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Supporting SMEs Successfully

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“Britain’s small- and medium-sized enterprises have long underperformed on productivity measures – and addressing this fact will be vital to raising productivity overall. Closing the gap between even just the least productive SMEs and those with average rates of productivity would pay large dividends for the UK economy.”

CONTENTS

FOREWORDS

BILL ESTERSON
Member of Parliament for Sefton Central and Shadow Minister for Business and Industry

UK growth is forecast to be the slowest in the OECD for the next two years. Living standards are forecast to fall 7% over the same time. This follows years where our growth and productivity has been a third lower than the OECD average. Meanwhile, business investment in the UK is at its lowest on record.

Low growth, low productivity and low investment mean lower tax revenues flowing into the Treasury and less to spend on schools, the NHS, and police officers, or to pay down our mounting debts. The economy is rendered less dynamic and less competitive.

In contrast to France and Germany, a British worker typically produces around a sixth less per hour worked, and over a fifth less than the average American. This does not have to be the case – but if Britain is to prosper, addressing our productivity malaise will be essential.

Despite a plethora of strategies, white papers, and budget measures, there's still much more to do when it comes to solving Britain's SME productivity puzzle.

One big reason for our low productivity is the lack of core skills.

Starting and growing a business require skills of their own. The abilities of managing and leading require skills of their own. Core skills, including how to work with other people, how to solve problems, how to communicate effectively, how to keep going when facing life's challenges all are key to success. All are part of the make up for a successful entrepreneur and the way that business leaders operate is one of the key factors in driving the productivity of their business.

We need to promote technical and core skills in our education system, for lifelong learning, through reskilling for existing business owners, for would-be owners, self-employed people and through our benefits system.

And on the subject of skills, we have much to do to address a decline in apprenticeship starts. It makes sense to open up the Apprenticeship Levy to smaller businesses and for reskilling and upskilling existing staff.

I started and grew businesses before being elected to Parliament. My businesses were innovative, we tried new ideas. We paid our staff well.

Plenty of our SMEs do what I did in business and they are highly productive, developing the ideas and technologies which offer us the chance to grow our economy and benefit from highly paid jobs and excellent public services. The low-carbon economy offers the UK the chance to turn around our fortunes. Businesses can thrive with the right environment and support for business.

Reforming business rates, as part of a fairer tax system, would be one way of offering support. Next, there's procurement that recognises the value that smaller firms can offer through innovation and flexibility rather than the current presumption in favour of big conglomerates for government contracts. Prompt payment, access to finance and business advice that enables entrepreneurs to maximise their potential. All can help in delivering a level playing field for smaller firms.

And this is where initiatives such as Virgin Money's SME Levelling Upstarts can play a valuable role in transforming the prospects of our SMEs and, through them, the growth and productivity essential for the UK to recover from the economic challenges we face.

We need economic stability to build confidence among investors. We need investment in support for startups and scaleups to deliver the growth and enable smaller firms to create the well paid jobs communities across the country need.

Successful economies have partnership at their heart. Partnership between government and business. But support for businesses from private sector organisations is also crucial to the success of businesses and our economy too.

KASH AHMAD
Head of Business Banking at Virgin Money

Small- and medium-sized enterprises are the lifeblood of the UK economy, employing just over three fifths of the UK workforce. At Virgin Money, we are proud to support 224,000 of these businesses right across the UK with leading and innovative digitally-led products and propositions.

At Virgin Money our purpose – Making You Happier About Money – is a guiding principle that runs through everything we do to support our customers and the communities that we serve. For SMEs this means providing them with the tools and support they need to thrive and grow.

"In order to solve this productivity puzzle, more needs to be done to improve the economic performance of SMEs, who make up over 99% of businesses in the UK."

As this report highlights, productivity in the UK is now 6% lower, on average, than other G7 countries. In order to solve this productivity puzzle, more needs to be done to improve the economic performance of SMEs, who make up over 99% of businesses in the UK. With the costs of doing business on the rise, tackling low productivity in the UK is more important than ever.

At Virgin Money, we have attempted to help tackle this issue with our new Levelling Upstarts programme. This matches SMEs from across the UK with MBA and Master's students from leading business schools who will provide them with advice on how to improve their business plans and economic performance. From engaging with SME customers, we know that they are time poor. That is why we designed the programme to be digitally led, removing the time and cost requirements associated with travel.

We will launch an expanded Levelling Upstarts 2023 programme at the beginning of next year with an added fintech focus. This will give both students and participating SMEs access to fintech mentors, to help overcome barriers to digital inclusion and hear directly from businesses who have overcome their own startup and productivity struggles.

We have also sought to complement Levelling Upstarts by offering our SME customers new digital tools aimed at improving productivity. This includes M Track, our new digital platform that provides customers with a snapshot view of their business data. This includes features to improve productivity and planning – which is particularly helpful in times of stress. However, we recognise that there is no silver bullet to this issue and a range of different interventions from both business and policymakers is needed – as highlighted so clearly in this report.

Much like the government's Help to Grow schemes, our own work is in its early stages, and it will take time to understand the full impact of our products and programmes. While the qualitative feedback that we have received from businesses who took part in the Levelling Upstarts Programme has been overwhelmingly positive, more data is needed to provide a full evaluation of its impact. That is why we are committing to collecting and analysing quantitative data and will make changes to the programme when we believe it will have an impact.

At Virgin Money we are committed to playing our part in solving the UK's productivity puzzle and will continue to launch new digital programmes, products and partnerships to help our customers thrive. While there is no one answer to the productivity challenge the country faces, we welcome the recommendations in this important report, which have the potential to make a positive difference both for SMEs and the UK economy as a whole.

EXECUTIVE SUMMARY

- The United Kingdom's lacklustre productivity performance over the last decade has left the country less economically well off than it could otherwise have been;
- Britain's small- and medium-sized enterprises (SMEs) have long underperformed on productivity measures – and addressing this fact will be vital to raising productivity overall. Closing the gap between even just the least productive SMEs and those with average rates of productivity would pay large dividends for the UK economy;
- A growing body of research suggests that relatively small interventions can meaningfully raise productivity within SMEs. These include the greater adoption of digital technologies and better business management;
- Successive governments have tried to boost SME productivity, with varying levels of success. Recently introduced measures, such as Help to Grow: Digital, Help to Grow: Management, and the Business Basics Programme have shown initial promise. But it is too early to gather robust data on their effectiveness;
- This does not mean they are ineffective. Anecdotal evidence implies that among the businesses which have participated in the schemes, they have been well-received – and are already making a difference in boosting productivity;
- But, equally, we should not assume the current offering from the government to boost productivity among SMEs is perfect. Small changes to the existing schemes could increase uptake and ensure that they are truly delivering in as effective a way as possible;
- As and when more data becomes available on the interventions designed to boost SME productivity growth, the government must be forthcoming and transparent in publishing them. Without being able to properly scrutinise the uptake and experience of the programmes, it is hard to draw any meaningful conclusions. It also stymies learning, which could allow programmes to be tweaked and made more effective;
- The private sector, too, has shown a growing interest in supporting SME productivity. By trying different approaches, private sector initiatives are a vital complement to existing government schemes in expanding the knowledge base.

