Grant Thornton

Latest figures reveal that with additional efforts to boost skills and exporting, mid-sized businesses could add an additional £50 billion to UK economy

The latest research figures from Grant Thornton's Agents of Growth series released this week ahead of Autumn Statement, show that the medium-sized business (MSB) segment has continued to drive the UK economic recovery, contributing £262 billion to UK GDP in 2014, almost £49,742m of which from Yorkshire and Humberside. Through the year, MSBs have again delivered a stronger performance than smaller and larger firms in 2014, reporting higher annual growth in capital investment, gross profits, and salary.

With MSBs in Yorkshire and Humberside now employing a workforce of 332,000 people, the region saw the third highest level of growth in MSB gross productivity 2013-2014, only beaten by Northern Ireland and London.

Nationally, MSBs reported average salary growth of 2.3%, compared to 2.1% for small firms, and 2% for larger businesses, and it's estimated that MSBs injected £152 billion into household finances in 2014 through total employee remuneration.
Capital investment spending by MSBs was up 3.4% in 2014, compared to 2.4% and 2.8% for small and large companies, respectively. And their average annual increase in gross profits was up 4.9% (small: 4.4%; large: 3.8%).

Looking forward, MSBs expectations for 2015 are also better than those of their smaller and larger counterparts. They are anticipating faster growth in turnover (6.7%), exports (4.5%), capital investment (2.8%), and employment (2.7%) than the UK business population as a whole. If 2015 expectations are met, MSB GDP growth will stand at 5.8%, considerably higher than overall UK GDP growth expectations of 3.5%*. To put this into context if the trends continue, MSBs could be contributing £413 billion GDP annually to the UK economy by 2020 (up from £294 billion in 2014).

However, whilst MSBs have performed extremely well, our research has shown a flattening in turnover, down 0.6% to £708bn, and dip in productivity of 2.7%, indicating there is more support to be offered and they are still experiencing barriers to growth.

In the research, one quarter of MSBs highlighted lack of skilled talent as a major constraint to their continued success, as well as regulation and red tape (20%), and economic uncertainty (18%). If MSB growth continues to be weighed down by factors such these, it could impact their contribution to the UK economy by £50 billion between 2015 – 2020.

Andy Wood, practice leader for Grant Thornton in Leeds, commented: “MSBs have done fantastically well through the crisis, and continue to outperform the market across many important metrics, supporting our view that dynamic MSBs are critical to driving the UK's economic growth.

"Of continued concern however, especially given the widening trade deficit, is that whilst they have high expectations about their growth prospects, this year the reality is that they have fallen behind despite the launch of targeted efforts from UKTI. Added to the flattening in turnover and dip in productivity performance, it suggests more needs to be done to promote productivity and growth, particularly looking at skills, exports and incentivising businesses to invest and innovate.

"These results should raise a flag to the Government that more needs to be done to support these businesses. Our forecasts show there is a wealth of potential yet to be unlocked from MSBs, but they need to be fully acknowledged and enabled by the Government, to realise this. From our on-going discussions with government and policy makers we know that this work is beginning to gather pace, and would call for even more focus and support for this engine room of the economy."

*Cebr forecast

MSBs interested in helping shape their future and drive growth and momentum in the UK mid-market can request further information on Grant Thornton’s Agents of growth summit and research by contacting agentsofgrowth@uk.gt.com.
* The definition of the mid-sized business (MSB) segment is businesses that typically employ 50-499 people. Grant Thornton refers to them as ‘dynamic organisations’ – as they are focused on improving their own performance in every way: products, procedures, costs, management and structure. MSBs form a crucial part of the country’s employment pattern, often representing a cornerstone of the local economy and an essential prospect for those seeking to enter the workforce.

** Produced in partnership with the Centre of Economic and Business Research (CEBR).

***Recommendations written below, in their entirety

**About the research:**
This research was produced using analysis of government statistics, such as the Department of Business, Innovation and Skills Business Population Estimates, as well as proprietary datasets. These included Bureau van Dijk’s FAME database, Grant Thornton’s International Business Report and the ICAEW / Grant Thornton’s Business Confidence Monitor. Further analysis was conducted using Cebr’s proprietary modelling.

