

# THE SCALEUP REVIEW ON ECONOMIC GROWTH 2016

**THE SCALEUP INSTITUTE**

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## FOREWORD

<sup>1</sup> An enterprise with average annual growth in employees or turnover greater than 20 per cent per annum over a three year period, and with more than 10 employees at the beginning of the period (OECD, 2014).

On behalf of the ScaleUp Institute, I am pleased to share with you the 2016 Scaleup Review that updates the ‘Scaleup Report on UK Economic Growth’ I was commissioned to write in 2014. In this review, we build upon the 2014 report that drew attention to the connection between economic prosperity and the proportion of companies that were scaling up. We draw on new datasets, additional research and recently published surveys of scaleup leaders to make new recommendations on what needs to be done next.<sup>1</sup>

**How do we prepare the ground within our communities to drive meaningful economic growth on a global basis?** The answer to this question in 2014 resonates even more strongly today: Using newly available datasets to change our focus from ‘small, medium and large companies’, to ‘growing companies’, we build upon research that demonstrates ‘local’ and ‘place’ are the most important drivers of national economic growth we have available to us.

### **Data is the new infrastructure that enables us to act with confidence.**

Much has occurred in the intervening period and we remain hugely encouraged by the determination and enthusiasm to help our UK businesses scale and achieve their fullest potential.

The 2014 Report highlighted that the UK economy was lagging behind the US and other leading economies in the extent to which our companies scale. This is the ‘scaleup gap.’ The report showed that if we took advantage of the ability to focus on scaleups, the UK would secure significant growth in jobs, taxes and wealth and a competitive advantage for generations to come. The 2014 Report gave insights into how a boost of just one per cent to our scaleup population should drive an additional 238,000 jobs and £225bn Gross Value Added (GVA).

The 2014 Scaleup Report therefore set out a clear plan of action to close the scaleup gap. It spoke of the need for the whole ecosystem of stakeholders to collaborate to improve their local environments so a higher proportion of companies would progress from ‘small to large.’ Ecosystem stakeholders represent all avenues of the community as the responsibility to become a ‘Scaleup Nation’ – to create a society where a greater number of companies reach global scale – rests with all of us who have an interest in supporting the prosperity of our citizens. We need to: mobilise data in order to improve the talent pipeline, increase scaleup leadership capacity and assist customer acquisition.

2 It is clear from international examples and case studies that ‘local’ is the correct ‘body’ to implement ecosystem economic development programmes. There are also reports issued by Lord Sainsbury and Jim O’Neill on clusters and cities. The point made here is that the ‘ecosystem’ sometimes exists in a ‘cluster’ and sometimes in a ‘city’. We are aware of the differences, but use the terms interchangeably in this review.

Figure 1: The Scaleup Ecosystem



In 2015, leading players from the fields of finance, entrepreneurship, education, business and government joined forces to form the **ScaleUp Institute**. The ScaleUp Institute is a not-for-profit organisation dedicated to working with all players in the ecosystem to increase the proportion of companies that scaleup in the UK relative to other nations.

Getting our communities to enable a greater number of companies to scale is more challenging than merely increasing the companies that are started. It is also significantly more rewarding over the short, medium and long-term to do so in terms of jobs and growth.

In growing from 10 to 100, 500 or 1,000 employees, or growing from £1m turnover to £10m, £50m, £100m, £500m or £1bn in revenues, companies have specific requirements for capital, management, skills and organisational processes.

‘Growing pains’ in companies that are scaling are inevitable and it is pleasing that there are now well-evidenced methods available to ease these. Once local communities can identify scaleups, they can come together to remove pain points and improve the environment in which scaleup leaders have chosen to locate their businesses.

The 2014 Report showed these barriers can only be overcome through coordinated efforts between stakeholders at a local level.<sup>2</sup>

Scaleups exist countrywide and across sectors. In 2016, the ScaleUp Institute has worked closely with national, regional and local stakeholders who are working on scaleup action plans and initiatives. With supportive local and national government policies, industry structure, geographic placement and the talent supply we enjoy

## FOREWORD

in the UK, we are positioned to create unrivalled national competitive advantage by increasing the proportion of companies that are scaling up.

The 2016 'Scaleup Review on UK Economic Growth' reports on where we are now and what is different from 2014. We provide updates on the numbers of businesses that are scaling up both nationally and by Local Enterprise Partnership. The 2016 Review also reports on what the scaleup leaders are saying and whether this has changed since 2014. I am delighted to say that we are on track for the 2019 targets I outlined two years ago.

In 2014, I made 12 recommendations to stakeholders throughout the UK to help drive economic growth and competitive advantage of Great Britain. In light of the progress made since 2014, the ScaleUp Institute is now making 10 recommendations to supersede the original recommendations made. As before, these recommendations should not be viewed as 'a menu' to pick and choose from, but as a series of actions that members of our communities should take to address scaleup gaps in their area of interest.

This review shows that between November 2014 and November 2015, there was a steady growth of companies that were scaling up on a national basis and this is a reason for optimism about the future of the UK's prosperity.

In bringing this review together, I salute the hard work of my colleagues at the ScaleUp Institute and also the insights of our Partners and Ambassadors who volunteer their time and expertise. Our Directors, Advisors and Ambassadors are listed in Appendix 6 to this document and on the ScaleUp Institute's website.

This 2016 Scaleup Review would not have been possible without the input of these colleagues and their encouragement to form the ScaleUp Institute in 2015. I am particularly grateful to Irene Graham who joined us as our inaugural Chief Executive in October 2015. There are quite literally thousands of other people from organisations up and down this country and further afield who have contributed to the ideas in this report, from business, academia, politics and beyond. This is a long list and it would be invidious to name some without naming all.

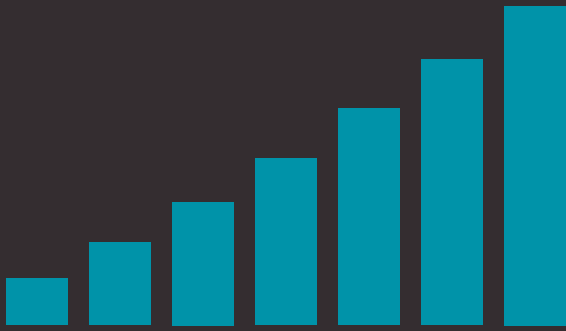
## FOREWORD

The 2014 Scaleup Report was commissioned by the Information Economy Council, a joint Industry and Government body, in March 2014. Much has happened in the intervening period including a vote to leave the European Union by the UK. We are encouraged by the growth in the number of companies that are scaling up in the UK and remain convinced that the focus on growth and the need for the ScaleUp Institute's work is as critical now as it has ever been. The following pages present solid evidence charting significant progress made in the past two years. It is with enthusiasm that I look forward to taking this agenda forward with colleagues to see what we can further achieve together.

Working together, I am confident that we will be able to make Britain **the** most attractive environment in the world a scaleup leader could possibly choose to operate their growing international business from.

A handwritten signature in black ink that reads "Sherry Coutu". The signature is fluid and cursive, with a large, stylized initial 'S'.

**Sherry Coutu CBE**



# EXECUTIVE SUMMARY



# Executive summary

**3** ONS Business Structure Database based on IDBR (Figures may differ by small amounts from those published in ONS outputs due to the application of rounding methodologies).

The 2014 ‘Scaleup Report on UK Economic Growth’ drew together 148 academic publications, 300 interviews with practitioners and policy makers, a survey of 363 scaleup CEOs and a review of 75 initiatives from 20 countries. This enabled us to identify the barriers preventing scaleup leaders from achieving their ambitions that were able to be addressed.

This Review for 2016 is drawn from the work of the ScaleUp Institute, which conducts annual surveys of scaleup stakeholders, undertakes and reviews research and policy on scaleup indicators and themes and publishes case studies and weekly newsletters on scaleup initiatives. We also deliver an executive education programme for scaleup ecosystem leaders in partnership with other leading institutions from around the world.

**Our annual review starts with a reminder of why scaleups are important within the context of the prosperity of all UK citizens, follows with the critical issue of ‘scaleup indicators’, reviews how priorities differ from local or thematic perspectives and ends with new recommendations to close the scaleup gap in coming years.**

This executive summary contains highlights from each chapter, the progress made since 2014 and our new recommendations for 2017.

The key conclusions are:

- We are on track in increasing the number of scaleups with a rise to 11, 575 nationally in 2015,<sup>3</sup> but further concerted effort is needed if we are to reach our target of £225 billion (net) GDP by 2034.
- The UK Government has excellent data sources which if harnessed to even greater effect, can ensure better tailored support to scaleups and those businesses with high growth potential.
- Progress has been made locally, however, more still needs to be done to address disparities.
- We have ambitious scaleup leaders who want to scale to even further heights. These leaders continue to most need help on talent, leadership and access to markets. Meanwhile, finance and infrastructure remain an important complement to these needs, with specific actions required to address local disparities and to unlock further institutional investment.
- Large corporates, business schools and universities, alongside local authorities can help scaleups with talent, leadership development and sales opportunities at home and abroad. This support is very much welcomed by scaleups and, although progress has been made, more support is needed.

4 Reported in Harvard Business Review <https://hbr.org/2016/03/the-u-s-startup-economy-is-in-both-better-and-worse-shape-than-we-thought-study-located-here>: <http://jorgeg.scripts.mit.edu/homepage/wp-content/uploads/2016/03/Guzman-Stern-State-of-American-Entrepreneurship-FINAL.pdf>

5 Research Conducted on behalf of Octopus by the Center for Economics and Business Research: accessed here on 9 November 2016 [www.highgrowthsmallbusiness.co.uk/Octopus-High-Growth-Small-Business-Report-2015-NATIONALS.pdf](http://www.highgrowthsmallbusiness.co.uk/Octopus-High-Growth-Small-Business-Report-2015-NATIONALS.pdf)

6 Confederation of British Industry

7 “Lifting the Trophy: Scale-up insights into the productivity prize” Research carried out in 2016 by the CBI in partnership with the ScaleUp Institute, Lloyds Bank and Aston Business School.

8 Lunani, H. (2012) Endeavor: Multiplying Impact through High Quality Jobs. Retrieved from <http://share.endeavor.org/pdf/GlobalEmployeeSurveys.pdf> see also [www.scaleupinstitute.org.uk/programme/endeavor-programme/](http://www.scaleupinstitute.org.uk/programme/endeavor-programme/)

## A) WHY SCALEUPS MATTER

The connection between local economic growth and the number of companies scaling up was established in the 2014 Scaleup Report. Further research in the past two years underscores how critical it is to monitor scaleups accurately on a local and national basis as part of our industrial strategy. This recent research established that scaleups are also linked to *productivity*, *job quality* and *innovation*. “A doubling of entrepreneurial quality predicts an increase of 6.8% in GDP 11 years in the future,” the authors report. By contrast, startup quantity is less correlated and not significantly linked once the city’s current GDP is controlled for.<sup>4</sup>

Figure 2: Why Scaleups Matter



**Scaleups and Productivity:** Research carried out in 2015 and 2016 adds to the strong links between the two that we outlined in 2014: Octopus Investments showed high-growth firms created three times as many jobs each week than did the FTSE-100.<sup>5</sup> Furthermore, the CBI<sup>6</sup> and Aston Business School showed high-productivity firms to be twice as common in firms with scaleup status than those in ‘small, medium or large’ business classifications.<sup>7</sup>

**Scaleup Jobs are high-quality:** There is significant evidence to show that companies classified as scaleups help create high-quality jobs with more satisfied employees. The Endeavor Programme surveyed employees from high-growth companies who had joined the company from another employer: 80 per cent stated that they were ‘satisfied’ or ‘very satisfied’ with their current job compared to 46 per cent when asked about their previous job.<sup>8</sup>

**Scaleups are innovative and international:** Internationally active scaleups were shown to be three times more likely to introduce products or services new to their sector over businesses which are entirely domestic in orientation. The 2015 *Unlocking*

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<sup>9</sup> The 2015 Goldman Sachs Foundation and 10,000 Small Businesses UK report “*Unlocking Productivity*.” Accessed on 9 Nov 2016 at [www.goldmansachs.com/citizenship/10000-small-businesses/UK/news-and-events/gew-2015-f/unlocking-uk-productivity.pdf](http://www.goldmansachs.com/citizenship/10000-small-businesses/UK/news-and-events/gew-2015-f/unlocking-uk-productivity.pdf)

<sup>10</sup> Based on Companies House data

<sup>11</sup> [www.slideshare.net/sherrycoutu1/scale-up-deck-for-bbaa-1-nov-2016](http://www.slideshare.net/sherrycoutu1/scale-up-deck-for-bbaa-1-nov-2016)

<sup>12</sup> ONS Business Structure Database based on IDBR (Figures may differ by small amounts from those published in ONS outputs due to the application of rounding methodologies).

*Productivity Report* written by the Goldman Sachs Foundation and 10,000 Small Businesses UK, showed that scaleups demonstrate high levels of innovation, strong levels of export orientation and a high level of internationalisation.<sup>9</sup>

**Scaleups and sectors:** These scaleup business leaders truly represent the diversity of our nation and sectors. In our 2016 survey alone, we had responses from scaleup leaders from a range of sectors including construction, manufacturing, automotive, chemical engineering, advertising, marketing, hospitality, retail, food and drink, oil and gas, energy and utilities, creative, games, property development, fintech, life sciences, recruitment, education, healthcare, consultancy and IT/software.

**Scaleups and location:** Scaleups are found in all regions and nations of the UK as was noted in our 2014 report and can now be seen on our new map of their locations via the [ScaleUp Institute website](#).<sup>10</sup>

**Scaleups and gender:** It is also clear that we have a growing number of female-led scaling businesses. This is evidenced by the work undertaken with Doteveryone and Founders4schools released in 2016 that identified 927 female-led businesses with between £1m to £250m in revenues are expanding at a median growth rate of 28% per annum, whilst 336 were found to be growing at more than 50% per annum.<sup>11</sup> Their contribution was an additional £2bn to UK GDP in 2015.