RECOMMENDATIONS

Boosting productivity among SMEs is never going to be a precise science. Given their incredible heterogeneity, a one-size-fits-all approach can only be expected to go so far.

CONTINUE GATHERING EVIDENCE ON IMPLEMENTING INTERVENTIONS TO RAISE BUSINESS PRODUCTIVITY.

The Business Basics Programme has done a good job of establishing an evidence base to inform how best to effectively support businesses in raising their levels of productivity. The government should continue to fund research into interventions aimed at improving productivity, and do so in the spirit of experimentation which we have seen guide the efforts so far.

IMPROVE THE MARKETING OF THE HELP TO GROW SCHEMES TO BOOST UPTAKE.

During our research, we came across many entrepreneurs and SMEs who simply had no idea about the help on offer from the government to boost their productivity. Previous evidence from other organisations paints a similar picture of the damning lack of awareness. The government should consider new ways of marketing schemes such as Help to Grow, otherwise uptake rates will continue to be underwhelming.

REFORM THE HELP TO GROW SCHEMES TO RAISE THEIR EFFECTIVENESS.

Many of the businesses we spoke to during our research spoke positively about the Help to Grow schemes. But few thought they were working as well as the absolutely could be. There are a number of small tweaks the government should consider making, which would ensure they are delivering as effectively as possible for SMEs. The government should also look to, and learn from, the numerous successful private sector schemes also seeking to boost productivity among Britain's SMEs.

PUBLISH DATA AROUND INTERVENTIONS TO DATE.

Robust data on the Help to Grow schemes has proven hard to find. Some of this will, understandably, be due to the fact that they are relatively new interventions. But the lack of information is concerning. Not only does it limit the ability for researchers to scrutinise how effectively the schemes are performing, it could also raise suspicion among prospective businesses. The government recently said it would publish more information on the schemes shortly – it must keep to its word on this promise.

INTRODUCTION

Economic growth is back on the agenda in a way it hasn't been for a long while. In his first speech as Prime Minister, Rishi Sunak referred to it as a "noble aim".[1] And indeed it is – economic output, as measured by gross domestic product (GDP), is positively correlated with a host of outcomes we typically hold dear.[2]

Growth in output can come from many different sources, but raising productivity rates is a central factor. In fact, in the long run it has been just about the only factor.[3] Simply put, productivity is a measure of the output produced per input (of labour, capital and land), and in many instances discussions of productivity centre around labour productivity – output per hour worked.

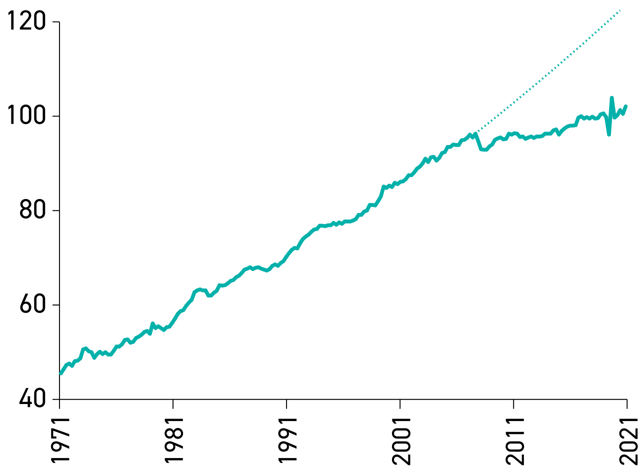
Perhaps the most obvious result of an increase in productivity is a roughly commensurate increase in living standards – as the economy can more readily and cheaply supply the goods and services that consumers demand. A relatively more productive economy will be able to better satisfy our needs and wants than a relatively less productive one. Productivity is about being able to do more with less.

Productivity is also intimately related to wages. Long-run economic data suggest that the two have historically strongly mirrored each other, at least on a headline analysis. (Inspection of the data at a more granular level does reveal a partial 'decoupling' in the past two decades, with productivity growth not necessarily translating into better remuneration for certain workers.)[4] At a time when inflation is now outstripping average pay, this could scarcely be more important to ordinary families who are struggling to cope with the rapidly rising cost of living.[5]

Beyond raising wages and living standards, productivity growth is also essential for reducing national debt as a percentage of GDP, and as a way to pay for improved public services. A more productive and faster growing economy means stronger revenues for the Treasury without having to raise taxes.

Despite the clear importance of a steadily increasing rate of productivity, it is not unfair to say that the United Kingdom has fared miserably at achieving this in recent years (see Figure 1). Between 1971 and 2008, labour productivity grew at an average rate of 2.7% per annum. Since then, however, it has plateaued at barely half a percent per annum.

FIGURE 1. UK LABOUR PRODUCTIVITY SINCE 1971



(Quarterly, Whole economy, Output per hour worked, Seasonally adjusted, 2019 = 100)[6]

If productivity growth in the UK had continued to rise at its pre-Financial Crisis trend rate, workers today would likely be several thousands of pounds a year better off. This represents the opportunity cost of failing to make even small improvements to trend productivity growth.

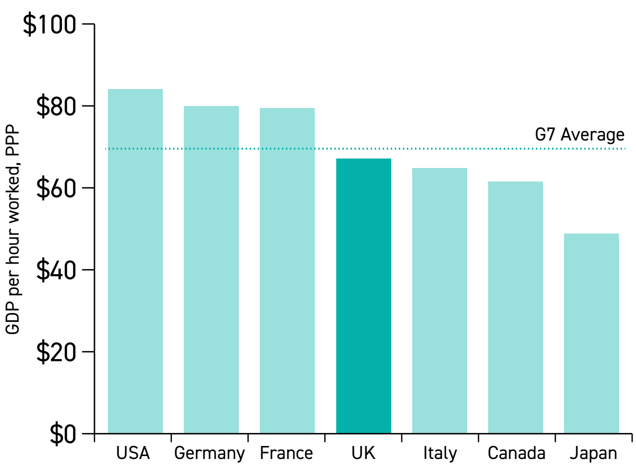
Britain's dismal productivity picture becomes even more stark when compared to other countries (see Figure 2). And, while the rate of labour productivity growth has slowed in a number of countries of late, the Office for National Statistics (ONS) succinctly notes that: "This slowdown appears more pronounced in the UK and the gap between the UK and other developed economies remains stubbornly wide".[7]

Indeed, looking at data for GDP per hour worked per capita for 2021, the UK lags behind many other developed nations. Productivity is 22.5% higher in the United States, 17.4% higher in Germany, and 16.8% higher in France.[8] Across the G7 as a whole, the UK labour productivity is 3.3% below average.

