

**be the
business**

Raising UK competitiveness:

Inside the mindsets of leaders of firms

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Foreword

Be the Business

In 2016, the Productivity Leadership Group chaired by Sir Charlie Mayfield published a seminal work on the flatlining productivity performance of the UK economy. “How Good is Your Business Really?” argued that it was vital we consider not only the microeconomics of productivity but the behavioural economics – what it would take to get the majority of UK firms to improve their performance.

Be the Business was formed at the end of 2017 to take on this challenge. For eighteen months we have single-mindedly focused on why some firms embark on sustained productivity improvement and why most do not.

Our most important discovery is the large disconnect between the varied efforts to share best practice around our economy and a stubborn lack of adoption by those firms we need to improve. As Andy Haldane at the Bank of England puts it “The diffusion engine appears...to have seized up”.

On the face of it, the supply side is well equipped. Britain is a world-class hub for professional services; has a multitude of business schools; is a flagship market for business technologies with highly incentivised salesforces; and has initiated a multitude of public-private initiatives to support businesses to grow. Yet the “demand side” is unmoved with firms looking inward or to peers for support. We also see overconfidence in firms’ assessment of their performance and an abundance of improvement activity that doesn’t move the needle.

With existing efforts proving less than the sum of their parts, the message for those of us in the business of making UK business more competitive is clear: we need to better understand our customer. We need to consider what they know, what they think, how they learn and how they improve. And we need to act on this in a coordinated manner. In the report we make recommendations for the business improvement ecosystem and business leaders based on customer insight from interviews with policy experts and 1,400 SMEs. But above all it is rooted in the thousands of conversations we have had with businesses up and down the country, and interventions we have piloted with them.

We need to begin by moving beyond the oft referred to “long tail” of UK productivity performance. The blanket long tail is no such thing: in it there are a huge number of modest growth businesses in the UK whose potential is untapped and in whose hands lies billions of pounds of GVA for our country and the prosperity of millions. Definitionally they are more of a “majority middle” – good firms who, as our report shows, comprise many who are actively engaging in improvement activity. With a very deliberate effort to better understand these businesses and the people who lead them, we have a very real chance to transform the ROI that we as a nation put into supporting their growth and competitiveness. We can change the shape of the curve – and we must.

The time is now. With Brexit impending, the UK has a “shock” that can be exploited to reinvigorate and renew through bolder and more concerted action. We need to tap into our customers’ motivations in a language they understand to get the wholesale adoption of what it takes to succeed if we are to be “match fit” as a country to compete in a post-Brexit world.

Tony Danker
CEO, Be the Business

Foreword

Lloyds Banking Group

The world is changing for British businesses. Economies across the globe appear to be shifting gears, with many industries adapting to increasing automation, disruptive technology and changing regulation. The future for business is increasingly competitive and productivity is one important measure of competitiveness – one where British businesses have been lagging for some time.

*As part of our purpose to help Britain prosper we are delighted to begin our partnership with **Be the Business** and support both this report and the wider objectives of their activity to help British firms share best practice, compete and grow.*

This report, based on study of 1,400 small and medium sized UK firms, brings to light the importance of attitudes in driving a company culture that celebrates productivity and its improvement.

Like any business leader I think about where the blind spots are in my operations. As competition increases and the environment changes, it's important that we, as business leaders, identify these and work to address them. External, specialist support can be invaluable, yet this report highlights how few firms look to external support when it comes to making business improvements. These different perspectives, opinions and practical experiences can bridge the knowledge gap, ensuring we measure and focus on the things that will help us thrive in the future.

*Undoubtedly, technology is impacting every area of business and daily life, bringing significant change and opportunities for improvement. But, technology alone doesn't change a business, behaviours do. Creating the right culture, celebrating strong leaders, innovative managers and skilled employees will drive the behaviours that determine how well a company will adopt new technology and leverage new ways of working. As part of our partnership activity to support British firms with this challenge, we are piloting a new productivity initiative to help small business leaders put learning into action. This initiative, initially focused on a cohort of businesses in the West Midlands, will help leaders – who have participated in the **Be the Business** Productivity through People programme – to access discounted lending facilities to finance investment in their business and funding to train apprentices.*

As a bank we are here to help Britain prosper. Our role is more than just providing funding. We connect companies and share knowledge to drive confidence and enable action. Through our products and services we help our clients run, develop and grow their businesses as effectively and efficiently as possible. We also continue to invest in free digital tools to bridge knowledge gaps and drive process improvements. The award-winning Lloyds Bank International Trade Portal, which helps businesses understand export markets, is a prime example. Similarly, our working capital benchmarking tool helps them to improve cashflow.

*Through our partnership with **Be the Business** we are committed to being by the side of businesses, helping our clients reach the goals and ambitions that are important to them.*

David Oldfield
Group Director & CEO, Commercial Banking

Acknowledgements

This report is our attempt to bring a behavioural perspective to business improvement and identify new imperatives for raising the UK's productivity. We have taken findings from our own independent survey of 1,400 UK SME business leaders, numerous expert interviews, conversations with our SME Taskforce, desk research and a cluster analysis.

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Executive summary

The competitiveness of the UK economy is under fierce scrutiny as we prepare to leave the European Union. At a national level, Britain has dropped down the competitiveness league tables. At the firm level, businesses are preparing to compete for contracts and talent in an even tougher environment against a trend of stubborn underperformance in productivity now entering its second decade.

In 2016, the Productivity Leadership Group¹ published their report “How good is your business really?”. This focused on the stark gap between Britain’s best firms and the rest, to be found in every sector and region. It pointed to the critical need for more widespread diffusion and adoption of leading business practices as the way to close this gap. Indeed, closing it by even a modest amount could release over £100bn back to the economy.

Greater adoption of leading business practices is now a national imperative. Data shows that the UK is behind international competitors on the adoption of both leading management practices and productivity-enhancing business technologies. This represents an under-realised potential among the large “majority middle” band of companies in Britain. Despite somewhat pessimistic descriptions of a long-tail of underperformance, we believe this is about a wider call to action.

Economists have studied many of the macroeconomic factors affecting UK productivity, such as investment in human capital and infrastructure. However, so far there have been far fewer studies of the mindsets and behaviours of the people leading the “majority middle” firms. We believe that this is a precondition to progress, and that understanding the demand side for diffusion is vital to the success of closing the productivity gap.

Be the Business was established to do just that: to take the “customer view” of what firms need to help them compete

and grow. This study is based on a survey of 1,400 firms, market research, our first year of working with SME firms around the country and deeper engagement with others to find out what it would take to drive up adoption in our economy.

The study gives new insights into the motivations and behaviours of these firms around improving their business. It highlights conditions for and constraints on their improvement; some familiar and some less well known.

Firms are very willing to improve:

Almost every business puts a lot of time and energy into improvement focused activities and investments. But that doesn’t make improvement easy or straightforward, nor does it mean that activities always translate into results. Many are poor in time and resources, especially small firms.

The ability to improve can be hampered by oscillating confidence levels and gaps in self-awareness:

- Our research shows a two-sided picture of business leaders’ confidence. There’s a widespread bias towards overconfidence: 80% see their businesses as equally or more productive than peer firms, and as many as 36% express a faith in their firm’s ability to achieve change alone. In contrast, many also show a reluctance to go beyond their comfort zones. They admit to struggling with uncertainty and with finding the help they need.
- Too few are measuring and comparing their performance. Increasingly, UK firms recognise their need to measure, and better measurement will identify priorities for improvement more clearly. But the appetite for comparison is still lower than it could be. This remains a cultural challenge for UK business.

We were also able to segment firms taking part in the survey according to their levels of business confidence and improvement activity. The segmentation

¹ Having been asked by the chancellor in 2015 to dig deeper into Britain’s productivity problem, Sir Charlie Mayfield brought together some of the brightest minds in UK plc to form The Productivity Leadership Group to approach the problem in a different way. Their work called for a business-led response to the UK’s productivity challenge and identified improving SME management and leadership capability as the key to change. The result was the formation of Be the Business.

revealed a distinct group of “**purposeful improvers**”. These firms demonstrate high levels of self-awareness and a strong appetite to learn as well as being very disciplined about applying their learning to improvement.

Purposeful improvers:

- **Plan and set targets:** These firms differ from their peers in the degree to which they plan and set targets for their business and measure outcomes to see if plans are on track. These activities are all crucial to driving improvement, from first selecting what to improve through to seeing improvement in results.
- **Engage their employees:** Purposeful improvers are way ahead on their reported activity to engage their employees. Other research shows that organisations scoring highly on measures of employee engagement are also more productive and profitable.
- **Develop their leadership and management:** Excellence in leadership and management underpins a firm's ability to adopt new practices and useful technologies effectively and sustainably. Purposeful improvers invest not only in the capabilities of their firm leaders but also their managers. In particular, their leaders and managers learn to connect and collaborate with people in other businesses and organisations within and beyond their sectors, in order to gain and apply new ideas and to broaden their perspectives.

Better understanding these firm mindsets and behaviours illuminates new opportunities; not only for business leaders but also for public and private organisations in the business support ecosystem trying to help firms adopt winning practices.

Opportunities for business leaders include:

- **Gain better self-awareness.** Measure your performance to understand where your real issues lie and which are your priorities to address. Compare the performance of your business to others to find out what defines best-in-class – or even ahead-of-you – in your industry and related sectors. Be open to the possibility that you are too deeply immersed in your comfort zone and may have developed blind spots about your firm's potential, its capacity, its needs, and the threats it faces.
- **Invest in the key areas of improvement prioritised by purposeful improvers.** Make sure that strengthening your business planning and strategy, employee motivation and engagement, and leadership and management skills are priorities in your firm's business plan every year. These are all vital areas that many firms are neglecting.
- **Connect with others to learn and improve.** While many firms connect with others for exposure to new ideas, there is far less real collaboration with peers and experts and far less connecting to help drive business improvement. Connect more broadly beyond the usual suspects and share more openly to leverage your connections for greater benefit.

Opportunities for the business support ecosystem include:

- **Be far more relevant to SMEs and stay customer focused.** Start by walking in the shoes of SMEs on the ‘demand side’ of your services. Use the language they use and try to understand their issues from the inside, using your knowledge to illuminate their blind spots and broaden their perspectives. Then work together on their priority areas of improvement. Measure customer satisfaction and be tough on yourself if results show that what you provide is not getting traction and needs to be revised.
- **Help firms gain self-awareness.** Firms' performance will benefit from more interventions that build the self-awareness of business leaders and allow them to measure, connect with others, and boost their own continuous improvement and management skills. Adopting widely-used and popular productivity measures in corporate reporting can change a firm's outlook. Introducing self-assessment and benchmarking tools and practices, as well as connecting with peers to learn about each other's practice and exchange ideas, will yield real value.
- **Ensure programmes blend peers and experts.** Peer-based networks are the most successful way to drive up adoption. Much diffusion activity by experts is not yet “customer credible”. Successful adoption by firms is inspired by seeing “people like me doing things I can do”, whereas much of today's diffusion activities are from “people unlike me, doing things I can neither trust nor relate to.”

Chapter 1:

The adoption challenge



Chapter 1: The adoption challenge

Greater adoption of leading business practices is now a national imperative

The voices and challenges of UK businesses rarely ring clearly through the ecosystem of business support policies and programmes. Yet understanding these businesses and their challenges has never been more important.

As we prepare to exit the European Union, the need to improve UK productivity is more urgent than ever. We know factors like tax policies and national investment in infrastructure and human capital all impact productivity. But these macroeconomic measures do not fully explain the productivity gap between the UK and international competitors over the past decade. Closing the gap even modestly could release more than one hundred billion pounds into the economy.²

In 2016, the Productivity Leadership Group's report "How good is your business really? Raising our ambitions for business performance"³ demonstrated that better adoption of leading business practices by individual firms also plays a critical role in improving productivity (Figure 1). Since 2016, we have been exploring how to improve adoption of such practices among UK firms. This is now a national imperative. Data shows that the UK lags behind international peers⁴ on both

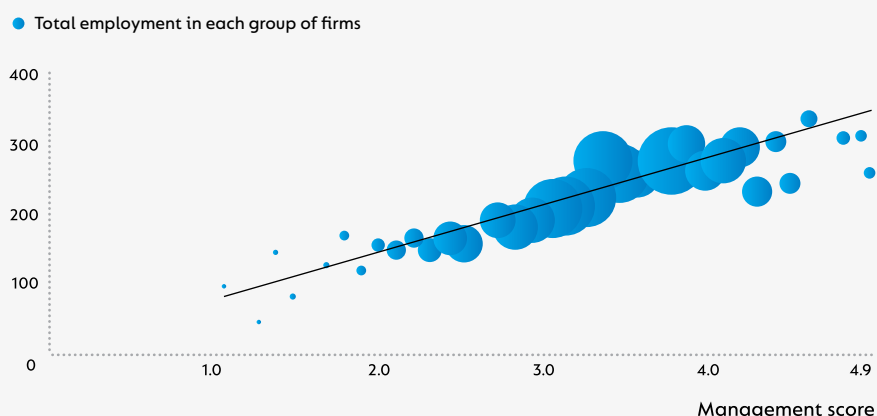
management practices⁵ and adopting technology, particularly core proven technologies.⁶

Britain's large band of "majority middle" firms suggests they "have and want to shape a successful business"⁷, and are busy working on this vision with real prospects to grow. They are the firms performing both somewhat better than and somewhat behind the median in productivity terms (Box 1). We are optimistic that just a small boost in adoption of good management practices and technologies in this group, the "majority middle", is eminently doable and will transform Britain's business climate.

So what will it take?

While economists have studied many of the conditions of UK productivity, there have been far fewer behavioural studies trying to understand the mindsets and actions of firm leaders themselves in relation to their improvement patterns. We believe that understanding this demand side of diffusion of good business practice is vital to progress. Be the Business was established to do just that: to take the "customer view" of what firms need to help them compete and grow.

Figure 1. Firm-level productivity versus firm-level management score
Median productivity in each group of firms¹



¹ Index of relative productivity based on sales per employee.

Source: McKinsey from ONS (2018) *Britain's Productivity Puzzle: Management, Measurement and Addressing the UK's Economic Under Performance*. Slide 48.

² Analysis by McKinsey & Co. using ORBIS and OECD data for 2013 identified that if the lowest 75% of firms matched the performance of a firm 10 percentiles above it, UK GVA could be £130bn higher. As cited in Productivity Leadership Group, 2016. *How good is your business really?* Retrieved from bethebusiness.com/wp-content/uploads/2018/04/how-good-is-your-business-really.pdf

³ Productivity Leadership Group, 2016, *How good is your business really?* Retrieved from bethebusiness.com/wp-content/uploads/2018/04/how-good-is-your-business-really.pdf

⁴ Cornell University, INSEAD & WIPO, 2018, *Global Innovation Index*. Retrieved from wipo.int/publications/en/details.jsp?id=4330

⁵ Bloom, Genakos, Sadun & Van Reenen, February 2012, *Management practices across firms and countries* - NBER Working Paper 17850. Retrieved from nber.org/papers/w17850

⁶ CBI, 2017, *From Ostrich to Magpie*. Retrieved from www.cbi.org.uk/insight-and-analysis/from-ostrich-to-magpie

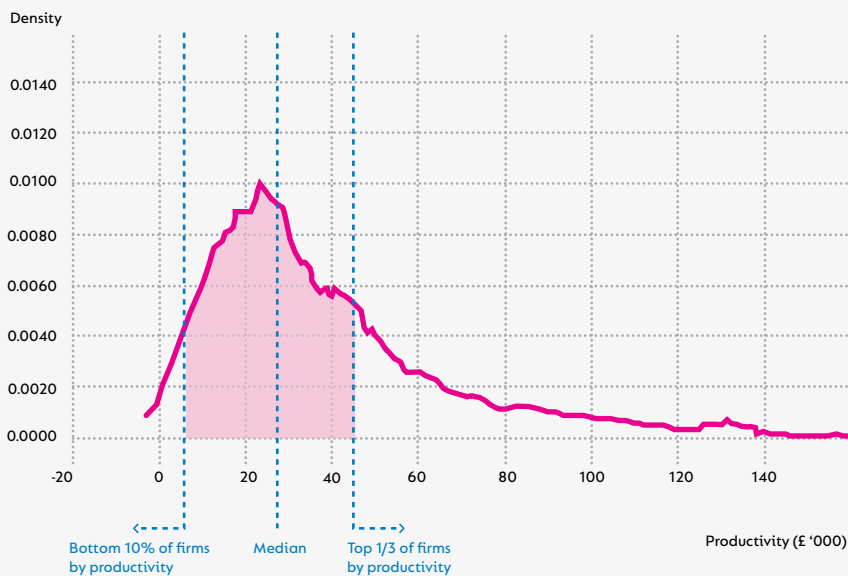
⁷ Analysis of customer insight by The Foundation for Be the Business, 2019.

Box 1: Majority middle firms

Majority middle firms constitute 60% of UK firms, defined here as those straddling a median level of productivity. They are not the bottom 10% of laggards, who are likely struggling with the basics, nor the top one third of our strongest and world-leading firms, but the group in the middle.

Note that the reference to the ‘long tail’ of UK firms is typically used to describe businesses with levels of productivity below the UK median. But we believe it’s time to change the focus. The majority middle all have the potential to capture gains through better adoption of business practice and technologies, and are well placed to respond to excellent business support. The most productive firms, we believe, already have the resources and experience to improve their leadership, management and tech adoption on their own. And the lagging firms are harder and more expensive to reach.

Firm density by productivity (£'000) illustrating the majority middle



Source: ONS (2016) Cumulative distribution of labour productivity across businesses

Why the adoption challenge?

Slow adoption of good management practice and technology in the UK is often considered a problem of diffusion. But completely conflating diffusion and adoption is a mistake. Consider the contrast between the scale of current investment in diffusing basic digital systems, with all their potential to improve business performance; and the relatively low uptake of these systems among SMEs. If firms lack the confidence, motivation, capability, interest or time required to take on the challenge of purchasing and rolling out a new digital system, or if salespeople cannot convince them of the value of the technologies for

their firm, then no amount of investment in salespeople may be enough to move the needle. Consider that despite ranking consistently in the top five for innovation among international peers, the UK ranks 24th on absorption and 30th on knowledge diffusion.⁸

Diffusion is about how, why and at what rate innovation spreads. It depends on several factors: the nature of the innovation in question, the channels for communicating it, and the system or structures that define how well and how quickly relevant communication will travel. Flows of goods and services, capital, people and information can all serve as channels for diffusion.

⁸ Cornell University, et al. Global Innovation Index, op.cit

“The diffusion engine appears...to have seized up”

– Andy Haldane, Bank of England

For example, as workers transition between companies, their expertise and experience transfers with them. “In the fullness of time, innovation should be expected to diffuse through the economy, lifting all boats,” says Andy Haldane, Chief Economist at the Bank of England. But, he continues, “The diffusion engine appears... to have seized up.”⁹

Individual firms cannot directly control rates of diffusion. However, they do control their own adoption. Adoption refers to businesses or organisations converting knowledge, ideas or technologies into better performance. As well as needing the experience to recognise useful ideas, firms must also be willing to make and embed relevant changes in their businesses for the overall benefit of the firm. Improving adoption means improving these capabilities, and all of the organisational systems and processes underpinning them.

Achieving excellence in all these areas across a business is a complex challenge for many. Even well-informed and well-structured companies can struggle to improve their adoption – in spite of the fact that many good managerial practices and basic technologies are well known, proven and broadly communicated. Yet improving adoption is worth the effort. The return on investments in new approaches can be immense, even on small, simple changes. To illustrate, Cumbria Crystal invested in new energy-saving doors for their glass-blowing furnace, an idea from the shop floor and picked up by CEO Chris Blade. The new doors reduced energy consumption by 30% and boosted overall productivity. For many firms, a small change can also be the first step on the pathway towards more sustained and transformative innovation and change. Countless other success stories confirm how small changes in people, planning, operational practices and digital adoption can yield improvements in a business’s overall performance, and as in this example the results can sometimes be disproportionately large. Many more successes like these will yield a meaningful improvement in UK productivity.

About this study

This study is an effort to walk in the shoes of people leading UK SMEs as the agents of their own improvement. By exploring their behaviours and mindsets it aims to add new insights to a much-debated problem. As an independent organisation led by business and for business, we ask in our first report the simple question:

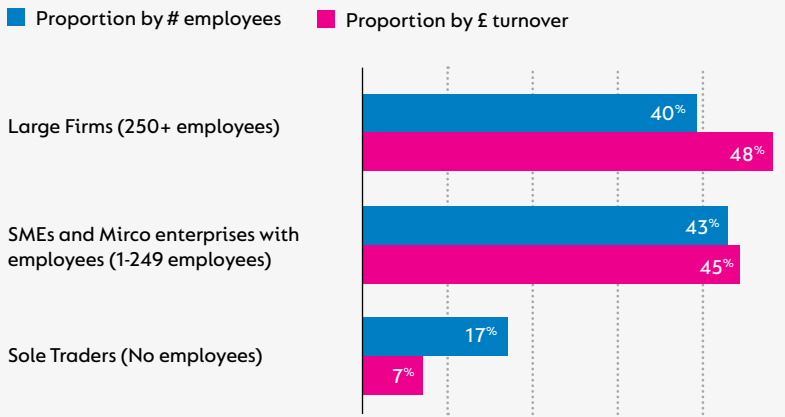
What is needed to boost adoption of management practices and business technologies among Britain’s majority middle firms?

The report is based on qualitative customer research carried out with over 30 firms, combined with a quantitative national survey of 1,400 firms. Breakdowns of the survey data by industry are presented in the Annex. The report’s findings are supported by stories heard in our first year of working with hundreds of firms around the country (Box 2). We also interviewed a wide range of business support experts from the public and private sectors and civil society organisations and bodies. They provided a broad perspective, honed from their work with many diverse firms around the country.

Research for the study, both qualitative and quantitative, focused on SMEs (firms with 10-250 employees) because these businesses typically face bigger obstacles to improvement and have relatively fewer resources than larger firms. Larger firms may also gain insights from this study; but they tend already to have more resources for adopting management practices and technology to improve their business. They also generally invest heavily in management training because their size depends on an organisation structure staffed by managers with particular skills. Sole traders are excluded from the study as they don’t face the same management and technology issues as organisations with employees.

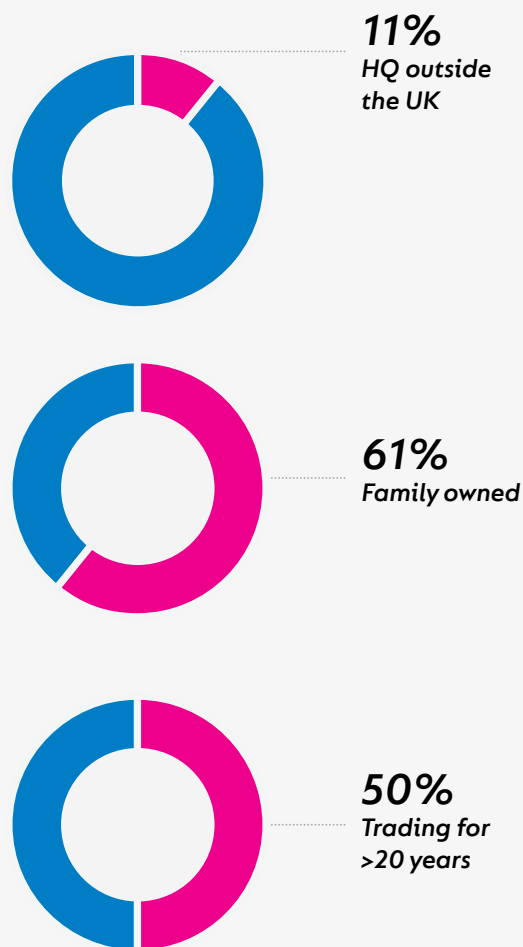
⁹ Bank of England, The UK’s Productivity Problem: Hub No Spokes - speech by Andy Haldane published 28 June 2018. Given at the Academy of Social Science’s Annual Lecture, London.

Figure 2. Distribution of UK firms by turnover and employment



Source: BEIS statistical release (2018) Business population estimates for the UK and Regions.

Figure 3. Survey respondents sample characteristics
% respondents



Source: Work Foundation / MMS (2018) Be the Business Baseline Survey.

