

## BEIS Business Productivity Review: Call for Evidence

### Institute for Family Business Response

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#### Summary

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- Measures to improve productivity should be viewed in the context of long term, sustainable growth
- Infrastructure and access to finance continue to act as barriers to SME growth and investment
- Communication is a key challenge to dissemination of knowledge and best practice
- Job satisfaction is an important component of higher productivity
- Support greater technology adoption through establishment of a peer review platform
- Encourage more tailored support for SMEs to reflect their differing priorities
- Understand touch points and educate intermediaries

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#### About the Institute for Family Business

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The Institute for Family Business (IFB) is the UK's family business organisation, supporting and promoting the UK family-owned business sector through representation, thought leadership, analysis, events and networking.

We work closely with family firms to support them in growing enterprises for generations to come. A central part of our work is to provide educational resources and knowledge-sharing designed to support business owners and those who work in family business. We champion best practice within the family business community and help others to learn from these examples.

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#### About Family Business

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Family business is the backbone of our economy, and the bedrock of our communities. In the UK, family firms generate a quarter of GDP and employ over twelve million people. By their very nature family businesses take a long term view, building on long-term stewardship of people and resources. Their commitment to passing a healthy business on to the next generation is locked into their corporate DNA.

The family business sector is extremely diverse. Family businesses come in all sizes and are found in all industries and communities across the UK. Whilst the majority of family firms are small or micro businesses, there are around 17,000 medium and large firms. The tax contribution of family businesses now stands at £149 billion – more than the annual NHS budget.

The UK family business sector continues to grow. In the UK there are 1 million more family businesses than in 2010, and family businesses have created an additional 2.3 million jobs. Family firms now turn over £1.4 trillion annually, up 7.2 per cent since 2010 - family business turnover has grown by more than that of non-family businesses since 2010<sup>1</sup>.

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<sup>1</sup> State of the Nation: The UK Family Business Sector 2017/18, Oxford Economics for the IFB Research Foundation

Whilst family businesses generate a quarter of UK GDP, they recognise that success in business is about more than short term financial results. Success is about sustainable value creation. Family businesses perform better than non-family firms in non-financial metrics such as investing in their employees and in supporting communities.<sup>2</sup> And the best-run family businesses outlast others by a factor of two.<sup>3</sup>

The long term outlook of family firms gives them the opportunity to invest in training their employees, and to develop new products, processes and services. Continuity within the businesses supports innovation, investment and increased productivity. The median large UK-owned family business spends more on R&D than both the equivalent foreign-owned family business and UK-owned non-family businesses.<sup>4</sup> In 2014, large family businesses are also more profitable than non-family businesses as measured by their return on assets and relative to capital employed.<sup>5</sup> Growth in the sector brings benefits to the whole UK economy, from consumers to the exchequer and the millions who work for family firms.

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## UK Productivity

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Family businesses focus on sustainable value creation. This focus means they are able to continue to grow, to adapt, and to innovate. But it also means they think about how they can make sure the business is on a sustainable and stable footing for the future. This is part of the reason that they outperform other types of businesses during economic downturns.

The measurement of productivity is a complicated issue, and the best way to measure this is something which has been debated. Using labour productivity as the primary measure of productivity has limitations, and it does not take into account the different characteristics of businesses. It is important, when considering how to improve productivity, to be mindful of this and aware of the risk of incentivising behaviours which are ultimately not sustainable or beneficial for genuine long term company growth.

For example, a company could improve its labour productivity on paper by reducing its workforce and employing outsourced workers who may not have the same security of employment. This could produce a short term productivity gain on paper, but might lead to lower levels of service and impact future growth in the company. It is therefore important to be mindful that any measures to improve productivity take into account the wider impact on genuine, and sustainable, growth.

Our response will address in detail the three areas included in the call for evidence. However there are a number of areas not mentioned, although they have been addressed in other Government work, which we feel it is important to mention when looking at the barriers and opportunities facing the UK around productivity. In particular, these include both access to finance and infrastructure. These are important to highlight, as they affect the ability of SMEs to invest in skills, technology and access support.

