



Small Business and Productivity Inquiry
Business, Energy and Industrial Strategy Committee
A submission by Sage March 2018

Sage is the market and technology leader for integrated accounting, payroll and payment systems, supporting the ambition of entrepreneurs and business builders. Sage helps drive today's business builders with the most intelligent and flexible cloud-enabled software, support and advice to manage everything from money to people.

Daily, more than 13,000 Sage colleagues in 23 countries work with a thriving global community of over 3 million entrepreneurs, business owners, tradespeople, accountants, partners and developers to champion the success of business builders everywhere. And as a FTSE 100 business, we are passionate about doing business the right way, supporting our local communities through the Sage Foundation.

Executive Summary

Sage welcomes the Committee's review of the productivity challenges Small and Medium Sized Enterprises (SMEs) face in the UK.

We have responded to the Committee's questions individually below, but in summary:

- The Sage / Nesta report [The State of Small Business](#), October 2017, unveiled that SME productivity varies significantly even within a region, as do the factors that influence productivity levels. An average 5 to 1 difference exists between the most and least productive local authority within any UK region. Using this data, and with the support of the Local Enterprise Partnership in their region and local MPs, we believe every local authority needs an ambitious **local SME growth plan** in place. Working with other local stakeholders (e.g. Local Enterprise Partnerships, academic institutions and private sector networks) this could be tailored to build on the strengths and tackle the weaknesses of the local SME community, to drive up productivity.
- There are a plethora of good public and private training schemes available. Government should focus on **identifying the most effective, better coordination and signposting** via LEPs, helping delivery partners to scale up what works rather than investing in new schemes.
- **Skills development of the entire workforce, as well as management, plays a key role in driving SME productivity.** 30 % of SME employers cite skills as a key obstacle affecting the success of their business. This figure rises to 44 percent when micro-businesses are excluded. There should be more emphasis on raising educational attainment – both in technical or more academic qualifications - in low performing areas, linking employers with local academic institutions as well as central government support for workforce upskilling.
- **Improving the digital skills of the SME workforce would result in the most significant productivity gain, estimated at around £18.8 billion.** We welcome the CBI's [Ostrich to Magpie](#) campaign, and are participating in the programme to encourage businesses to know when and why to adopt the 'tech essentials' like CRM or HR software. Government already has one major lever, the most effective 'nudge' is to continue to digitise and simplify compliance and move ahead with the Making Tax Digital programme. Clear evidence of how digital practices can save businesses time and money as well as step-by-step guides for doing so are the most effective ways of encouraging digital adoption.



- The **Scale-up Taskforce produced a number of recommendations which have not yet been acted upon by Government**. We believe these should be re-visited with a view to implement them as soon as possible.

We would be happy to provide further detail on any questions the Committee may have.

Individual Questions

QUESTION 1. Management capability: How adequate is the availability of, and funding for, training courses aimed at SME managers? What more can be done to provide co-ordinated and high quality support to improve management capability throughout the UK?

The ability to access more in-depth data on SME performance has opened up new opportunities for a better understanding of the causes of low productivity, where it occurs and how to focus efforts. As SMEs account for 60 % of all private sector employment raising productivity will be critical to the UK's ability to turn growth into higher wages and a better standard of living.

To provide the best quality support to improve management capabilities it is important to bear in mind causes of low productivity vary by company size, location and sector.

That is why Sage teamed up with Nesta in 2017 to launch [The State of Small Business](#) - the closest ever look at UK SMEs, where growth was occurring and where it was lagging behind. The report gives a local view of SMEs' productivity levels, survival rates and sector strength.

Small and medium businesses are the backbone of the nation's economy. It's a phrase we hear often, but one that is well and truly brought to life in the report which showed that nearly one third more SMEs are trading today than ten years ago, and that they created 73 % of all new jobs since 2010.

So, the UK's entrepreneurial spirit is certainly alive and kicking.