Only 13% of UK firms had adopted all five of what can be considered digital basics: computers, internet, websites, e-purchases and e-sales

We ran two series of user workshops between July 2018 and February 2019 with 30 firms with fewer than 50 employees. These firms came from a range of industries including hospitality, media, consultancy, building, manufacturing, retail and services.

Our national survey covered firms between 10-250 employees distributed across the country and across industries. The sample was representative of the UK SME population (Figure 2), in terms of size, sector region and other standard firmographics (Figure 3). Respondents were firm leaders¹⁰. The 32-question survey covered the three areas listed below, along with some illustrative questions:

1. Firmographics

- What are the characteristics of your firm? (e.g. size, sector, location, maturity, etc.)
- Describe its performance characteristics (e.g. self-reported growth, efficiency, capabilities etc.)

2. How firms look to improve and why

- What are your priorities for improving your business?
- What is driving these priorities?
- What improvements have you made in the past two years?
- What external resources have you tapped into to make these business improvements?

3. How firms connect and collaborate and why

- What kinds of external resources do you use in general?
- What benefit do you get from these resources?
- What motivates you to use external resources?

We also segmented firms using data from the survey. We identified the dimensions defining the segments as being firms' levels of business confidence, and actions to improve their business. Firms with a high level of business confidence included those that view themselves as confident in their firm's efficiency, in their ability

to implement change and/or as industry leaders in innovation. Firms reporting more active improvement included those that have invested in initiatives aimed at improving employee learning and/or development and/or leadership and planning in the past two years. Mapping firms in the survey against these dimensions revealed four segments:

- Confident and actively seeking to improve
- Actively seeking to improve but unsure
- Confident but less actively seeking to improve
- Unsure and less actively seeking to improve

Both the quantitative survey and the qualitative work had some limitations. The sample sizes in the qualitative workshops were low, slightly biased towards smaller firms, and run with different formats over the year. The sample of national firms, while representative of the SME population in terms of size, sector region and other standard firmographics, was not selected to represent a range of attitudes, nor were we able to get reliable performance data from a sufficient number of respondents. All performance data (e.g. on growth) is self-reported.

About this report

Chapter 1 has explained the link between boosting the adoption of management practices and technologies that drive up firm performance, and boosting national productivity. It has also highlighted the importance of listening to the voice of UK business to understand business adoption and improvement at the firm level. Lastly, it has outlined the qualitative and quantitative research methodologies that underpin the report's insights. Chapter 2 outlines those insights into why and how UK firms are improving today and the areas where they have an opportunity to do better. Chapter 3 reflects on these findings to offer key imperatives for change, with calls to action both for firms and for the business support ecosystem.

¹⁰ In our survey, business leaders were typically the SME owner-manager or a senior director in the business.

Management practices and productivity

Good management practices enable firms to systematically identify and carry out tactical actions at the right time and for the right reasons to benefit the business. Examples of good management practice include engaging employees on the firm's vision and targets, seeking advice from an external advisor, mentor or expert, and following a business planning and performance management cycle that includes clearly defining, assigning and tracking business targets. Specific investments arising from good managerial practice could go into, for instance, upgrading accounting software to reduce administrative costs, or embedding artificial intelligence in manufacturing systems to cut production costs.

For many decades, there has been a question over how well British businesses are managed. The World Management Survey (WMS) has been making real progress on providing answers. It finds that on average British businesses, while not poorly managed, are behind their counterparts in, for example, Germany, France, Japan and the US. These differences in management practice matter for productivity. For example, as much as three-quarters of the gap in productivity between the UK and the US¹¹ can potentially be explained by weaker management practices in British business¹².

The effects of weak management have long been known to be material. Poor people management, to take just one area of management practice, has been estimated to cost the UK economy £84bn a year¹³. Recently the authors of an award-winning Harvard Business Review article, "Why Do We Undervalue Competent Management?"¹⁴ have shown that good management is even more profoundly linked to firm performance than

previously thought. They demonstrate that "simple managerial competence is more important and less imitable" than conventional wisdom suggests, and a source of sustainable competitive advantage. Achieving managerial competence, they argue, requires investments in people and processes through good times and bad¹⁷.

Technology adoption is vital to productivity

Just as the UK has many highly productive businesses, the nation also has many companies at the forefront of technological innovation. However, many UK organisations are not adopting proven technologies. This is not only a UK phenomenon. Europe as a whole is now less competitive than East Asia and the Pacific regions, and the majority of economies worldwide are ill prepared for rapid advances in technology¹⁵. But it is a serious problem in the UK. ONS data shows that by 2015 only 13% of UK firms had adopted all five of what can be considered digital basics: computers, internet, websites, e-purchases and e-sales¹⁶. Although strong in some of these core proven digital technologies, we lag behind many EU economies in the penetration of others. For example, the proportion of businesses with websites, internet trading capabilities, CRM and ERP systems in the UK today is still below the levels found in Denmark in 2009, according to the CBI's 2017 report "From Ostrich to Magpie"¹⁷.

The potential benefits of digital basics for small businesses are clear. Modelling by the Enterprise Research Centre (ERC) suggests a strong link between adoption of the five proven technologies and productivity in microbusinesses (organisations of 1-9 employees). For example, their work found that using cloud-based computing drove a 13.5%

increase in sales per employee (a proxy for productivity) after three or more years. CRM software drove an 18.4% increase over the same period¹⁸.

However, adopting new technology can be daunting. Today, many digital tools offer more than just support for efficiency in current business models: they can redefine business models and ways of working, as mobile transport apps have transformed the structure of the taxi industry. For firms of any size but especially smaller ones, figuring out the right investments and priorities can seem intimidating and risky.

¹¹ Bloom, et al. Management practices across firms and countries, op.cit.

¹² Ibid.

¹³ CMI, September 2015, Growing your small business: The role of business schools and professional bodies.

¹⁴ Sadun, Bloom & Van Reenen, Harvard Business Review Sep-Oct 2017, Why do we undervalue Competent Management? Retrieved from hbr.org/2017/09/why-do-we-undervalue-competent-management

¹⁵ Cornell University, et al. Global Innovation Index, op.cit.

¹⁶ Bank of England, The UK's Productivity Problem: Hub No Spokes. Speech by Andy Haldane, op.cit.

¹⁷ CBI, From Ostrich to Magpie, op.cit.

¹⁸ Enterprise Research Centre, 2018, State of Small Business Britain report. Retrieved from enterpriseresearch.ac.uk/publications/state-small-business-britain-report-2018

Box 2: About Be the Business

The launch of Be the Business in November 2017 was based on two fundamental insights about UK productivity. First, that good management and technology practices are a major driver of performance improvement; second, that while the UK is home to some of the most productive firms in the world, the practices that drive success have not been sufficiently diffused and adopted.

We now work with the entire business community to share what really works for today's best firms with every company that wants to learn and improve.

While creating a strong, successful business is hard work, identifying new ways to incentivise and engage with staff or taking an honest look at leadership and management can be transformational. In our experience, there is no better way to tackle these kinds of challenges than by collaborating with others who have done it all before.

Since our launch, we have been getting to the heart of what motivates leaders and managers of businesses to seek out and implement performance gains. After speaking to thousands of firms about the things that help them to improve, we're now sharing unique, on-the-ground insight with policy makers and the rest of the business community, to make sure firms get the right support at the right time, delivered in the right way.

Better and more confident leaders are more likely to invest in their business, export for the first time or introduce innovative working practices – and Be the Business is here to help.

Box 3: About “How Good Is Your Business Really?”

The “How good is your business really?” report was the output of the Productivity Leadership Group's research, which has been the foundation of Be the Business's drive to improve UK competitiveness.

In July 2015, a group including some of Britain's most senior business leaders came together to explore what practically could be done to improve UK productivity. The report explored what potential there is in business-driven, “bottom-up” change and continuous improvement among individual businesses. Its analysis confirmed that productivity should be better in businesses of all sizes and sectors. Unlocking the opportunity could be extremely valuable, perhaps adding as much as £130bn in GVA to the UK economy each year.

The report argued that to engage people, ‘productivity’ needs to be positive and aspirational. Few businesses measure productivity, and, when asked, most businesses say they are above average. The report therefore called for an approach that is simultaneously practical, engaging and ambitious in scale. First, it argued that businesses across the country need to have an informed view on how good they are. Second, it suggested they should then be able to see, and ideally experience, what ‘good’ looks like. And third, it made the case for firms to have access to the support they need to make improvements. It proposed forming a business-led movement – ‘Be the Business’ – bringing together actors from across the economy to bring these proposals to fruition.



Chapter 2:

Inside business improvement



Chapter 2: Inside business improvement

Three-quarters of UK firms agree that they are always looking for ways to improve their business

“People don’t always know who to go to or the right questions to ask. They want to know [support services or programmes] are going to be helpful and they’re not going to rip you off.”

– Felicity Burch, CBI

Part 1: Adoption: Ready, willing and able?

UK SMEs are more than willing to put time and energy into business improvement. Their track record over the past two years reveals a broad range of improvement practices as well as networking aimed at getting advice and expanding their knowledge. They want to remain profitable and competitive and they often know what they want to do to achieve both. But they are hugely constrained by demands on their time, and struggle with limited internal capacity and external support.

These constraints are familiar. Perhaps less well known are unconscious barriers to improvement arising among many SME leaders: many oscillate between under and over-confidence, yet however confident, don’t go too far beyond the boundaries of their comfort zone. Not enough performance measurement and comparison with peers also leaves them hampered by blind spots. Unless addressed, these factors will hinder even the best efforts to adopt new practices and technologies.

Firms are eager to improve despite familiar constraints

We hear consistently from firms that they regularly work on improving their business. Our survey data bears this out. For example, three-quarters of UK firms agree that they are always looking for ways to improve their business (Figure 4), and all but 6% of firms report conducting improvements in at least one area of their business over the past two years. These improvements cover the full gamut of potential areas for investment, including teams, skills, technology, working practices, business planning and new product and service development (Figure 5).

Such high levels of reported improvement activity are encouraging. But this doesn’t mean firms can always do all they want. Over 70% of firms report barriers to implementing the changes they are planning. These firms are very short of time and often lack critical resources, whether that be staff with the skills and motivation to implement change, or the cash, or the know-how (Figure 6). This finding is consistent with our in-depth market research¹⁹ with SMEs and what we hear from our programme participants. They too are incredibly stretched.

Firms looking externally for know-how often struggle to find what they need. One hospitality business leader said, “I’m not aware of any credible bodies that I can collect information from or relevant data to help me with my challenges.”¹⁹ Felicity Burch, CBI, says “People don’t always know who to go to or the right questions to ask.” Further, she points out what they want, which is “to know [support services or programmes] are going to be helpful and they’re not going to rip you off.”

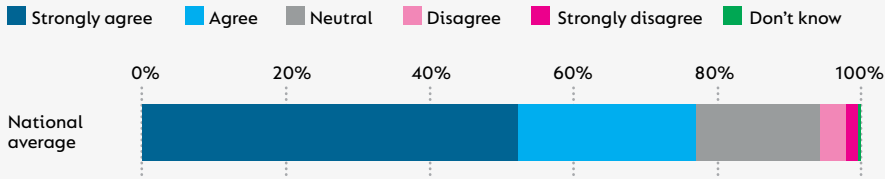
The business support landscape is at present fragmented and hard to navigate. Those who do seek external advice appear to be concentrating on a fairly narrow range of organisations including trade bodies, paid-for advice and other businesses in the same industry or region. Our survey measured the use of over twenty external resources, finding most are used by fewer than 3% of businesses (Figure 7).

¹⁹ Qualitative analysis by EY-Seren for Be the Business, 2018.

Figure 4. Continuous improvement culture

Q. On a scale of 1 to 5, where 1 means strongly disagree and 5 means strongly agree, to what extent would you agree or disagree with the following: We are always looking for ways to improve our business practices

% selecting each option



Source: Work Foundation / MMS (2018) Be the Business Baseline Survey.

Figure 5. Business improvement activities

Q. Over the past 2 years has your business invested in or introduced improvements to any of the following?

% responding yes



Source: Work Foundation / MMS (2018) Be the Business Baseline Survey.

Almost 80% of firms in our sample saw their firms as equally or more productive than their industry peers

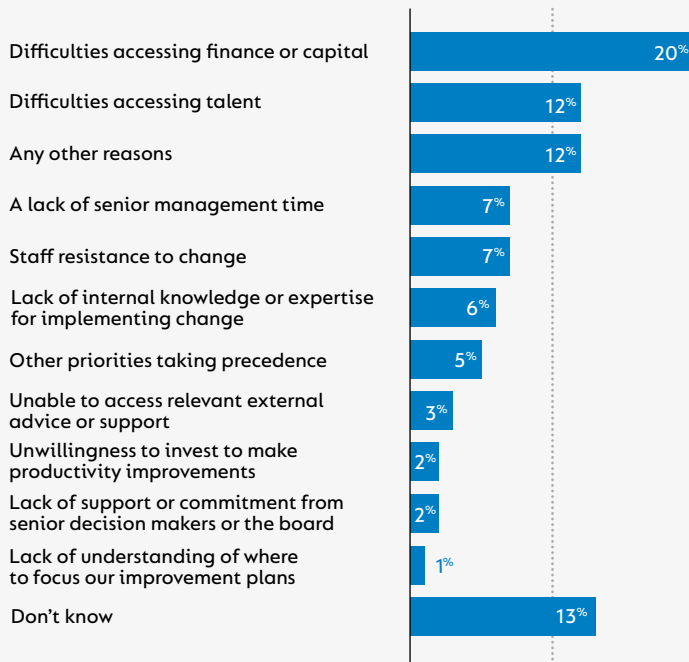
“There is a bravado about being a business leader; we all assume we are really good at leadership”

– Be the Business, SME leader

Figure 6. Barriers to business improvement activities

Q. Focusing on how you will achieve improvements in your business's planning and strategy or internal processes, which factors, if any, do you think will be barriers to achieving these improvements?

% selecting each option

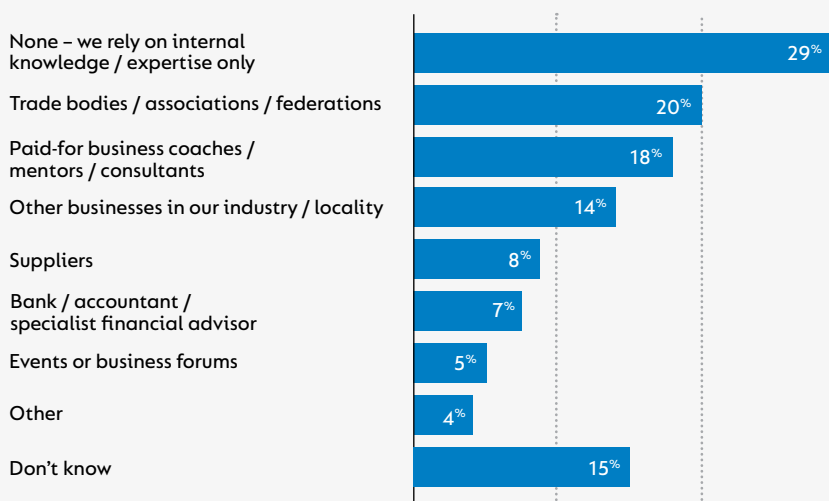


Source: Work Foundation / MMS (2018) Be the Business Baseline Survey.

Figure 7. Sources of advice/support for business improvements

Q. When your business has made investments or improvements, what sources of external information, advice or support, if any, have you used?

% selecting each option



Source: Work Foundation / MMS (2018) Be the Business Baseline Survey.

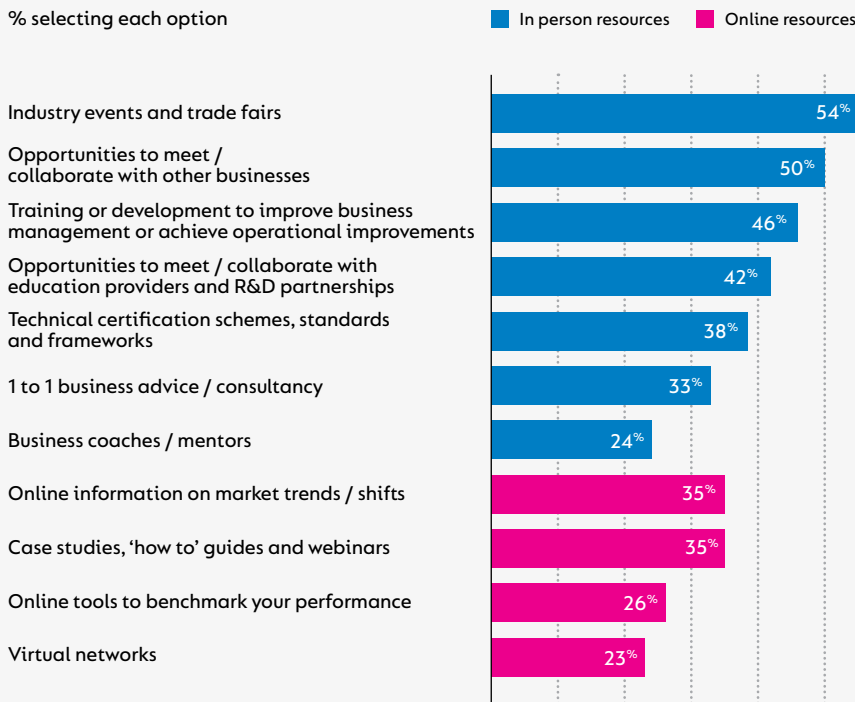
A firm's preference for seeking connections within its industry is understandable: if you're busy running a business, it's easier to communicate with people who speak the same language and have comparable experiences. This might explain why businesses regularly look to their own networks and connections to get advice and share information. As Debrah Dhugga, Managing Director of Dukes Hotels Collective shares: "I am constantly learning. I have been in the industry for 30 years, but the minute I stop learning is the minute I stop. I have just been on a big international trip, staying in other hotels and talking to the industry – it helps me learn and develop." Indeed, more than 8 in 10 SME leaders are going to some sort of external network event to rub shoulders

with other business people as well as educators, mentors or trainers. Of these leaders, 70% also look to online resources like webinars, online information resources and virtual networks (Figure 8).

Of course, the benefits of networks and connections go beyond advice and knowledge and information gathering, although these are popular motives for getting out and about (Figure 9). Businesses will also connect, learn from and get exposure to new ideas through customers, salespeople and suppliers. That said, this study has looked at how firms engage specifically with the business support landscape and other businesses beyond their own business's operations.

Figure 8. Resources used to develop the business

Q. For each of the following types of resource, has your business used this over the last 2 years to develop the business?



Source: Work Foundation / MMS (2018) Be the Business Baseline Survey.

Extremes of confidence may hinder progress on adoption

SME business leaders' 'Jekyll and Hyde' levels of confidence may be clouding their perspective on their firms' improvement needs or opportunities. On the one

hand, they show a clear bias towards over-confidence about both their own capacities and those of their business. Almost 80% of firms in our market research saw themselves as equally or more productive than their industry peers (Figure 10). 76% of SME leaders also

think their employees would rate their leadership and management skills fairly highly or very highly. Strikingly, only 4% said they are not confident ‘that [their] organisation has the skills and knowledge to implement the actions needed to improve business planning and strategy and internal processes’.

Finding a bias towards confidence is entirely understandable. Business leaders take on disproportionate risks and responsibilities compared to other employees and need a disproportionate level of self-confidence to do their job – or so some argue. One SME leader told us “there is a bravado about being a business leader; we all assume we are already good at leadership”.²⁰

Behind over-confidence, however, seems to lie a reluctance to go beyond what is familiar. One SME leader told us they see themselves and other business leaders struggling to move out of their comfort zones²¹. We heard this observation from a number of ecosystem actors as well. As Torsten Bell, Director of the Resolution Foundation, puts it, “a lack of willingness to call out real problems and overcome barriers to fix them – leaves some firms in their comfort zone and reinforces the call for raising ambition across firms.” This suggests that some SME improvement energy is at present not directed towards the right actions.

A further possibility is that over-confidence masks self-doubt among business leaders: the feeling that they are in positions beyond their capabilities despite being sufficiently qualified and experienced relative to peers. Some of the world’s most successful business leaders, including Harold Shultz at Starbucks and Sheryl Sandberg at Facebook, talk openly about this experience. And studies show it is a common phenomenon among SME leaders, affecting as many as one in five²². Members of our own SME Taskforce acknowledge having such self-doubts. They say these can be hard to shake but gets easier to do when you connect with other business leaders and can see you are not alone in having them.

“It’s easy to think other people know smart things that you don’t and are doing things you should be doing but don’t have the skills to implement”, observes Paul Wenham, Managing Director at Geometric Manufacturing and Be the Business SME Advisory Board. “It wasn’t until I took part in the Goldman Sachs program, which brought together owner/managers from all over the country and a mix of industries, in a non-competitive environment, that I realised we all have the same problems – financing our businesses, late payment of invoices, suppliers letting you down, access to skilled staff. You suddenly realise you’re ALL winging it.”

Figure 9. Benefits of connecting and collaborating

Q. Does your business collaborate with other organisations or networks for any of the following?

% responding yes



Source: Work Foundation / MMS (2018) Be the Business Baseline Survey.

²⁰ Analysis by EY-Seren, 2018, op.cit. Extract from SME in-depth interview transcript.

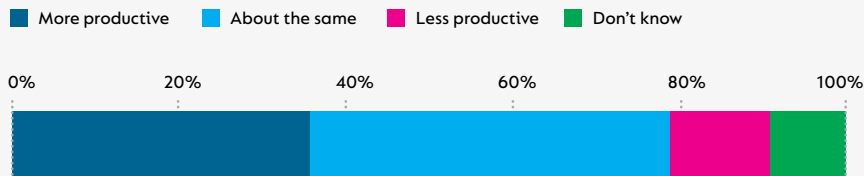
²¹ Ibid.

²² Survey of 1,000 working people (500 SME owners and 500 employees) undertaken July 2018 by Vitreous World for AXA PPP healthcare. Retrieved from axapphealthcare.co.uk/small-business/advice/how-to-get-over-imposter-syndrome

Figure 10. Productivity self-assessment

Q. Thinking about the overall productivity of your business (i.e. the amount your business produces / sell per staff member) compared to other businesses in your industry.... Generally speaking, would you say your business is more or less productive than other businesses in your industry, or is it about the same?

% selecting each option



Source: YouGov (2018) survey for Be the Business.

Gaps in measuring and comparing can create blind spots

Authentic confidence in making decisions to improve business is rooted in self-awareness, which in turn depends on strong performance measurement and benchmarking. This helps firms look beyond their usual sphere of attention or extend beyond their comfort zone. Weakness in measurement and comparison allows blind spots to develop, which will hinder adoption of good practice. The need for firms to get better at measurement is not news: numerous studies have pointed it out, noting that it's not how much you measure that matters but how smart your measures are. "Measurement is one thing, what you measure is another... You can measure a lot of things that have nothing to do with performance and that don't help a company implement a system that allows managers to create change."²³ Encouragingly, from our survey, work on better measurement seems to be gaining ground across UK SMEs (Figure 11).

Firms report that they regularly assess their needs for improvement. We explored how often firms "evaluate [management and business] practices".²⁴ Over half (57%) report doing this at least once a year and many more large firms of 50+ employees report doing so (70%)²⁵. The Institute of Directors (IoD) have found broadly similar levels of self-reflection on processes. For businesses that join organisations like the

IoD, the numbers are higher. 70% of their member reported evaluating their firm's processes and methods at least quarterly to identify areas for improvement²⁶. But while internal reflection has its place, it is not always as powerful as assessing objective measures and making external comparisons.

Comparisons can kick-start the transformation of a business by changing mindsets and broadening perspectives. Such changes can help leaders recognise their firms' true potential. Carrs Pasties, a family-run business based in Bolton, found inspiration by visiting a neighbouring business. Even though the business was in a different industry to Carrs, comparing notes with another business opened Commercial Director Matt Carr's eyes to the fact that his own firm had much greater potential. For this business owner, comparison was the impetus for improvement that firms less open to comparison could miss. But an unwillingness to compare can be masked by overconfidence or other deflections. Some SMEs tell us, for example, "our organisation is too unique to be meaningfully compared to any data set."²⁷

The most common reasons firms give for monitoring competitors is to ensure their products and services are competitive and for inspiration on how to improve their offering. They rarely cite learning new methods and business practices.