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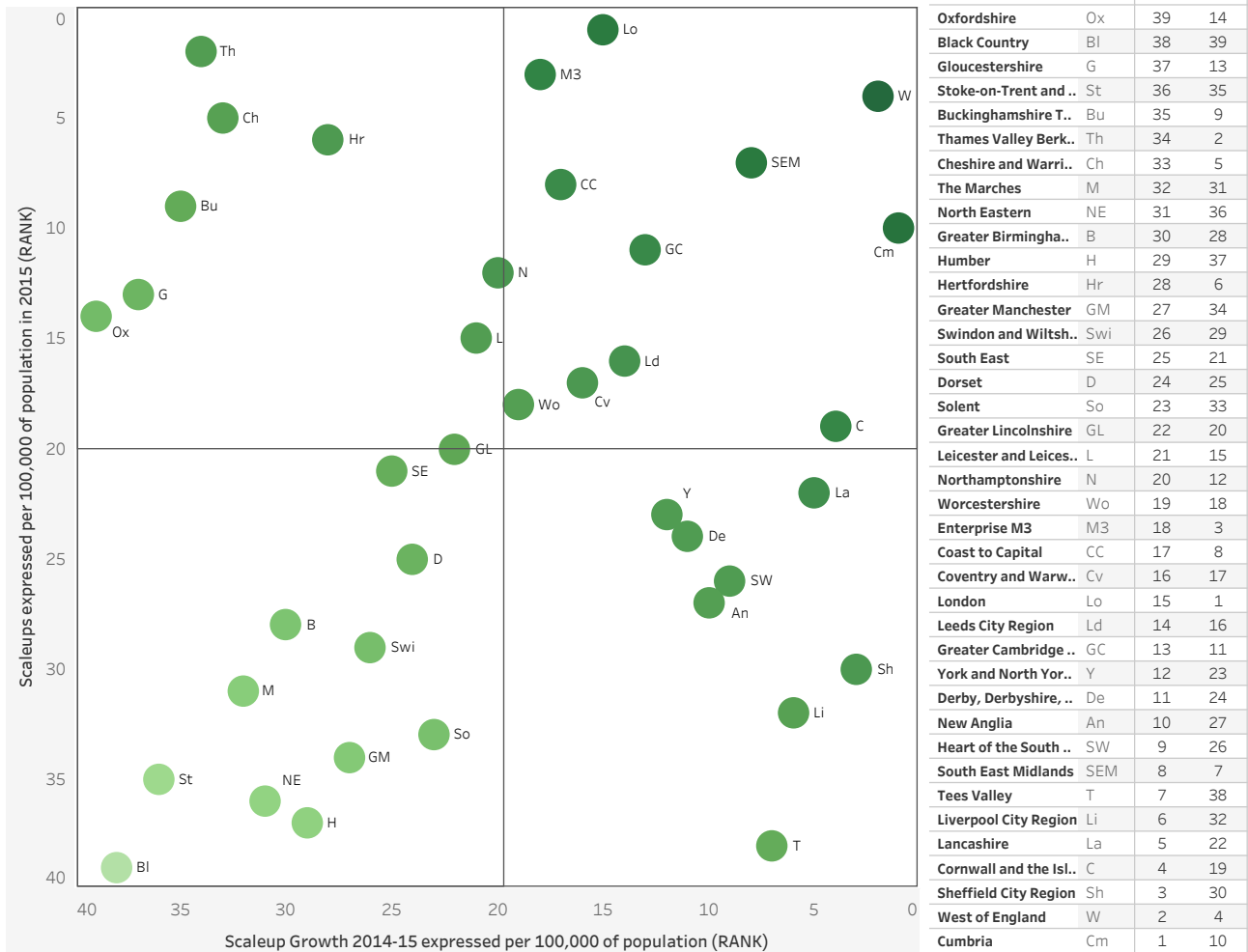
## B) SCALEUP INDICATORS FROM A NATIONAL PERSPECTIVE:

In 2014, the number of scaleups in the UK was 10,754.<sup>12</sup> The annual target was set to achieve one additional net scaleup per capita on a national basis. **It is encouraging to report that the number of businesses in the UK that can be classified as scaleups rose to 11,575 in 2015, which exceeds the target set.** The average number of scaleups per 100,000 of population registers at 18 in 2015.

**Chapter 1** addresses the importance of a service that would allow stakeholders to identify the scaleups in their area on a timely basis, therefore avoiding the need to devote finite resources to their detection and verification. Monitoring scaleup indicators enables us to evaluate and roll-out interventions that work, and to roll-back those interventions that do not work. Using a consistent framework allows us to compare apples to apples to enable us to learn what works best in one area and establish if it could be useful elsewhere.

Figure 3: ScaleUps Growth vs Density per LEP (Ranked 1–39)

ScaleUps Growth vs Density per LEP (Ranked 1-39)



C) SCALEUP INDICATORS FROM LOCAL PERSPECTIVES

Figure 3 and Appendix 3 show that the national picture masks local variation. While industry dynamics are fluid and businesses often move in and out of scaleup status, it is most important to see a consistent trend appear.

**Different starting places:** Although the ONS dataset shows that the **average** number of scaleups in 2015 per capita was 18 on a national basis, it masks the range from 27 scaleups per capita down to as low as 12 scaleups per capita. In this regard, figure 3 below plots scaleups growth versus density per LEPs in England (ranked 1–39). **We hope to report that this local disparity narrows over time.**

**Different Directions:** Similarly, although the ONS dataset shows an increase in the number of scaleups per capita, this masks a range which varies from 4 additional scaleups per capita to a decrease of 2 scaleups per capita also plotted by LEP below in Figure 3. **We would hope to report that this regional disparity narrows over time while holding the national average at 1 additional scaleup per capita.**<sup>13</sup>

**13** When we report per capita growth rates and population, we do so on a per 100,000 population basis.

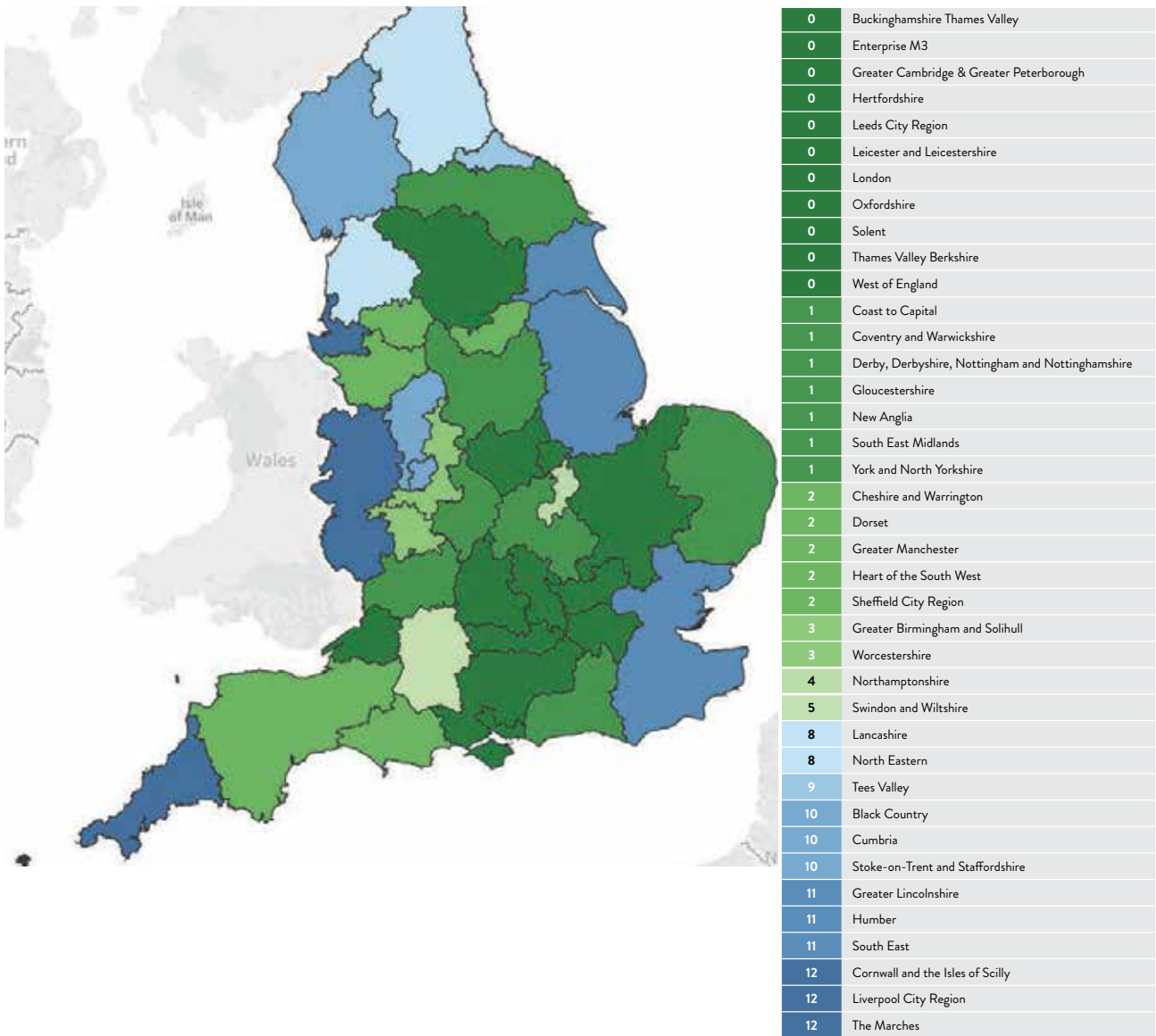
**14** We are grateful to Founders4Schools whose BIGRI dataset at LEP level from 2015 and 2016 is derived from the insight reports they produce from Companies House Dataset (via Duedil). The BIGRI score looks at 12 indicators per LEP relative to others by rate of growth and revenue band as a proportion of all businesses. See their methodology here [www.founders4schools.org.uk/insights/methodology/#/](http://www.founders4schools.org.uk/insights/methodology/#/)

### Quality of Business Inventory

In addition to observing each local community in terms of how many scaleups by population they have and whether the trend in their area was encouraging or discouraging, we also sought to understand the quality of the local environment and its ability to support business growth and scaleup leaders throughout their journey at each stage. The ideal pattern is a critical mass of business leaders across each growth band and each revenue band so that there is a 'pipeline to grow' and a 'pipeline of experience and role models' to draw upon as a company progresses from 'small' to 'large' status. This picture allows stakeholders to operate effective, local matchmaking programmes and provides guidance as to where we might bring in help from elsewhere if there is not sufficient available locally.<sup>14</sup>

To review this, we turned to the Business Growth and Revenue Band indicators (BIGRI Score) being used by Founders4Schools to understand the supply of 'business leaders' available per school per LEP. The BIGRI score, which is depicted in Figure 4 below, looks at 6 indicators of 'growth-rate' and 6 indicators of business size by 'revenue band' as a proportion of all businesses in any given LEP. If the LEP's indicator is in the lower third, then their score increases by '1'. Having a low BIGRI score is more favourable than having a high BIGRI score.

Figure 4: Business Inventory Growth and Revenue Indicators (BIGRI)



### “Scaleup Briefings”

Our “LEP Scaleup Briefings” contained in Appendix 2 are one of the highlights of the 2016 Review, drawing together various sources to provide insight into local needs. We share evidence, including a local ‘snapshot’ of scaleup leaders’ views, to help illustrate what is needed dependent on where their business operations are located. **Whilst we fully recognise sample sizes at these levels are not statistically robust, we still think it important to share the reflections of those business leaders who completed the survey, on an aggregate basis, to give insight to their considerations.**

The ScaleUp Institute views its mandate to work with others to grow and share the evidence base. With accurate and timely analysis, local communities and authorities, LEPs, regions, and stakeholders will be better able to target interventions that foster scaleup growth.

Whilst we as a nation are on track to close the scaleup gap, we need to continue our efforts to ensure that this occurs in all parts of the country on a consistent and sustainable basis to narrow the gap that exists between localities.

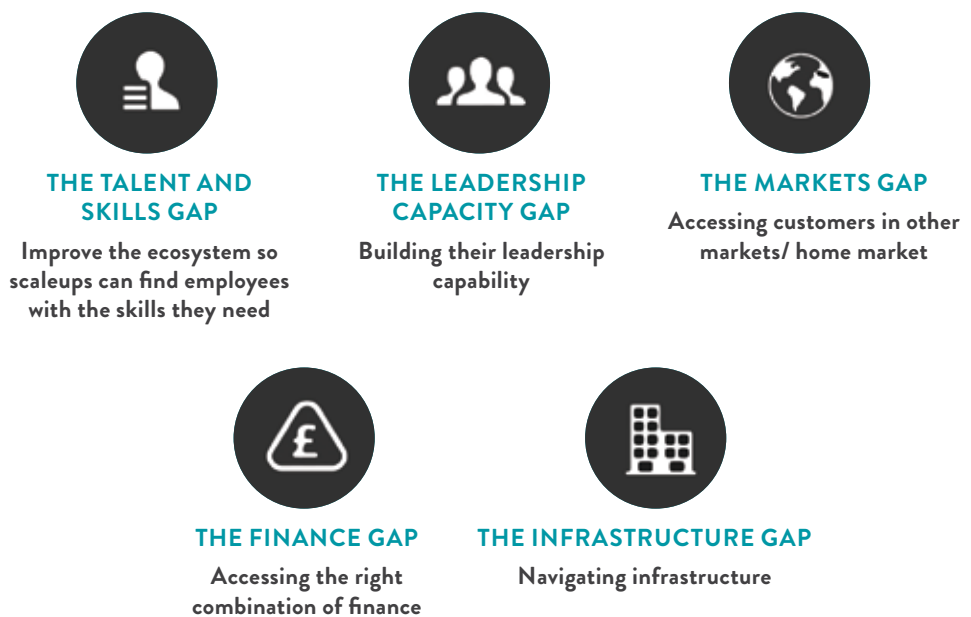
### D) SCALEUP INDICATORS FROM THEMATIC PERSPECTIVES

The 2014 Report established that the barriers that significantly hindered scaleup leaders in the UK could be grouped into **five key themes**. These themes were grouped into the order of importance denoted by their potential economic impact if addressed. We thought hard at the time about whether the themes should be ordered as according to how soon after making a change you would be able to detect' impact or in their order of importance on economic growth. In 2014 we decided to list them in order of importance rather than 'timeframe for impact' so as not to encourage a bias towards short-term but less impactful actions.

We report on each theme in the same order for this review:

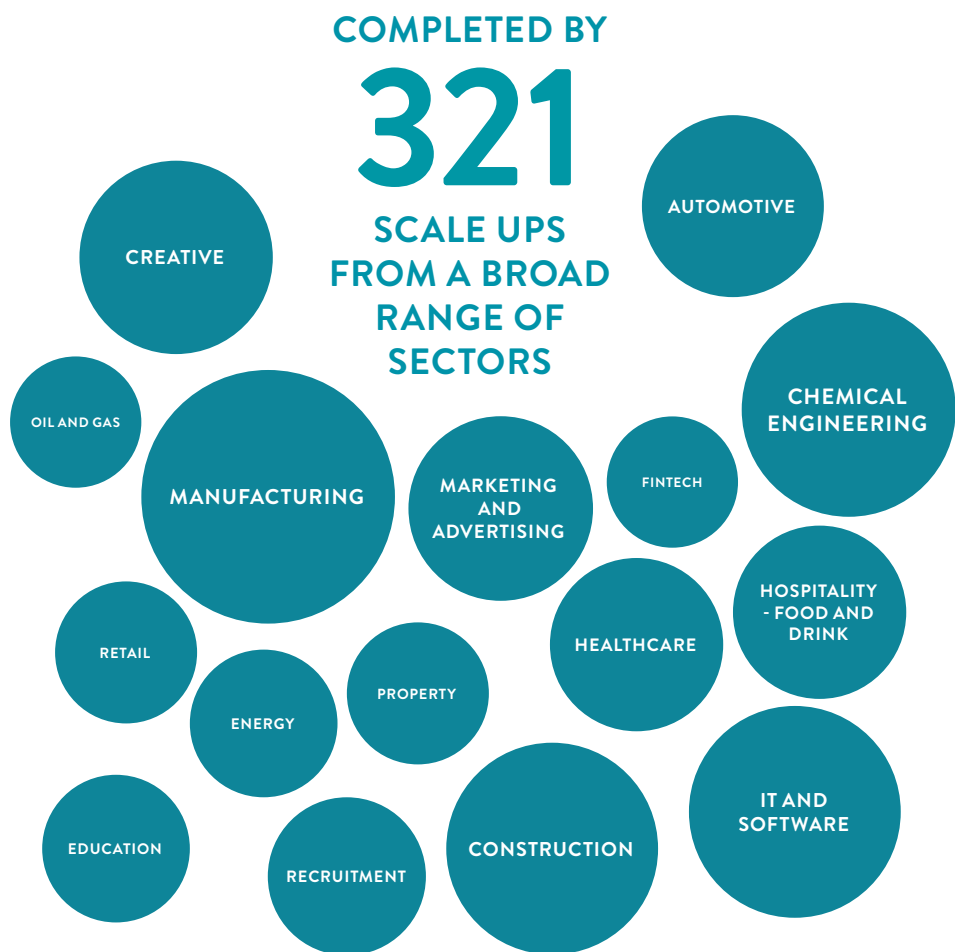
1. Talent and Skills: Finding employees to hire who have the skills they need
2. Leadership Capacity: Building the capability of the leadership team
3. Markets: Accessing customers in home and international markets
4. Finance: Accessing the right combinations of finance
5. Infrastructure: Fast-track programmes that ease the pain of hypergrowth

Figure 5: The Scaleup Gaps



The ScaleUp Institute operates five thematic committees that each meet quarterly to review initiatives operating throughout the UK and elsewhere that are intended to alleviate the growing pains faced by scaleup leaders. The outputs of these Committees are ‘case studies’ which provide insights on impactful initiatives alleviating the challenges faced by scaleups. These are published on [our website](#) and several of which are listed in the subsequent pages of this report.