But there is a stark inequality of opportunity. Not just between North and South or urban and rural, but between sectors, and within regions – with an average 5 to 1 difference between the most and least productive local authority within any UK region. And many factors impact productivity – so a one size fits all approach will not be effective.

The variety of causes of differences in productivity mean we need locally-led, tailored SME plans or we seriously risk leaving parts of the country behind.

And there are significant variations in attitudes towards business by local authorities, including the inclusion of local businesses in policy decisions. So, a variation in emphasis is needed to help small businesses thrive. There is **no statutory obligation for local authorities to support local businesses** and – with obvious financial pressures from other areas – some local governments may see SMEs more as a source of tax revenue, rather than a priority for investment.

The regional Growth Hubs are an important delivery vehicle for Government funding and support, and can do more to provide a coordinated approach by different Government and private support programmes too. But they cover a large, diverse geographical area and need ambitious locally led SME growth plans to drive through change.



Management capability - understanding priorities

With multiple causes of low productivity, management training will need to be tailored and responsive to different obstacles to growth and local conditions. The [State of Small Business](#) highlighted some of the areas where more focus is needed:

1) Increasing exporting

The report found a relatively strong correlation at regional level between SME productivity and export intensity.

17 % of micro-employers export, rising to 25 % of small businesses and 35 % of medium. However, SME exporting has been in decline now for the last ten years from 24 % in 2007/8 down to an average of 18 % in 2016. There are significant regional disparities with the North East and Yorkshire and the Humber having the lowest exporting rates at 12 % and 15 % and London having the highest at 24 %.

We need more local opportunities for SMEs to tap into international links of their region, or sector specific expertise to increase exports and this will have a knock-on effect on productivity in local areas. For example, last year Sage helped to link Atlanta's SME export challenge with sister-city Newcastle. This is just one example where more should be done between sister cities investment arms to encourage SMEs to export. Regional DIT advisers can work closely with Growth Hubs and local authorities in low export regions to come up with a programme to raise awareness of specific opportunities for key sectors.

2) Sectoral differences

Sector also plays an important role in determining productivity in a local area. The City of London, with its high concentration of financial services, is the most productive part of the UK. There is wide variation in SME productivity across sectors, with a tenfold difference in productivity between the average SME in the finance and insurance sector (the most productive at £604,400 turnover per worker) and the average SME in the accommodation and food sector (the least productive at £39,300 turnover per worker).

Government should work with sector trade associations to understand what causes low productivity in these sectors to help the associations build out advice, through sector-specific programmes, for SMEs and then target areas where SMEs in those sectors are particularly prevalent.

3) Survival rates – higher the tendency the lower the productivity

Business survival rates are negatively related to productivity suggesting 'creative destruction' is a critical force for productivity growth.

We need to be more accepting of business failure and foster a culture of entrepreneurship through local networking and information sharing about benefits of taking risks and continued innovation.

A shift in mindset away from the fear of failure within management training programmes and fostering a culture of entrepreneurship would help to drive up productivity.



4) *Skills and Attainment*

Productivity is positively linked locally with the share of the local population with NVQ4+ level qualifications.

There is a strong case for paying wider attention to skills and attainment locally, not just management skills but helping management to upskill their workforce. Conversely, the prevalence of low skills in a local authority area is correlated negatively with SME productivity growth.

30 % of SME employers cite skills as a key obstacle affecting the success of their business (albeit behind issues like taxation and competition); if one excludes micro-businesses then this figure rises to 44 % among small businesses and 51 % among medium, second only to competition as an inhibitor for both.

This will not surprise many SMEs and policymakers. It is clear skills shortages have been reported by businesses for some time; the mass expansion of apprenticeships and new initiative to roll out T-levels has been in response to rising concern about the UK's skills gap.

Emphasis on linking employers up with local further education colleges and universities or support and incentives to invest in retraining will help to address this particular gap.

5) *Addressing the Digital Skills Gap*

The skills gap is particularly wide in the digital space. Digital skills required to know in detail who your customers are and what they want; automating production and distribution, HR and finance, turn out to correlate strongly with growth.

