

DINNER/DISCUSSION SUMMARY

The contribution of mid-sized companies to growth of the economy

Held on 26th November, 2012 in the Whitworth Hall, University of Manchester

The Foundation is grateful for the support for this meeting from the University of Manchester.

Chair: **The Earl of Selborne GBE FRS**

Chairman, The Foundation for Science and Technology

Speakers: **Dame Nancy Rothwell DBE FRS FMedSci**

President and Vice-Chancellor, University of Manchester

Tera Allas

Director General for Economics, Strategy and Better Regulation

Department for Business, Innovation and Skills

Professor Luke Georghiou

Vice-President for Research and Innovation, University of Manchester

Richard Burslem

Site Director, Wallwork Heat Treatment Ltd and Chairman, Greater Manchester Chamber of Commerce Engineering and Manufacturing Sector Council

DAME NANCY ROTHWELL welcomed the Foundation to the university and stressed the importance of an effective dialogue between the university and the businesses in the region.

DR TERA ALLAS defined mid-sized businesses (MSBs) as those with employees numbering between 100 and 500 and annual turnover amounting to between £25 million and £500 million. Although less than 0.5 per cent of all UK businesses fell within this definition, they made a major contribution to the UK economy, accounting for just over one fifth of all UK business employment and just under one fifth of all UK business turnover (but in some other European countries (e.g. France, Germany, Finland and Sweden) MSBs constituted a much greater proportion of total business turnover, had a significantly better productivity record across all business sectors and employed more graduates. The number of UK firms in this category had grown rapidly and steadily since 2005 and now outnumbered firms in the small firm and large firm category. Innovation had been a key driver of this growth.

But why was the role played by MSBs in the UK economy less impressive than that found in some other European countries? There was no single answer: probably a mixture of difficulties in getting finance, poor management skills, smaller graduate employment (studies had shown that graduate employment was highly correlated with innovation and growth) and lack of dependence on overseas markets (nearly half of all UK MSBs did not export at all and only a quarter relied on exports for more than half of their turnover). Overcoming these challenges and unleashing the potential of MSBs could be vital for the UK's economic recovery which would depend heavily on growth in net trade and in business investment. MSBs were particularly important in the UK's key export sectors. The importance of MSBs for employment in some of the regions with high levels of unemployment meant that growth of MSBs could contribute greatly to the aim of regional rebalancing of the UK economy. The Government had put in place a number of programmes and policies (reduction in Corporation Tax,

simplified planning procedures and support for investment and for exports) to help unleash this potential and to make the UK a good place for new business start-ups and subsequent business growth.

PROFESSOR LUKE GEORGHIOU reminded the meeting that two often repeated themes in official reports over the past hundred years had been lack of innovation in UK businesses and the failure of the UK to ensure that the discoveries of its excellent scientists were exploited at home rather than by competitors in other countries. He also pointed out that MSBs in the UK invested only 6 per cent of their sales in research and development whereas in Germany the comparable figure was 23 per cent. It was important to remember that MSBs comprised firms which did not wish to grow further, firms which were on the way from being small to becoming large and firms which had once been large and were shrinking.

He saw four key flows in the "innovation ecosystem": people with the right skills and talents, money to fund research, expansion and essential infrastructure, the services and equipment to support innovation and the flow of ideas between universities, hospitals and businesses. Fruitful links, yielding benefits to both, between universities and businesses involved collaboration and knowledge exchange, people development and commercialisation.

Surveys had shown that MSBs made very low use of universities as sources of innovation. MSBs seemed to find it difficult to access universities and universities found the "transaction costs" of working with individual MSBs a deterrent as compared with collaboration with individual large companies. The Warwick Manufacturing Group (WVG), set up in the 1980s to work with small and medium automotive enterprises in the Coventry area provided an excellent example of what could be done to overcome the "transaction cost" barrier. MSBs should make greater use of the research equipment and facilities available in universities. Cuts in the level of Government

funding for university capital expenditure had meant that universities were now seeking ways of sharing facilities with each other and were receptive to involving businesses as well. He believed that more needed to be done both by businesses and by universities to encourage graduates to target jobs in MSBs. Almost half of graduates targeted jobs in large firms but less than one fifth looked to MSBs for jobs. Large firms were readier than MSBs to offer internships to graduates. The Manchester Graduate Internship Programme, intended exclusively for new graduates of Manchester University, had succeeded in 2011 in placing 105 graduates in paid positions for a maximum of 12 months and had been very well received by the businesses involved. He stressed the need for those undertaking internships to be reasonably paid. As regards commercialisation, universities could be a valuable source of new MSBs. In addition, through their procurement programmes, universities could provide MSBs with an excellent route into the market.