²³ Quote from Jim Harter, Ph.D., Gallup's chief scientist of employee engagement and well-being. From Susan Sorenson, 20 June 2013, How employee engagement drives growth. Retrieved from gallup.com/workplace/236927/employee-engagement-drives-growth.aspx

²⁴ Survey question defined 'practice' as: thinking about the general management/business practices of your business (i.e. the processes by which managers/an organisation gets its employees to produce the greatest results with the least amount of effort using the resources available to them). From survey by YouGov for Be the Business, 2018.

²⁵ Survey by YouGov for Be the Business, 2018.

²⁶ IoD, October 2018, Lifting the Long Tail. Retrieved from iod.com/news-campaigns/news/articles/Lifting-the-Long-Tail

²⁷ Analysis by EY-Seren, op.cit.

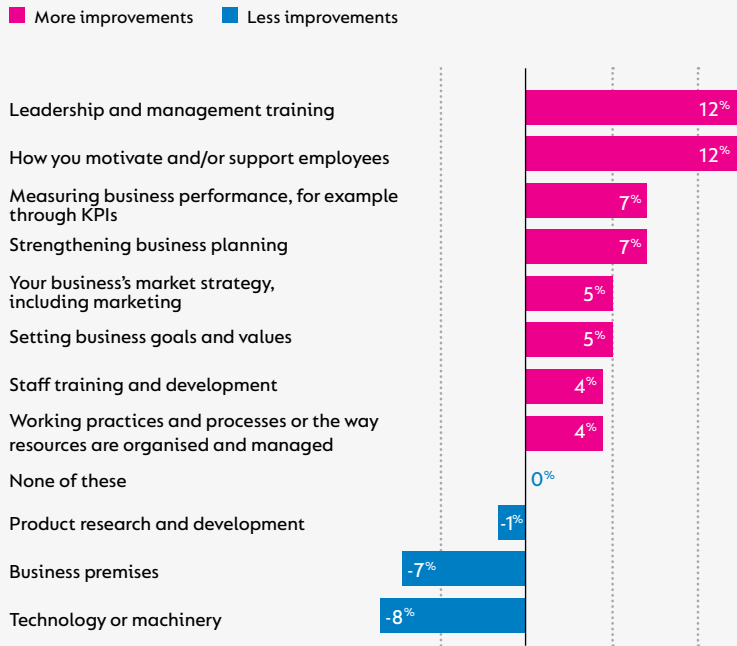
Gathering competitor intelligence may include looking at offers online or visiting competitor premises. Our survey shows that about one third of firms (36%) see

comparison or benchmarking with other businesses as a benefit of networking with others (Figure 9), and the larger the firm the more common this attitude.

36% of firms see comparison or benchmarking with other businesses as a benefit of networking

Figure 11. Changes to business improvement efforts going forward

Q. More: Over the next 2 years, do you plan to invest in or introduce improvements to any of the following to enhance productivity and efficiency? % responding yes
 Q. Less: Over the past 2 years has your business invested in or introduced improvements to any of the following? % responding yes



Source: Work Foundation / MMS (2018) Be the Business Baseline Survey.

Key take-aways from Part 1

- Firms are generally keen to improve. They are putting time and effort into business improvement – adopting new or incrementally better ways of working across their firms – and connecting with others to share and identify new ideas. But huge practical constraints are holding them back. They are short of time and resources and they struggle to find the right advice and expertise.
- Firm leaders are unsure of themselves in many ways, despite appearing confident. Blind spots about their capabilities may be compounding this underlying uncertainty. Better measurement, more comparison with other firms and venturing outside comfort zones could build the self-awareness that leads to authentic confidence. Just connecting openly with peers about shared challenges could get firms started along this route.
- Support for improving firm-level adoption requires a mix of helping firms gain a better picture of their performance and helping them connect and compare to others, to illuminate their blind spots and broaden their field of view.

Part 2: Learning from purposeful improvers

As described in Chapter 1, we were able to group the SMEs taking part in our survey into four segments according to their levels of business confidence and business improvement activity (Figure 12):

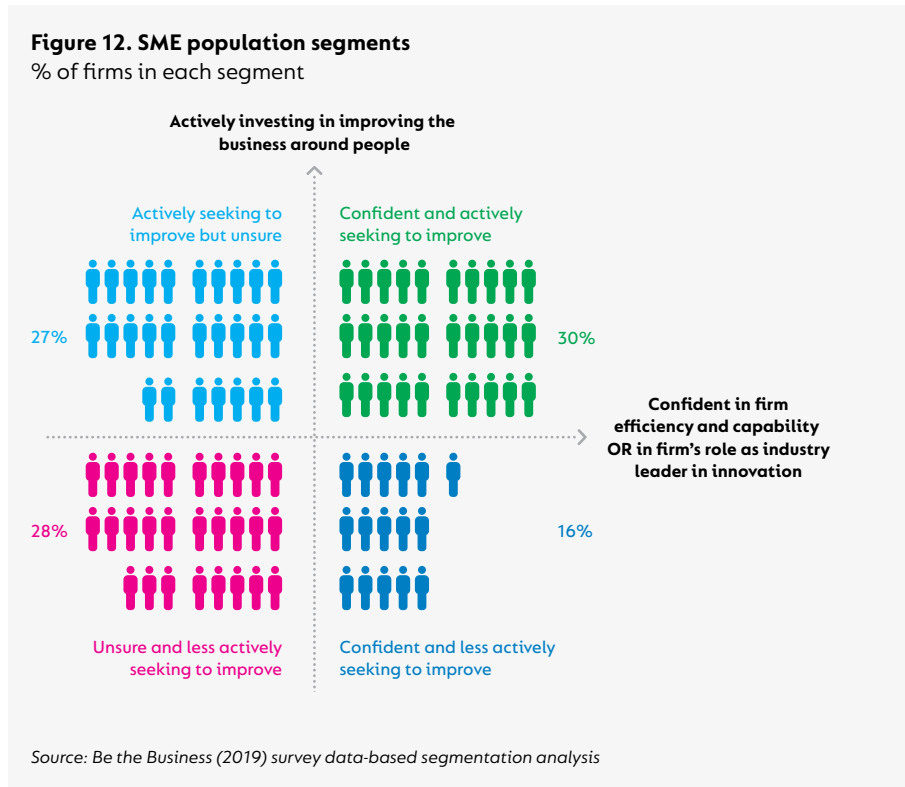
- Confident and actively seeking to improve: “Purposeful improvers”
- Actively seeking to improve but unsure
- Confident but less actively seeking to improve
- Unsure and less actively seeking to improve

Comparing the two more active groups illustrates the difference between those

with much higher levels of confidence in their business and those who are far more uncertain. Similarly, comparing the two confident group shows how the ‘confident and actively seeking to improve’ group differ from their far less active, but nonetheless confident, counterparts. Confidence in this section is business confidence, and reflects a firm leader’s confidence in the current capabilities of the firm to improve, adopt and run efficiently.

The data shows that those firms which are most confident and actively investing in improvement differ from

the rest in three ways that make them more purposeful in their improvement journey: they plan more thoroughly, they bring their employees with them, and they invest in the leadership and management capacity of their leaders and teams. These findings mirror what Be the Business observes at some of the strongest firms we work with in depth. As well as prioritising these three actions to deliver improvement sustainably over the longer term, we also note that they proactively collaborate and connect with others beyond their business. We call such firms “purposeful improvers”: there is a lot to learn from them.



Overall insights from the segmentation

Segmenting the SME population by their behaviours and mindsets around business improvement revealed similarities between businesses of different sizes and from different regions and sectors. This kind of behavioural and attitudinal segmentation can sometimes identify firms’ needs for business support better than simply grouping them by their size or industry. This report focuses on comparing the two active groups and the two confident groups to see what areas of business improvement they put

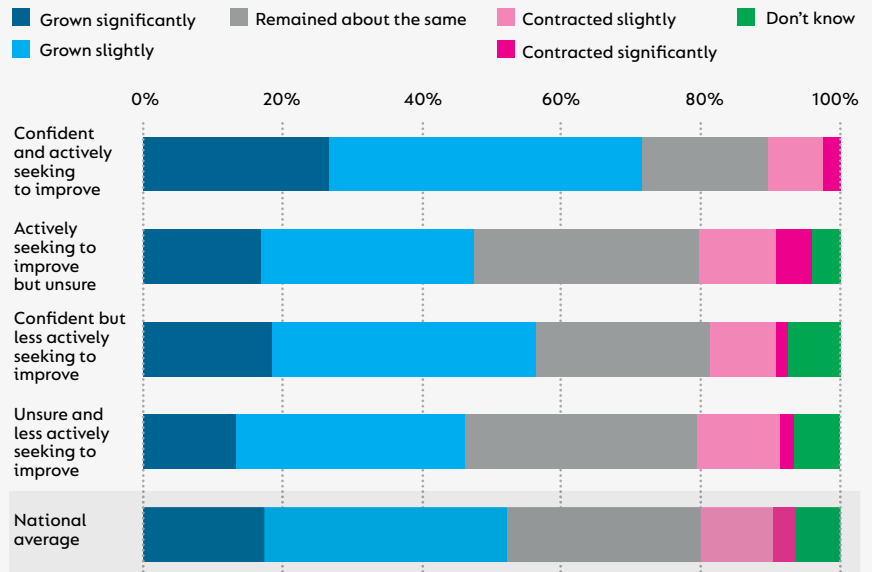
most effort into and to what extent. But we believe there is more to learn from continuing to explore the attitudes and characteristics of all four groups.

The purposeful improvers are ahead of the rest on growth reported over the past 2 to 3 years, (Figure 13). This does not prove that this group has higher productivity, nor that they are consistently performing better. But it does indicate that they have recently been doing relatively well. The purposeful improvers are also far ahead of the others in developing a culture of continuous improvement.

Figure 13. Growth by segment

Q. Thinking of the past 2 to 3 years, has the business's turnover grown or contracted?

% selecting each option

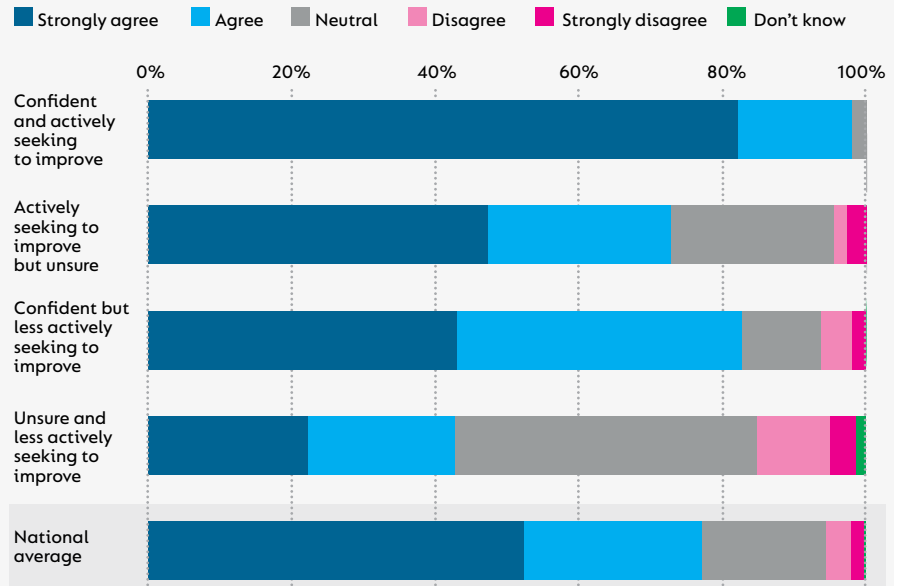


Source: Work Foundation / MMS (2018) Be the Business Baseline Survey.

Figure 14. Continuous improvement culture by segment

Q. On a scale of 1 to 5, where 1 means strongly disagree and 5 means strongly agree, to what extent would you agree or disagree with the following: We are always looking for ways to improve our business practices

% selecting each option for each segment and national average



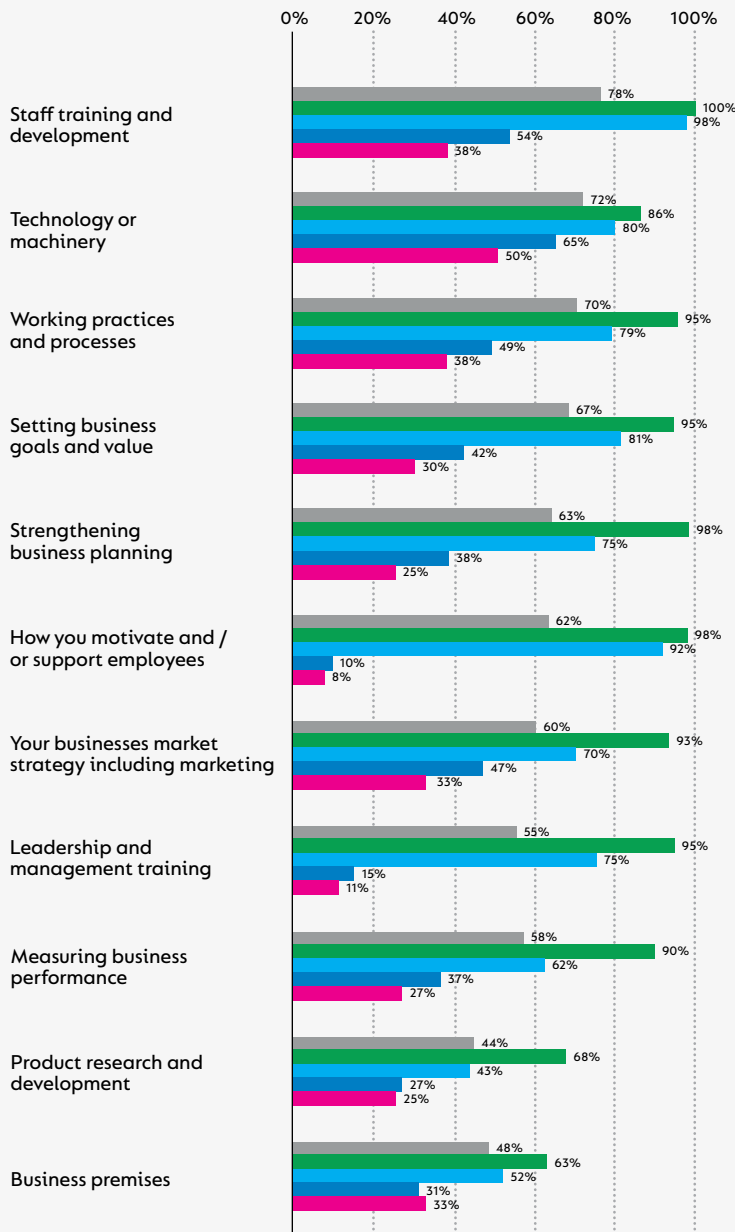
Source: Work Foundation / MMS (2018) Be the Business Baseline Survey.

Figure 15. Business improvement activities by segment

Q. Over the past 2 years has your business invested in or introduced improvements to any of the following?

% selecting each option for each segment and national average

- Confident and actively seeking to improve
- Actively seeking to improve but unsure
- Confident but less actively seeking to improve
- Unsure and less actively seeking to improve
- National average



Source: Work Foundation / MMS (2018) Be the Business Baseline Survey.

Some 80% report a strong culture of continuous improvement, whereas fewer than half of the middle two groups and one in five of the unsure and less active group report the same (Figure 14). This marked distinction in the purposeful improvers' approach to improvement suggests that this group would be best

placed to adopt new practices. Firms in this group also appear to have the necessary willingness to adapt, their record of wide-ranging improvements demonstrating their ability (or at least willingness) to follow through. The actively seeking to improve but unsure group may be a bit behind, but they are still

much further ahead of the inactive firms (44% of the sample) when it comes to willingness to adapt.

We looked at the firms' reported investment in different areas of business improvement to see if the two active groups and the two confident groups differed in the areas they chose to work on. The overview of all the firms' business improvement activities is shown in

Figure 15. The top five differences between the two active groups is shown in Figure 16, and between the two confident groups in Figure 17. The three areas where the purposeful improvers appear to be pulling away²⁸ are:

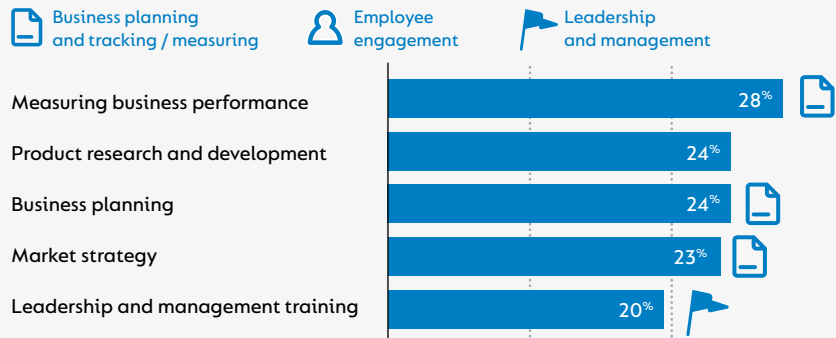
- Business planning and tracking²⁹
- Employee engagement
- Leadership and management

Figure 16. Different levels of investment between active segments

Q. Over the past 2 years has your business invested in or introduced improvements to any of the following?

Differences between % who responded yes among the confident & active segment versus % who responded yes among active & unsure segment. Largest five differences and also illustrating responses by theme.

Themes



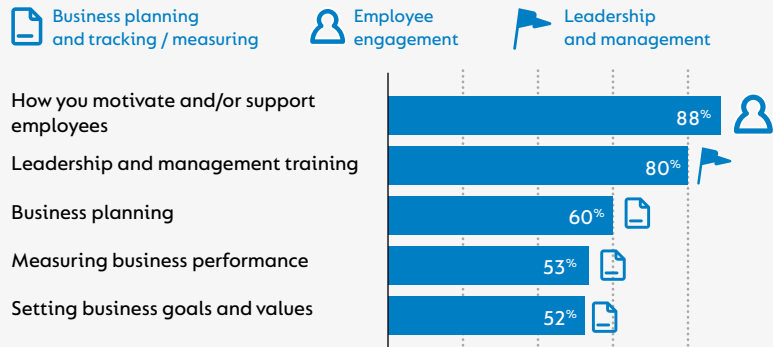
Source: Work Foundation / MMS (2018) Be the Business Baseline Survey.

Figure 17. Different levels of investment between confident segments

Q. Over the past 2 years has your business invested in or introduced improvements to any of the following?

Differences between % who responded yes among the confident & active segment versus % who responded yes among confident & less active segment. Largest five differences and also illustrating responses by theme.

Themes



Source: Work Foundation / MMS (2018) Be the Business Baseline Survey.

²⁸ Product R&D also appears as a differentiating area, but this is likely due to service industries being slightly over-represented here in the active but unsure group.

²⁹ Measurement (addressed in Part 1 of this chapter) is grouped under planning and tracking in Figure 16.

Lessons from the purposeful improver: Business planning and tracking

Case study: Catering firm

Driving through a clear vision with a focused plan supported by metrics and tracking.

This flexible catering firm wants to grow sales whilst improving efficiency and increasing the number of its restaurant sites over the next three years. The founders want to do this while retaining a people-centred culture which prioritises customer satisfaction and employee motivation. As a fast-growing chain, current challenges for the owner are to move from being “in” the business to working “on” the business. To do this, the owner says operations need to be more efficient and everyone across the organisation needs to be clear on their responsibilities. Metrics and data are also particularly important, as resources need to be allocated appropriately across their different sites. 15 investors provide business advice. Their advice has helped the founders move out of the business to focus on improvements such as bringing in an experienced Ops director, and technology to measure and forecast performance.

This purposeful improver has a clear strategy and plan to achieve it. They implement targets and metrics to get there and they bring their employees along with them.

Business planning and tracking is the where the defining difference sits between the purposeful improvers and the actively seeking to improve but unsure. This shows up in three of the top five differences between the two active groups: measuring business performance, developing a market strategy and strengthening business planning. Considered together, these findings signal that the actively seeking to improve but unsure are simply not planning as much as their confident counterparts. The confident and less actively seeking to improve group are also behind on business planning and tracking, but they show such significant differences to their active counterparts on other activities that it might be more important for them to address these first, as we will see below.

Business planning and strategy, and the related activity of measuring performance to see if plans are on track, are crucial to driving improvement, from first selecting what to improve through to seeing improvement in results. Setting targets that translate business vision into appropriate actions ensures time and resources are allocated efficiently. Firms in all but the purposeful improver group are likely to need more than just a nudge in the right direction to improve planning across their businesses. They many need hands-on help. As Torsten Bell says, “Several rounds of research show that firms talk about raising productivity but aren’t planning for actually making changes in the future until something happens and it hits them...”

The purposeful improver has a clear strategy and plan to achieve it. They implement targets and metrics to get there and they bring their employees along with them

Lessons from the purposeful improver: Employee motivation

Case study: Manufacturing company

Engaging employees in creative ways to meet clear targets.

The CEO of this company manages hundreds of employees. The aims of the plant are to grow the business, increase revenue and ensure people actually enjoy working. The CEO talked in terms of ‘rounded success’, combining employee satisfaction, profit, revenue and productivity. However, the biggest challenge they face is not being innovative enough, making them indistinguishable from their competitors. To solve this issue, the CEO developed tiger teams across different sites where design teams had a lot of flexibility to create open and collaborative innovations.

This purposeful improver understood what it would take to best position his team to deliver on a tough innovation challenge. He focused the solution on their needs, and ways of working that would position them to succeed, and engaged the whole business around shared success.

Purposeful improvers engage their employees. Employee engagement is where the two confident groups differ most. Only 10% of the confident but less actively seeking to improve and 8% of the unsure and less actively seeking to improve groups invested in improving employee motivation, whereas it was the second most important priority for both groups of actively seeking to improve firms. This raises the question as to whether firms that aren't trying to improve employee motivation are less willing or less able to stretch themselves in this crucial area, or both.

Employee motivation is a key success factor for engaging employees and, by extension, for improving firm level productivity. Engage for Success, for example, reports that organisations with employee engagement scores in the top quartile have 18% higher productivity than those scoring in the bottom quartile³⁰. Similarly, Gallup survey research shows work units in the top quartile for employee engagement outperformed units in the bottom quartile by 22% on profitability and 21% on productivity³¹. Employee motivation has not always been considered crucial to good leadership in the UK. But its significance is now recognised far more widely.

Lessons from the purposeful improver: Leadership and management

Case study: Family-owned manufacturing group of several firms

Investing in the leadership team.

A family-owned manufacturing group of several firms employing a sizable workforce in total. The business is the manager's life endeavour, and they feel like their own self-worth and sense of identity depends upon the business being successful. One of the greatest challenges is how to scale up the business while also maintaining profit levels. Another struggle is making sure the leadership team is strong enough that they don't feel like they have to do everything themselves. They have sampled various frameworks and are looking for partners to help with export promotion and staff management. They are also considering sending the management team on leadership courses. The fragmentation of potential sources of support has been unhelpful however, as ideally, they want just one way to address their upscaling issues.

This firm sees the value of its leadership team, particularly to meet growth ambitions.

Excellence in leadership and management underpins a firm's ability to adopt new practices and useful technologies effectively and sustainably. "We see so many firms with a huge appetite to grow but they just carry on and don't appreciate the role leadership and management plays in growth," says John Mothersole, Chief Executive, Sheffield City Council. Leadership and management training is one way to improve capacity. This is among the least active areas of business improvement investment for SMEs overall (Figure 5), but it is also another area where purposeful improvers pull away from the other segments. Training is not the only way to improve these skills. Mentors and coaches are used, for example, by one quarter of firms (Figure 8).

Getting leadership right is complicated by the fact that as a firm evolves, its leadership needs to evolve as well. "What makes you a good leader of a micro business will change as a business goes from small to medium in size. You need to adapt from being hands on, technical or artisanal towards being more hands off, a delegator and more strategic. It's a completely different skill set." says Sonali Parekh, Head of Policy at the Federation of Small Businesses.

National custom and practice may also account for management competence being undervalued and perhaps misunderstood in the UK. "There are times where we see a bit of tall poppy syndrome in businesses, where people don't like to be the ones that stand out

³⁰ Engage for Success, 2015, Employee Engagement: a better way to work. Retrieved from engageforsuccess.org/wp-content/uploads/2015/11/Brochure-Web-PDF.pdf

³¹ Susan Sorenson, How employee engagement drives growth, op.cit.

too much. They want to do well, but not necessarily be in the spotlight,” says Adam Marshall, Director General at the British Chambers of Commerce. The disciplines of leadership and management are not as celebrated in the UK as elsewhere. For instance, excelling as a manager in Germany and America is a source of individual pride as well as cultural respect, and in the UK there is a higher percent of CEOs from accounting and marketing backgrounds, than in other countries where general management and engineers play a bigger role³². Many believe that ‘manager’ and ‘leader’ should be more aspirational and prestigious terms in the UK as well.