The digital divide risks becoming more acute over the next decade because of the pace of innovation, so we welcome this discussion on measures to address the deficit. Collective intelligence, AI and open data, driven by cloud technologies herald a new era of innovation benefiting businesses with invisible accounting, financial transparency and front office automation.

While broadband coverage is lower in rural areas and the devolved regions, there is not yet evidence that connection speeds are impacting SME activity, growth, or productivity. However, the productivity impact of the SME deficit in digital skills is clear and is estimated to be around £18.8 billion annually¹. Equipping SMEs with basic digital capabilities would therefore result in a significant productivity gain.

According to the CBI², in 2015, the proportion of UK firms adopting cloud computing was nearly 30 percentage points below Europe's best performers with around 40-50% of businesses saying they are not embracing digital tools.

Sage has partnered with third party experts on a number of occasions to shed more light on the underlying causes of the productivity gap and the attitudes of businesses to digital innovation. Our research shows:

¹ Koss, V., Azad, S., Gurm, A. and Rosenthal, E. This Is for Everyone: The Case for Universal Digitisation. 2012

² CBI [Ostrich to Magpie](#) Oct 2017



- Businesses are still suffering from a significant admin burden costing them on average 120 days of their time a year– which can be reduced with digital tools.³ This report shows that just under half of SMEs (around 45%) have not digitised their accounting and about 60% have not digitised their HR processes.
- There's a clear link between adoption of basic, low cost digital tools and increased efficiency and growth but ease of use and low cost are key factors for businesses.⁴

New proposals for addressing low digital adoption have recently been put forward in the CBI's [Ostrich to Magpie](#) report, techUK's [Budget Submission 2017](#) and the [Made Smarter](#) Industrial Digitalisation Review by Jeurgen. Sage agrees with recommendations such as:

- Government should work with CBI on the comprehensive study to identify a list of products deemed to increase productivity, akin to that of the Energy Technologies List for Enhanced Capital Allowance. It should assess both the immediate benefits to small businesses and longer-term potential, producing a list of products. A pilot project among micro and small businesses could identify up-take challenges and best-practise solutions
- Government could run a competition for LEPs and Growth Hubs to deliver pilots providing practical support, building on existing private or public programmes.
- The Government should set a target, under its Digital Strategy, for increasing tech adoption amongst the wider business population.

But what should not be overlooked is the Government's **Making Tax Digital programme**. If it is framed in such a way as to guarantee businesses it will ultimately cut down on time taken to file accounts and help businesses manage their tax liability, it will be a key lever for companies of all sizes to digitise their tax submissions. Much more emphasis, in our view, should be placed on how Making Tax Digital can increase productivity of SMEs.

QUESTION 2: Fair treatment: how effective are measures in place to protect small businesses against systematic late payment practices of large companies; are the powers of the Small Business Commissioner to police poor payment practices strong enough?

In the UK the late-payment culture is stifling productivity and growth. In December 2017 Sage launched [research by Plum consultancy](#)⁵ highlighting the problem of late-payments. The research analysed the effect late-payments had on small businesses worldwide and that small businesses in the UK suffer the most with a shocking 18 % of invoices being paid late making the late-payment culture in the UK the worst, and 7.5 % are eventually written off as bad debt.

The current value of pending invoices in the UK right now is at £112bn and bad debt written off by small businesses within this financial year is £60bn.

³ [Sweating the Small Stuff](#), Sept 17, Plum Consulting/Sage

⁴ April 2017, Sage/IDC based on 1,053 interviews with small business owners

⁵ <https://www.sage.com/en-gb/news/press-releases/2017/12/half-of-uk-small-and-medium-businesses-expect-to-suffer-impact-of-late-payment-this-christmas/>



The impact on businesses is significant, not only in cash flow but time taken to chase payments. 35 % of businesses have no dedicated resources for this and 18 % of businesses within the UK do not have enough staff to follow up pending transactions, therefore some pending invoices must be written off as bad credit.

