not helpful when you have initiative after initiative coming through. Also, as with most Government initiatives, the LEPs' remit is being expanded and of course they should have a fairly focused strategic objective for their local areas. Making sure that either the LEPs or the growth hubs have some key responsibilities about understanding the demographics and needs of their businesses, where that support may be necessary and what the educational support and skills are, is pretty key to this. I would also ask the question on productivity, just to come back to that. We talk about productivity, but what is it? How do you measure it? How does a business know it is ahead of the game on its productivity levels or behind the curve?

Vernon Coaker: I will come back to that point at the end.

Irene Graham: If I may add to that as well, I think, as we have heard from business, navigation—so the digital use and digital channels—is very vital. Gov.uk is not that ready for an engagement with businesses so they need to bring that digitalisation and other media channels to the fore. What British Business Bank is doing, with the information hub now, is bringing finance and growth capital information to the fore, but then looking at how that links into the local environment. We have seen very good models and it comes back to the earlier point—growth hubs build on them and invest in them. Take examples we have seen in Denmark about the co-ordination around what they do and how they do it and also how that relationship management can be fostered within them, as we see very successfully working in Scotland. There are ways we should build on what there is today and invest in it, which is going to be critical going forward, and also navigate in a more digitalised way as well.

Chris Manson: One of the interesting things we have to consider over the course of the next couple of years is the funding of the LEP system, because obviously a lot of them are funded through European money. If one is to be consistent with the industrial strategy, are LEPs necessarily the right mechanic to deliver the advice? I refer back again to the programme that is run through the Department of International Trade, International Trade Advice, which has been running for 25 years and demonstrates the consistency of purpose and clarity of thought that Mike was demanding in his earlier comments about initiatives.

The good thing about that, whether one can expand it to a wider, general business advice, is that it has very deliverable outcomes. We advised 13,000 companies last year and delivered £2 billion worth of extra export sales in the London and south-east region alone. If we can translate that certainty of outcome into the kind of advice network we would look to put forward, that would be of benefit for us.

Irene Graham: In one sense DIT, Innovate UK, and the British Business Bank are a set of products and services and how you co-ordinate them through the local area, where the growth hubs bring them together, is vital. That is what Denmark does very well. The export strategy is being reviewed at the moment by DIT. I think it is going to be vital to see how that segments and aligns to the needs of businesses and promotes effective engagement.

Q195 **Vernon Coaker:** Tim, what is more important for the Government as a strategic goal; full employment or productivity?

Professor Vorley: We have to look at it as productivity and the outcome of it. We are looking for standard of living increases so we need to approach that in a balanced way. I think Mike's earlier point about understanding what we are trying to look at and how we are understanding productivity here is key. From a lot of the research work that I and my colleagues have done, you do not tend to find businesses that care about productivity. The primary drivers here are efficiency and profitability. Talking in those terms is crucial. I had the pleasure to be with a colleague on a panel the other day and he quoted the fact that 80% of businesses think they are better than their peers. It is that kind of reality check that demonstrates where businesses need to think and where they perhaps need support.

One of the key things is we need to hide the wiring and the complexity of business support better and make sure that at different levels, businesses get the support they need but that support is intensified around those businesses that have scale-up growth potential.

Q196 **Vernon Coaker:** An interesting thing that came up in the last session was automation and where that takes you in terms of productivity. At some point there will be this discussion around automation, jobs and productivity. It is just an interesting thing. I take your point generally that you need to de-clutter the landscape a little bit to make it easier for people to have one point of contact. I think that is generally what has been said.

Professor Vorley: On the point about the automation, I think the myth about technology coming along and taking jobs needs to be expelled. We need innovation. Innovation-led growth is key to productivity over the longer term and also if we are looking at the productivity dilemma, so is export. Again it comes back to the fact that we can harness the value of innovation through export without that displacement.

Chair: Before we move on, you may wish to know that one of our next inquiries is on automation. Our next questions are from Albert Owen.

Q197 **Albert Owen:** I want to follow the line of questioning that Vernon is doing. We have had a good discussion with the first panel and you thus far and we are all clear that there are too many initiatives, or there have been in the past. What can Government do now if we are all agreed that there is a need for more scaling up? I am looking at you, Mike, when I say that. You did say something I thought was interesting—that you believed there should be a mid-term support mechanism. Is Government right to talk about a scale-up taskforce such as we had with start-ups for a long time? Can you take that first, Mike?