Connecting is crucial

We fundamentally believe that purposeful collaboration and connection are key. Every day we speak to firms who talk about how connecting authentically with other leaders on issues that matter to them makes a difference. As Patrick Langmaid, Director at Mother Ivey’s Bay Holiday Park, told us: “Be the Business is a safe space to share ideas, with everyone keen to learn and no one sitting in

judgement. It’s about learning from each other’s mistakes, as well as triumphs!”

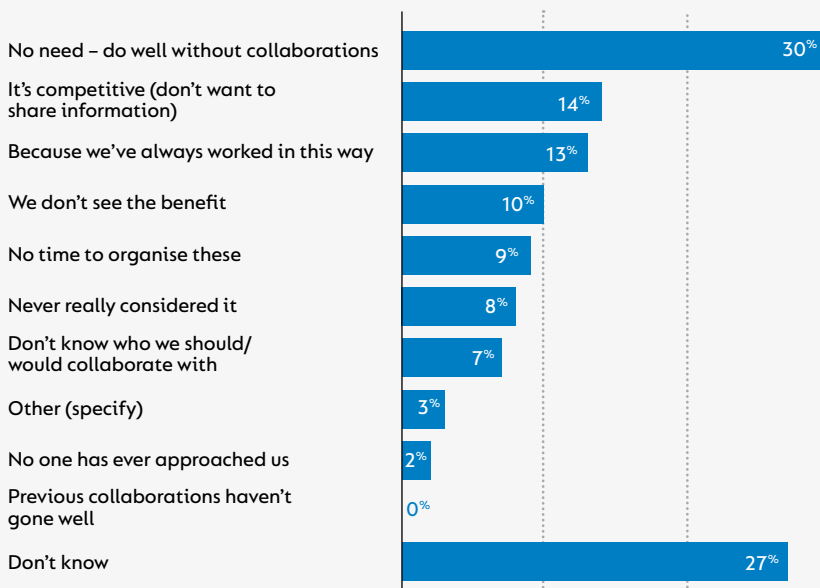
However, this kind of connection is widely considered a lot harder in the UK business climate than in peer countries including the US or Germany. As Ann Francke, CEO of the Chartered Management Institute (CMI), points out: “Collegiality prevails over collaboration... which can inhibit the effective decision making that leads to action.”

Initiatives like the British Chambers of Commerce Business Togetherness campaign, for example, are trying to cut through this challenge. Business Togetherness is a campaign promoting the power of working together and is run through local Chambers of Commerce around the country. Indeed, the British Chambers have also observed, according to Director General Adam Marshall, that collaboration is stronger where diversity is greater. Key insights like this one, if they can be leveraged in practice, might help battle some of the cultural norms around connecting and collaborating that need to be challenged.

Figure 18. Barriers to connecting or collaborating

For respondents who said their business does not collaborate with other organisations or networks for any of the following reasons, we asked: Q. Why don’t you collaborate in this way?

% selecting each option



Source: Work Foundation / MMS (2018) Be the Business Baseline Survey.

³² Heidrick & Struggles. 2018. Route to the top 2018. Retrieved from heidrick.com/Knowledge-Center/Publication/Route_to_the_Top_2018

Roughly 30% of firms are in general not making any connections outside their business. The reasons they give for this suggest a number of ways to help them broaden their horizons. Some see no need to make connections or are just not sure they could, perhaps because they are already too stretched to consider it

feasible. Others feel it could be a bit too competitive or simply accept the status quo (Figure 18). All of these reasons may reflect a complacency among this group that may be a more general barrier to business improvement.

Key take-aways from Part 2

- Not every firm is at the right moment or has the full set of capabilities to be a purposeful improver straight away. Nonetheless, every firm can learn from the purposeful improvers' example to make sure they are embedding continuous improvement even in small ways.
- Areas where purposeful improvers focus more than others may also be due to the fact that they have greater capability or growth giving them leeway that others don't have. Nonetheless differences between purposeful improvers and others may point to blind spots or areas where firms are less comfortable focussing, but could be key areas of value.
- Connecting is key. While many firms connect to gain exposure to new ideas, there is far less real collaboration with peers and experts focused on driving business improvement.



Chapter 3:

Moving forward



Chapter 3: Moving forward

This report brings to light many of the complexities firms face in adopting new management and leadership practices and business technologies. The many and varied challenges include identifying potential ideas, gaining the perspective and knowledge to decide which are most relevant, being willing to change, and being able to implement change so it delivers results. As the report shows, UK SMEs are getting a lot right. But many could be doing better.

Highlighting their opportunities to improve is by no means saying the opportunities will be easy to seize. Every firm will have its distinct ambitions as well as its own experience and challenges. But the Business cannot have all the answers. But what we can do, drawing on the work underlying this report, is identify some clear imperatives for moving forward both for firms and for those in the public and private sectors who make up the business support ecosystem. We believe that the stronger the response to these imperatives, the bigger the boost to adoption of new management practices and technologies will be across UK SMEs, and the faster the UK will return to competitive levels of productivity growth.

Imperatives for firms:

Gain better self-awareness

Measure your performance to understand where your real issues lie and which ones are your priorities to address. Compare the performance of your business to others to find out what defines best-in-class – or even ahead-of-you – in your industry and related sectors. Be open to the possibility that you are too deeply immersed in your comfort zone and may have developed blind spots about your firm's potential, its capacity, its needs, and the threats it faces. Find ways to assess your business more objectively. There are lots of measures to choose from: take care to choose those that matter most to your business, even if they illuminate some hard truths.

Invest in the key areas of improvement prioritised by successful firms

Make sure that strengthening your business planning and strategy, employee motivation and engagement, and leadership and management skills are priority business improvement activities for your firm every year. Even if in small ways, stepping up in these areas may give your business greater confidence or help bring more dynamism to your improvement culture. As John Mothersole observes, "All firms can get match fit... Set up a simple framework for success you continuously review yourself against. It's your fitness checklist. Without it, growth and innovation are going to be harder". To get fit for faster improvement make sure these elements are part of your active improvement every year:

- Plan ahead, following a clear strategy backed up by a few powerful metrics: set the right targets to translate business vision into appropriate actions. Strong business planning and tracking ensures improvement is focused and results-oriented, and time and resources are allocated sensibly.
- Engage employees all the time: reports that organisations with employee engagement scores in the top quartile and have 18% higher productivity than those scoring in the bottom quartile.³³
- Invest in leadership and management. This means investing not only in your own capabilities as the leader of a firm but also the capabilities of your managers. Good leadership and management underpins a firm's ability to sustainably adopt and improve. With 2.4m 'accidental managers' in the UK workforce³⁴, developing more capable employees through effective training and support could unlock substantial value.

³³ Engage for Success, Employee Engagement: a better way to work, op.cit.

³⁴ CMI. 2017. Leadership for Change: CMI's Management Manifesto. Retrieved from managers.org.uk/~media/Files/PDF/CMI-Management-Manifesto.pdf

Connect with others to learn and improve

Connect more broadly beyond the usual suspects and share more openly to leverage your connections for greater benefit. Depending on where you are, look to move from collegiality to connection or connection to collaboration with a view to gaining perspective, ideas and real know-how. Use your existing networks but, importantly, also look to stretch beyond them to find new ways of collaborating and innovating.

Imperatives for the business support ecosystem:

Understanding the links between the mindsets and behaviours around improvement gained from listening to SMEs offers critical lessons for those who provide business improvement services to these companies. Although this study does not look at the business support ecosystem in the same depth, it does suggest some imperatives that our own experience of the ecosystem tells us need to be emphasised.

Be far more relevant to SMEs and stay “customer focused”

Start by walking in the shoes of SMEs on the ‘demand side’ of your services. Use the language they use and try to understand their issues from the inside, using your knowledge to illuminate their blind spots and broaden their perspectives. Then work together on their priority areas of improvement. Measure customer satisfaction and Net Promoter Scores for your services and be tough on yourself if results show that what you provide is not getting traction and needs to be revised. Adam Marshall, BCC, suggests “You need the right type of people asking the right questions at the right time. Talk to a business about their P&L or a small change they can make that delivers cost savings – not about abstract concepts.”

There is a real gulf between the way firms think and talk about productivity versus the approach that policy-makers and interventions take.”

Help firms gain self-awareness

Firms’ performance will benefit from more interventions to build the self-awareness of business leaders and allow them to measure, connect with others, and boost their own continuous improvement and management skills. In our work at Be the Business we have seen early signs of approaches that work well. Adopting widely-used and popular performance measures in corporate reporting can change a firm’s outlook; self-assessment and benchmarking tools and practices all help; and connecting with peers to learn about each other’s practice and exchange ideas yields real value.

Ensure programmes blend peers and experts

Recognise that peer-based networks are the most successful way to drive up adoption. Much diffusion activity by experts is insufficiently customer focused or “customer credible”. SME leaders in particular have far less capacity to scrutinise armies of salespeople and experts than leaders at bigger firms. They rely heavily on peers who are a step ahead to make a quick call on whether an approach, programme or product will be right for them. Successful adoption is inspired by “people like me doing things I can do”, whereas much of today’s diffusion activities are from “people unlike me, doing things I can neither trust nor relate to.”

The scope of these six imperatives may seem small in comparison to the scale of the productivity gap Britain must close and the continuous improvement needed to maintain pre-crisis rates of productivity growth. But many more firms need the drivers of rapid adoption

assessed in this report and prioritised in the imperatives above, if the campaign to drive up UK competitiveness is to succeed. As a country we keep devising yet more diffusion initiatives that fail to take hold. Getting inside the mindsets of leaders of firms gets us closer to creating initiatives that will work for them. The customer may not always be right, but it is always right to understand your customers, especially if they need to change what they think and do.

Annexes



Annex: Construction

Survey findings

The construction sector reports the lowest proportion of firms looking for continuous improvements (Figure 1) – 10 percentage points behind the whole economy average. While the industry’s biggest investments were in technology and machinery and people (Figure 2), they were still below average. And in business planning and performance measuring they lag behind. Richard Elam, Director of Evora Construction, said, “With margins in construction being much lower than many other sectors, the level of staffing is always one person too few rather than one too many, and that inevitably leads to planning and business development taking a back seat in favour of the job in hand.”

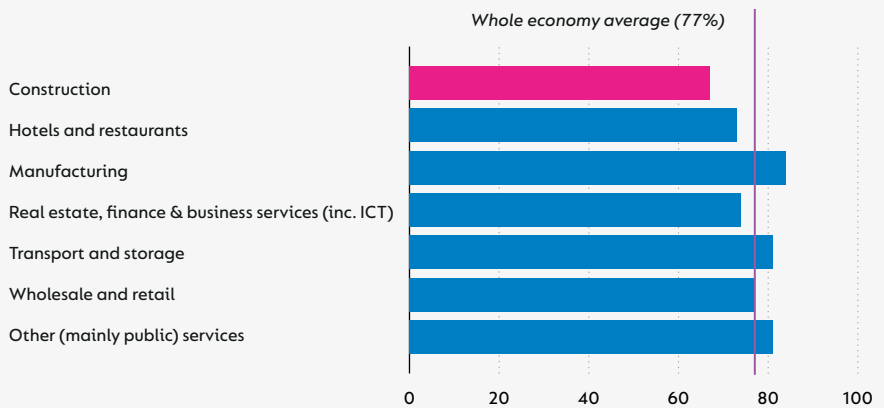
More positively, the industry is growing with employment up by 3.8% in one year¹. However, there is room for more growth if businesses commit to improvements in product research and development, business premises, measuring business performance and strengthening business planning, which all fell significantly short of the national average.

These improvements are even more applicable given that the industry cites increasing turnover, improving productivity and efficiency, and improving skills of the workforce as three of its priorities for the next two years (Figure 3).

Figure 1. Firms always looking to improve their business practices

Q: On a scale of 1 to 5, where 1 means strongly disagree and 5 means strongly agree, to what extent would you agree or disagree with the following statements: we are always looking for ways to improve our business practices?

% responding yes, by area

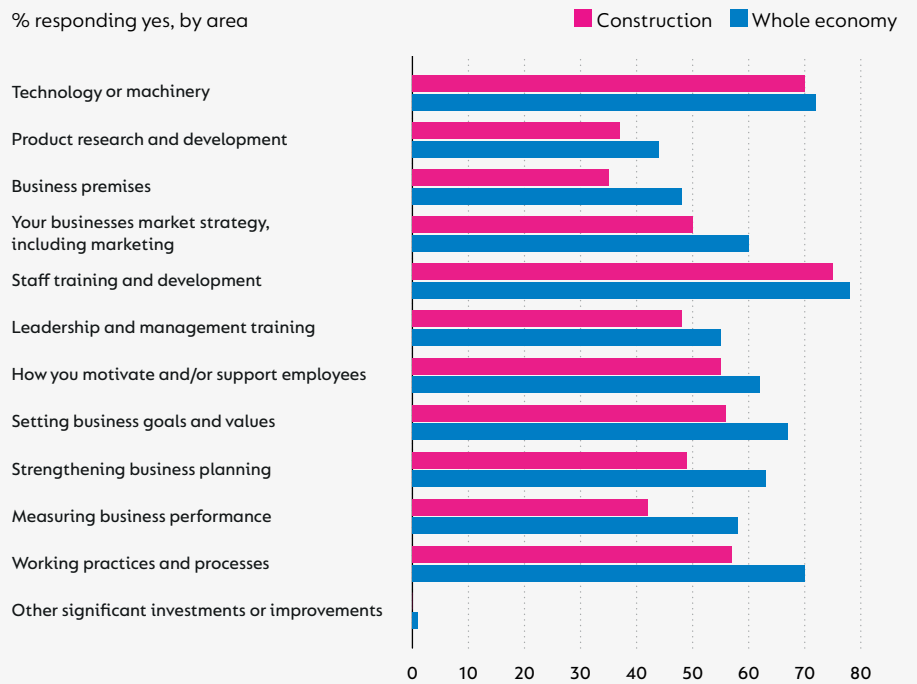


Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

¹ ONS. Construction Statistics: Number 19, 2018 edition. Retrieved from <https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/articles/constructionstatistics/number192018edition>

Figure 2. Firm investment in the last two years

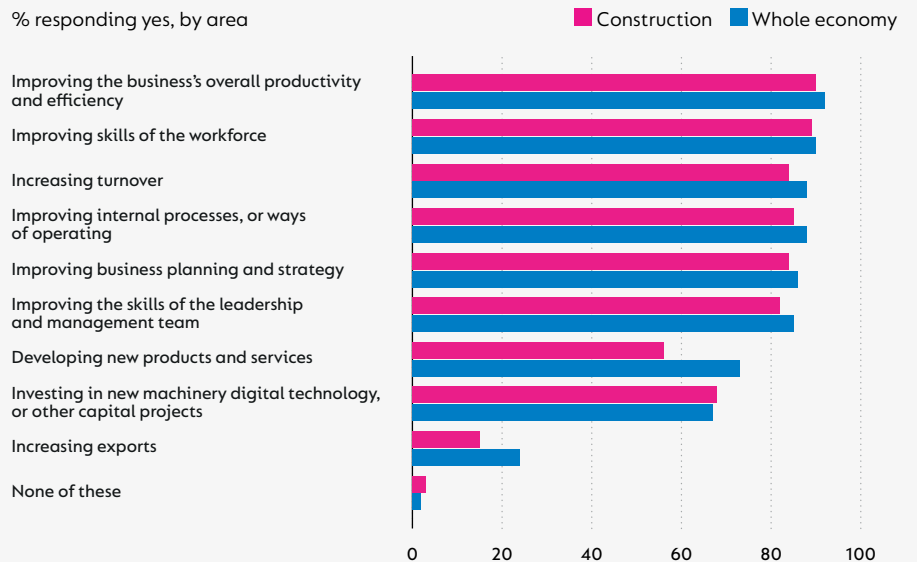
Q: Over the past 2 years has your business invested in or introduced improvements to any of the following (Y/N)



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 3. Areas of firm priorities

Q: Over the next two years how important are the following as priorities for your organisation?



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

There is an opportunity to make headway on the priorities the construction industry has set out. The industry believes improving the workforce is very important yet is behind its peers in terms of seeking various types of support (Figure 4). By addressing this disparity, it will likely bring an improvement in both the skills of the workforce and the turnover of businesses.

The industry is less likely (38% vs 47% national average) to collaborate to get advice on business improvements (Figure 5), which could explain why the

industry isn't improving as quickly as others.

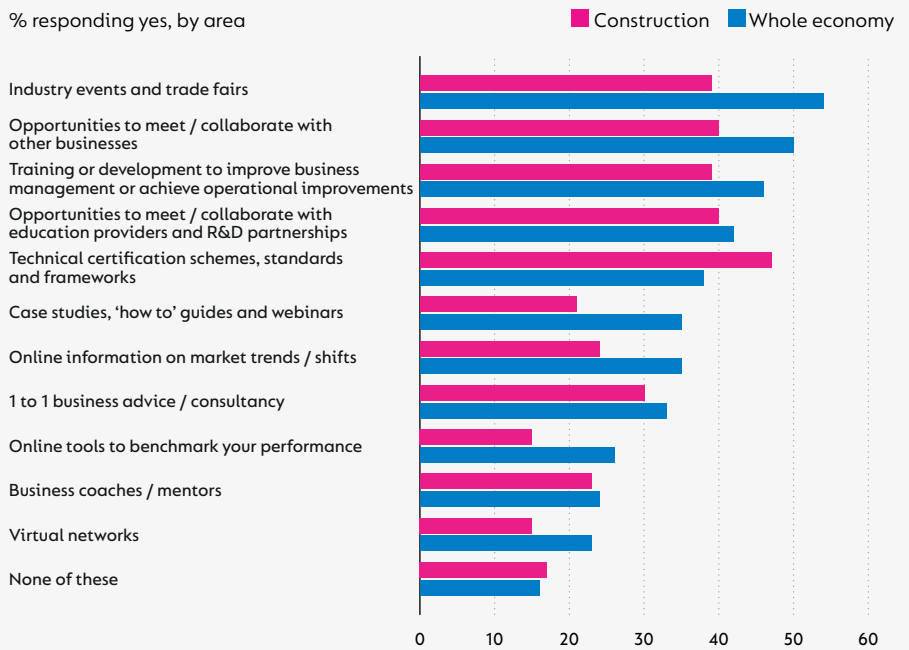
The main reason the industry reaches out to seek information and advice is an ambition to grow the business; a reason aligned with the rest of the industry (Figure 6). Elam believes that business leaders are not lacking in ambition: "I think that business leaders are very motivated and are keen to set business goals in the industry, but it's the acceptance and integration of these ideas and goals within the industry that fails. It usually breaks down at the middle

management tier and certainly is never accepted at site level."

There is an inability throughout the industry to identify and therefore implement productivity-improving actions (Figure 7). Almost all work in the construction sector is measured by time, cost and quality. If a way of working is not productive, smaller firms appear to still get the job done but then move on, learning from their own mistakes. This would explain why this industry has a higher-than-national-average reliance on internal sources of support and advice.

Figure 4. Types of business support used

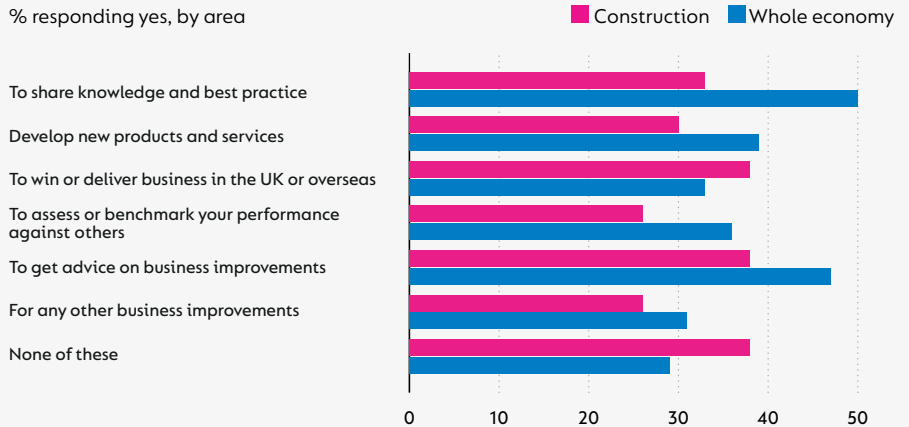
Q: For each of the following types of resource, has your business used each over the last 2 years to develop the business (Y/N)



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 5. Reasons for collaboration

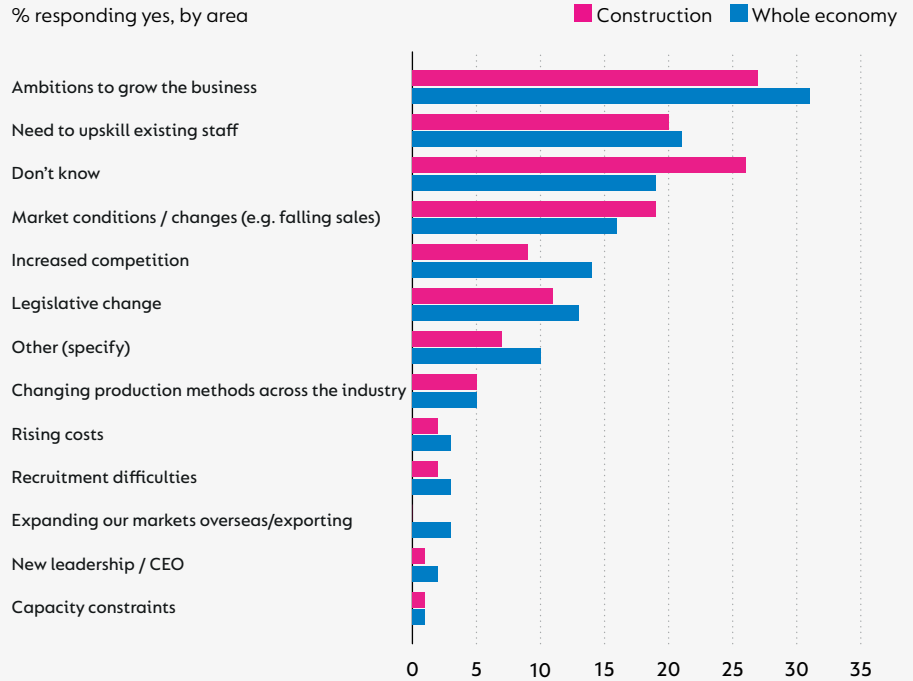
Q: Does your business collaborate with other organisations or networks for any of the following? (Y/N)



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 6. Reasons for seeking advice, guidance or training

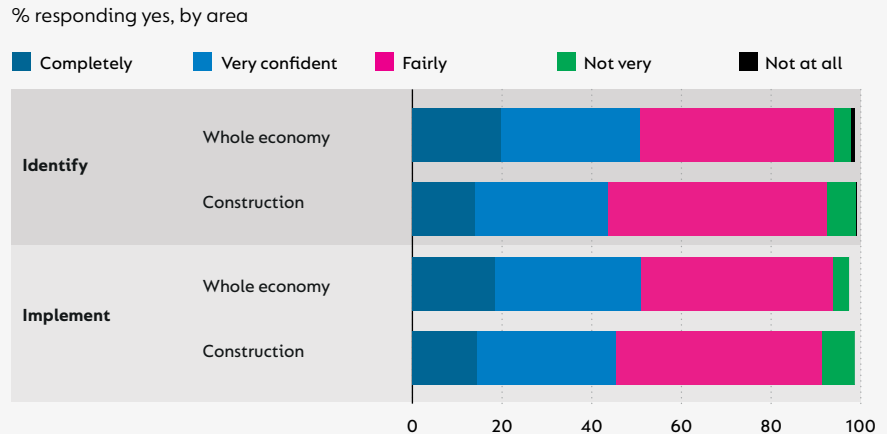
Q: What factors led your organisation to seek information, advice, training or guidance?