Figure 6: ScaleUp Survey Respondents and Sector Representation



In September 2016, the ScaleUp Institute and our partners surveyed more than 800 CEOs; 321 of whom could be categorised as scaleup leaders. The majority of these were exporting and 83% said they expected their growth to continue, despite the survey having been conducted post the Brexit vote. We present the views of these 321 scaleups, from across all sectors (see figure 6 above) in, drawing out their challenges, needs and ideas for how we can reduce the barriers they encounter.



<sup>15</sup> Statistics are presented for those holding views.

In considering the changes that have occurred over the past two years, both in the context of the national and international scenes, it is encouraging that our scaleup leaders remain positive about their future growth potential. It is clear they want and need continued support if UK citizens are to enjoy the prosperity associated with the UK being the best ScaleUp Nation in the world.

In figure 7 below we summarise the overall results of the scaleup survey and in the ensuing chapters we delve deeper into the results by theme.<sup>15</sup>

**Chapter 2** covers **talent and skills**: A critical factor that prevents scaleups from being able to accept and fulfill customer orders is access to people available who have the skills they need. We explore the issue and what stakeholders can do to ensure scaleups have talent available to them when they need it.

**Chapter 3** deals with **Leadership development**: A shortage of experience in scaleup leadership teams can hold them back from growing their revenues faster. Learning and Development are common-place in large corporates, but not so much with scaleups. We explore the issue and what stakeholders can do to ensure leaders have high quality solutions available locally.

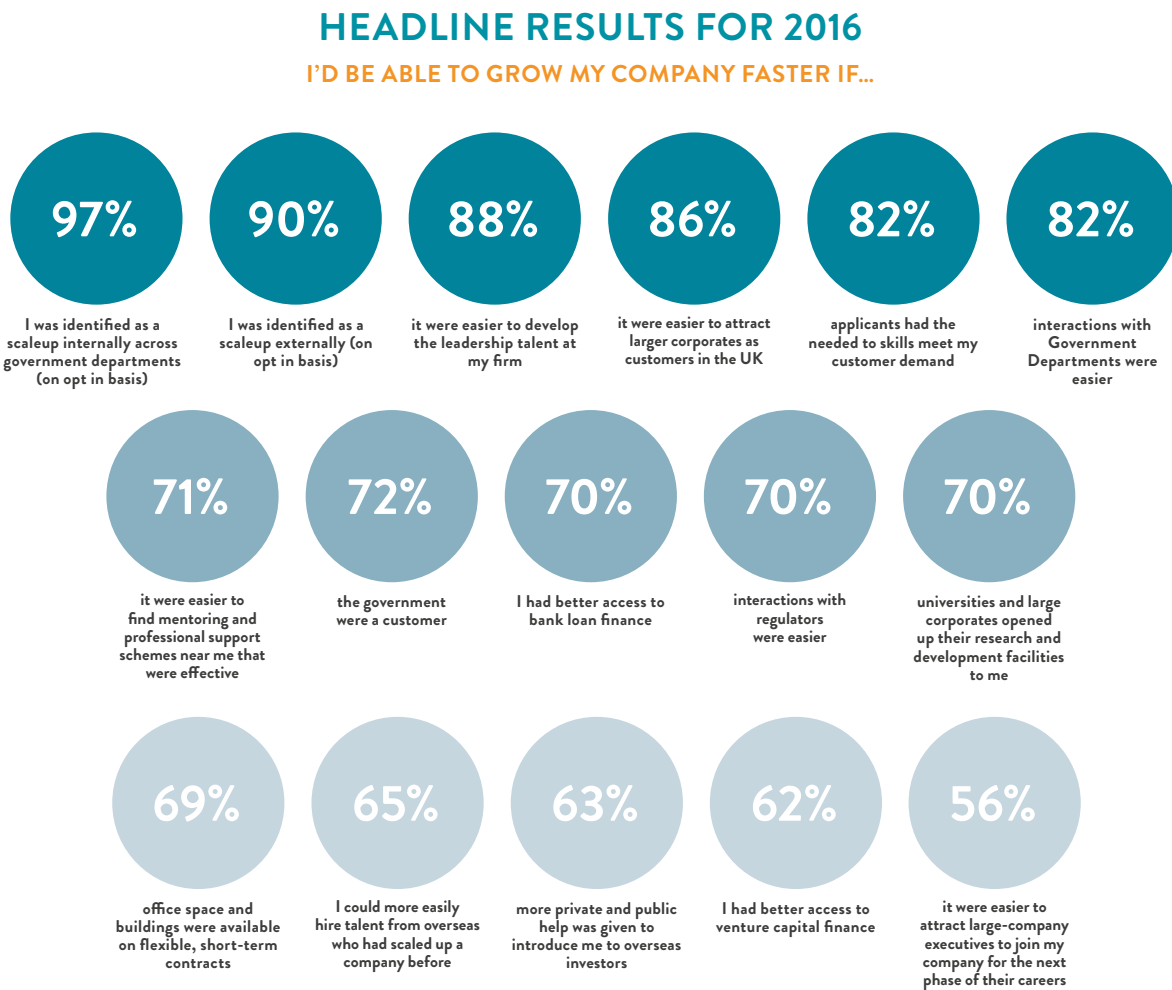
**Chapter 4** covers barriers that inhibit the ability of scaleup leaders to **access markets** and to sell their products or services at home and abroad. The 2016 ScaleUp Survey shows that scaleup businesses view large corporate procurement as a key challenge; we explore ways of making this more streamlined and effective.

**Chapter 5** addresses **finance** as one of the key factors inhibiting scaleups from achieving global scale. New technologies and regulatory shifts have opened new opportunities for new players and our survey shows a need to help scaleup leaders make their way through the myriad finance options available more easily.

**Chapter 6** covers the issue of how **infrastructure** impedes scaleup leaders rather than enabling them and explore ways of addressing pain points common to scaleups.

**Chapter 7** reaffirms why Britain can be the BEST place in the WORLD for a leader to choose to SCALE their business if we act together now in unison.

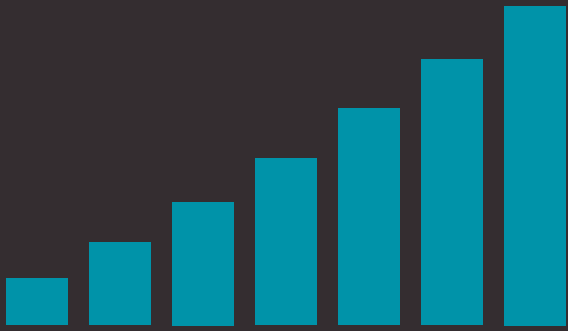
Figure 7: The 2016 ScaleUp Survey at a glance



The appendices are provided as a reference document for those who work in Local Enterprise Partnerships, regions and for those who research scaleups and economic growth. They contain 2014 Recommendations, briefings by LEP, 2024 Scaleup targets to 2024, 2024 scaleup visa maximum requirements and information about the Scaleup Institute’s directors, committee members and ambassadors.

**In conclusion: whilst we as a nation are on track to close the scaleup gap – we need to continue our efforts to ensure that this occurs in all parts of the country on a consistent and sustainable basis, and that the regional disparity narrows rather than widens. We believe our recommendations that follow will guide exactly towards that outcome. We will map and monitor this throughout 2017 and report again during Global Entrepreneurship Week 2017.**

## EXECUTIVE SUMMARY



# RECOMMENDATIONS

## 2016 recommendations

In 2014, 12 recommendations were made to stakeholders throughout the UK to drive the economic growth and competitive advantage of Great Britain. In light of the progress made since 2014, the ScaleUp Institute is making 10 recommendations to focus on in 2017 which will replace those previously made.

As previously mentioned, these recommendations should not be viewed as 'a menu' to pick and choose from, but as a comprehensive series of actions different members of our communities should take within their areas of interest to address the issues causing scaleup gaps. Some recommendations are directed towards stakeholders at a national level and others are directed towards those operating at a local or regional level. Taken together, we are confident that we will be able to make Britain the most attractive ecosystem in the world for a scaleup leader to locate their growing business.

### **Recommendation 1:**

We recommend that 'scaleup status' be officially recognised by the Government as a formal business classification. Furthermore, that national datasets are utilised to allow the verification and identification of a company's 'scaleup status' so that national, local, public and private sector organisations to interact with these businesses in a more effective manner to collectively drive economic growth more easily.

### **Recommendation 2:**

We recommend that local stakeholders have funding they receive from central Government tied to whether or not their strategy addresses closing the scaleup gap and whether or not this strategy is working.

### **Recommendation 3:**

We recommend that central Government make a Minister accountable for closing the scaleup gap and local governments and local stakeholders should make someone responsible for the same.

### **Recommendation 4:**

We recommend that the Department for Education and Local Enterprise Partnerships use their convening and promotional power to guarantee that students at schools, colleges and universities come into contact with the top 50 scaleup business-leaders within 20 miles of their establishment. Additionally, that an API to the National Pupils database, with suitable protections, is made available so that the impact of these interventions can be measured.

## RECOMMENDATIONS

### **Recommendation 5:**

We recommend that a 'Scaleup Visa' be made available in communities where there are 100 + scaleup companies to enable scaleup leaders to recruit staff they need to increase their capacity to grow.

### **Recommendation 6:**

We recommend that local stakeholders prioritise the signposting of high-quality mentorship programmes and develop effective matchmaking between peers and non-executive directors who have scaled businesses before. Local and national educational institutions should prioritise the introduction of high-quality flexible courses designed to help scaleup leadership teams with their development needs. Better connection should also continue to be made between national programmes and local ecosystem leaders to encourage scaling business leaders to apply to courses with known impact.

### **Recommendation 7:**

We recommend that public bodies report on the level of procurement they source from, and the collaboration they have with, scaleup companies and their funding should be tied to increasing this amount.

### **Recommendation 8:**

We recommend that large companies report on the level of procurement they source from scaleup companies and the collaboration they have with scaleup companies. Any procurement contracts with Government should require an increase in the amount of business undertaken with scaleups.

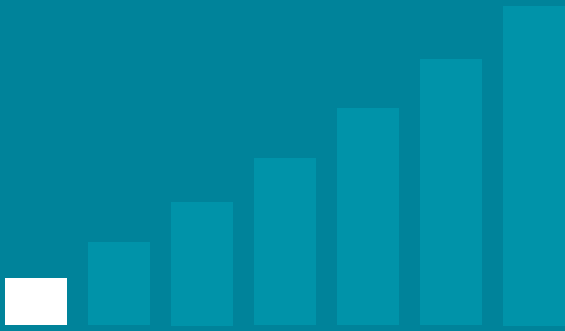
### **Recommendation 9:**

We recommend that agencies that interact frequently with scaleups, such as the Border Authority, Listing Authority and HMRC, have fast-track procedures for scaleups and report on these in relation to peers in other countries.

### **Recommendation 10:**

We recommend that Government and industry ensure that progress is made closing the finance gap and ensure that growth finance is included as core curriculum in all local scaleup leadership courses.





# CHAPTER 1

## Scaleup identification



# Scaleup identification

**16** 63% of leaders say they would like this sharing to be 'opt-in'; 33% preferred this to be an 'opt out' according to the 2016 Scaleup Institute Scaleup Leader Survey.

## CHALLENGE: IDENTIFYING SCALE-UPS IN ORDER TO SUPPORT THEM

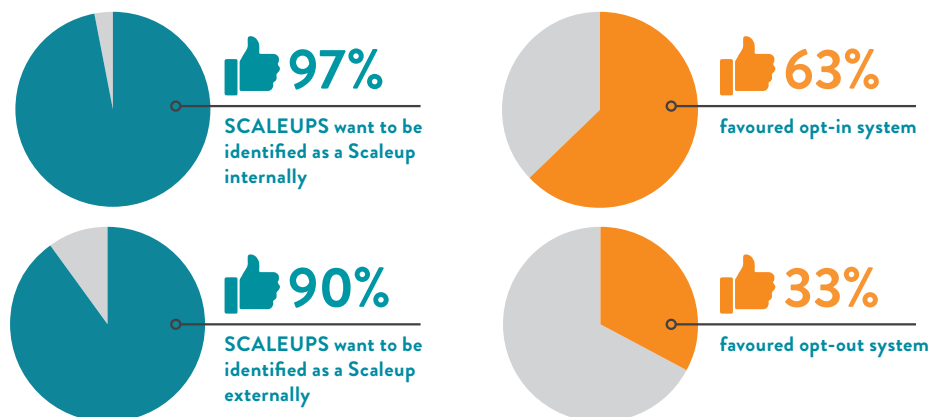
**If you cannot measure it you cannot manage it and if you cannot detect it, you cannot do either.**

The identification and verification of 'scaleup status' remains the single most important tool to be made available in order to boost UK productivity.

If a company's scaleup status were easily identified on a national register (for free), then the rest of the ecosystem could simply focus on initiatives directed towards them and scaleup leaders could focus on selling more products to more customers in more markets.

**In the 2016 Survey 97% of scaleup leaders advised they would like the Government to share their scaleup status with other government departments and 90% are in favour of this status being shared externally, on an opt in basis. This makes it easier for scaleups to attract talent, develop their leadership team, to increase their sales, get finance and expand more easily.<sup>16</sup>**

Figure 8: Put the spotlight on scaleups – share data



**17** We are grateful to **Mark Hart from the Enterprise Research Centre (ERC) at Aston University** whose dataset of the number of scaleup companies at LEP level in 2014 and 2015 is derived from the **Office of National Statistics (ONS)**. The ONS Business Structure Database based on IDBR (Figures may differ by small amounts from those published in ONS outputs due to the application of rounding methodologies). We also drew upon ONS for the LEP populations in 2015 and 2014 so that we could compare the scaleups and control for population at the same time. Using both together, we subtract scaleups per 100,000 population 2014 from 2015 to see if the LEP were increasing their population of scaleups by more or less than 'average'.

**18** In 2014, we calculated for each LEP based on 2013 numbers, a target number of scaleups they might aim to reach by 2019 and 2024 based on adding just 1 additional scaleup per 100,000 of population. We did this in order to inform conversations with local ecosystem leaders about where we felt they should target their number of scaleups to reach by 2019 and 2024. Given revisions to the source data Appendix 3 of this report shows the revised time series and target number of scaleups that we might aim for using ONS figures from 2014 as a base.

**19** A note of caution, however, figures from ONS for November 2016 are not yet available, so any effect associated with Brexit is currently unavailable. When the figures become available we will issue an interim report on our website.

Scaleup leaders are required to provide evidence of their growth every time they seek a procurement contract, attempt to hire a new senior staff member, seek external finance and when they relocate to accommodate growth. Each time they verify that they are growing, they deflect their attention from managing their business, fulfilling their customers' needs and they lower their productivity.

