



Inspiring business

Business Manifesto Part I

Starting and Scaling a Business



Election
2017

***Let's push
things forward*** >>>

Overview

Founding a successful business is never an easy task. It takes a cocktail of ideas, guts, salesmanship and perseverance to even get off the ground. The Government has a vital role to play in improving the conditions for entrepreneurship and business growth. In recent years, the debate has broadened to include not just what policy makers can do to help individuals start businesses, but also what steps can be taken to close the 'scale-up gap' between the UK and its competitors.

Brexit-related bills are likely to dominate the legislative agenda after the election, but there is plenty that the Government can achieve outside of Parliament to boost the start-up environment over the next few years. As ever, widening the landscape for finance and building a better skills pipeline sit near the top of the priority list for company founders.

Proposals for all parties:

- 1. To complete the Entrepreneurship Review (led by Professor Tim Dafforn), and the Patient Capital Review (led by Sir Damon Buffini), both announced before the General Election**
- 2. Encourage the take up of more investment reliefs outside of London and the South East. This could involve trialling higher rates of SEIS relief for investments in certain regions**
- 3. Give companies clarity soon on whether the Government aims to retain access to the European Investment Fund in the Brexit talks. The EIF funnelled €2.3bn¹ towards UK venture capital funds between 2011 and 2015. We urge the next Government to build the capacity of the British Business Bank to support VCs, which could serve as an alternative to the EIF, if needed.**
- 4. Consult on ways to ease the hiring burden for young companies drawing staff from outside the EEA. This should go hand in hand with a comprehensive review of migration to ensure fast growing industries are able to continue drawing on vital foreign talent**
- 5. Do more to increase awareness of business support schemes, as IoD research indicates low awareness of these schemes within the business community. Even relatively simple moves, like including information on business support initiatives within HMRC correspondence would be a welcome first step**

¹ European Investment Fund (2015) 'EIF in the United Kingdom' Available at: http://www.eif.org/news_centre/publications/country-fact-sheets/EIF_Fact-sheet_UK.pdf

Bolstering Investment

Since the mid-1990s, successive governments have attempted to drive funding to early-stage firms through tax incentives. Over the last few years, the steady up-tick in the number of companies raising funds through reliefs like the Enterprise Investment Scheme (EIS)², and Seed Enterprise Investment Scheme (SEIS) speaks to a healthy investor appetite for start-ups and scaling companies.

At the same time, the light-touch regulatory attitude that has accompanied the rise of angel investors and alternative finance platforms over the past decade has helped the landscape for accessing finance in the UK to become broader than almost anywhere else in Europe. As a case in point, UK alternative lending volumes are now four times larger than combined volumes across the rest of Europe. These developments, coupled with a long period of historically low interest rates, have meant that it's almost never been so easy to access seed capital.

However, there is always more that can be done to make the UK an attractive place to invest in early stage businesses. Moreover, while the landscape for accessing seed capital has improved significantly in recent years, much more still needs to be done to encourage long-term investment

and further opportunities for scaling companies to access finance. Outside of London and the South East, these challenges are particularly acute.

In our recent submission to the Green Paper on Industrial Strategy, we stressed the need to improve the take up of investment tax reliefs outside of London. In 2014-15, 64% of SEIS investment was into companies in London and the South East, while the equivalent figure for EIS was 65%. The region's dominance is slowly diminishing, but at a time when politicians are increasingly looking to spread economic growth and productivity gains more widely, we should look at other measures to improve take-up of these reliefs across the UK.

Policy makers should also focus on the availability of long-term (patient) capital for UK businesses looking to scale. The UK has made great strides in supporting businesses to start and grow, but the 'scale up gap'³ between the UK and other developed countries remains stubbornly wide. The lack of long-term capital has been attributed to a number of different factors. However - for many - the comparatively small number and sizes of UK venture capital funds remain a primary driver behind the gap.

2 Until recently: <https://www.gov.uk/government/statistics/enterprise-and-seed-enterprise-investment-schemes-april-2017>

3 Coutu, Sherry (2014) 'The Scale-Up Report' – Available at: <http://www.scaleupreport.org/scaleup-report.pdf>

Recent months have seen the Government launch a review into patient capital and announce more funding for venture capital via the British Business Bank. These moves are welcome steps in addressing a persistent barrier to the UK's growth as a scale-up destination and may alleviate some uncertainty for VCs around future funding available through the European Investment Fund (EIF).