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 7. Ability to identify and implement actions linked to productivity improvements

Q: You mentioned that improving your business planning and strategy or internal processes is important to your business over the next 2 years. How confident are you in each of the following: that your organisation has the skills and knowledge to identify how to improve planning and strategy or internal processes; has the skills and knowledge to implement the actions needed to improve business planning and strategy or internal processes



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Summary outlook

The construction industry in the UK faces some huge challenges, with the heart of the sector focused on meeting tough government demands. These include building 300,000 new homes a year² and creating critical infrastructure such as HS2, Crossrail 2 and Hinkley Point.

There is certainly room for improvement in further collaboration in the construction industry, particularly around sharing knowledge and gaining advice. As the UK trade deficit in construction materials³ continues to widen, with the value of imports more than double the

value of exports, leaving Europe will only increase the challenge. But whilst costs are expected to go up, a growing global market could offer opportunities not previously capitalised on.

² Select Committee on Economic Affairs. 15 July 2016. Tackling the under-supply of housing in England. Retrieved from publications.parliament.uk/pa/ld201617/ldselect/ldeconaf/20/20.pdf

³ ONS. Construction Statistics: Number 19, 2018 edition. Retrieved from <https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/articles/constructionstatistics/number192018edition>

Annex: Hotels and restaurants

Survey findings

Although hotels and restaurants do not have a level of continuous improvement in business practices as high as the national average (Figure 1), they have invested heavily in bricks and mortar and employee motivation (Figure 2). This is of little surprise as this is a destination-based industry under increasing pressure in the search for talent. Indeed, a 2018 survey¹ found that 11% of staff working in hotels, bars, catering and restaurants were thinking of leaving as a result of the UK's decision to leave the EU.

Efforts to strengthen business planning and goal setting could be improved, which is always a challenge for an industry that

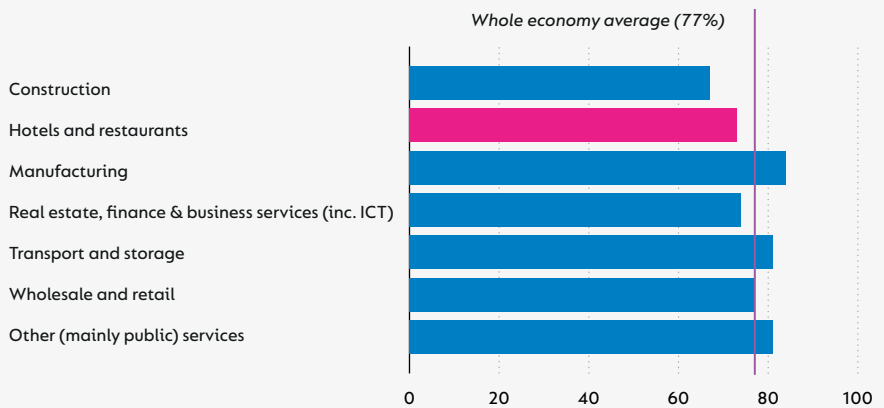
tends to be more tactical than strategic. Commitment to staff training could also be stronger. "Learning and development budgets generally have fallen because margins are under pressure," says Chris Sheppardson, founder of EP Business in Hospitality, a magazine for business thinking and opinion in the sector.

Innovation in products and services, leadership and management, and digital adoption, which are key leverage points for productivity improvement, are all higher on the agenda in this industry than the national average (Figure 3).

Figure 1. Firms always looking to improve their business practices

Q: On a scale of 1 to 5, where 1 means strongly disagree and 5 means strongly agree, to what extent would you agree or disagree with the following statements: we are always looking for ways to improve our business practices?

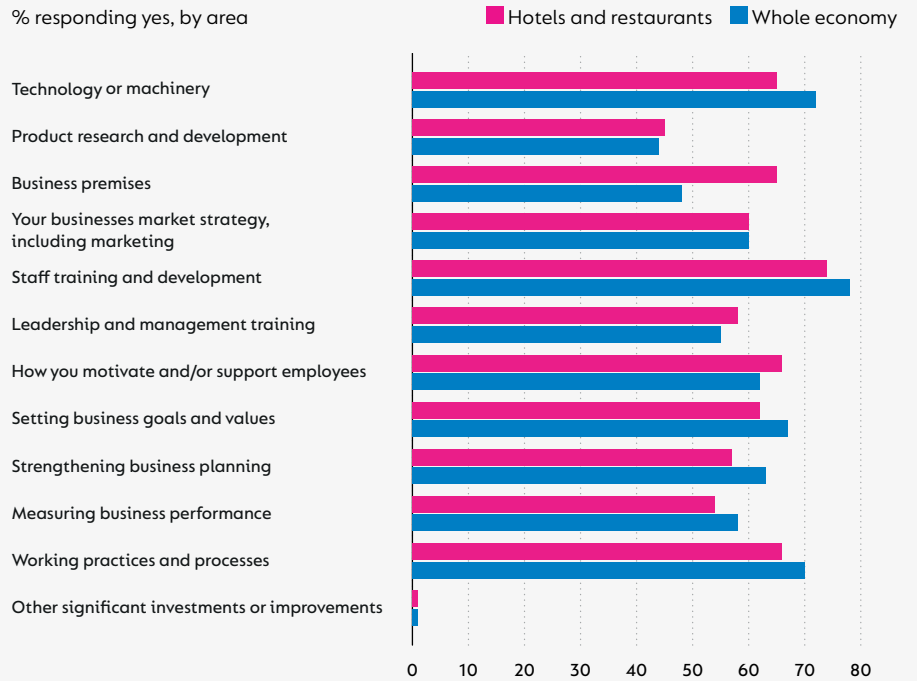
% responding yes, by area



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 2. Firm investment in the last two years

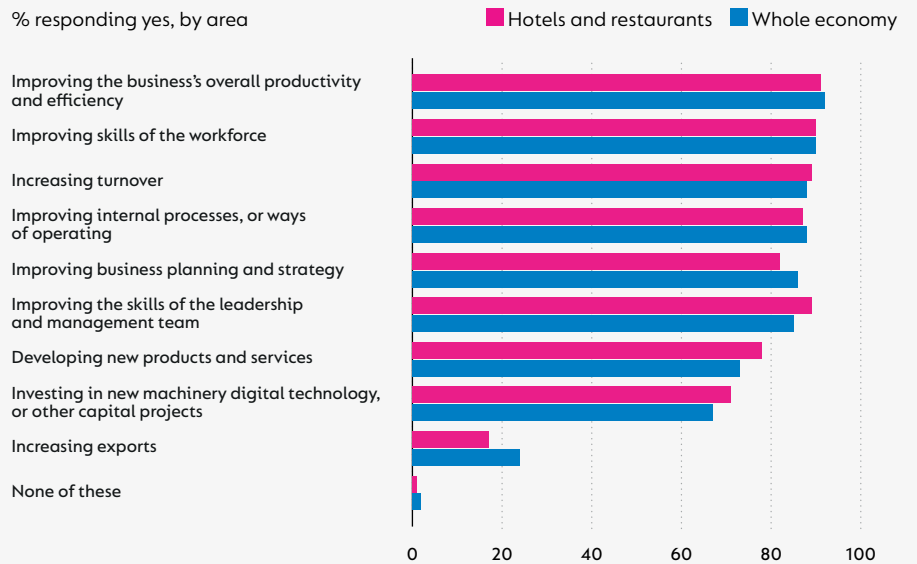
Q: Over the past 2 years has your business invested in or introduced improvements to any of the following (Y/N)



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 3. Areas of firm priorities

Q: Over the next two years how important are the following as priorities for your organisation?



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

There are significant opportunities for hotels and restaurants to shake off the introspection that sometimes envelops the industry. This is a sector that falls short when it comes to meeting with competitors or engaging with experts (Figure 4). “Some of this is down to the fact that the majority of the industry are small independently-owned organisations who feel it is very difficult for them to access or afford advice from outside their own organisation,” suggests Paul Barron, Professor of Hospitality and Tourism Management at Edinburgh Napier University. This is evidenced in their reasons for connecting (Figure 5). It’s much more about comparison to competition and getting advice than it is about sharing.

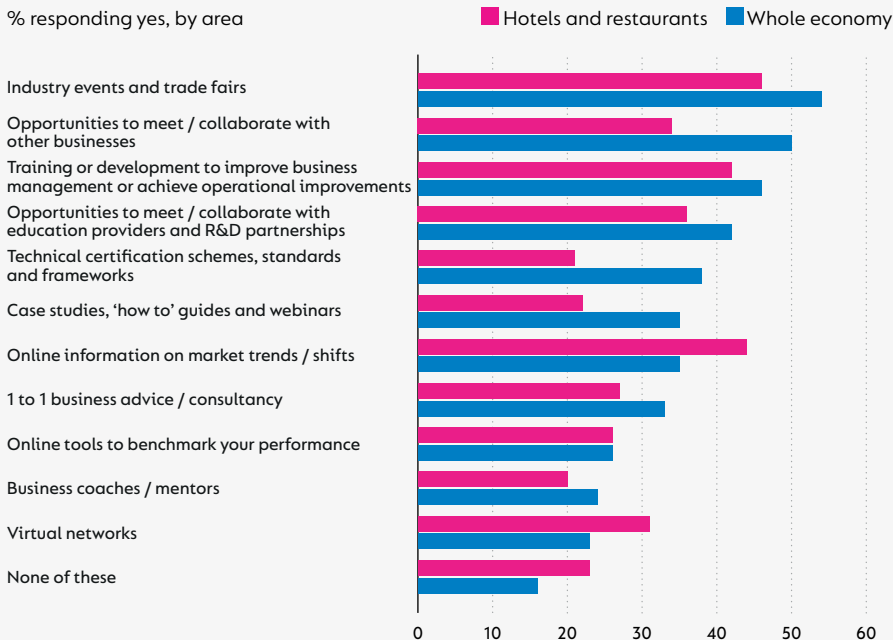
Hotels and restaurants do have an interest in the wider world, however. Their strong commitment to virtual networks and researching online data to discover market trends proves this point (Figure 4); but physical interactions are notably scant. This could be due to the vast number of different professional bodies and organisations within the hospitality sector. The recent creation of UK Hospitality could certainly be a catalyst for positive change on this front.

When businesses in the industry do reach out for help, they are more interested than businesses in almost all other sectors in finding staff (Figure 6). “The chief concern is post-Brexit labour and skills shortages,”

confirms Nicholls. The Hospitality Works 2019 initiative aims to boost recruitment by encouraging people to see hotels and restaurants as a viable career option.

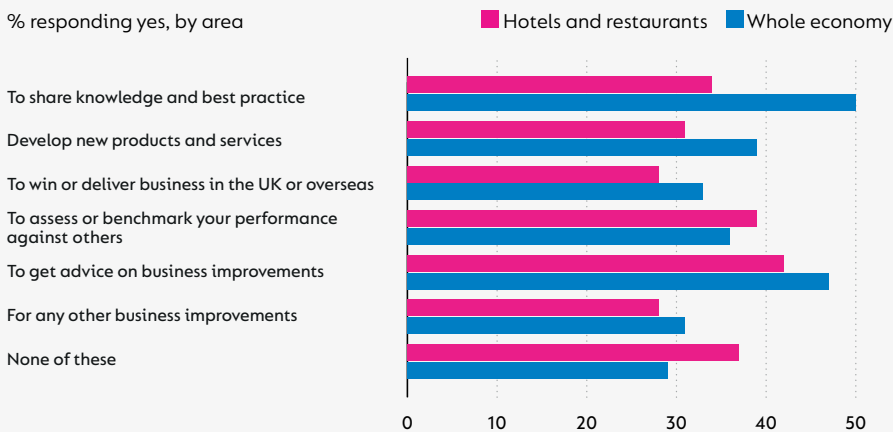
Compared to most, the hotel and restaurant industry is less confident in its ability to identify and deliver business improvements; yet the survey found far more than average (39% versus the average 29%)² use internal sources when making investments in business improvements in the past two years.

Figure 4. Types of business support used
Q: For each of the following types of resource, has your business used each over the last 2 years to develop the business (Y/N)



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 5. Reasons for collaboration
Q: Does your business collaborate with other organisations or networks for any of the following? (Y/N)

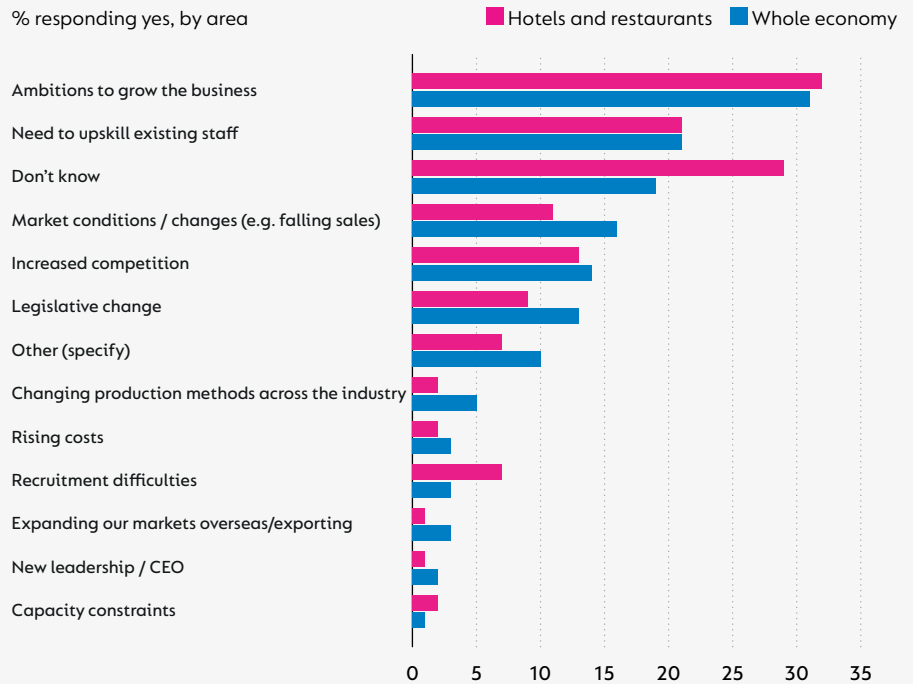


Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

² Work Foundation and MMS. Be the Business Baseline Survey 2018.

Figure 6. Reasons for seeking advice, guidance or training

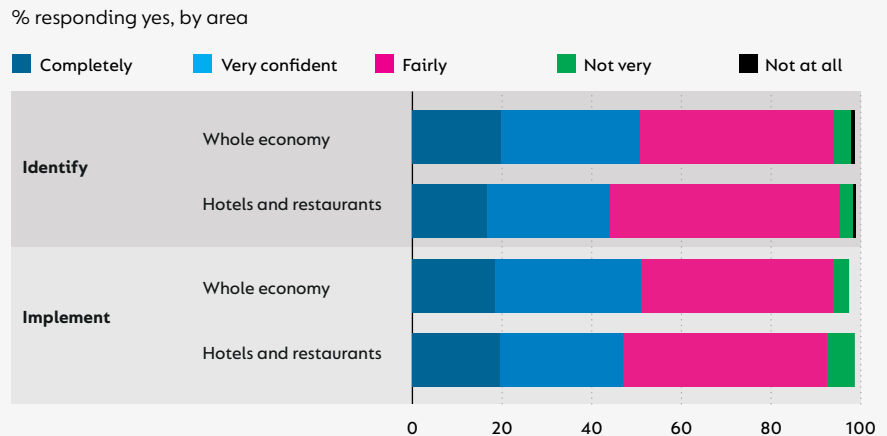
Q: What factors led your organisation to seek information, advice, training or guidance?



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 7. Ability to identify and implement actions linked to productivity improvements

Q: You mentioned that improving your business planning and strategy or internal processes is important to your business over the next 2 years. How confident are you in each of the following: that your organisation has the skills and knowledge to identify how to improve planning and strategy or internal processes; has the skills and knowledge to implement the actions needed to improve business planning and strategy or internal processes



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Summary outlook

Both a weaker pound and uncertainties as to how the UK will leave the EU are threatening to change the hospitality landscape. Further challenges for hotels are coming from the growth of online booking sites and the rise of Airbnb; while concerns in the restaurant sector are being raised by stagnating sales and ballooning costs. Household names such as Prezzo, Carluccio's and Jamie's Italian all saw some closures in the past year.

Key to the long-term success of the industry is talent. EU nationals³ are no longer arriving in the numbers they once did. Some argue the industry will need to focus on developing people and giving those with talent a chance.

However, as the UK's EU exit plays out, one thing is certain: it will jolt hotels and restaurants into exploring new ways to improve productivity and efficiency. It has been done before, which should give the

industry confidence. Scottish hotels and restaurants pulled together in 2001 in the aftermath of the foot-and-mouth crisis that hit the country – and have since profited from their alliance. Sheppardson believes collaboration is the key for this industry too. There is certainly room for greater collaboration, with around 100 industry bodies and associations spanning the sector. "If everyone actually got together and collaborated, it would make the whole sector more competitive," he says.

³ BBC. 2018. UK Migration: fewer EU arrivals but overall figure stays the same. Retrieved from bbc.co.uk/news/uk-46384417

Annex: Manufacturing

Survey findings

Manufacturing firms are more likely to improve their business practices than the industry average and have the highest rate of any sector (Figure 1). This is further exemplified by its willingness to invest in working practices and processes, product research and development, technology and machinery and staff training (Figure 2).

In terms of priorities, the industry is in line with other firms across all sectors. When it comes to exporting, however, it is well ahead of the field. Almost half of manufacturers view this as important – which is double the national average (Figure 3). Nevertheless, the exporting outlook is challenging, with the UK’s

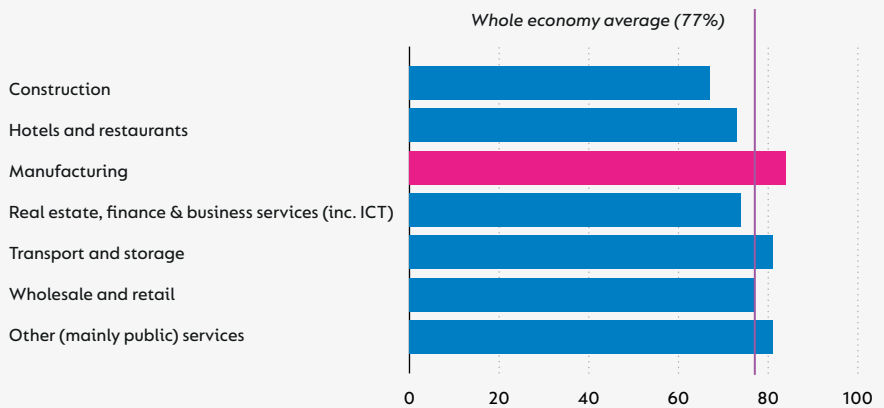
departure from the EU casting a shadow of uncertainty for all businesses but particularly for exporters.

Francesco Arcangeli, an economist at Make UK (formerly EEF) echoes this: “UK manufacturing PMI contracted to 52.8, down 1.4 since December as Brexit uncertainty grows. Stockpiling activities are at a 27-year high with storage of inputs increasing rapidly in preparation for any potential ‘No Deal’. At the same time, orders are slowing and employment contracting. EU manufacturing PMI is also trending downwards, which coupled with global trade headwinds is bad news for UK exporters.”

Figure 1. Firms always looking to improve their business practices

Q: On a scale of 1 to 5, where 1 means strongly disagree and 5 means strongly agree, to what extent would you agree or disagree with the following statements: we are always looking for ways to improve our business practices?

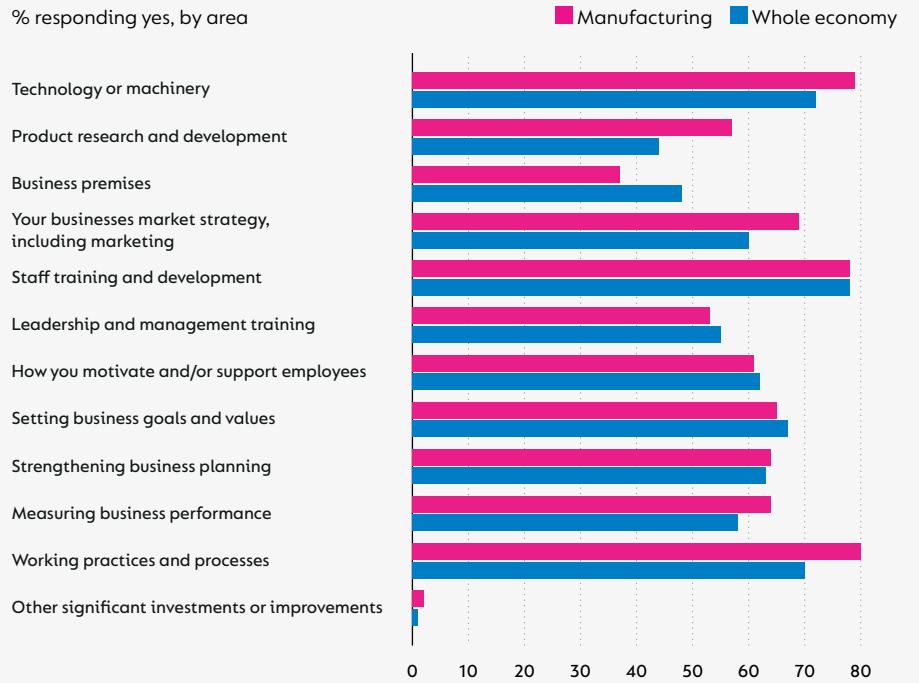
% responding yes, by area



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 2. Firm investment in the last two years

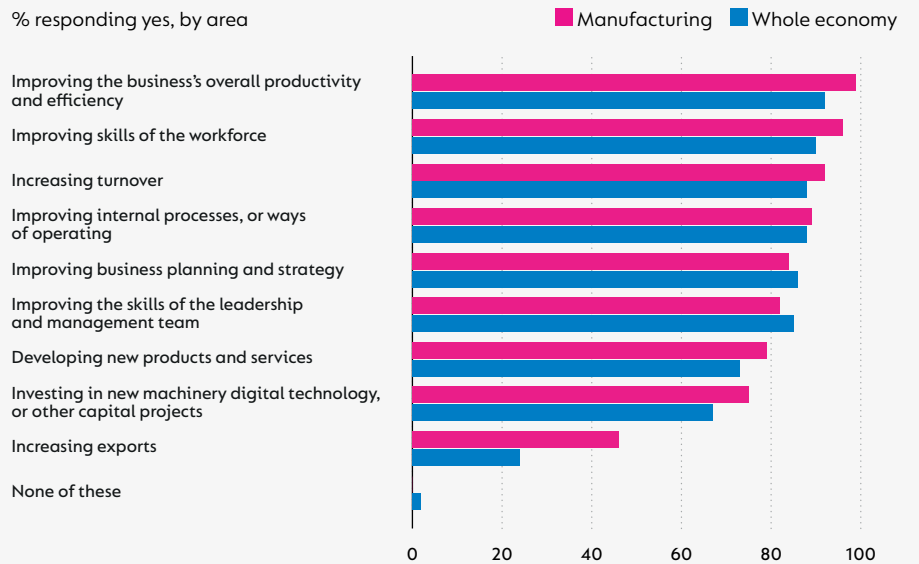
Q: Over the past 2 years has your business invested in or introduced improvements to any of the following (Y/N)



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 3. Areas of firm priorities

Q: Over the next two years how important are the following as priorities for your organisation?



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Generally, manufacturers are ahead of or at least in line with other firms in terms of the type of support they use. For manufacturers, technical certification schemes, standards and frameworks (such as IIP, LEAN, AGILE, ISO9000) have been regularly used in the past two years to develop business. This is way above industry average, which is perhaps to be expected given the nature of manufacturing.

Collaboration is becoming ever more important for all sectors of business. Yet the manufacturing sector has traditionally

lagged behind. Overall, manufacturers are less likely to collaborate with others (Figure 5). This reluctance is especially true in terms of sharing knowledge and best practice (only 34% of manufacturers compared to 50% national average).

When manufacturers do reach out for help (Figure 6), the industry is driven by similar factors to other sectors. Growth ambition is most cited, followed by the need to up-skill existing staff. Another notable factor is the expansion of overseas markets and exporting – in keeping with the industry’s focus on exports.

Compared to most firms, manufacturers are more confident in their ability to identify productivity-improving actions, but reluctant to seek advice when doing so as nearly a third (31%) used internal sources of advice when making investments in business improvements in the past two years.

