



"Building our Industrial Strategy" Consultation
Response from the Chartered Association of
Business Schools

The consultation documents are available at: <https://www.gov.uk/government/consultations/building-our-industrial-strategy>

The closing date for responses: Monday 17 April 2017



Chartered ABS response to HM Government Green Paper “Building our Industrial Strategy”

Introduction

The Chartered Association of Business Schools is the voice of the UK’s business and management education sector. The UK’s business and management education sector represents 1 in 5 university students and contributes £3.25bn to the UK economy. Its management students go on to lead global businesses and its entrepreneurs contribute to our dynamic economy. Its research has an impact across society and helps to turn our capacity for invention into viable businesses. While MBAs may enjoy the highest profile of all business school programmes, they make up a very small proportion of what business schools do. In terms of student numbers, MBAs make up less than 5% of the over 325,000 students studying in business schools in the UK, and this doesn’t take in to account short programmes, often offered under the umbrella of Executive Education, which caters for an increasing number of open and bespoke programmes delivered to employees in both large and small firms. Our members consist of 120 business schools and higher education providers across all of the UK, as well as affiliate stakeholders, corporate members and international partners.

The Chartered ABS includes the Small Business Charter (SBC), which was set up under the drive and guidance of Lord Young of Graffham when in his role of Enterprise Adviser to the then Prime Minister, David Cameron. The purpose of the SBC is to encourage and support business schools to support SMEs. It is a highly-regarded award granted only to those schools meeting the rigorous criteria across aspects of actively supporting the growth of small firms; actively engaging with other stakeholders in the growth agenda; and providing their students with relevant start-up support.

The Lord Young of Graffham, who envisioned and champions the Small Business Charter, adds:

“Since I first came into government, now nearly four decades ago, there has been a complete revolution in the commercial world, driven by ever evolving technology and a rekindling of enterprise. In the late seventies, we were an economy of large companies with small firms in continuing decline throughout the post-war period. Today, in a complete transformation, a majority of the workforce work in small firms: large firms account for about one third and lifetime employment is barely a distant memory. Even more than that, many young people are today imbued with the desire to work for themselves and all these changes, taken together, produce entirely new demands for business schools.”

“Many business schools rose to the challenge with alacrity and they are the members of the Small Business Charter. These are the schools who, in addition to their normal work, focus on small firms in their locality and who are making an ever-increasing contribution to their local economy as well as the economy at large. Our main thrust must be to maintain standards but bring more business

schools into the Charter group and to encourage an entrepreneurial and a positive outlook for all at our universities.”

We are pleased to have the opportunity to respond to the Green Paper “Building our Industrial Strategy”, especially as both the Chartered ABS and the SBC have both been recognised in the Green Paper as effective conduits to expanding the growth of our businesses. The SBC, Chartered ABS and the business schools have much to offer and look forward to working with the Government and its agencies to deliver the strategy.

As examples of what business schools are capable of contributing we would encourage reading of the 2016 report: [Business schools: delivering value to local and regional economies](#), which highlights the impact business schools are already having in supporting regional growth and productivity.

Summary of main points

1. Include management alongside STEM to ensure commercialisation is an integral part of innovation.
2. Recognise that innovation includes developments in working practices – the way in which things are done.
3. Recognise that leadership and management are key barriers to the growth of companies. Ensure that the industrial strategy seeks to address this.
4. There are some excellent institutions already in place to drive the growth agenda forward. Use them, and for those not working effectively, outsource the activities and funding to other pre-existing institutions with a track record of success.
5. Recognise universities and in particular their business schools as regional anchor institutions, and support them financially in this role.
6. Re-introduce the MAS.
7. Recognise that different regions have their own barriers to growth and therefore support regional solutions, not regional implementation of national programmes.
8. Prioritise SBC holding business schools for funding when supporting SME development.
9. Commit to replacing ERDF funding, using the same criteria.
10. Change HEIF funding criteria to make it less STEM focused, or create an additional funding stream for non-STEM innovation.
11. Recognise that the UK economy is largely services driven and that innovations here are likely to have the greatest economic impact. Don't overlook the importance of the creative industries.
12. Commission research of what interventions, resulting from this industrial strategy, work.