Mike Cherry OBE: If you are talking about any sort of taskforce, you have to identify what its purpose is and whether it is going to be around so that businesses in five years time or 10 years time know that is still going to be there, and that, when they need it, that support or that finance will be available to them. Too many times we have seen support initiatives that have either been time-sensitive or pot-sensitive and have gone by the time a business is ready to access them. That is where the medium-term strategic thinking and support needs to be put into place. It is not when politicians or Government or civil servants think that should be available to business; it is when that business is ready to access it and take advantage of whatever support may be available to them when they are on that growth trajectory.

Q198 **Albert Owen:** Are the Government right to set up a taskforce to look at this scaling up? That is my question.

Mike Cherry OBE: I would contend that there is probably longer-term value in looking at the businesses that are not necessarily scale-ups. They have their own place certainly and they should get what they need. They are the middle element I was speaking about, that can grow steadily, but not at 20% per annum over three years or however scale-up is measured. That would be far more beneficial to society's businesses.

Professor Vorley: We distinguished the lifestyle businesses and high growth, but that managed and planned growth is also hugely important here and business support has a key role in it.

Q199 **Albert Owen:** Thank you for that. You used that term "management". We were told by academics last week that there was a lack of leadership and management gaps. Do you agree, Irene, and is that what we should be concentrating on, or should the Government be setting up its own taskforce?

Irene Graham: To respond in terms of the taskforce, in order to stimulate action across five core areas of need for businesses that are growing, whether that is steady growth or scale-up, there are five core areas that have been identified to work on. They are data and the uses of that data; looking at talent and talent acquisition; looking at procurement; exporting and finance. Those are all things that need to be addressed in the long term.

To be clear, a taskforce putting some focus on how the Government can better interact on exporting and procurement, or drive longer-term investment, is very key. That is the reason for the taskforce existing and looking at embedding that for the long term in industrial strategies. You would hope that successive Governments would support that, particularly if it is focused on what happens at a local level in terms of growth hubs and LEPs, which all panellists have agreed should have more investment. I think that is a very critical aspect.

When we talk to scaling businesses, they want more local peer-to-peer networks, better access to universities and business schools and more locally developed leadership programmes. There is this focus on the leadership and management dynamic, and how that can be better accessed locally and connected into some of the very good programmes such as the Goldman Sachs 10,000 Small Businesses programme or other business programmes. We can connect that up better and also make that more accessible at a local level, where local universities also engage in that.

Albert Owen: No, I appreciate that and, as I say—

Irene Graham: I think it is about long-term delivery ultimately and key critical interventions that Government are involved in, as successive Governments have been.

Q200 **Albert Owen:** I understand. Chris, previous evidence has shown there is a lack of leadership and management and there are big gaps there. I understand what Irene is saying. Do you agree that there is a lack of leadership and management?

Chris Manson: When I meet our clients, I certainly do not think that. The problems that they face are mostly around access to finance, to be honest. That is supported by access to opportunity, which Government could obviously assist in significantly, and access to advice, but it is all around access to finance.

Q201 **Albert Owen:** Can I just interject there? We do not need the taskforce to identify that; that is already coming across clearly. Do you agree? Yes, lack of finance. Okay, thanks. We are short for time, which is why I have had to extract some answers.

Irene Graham: I do not think it is lack of leadership. Just to rephrase there, you talk about lack of leadership and management. I think what businesses have said is their ability to build their leadership—

Albert Owen: No, with respect, our evidence has been clear that there is a lack of leadership and management, so we have to follow the evidence with our report. Thank you.

Q202 **Peter Kyle:** Is there any better collaboration between local businesses, SMEs, in different areas? Chris, I do not know whether you have a view on that from your perspective.

Chris Manson: I think communicating with like-minded businesses, the peer to peer thing that Irene was talking about, is very significant. I am somewhat sceptical about the role, frankly, that local government plays in that. Certainly, my experience in running five businesses in and around London for 25 years would suggest that the last person that I would go to for advice is a local government authority, but there is evidence to suggest that the local authority or local enterprise partnerships can be good conveners and can get people to gain confidence from other people's experience as well. We run a lot of trade missions on behalf of the Government to overseas territories. One of the benefits is that the businesses themselves obviously pick up sales leads and all of those measurable outcomes, but taking 50 like-minded fashion businesses to New York gives all of those businesses confidence about going out and doing that because they can see their peers doing it and it provides great networking opportunities. I think the power of convening is significant.