1 Sunak, R. (2022). Rishi Sunak's first speech as Prime Minister: 25 October 2022.
2 Oulton, N. (2012). Hooray for GDP! GDP as a measure of wellbeing.
3 Kim, Y.E. and Loayza, N.V. (2019). Productivity Growth: Patterns and Determinants across the World.
4 Teichgräber, A. and Van Reenen, J. (2021). Have productivity and pay decoupled in the UK?
5 Whyte, K. (2022). UK Wage Growth Continues to be Outstripped by Soaring Inflation.
6 Office for National Statistics (2022). UK Whole Economy: Output per hour worked SA: Index 2019 = 100.
7 Office for National Statistics (2018). Management practices and productivity in British production and services industries - initial results from the Management and Expectations Survey: 2016.
8 Organisation for Economic Co-Operation and Development (2022). Level of GDP per capita and productivity: G7 labour productivity levels.

There is no pre-ordained reason why Britain should be saddled with lower productivity than its international counterparts. With the right policies and frameworks in place, it is perfectly possible to end the malaise – and begin to move up the rankings as a more productive economy, capturing all of the benefits that flow from that.

FIGURE 2. GDP PER HOUR WORKED



(2021, US dollars, current prices, current PPP)[9]

But this is easier said than done. For years, the 'productivity puzzle' has occupied the minds of numerous policymakers,[10] economists,[11] and commentators,[12] and successive governments have tried to remedy it.

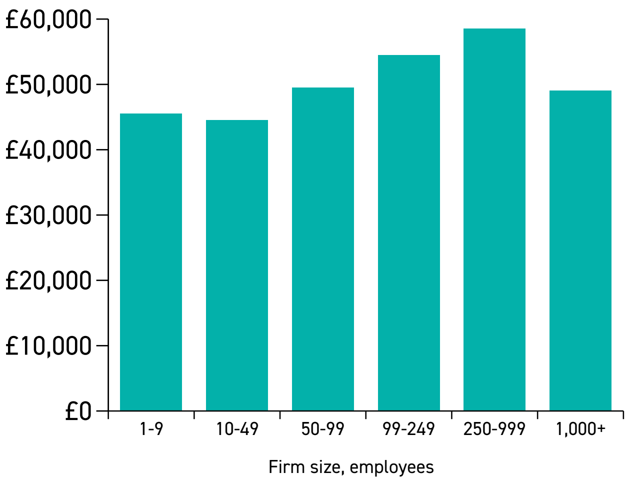
Within the productivity puzzle, much attention has focused on the role of SMEs. In an oft-cited speech given by the then Chief Economist of the Bank of England, Andy Haldane spoke of there being: "a larger lower tail of small companies with low, or even negative, levels of productivity".[13]

Data suggests that the very smallest businesses (firms with fewer than 10 employees, also commonly referred to as micro-businesses) have long accounted for a disproportionately large number of the least productive businesses. Yet the same data also shows that this situation has moderately improved over time. In 2003, micro-businesses accounted for 88% of the total business population, but 95% of the firms in the bottom decile for productivity. By 2015, they still accounted for 88% of the total business population, but they then made up 91% of the firms in the bottom decile – a reduction of four percentage points.[14]

More recent data show how approximate gross value added (aGVA) tends to increase with firm size, at least to a certain point. For firms with fewer than 10 employees, aGVA stands at £45,500 per employee, while for firms with 250-999 employees, it is 29% higher, at £58,500 per employee. After firms move into the 1,000+ employee bracket, aGVA does admittedly begin to fall away (see Figure 3), typically because these especially large firms tend to be concentrated in industries which pay relatively little, such as retail or hospitality, or where employees tend to work fewer hours.[15] But at approximately £49,000 per employee, employees in even these businesses still typically generate more aGVA than employees in businesses with fewer than 50 employees.[16]

9 Ibid.
10 Business, Energy and Industrial Strategy Committee (2018). Small businesses and productivity.
11 Haldane, A.G. (2018). The UK's Productivity Problem: Hub No Spokes.
12 Strauss, D. (2018, August 15). Is 'long tail' of small businesses to blame for poor UK productivity? *Financial Times.*
13 Haldane, A.G. (2017). Productivity puzzles.
14 Office for National Statistics (2017). Understanding firms in the bottom 10% of the labour productivity distribution in Great Britain: "the laggards", 2003 to 2015.
15 Office for National Statistics (2022). EARN03: Average weekly earnings by industry.
16 Office for National Statistics (2021). Firm-level labour productivity estimates from the Annual Business Survey (ABS): summary statistics.

FIGURE 3. APPROXIMATE GROSS VALUE ADDED PER EMPLOYEE BY FIRM SIZE[17]



Considering the fact that small businesses occupy such a vast proportion of the total business population – the latest data show that fully 99.86% of firms in the UK have fewer than 250 employees – this slight difference in productivity performance is much more significant than it first appears.[18] It also shows that making even a moderate improvement in productivity among smaller firms could equate to big gains in the economy as a whole.

This sentiment, and what it means for the economy at large, is summed up well by a CBI report from 2017:

> *"If lots of companies did a little bit better, the economic benefits would be huge. Raising productivity among businesses that have so-far failed to adopt [readily available technologies and management best practices], and achieving a productivity profile more like Germany's, would add over £100 billion to UK GVA".*[19]

Moreover, evidence suggests that SMEs can be a particularly important source of innovation in economies, perhaps due to their ability to be more nimble and adaptive.[20] New, smaller firms don't just drive innovation in and of themselves, but also by spurring innovation among other firms too – including larger market incumbents.

In sum, in the UK's bid for stronger economic growth, it simply cannot afford to ignore the vital role SMEs will need to play.

17 Ibid.
18 Department for Business, Energy and Industrial Strategy (2022). Business population estimates for the UK and the regions 2022.
19 Confederation of British Industry (2017). From Ostrich to Magpie: Increasing business take-up of proven ideas and technologies.
20 Robinson, C. Garcia, M., Howells, J. and Ko, G. (2020). The Role of Innovation in Small Business Performance: A Regional Perspective; Enterprise Research Centre (2019). State of Small Business Britain Report 2019.