However, more should be done to increase investment in venture capital funds, as well as boost the numbers of UK investors with the know-how and appetite to get behind potential scale-ups⁴. Given the disruption that the announcement of a snap election has brought to reviews and inquiries already in progress, we also urge the next Government to commit to completing ongoing reviews into patient capital⁵ and entrepreneurship.

⁴ Barclays (2016) 'Scale-up UK: Growing Businesses, Growing our Economy' Available at: <https://www.home.barclays/news/2016/04/scale-up-UK.html>

⁵ HM Treasury (2017) Patient Capital Review. Available at: <https://www.gov.uk/government/publications/patient-capital-review>

Bolstering the Talent Base

Another point that is often highlighted in the debate on scale-up investment is around the stock of talent available to founders. The gap that exists between the numbers coming out of education with work-ready skills in science, technology, engineering, and maths (STEM) and the demand from fast growing industries for those skills has been scrutinised closely⁶ over the past few years, although there is still little sense it is near to being closed.

Start-up founders rely on access to foreign talent as much as anyone, and for those in the tech sector, this reliance is amplified. Nearly half of the growth in employment in the digital/tech sectors between 2009 and 2015 came from foreign-born workers.⁷ If policy makers are serious about keeping the UK at the forefront of the global tech race, they should not stifle this flow of talent into these sectors and start-ups.

It's particularly tough for start-up founders to hire from non-EEA countries. The process is long, complicated, and increasingly expensive (in the wake of the new immigration skills charge). The next Government should explore ways in which start-ups can tap into this pool of talent, which feels increasingly inaccessible for company founders.

Of course, the perennial need to improve the flow of talented individuals coming out of UK schools

and universities will also be essential to filling the skills gap. Unsurprisingly, start-ups are disproportionately created in sectors with a greater reliance on tech and digital skills. Increasing the number of people taking STEM subjects up to A-Level and on to university, as well as improving the quality of teaching and course content⁸ in England must continue to be a priority for the next Government.

Increasing the talent pool at the top of start-ups should also be a focus over the next few years if the UK is to close the scale-up gap. For obvious reasons, start-ups seldom have the sort of sophisticated managerial structures that we see in large companies, and fast growth places rapidly increasing demands on founders to change the way their workforce is managed. How a company handles these challenges is often a vital litmus test for investors.

On this level, again, there is some concern that the dominance of London and the South East harms potential growth across the rest of the UK. Worries that top managerial talent 'drains' to the region increases concerns that many otherwise thriving start-up hubs have glass ceilings for investment as companies lack the managerial talent to take them on to significant funding rounds.

⁶ Science and Technology Select Committee (2017) 'Closing the STEM skills gap inquiry', Available at: <https://www.parliament.uk/business/committees/committees-a-z/commons-select/science-and-technology-committee/inquiries/parliament-2015/inquiry3/>

⁷ TechUK (2017) Available at: <https://www.techuk.org/insights/news/item/10086-uk-tech-sector-is-a-model-for-global-britain>

⁸ Insofar as they are genuinely workplace applicable for fast growing/emerging sectors

Bolstering Business Support

Over the past few years, successive Governments have introduced a number of initiatives aimed at boosting growth for small businesses and reducing the regulatory burden they face. Some of these, such as UK Trade and Investment (now the Department for International Trade) have enjoyed a relatively high profile. However, there remains a concern that too few firms are aware of Government support programmes and are equally unsure of where to go to access advice locally.

In the five years running to the end of 2015, a majority of IoD members had received no contact from the Department for Business. Moreover, general awareness of schemes set in place to support firms was – for the most part – lower than 30% amongst the IoD members we surveyed. In quite simple terms, we would urge the next government to do more to market business initiatives more widely. Including information within the regular correspondence that employers receive from HMRC would be a relatively simple and effective first step in that direction.

More can also be done to increase the visibility of local business support for start-ups. The network of Growth Hubs now rolled out across England and Wales has been welcome in bringing together local support and advice at a local level⁹, although there remain concerns that some are more visible and effective than others. Particularly with start-ups and other scaling firms facing a rapidly changing business and trading landscape over the next few years, some of these services available at a local level could provide them with an important lifeline. The Government should look at how it can boost the profile of growth hubs and use the profile of new metro mayors to further push awareness of these services.

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⁹ Services include regulatory advice, information about Government support initiatives and public procurement, and access to localised functions of the Department for International Trade.