Q203 **Peter Kyle:** I am just trying to remember back to the days when I co-founded a very small business. We set it up in my flat and then grew and moved into a shared space and then each year moved to a slightly bigger office and so forth. Back in those days, the idea that we would go to New York or the idea that we would even go to a university, take a day out from just working the phones and trying to bring money in and trying to build relationships and so forth, would have been inconceivable. This was 2004 so we did get some advice from Connexions back in the day, from googling it, but the idea of getting partnerships with the local authority, with universities and so forth, from my perspective was a big ask. I do not know, Tim, whether there is progress in this or whether people who are setting up businesses now have a different approach, but it is a big ask to get somebody to take a day out.

Professor Vorley: Absolutely. From a research perspective, what you generally see is that people are too busy working in the business to work on the business. How do we challenge that? Making sure that the quality of the support that they get, whether that be from local authority or particularly universities at the moment, I think is critical. The Small Business Charter initiative is there to exactly try to do that: raise the bar, demonstrate the quality that universities can offer to businesses, and evidence it. Being able to demonstrate the impact that universities can make, particularly business schools, in supporting local businesses is integral.

When we look at the industrial strategy and the Strength in Places funding as well, that is a key mechanism for bringing together those different actors to provide that level of support. Within the Sheffield city region, that means looking at what assets we have, at how we can support supply chains and at some higher growth firms or certainly firms that are experiencing episodes of high growth. That is perhaps a more accurate way to think about it, and to enable businesses to learn. It is about trying to bring coherence to the system, and universities and business schools clearly have a role to play in that, but it is also about working in conjunction much more.

Q204 **Peter Kyle:** Finally from me, Irene, scale-up is obviously incredibly important. Productivity is often wrapped up in there in people's minds, but we could be taking an unproductive micro or small business and upscaling it into an unproductive large company. Can you tackle the productivity challenge in the SME sector at the same time as upscaling? Can the process of upscaling lead to greater productivity at the same time or not?

Irene Graham: The evidence that we have seen is that scale-ups are more innovative and more international, which also drives productivity, and they are more productive than the rest of the SME population. There is definitely a correlation between innovation, internationalisation, scaling and productivity. We then utilise that group as role models and aspirational opportunities for the rest of the business community. We have talked about peer to peer connections in highlighting who the scale-ups are locally—which should attract people to come into those businesses. How they work within their community is a reinforcing aspect at a local level and drives the productivity aspect. Certainly, within that, you see innovation and scaling very intertwined as well as exporting.

Q205 **Chair:** Can I just conclude by asking your views about the way LEPs and the growth hubs within them operate and how effective they are? We have heard some evidence of quite a broad regional variation. It strikes me that the growth hub is a very service-based facility. It is like if you go into a restaurant and there is a great chef on and a great waiter or waitress you will get great service, but if that person is not around it will not be as good. The service you will get from your growth hub will be as effective as the adviser. How can we raise the bar and get all of them to be at the same high level as some of them?

Irene Graham: We would agree there are differences across localities and regions. One of the things we have sought to do is invest in an education programme for LEPs and growth hubs, bringing universities and business schools into that as well—Tim and some of his colleagues have participated—and giving them a set of tools and examples.

Q206 **Chair:** Should that be the role of Government? Should Government be mandating? The role of Government is to say to LEPs, "You come together, you work out your own geography, work out what is best for you, be very local". Are you suggesting that there should be more of a national framework?

Irene Graham: I think that is absolutely something that should evolve. We have created an education programme with help from the private and public sectors. The next stage is to create the right LEP and growth hub framework, and the current review looks at that. One thing that has moved into the direction is to look at how they create a scale-up environment within them as LEPs and growth hubs, but that really does need to have further mandating and frameworks, with measurement and KPIs around that. We think that will also help raise the opportunity alongside what has already been said by colleagues, building on what is there and the investment into those entities.

Chair: All right. Thank you all very much for a really interesting session. I am afraid we have to leap into the Tube and taxis and get back to Westminster, but thank you very much for making the facility available to us, Irene. Thank you very much for attending our evidence session.