IMPROVING PRODUCTIVITY AMONG BRITAIN'S SMEs

Various attempts have recently been made to address the productivity slump among the UK's SMEs. In the past several years we have, for example, seen the 15-point 'productivity plan' (published in 2015),[21] the *Industrial Strategy* (2017),[22] the *Build Back Better* white paper (2021),[23] and, more recently, the *Growth Plan* (2022).[24]

We have witnessed the introduction of bespoke programmes and schemes aimed at boosting SME productivity, and numerous other measures to improve the economic landscape for businesses more generally.[25]

As we shall see later, efforts to boost SME productivity have not just been confined to public sector programmes, either. Various private sector initiatives have been launched – such as by large companies with an interest in improving their supply chain, or by the financial sector wanting to boost the businesses they lend to.

In this section of our paper, we assess the impact of some of these endeavours to drive up productivity among the UK's SMEs. To inform this research, we issued a Call for Evidence in October 2022 in which we asked entrepreneurs and the wider policy community to submit their views on, among other things, the effectiveness of interventions to increase SME productivity. This complemented other conversations we had with experts on productivity and small businesses, a policy roundtable, and a rigorous review of the existing literature relevant to the issue in question.

Our research resulted in us deciding to focus on three key aspects of recent government policy – Help to Grow: Digital, Help to Grow: Management, and the Business Basics Programme.

Help to Grow: Digital

Digital technologies are indispensable to virtually all businesses operating in the modern economy. From having a simple website, to using more sophisticated software to plan and operate, they underpin how businesses function up and down the country. This fact was true before the Covid-19 pandemic, and has only become more apparent since – with the rise in e-commerce or video conferencing.

Digital technologies are also a proven means of boosting productivity. A 2018 report from the Enterprise Research Centre found that the adoption of various digital technologies can make a stark difference to productivity among micro-businesses.[26] They found that, three years after adoption, the use of cloud-based computing increased productivity by 13.5%, customer relationship management software (CRM) by 18.4%, e-commerce by 7.5%, web-based accounting software by 11.8%, and computer aided design by 7.1%.[27]

Help to Grow: Digital is a government scheme which aims to boost the productivity of small businesses by encouraging the adoption of such digital technologies.[28] It was introduced by Rishi Sunak when he was the Chancellor at the 2021 Budget, and was officially launched in January 2022.[29]

Initially, Help to Grow: Digital was open to businesses which employed between five and 249 people, and that had been actively trading for at least a year. They also had to be purchasing the approved software for the first time. Businesses fulfilling those criteria were eligible for 50% discounts worth up to £5,000 off the retail price of approved digital accounting and CRM software from leading technology suppliers.

In July, Help to Grow: Digital underwent two reforms. First, businesses which employed just one person were allowed to access it – a change which, at the time, broadened it out to a further 760,000 SMEs (meaning it was accessible to 1.24

21 Department for Business, Innovation and Skills and HM Treasury (2015). Fixing the foundations: creating a more prosperous nation.
22 HM Government (2017). Industrial Strategy: Building a Britain fit for the future.
23 HM Treasury (2021). Build Back Better: our plan for growth.
24 HM Treasury (2022). The Growth Plan 2022.
25 National Audit Office (2022). Business support schemes.
26 Enterprise Research Centre (2018). State of Small Business Britain Report 2018.
27 Productivity in this study was defined as sales per employee.
28 Gov.UK (2022). Help to Grow: Digital.
29 Department for Business, Energy and Industrial Strategy, Department for Digital, Culture, Media and Sport and HM Treasury (2022). Government backs UK entrepreneurs with tech support and software to help them grow.

"Digital technologies are indispensable to virtually all businesses operating in the modern economy."

million businesses in total).[30] Second, e-commerce software was also included among the technologies eligible for support.

At present, there is a dearth of solid evidence to judge exactly how successful Help to Grow: Digital has been thus far. This is unsurprising given that it is less than a year old and has already undergone reasonably significant changes. The government should nonetheless publish in full what data it has collected on the scheme, which could be supplemented by rigorous surveying of businesses that have made use of it.

The government has so far said that it intends to publish data on uptake in late December,[31] and further data on costs in Spring 2023.[32] In the interests of transparency and good policy-making, it is critical that the government honours this promise.

The absence of hard data does not preclude us from making any analysis, however. From the conversations we have had in carrying out this research, we have heard broadly positive comments towards Help to Grow: Digital. Perhaps this should not be surprising – what SME would complain about the government paying towards the costs of investing in new digital technologies? Given the evidence on these technologies, which suggests they ought to help them make more sales and boost profits, the government is simply making it cheaper for them to realise these benefits – hardly something to pour scorn on.

Where we did hear criticism of Help to Grow: Digital, however, was largely around the types of technology that it covered. Some felt that the scheme only covered software that businesses would probably invest in anyway – which would represent a pure deadweight loss to the taxpayer – while not covering other technologies they might not have thought to invest in. A report published by Coadec in May 2021 argued that extending the scope of products covered by Help to Grow: Digital could boost GVA by up to £2.77 billion.[33]

A related line of criticism centred on the complicated process for a company getting its technology 'accredited' as something that Help to Grow: Digital would cover. In an *ad hoc* inquiry on the Help to Grow programmes held by the Business, Energy and Industrial Strategy Committee in May 2022, Neil Ross of techUK remarked how the government was too prescriptive in designing its eligibility criteria for qualifying technologies:

> *"Unless you have a software type and a buying journey that match what BEIS has set out, it is very difficult to add your software to the scheme. We had a number of companies that looked at Help to Grow: Digital with lots of interest, but found that the engineering time and the investment that was needed to align their services with the Government's eligibility criteria meant that they were not ready to go on at this stage".*[34]

30 Department for Business, Energy and Industrial Strategy (2022). More than a million businesses now eligible for Help to Grow as software scheme receives a boost.
31 UK Parliament (2022, October 12). Help to Grow Schemes: Digital Technology: Question for Department for Business, Energy and Industrial Strategy.
32 UK Parliament (2022, October 12). Help to Grow Schemes: Question for Department for Business, Energy and Industrial Strategy.
33 Coadec (2021). Making the most of Help to Grow: Ensuring that small businesses get the help they need.
34 Business, Energy and Industrial Strategy Committee (2022). Oral evidence: Help to Grow Scheme, HC 207.

It would be hard to imagine that businesses which have used Help to Grow: Digital have not benefited from it – or at the very least, have not seen their productivity decrease as a result. Yet whether SMEs have benefited or not should not necessarily be the operative focus. The proof of the success of Help to Grow: Digital will be in whether businesses which accessed it improved their productivity to such a degree that the initial government support delivered genuine value for money for the public purse.