Figure 4. Types of business support used

Q: For each of the following types of resource, has your business used each over the last 2 years to develop the business (Y/N)

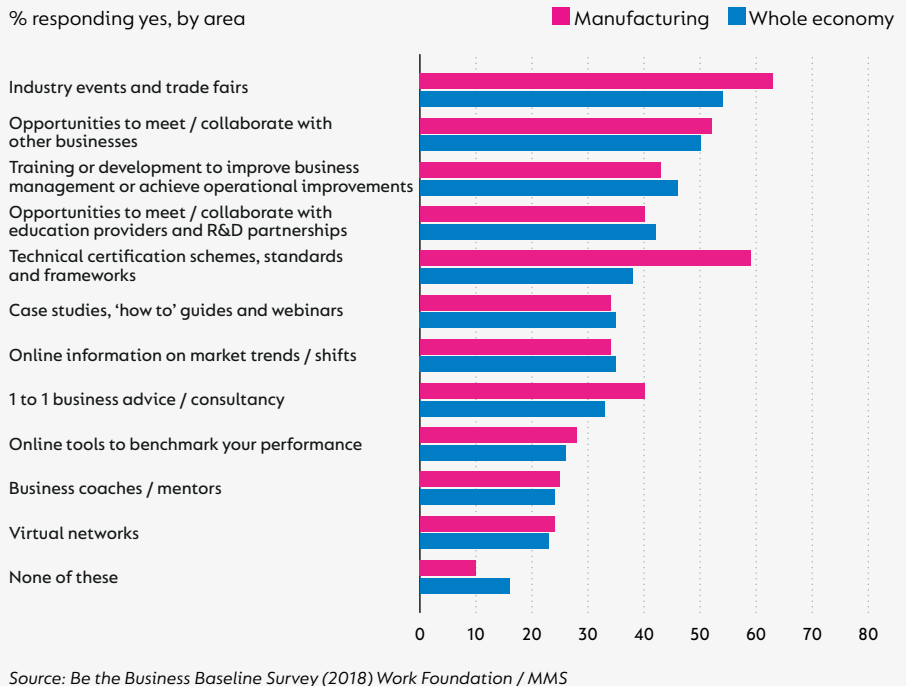


Figure 5. Reasons for collaboration

Q: Does your business collaborate with other organisations or networks for any of the following? (Y/N)

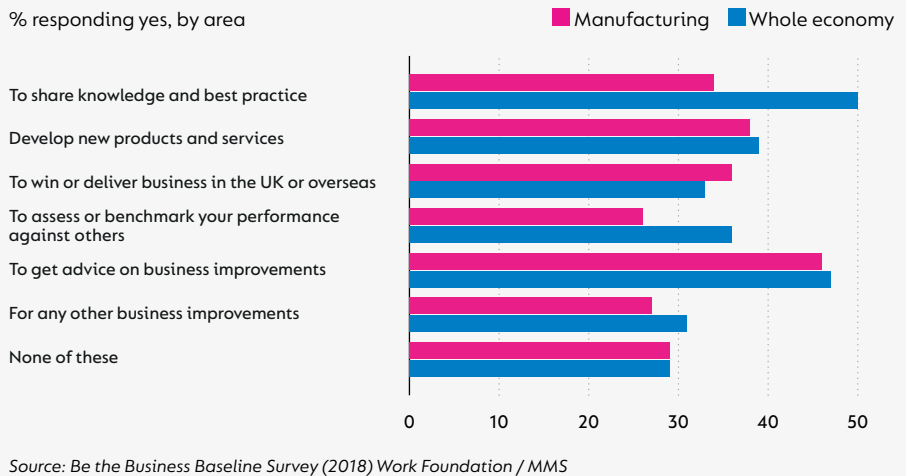
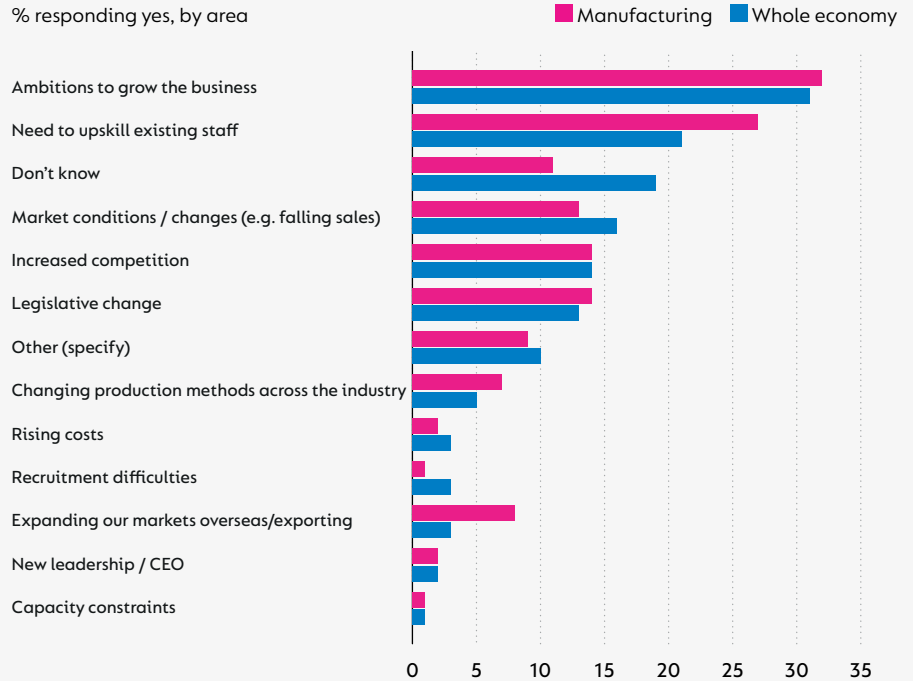


Figure 6. Reasons for seeking advice, guidance or training

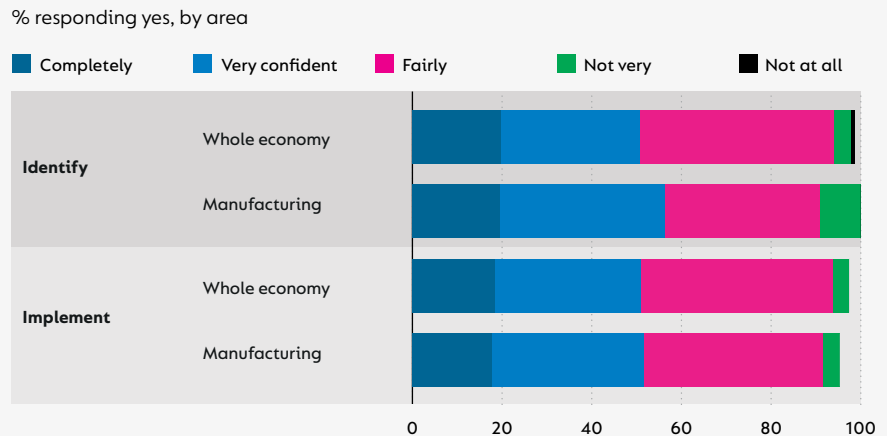
Q: What factors led your organisation to seek information, advice, training or guidance?



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 7. Ability to identify and implement actions linked to productivity improvements

Q: You mentioned that improving your business planning and strategy or internal processes is important to your business over the next 2 years. How confident are you in each of the following: that your organisation has the skills and knowledge to identify how to improve planning and strategy or internal processes; has the skills and knowledge to implement the actions needed to improve business planning and strategy or internal processes



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Summary outlook

The survey highlights manufacturers’ inherent reluctance to collaborate. Businesses willing to break this mould are likely to see growth as collaborations become increasingly important. To further bolster this, NatWest identified a sub-group of manufacturing leaders called ‘trailblazers’¹ and indicated that forthcoming collaboration within the supply chain was cited by 67% of trailblazers as much more important to the

resilience of the wider ecosystem, nearly double the figure of other respondents.

The Manufacturing Institute² offers some compelling and positive insights about how the sector will evolve. It reports that eliminating every possible source of waste is going to be instrumental to success in 2019. Technology will also take another big leap – a combination of new platforms, big data and cloud software

will give manufacturers the opportunity to optimise processes and yield higher-quality results at faster speeds.

As a proud manufacturing nation, Britain has almost three million people³ working in the sector, and it is a strong driver of UK research and development activity. The one thing beyond doubt is the key role the sector will play in the wider prosperity of the UK.

¹ Natwest. 2018. Future fit: Trailblazing in the fourth industrial revolution. Retrieved from natwest.contentlive.co.uk/content/future-fit-trailblazing-in-the-fourth-industrial-revolution-natwest

² The Manufacturing Institute. 2019. Retrieved from manufacturinginstitute.co.uk

³ Phillip Inman. 4 June 2018. UK manufacturing has lost 600,000 jobs in a decade, says union. Retrieved from theguardian.com/business/2018/jun/04/uk-manufacturing-has-lost-600000-jobs-in-a-decade-says-union

Annex: Real estate, financial and business services

Survey findings

Real estate, financial and business services are slightly less likely to look to improve their business compared to the national average (Figure 1).

In the past two years, firms in these sectors have been most likely to invest in technology and machinery as a means of improving. However, real estate, financial and business firms have invested less in people (Figure 2). Leadership and management training, workforce skills and employee motivation lag, which suggests a capability gap and may go some way to explaining the

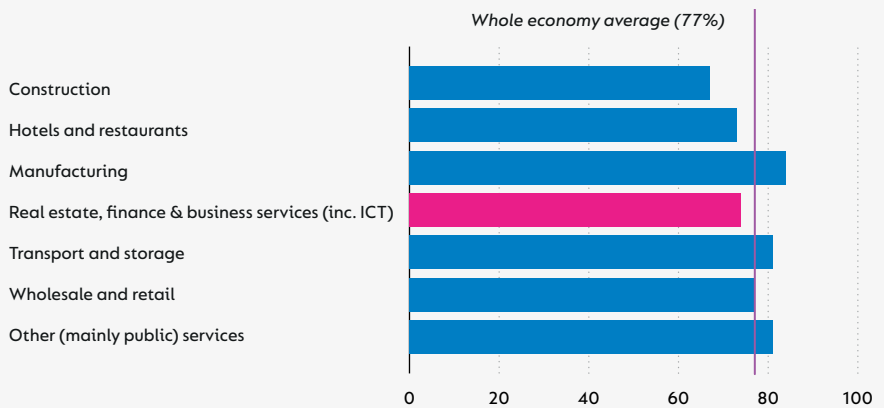
relatively poor productivity performance in these sectors. Interestingly, there are no significant differences between the priorities among businesses in these sectors and the national average.

These sectors are also less likely than the national average to have invested in staff in the past two years. Yet studies show that among firms in this sector, finding candidates with the right skills will be their biggest concern for the next 12 months¹ and that the changing regulatory climate (e.g. GDPR, MiFID II) is the main driver of these concerns.

Figure 1. Firms always looking to improve their business practices

Q: On a scale of 1 to 5, where 1 means strongly disagree and 5 means strongly agree, to what extent would you agree or disagree with the following statements: we are always looking for ways to improve our business practices?

% responding yes, by area

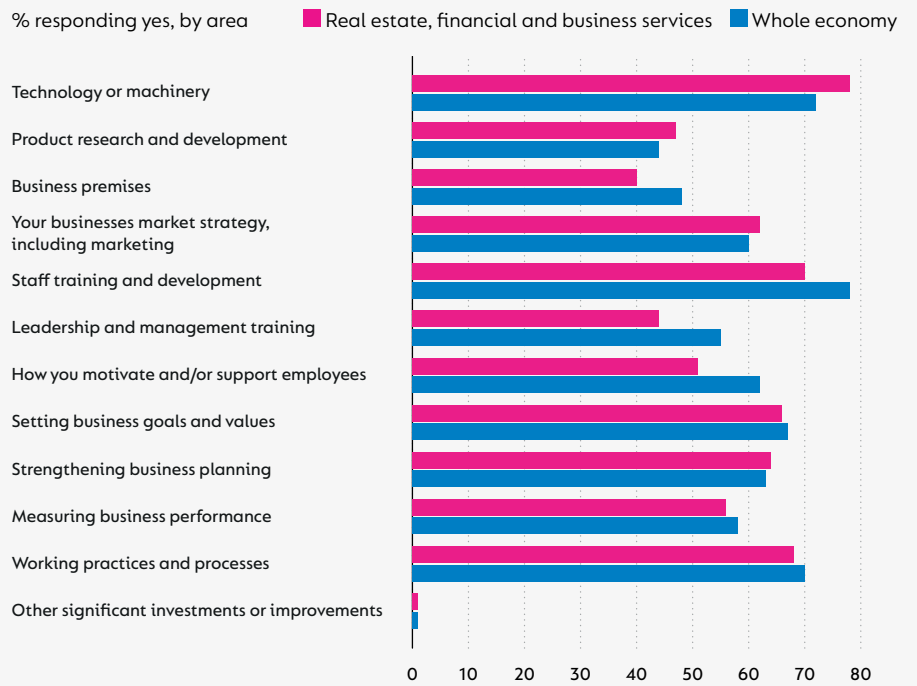


Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

¹ Robert Half. 13th June 2018 Almost half of companies struggle to find skilled workers. Retrieved from roberthalf.co.uk/press/almost-half-companies-struggle-find-skilled-workers

Figure 2. Firm investment in the last two years

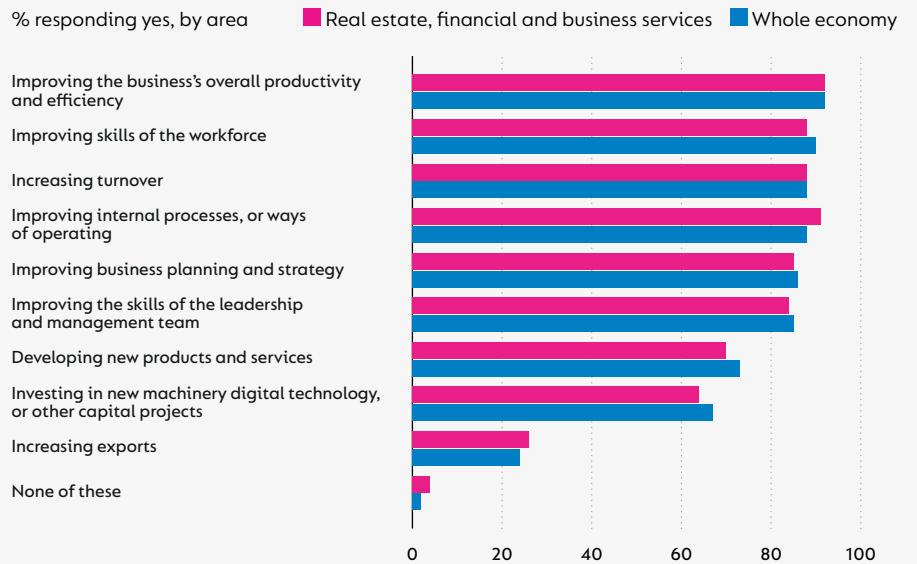
Q: Over the past 2 years has your business invested in or introduced improvements to any of the following (Y/N)



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 3. Areas of firm priorities

Q: Over the next two years how important are the following as priorities for your organisation?



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Real estate, financial and business services are more likely to network virtually and access information online via webinars, case studies and 'how to' guides (Figure 4). However, good old-fashioned face-to-face networking is still valued in these industries. These sectors are much more likely than others to actively seek out and collaborate with other firms to develop their business in person (Figure 4). They are also much more active at trade fairs and industry events.

In line with other sectors, the most popular reason for firms in real estate, financial

and business services to collaborate has been to share knowledge and best practices (Figure 5). And they're not afraid to collaborate with other organisations to win or deliver business compared to the whole economy.

Firms in this sector are more confident than other sectors when it comes to their ability to spot a problem that needs fixing (Figure 7). Perhaps this is indicative of SMEs seeing an opportunity to compare themselves to and capitalise on the structural weaknesses of larger institutions, many of which are still

struggling to increase their productivity to pre-2008 levels. The fall in high street banks lending to SMEs, for example, was a barrier for many firms but has also spurred new business models. Take the rise of peer-to-peer lending; pioneered by the Funding Circle marketplace which remains an inspiring example of working within the industry to solve a challenge together.

Figure 4. Types of business support used

Q: For each of the following types of resource, has your business used each over the last 2 years to develop the business (Y/N)

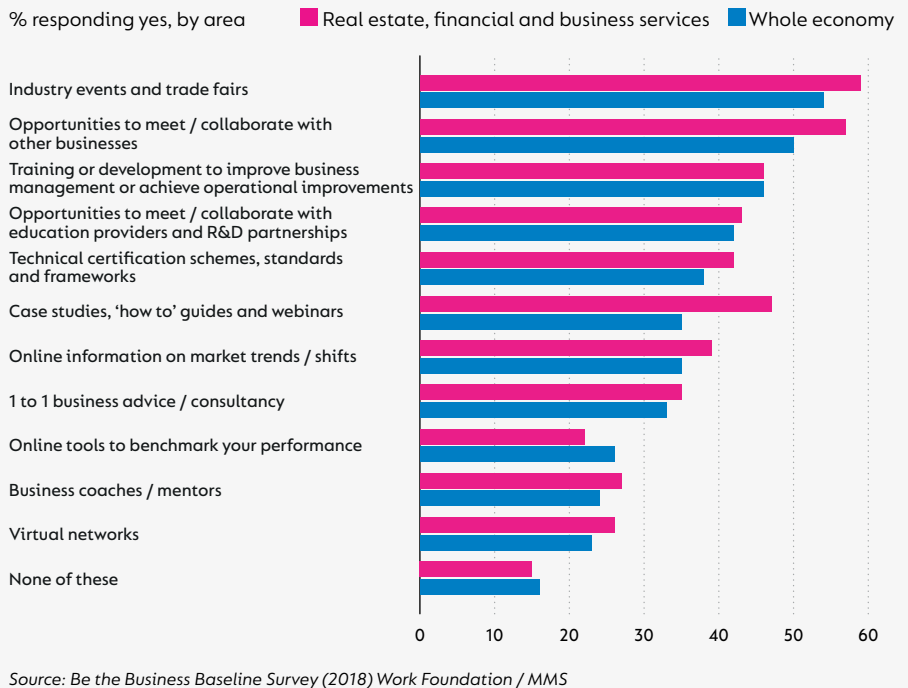


Figure 5. Reasons for collaboration

Q: Does your business collaborate with other organisations or networks for any of the following? (Y/N)

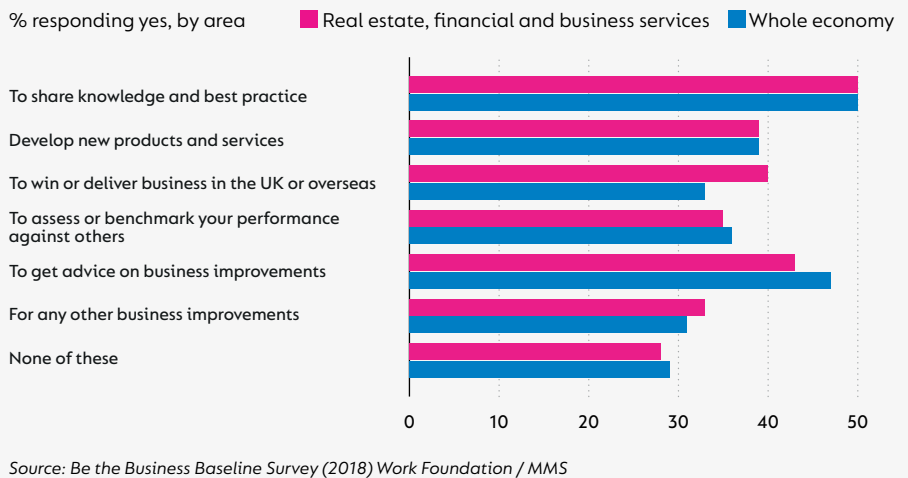
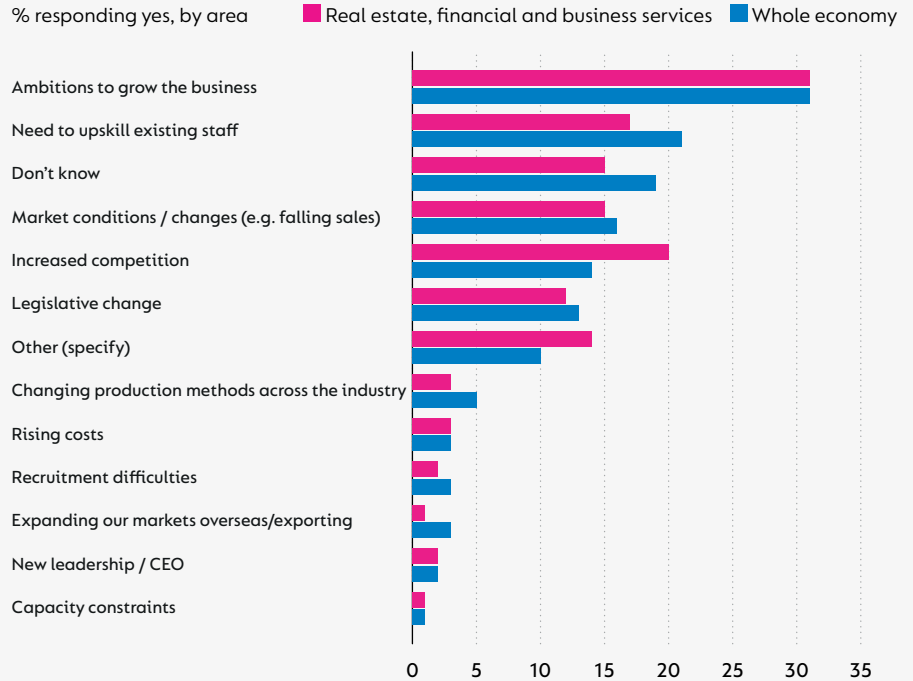


Figure 6. Reasons for seeking advice, guidance or training

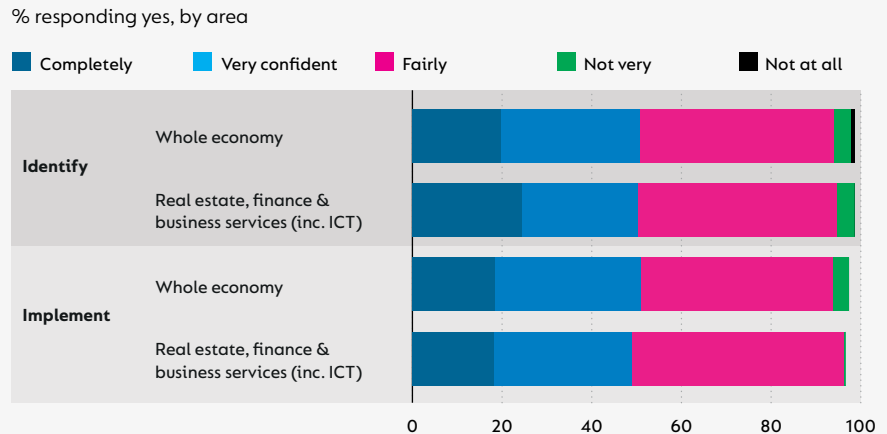
Q: What factors led your organisation to seek information, advice, training or guidance?



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 7. Ability to identify and implement actions linked to productivity improvements

Q: You mentioned that improving your business planning and strategy or internal processes is important to your business over the next 2 years. How confident are you in each of the following: that your organisation has the skills and knowledge to identify how to improve planning and strategy or internal processes; has the skills and knowledge to implement the actions needed to improve business planning and strategy or internal processes



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Summary outlook

There are sharp differences in productivity performance among SMEs in the real estate, business services and financial services sectors. Combined, they contribute almost £400bn GVA² to the economy. Whilst real estate and professional services sectors are seeing a steady uplift, the GVA of financial services firms has largely flatlined in recent years. It has been widely reported that financial services have been disproportionately affected by the UK's decision to leave the EU^{3,4}, and will find it particularly hard if they lose access to European financial markets, which may go

some way to explaining this trend. Broadly speaking, changing regulations, longer working hours, inadequate technology and a skills shortage are real challenges faced by firms in these sectors.

With all of this in mind, there are some big positives to take away. There is a real opportunity for these sectors to capitalise on transformative technologies, especially in the wake of the fintech boom and the emerging prop-tech industry. This will require the industries to embrace new skillsets and types of work. For example,

staff that can combine digital and financial service skills, or legal associate professionals with honed customer and communications skills. As the Greater Manchester Combined Authority⁵ articulates, there has never been a more important time than now to invest in best-in-class leadership and management to effectively deploy, organise and leverage people and tech. Leadership and management “have been identified in surveys and qualitative evidence as being key to growing more productive businesses in this sector.”