13. Align degree apprenticeships with the industrial strategy.
14. Provide universities with degree apprenticeship vouchers for use by SMEs, to boost take up.
15. Provide internationalisation vouchers for international students to work as interns in growth companies for a restricted period post-graduation to develop wider use of soft power.
16. Consider funding already existing, effective, small-scale, corporate funded programmes such as the Goldman Sachs 10,000 Businesses Programme, Elite, LEAD, to ensure wider reach.
17. Consider alternative funding models for supporting management and leadership development for SMEs.
18. Reduce Entrepreneurs' Relief hurdle ownership level to 1% to increase the number of impactful NEDs.
19. Offer simple tax incentives for SMEs to offer internships for students.
- 20. Engage with, make use of, and support the UK's world-class business schools. They want and are extremely capable of helping.**

Responses to specific questions

We have limited our responses to those areas we feel able to add value.

2. Are the ten pillars (see below) suggested the right ones to tackle low productivity and unbalanced growth? If not, which areas are missing?

These provide a useful organising framework, but as mentioned below we think the interpretation of these is important, and a narrow view will limit their effectiveness.

Under **Pillar 2** we would like to see leadership and management specifically mentioned alongside STEM. As mentioned in **Pillar 1**, it isn't just about the STEM innovation, but the commercialisation and deployment of these innovations, and that is done through involving leadership and management from an early point, not as an afterthought.

Under **Pillar 4** we would note that the UK is a very easy place in which to start up a business, not least thanks to the various support mechanisms already in place, including the work universities and business schools do to educate young people. Where the help is most needed is in helping those businesses to grow and we are pleased that this has been recognised in the Industrial Strategy document.

Finally on this point, what seems to be missing is a research strand, where Government can create an evidence base of what does and doesn't work in an industrial strategy, and from which future policy can be derived. Business schools would be well-placed to help in this.

3. Are the right central government and local institutions in place to deliver an effective industrial strategy? If not, how should they be reformed? Are the types of measures to strengthen local institutions set out here and below the right ones?

Many institutions already exist, for example growth hubs, and LEPs, and these are locally based. Combined authorities (which in some cases are subsidised by local universities) is another element that has the potential to deliver. The problem with this approach is that these initiatives come and go as governments and their policies change. They are also variable in their effectiveness. Some are truly excellent and deliver great value and benefit, but this cannot be said of them all. There is no quality assurance associated with these institutions.

The solution is not to create more institutions, but to use what works and fix things where they are not working. Business schools and their associated universities are anchor institutions; they have stood the test of time and their existence is generally not reliant on the priorities of the government of the time. They outlive RDAs, LEPs, and even industrial strategies. They also have a track-record of bringing communities of businesses and business support institutions together. Therefore, this industrial strategy would do well to create greater support mechanisms for business schools in their interactions with businesses in their local areas. The better performing LEPs and growth hubs already do this.

That said, a prime example of an effective and well-used scheme disappearing because of changing Government priorities and a need to cut spending is the Manufacturing Advisory Service. This, by the Government's own evaluations worked well and brought together business schools, trade bodies and research councils in supporting SMEs in the manufacturing sector. Recent evaluations of the Scottish MAS programme suggest a benefit to cost ratio of 13:1, which compares very well against the impressive 7:1 ratio achieved by InnovateUK. It would be worth the current government revisiting the MAS programme with a view to reinstating it.

As the Green paper correctly identifies there are regional disparities, and barriers to growth are regional and largely due to local ecosystems. Here, business schools, with their excellent geographical spread and regional presence, offer an important resource for driving growth across the whole country. Spread across the entire UK, they have local knowledge, local contacts, local expertise and are able to identify business intelligence to develop locally relevant solutions. They are also used to working as a network through the Chartered ABS and the Small Business Charter, to deliver regionally embedded interventions in national initiatives.

We are delighted to see the suggestion of a Scale Up Champion and would recommend that the Government utilise the Small Business Charter as a support structure for their activities. Since 2014 the Small Business Charter has been achieving success in encouraging HEIs to engage with SMEs. There are now 33 schools across the UK which hold the award, and others preparing to be assessed. Schools are rigorously judged against 30 pillars in the categories of actively supporting the growth of small firms; actively engaging with other stakeholders in the growth agenda; and providing their students with relevant start-up support. The schools with the charter award are involved in numerous programmes which have been proven to drive growth, and the vast majority are represented in the LEPs. These programmes have by and large been funded either from private institutions such as Goldman Sachs and Santander, industry funded schemes such as the Productivity through People programme, or from the European Regional Development Fund. Schools holding the SBC should be recognised for having proven their commitment to, and expertise in supporting SMEs and growth companies, and this kitemark should be recognised by Government and other agencies and become priority institutions for Government funding to support SMEs.