Help to Grow: Management Course

A well-managed business is, almost by definition, going to fare better with regards to productivity than a poorly managed one.[35] Good managers might spot opportunities that others will not, for instance in terms of breaking into new markets, or might motivate their employees to work smarter, or better upskill their talents.

Evidence confirms just how significant a factor competent management is to success in business. In a survey of 32,000 managers of manufacturing plants in America, it was found that variation in management competency accounts for about a fifth of the spread of productivity among the firms the survey sampled – a similar fraction to that accounted for by research and development, and twice as much as explained by use of IT.[36]

Another study from the ONS established a statistically significant correlation between taught leadership skills and increased output per person, with an increase of 0.1 (on a 0 to 1 scale) in a firm's management score producing a 9.6% rise in productivity.[37] As the study's authors note: "This translates to a 19% increase in productivity if the average management score increases from the 25th percentile (0.34) to the median (0.53), and a 12% increase in productivity moving from the median to the 75th percentile (0.66)".[38]

Help to Grow: Management is a 12-week course that aims to boost productivity among small businesses by teaching leadership, marketing, and financial management skills.[39] As with Help to Grow: Digital, it was launched at the 2021 Budget, but its courses commenced more quickly – in the following June.[40] Eligible businesses must have between five and 249 employees, and have been operating for a year or more. Businesses pay £750 to enrol, with the remaining 90% paid for by the government – in other words, participants can get £7,500-worth of training for a tenth of that cost.

Again, due to it being such a new intervention to support business productivity, robust evidence on the success of Help to Grow: Management is sparse. As with Help to Grow: Digital, the government has indicated it will publish information on Help to Grow: Management in due course.[41] But until this is the case, we can only reiterate our call for the government to guarantee it will release what data it has on the scheme.

35 For more on this topic, see our previous report: Dumitriu, S. (2019). Management Matters.
36 Bloom, N., Brynjolfsson, E., Foster, L., Jarmin, R.S., Patnaik, M., Saporta-Eksten, I. and Van Reenen, J. (2017). What drives differences in Management?
37 Office for National Statistics (2018). Management practices and productivity in British production and services industries - initial results from the Management and Expectations Survey: 2016.
38 Ibid.
39 Department for Business, Energy and Industrial Strategy (2021). Help to Grow: Management - UK.
40 Department for Business, Energy and Industrial Strategy, Department for Digital, Culture, Media and Sport and HM Treasury (2022). Government backs UK entrepreneurs with tech support and software to help them grow.
41 UK Parliament (2022, October 24). Help to Grow Schemes: Question for Department for Business, Energy and Industrial Strategy; UK Parliament (2022, October 12). Help to Grow Schemes: Question for Department for Business, Energy and Industrial Strategy.

One interesting and encouraging point to note is that the government is, through Ipsos MORI, evaluating the Help to Grow: Management courses qualitatively – interviewing participating SMEs, the business schools that deliver the courses, and other stakeholders too. This is commendable and ought to help in more fully appraising the Help to Grow: Management course. We would urge as much of the final findings to be clearly publicised when available.

Despite the relative lack of data, we were still able to gain insights into Help to Grow: Management based on conversations with entrepreneurs and others. Throughout our research, we heard many enthusiastic and positive testimonies about the Help to Grow: Management course – but it was not entirely free from criticism.

The prevailing comment we heard, from entrepreneurs and policy experts, centred largely on the poor take-up rates, and theories as to why this has been the case. This underwhelming record is no secret. Reports in the *Financial Times* from earlier this year found that the number of businesses accessing Help to Grow: Management courses had been less than a tenth of what had been anticipated and budgeted for.[42] This prompted a redesign of the scheme in the summer, to give firms with more than 10 employees the chance to enrol a second member of staff to access the training.[43] Despite these reforms, they still do not address the fact that more than nine in 10 private sector SMEs – just shy of 5 million individual businesses, representing a quarter of the British private sector workforce – are frozen out of the scheme due to having fewer than five employees.[44]

When speaking to entrepreneurs who had – or, perhaps tellingly, had not – participated in Help to Grow: Management, one of the other recurrent themes we heard was that entrepreneurs simply do not have the necessary time to devote to enrolling. To complete a Help to Grow: Management course, participants need to commit approximately four hours a week, for 12 consecutive weeks. In addition, the one-to-one business mentor support runs to 10 hours in total.

Clearly, acquiring new skills takes time and effort – and it would be churlish to expect a non-intensive programme of learning to deliver the sorts of productivity gains we know good management courses can deliver. As the old adage goes, there's no gain without pain. Nevertheless, we believe there is a good argument for reviewing exactly how the courses are delivered, with a view to making them more flexible where possible, so that more entrepreneurs and SME leaders feel they can commit to undertaking a Help to Grow: Management course without impinging too much on their often already scarce time resources.

Not unrelatedly, in one of the responses to our Call for Evidence that we issued as part of this research, it was mentioned that the poor uptake of Help to Grow: Management courses could be reflective of "the complexity of effectively targeting and engaging with business leaders and their needs". One reading of this could be that some entrepreneurs do not think the curriculum of the Help to Grow: Management courses is appropriate to their needs.

It could therefore be worthwhile having more differentiation between courses – for instance, some which focus on certain competencies, and some which focus on others – while still ensuring that a holistic programme of support is delivered. Alternatively, it might be that there needs to be differentiation

42 Thomas D. and Pickard, J. (2022, January 9). UK's small business support scheme suffers slow take-up. *Financial Times.*
43 Department for Business, Energy and Industrial Strategy and HM Treasury (2022). More business leaders to benefit from Help to Grow: Management scheme.
44 Department for Business, Energy and Industrial Strategy (2022). Business population estimates for the UK and the regions 2022.

of courses based on the size of firms which they are aimed at – with some for micro-businesses, and some for larger businesses which are still SMEs nonetheless. Finally, some businesses might find that an entirely virtually delivered course would be better for them. (As shown in a case study later, Virgin Money's Levelling Upstart Programme, a private sector initiative similar in design and intention to Help to Grow: Management, operates purely online, so as to minimise barriers to participation.)[45]

More generally, there appears to be a damning lack of awareness around Help to Grow: Management. According to the Federation of Small Businesses (FSB), only 14% of respondents to a poll they carried out in March 2022 claimed to have even heard of Help to Grow: Management, and fewer still – just 2% – had actually made use of it.[46] Data presented at the aforementioned select committee inquiry on the Help to Grow programmes roughly corroborates these figures.[47]

The government may therefore wish to reconsider how it has marketed the scheme to date. One thing that is striking is the lack of quantifiable evidence of success on the Help to Grow: Management website – something a prospective applicant might view with suspicion. Of course, for a scheme only announced in March 2021, the evidence base will still be in the process of being built up – but more could still be done to show the proof of how formal management training can benefit SMEs.