² ONS. 10 December 2014. GVA UK totals time series.

³ PWC. 2018. Impact of loss of mutual market access in financial services across the EU27 and UK. Retrieved from pwc.co.uk/financial-services/assets/pdf/impact-of-brex-it-on-fs-in-europe.pdf

⁴ Oliver Wyman and Clifford Chance. 2018. The 'red tape' cost of Brexit. Retrieved from oliverwyman.com/content/dam/oliver-wyman/v2/publications/2018/march/Oliver-Wyman_Clifford-Chance-The-Red-Tape-Cost-of-Brexit.pdf

⁵ GMCA. Greater Manchester Work & Skills Strategy and Priorities 2016-2019. Retrieved from greatermanchester-ca.gov.uk/media/1092/gm_work_and_skills_strategy_and_priorities_2016_to_2019_7_.pdf

Annex: Transport and storage

Survey findings

The transport and storage industry is continually looking for ways to improve business practices, above the national average (Figure 1).

It's not surprising that the industry is so closely aligned in its bid to progress. A focus on improvement to create a low-carbon economy has been at the forefront of the industry's collective mind for some time. In 2012, a study¹ noted that behavioural changes will be needed within companies in order to adapt to greener behaviours. By 2019, the industry is well accustomed to driving change, and it's positive to see a shared confidence

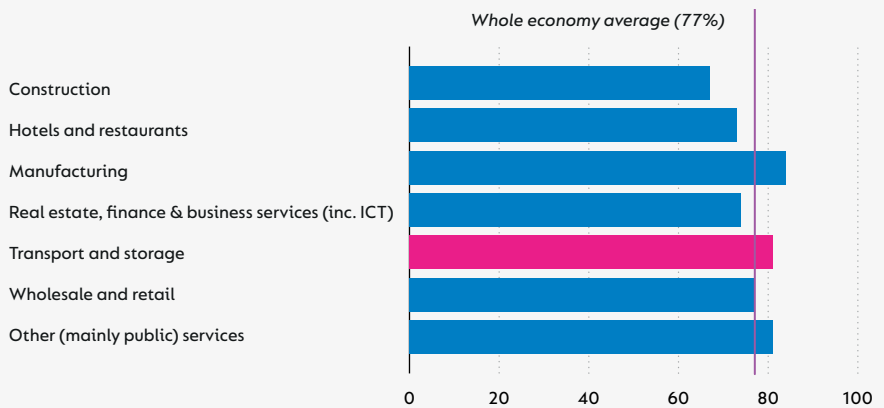
about its implementation. With a higher-than-average commitment to setting goals and values (Figure 2) this suggests that the sector is not just growing but also developing a real conscience.

The industry has a range of priorities over the next two years (Figure 3). Notably, it has far higher-than-average priorities in investing in new machinery, digital technology and other capital products. It is apparent that investment is being made on the digital front to make transportation and storage more sustainable².

Figure 1. Firms always looking to improve their business practices

Q: On a scale of 1 to 5, where 1 means strongly disagree and 5 means strongly agree, to what extent would you agree or disagree with the following statements: we are always looking for ways to improve our business practices?

% responding yes, by area



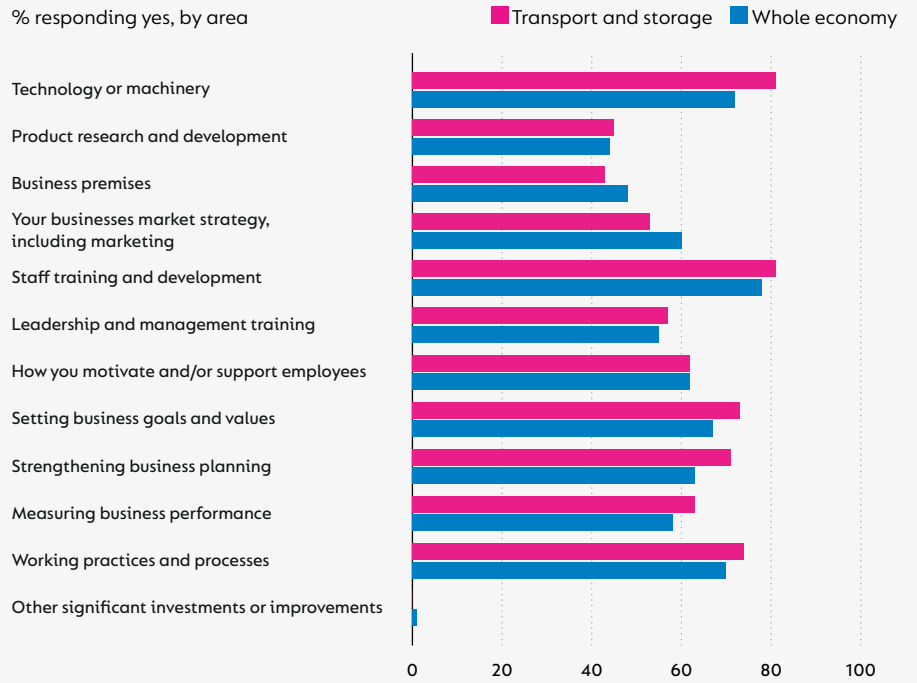
Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

¹ UKCES. 2012. Transportation & storage sector Skills assessment. Retrieved from voced.edu.au/content/ngv%3A53658

² EIT Food. Viewed 2018. Retrieved from eitfood.eu/programmes/development-and-implementation-of-new-technology-for-transportation-and-storage-of-live-seafood

Figure 2. Firm investment in the last two years

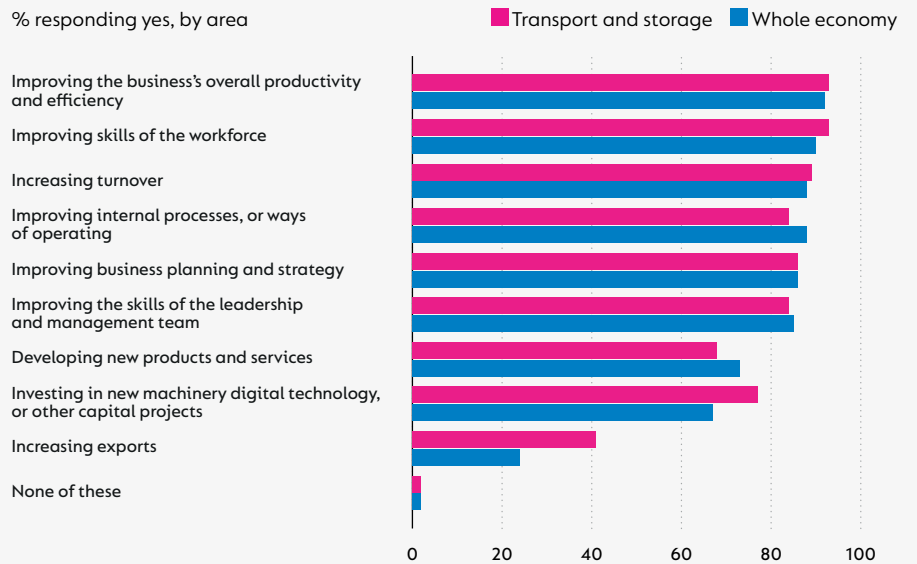
Q: Over the past 2 years has your business invested in or introduced improvements to any of the following (Y/N)



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 3. Areas of firm priorities

Q: Over the next two years how important are the following as priorities for your organisation?



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

The transport and storage industry is reporting a higher-than-average (54% vs 46%) desire to improve business management or achieve operational improvements (Figure 4). This is an encouraging statistic as it's one of the key drivers to productivity and business growth. In line with this, it reports a much higher rate on technical certifications (54% vs the overall 47%). Given the nature of the industry and the pressure for 'just-in-time' delivery it's no surprise that the industry places emphasis on up-to-date certification.

With the amount of collaborations this industry has, it's interesting to note that it sits below average on using online tools to benchmark performances (Figure 4). Given that benchmarking against competition is a crucial part of the industry (Figure 5), it's

assumed that benchmarking tools must be accessible elsewhere.

The industry is well placed to use support and resources to develop business. It sits around the national average regarding the support it has accessed in the past two years (Figure 4). However, it falls over 13% short of the average on meeting and collaborating with education providers and R&D partnerships (i.e. universities), a collaboration of which kind could open new channels for recruitment and apprenticeships.

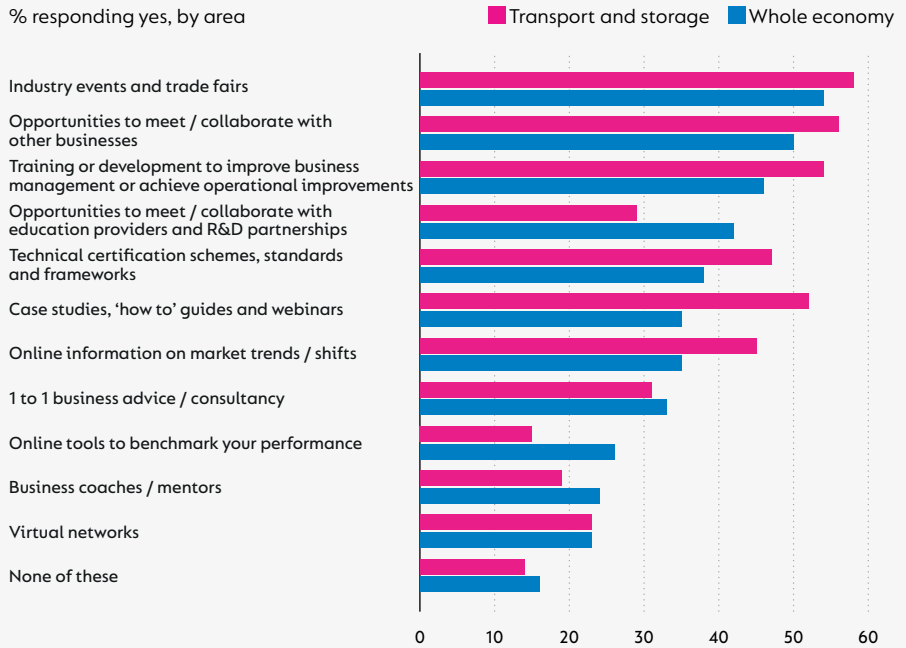
There is an interesting asymmetry between the recruitment difficulties this industry is having and its below-average view on upskilling its own staff (Figure 6). This presents an exciting opportunity. If the industry were to look internally and

consider upskilling its staff, allowing for more internal movement, this disparity could be decreased.

Improving business planning, strategy and internal processes is important to this complex, fast-paced industry. The industry feels confident in both the identification and implementation of those improvements (Figure 7). It's no surprise then, that businesses rely on their internal resources for support and advice; 34% of respondents cited internal sources as their primary source of information, compared to a whole economy average of 29%. To stay competitive, though, it's essential to have a healthy mix of external and internal resources available. External resources – from trade bodies and associations to mentors and consultants – could be key in addressing the reliance on internal support.

Figure 4. Types of business support used

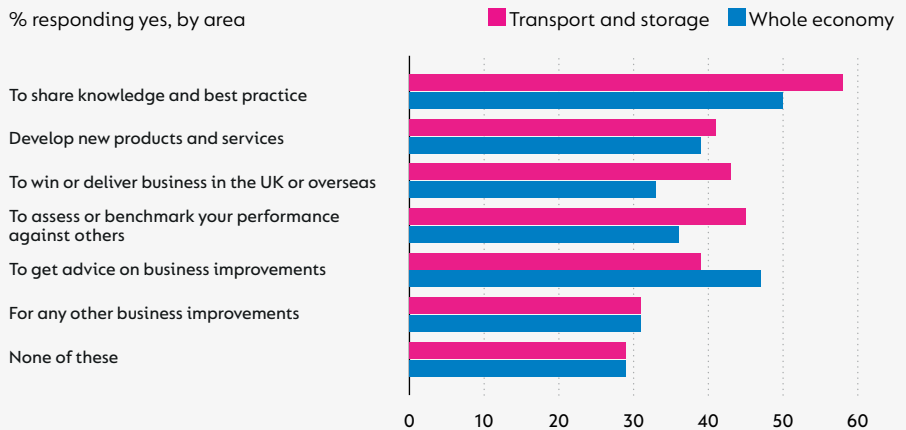
Q: For each of the following types of resource, has your business used each over the last 2 years to develop the business (Y/N)



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 5. Reasons for collaboration

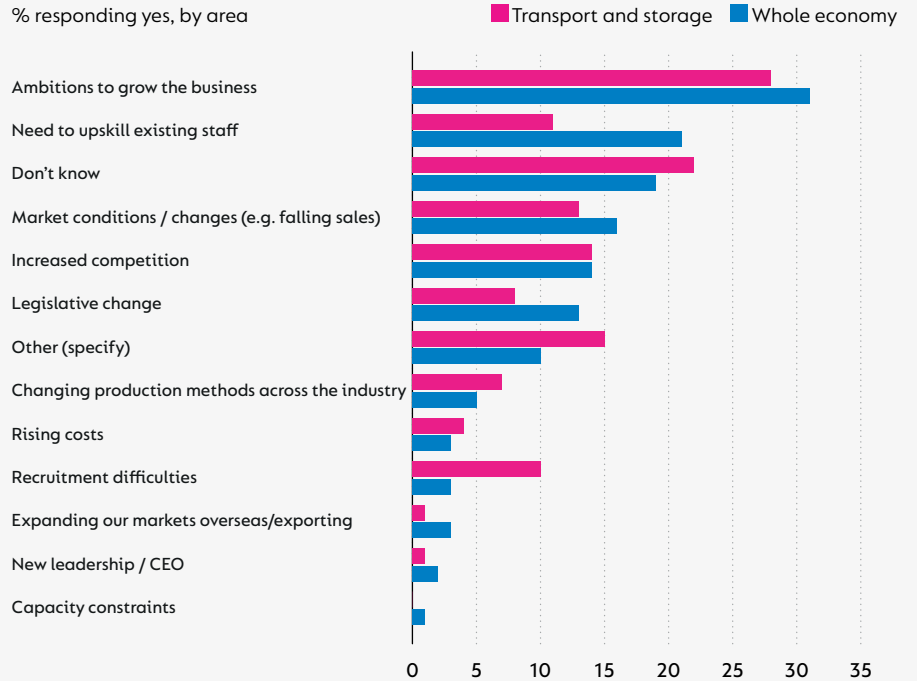
Q: Does your business collaborate with other organisations or networks for any of the following? (Y/N)



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 6. Reasons for seeking advice, guidance or training

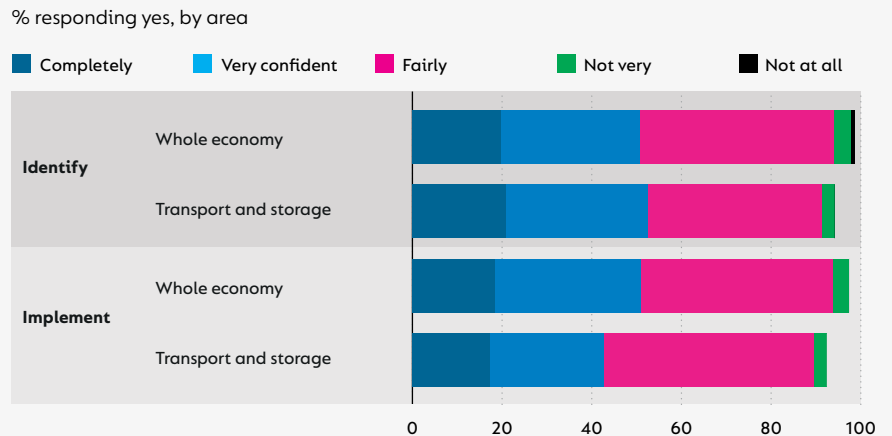
Q: What factors led your organisation to seek information, advice, training or guidance?



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 7. Ability to identify and implement actions linked to productivity improvements

Q: You mentioned that improving your business planning and strategy or internal processes is important to your business over the next 2 years. How confident are you in each of the following: that your organisation has the skills and knowledge to identify how to improve planning and strategy or internal processes; has the skills and knowledge to implement the actions needed to improve business planning and strategy or internal processes



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Summary outlook

Transport and storage is a busy and growing sector, with a GVA of £76.9bn in 2017³. The pace of change is also worth noting. Driven by technology and consumers, the complexity and pressure to adapt to a fast-changing landscape is noteworthy.

Whilst the industry outlook is positive and firms report confidence, they face some real challenges. Environmental and sustainability factors have always been an

issue, but now, with the effects of global warming on the world's stage, the industry will need to implement changes quickly.

Tackling recruitment by actively seeking out collaborations with educational providers and R&D partnerships could not only expand the industry but lay strong foundations for its future.

A heightened focus on exports is to be expected. With the continuing levels of

uncertainty in the UK regarding leaving the EU, concern about exports will naturally occur, particularly amongst an industry so attuned to its development. However, this also offers significant opportunity for transport and storage firms. With the plans to expand London's Heathrow Airport and the HGV road-user levy amongst other implementations, the UK remains a thriving hub for the industry.

³ ONS. 2017. Nominal and real. Retrieved from ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalandrealregionalgrossvalueaddedbalancedbyindustry

Annex: Wholesale and retail

Survey findings

Wholesale and retail businesses have a typical attitude to business improvement, matching the national average (Figure 1). UK retail and wholesale businesses are more likely than firms in other sectors to invest in technology and machinery (Figure 2).

This is a sector well placed to capitalise on recent tech developments, with machine learning and AI increasingly playing a part. These can help make a business more productive and efficient, says Ryan Dearlove, founder of online gift retailer Personally Presented, who added a chatbot to his website last year to answer visitors' queries. His business saw a spike in sales and a significant number of man-hours were freed up by staff no longer having to deal with enquiries. "The chatbot really worked," attests Dearlove.

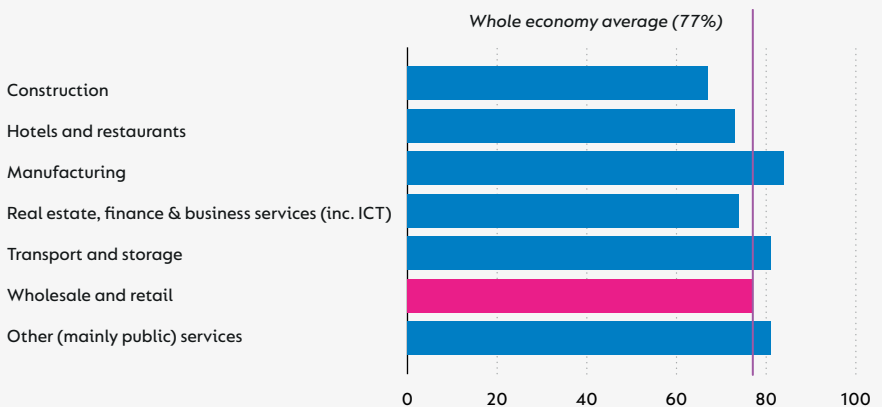
"I think they can make a real difference to retailers with an online presence and could also help nudge the work/life balance back in their favour."

Wholesale and retail businesses are much less likely to invest in leadership and management training (Figure 2). Jonathan Reynolds, Associate Professor in Retail Marketing and Deputy Dean at Saïd Business School, thinks this is a missed opportunity. "The skills managers need today are around managing more complex organisations and a data-rich environment," he says. "For the top tier of managers, training and development should be there to equip leaders with the kinds of skills they need to handle ambiguity and risk as the landscape changes."

Figure 1. Firms always looking to improve their business practices

Q: On a scale of 1 to 5, where 1 means strongly disagree and 5 means strongly agree, to what extent would you agree or disagree with the following statements: we are always looking for ways to improve our business practices?

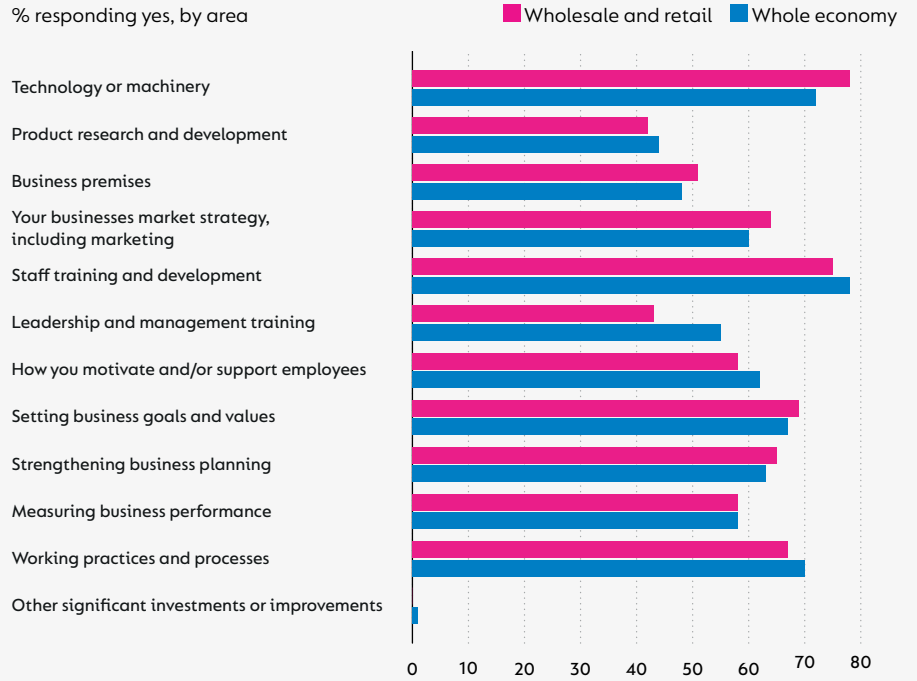
% responding yes, by area



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 2. Firm investment in the last two years

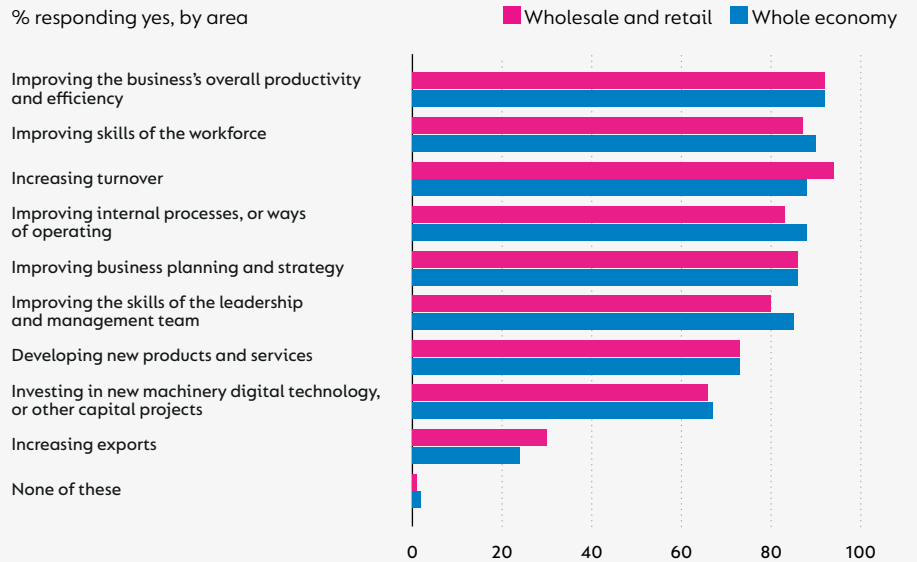
Q: Over the past 2 years has your business invested in or introduced improvements to any of the following (Y/N)



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 3. Areas of firm priorities

Q: Over the next two years how important are the following as priorities for your organisation?



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Businesses in retail and wholesale interact at industry events and trade fairs more than the national average (Figure 4). This sector is much less likely, however, to have invested in training or pairing up with educators or engaging in R&D partnerships.

There are lots of ways to explore new avenues. “There’s a company called Validify, for example,” says retail expert Martin Newman, who sits on the KPMG/ Ipsos Retail Think Tank. “They are an online platform and give retailers the chance to be ahead of the game by engaging with some innovative solutions they wouldn’t otherwise know about.”