## HOW CAN WE TRACK SCALEUPS?

**We have tracked business data for a very long time, this is not unusual. There are a variety of sources and methods used to track scaleups such as survey data, like that of the Office of National Statistics and data obtained from datafeeds made available by the Government, like that of Companies House. There are pros and cons associated with survey data methodology and datafeeds.**

**Survey Data: Office of National Statistics (ONS):** We know that the average number of scaleups per capita in the UK is 18 and that this number has risen since 2014. Whilst we can take some comfort in this, *industry dynamics are fluid and businesses move in and out of scaleup status, so there are limits to the conclusions one can draw from survey data sources like ONS.* Having said that, the datasets are available and are the basis of the scaleup number we reported in 2014.<sup>17, 18, 19</sup>

**Government Datafeeds:** Today's Companies House data is lauded as world-leading in terms of transparency and digitisation and allows for actual companies to be identified. Yet, because Companies House data is built from the accounts that companies file, it lags some 12–18 months behind the current 'scaleup status' of any business leader and, as such, it is not as helpful in terms of enabling interventions on as timely a basis as needed.

### Two solutions in waiting?

- **A Scaleup Impact DataFeed (SID)** derived from HMRC datasets could provide a method for stakeholders to target solutions, measure impact and increase effectiveness of their programmes. Key monthly VAT and National Insurance (NI) returns, filed by businesses and held by the Government, could be used to show real-time 'scaleup status' of any company. This would help render the UK a much better, if not the best, environment in the world in which to continue growth by giving a major boost to the productivity of Growth Hubs, Government Departments, cities and Catapult Centres, universities, large corporates and local government programmes.

- **National Pupils Database (NPD):** Likewise, creating an API with suitable protections that allow vetted parties to query the National Pupils Database, would be transformational for the educational sector because it would accelerate high-impact employability programmes that improve the skill pipeline for scaleups to be discovered and scaled elsewhere. While we endorse the NPC for its call for the National Pupils Database to be made available as a datalab to empower those working in the education sector to demonstrate their impact at a small fraction of the time and money, we feel strongly that the economic impact would be considerably higher if the Department for Education were to create an API. This could then be used by larger charities, business schools, local authorities and vetted commercial businesses with proven technical knowhow and skills programmes to improve teacher productivity and student employability faster.

### **The benefits of creating a SID and access to the NPD via API**

- It decreases the time-lag for targeted engagement with scaleup businesses on finance, exports, skills, apprenticeships and procurement.
- It helps Local Enterprise Partnerships decide which programmes to commission and get the best value for money.
- It would prevent waste, by giving stakeholders access to data that already exists rather than being forced to collect their own.
- It would reduce spending on evaluation, freeing up resources. The cost of setting-up and running the SID or NPDI would be a tiny fraction of the cost of commissioning independent studies to deliver the same results.
- It would help the entire ecosystem – and government – develop an improved understanding of ‘what works’ based on reliable data and statistical methods. Scaleup programmes struggle to provide persuasive evidence on their impact and effectiveness. The challenge being that impact evaluation requires considerable time, resources and expertise that is generally lacking amongst programme providers.

**Data has power – enabling us to understand, learn and improve.**

**Each of these benefits is linked directly to improved scaleup outcomes.**

## SCALEUP IDENTIFICATION – VIEWS FROM OUR SCALEUP LEADERS

*“Please find us rather than us having to find you.”* (North East)

*“Be better at identifying winners and then prioritising resource accordingly.”* (Wales)

*“Please show more interest in dealing with emerging businesses.”*  
(Yorkshire and the Humber)

### IN SUMMARY

Whilst progress is being made on a more targeted approach to scaling businesses, as seen with Innovate UK re-balancing its five-year plan towards scaleups, it is clear that even more effective and timely support can be developed if we use data already collated at a national level. We therefore continue to recommend the following actions be taken forward.

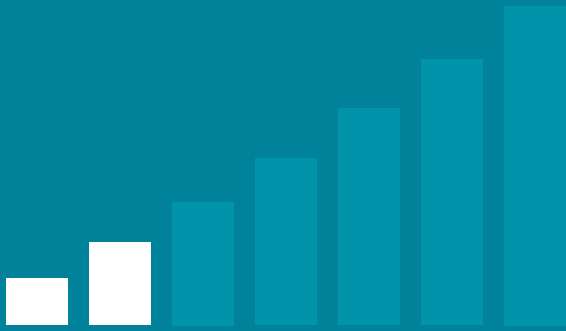
### 2016 RECOMMENDATIONS

**We recommend that scaleup status is** officially recognised as a formal business classification and that national datasets are utilised to allow the verification of a company’s ‘scaleup status’ so that national, local, public and private sector organisations can collectively drive economic growth more easily. (Recommendation 1).

**We recommend that** local stakeholders have funding they receive from central Government tied to whether or not their strategy addresses closing the scaleup gap and whether or not this strategy is working. (Recommendation 2).

**We Recommend** central Government make a Minister accountable for closing the scaleup gap and local governments and local stakeholders should make someone responsible for the same. (Recommendation 3).





# CHAPTER 2

## Talent and skills

# On accessing talent and skills

20 [www2.staffingindustry.com/eng/Editorial/Daily-News/UK-Number-of-job-vacancies-fall-39909](http://www2.staffingindustry.com/eng/Editorial/Daily-News/UK-Number-of-job-vacancies-fall-39909)

21 Evans, J. (2014), Brian Cox: Millions heading for skills black hole' Tech City News. Retrieved from [http://techcitynews.com/2014/08/28/brian-cox-skills-gap-can-onlyget-better/?utm\\_source=Website+and+Print+Subscribers&utm\\_campaign=cdd72e77cd-TWiT\\_AUGUST\\_29&utm\\_medium=email&utm\\_term=0\\_23276d50d0-cdd72e77cd-66761849#.VAAs0u29LCQ](http://techcitynews.com/2014/08/28/brian-cox-skills-gap-can-onlyget-better/?utm_source=Website+and+Print+Subscribers&utm_campaign=cdd72e77cd-TWiT_AUGUST_29&utm_medium=email&utm_term=0_23276d50d0-cdd72e77cd-66761849#.VAAs0u29LCQ)

## CHALLENGE: SCALEUPS REPORT PROBLEMS RECRUITING PEOPLE WITH APPROPRIATE SKILLS

### Recap 2014 Report Recommendations

**Recommendation 5:** *The Department for Education and Local Enterprise Partnerships should ensure that Britain is in the top 5 of the OECD PISA rankings for numeracy and literacy by 2025 and use their convening and promotional power to ensure educational institutions guarantee that students at schools, colleges and universities come into contact with the top 50 scale-up business-leaders within 20 miles of their establishment.*

**Recommendation 6:** *Local Enterprise Partnerships and city / cluster / ecosystem leaders should work with existing private collaborative initiatives to promote the top 50 scale-up companies in their jurisdiction to adults for the next phase of their careers.*

**Recommendation 7:** *A 'Scaleup Visa' should be made available from Local Enterprise Partnerships to the top local scale-up companies so they can recruit staff from overseas within two weeks of applying. These foreign workers help expand the distribution of local scale-up companies' existing products to foreign markets and help local scale-ups introduce new products and services.*

The 2014 Scaleup Report highlighted the skills crisis in the UK that is holding back scaleup companies. Scaleup leaders reported being unable to take on new customer orders because they were unable to hire the staff to fulfil them. Skills shortages were cited as the most significant challenge among scaleup companies in the 2014 Report. In particular, scaleup companies were experiencing challenges in recruiting people with the requisite technical and business skills, whether taking on young people straight from education or more experienced people.

These skills are particularly important for rapidly scaling businesses, which enables them to develop new products and services, navigate new markets and develop their business structures. According to job-tracking company Adzuna, there were 990,000 open positions in the UK in July 2014: **this number had increased to 1,132,844 by Sept 2016**, which was a 3.8% fall compared to Sept 2015.<sup>20</sup>

*"The numbers are frightening. When you start having a skills gap measured in the millions by 2020 then you see that there's a problem."* Professor Brian Cox<sup>21</sup>

**22** The question asked was identical in 2014, 2015 and 2016 scaleup surveys, but it was asked of different scaleup leaders. These were three separate surveys rather than a longitudinal study

### NATIONAL PICTURE 2016

Talent remains one of the top three issues in the ScaleUp Survey 2016: 82% of scaleup leaders say they would be able to grow their company more easily if applicants had the skills needed to meet customer demand – this is slightly down from 87% in 2014 and equal to 2015.<sup>22</sup>

The need to attract staff to join at entry-level positions and therefore to develop talent at the school and graduate level (82%) was seen as more important than being able to hire people from overseas who had scaled a company before (65%) or to attract large company executives to join the company (56%). The greatest talent ‘pinch’ felt among companies with more than 20 employees but less than 250.

More specifically, the skills gaps that scaleups identify for their particular businesses are varied: business skills (34%), management skills (30%), technical skills (29%) and social skills (28%). Notably, only 12% of scaleups surveyed nominated finance skills as one of their top three gap areas.

More than 78% of scaleups reported apprenticeships to be beneficial in developing skills and talent in the business. Notably, scaleup leaders indicated that more work could be done in improving the availability and accessibility of these schemes as a viable career path for students. There was a desire expressed to ensure that intended levies on these do not impact their ease of use in scaling businesses.

The need to attract staff to join at entry-level positions is seen as more of a barrier than being able to attract large company executives to join the company (55%), or being able to hire people from overseas who had scaled a company before (66%).

That said, scaleup business leaders believe it is critically important for the UK to remain a country open to others and able to easily recruit overseas talent. This is particularly salient given the current political and economic climate following the vote to leave the EU.

The main concerns arising from scaleup business leaders centre around:

- making it easier to hire the right people with the requisite talent and skills by having more flexible and cost effective recruitment processes;
- maintaining the ability to attract and retain talent from abroad – ensuring that despite the Brexit vote it is easier to obtain overseas skilled labour;
- making sure that foreign students that are trained here have more ready access to job opportunities.

These views were strongly held by scaleup leaders regardless of sector or location.



## ATTRACTING TALENT – VIEWS FROM OUR SCALEUP LEADERS

*“The main issue I have is getting the right talent. We have a shortage of the talent I need as there is an excess of unskilled labour in the market and getting skilled labour from overseas is highly complicated.” (South West)*

*“Talent is key, so with Brexit it is important to make sure that the right talent is welcome in the UK and scaleup businesses should be able to keep the talent they have.” (Greater London)*

*“Access to talent, including visa policies, to enable easy access to talented individuals not currently based in the UK.” (Greater Manchester)*

*“The government must make it easier to retain foreign post-graduates in the UK. Research positions do not necessarily command top salaries which results in individuals achieving less points than are required for their visas to be approved for renewal. This leads to leakage of highly trained individuals leaving the UK after the PhDs etc.” (Scotland)*

### **Apprenticeships are seen as useful to scaleups, but there is a sentiment that more work could be done in improving availability and accessibility as a viable career path for students**

*“Be more open to apprenticeship schemes and [thereby help] provide the correct training to develop new, young ambitious talent.” (North East)*

### **Making it easier to hire the right people with the requisite talent and skills**

*“The creation of a flexible talent pool where companies could quickly and cheaply locate temporary (freelance) talent, with a trusted review system to ensure quality.” (South West)*

*“Make it easier to connect and hire skilled workers that have been a part of scaleups, in the UK, EU and abroad. Consider the creation of free databases to access active candidates.” (Greater London)*

*“Tax breaks for hiring graduates because they don’t yet have the right skills – eg no National Insurance if you hire people for the first three to five years they work for you post university.” (Greater London)*

## PROGRESS TO DATE

<sup>23</sup> [www.careersandenterprise.co.uk/evidence](http://www.careersandenterprise.co.uk/evidence)

<sup>24</sup> [https://www.hefcw.ac.uk/documents/policy\\_areas/business\\_and\\_communities/Skills%20%20Employability%20Agreement%20FINAL%20ENGLISH.pdf](https://www.hefcw.ac.uk/documents/policy_areas/business_and_communities/Skills%20%20Employability%20Agreement%20FINAL%20ENGLISH.pdf)

<sup>25</sup> [www.gov.scot/Topics/Economy/EntandSkillsreview](http://www.gov.scot/Topics/Economy/EntandSkillsreview)

<sup>26</sup> The Chair of Founders4Schools is also the Chair of the ScaleUp Institute. The decision to reference F4S and feature it as a case study was made having had the Chair recuse themselves from meetings that decided whether or not their case should be referenced.

<sup>27</sup> Accessed on 11 Nov 2016 [www.ncub.co.uk/reports/work-experience-as-a-gateway-to-talent-in-the-uk-assessing-business-views.html](http://www.ncub.co.uk/reports/work-experience-as-a-gateway-to-talent-in-the-uk-assessing-business-views.html)

<sup>28</sup> Barclays is a financial supporter of the ScaleUp Institute and a member of the Talent and Skills Committee. However, the committee members recused themselves from meetings that decided whether or not their cases should be endorsed and the majority of the Directors are independent.

**It is evident that the recommendations of the 2014 Scaleup Report remain valid today.** We recognise the efforts that are being made by both the public and private sector to make sure that that we are equipping our children, students and working population for the jobs of today and tomorrow.