Business Basics Programme

The Business Basics Programme was established in 2018, and mainly seeks to test innovative ways of encouraging SMEs to adopt existing technologies and management practices to improve their productivity.[48] One of its primary objectives is to establish a robust and up-to-date evidence base on interventions to boost productivity so that government investment can be more targeted and deliver better value for taxpayer money.

From existing studies aimed at evaluating the effectiveness of spending programmes on business interventions, we already know that evidence is in short supply. A meta-evaluation of evidence reviews of nearly 15,000 local economic growth policies concluded that only 2.4% provided credible estimates of impact, and only 0.6% showed a positive effect on employment.[49] Governments, not just in the UK, spend billions each year on growth policies with little quantifiable proof for whether that money is being deployed as effectively as it could be.

Through the Business Basics Fund, a total of 33 projects across three separate funding rounds have received government support – some of which were trials, others simply proof of concepts, with a view to being scaled up to a larger study.[50] The projects cover a diverse range of both intervention types and business sectors.

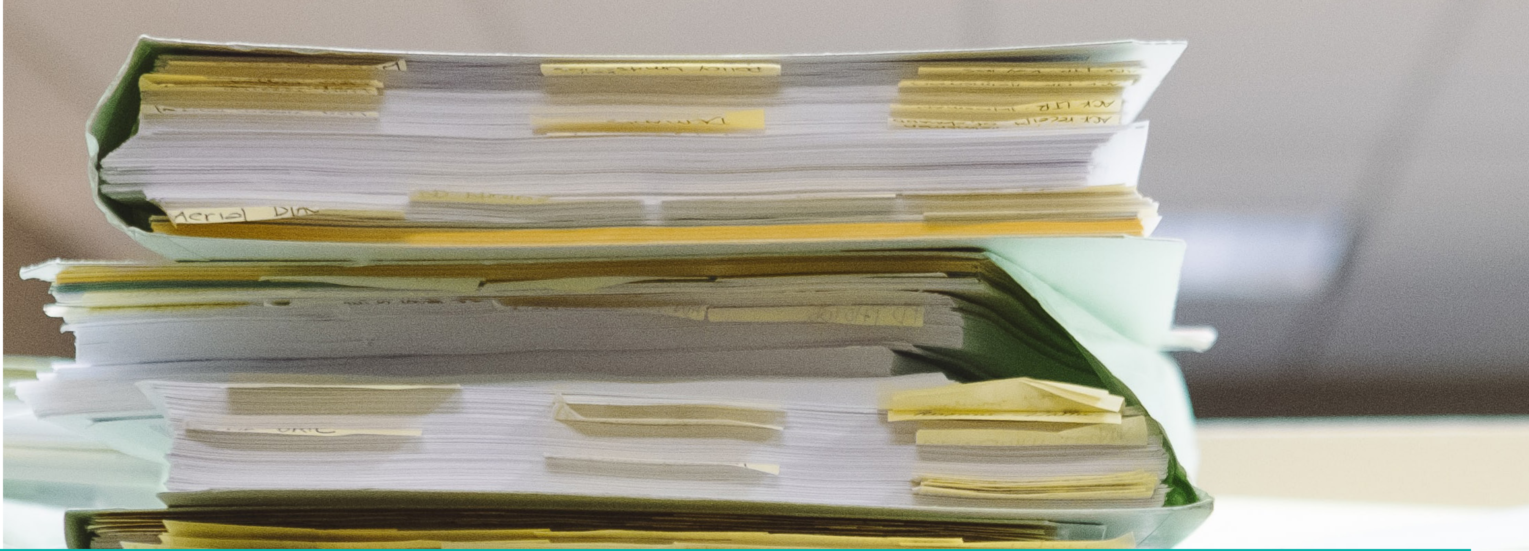
Projects which were successful in receiving funding are required to apply the government's 'Business Support Evaluation Framework'.[51] This allows us to draw conclusions about projects and establish with confidence which interventions seem to work at raising productivity among SMEs, and, just as importantly, which interventions seem not to.

In October 2019, the government published a progress report on the Business Basics Programme – in which some of the early conclusions about the funded projects were noted.[52] Three broad findings were identified:

- **Increasing awareness.** "Current projects, especially trials, have already started to provide valuable insights on how to recruit SMEs to receive support and overcoming very initial barriers of encouraging SMEs to take support and make a change. Projects have considered the costs and benefits of targeted, intensive recruitment strategies, versus more generic strategies, where more intensive strategies have tended to be more successful".
- **Decision to adopt.** "Early results have demonstrated that providing SMEs with support to encourage adoption has in some cases led to an improved understanding of the barriers and enablers. This in turn enables SMEs to identify the additional requirements needed before they adopt a specific tool or practice, rather than resulting in adoption immediately".
- **Delivering evaluations.** As well as gaining insights into how and when to intervene in order to boost productivity in SMEs, the projects and trials themselves have built understanding around how best to evaluate interventions.

All in all, a number of positive and promising results have been delivered from the projects which have been undertaken as part of the Business Basics Programme. As remarked by James Phipps of Nesta's Innovation Growth Lab, which helps run the evaluation process for the Business Basics Programme: "There is strong potential for rolling out the interventions at larger scale, using this as an opportunity to examine the longer-term impacts that were beyond the scale and scope of these initial trials".[53]

45 Virgin Money (2022). Virgin Money's Levelling Upstarts Programme.
46 Federation of Small Businesses (2022). Scaling Up Skills: Developing education and training to help small businesses and the economy.
47 Business, Energy and Industrial Strategy Committee (2022). Oral evidence: Help to Grow Scheme, HC 207.
48 Department for Business, Energy and Industrial Strategy (2021). Business Basics Programme.
49 Innovation Growth Lab (2019). Proposal: An experimental 1 billion productivity fund for Europe.
50 Department for Business, Energy and Industrial Strategy (2021). Results of completed rounds.
51 Department for Business, Energy and Industrial Strategy (2019). Business Support Evaluation Framework.
52 Department for Business, Energy and Industrial Strategy (2019). Business Basics Programme: Progress report.
53 Phibbs, J. and Fuller, R. (2022) Four years of the UK's Business Basics Programme – what have we learned?



CASE STUDY
ABERGOWER DIGITAL

Robin Prior is the Managing Director of Abergower Digital, a small firm specialising in converting paper-based information into digital content. Established in 2013, it currently employs 22 staff spread across various locations – operating not just in the UK, but also Morocco, Australia and Romania.