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<sup>2</sup> M Institute and IFB Research Foundation (2012) *Sustainable Value Creation*

<sup>3</sup> Miller, D and Le Breton-Miller, I. (2005) *Managing for the Long Run: Lessons in Competitive Advantage From Great Family Businesses*

<sup>4</sup> State of the Nation: The UK Family Business Sector 2016/17, Oxford Economics for the IFB Research Foundation

<sup>5</sup> State of the Nation: The UK Family Business Sector 2016/17, Oxford Economics for the IFB Research Foundation

We often hear from family SMEs about the challenges they face around transport and digital infrastructure, particularly from those businesses based in more rural locations. On broadband and mobile coverage in particular, businesses tell us that lack of connectivity affects their ability to do business in a way which they know will add more value. This is a significant, and ongoing, problem.

In order to invest in new services, technologies and working practices family SMEs need both the confidence and finance options to fulfil these plans. Access to finance continues to be a challenge for family SMEs. Evidence from the BEIS Small Business Survey shows that family SMEs face more difficulties obtaining external finance than non-family businesses.<sup>6</sup> When asked why they did not try to seek external finance the top reasons given by family SMEs included the belief they would be rejected, they thought it would be too expensive, and were put off by the time and hassle involved.

Despite a growth in non-bank lending options to fund growth, awareness of alternative sources of finance is still low. Our experience of dealing with family SMEs is that many are not aware of the range of options available. This is echoed by the recent British Business Bank Small Business Finance Markets report, which showed that awareness of funding options has decreased amongst SMEs in recent years. Increasing awareness of the funding options available should remain a priority to help support long term growth.

Traditionally family firms have ploughed profits back into their businesses rather than loading themselves with debt. Their long term focus means family businesses are prepared to sacrifice short-term gains to achieve their longer-term goals. The long term outlook of family firms is reflected in the needs they have when accessing finance to invest in their business. **Family businesses need a competitive finance market which includes options aligned to their long term outlook and don't necessitate the sharing of equity.**

In order to encourage investment for growth, businesses need certainty. **For family SMEs, the maintenance of Business Property Relief (BPR) is essential to ensure they have the confidence to invest.** The introduction, and maintenance, of BPR gives business owners the confidence to focus their efforts on building their businesses and competing globally, rather than looking inwards and impeding growth to prevent risking the future of the business after their death. BPR takes away the disincentive for families to grow their businesses, and subsequently continues to benefit the UK economy as a whole. The Institute for Family Business' recent submission to the Office for Tax Simplification, provides more detail on the impact of BPR on investment in family-owned businesses<sup>7</sup>.

One common challenge cuts across all the three areas identified in the call for evidence – communication with SMEs. Smaller businesses are a difficult audience to reach, with limited time or resource available to devote to seeking out support and advice. It is essential that these challenges are considered and addressed as any interventions or initiatives are developed around the three themes in the call for evidence. Specific suggestions on some actions to consider are included within this response.

There are some general points to consider across all three areas when looking to communicate with SMEs. They require clear evidence of the benefits of the changes being promoted or suggested. With limited time available, they require practical support which is easy to translate into action within their own business. Support needs to be accessible at times, and in formats, that suit them.

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<sup>6</sup> State of the Nation: The UK Family Business Sector 2017/18, Oxford Economics for the IFB Research Foundation

<sup>7</sup> <https://www.ifb.org.uk/media/3758/ots-ihf-consultation-ifb-response.pdf>

It is also important to consider the language that SMEs use. Business owners do not typically talk about productivity. They focus on issues such as growth, improving profitability or efficiency. Support and interventions that use this language are likely to have more interest from those running businesses.

Business organisations, including the Institute for Family Business, have a role to play in supporting the Government in this area. Not only in signposting businesses towards support and advice, but also in working to support development of communications which will have the most impact with target audiences.

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## Leadership and Management

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When considering leadership and management practices it is important to understand that not all businesses operate in the same way, and that different types of businesses have strengths in different areas. More research is needed on how practices are appropriately embedded, and what the drivers are for the different behaviours. For example, there is lower labour turnover and higher retention levels in family businesses – this may have an impact on, or be a result of, management practices.

Employee engagement and job satisfaction are important components of productivity – and there is increasing evidence that higher job satisfaction can improve productivity. When looking at leadership, therefore, we should not just consider the practices in place but also the outcomes for employees.

The call for evidence asked for additional evidence on the link between ownership and management practices. As the paper notes, the results from the recent ONS Management and Expectations Survey demonstrated that there is no difference in either the management scores, or productivity, of businesses based on their family ownership<sup>8</sup>. There is, however, evidence that family businesses do perform better than other businesses in others areas which impact on productivity – job satisfaction, employee engagement and trust.