MR RICHARD BURSLEM said that the Greater Manchester Chamber of Commerce, with 5,000 members serving the whole of the Greater Manchester region, was the largest in the UK. Through its Engineering & Manufacturing Council it promoted the region as an excellent base for such enterprises and provided support for such enterprises in the region. Over 90 per cent of member companies which had worked with universities were highly satisfied with the experience but two thirds of those which had never done so were ignorant of what universities could offer. His members found that dealing with universities was difficult – “a maze”. They felt that universities needed to do more to promote their services to business and to make themselves more “user-friendly” to business. His own company, which provides heat treatment services for companies in general engineering, automotive, oil and gas and aircraft manufacture and repair, in fact fell outside Dr Allas’ definition of an MSB; its annual turnover was at present only £15 million and it employed only 245 people.

On the theme of innovation, he supported Professor Georgiou’s enthusiasm for the sharing of research and development facilities. His company had greatly benefited from its use of the Technology Strategy Board (TSB) Knowledge Transfer Partnership (KTP) programme and had also benefited from a project supported by a TSB grant. He pointed out that profitable innovation could take many forms; for example a local black pudding company had greatly expanded its turnover by adopting an innovative form of packaging. The product could be dispatched over longer distances and kept longer because of the special packaging.

He identified four main barriers hampering the growth of MSBs: the difficulty of finding finance, the lack of suitably trained people especially at the technician level, EU regulations and the unintended consequences of new regulations (e.g. raising the retirement age). Turning to Lord Heseltine’s recent report - *No Stone Unturned in Pursuit of Growth* - he singled out a dozen recommendations for special support including the need to promote inward investment and to achieve greater business involvement in the curriculum of schools and courses at universities.

In the two discussion periods (before and after dinner) differing views were expressed about the desirability of encouraging inward investment. Some speakers thought that foreign ownership of UK firms resulted in loss of control

leading to the transfer of jobs out of the UK but others argued that foreign ownership had brought great benefits, not least in the renaissance of car manufacture in the UK, the supply chain of which was very valuable for MSBs. It was for the Government to ensure that the political and economic environment was good for business so that foreign-owned companies wanted to stay and use the UK as a base.

There was general support for the view that MSBs could make an even greater contribution to the UK economy, especially in areas of high unemployment. More start-ups were needed which could then grow into MSBs. But concerns were expressed that many successful small businesses were swallowed by large multi-nationals before they were able to grow bigger. And thriving and growing MSBs were not possible without a strong base of clients within the UK. On the other hand one speaker mentioned the difficulty which Rolls Royce aero-engines found in sourcing as much as it would like from UK MSB suppliers because of doubts regarding stability and financial strength.

Commenting upon the point made in one of the presentations about shortages of skilled employees, one speaker drew attention to the Talent Retention Scheme, supported by the government, under which companies expecting to need to shed employees (especially those with science, technology and engineering skills) were brought together with companies experiencing shortages so that the skills were not wasted.

In response to a point made in one of the presentations about “transaction costs”, one speaker suggested that the KTP scheme was a valuable means of reducing such costs and helped to foster the important one-to-one contacts between a business and a university. Another speaker favoured greater use of internships and greater efforts to get students to focus on manufacturing rather than accountancy and banking. He thought that universities and business should get together, without any need for government involvement (financial or otherwise) to set up internships in manufacturing.

Concerns were expressed about the apparent lack of openings for graduates in businesses in the North West. But one speaker said that one explanation for this might be the fact that many graduates lacked the basic knowledge and business skills necessary to equip them for employment in the commercial world. Of course greater co-operation between businesses and universities in designing courses and in arranging internships would help to overcome this problem. Also, as one speaker pointed out, there existed schemes to encourage people from businesses to go into higher education.

The discussion revealed a strong measure of agreement about the important contribution that MSBs could increasingly make to the economic success of the UK and the key role which much closer co-operation between universities and businesses could and should play.

Sir John Caines KCB

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Useful web links:

Department for Business, Innovation and Skills

www.bis.gov.uk

Rt Hon Dr Vince Cable MP: speech on industrial strategy

www.bis.gov.uk/news/speeches/vince-cable-industrial-strategy-september-2012

The Foundation for Science and Technology

www.foundation.org.uk

Greater Manchester Chamber of Commerce

www.gmchamber.co.uk

Lord Heseltine's Report: No stone unturned in the pursuit of growth

www.bis.gov.uk/assets/biscore/corporate/docs/n/12-1213-no-stone-untuned-in-pursuit-of-growth

Research Councils UK

www.rcuk.ac.uk

Talent Retention Scheme

www.talentretention.biz

Technology Strategy Board

www.innovateuk.org

University of Manchester

www.manchester.ac.uk

University of Lancaster

www.lancs.ac.uk

Wallwork Heat Treatment

www.wallworkht.co.uk

WMG, Industrial Manufacturing Centre, University of Warwick

www2.warwick.ac.uk/fac/sci/wmg/

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