"We are constantly looking at ways to grow", says Robin, but he also notes the challenges facing his, and many other small businesses, at the moment. The biggest barrier to expansion, Robin tells us, is access to finance and funding. Abergower's line of work means that they have to invest heavily – in terms of both time and money – into building relationships, especially with overseas customers.

But that's far from the only challenge. Among others, Robin mentions the interest rate rises, business uncertainty and a potential recession, and administrative burdens as a result of Brexit as recent headwinds for Abergower.

When speaking about what external assistance Robin has sought to overcome these challenges, the Help to Grow schemes were not something he was aware of – though Robin notes he will now investigate them in further detail. What government support Abergower had received came largely through Glasgow City Council, which provided expert advice on their strategies for international growth, digital marketing and social media.

Abergower has also benefited from Virgin Money's Levelling Upstarts Programme (see box below for more information). Robin describes the objectives and outcomes of the Programme as "extremely impressive", and the overall process as an "enlightening experience". The final recommendations they received from the Programme were, Robin says, comprehensive. Many of them have subsequently been implemented, and he singles out how Abergower now takes a more focused approach to its marketing strategy as a result.

VIRGIN MONEY'S LEVELLING UPSTARTS PROGRAMME

In January 2022, Virgin Money launched its Levelling Upstarts Programme.[54] This digitally-led scheme aims to support SMEs to digitise and upskill, with an ultimate goal of boosting their productivity.

Participating businesses are asked to complete a diagnostic assessment, providing an initial analysis of their key strengths and challenges. This is used to match businesses with MBA and Master's students from leading universities for a series of online workshops. During these workshops, business owners engage with students to gain a deeper understanding of the business and inform their final report with tailored recommendations on how the SME can overcome challenges, identify opportunities and improve business growth plans.

From start to finish, the Programme requires only around half a day's worth of a participating business owner's time – delivering a helpful service without requiring SME leaders to sacrifice excessive amounts of time away from their business.

The workshops took place between March and June this year, and to date 40 different SMEs and over 200 students have successfully participated in the Programme.

54 Virgin Money (2022). Virgin Money's Levelling Upstarts Programme.

CASE STUDY
ASTON CENTRE FOR GROWTH

The Aston Centre for Growth has been involved in delivering Help to Grow: Management courses right from the scheme's inception in June 2021. At the time of writing, it has welcomed 146 individual businesses over seven separate cohorts. It regards the courses to have been particularly successful – not just in terms of equipping the participants with new management skills, but also in instilling greater confidence and growth ambitions too.

Paula Whitehouse, Director of the Aston Centre for Growth, speaks enthusiastically about the Help to Grow: Management course. She praises the comprehensive approach it takes, and commends the benefit of teaching generalisable skills which can be applied to different challenges an SME may face – not least in the current climate of business uncertainty. By virtue of being a national scheme, she notes that it also has the scale needed to reach a wide variety of businesses.

Paula recognises that the Help to Grow: Management course does require business leaders to set aside a not insignificant amount of time – but believes there are ways to get around this. She describes how her team will speak with prospective businesses that are interested in enrolling before they do so, to ensure they are signing up at the right time for them. "If your company is at a stage where it's growing quickly and you are very involved operationally, then we might advise deferring your enrolment to a later date – when you know you'll have the time to see the course out from start to finish," Paula says. By proactively engaging with businesses in this way, the Aston Centre for Growth boasts a low attrition rate – with only one business having dropped out so far, and only six failing to attend the required number of sessions to complete the course.

Another key benefit of the Help to Grow: Management course which Paula identifies are the strong links which are forged over the 12 weeks between the business leaders who enrol. These "non-competitive relationships", as she calls them, mean that participants can learn almost as much from each other as they can from the curriculum – helping to solve particular problems or spot lucrative opportunities.

Paula also speaks of the significance of 'alumni' businesses referring other businesses to the Help to Grow: Management course. She believes that an SME is far more likely to enrol based on a positive recommendation from another company – and this also points to the importance of stability in government-backed productivity interventions. When the landscape for support chops and changes, Paula notes that the ability for firms to act as advocates for schemes naturally diminishes – as you can't vouch for a scheme that no longer exists. Continuity and stability in provision, therefore, is essential.

RECOMMENDATIONS

Boosting productivity among SMEs is never going to be a precise science. Given their incredible heterogeneity, a one-size-fits-all approach can only be expected to go so far.

What should be encouraging, therefore, is that through the Business Basics Programme, the government has adopted a general mindset of experimentation, and being led by the evidence that follows, with regards to developing the interventions which it has put in place to nudge productivity up within Britain's SME community. The way it embraced the notion that not everything it funded would deliver positive results is also praiseworthy – taking risks and trying new things is essential to discover how to crack a problem as stubborn as the UK's productivity puzzle.

The two schemes announced at the 2021 Budget, namely Help to Grow: Digital and Help to Grow: Management, rest on a bed of robust evidence, and are without doubt helping to deliver the technologies and skills needed to raise productivity among Britain's SMEs.

Our research has allowed us to reach a number of conclusions about what next steps the government should take, to build upon its current offering for SMEs which are seeking to improve their productivity performance.

CONTINUE GATHERING EVIDENCE ON IMPLEMENTING INTERVENTIONS TO RAISE BUSINESS PRODUCTIVITY.

The Business Basics Scheme has been successful in carrying out robust research on how to raise productivity rates among SMEs – in a range of different scenarios and sectors.

The design of the projects and trials which have been carried out to date is commendable, and has led to the formation of a rich evidence base for policymakers to draw upon. Even where projects did not show 'success' in terms of raising productivity among the businesses in their studies, the knowledge created by them is just as useful and can inform how not to shape future interventions – thus potentially saving time and money that would otherwise have been wasted.

The government should continue to fund research into interventions aimed at improving productivity among businesses, and do so in the spirit of experimentation which we have seen guide the efforts so far.

REFORM THE HELP TO GROW SCHEMES TO RAISE THEIR EFFECTIVENESS.

While robust data on their effect on productivity is admittedly lacking, it would be remarkable if Help to Grow: Digital and Help to Grow: Management were not succeeding in helping the businesses which have made use of them.

That being said, it is also clear that both programmes could be fine tuned, both in terms of how they work and how they are administered. The fact that both schemes underwent not insignificant changes early on in their implementation suggests that they are a work in progress – indeed, few people that we heard from during our research believed they are working as well as they absolutely could be.

With respect to the Help to Grow: Management courses, the key concern we heard was the amount of time it requires participants to devote to them. While we accept that the delivery of any rigorous training course will take time, it could be worthwhile experimenting with different modes of delivery, or tailoring the content to ensure it appeals to as many different business leaders as possible. For instance, courses could be delivered entirely online, or specifically aim at helping a particular segment of the SME umbrella, or at companies with particular business ambitions.