The IFB Research Foundation commissioned analysis of the Workplace Employment Relations Study which looked at the outcomes for employees mentioned above. It found that in comparison with non-family businesses, employees in owner-managed family businesses:<sup>9</sup>

- Are more likely to regard their managers as good at responding to suggestions and allowing them to influence final decisions;
- Are more likely to report that managers can be relied on to keep their promises to treat employees fairly;
- Report greater job satisfaction with regard to the sense of achievement they get from their work, the scope they have for using their initiative and the amount of influence they have over their jobs;
- Report greater loyalty;
- Are more satisfied with their job security.

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<sup>8</sup> Management Practices and Productivity in British Production and Services Industries – Initial Results from the Management and Expectations Survey, ONS, April 2018

<sup>9</sup> Family Business People Capital, Nick Bacon, Kim Hoque, Stanley Siebert for the IFB Research Foundation, 2013

All these elements are likely to be the reason family owned businesses have higher retention rates and lower staff turnover. Retaining staff in the business means their skills are not lost, and that the business can spend money on investing in future growth, rather than replacing lost skills.

To improve productivity, **Government should focus on understanding the strengths of different parts of the economy – both in terms of formal practices but also in employee outcomes - and seeking to disseminate the learnings from best practice to ensure all types of businesses can build on their existing practices.**

Although family businesses have an advantage in retaining their staff, access to talent and recruiting skilled staff is – and is growing as - a key concern for UK family businesses<sup>10</sup>. This is reflected in our own conversations with family SMEs.

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## Technology and Innovation: Adoption and Diffusion

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Encouraging greater uptake of tried and tested technologies is an important part of increasing UK productivity. There are many technologies which are already improving productivity, and could have greater uptake. Our submission focuses on how to encourage more businesses to adopt those proven technologies, and the barriers currently facing SMEs.

The Enterprise Research Centre recently looked at the impact of digital adoption on productivity in micro businesses.<sup>11</sup> They found that:

- Use of cloud-based computing leads to an increase of 13.5 per cent in sales per employ after three of more years;
- CRM adds 18.4 per cent;
- E-commerce adds 7.5 per cent;
- Web-based accounting software adds 11.8 per cent;
- Computer aided designs adds 7.1 per cent.

It is important, therefore, to understand why some SMEs are not looking to adopt digital solutions. Access to broadband, as highlighted earlier in this response, is still an issue for many businesses. For others there is a lack of confidence about which solutions to choose, scepticism about the products on offer and the benefits they might bring, cost of investment and training, and a lack of skills within the business.

**We support the proposal suggested in the CBI ‘From Ostrich to Magpie’ report, that a peer reviewed list of digital products be developed for use by SMEs<sup>12</sup>.** This would provide a central point for SMEs to access information about the technologies available, but also to hear the benefits they have brought to other SMEs. It may also help to overcome some of the scepticism from SMEs about what technology can deliver for them, and whether the time invested in bringing new systems in will pay off in the long term.

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<sup>10</sup> European Family Business Barometer, KPMG and EFB, 2017

<sup>11</sup> State of Small Business Britain Report 2018, Enterprise Research Centre

<sup>12</sup> From Ostrich to Magpie: Increasing Business Take-Up of Proven Ideas and Technologies, CBI, November 2017

**Government should work with business organisations to explore how this service could be delivered, whether it should be commissioned by Government or developed by industry bodies, and the range of technologies and practices it would include.**

The introduction of Making Tax Digital will require significant changes for a very large number of SMEs. The technology sector has seized the opportunity to use this change to educate more businesses about the digital tools available to them. However, awareness of the change is still low amongst SMEs. The change provides an opportunity to educate businesses about the digital opportunities to available to them, over and above those required to be compliant. **We strongly encourage the Government, in collaboration with the technology sector, to explore how the communication opportunity provided by Making Tax Digital can be utilised to encourage even greater uptake of proven technologies.**

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### **The UK Market for Business Support and Advice Services**

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Navigating business support and advice services, and getting the right advice, is a significant challenge for SMEs. At the recent meeting of the APPG for Family Business, which explored the challenges facing rural family firms, business owners reported difficulties accessing the support they need in a fragmented marketplace. This has been exacerbated by a lack of stability in the support networks available.

It is important to understand what kind of support is necessary for different kinds of SMEs, and to understand that the SME community itself is diverse. SMEs need different kinds of support based on their industry, age, region, ownership structure, size and growth ambitions.