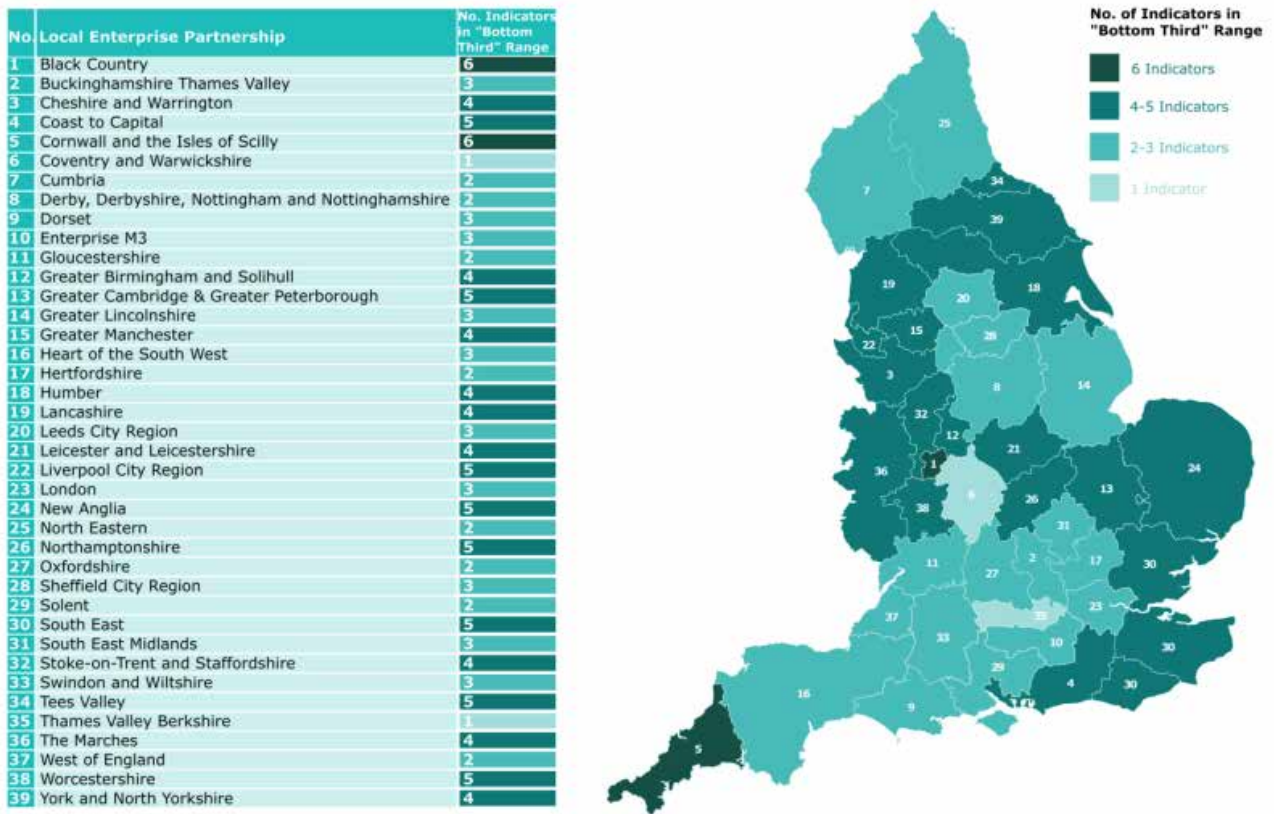
A critical development since 2014 has been the significant fund made available by Government to enable the creation of the **Careers and Enterprise Company (CEC)** in 2015 to focus on the employability of students. Since being established, CEC has produced employability research on a LEP-by-LEP basis regarding the skills gaps on several indicators. In addition, the appointment by CEC of Enterprise Coordinators across England and 1,000 Enterprise Advisers in all LEPS is a significant step towards ensuring better linkage and alignment between local entrepreneurs and business leaders with teachers and students. Finally, the new fund recently announced by CEC should allow detailed impact analysis by student-employer encounter type, which will accelerate peer-to-peer support for the employability of students across England.<sup>23</sup> Similar focus is developing in other parts of the UK, for example, in Wales the **Agreement on Skills and Employability** between the Higher Education Funding Council for Wales (HEFCW), Universities Wales, CBI Wales and NUS (National Union of Students) Wales is encouraging and one we will be tracking with interest.<sup>24</sup> The aim is to increase the employment of graduates from Welsh universities through work placements and work experience, employer approved courses and embedding employability skills across all higher education curricula. Scotland are equally focused on their talent and skills needs and we look forward to the publication of the second phase of the **Enterprise and Skills Review**<sup>25</sup> which will address the detailed actions to meet these needs.

The connection made between growing SME businesses with students has been shown to drive student attainment and engagement with critical STEM subjects, as evidenced by the 'Insight Reports' on the 115,000 student-employer encounters arranged by teachers using the gov-tech charity **Founders4Schools (F4S)** platform.<sup>26</sup>

It is also encouraging to note that in the October 2016 survey of executives from 20 LEPS by the ScaleUp Institute, most report having local schemes such as careers fairs with schools, colleges and universities to support the development of skills and talent for local scaleup leaders. The National Centre for Universities and Business Schools report into Work Experience as a 'Gateway to Talent' in the UK from a business viewpoint provides us with further useful insights to consider.<sup>27</sup>

Larger corporates are also seeking to support the skills agenda in developing school, student and employability skills. A notable exemplar, is **LifeSkills, created with Barclays**,<sup>28</sup> which runs a substantial national programme featured on the website of the ScaleUp Institute in 2016.

Figure 9: Prioritisation indicators – total number of indicators in “bottom third” range identified in each LEP



Overall combined prioritisation and indicators, including employer engagement.

Sources: GCSE and equivalent attainment by pupil characteristics 2013/14, UKCES Employer Perspectives Survey (2014), Revised GCSE & equivalent results in England (2013/14), A-level and other Level 3 Results Revised (2013/14), Destination of Key Stage 4 and 5 pupils (2012/13), Participation in education and training: local authority figures (June 2015), UKCES Employment Skills Survey (2013).

## CHAPTER 2

Alongside this need for better skillsets in 2014, it was felt important that local areas promoted the top 50 scaleup companies in their jurisdiction to adults for the next phase of their careers (Recommendation 6 in 2014). This was a result of 61% of scaleups expressing the desire for it to be easier to attract executives from large corporates. In 2016, this percentage fell to 56%; we could infer from this that it is becoming more culturally acceptable to leave a 'safe' job in a large company to join a 'more exciting' growing company. This is a positive development so we are now retracting Recommendation 6 from our recommendations this year.

### Visas

At present, the 'scaleup visa' recommended in 2014 does not yet exist. It is apparent however, that for many scaling businesses in 2016, access to overseas talent and skills remains a priority, as a supplement to hiring locally available talent.

We view fast-track procedures to enable companies that have achieved 'scaleup status' to be able to recruit from overseas to be a pressing matter.

The majority of LEPs surveyed in 2016 would value a visa scaleup service in their jurisdiction.

Appendix 5 of this Review examines this issue in more detail with estimates of what Scaleup Visa issuance to 2024 should be per LEP and shows that the maximum number of annual visas need not exceed the number of current scaleups in any given year.

### CASE STUDIES

The 2014 Scaleup Report published case studies about programmes that had created well-evidenced, high-impact public-private collaborations targeted at home-growing more talent so that scaleups could have a better supply of people with the right skills to hire so they could fill customer orders; this served to explain the emerging models of intervention.

In 2016, the following programmes are featured as exemplars by the ScaleUp Institute because of their focus on raising aspirations and awareness regarding skills needed for the roles that are most difficult for scaleup companies to fill.

LifeSkills, created with Barclays

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Founders4Schools

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Google Campus

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NACUE

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General Assembly

These case studies can be found on the [ScaleUp Institute website](#).

In 2017, the ScaleUp Institute have received nominations to review additional initiatives designed to help make it easier for scaleup leaders to get the talent they need: Our plans include reviewing the Advanced Manufacturing Catapult Centre, the Engineering and Employment Federation (EEF), oppsinbuck.org and the work of the Engine Shed in Bristol. In 2017, the ScaleUp Institute hopes to publish additional research into sector-specific skills gaps. If you are aware of initiatives that you believe to be well-evidenced and high impact, please bring them to our attention.

## IN SUMMARY

Whilst progress is being made on the skills agenda there remains much to be done.

The ScaleUp Institute will continue to work with its partners, educators, and the public and private sectors to ensure the skills needed for our scaling businesses remain a high priority on the national and local agenda. The recommendations for 2016 therefore build on those suggested in 2014.

## 2016 RECOMMENDATIONS

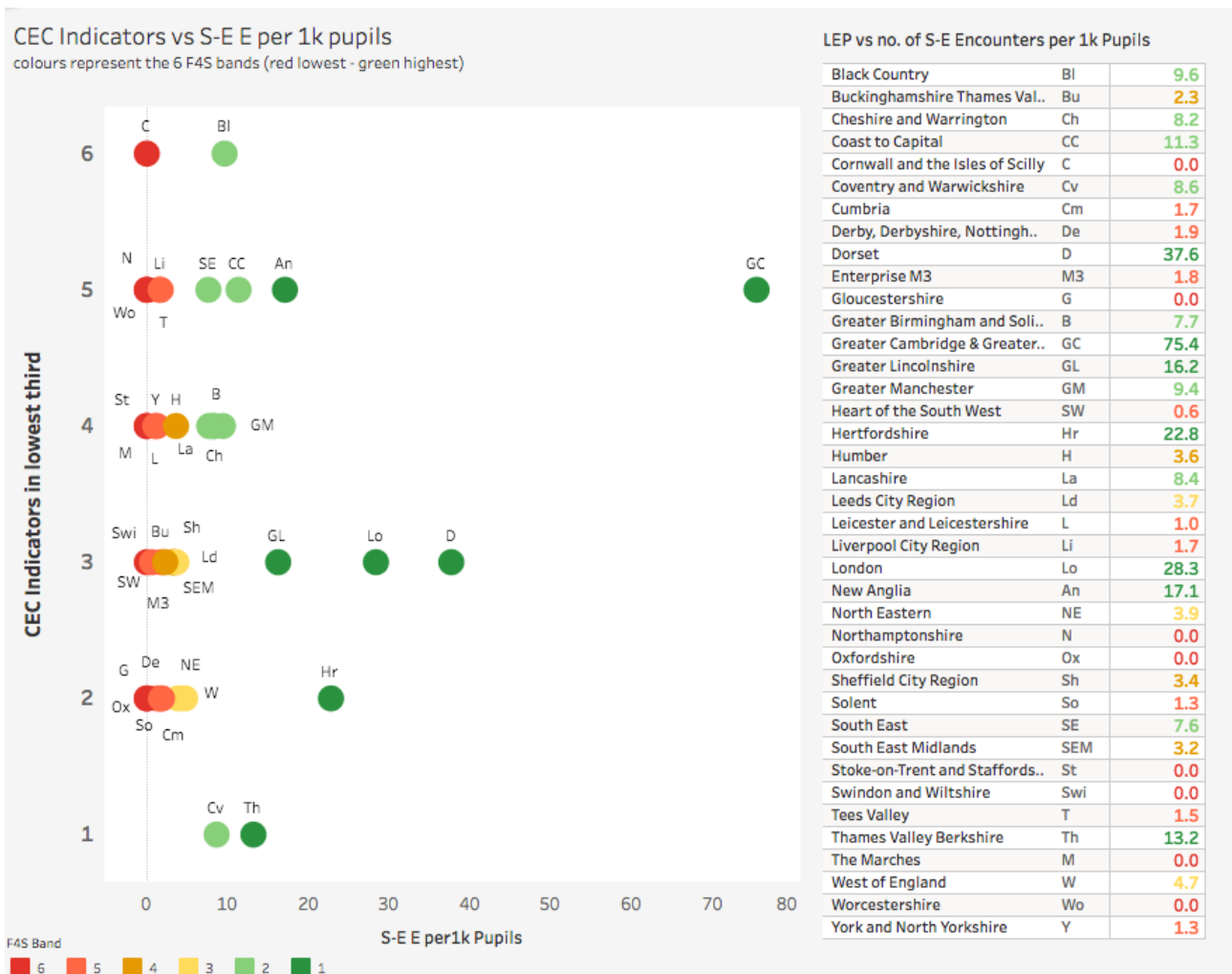
**We recommend that** the Department for Education and Local Enterprise Partnerships use their convening and promotional power to guarantee that students at schools, colleges and universities come into contact with the top 50 scaleup business-leaders within 20 miles of their establishment. Additionally, that an API to the National Pupils database, with suitable protections, is made available so that the impact of these interventions can be measured.. (Recommendation 4)

**We recommend that a** 'Scaleup Visa' be made available in communities where there are 100 + scaleup companies to enable scaleup leaders to recruit staff they need to expand their capacity to grow. (Recommendation 5)

**FEATURE: Founders4Schools (F4S)**

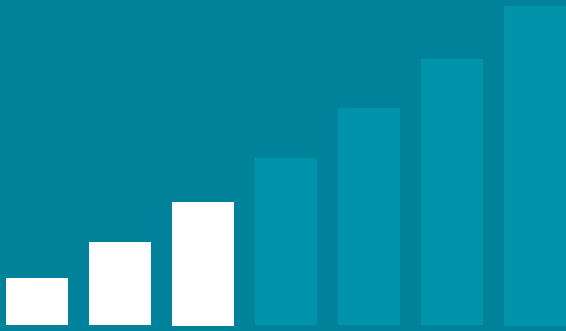
In March 2016, one of the Case Studies from the 2014 report (Founders4schools) started publishing quarterly ‘Insight Reports’ and ‘Employability Briefings’ for LEPs on their website. These draw together the most recent information from teachers who use their platform with government, LinkedIn, Duedil datasets to help CEC Career Coordinators identify peers with whom they should speak as well as to help talent ecosystem stakeholders prioritise local needs. Their service introduced **Local Labour Market Information** on the **fastest growing industry sectors** so that teachers and students know which sectors are creating the most jobs. They provide tools to allow teachers to identify the companies available in their area in terms of **how fast they are growing per annum**, the **gender of their leadership team** and **revenue band**. These attributes are used by Founders4Schools to recommend additional student-employer encounters for the teachers to consider arranging.

Figure 10: F4S Student-employer Encounters in 2016 by LEP and CEC Indicator



<sup>29</sup> <https://www.careersandenterprise.co.uk/evidence>

Figure 10 above shows F4S Student-employer encounters per 1,000 students by LEP and by the CEC cold-spot indicator research<sup>29</sup> The left hand side of the analysis shows LEPs by the CEC index and the bottom show local variation between teachers in each LEP with regards to the business leaders they feature in their class, ask to host workplace visits and feature in their career fairs. **Greater Cambridge and Greater Peterborough LEP** leads with 75 student-employer encounters per 1,000 student population, followed by **Dorset LEP** with 38 per 1,000 students and **London LEP** with 28 student-employer encounters per 1,000 students. Since the issuance of the 'F4S 2016 Quarter 3 (Q3) Employability Index', it is interesting to see that London has surpassed Dorset in student-employer encounters per 1,000 student population.



# CHAPTER 3

## Leadership



# On developing leadership teams

## CHALLENGE: DEVELOPING SCALEUP COMPANIES WITH THE ABILITY TO MANAGE RAPID GROWTH

### Recap of 2014 Recommendations

**Recommendation 8:** *Local Enterprise Partnerships, universities and the private sector should work together to ensure effective learning programmes are available in their areas aimed at leadership development of scaleups.*

In the 2014 ScaleUp Report, leadership development was cited by scaleup leaders as the second most important factor preventing them from continuing to grow their companies at the same pace or faster.

Leaders of scaleups world-wide need to learn to adjust quickly to changing demands. Most acknowledged that it is hard to develop their managerial and leadership talent. Indeed, it is easy to understand that it would be hard to grow a company “faster than is ‘normal’” without the right training and support readily available on a local basis.

Expertise in new process implementation and the delivery of organisational change can be recruited, some may also have experience with growing companies. However, a scaleup leader must also be able to develop talent in-house. This requires taking the time to learn from other companies and entrepreneurs who have scaled businesses successfully, and being open to external ideas. For a rapidly growing business this can be difficult to organise and deliver, especially when set against other competing demands.

There is also a shortage of role models to provide vital mentoring and guidance.

The ScaleUp Report 2014 revealed that while there were many start-up mentoring programmes, very few were focused on scaleups. The 2014 report found overall there were insufficient numbers of high quality mentors, that the system for identifying them was fragmented and that the matching process between mentors and firms was erratic. The Report also found that although there were some national leadership development programmes, these were not yet operating in all localities or at sufficient scale.

Several recommended changes were identified that would improve the prospect for the UK being the best place in the world to scale a company.

For local ecosystems to track mentors who had been a director or employee at a company during its scaleup period using Companies House data.

- For local educators and the private sector to provide targeted managerial and leadership training for scaleups
- For existing mentoring schemes to be more focused on scaleups

### National Perspective

In 2016, leadership development is now **the top barrier cited by scaleup leaders** when asked what was preventing them from growing their revenues faster. The 2016 ScaleUp Survey showed a growing desire among scaleup business leaders to have scaleup executive education programmes, access to non-executive directors with scaleup credentials and opportunities to engage with their peers available locally.