With respect to the Help to Grow: Digital scheme, some stakeholders pointed out that the technologies it covers could be revised – with some dropped and others included, which would deliver better value for money. We also heard how the government could improve how it 'onboards' the various types of digital technologies available within the scheme, with experts telling us that the current process is overly complicated which deters prospective vendor firms from getting involved.

In terms of refining the two schemes, the government ought to gather as much data as possible before acting. Surveying SMEs on what they think about the two schemes would provide useful information about how to improve them, not just among firms which have used them, but also among firms which have not. We are encouraged by the involvement of Ipsos MORI in evaluating the Help to Grow: Management courses, and suggest that this research is openly shared when available.

Moreover, the government should take note of how the many private sector initiatives which exist to support SMEs – such as the Levelling Upstarts Programme from Virgin Money – are approaching the issue, and not be afraid to copy successful elements of them.[55]

IMPROVE THE MARKETING OF THE HELP TO GROW SCHEMES TO BOOST UPTAKE.

From our research, it was clear that some of the low uptake of the Help to Grow Schemes was down to firms believing the schemes did not suit their individual needs. Reforming them, along the lines we suggest above, should help in nudging up the number of SMEs taking advantage of the schemes.

But a more straightforward explanation of the poor rate of adoption is a simple matter of awareness – or the lack thereof. The findings from the FSB polling – of only 14% of SMEs they surveyed having heard of Help to Grow: Management, and only 2% having made use of it – are damning, and suggests much more needs to be done in retailing the scheme.[56] These numbers were also corroborated by a witness at a BEIS Committee inquiry on the Help to Grow schemes,[57] and newspaper reporting has also shone a spotlight on uptake being far less than anticipated.[58]

We were less able to find any hard evidence on uptake of the Help to Grow: Digital scheme (something of a concern in itself), but we do not think it would be unreasonable to assume many SMEs are just as unaware of it as they are the Help to Grow: Management courses.

The government should therefore consider how it could better retail the two schemes. An obvious first step would be a fresh information campaign, advertising the help that is on offer. But other avenues to spread awareness should also be explored.

The new Business Secretary, Grant Shapps, may wish to reiterate calls made by his predecessor, Kwasi Kwarteng, in a letter to FTSE 250 leaders, urging them to talk to SMEs which they work with and encourage them to make use of the schemes.[59] This could be particularly helpful if, indeed, any further reforms are made to how the schemes function – as we recommend above.

The government – central, devolved, and local – should also look at how it can better communicate information around the two schemes when it deals with the private sector, such as when procuring goods and services. At every opportunity, it should seek to notify eligible SMEs about the support on offer through the Help to Grow schemes.

Where possible, the same spirit of experimentation that informed the development of the two schemes should apply to efforts to boost awareness. Randomised control trials of marketing interventions would allow the government to establish what works, and what does not. These insights could be applied to maximising the uptake of not just the Help to Grow schemes, but presumably government interventions in other domains too.

PUBLISH DATA AROUND INTERVENTIONS TO DATE.

As noted above, solid data on both the Help to Grow: Digital and Help to Grow: Management schemes are sparse. Even basic statistics – such as how many businesses have made use of them – have proven hard to come by throughout the course of this research.

This denies researchers the chance to scrutinise the schemes, and prevents the sort of learning which can ultimately lead to them being improved upon. For the SMEs the schemes are aimed at, the absence of statistics, for instance, might also raise eyebrows – and lead them to think twice about participating in them.

The government has indicated it will publish various data on Help to Grow: Digital and Help to Grow: Management in December 2022 and in Spring 2023.[60] It needs to ensure it honours this pledge, but it should also consider releasing what it is already able to as soon as possible.

55 Virgin Money (2022). Virgin Money's Levelling Upstarts Programme.
56 Federation of Small Businesses (2022). Scaling Up Skills: Developing education and training to help small businesses and the economy.
57 Business, Energy and Industrial Strategy Committee (2022). Oral evidence: Help to Grow Scheme, HC 207.
58 Thomas D. and Pickard, J. (2022, January 9). UK's small business support scheme suffers slow take-up. *Financial Times*.
59 Kwasi Kwarteng (2022). Help to Grow: Digital scheme - letter to FTSE 250 leaders.
60 UK Parliament (2022, October 12). Help to Grow Schemes: Question for Department for Business, Energy and Industrial Strategy; UK Parliament (2022, October 24). Help to Grow Schemes: Question for Department for Business, Energy and Industrial Strategy.

CONCLUSION

The renewed focus – across the political spectrum – on achieving economic growth is laudable. Restoring growth rates to their historical trend will help alleviate a number of the economic challenges facing the UK – from delivering higher wages for workers, to generating more tax receipts for funding public services or paying down mounting debt levels.

Realising economic growth, however, will not be easy. But ensuring that small businesses are operating as productively as possible will be especially important if we are to stand any chance of successfully achieving it.

In this paper, we have sought to assess exactly how successfully the government is helping SMEs on that mission – looking at three specific aspects of existing government policy. We have consulted closely with the entrepreneurs and business owners who are the direct intended targets of some of these interventions, and we have also heard from policy experts relevant to their design, implementation, and evaluation. We have studied various private sector initiatives too, in order to review how corporate businesses approach the question of how best to boost productivity among SMEs.

The central finding of the research underpinning this paper is that data matters. At present, the relative paucity of knowledge in terms of what works, in which circumstances, and in how it is delivered, has no doubt hindered the effectiveness of government interventions to boost SME productivity. To its credit, the Business Basics Programme is starting to address this issue – with the insights from the trials and projects it has funded already providing an evidence base on which to craft productivity policy.

For both of the two Help to Grow schemes, hard evidence of their effectiveness remains thin on the ground. This is admittedly understandable, given how recently they were each established. But as and when more data become available, the government must be transparent and forthcoming in publishing them. Not only will that make life easier for those evaluating the schemes, it could also help drive uptake among businesses – which to date has been underwhelming.

All things considered, the current interventions show promise, and we have heard them praised by those who have participated in them. At the same time, we have also heard constructive criticism, and believe that these critiques warrant further inspection. This is not to say the schemes aimed at raising SME productivity need completely overhauling, but rather that small amendments could pay large dividends.

The government has an ambitious target for growth, and achieving it will require gains to be made across all parts of the economy. Successfully harnessing the full potential of Britain's SMEs, however, will go a long way to achieving that overall endeavour. Continuing to support them through evidence-based policymaking – twinned with both public sector and private sector initiatives – will be essential.

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