Hundreds of millions of pounds has been made available through the ERDF scheme to support regional growth, with a strong focus on SMEs. The types of programmes made possible through the ERDF include innovation agencies/ networks for specific sectors such as fashion, biomedical, environmental technologies, microelectronics, graduate innovation internships, and exporting support. The availability of this scheme will soon be lost to the UK. One key part of the ERDF was to support the adoption of new technologies for less well-funded businesses, where originality of innovative products may not be possible, but adoption of innovative products and technologies can make a massive difference in terms of productivity and profitability. This type of activity was funded by ERDF and if these types of programmes are to be offered in the future, they will need to be funded from alternative sources. The criteria applying to ERDF funding could be replicated, and we encourage the Government to seriously interrogate this.

We welcome the proposal to consider expansion of HEIF and KTPs. We would strongly encourage that any such growth be structured to ensure access to these funding sources is available for a broader set of activities that translate into business growth. There are currently difficulties for business schools when competing against the sciences for HEIF funding, and in meeting the requirements, especially where CPD (continuing professional development) can only be counted where it is non-credit bearing. There doesn't seem to be any good reason for this to be the case, so it could potentially be removed. It should also be noted that HEIF is only applicable to a narrow range of activities. For more innovative and widely impactful programmes than the present narrow range of activities to be funded, either the guidelines around HEIF need to be changed, or another pot needs to be set aside for funding the business and management side of the innovation agenda which should include innovative thinking. We would prefer to see the latter.

Only by connecting STEM innovation with business and management innovation can the value-added be maximised. Not least because this then ensures the innovations are passed down through the supply chain. The UK is known internationally for its STEM research and the quality of its management training. Our challenge is to connect the two, ensuring the effective commercialisation of research findings to benefit UK plc.

The global reach of business schools should also be recognised for the benefits it brings. Our business schools are recognised as some of the best in the world, not only attracting international faculty and students, but also in engaging academic collaboration through research, teaching and engagement. Innovative mechanisms that connect SMEs to global opportunities could be lead and enabled by business schools. The soft power associated with international students studying in our business schools should also not be overlooked.

5. What should be the priority areas for science, research and innovation investment?

It is understandable that there is a concentration on STEM, but innovation comes in many forms. Innovation is more than just new products or technologies, it includes new ways of thinking and doing things, especially from a business development perspective. Therefore, there needs to be ring-fenced focus on delivering the business leaders to enable greater productivity. This needs to be seen as a necessary input so that commercialisation and improvements in working processes are integral, not an afterthought.

By supporting interdisciplinary research the government could ensure that technological and scientific advances lead to greater productivity. The current system of ring-fencing for STEM subjects should include a requirement for any research funds allocated to require involvement of the business/management school to ensure the commercialisation issue is addressed from the outset.

Both innovation and higher productivity at the firm level are driven by process re-engineering, which involves changing *how* you add value to the end user, customer or client. This is particularly important in services firms which are under-represented in the industrial strategy. Firms also change their business model (business model innovation) which involves engaging in new markets, against new competitors, but often accompanies the development of new products, services and processes. Business schools conduct research, with firms on all of these areas of innovation and the findings of this research should be incorporated into the industrial strategy.

All of these forms of innovation influence productivity. Economists have identified the productivity gap, but not the causes or the potential solutions. Business and management research and teaching focuses on both the causes and the potential solutions, working with firms and managers directly on practical ways of improving the management of innovation.

This incorporates near-market incremental improvements in products, services and process, working with managers. But business schools also conduct research on radical and disruptive innovation, disconnected from the immediate needs of the market but focused on understanding future threats and opportunities for our firms and our economy and society.

6. Which challenge areas should the Industrial Challenge Strategy Fund focus on to drive maximum economic impact?

Numerous reports, including the one from the CIPD cited in the BIS report “Leadership and Management Skills in SMEs”, have highlighted the lack of leadership and management skills available in SMEs. While setting up a new business is relatively simple and well supported in the UK, keeping the business growing is significantly more difficult. Furthermore, there is a positive correlation between leadership and management skills and the success of a small business. It is this area that the Government should concentrate on to help these start-ups become growth companies or ‘scale-ups’. We would suggest the Government concentrate on growth companies rather than the OECD definition of scale-ups so as not to miss younger companies with the potential for substantial growth.