**88% of scaleup leaders cited leadership development as the most important barrier impeding their growth. (This is 5% more than reported this in 2015). Crucially, the more employees the scaleup business had, the more acute the need for leadership development.**

**71% of scaleup CEOs said it would be easier for them to grow their company faster if there were effective mentoring and professional support schemes *near to them*.**

4 in 10 of scaleup leaders cited mentoring as one of the key reasons they had managed a scaleup level of growth in their businesses in the first place. However, half of these mentioned that they were unsure as to where to find high-quality mentors, and a third of them felt that the availability of high quality mentors was a barrier to their continued growth. For the scaleup leaders who said mentoring would help them grow faster, when asked which type of support would be the **most valuable**, nearly half of the scaleup leaders said they would value better access to peer-to-peer mentoring and non-executive directors who had scaled a company themselves. While a quarter said that they would value short executive education courses the most. In contrast, only 5% of the CEOs said they would value support from larger corporates within their supply chain.

### Leadership development & mentoring – views from scaleup leaders

*“Please provide coaching and advisory support to help with the areas of my business where I am unprepared.” (Oxfordshire)*

*“Please provide support from people that have genuine scaleup expertise.” (Greater Manchester)*

*“I need access to experienced mentors/NEDs who know our industry and can help us accelerate our growth by making large customer contacts, accessing finance and developing a business plan.” (Greater Manchester)*

*“High quality and sector specific mentoring and leadership coaching.” (Northamptonshire)*

*“Facilitate introductions to peers and provide funding to support business change and transformation.” (North East)*

*“More accessible, structured programmes for scaleup companies at the smaller end of the scale.” (North East)*

### NATIONAL VS. LOCAL PRIORITIES

As shown in the Local Scaleup Briefings in Appendix 2, disparities vary from city to city and region to region. Less concern was expressed regarding *leadership development* as an issue in Scotland, Greater London and in the Yorkshire and the Humber Region. Sheffield City Region was cited favourably for their leadership support by 10 of their local scaleup leaders. The East Midlands and West Midlands also agreed, with 10 Black Country scaleup leaders reflecting a particularly positive view of their capacity for leadership development to sustain their business growth. Conversely, there was a greater need for *leadership development* to enable growth expressed in the South East, South West, North East, and North West regions. We found 10 scaleup business leaders in Manchester needed more effective mentoring schemes and professional support schemes based locally to enable them to develop the leadership capacity at their firm.

### PROGRESS SINCE 2014

One of the key recommendations of the 2014 Report was to encourage universities and the private sector to work together to create a **‘scaleup culture’**, and to provide effective learning programmes in local areas aimed at leadership development in scaleups. This would help to create a local scaleup ‘ecosystem’ and embed a sustainable scaleup culture.

This has been a key part of the ScaleUp Institute’s work in 2016 through the deployment of an executive education course on *Driving Economic Growth Through*

30 <https://charteredabs.org/wp-content/uploads/2016/09/Chartered-ABS-Delivering-Value-Report-2.pdf>

*Scale-Up Ecosystems* designed by leading academic Professor Daniel Isenberg. This was made possible by the support of Goldman Sachs Foundation and 10,000 Small Businesses UK alongside Innovate UK. The coverage of the programme and the initial scaleup project outcomes are reported on in more detail in the feature overleaf. By enabling a greater fostering of growth and scaling businesses within the LEP structure, this programme will support economic opportunity, internationalisation and productivity.

Across 2016, the Institute has also worked closely with the Small Business Charter and the Association of Business Schools (ABS). The recent Chartered ABS report on Business schools is of significant value to local and regional economies, which recommended that business schools should improve the visibility of, and accessibility to, the programmes supporting business growth and innovation.<sup>30</sup>

We expect to build on these two areas of work in 2017.

### 2016 Case studies to illustrate high impact initiatives

The Scaleup Institute is tracking and evaluating the growing number of intensive executive education support programmes that help scaleup business leaders to share experiences and learn from each other. In the past year, we are pleased to report that the following two initiatives have expanded their reach and updated evidence to strengthen evidence of the impact of these programmes.

#### Goldman Sachs 10,000 small businesses UK

##### ELITE Programme (London Stock Exchange)

We have received several nominations of additional programmes for scaleup leaders that we hope to publish case studies on. These include, but are not limited to, Cambridge School for ScaleUps, Strathclyde Business School Growth Advantage programme, the Supper Club and Tech City's Future Fifty & Upscale programmes. We will be further assessing local case studies in 2017 and we invite further submissions to be made on these.

### IN SUMMARY

In 2014, it was recommended that Local Enterprise Partnerships, universities and the private sector needed to work together to ensure effective learning programmes were available in their areas aimed at leadership development of scaleups. It was also recommended that high quality mentoring programmes be more easily identifiable.

The results of the 2016 survey show that, at a local level, these actions are still relevant. Signposting of local high quality mentorship and support programmes,

including options to recruit high-quality non-executive directors still requires further action. The same applies to the availability of high quality local leadership programmes which enable scaleup leaders to link with other successful scaleup peers experiencing rapid growth. These peer-to-peer forums are highly valued by scaleups, as well as the local support available from business schools and universities. We welcome the continued work of the Association of Business Schools in this area with the Small Business Charter, as well as the programme outputs from the Driving Economic Development course, which we will further assess in 2017.

Leadership support in a rapidly changing and fast-paced environment is ever more important to the CEOs of our scaleups and we must maintain our focus in these areas at a local and national level if we are to provide an ecosystem that encourages further growth.

### 2016 RECOMMENDATION

**We recommend that** local stakeholders prioritise the signposting of high quality mentorship programmes and develop effective matchmaking between peers and non-executive directors who have scaled businesses before. Local and national educational institutions should prioritise the introduction of high-quality flexible courses designed to help scaleup leadership teams with their development needs. Better connection should also continue to be made between national programmes and local ecosystem leaders to encourage scaling business leaders to apply to courses with known impact. (Recommendation 6)

## FEATURE: Driving Economic Growth through Scaleup Ecosystems Course



<sup>31</sup> Pictured top right: Business Minister Margot James MP came to speak to cohort members of the course run in Manchester.

<sup>32</sup> Dan Isenberg (@danisen) is founding executive director of the Babson Entrepreneurship Ecosystem Project, Associate at the Harvard Kennedy School of Government, and Adjunct Professor at Columbia Business School.

In 2016, the ScaleUp Institute introduced the *Driving Local Economic Growth* executive education Programme for 130 local ecosystem leaders from 31 LEPs, cities and Growth Hubs. Supported by the Government<sup>31</sup> led by Professor Daniel Isenberg<sup>32</sup> and made possible with the support of the Goldman Sachs Foundation, 10,000 Small Businesses UK and Innovate UK, two executive-education courses have been run in 2016. The inaugural course was held in Birmingham in May at the Aston Business School and the second course was held in September at the Manchester Science Park. Course candidates were drawn from all parts of the United Kingdom, including Northern Ireland and Scotland.

The three-day programme is based around the core challenges facing UK high-growth businesses. Through interactive lectures, exercises, case study discussions, highly participatory group work and projects, the course equipped participants to focus on the challenges affecting scaleup growth in their specific area. The programme enabled LEP stakeholders to identify practical measures and techniques to address these challenges, apply these measures to their local business environment and to develop a local scaleup plan to take forward. Since completing the programme a number of actions have been taken by its participants within their local area including: adding scaleup programmes to their economic development plans; introducing new executive education for their local scaleups; and establishing mentoring schemes and peer-to-peer groups. Furthermore, many business school leaders who participated on the course are reviewing how they can offer more structured targeted support for local scaling businesses.

## HIGHLIGHTS FROM PROGRESS MADE BY LEPS SINCE THE COURSE

**Swindon and Wiltshire:** In October 2016, the Inspire Elite Swindon and Wiltshire ScaleUp Programme was launched. With a dedicated manager, it aims to support 100 local scaleups through 2017 from across the local area. It includes dedicated peer to peer networking opportunities for shared learning, visits to other successful businesses, and access to experts in scaleup challenges. A true mix of sectors are supported from high-value manufacturing, engineering, life sciences, energy and waste management, digital and creative, electrical, print and media.

**Greater Cambridge and Greater Peterborough:** A dedicated ScaleUp and Growth Manager has been appointed and a 'School for Scaleups' has been launched.

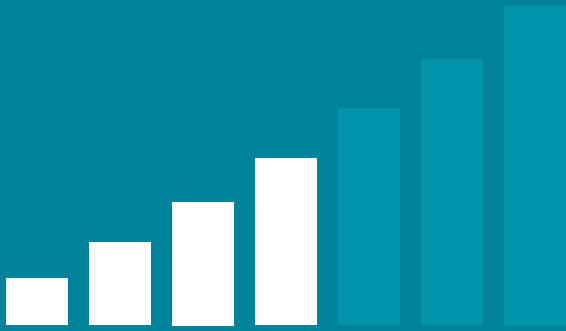
**Worcestershire:** In conjunction with University of Worcester, Worcestershire LEP has undertaken an assessment of local scaleups. As a result, scaleups are now embedded in the strategic priorities of the local LEP and Growth Hub and they plan to launch a scaleup executive education programme in early 2017.

**West of England:** West of England LEP working with the University of Bristol has undertaken scaleup roundtables with MPs to showcase local growth companies. They have also organised a series of events for scaleup companies focused on local scaleup needs and challenges.

**Birmingham and Black Country:** A 'ScaleUp 1000' Programme is due for formal launch in January 2017. As part of this initiative, a ScaleUp Champion will be put in place.

**Scotland:** Work is already underway to reshape Scottish Enterprise account management to target and support scaleup companies. It is also anticipated that the scope of the Enterprise and Skills Review will likely identify and commit to further actions to support these companies.

**Initial feedback has been promising and the Driving Economic Growth Programme is set to continue in 2017, but it should be noted that this executive education programme is in its initial stages. A full independent impact analysis will take place in 2017, which we will report on in November 2017.**



# CHAPTER 4

## Markets



# On accessing markets

## CHALLENGE: SELLING TO LARGE COMPANIES AND GOVERNMENT, ENTERING NEW MARKETS AND GAINING REGULATORY APPROVAL FOR NEW PRODUCTS ALL LEAD TO INCREASING CUSTOMER REVENUES

### Recap on 2014 Recommendations

**Recommendation 9:** *The government should draw attention to scale-up companies and their leaders so that it is easier for them to act as role models to others and to find customers, partners and investors, both at home and overseas. UK Trade and Investment should ensure that scale-up companies are well represented on international trade missions, and publish details annually. Central and local government should publicly report on the level of procurement they source from scale-up companies and their funding should be reviewed in terms of the amount of procurement they do with scale-ups.*

**Recommendation 10:** *The impact of regulation ‘cycle time’ on rapidly growing companies should be a major consideration for regulators and agencies. Agencies that interact frequently with scale-ups, like the Border Authority, Listing Authority and HMRC should report on their efficiency in relation to regulatory peers in other countries.*

The 2014 ScaleUp Report found that addressing local and international barriers was third highest on the agenda for scaleups, significantly ahead of access to finance.

Scaleups rely on being able to roll out innovative products and services quickly. In 2014, we reported that scaleup leaders were leaving the UK because the ‘cycle-time’ affecting their ability to roll out products was greater here than elsewhere. Cycle-time lags, in some sectors, put UK scaleups at a disadvantage to their international competitors. The 2014 Report therefore recommended that UK stakeholders report on their cycle-time with regards to scaleup companies and should benchmark their performance against their peers in other jurisdictions.

In the 2016 Scaleup Survey, access to markets ranked second on the agenda, significantly ahead of access to finance and infrastructure concerns.

The actions of large companies and Government can support scaleups to flourish in markets in any given geographic region. The 2014 Scaleup Report called upon large companies to buy more from scaleups, trade missions to include representation from more scaleup leaders and Government departments to use their budgets to drive innovation through procurement with scaleup companies. By way of comparison, within Europe, around 19 percent of GDP is spent on public procurement; this could therefore constitute the single easiest lever we have to pull in 2017 to support scaleups.

NATIONAL PICTURE 2016

**In 2016, 86% of scaleup leaders cited that they would be able to grow their company faster if it were easier to attract large corporates as customers in the UK. This is a 9% (post-Brexit) jump from the 77% who stated this in 2015.**

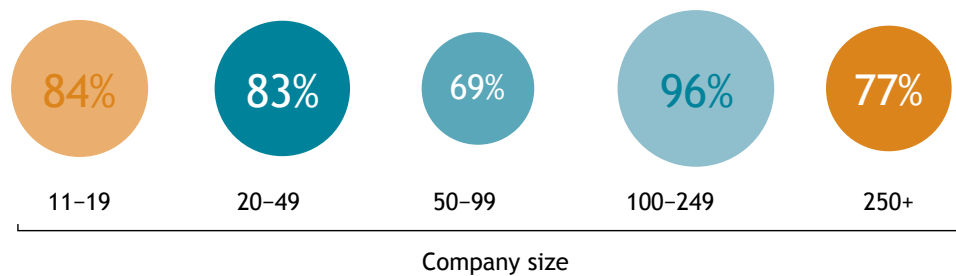
Amongst those who agreed that this was a considerable challenge, the main difficulties were expressed at the initiation stage (identifying suitable prospect companies and the right person to talk to there) and getting senior management buy-in from the potential customer. Both concerns were raised by 21% of scaleup survey respondents. Meanwhile, 1 in 10 of our respondents identified being able to qualify for contracts (such as by compliance with procurement conditions) as a challenge.

**79% of scaleup CEOs agreed that they would be able to grow their business faster if it were easier to attract larger corporates as customers overseas.**

**72% of scaleup leaders cited said they would be able to grow their company faster if the Government were a customer.** This is an advance on the 65% of Scaleups who agreed with this statement in 2015.

**82% of scaleup CEOs stated that they would be able to grow their companies faster if interactions with Government Departments were easier.** This is a 12 % jump from the 74% of CEOs we surveyed in 2015. This issue appeared to be particularly acute for CEOs running companies employing between 100 and 249 employees as evidenced in Figure 12 below.

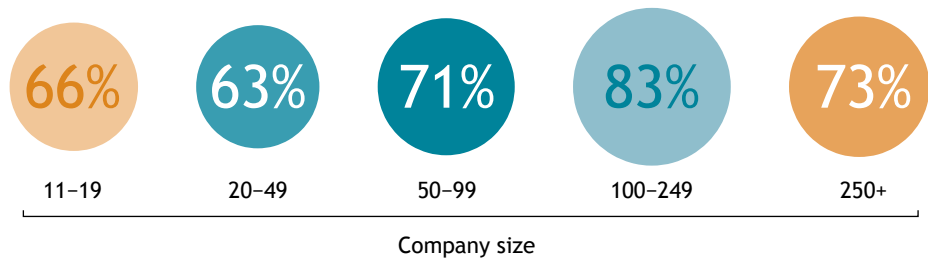
Figure 12: 2016 Survey Results for Government Department question by size of company



**70% of scaleup CEOs stated that they would benefit by being invited to join international trade missions or if they were introduced to potential overseas customers they could sell to or partner with.** This rises to 84% of Scaleup CEOs from companies with 11-19 employees.

**In 2016, 70% of scaleup CEOs stated they would be able to grow their company faster if interactions with regulators were easier.** This is a 6-point jump on the 64% of scaleup CEOs who reported this in 2015. Upon looking at the answers by size of company, the case for fast-track systems for scaleup companies with more than 100 employees seems far greater (83%) compared to the 65% of those with less than 50 employees who expressed this as a concern.