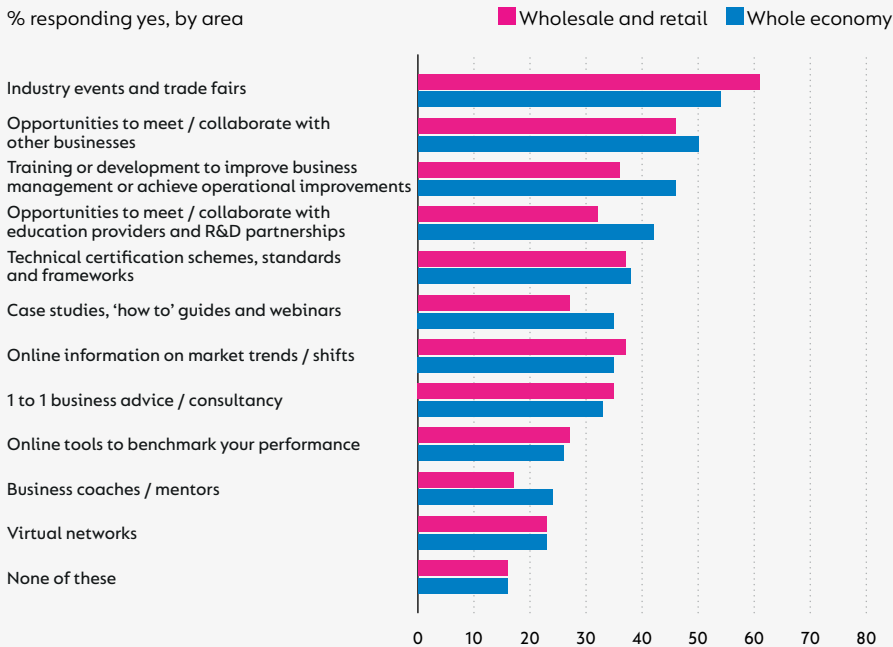
Commitment to management training could be stronger (Figure 4). E-learning may help here as this can be an effective and affordable way to upskill staff quickly – essential in today’s fast-moving retail environment.

The sector is not averse to the idea of collaborating with others to get advice on business improvements (Figure 5). It is something it already does more than other industries, particularly seeing their suppliers and professionals like their bank, accountant or financial advisor as trusted sources of advice when it comes to making strategic choices around growth and expansion (Figure 6).

Large firms like Sweden’s IKEA, for example, are constantly striving to learn from retail peers. IKEA has recently worked with Adidas and LEGO, among others, in a bid to explore new ways of thinking. Smaller businesses don’t have to be left out; particularly in this sector where confidence is lower than average (Figure 7) firms can look for new sources of advice and fresh ways to drive improvements.

Figure 4. Types of business support used

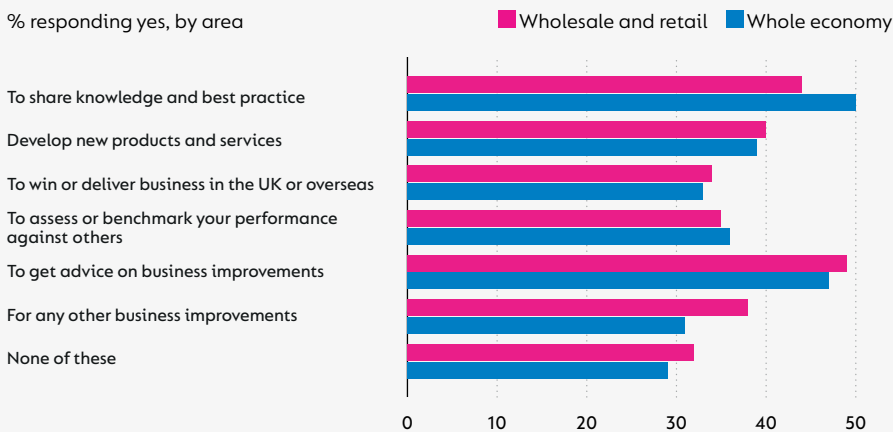
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Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

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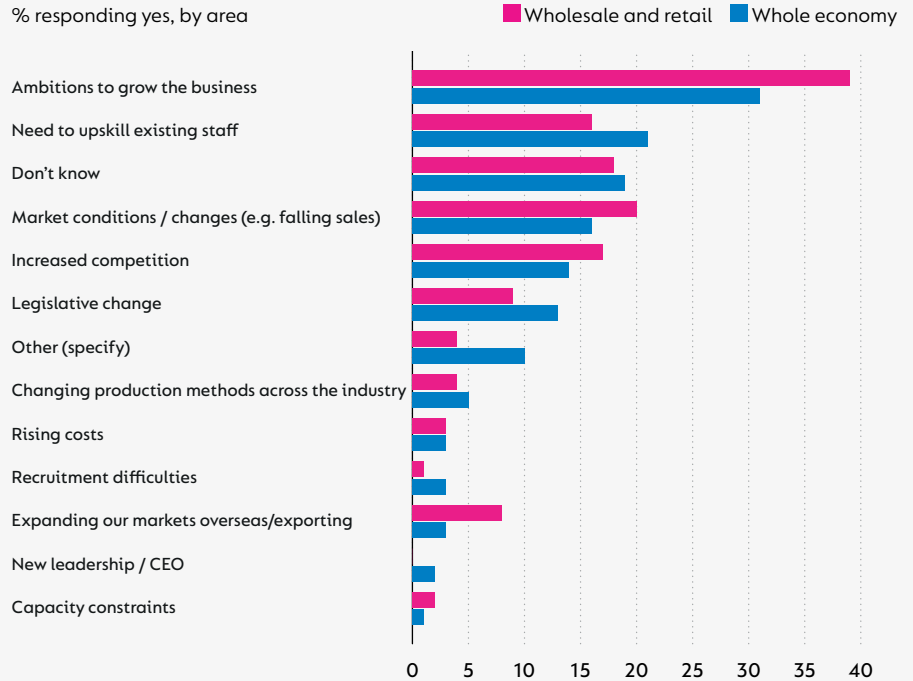
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Figure 6. Reasons for seeking advice, guidance or training

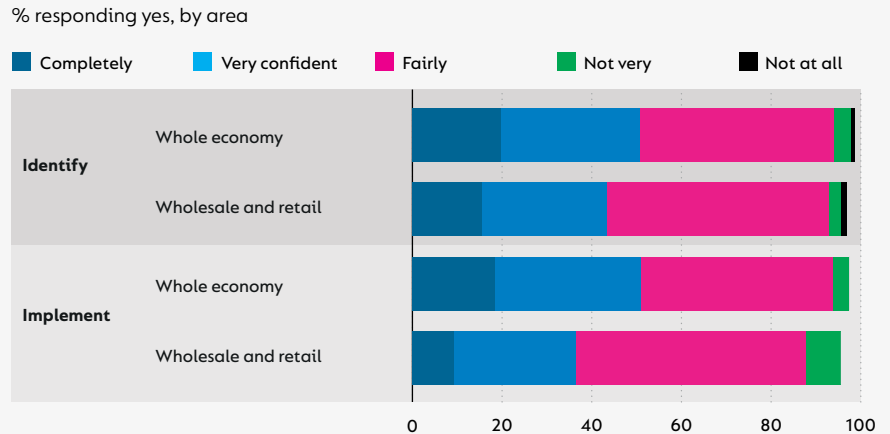
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Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 7. Ability to identify and implement actions linked to productivity improvements

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Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Summary outlook

There are more than three million people employed in the UK’s wholesale and retail sector, and their world today is very different to the one in which they worked just four years ago.

The sector is at a crossroads, and there is a tremendous opportunity for those businesses that can turn everything – whether it’s the UK’s departure from the EU or artificial intelligence – to their advantage. The sector is in the process of transformational change and there will be winners and losers. For those with a

growth mindset, there has arguably never been a better time for them to re-evaluate what they offer and what their customers need and find ways to future-proof their businesses as best they can.

More than two decades after the internet first exploded into our lives, roughly 80% of sales are still made in-store¹. Retail outlets and high streets and the wholesalers who support them irrefutably have a place – and the businesses that are flourishing have typically invested effectively in online trading alongside

their bricks and mortar operations. They have integrated these, along with mobile and social media, to become truly ‘omni-channel’ operations.

Of course, not everyone is there yet, and some will need help. The research points to strategic partnerships within the industry – the vital ‘knowledge share’ that is so often the life-blood in thriving sectors – and management training as areas where retail businesses should focus their attention to become more competitive.

¹ ONS. 2017. Nominal and real. Retrieved from ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalandrealregionalgrossvalueaddedbalancedbyindustry

Annex: Other services

Survey findings

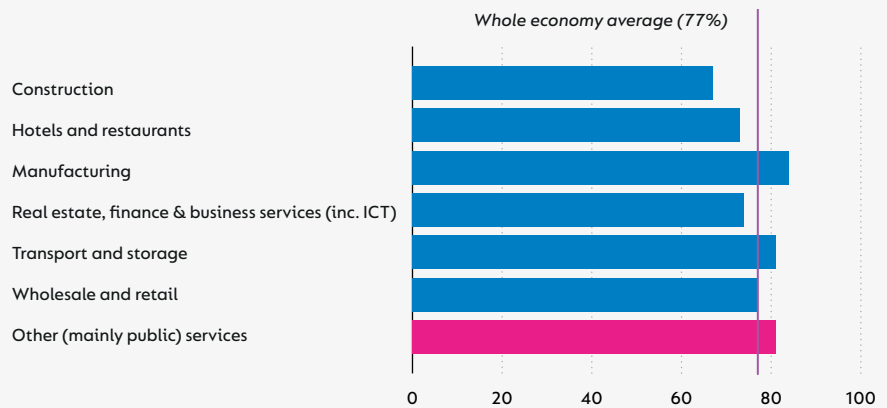
Other services – an amalgamation of firms across health and social care, education, arts and entertainment and public services – report one of the highest levels of continuous improvement in business practices (Figure 1). This industry comes second only to manufacturing, and interestingly, in line with transport and storage. These firms are actively investing in their people more than other industries – from skills training to leadership development - as well as building a culture of goal-setting and planning (Figure 2), which are core to driving productivity improvements. However, investments in tech, R&D and strategic marketing fall below the national average.

A highly-skilled and effective workforce is of paramount importance within these sectors. Not only are there a striking number of firms investing in motivating and supporting employees – 16% more than the national average (Figure 2), they also report it will remain a priority in the years ahead (Figure 3). Within social care, for example, research shows that social workers who feel undervalued at work reported higher levels of stress and lower job satisfaction¹. In an industry where budgets are often tight and wages squeezed, it's promising to see firms adopting a “do more with less” outlook, which means increasing employee engagement through better leadership, management and skills; as well as driving efficiency.

Figure 1. Firms always looking to improve their business practices

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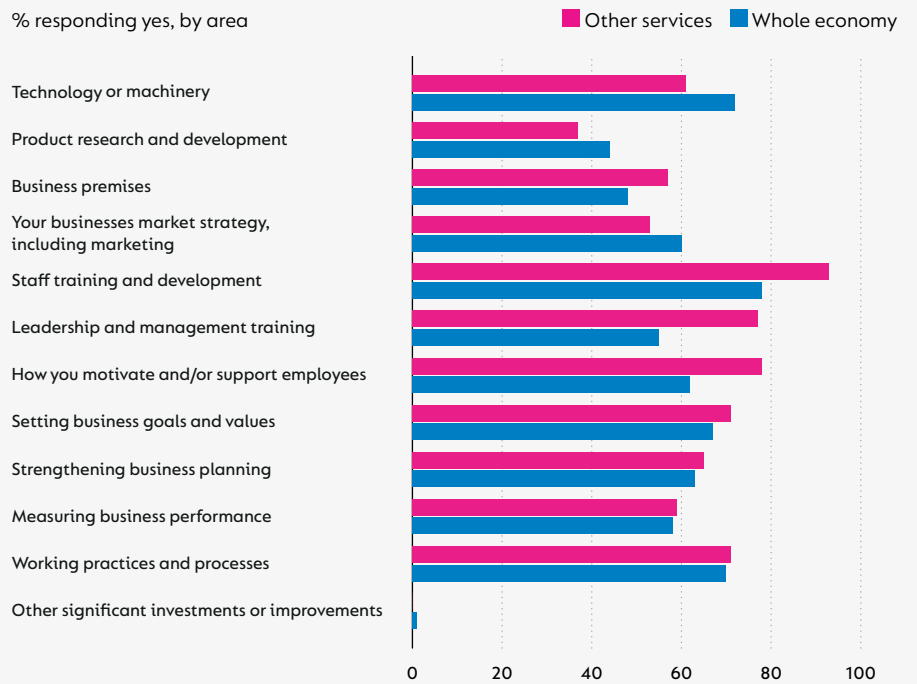


Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

¹ Evans, et al. 2006. Mental health, burnout and job satisfaction among mental health social workers in England and Wales. British Journal of Psychiatry. Retrieved from ncbi.nlm.nih.gov/pubmed/16388074

Figure 2. Firm investment in the last two years

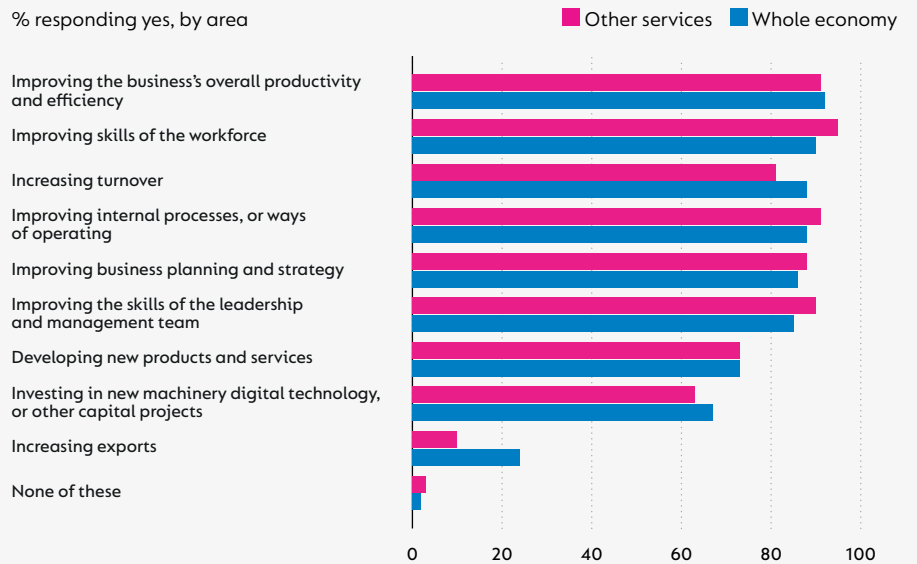
Q: Over the past 2 years has your business invested in or introduced improvements to any of the following (Y/N)



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 3. Areas of firm priorities

Q: Over the next two years how important are the following as priorities for your organisation?



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Firms operating in the public service and creative spheres rely on external partners and organisations in successfully running their business. They actively undertake training and development and related to this, work with educational or research partners more than the average (Figure 4). This is unsurprising, given the frequency of legislative changes in the health, social care and education sectors. For example, the NHS Long Term Plan² includes a whole raft of changes designed to tackle growing demand, geographical disparities in healthcare provision, staff retention and funding issues, all of which require extensive collaboration between the NHS and local and national government.

Seventy-three percent of respondents said that their reason for collaborating with other organisations and networks was to share knowledge and best practices (Figure 5). This point is further emphasised by the fact that legislative change, at 20%, is a much more important factor in seeking information, advice and guidance for firms in this sector than others (Figure 6).

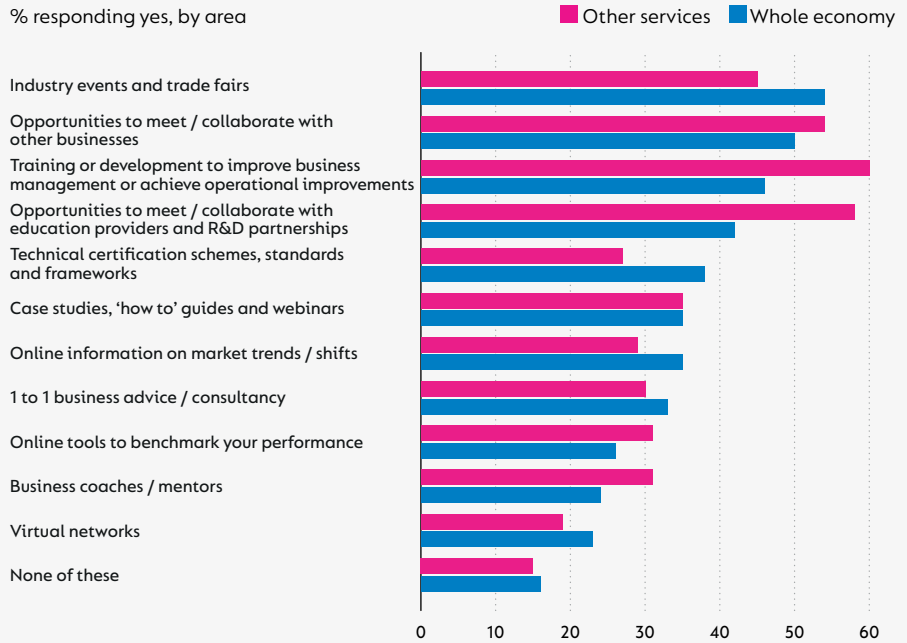
The need to upskill existing staff is the biggest driver of seeking information, training and advice (Figure 6). A continued focus on the wellbeing and longevity of the staff within these sectors is apparent. With budget cuts across the public sector, these industries will be

looking for other ways to incentivise staff; upskilling is a great way to do that.

Firms in these sectors feel confident about identifying and implementing productivity-improving actions within the next two years (Figure 7). They recognise the importance of maintaining a good work environment for staff, sharing knowledge and developing new products and services.

Figure 4. Types of business support used

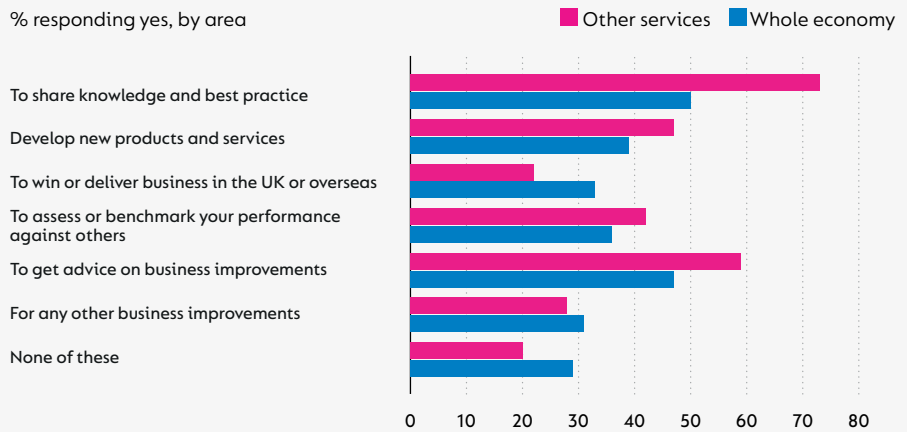
Q: For each of the following types of resource, has your business used each over the last 2 years to develop the business (Y/N)



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 5. Reasons for collaboration

Q: Does your business collaborate with other organisations or networks for any of the following? (Y/N)

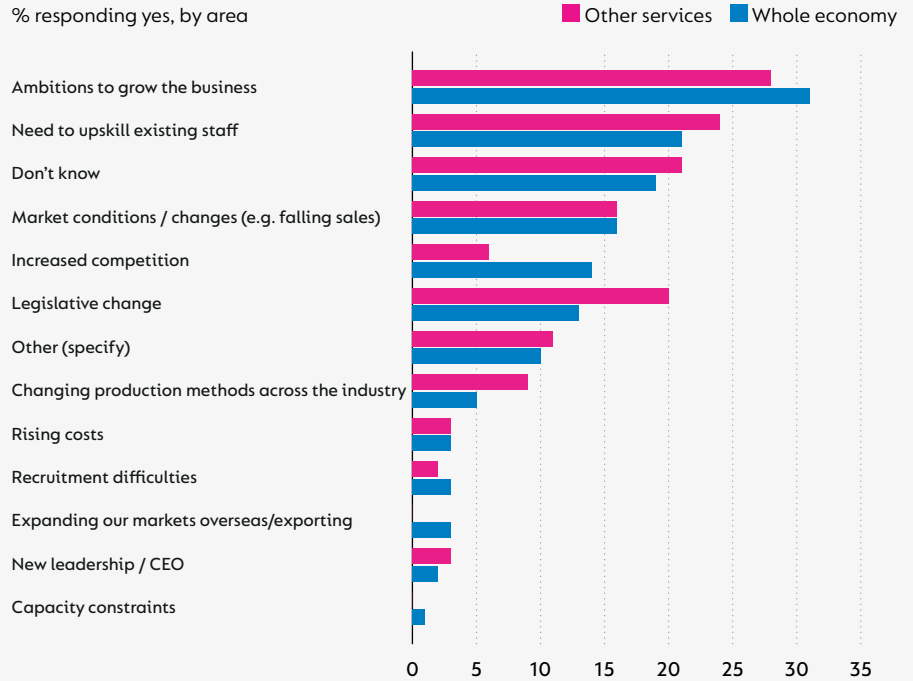


Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

² NHS. 2019. NHS Long term plan. Retrieved from gov.uk/government/news/nhs-long-term-plan-launched

Figure 6. Reasons for seeking advice, guidance or training

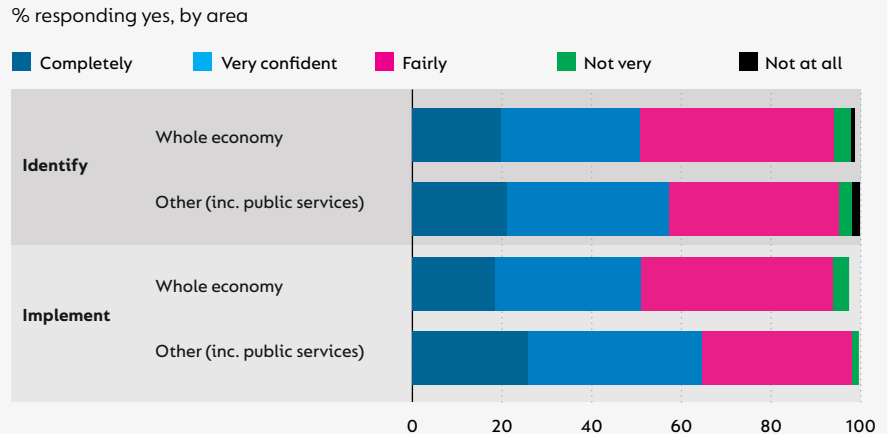
Q: What factors led your organisation to seek information, advice, training or guidance?



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Figure 7. Ability to identify and implement actions linked to productivity improvements

Q: You mentioned that improving your business planning and strategy or internal processes is important to your business over the next 2 years. How confident are you in each of the following: that your organisation has the skills and knowledge to identify how to improve planning and strategy or internal processes; has the skills and knowledge to implement the actions needed to improve business planning and strategy or internal processes



Source: Be the Business Baseline Survey (2018) Work Foundation / MMS

Summary outlook

The productivity challenges firms in this sector face are varied given the range of industries represented – from the creative to the social services. Overall, productivity in the health sector outperformed the rest of the economy in 2017³. However, arts and culture firms are also characterised by high productivity, showing 41% higher productivity per worker than the national average⁴.

Employee engagement is overwhelmingly important in this sector where employees often work longer hours and firms face the threat of budget cuts. It is encouraging to note that resources are going towards ensuring employees feel valued. However, considering broader opportunities to connect and collaborate to crack employment and management issues could be explored.

It is also true that, like all firms, SMEs in this sector face challenges and uncertainty in the face of the UK's departure from the EU. But with so many jobs in this sector currently filled by EU workers, it remains to be seen just what impact this will have on the sector's ability to recruit and retain the passionate workforce so vital to its success.

³ NHS. 2019. Skill and dedication of NHS staff praised as health service productivity outstrips the rest of the economy. Retrieved from england.nhs.uk/2019/01/skill-and-dedication-of-nhs-staff-praised-as-health-service-productivity-outstrips-the-rest-of-the-economy/

⁴ Arts Council England. 2017. Contribution of the arts and culture industry to the UK economy. Retrieved from artscouncil.org.uk/sites/default/files/download-file/Contribution_arts_culture_industry_UK_economy.pdf

Notes

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**be the
business**

5th Floor
26-28 Glasshouse Yard
London
EC1A 4JU