Existing measures are clearly not being effective and continue to have an adverse impact on SMEs in investment, paying their suppliers on time and even paying themselves. Almost half (40%) of the SME owners in the UK fear damaging long term relationships with clients by following up overdue payments, which is an underlying cause that is difficult for Government to address.

Even so, the Late-Payment Commissioner has an important role but would have more impact if he focussed helping small businesses to:

- Promote time saving strategies to boost efficiency during the 'payment pending' period.
- Provide specific advice on how businesses can cut the admin burden of chasing late payments

QUESTION 3: Improving productivity: what access do small businesses have to advice on improving efficiency and productivity through adoption of best business practices? What more should the Government do in this respect?

In terms of advice, there is a plethora of training, networking and webinars available. These opportunities are offered by training providers, trade associations (like Enterprise Nation) and sector associations. There are also specific qualifications run by companies like Sage and more intense programmes like the Goldman Sachs 10,000 businesses scheme, the ELITE London Stock Exchange programme for fast growing companies or 'Be the Business', which focuses on encouraging more businesses of all sizes and sectors to understand their current performance and actively seek out ways to improve.

The Scale-up Institute also holds initiatives such as the Cranfield School of Management: Business Growth Programme and the British Library: Innovating for Growth programme in order to support and train management within SMEs. There is also the Supper Club, an organisation that matches personality, experience and expertise with members at appropriate events and forums to make the most of peer learning. Public sector bodies are also looking at rolling out initiatives in some areas; for example, DCMS's Digital Skills Council, which is coordinating private and public sector digital skills initiatives and working with some local areas to roll these out.

Government should focus on providing funding and support to scale up effective training programmes and raising expectations across all Growth Hubs, local enterprise partnerships (LEPs) and local authorities. This should include better communication and signposting for local businesses towards the best programmes for them.

One of the most effective ways for small businesses to receive advice on improving efficiency and productivity is through business networks. These networks are relatively low cost to set up and have a positive relationship with business growth and can support SME innovation (and therefore, productivity gains).



The reality is SME owners are a hard to reach audience as they are focused on running their business successfully. In addition to more coordination and scaling up of what is working well, Government should continue to think about triggers it has at its disposal to encourage SMEs to implement best practice. Better guidance on available grants, tax incentives or planned tax changes would be helpful, for example.

Recent, independent research commissioned by Sage shows that the single most important feature to SMEs of any Making Tax Digital product would be a step-by-step guide for adoption, for example.

QUESTION 4: Scale-Up: for those businesses wanting to scale-up, how effective is the promotion of available Government support? Do existing concessions for small businesses serve to discourage growth? What impact has the Scale-Up Task Force had so far?

Sage was pleased to be involved in the Scaleup Taskforce. Scaleup businesses are a critical part of driving growth and productivity across the nation. Stephen Kelly, Sage's CEO, led the working group looking at measures to increase access to new markets for scaleups.

Across the UK, around 1 % of (registered) firms are high-growth firms. Interestingly, there is a striking lack of regional variation, with little evidence of the North-South divide seen in other SME statistics.

The Taskforce, under the leadership of Scaleup Champion Margot James and Sahar Hashemi, Chair, took an in depth look at what could be done to help boost the number of scaleups and increase their chances of success. The working group came up with a number of concrete recommendations to deliver:

- better use of government and privately held business data to identify and target the right businesses at the right time, enabling a more co-ordinated approach;
- increased market access through international trade, improved government procurement and better supply chain support;
- access to talent, particularly enhancing leadership and management skills; and
- an increased awareness of and more usage of capital growth and equity finance to help businesses owners invest in business growth.

We were disappointed that the recommendations were not published in full by the Government in the Industrial Strategy and that a 'Scaleup Champion' was not immediately appointed to replace Margot James after the last Ministerial reshuffle. We hope that the recommendations of the Scaleup Taskforce can be re-visited in the near future.