Figure 13: 2016 Survey Results for Interactions with Regulators by size of company



### VIEWS FROM SCALEUP LEADERS REGARDING ACCESS TO MARKET

*“Without being flippant: buy from us. Both UK big business and UK government are notoriously slow to engage with, slow to consider and slow to procure. That’s in comparison to the US...even Japan. Time is a scaleup’s killer.”* (Greater London)

*“Show more interest in dealing with emerging businesses.”* (Greater London)

*“Be an early stage customer.”* (Greater London)

*“Public sector is so difficult for a small organisation to engage with because of the procurement process. The same can apply for corporates. The amount of resource required to respond to them is prohibitive and only favours larger organisations with the bandwidth and resource to be able to respond and quickly. How could these procurement processes be made easier and open to smaller businesses to succeed?”* (Oxfordshire)

*“All Government Departments should use the same procurement as this would cost much less when tendering and would stop duplication between each ministry, we work for various and they are all independent of each other.”* (Hertfordshire)

*“Publish RFPs / RFQs in the same location.”*

*“Public sector could have a contractors portal demonstrating contracts available. Also the government could have open days where contractors are invited to present, a bit like a trade show.” (Leeds)*

*“Contrary to government policy re public sector doing business with SMEs the tendering processes legislate against SMEs primarily due to poor procurement practice and risk averse nature.” (Greater London)*

*“Large corporates need to understand they are dealing with much smaller talented businesses – their procurement processes are very expensive and onerous for us.” (South West)*

### VARIATION BETWEEN LOCAL AND NATIONAL VIEWS:

As shown in the Scaleup Briefings in Appendix 2, priorities do differ for scaleup leaders at a local level. In Greater London, the East Midlands (including Northamptonshire), the South West and Yorkshire and Humber (including Sheffield City Region), scaleup leaders feel relatively positive about access to *international markets and Government procurement* in their areas. Conversely, greater concern was expressed by scaleup leaders regarding access to international trade missions and introductions to international customers among those who had chosen to locate their businesses in the North East and North West, including Greater Manchester, West Midlands, and Liverpool City Region.

### PROGRESS TO DATE

#### **Scaleup procurement and collaboration with large corporates and government.**

Over the course of 2016, it is apparent that there is intent by large corporates to engage with scaleups more effectively. Ostensibly the pathway to procurement contracts or collaborations is still not that easy, simple or clear for the scaling businesses. More concerted action is therefore required to facilitate and simplify these processes to enable our scaling businesses to increase engagement with corporates and gain access to procurement contracts.

That is why we welcomed the opportunity to collaborate with Nesta in 2016 on their review of the barriers and challenges faced by early stage growth businesses seeking to work with corporates. The resultant practical guidance given with case exemplars in the **‘Scaling Together Report’**<sup>33</sup> published in March 2016 is a tool for all parties. We were also pleased to see the work Nesta undertook in the Summer of 2016, as part of the Startup Europe Partnership, to publish a league table of the top 25 Corporations across Europe that were judged ‘Good Corporate Scaleup Citizens’. This should inform non-executive directors on large company boards on the questions they might consider asking of their executives and the benchmarks

## CHAPTER 4

for measuring the effectiveness of the company in its engagement with scaleups. As identified by Nesta, good scaleup practice includes, but is not limited to, the following:

- the creation of procurer networks
- ‘meet the market’ events to help small suppliers find buyers
- internal executive education scaleup training programmes for procurement officers;
- increased transparency on procurement needs;
- subdivision of big contracts into smaller parts;
- simplifying the qualification process;
- resisting demands for ISO certification for smaller suppliers;
- publishing procurement guidelines for scaleup suppliers about the procurement process

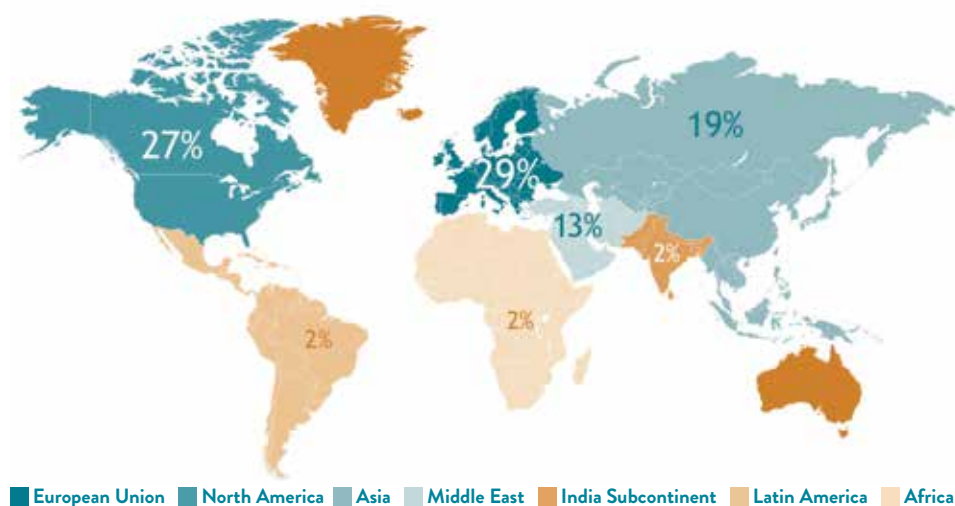
It is evident that there are some practical ways in which improvements can be made in this area, and to this end, scaleup matchmaking services are also welcomed by such businesses.

It is vital that the Government at both central and the local levels continue the work already underway to improve engagement with SMEs on supplier contracts both on a direct and indirect basis. We also welcome the recently announced review by the Government into the Small Business Research Initiative to look at how it can increase its impact and give more innovators their first break. It would also be useful, as previously recommended, for the Government to monitor their procurement with scaleups at local and national level and to continue to encourage larger companies they are buying from to support scaleups in their supply chain. The use of data, as outlined in the first chapter, will help this become more effective. The Scaleup Institute will continue to work with government on this area.

### Exports

Among the scaleup CEOs we surveyed in 2016, the most relevant international markets to their business were identified as the **EU** (29%), **North America** (27%), **Asia** (19%) and the **Middle East** (13%).

Figure 14: Most Relevant International Markets



In 2015-2016 critical work began to review how further support can be made available to scaling businesses at home and abroad. Innovate UK has allocated a significant portion of its funding to scaleups and aligned its strategic goals to scaling businesses. UKTI has run the ‘Exporting is GREAT’ campaign which showcases business opportunities across the world. This is an important initiative to continue in order to encourage and facilitate access to overseas market opportunities for our scaling businesses.

The development of, and easier access to, United Kingdom Export Finance (UKEF) short-term and working capital products (including the Delegation Initiative for banks, which will provide funding solutions to exporters under shorter and more accessible timescales), are welcomed and necessary. It is also vital to continue the work on the new enhanced tier one UKEF Supplier Export Working Capital scheme and increase the eligibility of such schemes to current exporters and potential exporters. Making it easier to understand and apply for these schemes is essential; the Government should continue its drive to deliver a digital platform so exporters can apply online for such UKEF schemes instead of the current paper-based approach. The Autumn Statement announcement on the doubling of capacity and increase in risk coverage of UKEF is also welcome.

As we seek to encourage our scaling businesses to embrace further export opportunities, it may be worthwhile for government to consider an Export Voucher Scheme to support businesses entering new markets for the first time or some form of tax allowance. These are matters which we will further explore in an upcoming report on the international perspective from scaling businesses due to be published by the ScaleUp Institute.

## CASE STUDIES

The UK has a small number of highly effective access-to-markets case studies which are featured on the ScaleUp Institute's website.

### VentureFest

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#### SVC2UK

We have received nominations to evaluate **London's 'GotoGrow' programme**, which supports 800 Scaleup leaders in London in specific sectors to move into international markets and the West Country LEP's electronic match-making service. Likewise, we have received nominations to review case studies in 2017 about the impact of initiatives like the Digital Catapult Centre, Level 39, Advanced Manufacturing Centre and aerospace and automotive industry in the programmes that connect large corporate buyers to scaleups in their supply chains.

## IN SUMMARY

In light of Brexit and the market uncertainty associated with the referendum, **the challenges surrounding access to domestic and international markets is climbing up the agenda in scaleup leaders' minds**. As we enter 2017, procurement, collaboration and internationalisation must be a priority for both private and public sector stakeholders up and down the country. To establish how that engagement can be undertaken in simpler, easier, quicker and targeted ways is vital. The more we can give effect to 'fast-track procedures', the more we drive UK economic growth.

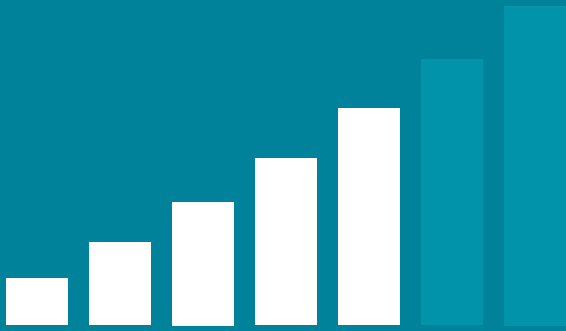
This will continue to be a key area of work for the ScaleUp Institute in 2017, particularly to ensure that as Brexit unfolds, we support the confidence of scaleup leaders to expand internationally and seize the opportunities across the globe.

## 2016 RECOMMENDATIONS

**We recommend** public bodies report on the level of procurement they source from scaleup companies. Their funding should be tied to increasing this amount. (Recommendation 7)

**We recommend** that large companies report on the level of procurement they source from scaleup companies and the collaboration they have with scaleup companies. Any procurement contracts with Government should require an increase in the amount of business undertaken with scaleups. (Recommendation 8)

**We recommend** that agencies that interact frequently with scaleups, such as the Border Authority, Listing Authority and HMRC, have fast-track procedures for scaleups and report on these in relation to peers in other countries. (Recommendation 9)



# CHAPTER 5

Finance



# On accessing finance

## CHALLENGE: ATTRACTING APPROPRIATE GROWTH CAPITAL

### Recap of 2014 Report Recommendation

**Recommendation 11:** *Government and industry must ensure that progress in closing the finance-gap is maintained and review and report on the extent to which scale-ups, in particular, are supported.*

In 2014, 151 of the 203 scaleup CEOs ranked access to talent as their 1st, 2nd or 3rd most important issue, against just 44 of the 203 who ranked access to finance as a top-three issue. The historic shortage of capital available in the UK for scaleups is well-documented and many initiatives have been put in place to address this. In 2014, the ScaleUp Report focused on the need for bigger pools of capital in the UK and the need for more investors who are willing and able to provide ongoing rounds of follow-on or scaleup financing.

We want entrepreneurs based in the UK to be able to identify and raise capital in the UK and not feel the necessity to look towards the plentiful sources of attractive finance domiciled in the US or Asia.

It is important to increase the provision of *education on growth finance* so that scaleup leaders understand and are aware of all the options available to them so they can structure their companies appropriately. It is particularly crucial for company leaders to be able to understand the various financial instruments available so they can align their interests with those of their shareholders from a very early stage. This is one focus we hope to take forward in 2017, ideally building on the work of the British Business Bank which provides information to business leaders regarding finance options. The Review into Patient Capital recently announced by the Government, led by Sir Damon Buffini, is also welcomed.

### NATIONAL PICTURE 2016

In 2016, 70% of Scaleup leaders felt that they would be able to grow their company faster if they had access to bank loan finance, 63 % stated they would benefit from help in meeting overseas investors and 62% felt they needed better access to venture capital (VC) finance.

That said, our annual surveys of UK scaleup leaders from 2014 to 2016 showed that issues with finance are now less of a priority in the UK compared to other factors. Finance is important, however, addressing the skills shortages, developing scale-up leadership and increasing access to customers via exports and government

procurement, will do more to secure the UK's long-term competitive advantage. Finance challenges are a complement to the context of the broader issues that a fast-growing company faces in its journey for achieving scale.

**Views from our scaleup business leaders:**

**Need for geographically balanced risk capital**

*"It would be better to be more balanced geographically ... with this in mind a greater steer can be placed on encouraging innovation funding into areas with stronger needs for innovation and growth to help rebalance the UK economy. This may be possible to address in the remit of funding agencies and application review processes, this action could do a lot to rebalance innovation and growth across the UK." (South Yorkshire)*

**Desire for continued support in taxation options**

*"Keep EIS funding incentive going." (Greater London)*

*"Continuation of R&D tax credits – R&D tax credits help firms focus time and efforts on innovation and IP generation....[it] is a helpful mechanism that encourages innovation particularly in labour heavy (not capital equipment heavy) industries. Removal of this would damage investment in innovation especially in the digital, high skilled professional and service sectors...." (South Yorkshire)*

**Ease of flexible finance access and support in identifying options**

*"Make it easier to find out what government funding support is available." (Greater London)*

*"Help with Finance, access to FD skills." (Warrington)*

34 <http://british-business-bank.co.uk/research/equity-tracker-2016>

## NATIONAL VERSUS LOCAL PRIORITIES

As shown in the briefings in Appendix 2, on a local basis priorities differ. Scaleup leaders in the North East and North West Regions are less likely to mention finance as a barrier than their peers, albeit this can vary by LEP area. For example, 10 scaleup leaders in Manchester highlighted access to venture capital as a particular concern to them. In Yorkshire and the Humber, the East Midlands, West Midlands and the South West, access to finance was cited as more of a barrier to growth. For example, views from 10 scaleup CEOs in the Black Country reflected the lack of venture capital as a significant barrier in this area.

These regional disparities in access to private equity, both by deal numbers and value, were also noted in recent British Business Bank analysis<sup>34</sup>, with London and the South East attracting a higher proportion of equity compared to their weight in the UK economy. London received 47% of all equity deals by number and 57% by value in 2015, despite only 21% of high-growth businesses being located in this region.

**Figure 14: Proportion of Equity Deals, High-Growth Businesses and Business Population by Region**

Region	% of total no. of UK Equity Investments	% of total no. of High-Growth Enterprises	% of total no. of UK Private Sector
London	47.1	20.9	18.1
South East	11.5	14.4	16.3
North West	6.3	11.1	9.9
East of England	6.1	8.6	9.8
West Midlands	4.0	8.5	7.4
South West	4.6	8.2	9.9
Yorkshire and the Humber	3.5	7.1	7.1
East Midlands	2.8	6.5	6.6
Scotland	6.1	6.4	6.3
Wales	2.3	3.5	3.9
North East	4.7	3.0	2.5
Northern Ireland	0.9	1.7	2.2

London received 47% of the total number of equity deals in the UK in 2015, but the region accounts for 21% of high-growth businesses and 18% of the wider business population. This may suggest equity deals are underrepresented in the other regions relative to the share of high-growth businesses and business in the wider population.

Source: Beauhurst, ONS analysis of high-growth enterprises and BIS business population estimates.