Productivity is driven not just by leadership and management practices but the translation of those practices into working practices in the workplace across the workforce. It is the implementation of progressive and efficient working practices, so often identified and researched by academics, and implemented by skilled and educated managers, that actually makes a difference, not just upskilling individuals.

7. What else can the UK do to create an environment that supports the commercialisation of ideas?

There seems to be an assumption that innovation should be interpreted as the creation of new products and that commercialisation is what you do with the product. However, innovation is a process; it is the application of ideas. Simple changes in how something is done can be far more

productive than the creation of a new product. Great products without good management and business processes will rarely result in commercial success. Therefore, the concentration should move from purely STEM to include Management.

Of course, good management doesn't only impact on STEM related businesses, but across every sector including the creative arts, and these areas too feed in to productivity. The UK economy is very service sector dependent and this should not be side-lined in the pursuit of scientific achievement. There should be support for and a celebration of all good ideas regardless of the sector.

This should not just be about funding, but even supporting simple things like awards ceremonies can make a big difference in driving behaviours, not least because it helps a greater number of people to think about what is important. A notable example is the Government supported Entrepreneurial University of the Year Award. This should continue, but other areas may also be considered.

Degree apprenticeships provide one mechanism for aligning the education policy with the industrial strategy policy and this needs to be managed appropriately. One way in which to ensure that degree apprenticeships are used by SMEs is to provide universities with "apprenticeship vouchers" for use by SMEs.

Internationalisation vouchers could be used to incentivise international students to work short term (6-12 months) for growth companies. A simple scheme that would not be prohibitively complicated for either the SME or the student could easily be devised and be beneficial to all.

Programmes such as LEAD, Goldman Sachs 10,000 Small Businesses Programme, the Elite programme, are proven to be effective, but the challenge is doing them to scale. They tend to be small scale and offered in a limited number of business schools, largely because of funding constraints. The Government might consider funding these through repayable loans (similar to student loans), or with royalties payable, or indeed by the Government taking a longer-term view and recognising that future tax revenues will be boosted by more companies growing. Adopting imaginative financing mechanisms such as these could result in government support being minimised and possibly even cost-neutral in the longer term.

One of the many things that our members recognise is that, for SMEs and growth companies, whilst classroom and online learning can take you so far, the most valued and effective form of learning happens face-to-face with peers. Business schools offer the right environment for this to happen.

Business schools also work across sectors on healthcare, engineering, manufacturing, public policy, creative industries, and service industries, and would therefore offer the broadest reach for supporting SMEs.

One way investors add value to portfolio companies is to introduce a non-executive director (NED) who can mentor the team and add value in terms of the management and leadership of the business. NEDs typically have stock options or invest to secure a very small equity stake of 1-2% of the business. However, entrepreneurs' relief is only available to directors owning 5% or more of the company. Lowering the 5% hurdle for entrepreneurs' relief for NEDs to say 1% share ownership would further encourage NED/mentors to engage with SME owners and invest to help them grow their enterprises.

8. How can we best support the next generation of research leaders and entrepreneurs?

There is much that is already being done in universities and in particular business schools across the whole country. There are two elements; what is taught to undergraduates and the other opportunities they enjoy while studying, and what is available to those in the local area no longer in formal education. For undergraduates, there are an increasing number of degree programmes focused on entrepreneurship, and an even greater number of courses that include elements of setting up, running, and growing a business. Increasingly business school modules are being offered to students from other disciplines. There are also opportunities for students to undertake internships or work-based learning in companies large and small. Engaging SMEs however, is very time consuming. A simple tax incentive offered to SMEs for taking on interns would help enormously in encouraging SMEs to engage with their local business schools.

For those already running their own businesses, universities, usually through their business schools, host innovation hubs, offer support for start-up businesses, deliver short open courses on topics relevant to entrepreneurs wanting to grow their business, and provide networking opportunities. More could be done to direct SMEs and growth companies to their local business school, which could be simple and cost effective for government to do.

9. How can we best support research and innovation strengths in local areas?

Business schools play an important role in engaging a number of different agencies in their local region – the university, the business community, LEPs, local authorities. As has been recognised in this Green Paper, what works in one region will not necessarily work in another, and the issues for each area will be different in terms of local infrastructure, business sector specialisms, skills, the size of local firms, institutional structures, etc. As such, there needs to be regional variations of the industrial strategy to address the regional circumstance.