The UK has been successful in encouraging businesses to start up, and there has been a great deal of discussion about how to support those start-ups in scaling up. However, not all businesses want to be ‘high growth scale ups’. Some are looking to achieve rapid growth, others are targeting steady long term growth, while many will be content to remain as lifestyle businesses. It is important that all these businesses have the support and advice they need to reach their ambitions. And that those who do want to grow, but are facing barriers, can overcome those.

Segmenting the SME community will help in better understanding the challenges facing these businesses, the type of support they need, and how they will access that. Government should work with business organisations, LEPs and others to identify the segments of the SME marketplace, and then develop a strategy for ensuring that there are services available to meet their needs. The support should not necessarily come from public sources, but there is an important role in the coordination of the development and delivery of a joined up strategy.

In an already fragmented business support marketplace, it is important to understand where SMEs go for advice in order to identify opportunities to develop the usefulness of these existing touchpoints. The recent Family Business Sector Report looked at where family SMEs go for advice and support. The top source of advice for family SMEs is their accountant, and family SMEs are more likely than non-family SMEs to seek support from their accountant<sup>13</sup>. Family SMEs are more likely than others to seek advice from

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<sup>13</sup> State of the Nation: The UK Family Business Sector 2017/18, Oxford Economics for the IFB Research Foundation

consultants, GOV.uk, banks, and LEPs. They are less likely to seek advice from business networks, trade associations, solicitors/lawyers, local council/authority or Chamber of Commerce.

A recent Enterprise Research Centre report found that “when SMEs only use a single source of advice (e.g., their accountants), they ask a variety of questions and seek counsel on issues beyond the speciality of their primary advisory source”<sup>14</sup>. Many SMEs will have long standing relationships with small, local professional services firms. Even if they do not use them for growth support, they are likely to ask their advice, and recommendations, about where to go for advice. This is down to trust and long standing relationships, but also accessibility.

This is an area which we think provides opportunities for ensuring SMEs access the support they need. We have already said that SMEs are difficult to access and communicate with. We believe there are opportunities to target awareness raising and promotion of support services amongst the advisors that SMEs are already speaking to, and using them as a conduit to SMEs.

In addition, all businesses receive – and open - communications from HMRC. **The Government should consider whether there is an opportunity to include useful information on support services alongside official mailings from HMRC.**

Family SMEs report to us that the local support available to them varies in availability and usefulness. Some report very positive experiences of Growth Hubs and LEPs, while others do not. Disseminating learnings between LEPs and Growth Hubs, to learn from the experiences in other parts of the country, may help to address some of the local disparities which businesses face. Local information and relationships are extremely important for SMEs, and it is in the best interests of all to ensure that these opportunities are not squandered.

Small business owners are usually the active managers of those businesses. They are time poor, and have to spend time on day-day management and client relationship building, rather than seeking out support and advice. This is particularly true of micro businesses. **It is, therefore, essential that accessing support should be simple and fast.** SMEs often report that they face red tape when seeking to access support from public sector, or publically funded, sources and this puts them off seeking further support. This has been highlighted by witnesses giving evidence to the Business, Energy and Industrial Strategy Select Committee *Small Business and Productivity* inquiry.

The call for evidence focuses on private sector support services. However, **it is important to look at the support ecosystem in the round to understand the challenges facing firms. The public sector has limited resources available to provide growth advice.** Whilst GOV.uk includes a lot of information that could be useful to businesses, it is not easy to navigate or find the necessary information. For example, when searching for information on “R&D tax credits” the information for businesses on how they can claim the credit is the fifteenth result, after statistics on collection, policy papers, consultation outcomes and information on personal tax credits.

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<sup>14</sup> Business Support and SME Performance: Exploratory Analysis of the Longitudinal Small Business Survey 2015 and 2016, Enterprise Research Centre, May 2018



**The Government should review the information available to businesses through official sources like GOV.uk, and the user journeys to access this, to ensure that those businesses seeking advice and support through these channels are able to access the information they need efficiently.**

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## Conclusion

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Across the SME community there are already many examples of companies with excellent management practices, strong leadership teams, high job satisfaction, and innovative and intuitive use of technology. However, the learnings from these companies is not spreading to enough SMEs. And with busy work schedules and a lack of awareness of the support available, many businesses that could be making changes are not seeking out information on these opportunities.

It is, therefore, essential that priority be given to improving how SMEs are communicated with – and that the existing touch points for communicating with them are utilised more effectively.

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