35 <http://www.parliament.uk/business/committees/committees-a-z/commons-select/business-energy-industrial-strategy/news-parliament-2015/access-to-finance-report-published-16-17>

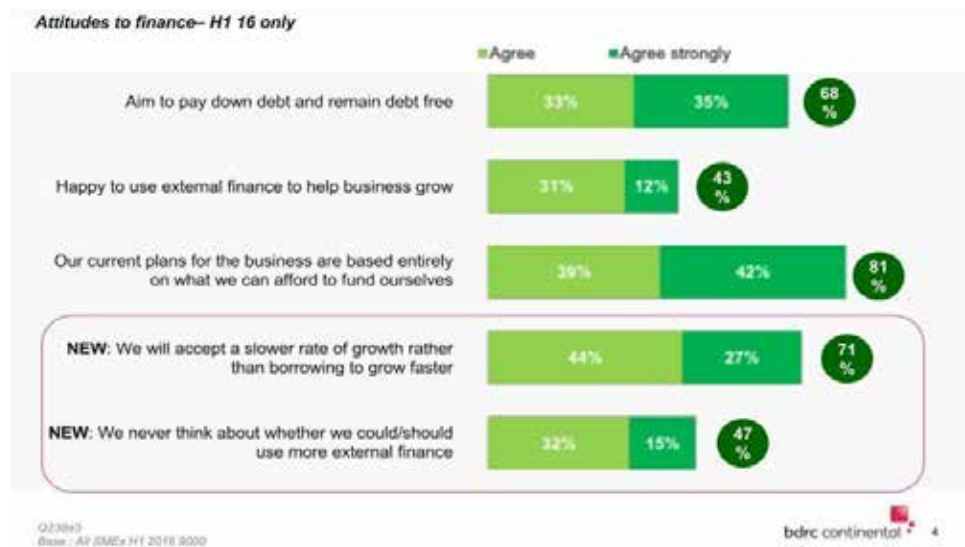
In its October 2016 report on access to finance published, the House of Commons Select Committee for Business, Energy and Industrial Strategy (BEIS) noted that “access to finance is not as fundamental a barrier to business growth as it was a couple of years ago.” However, the Committee also acknowledged that there were regional disparities and that “information and advice was often more of a barrier” than gaining the finance itself.<sup>35</sup>

**Demand has a role**

Bearing in mind that 100% of net new jobs are generated by growing companies that are less than five years old, there is a broader context of smaller and medium-sized businesses one might wish to take into account which is reported in the latest BDRC **SME Finance Monitor** (2016 Quarter 2). This report shows that Small and Medium-sized companies (irrespective of whether they were growing, shrinking or with stagnant growth) were recently far less likely to take up external finance.

According to the Monitor, choosing to use any form of external finance fell from 44% in 2012 to 36% in Q2 2016. In particular, lower levels of finance were reported. In 2012, 36% of SMEs used one or more forms of finance, while in Q2 2016 this had fallen to 30%. Attitudinally, 7 in 10 SMEs said that they would accept slower growth through the use of their own resources rather than taking external finance to grow more quickly, compared to 4 in 10 happy to use external finance to help the business develop and grow.

**Figure 15: There continues to be high levels of agreement with self-funding and self-reliance**



36 'Scale-up UK: Growing Businesses, Growing our Economy' A report from the business schools at the University of Cambridge and the University of Oxford, convened by Barclays' [www.scaleupinstitute.org.uk/wp-content/uploads/2016/05/Scale-up-UK\\_Growing-Businesses\\_Growing-our-Economy.pdf](http://www.scaleupinstitute.org.uk/wp-content/uploads/2016/05/Scale-up-UK_Growing-Businesses_Growing-our-Economy.pdf)

If scaleups are not accessing finance available to them and there is a decrease in business leaders' confidence to accept external finance, it is evident there is an urgent need to ensure that business leaders can access finance and understand their available options.

### PROGRESS TO DATE

It is clear that both the private and public sector have been, and are, listening to the concerns of scaling businesses and are seeking to collaborate more to address these needs. This is attributable to increased recognition of the impact of scaleup businesses on productivity and job creation.

Due to policy action in recent years, it is now widely viewed that there is not an issue in the UK per se with access to early stage angel or seed capital. This is in large part due to the preferential SEIS and EIS and VCT schemes designed to make it more attractive for people to invest and easier for SMEs and scaleups to grow, which should be maintained. Much more of the issue now facing scaleup leaders is the pool of available follow-on capital, its tenure and its scale. This was reviewed in detail in 2016 in the work undertaken by Oxford University's Saïd Business School and Cambridge University's Judge Business School with the support of one of the ScaleUp Institute's partners, Barclays Bank.<sup>36</sup>

We were encouraged in 2015 when the British Business Bank refreshed its strategy and announced that a core pillar of its work would be collaboration with the private sector on the development of scaleup finance. This led to the deployment of its Help-to-Grow scheme, expansion of the Angel Co-Investment Fund, a range of investments through its early and late-stage venture capital funds, and the establishment of regional investment funds, namely the 'Northern Powerhouse' and 'Midlands Engine' funds.

Alongside this Government-supported work, there has also been further evolution in the private sector growth capital space. The Business Growth Fund (BGF) has continued to expand and has now invested in more than 150 scaleups from their regional offices across the UK and Santander continues to develop its Breakthrough Fund. There has been continued evolution of family office funds and further expansion of investment funds such as Octopus Investments, Beringer and Woodford Investment Management. There is now growing interest by institutional funds in what more they can do for scaling businesses, subject to regulation, and expansion of traditional bank lenders into new products such as the Venture Fund established earlier in 2016 by Barclays Bank.

Nevertheless, it is clear that there remains a need for the UK to continue to expand its overall pool of scaleup finance 'capacity.' This is particularly the case in specific regions and sectors and in reassessing the regulatory framework surrounding

## CHAPTER 5

institutional investment. There is also a necessity for businesses to better understand the growth capital options available.

**Confidence to invest** also remains critical for Government and financiers to signal support for scaling businesses. Investors need to be able to consider what else they bring alongside capital to businesses whose leaders are becoming more focused on the value of mentorship, such as their networks and the ‘patient’ nature of the capital being offered.

As the Government’s Patient Capital Review evolves it will remain important to consider:

- the necessary measures to support long-term growth capital in the UK, alongside those needed to support the unlocking of long-term capital from institutional investors;
- greater policy focus enabling the buy-side to contribute to renewed growth in the pre-IPO and IPO market;
- the opportunities to review and adapt regulations and market practices to enlarge the current spectrum of investors, with particular reference to the notion of ‘professional investors’;
- the way in which the public and private sectors support the creation of a wider ecosystem of sophisticated advisors to support businesses to prepare to access new forms of funding, lower the technical barriers and, eventually reduce the cost of funding.

## CASE STUDIES

A range of finance programmes exist to improve access to finance in the UK for scaleups. The Scaleup Institute is reviewing a number of these with a view to endorsing them in the coming months, such as those run by the British Business Bank. Those that have already completed that process are listed below and found on our website.

**BGF**

**ELITE Programme (London Stock Exchange Group)**

**Santander Breakthrough Fund**

## CHAPTER 5

In view of the discernible cross-regional disparities reported, we will increase our focus on more in depth regional analysis so that we can report with a greater sense of statistical confidence in November 2017. Our programme of work for 2017 means we should be able to evaluate and publish additional case studies over the next twelve months.

### IN SUMMARY

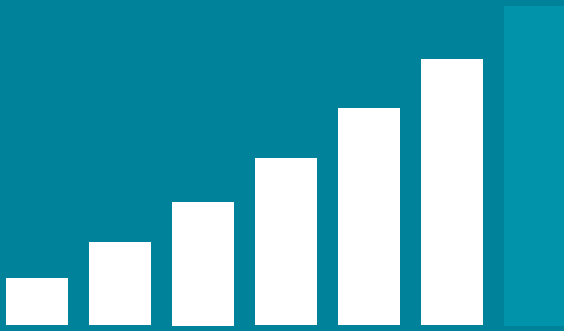
From 2014 to 2016, we believe good progress has been made; however, we recognise how the uncertainty generated by the post-Brexit referendum climate could impact the overall UK investment environment. Whilst the overall UK capital markets continue to provide evidence of a greater efficiency compared to the rest of Europe, continued concerted action to focus on finance for scaleups will secure a long-term competitive advantage to the UK. The recently announced Patient Capital Review is welcomed and should be used as an opportunity to review closely how the UK unlocks greater institutional investment into scaleups and to reassess the cultural and fiscal regulatory barriers to this.

There remains regional disparity in growth capital distribution in the UK across sectors such as those heavily dependent on R&D or IP, such as Life Sciences or the Creative Industries, that still require support to tap into non-traditional finance options.

It is critical to map, evaluate and coordinate the finance initiatives available at a local level to ensure that a full suite of finance options is available for scaleup business leaders to consider and to provide clarity regarding what is on offer.

### 2016 RECOMMENDATION

**We recommend** that Government and industry ensure that progress is made closing the finance gap and ensure that growth finance is included as core curriculum in all local scaleup leadership courses. (Recommendation 10)



# CHAPTER 6

## Infrastructure



# On accessing infrastructure

## CHALLENGE: ACCESSING RESEARCH AND DEVELOPMENT FACILITIES AND FINDING SUITABLE PREMISES

### Recap of 2014 Report Recommendation

**Recommendation 12:** *Government and industry must ensure that progress in infrastructure areas is maintained and review and report on the extent to which scaleups, in particular, are catered for.*

The 2014 Scaleup Report highlighted a number of issues surrounding access to infrastructure that impeded scaleups, these included: planning laws, inflexible landlords imposing onerously long leases, and difficulties accessing high-speed broadband. Scaleups also highlighted concerns around accessing facilities and equipment to carry out research and development (R&D) for new products and services; investing in this infrastructure was too costly and there were too few opportunities to partner with universities or large corporates.

### NATIONAL PICTURE 2016

In the 2014 Scaleup Report, 80% of scaleups said they would be able to grow their company faster if local and sub-national government made available publicly-owned *offices and buildings on flexible, short-term contracts*. In 2015, this figure dropped to 77% and in 2016 fell even further to 69%. It would appear to be a diminishing problem but one we will maintain a review of.

Likewise, in 2014, 78% of scaleup leaders said they would be able to grow more easily if universities and large corporates opened up their *research and development facilities* to their company. This figure was unchanged in 2015 but in 2016, it has dropped to 70%. Again, despite there being a reduction in concern among scaleup leaders on this issue this remains a key focus, alongside the ease of access to these facilities.

## ACCESS TO INFRASTRUCTURE: VIEWS FROM OUR SCALEUP LEADERS

*“After staff costs, accommodation is the next largest fixed overhead and a lot of our investors’ cash goes into paying landlords and local authorities.”*

*“Lease commitments for a rapidly growing (or shrinking) company are a huge burden.”*

*“To require, or at least encourage through tax or other means, short-term flexible leases.” (Cambridge)*

*“... better options for office space on dedicated science parks.” (Scotland)*

*“Affordable office infrastructure.” (Greater London)*

*“Provide flexible accommodation and genuine risk capital. Ease transport bottlenecks and substantially increase available housing as prices are unaffordable for most staff.” (Cambridge)*

## NATIONAL VS LOCAL PRIORITIES

The 2016 ScaleUp Survey shows wide variation in scaleup leader confidence regarding infrastructure depending on where they locate their business in the country. The South East is generally less concerned about the availability of buildings on flexible terms and the South East Midlands area is also relatively positive on access to university and corporate research and development facilities. Conversely, there are areas where scaleup leaders are more concerned about their access to infrastructure: for example, in Sheffield, Leeds and Manchester those surveyed are more concerned about the availability of R&D facilities and in the latter, about the availability of flexible space to move into.

## CASE STUDIES

To help understand the emerging models of intervention, the 2014 Scaleup Report published case studies about public-private collaborations providing infrastructure solutions to scaleups so they could move out of the spaces they had out-grown and access space owned by others that was not fully utilised. These case studies can be found on the ScaleUp Institute website.

The ScaleUp Institute has published two case studies in 2016 mentioned below.

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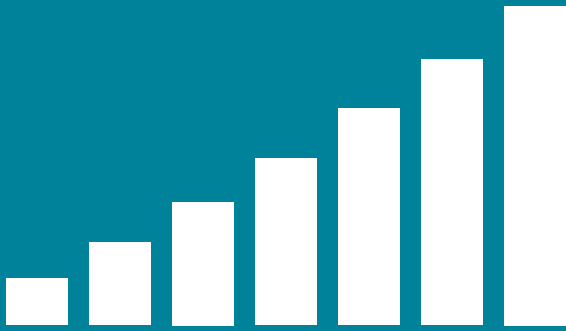
**Google Campus London**

## CHAPTER 6

In 2017, the Scaleup Institute will be reviewing additional initiatives throughout the UK designed to help make it easier for scaleup leaders to access the infrastructure they need. We have received nominations to review Manchester Alderley Park, The Knowledge Transfer Networks, Mass Challenge, Second Home, The Trampery and WeWork, which we plan to review in our programme of work in 2017.

### IN SUMMARY

Since 2014, some good progress has been made with certain infrastructure needs of our scaleup leaders being answered. We need to ensure this continues and encourage ecosystem stakeholders from across the country to take inspiration from peers so that this hindrance can be removed from scaleup leaders' lists of growing pains. The continued focus and investment by the Government on local infrastructure needs as announced in the Autumn Statement is also welcomed.



# CHAPTER 7

Looking forward

# Looking forward

## MAKING BRITAIN THE BEST PLACE TO SCALE A BUSINESS

In 2014 it could only be hoped that the nation would get behind the scaleup agenda to see these businesses as a sector in their own right and for the policymakers, educators, business, finance and entrepreneurs to join together to help them overcome whatever barriers they met so that scaleups could flourish.

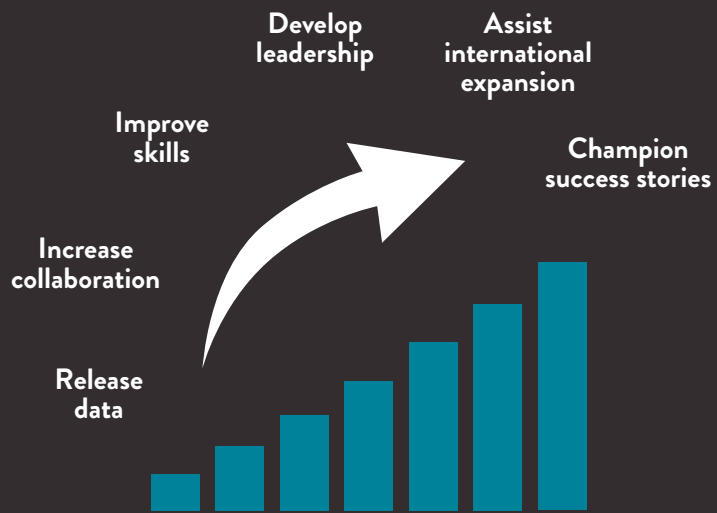
In 2016 it is clear that the rallying cry has been heard and action is being taken across all areas of the country and internationally. Much however, still needs to be done if we are to close the gap and realise our ambition to be the **greatest scaleup nation in the world** with the hundreds of thousands of jobs, billions in economic value and prosperity that would bring.

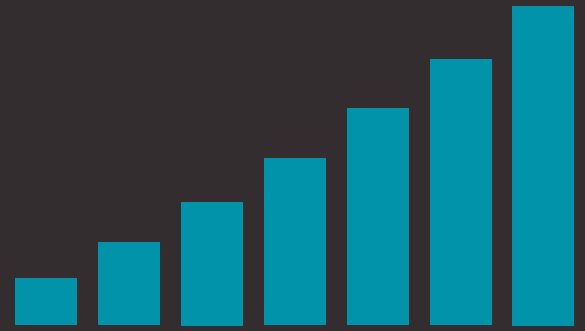
The ScaleUp Institute will continue its programme of research and we will report again on progress in November 2017. Our Committees will continue to evaluate case studies, with a particular emphasis on local and regional programmes, and policy actions across the scaleup themes. We will highlight these in our weekly newsletters and on our website, tracking developments as they unfold.

The economic growth we so desire will only occur if local scaleup leaders get what they need when they need it most. The identification of scaleups is key to this and progressing work on a **Scaleup Impact Datafeed** is our number one priority. Whilst the ScaleUp Institute and others can continue to use Companies House and ONS information, opening up digital access to expanded robust data sets will increase the capacity for local ecosystem stakeholders to collaborate and ensure that their scaleup leaders flourish.

Scaleups are of even greater importance now as we ensure that the gap that existed pre-Brexit is closed rather than further opened.

**Together, let's make Britain the BEST place in the WORLD for a leader to choose to SCALE their business.**





# APPENDICES