Business schools are ideally situated to inform and gather further evidence on local needs and help derive locally appropriate interventions. They also have the academic expertise to evaluate the effectiveness of interventions, to inform future policy and intervention. There is also ample evidence to show that business schools are able to work collaboratively to achieve results. Therefore, consortiums of business schools could be formed to carry out this work on behalf of the Government and then coordinate local action.

In response to specific suggestions in the paper, we would suggest that business schools are well equipped to carry out the independent research on approaches to commercialisation (p34). We applaud the additional R&D funding but are concerned that it will be primarily invested in STEM 'kit' and that although commercialisation merits a mention there seems to be little detail on the role it will play. We would argue that it should be brought in at the ground level and not as an afterthought once the 'innovation' piece has been accomplished.

We stand ready to work closely with Professor Tim Dafforn in his review of entrepreneurship (p66), and equally eager to help the government build peer-to-peer networks (p66). Indeed, we are beginning to offer these through our Entrepreneur in Residence Network.

13. What skills shortages do we have or expect to have, in particular sectors or local areas, and how can we link the skills needs of industry to skills provision by educational institutions in local areas?

As has already been highlighted, amongst the most urgent skills needs that need addressing are management and leadership. This relates across all sectors, so regardless of what other sectors in local areas require attention, management and leadership will be a common thread.

We were somewhat surprised that, whilst the Green Paper discusses the importance of apprenticeships in driving the priorities of the industrial strategy, no specific mention is made of degree apprenticeships. This risks re-opening the binary divide between technical and academic education which degree apprenticeships are proving so successful in bridging. Business Schools are already leading the charge on degree apprenticeships with the delivery of programmes in digital and in management. These developments should continue to be encouraged as this is a key means by which business schools can offer solutions to both productivity and social mobility that are the best fit with regional need.

22. What are the barriers faced by those businesses that have the potential to scale-up and achieve greater growth, and how can we address these barriers? Where are the outstanding examples of business networks for fast growing firms which we could learn from or spread?

Entrepreneurs tell us that there are two types of people entrepreneurs trust: business school academics, and other entrepreneurs. Getting access to these groups is, therefore, critical. There is a plethora of organisations offering advice and networking to SMEs, but small business owners do not have the time or inclination to attend them all to discover which ones work best for them. Inevitably therefore, there will continue to be the need for many. However, finding a simpler way to identify companies with growth potential would help in individuals self-identifying what 'affinity group' they fit in to and therefore the best place to network and seek advice and education. Research already exists that can help identify characteristics, beyond the rather artificial OECD scale-up definition, of high growth companies which renders invisible the reality of growth for many SMEs in the UK.

To assist the networking opportunities the Small Business Charter has set up a national Entrepreneurs in Residence Network, which links SME company managers who are also engaged in some capacity in their local business school. This has the added advantage of giving students access to entrepreneurs and small business leaders in their region.

36. Recognising the need for local initiative and leadership, how should we best work with local areas to create and strengthen key local institutions?

There is significant variation in the effectiveness and quality of a number of regional organisations. This is challenging and also means that there is little in the way of learning from each other in various parts of the country.

A solution is to use the SBC as the measure of quality when looking for business schools to be entrusted to cater for SME development. There is a quality assurance mechanism in place, these institutions are required to have a track record of success at scale, they are required to measure the effectiveness of what they do, they are located around the UK, they are effective in working with other agencies, they understand the regional barriers to growth and yet have connections with

others throughout the country to learn what is effective. Further, they not only cater for the current for existing SMEs and growth companies, but they have access to future entrepreneurs through their student base, who they can support throughout their studies. There is clearly more that can be done and business schools stand ready to take this forward.

The SBC already has relationships with Government, the Scale Up Institute, the Productivity Council, and corporate sponsored programmes such as Goldman Sachs, and Santander.

37. What are the most important institutions which we need to upgrade or support to back growth in particular areas?

There is great regional variation, just as there is variation in what is required, therefore the aim should not be to have a one size fits all solution. The Government can create a set of guidelines against which success can be measured and invite bidders for certain regions. In some areas LEPs are working very effectively, combined authorities can also work well. But where they are not there should be an open tender for lead support with strict criteria of what is expected and how success will be measured.

What should be accounted for is that often university or business school involvement in such activities are subsidised by the university. There is a serious question to be answered about whether student fees should be used for such purposes. If the Government wishes business schools to be involved, as it should, then there needs to be the funding to allow it to happen.

We would reiterate here that there should not be an over domination of STEM expertise development, but that it should be in combination with business and management skills development. In this way, the greatest impact of this strategy will be achieved.

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