- Ends -

**Photo shows:** Andy Wood, practice leader for Grant Thornton in Leeds

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**Notes to editors**

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** Agents of growth – Recommendations to Government and MSBs**

**Recommendations to Government**
Sharper definition of the MSB sector, and consistent engagement

- We recommend that BIS, the Office of National Statistics, MSBs and business advocacy groups such as the CBI agree on an accepted, standard definition of MSBs. Agreeing the size and characteristics of MSBs will help everyone promote and support the sector more effectively.
- We recommend BIS continues to collect and collate MSB-specific data, including on the differences in MSB ownership structure. This should be used to identify why the best MSBs succeed, and to review BIS support designed to stimulate MSB growth. In this spirit, our Agents of growth report (and the data sets behind it) will be shared formally with BIS upon publication.
- We recommend BIS and Number 10 engage with mid-tiers directly by appointing CEOs from the MSB sector to all relevant business advisory groups, including the Prime Minister’s Business Advisory Group.
- We recommend HMRC assign Customer Relationship Managers to MSBs. This will help bolster in-house tax resources, reduce the administrative burden for mid-sized companies and minimise inadvertent tax and reporting errors made by business.

More and better targeted support on exports

- The Agents of growth report reveals UK MSBs are less ambitious about exporting than their Turkish, German or Indian rivals, with only one in five expecting to expand their international operations. So we welcome UKTI’s recent pledge to boost support for 8,990 businesses which it defines as mid-sized. In addition, we recommend UKTI works with business groups and industry to ensure the support provided by its forthcoming advice scheme is as effective as possible.
- We recommend that BIS explores incentivising corporate mentoring schemes: this would involve large corporates with significant international reach providing coaching and access to networks to support smaller, non-competing companies.
- Of those MSBs looking to expand internationally, the vast majority are focused on Western Europe and North American Markets. UKTI should continue to increase the volume of trade delegations to higher growth emerging markets, and ensure MSB representation on these trips.
- Education and coaching should focus on overcoming the specific cultural and linguistic differences that remain big barriers to these markets. We therefore recommend that UKTI and British Embassies work more closely together in supporting potential MSB exporters.
- Our conversations with business leaders revealed export finance support may help to boost MSB exports, but in 2011-2012 only 52 SMEs received direct support from UK Export Finance (UKEF). The doubling of the number of specialist export finance advisers will go some way to improving this and we recommend BIS and UKTI promote existing schemes more vigorously, and ensure they encourage long-term investment for MSBs looking to set down roots in foreign markets.

Closing the skills gap and finding the talent

- Apprentices are a good resource for MSBs looking to improve their productivity. A 2013 report by the National Audit Office and CEBR demonstrated that completing an apprenticeship raises the productivity of that employee by an average of £214 per week. We therefore recommend HM Treasury explore an NIC exemption for apprenticeships of all ages in MSBs (both employers and employee) for the duration of the apprenticeship.
- We recommend HM Treasury explores incentivising training and development with tax reliefs, particularly for under 25s, and for graduates without any work experience, similar to the preferential tax arrangements provided to incentivise research and development.
- We recommend industry and BIS work together to introduce more ‘vocational accredited education’ under trade bodies.
BIS and HM Treasury should explore further devolving the funding for apprenticeships to businesses, not national bodies – to reflect the demands of individual companies (as per the Richard Review).

A continued focus on access to capital

- We recommend finance initiatives enjoyed by smaller business are extended to MSBs. Significant growth could be created if the Government doubled the Enterprise Investment Scheme funding to companies that have 500 employees and gross assets of £30 million.
- According to the Bank of England, only 257 out of 1.2 million private firms have a financing mix that includes public bonds. We recommend the Government continues its work to explore creating an aggregation platform to allow MSBs to access the UK bond market.
- The FCA begins regulating crowdfunding in April 2014, offering more protection for investors. We recommend BIS works with business groups to help promote crowdfunding as a possible alternative to traditional finance, and continues to support the Business Finance Partnership.
- We recommend HM Treasury explores a reintroduction of the Corporate Venturing Scheme, aimed at MSBs, to unlock capital, and considers introducing support for the equity gap on large capital expenditure projects.

Recommendations to MSBs

Take a collegiate approach to issues within the MSB sector, and consistent engagement

- MSBs need to carve out a clearly defined collective identity. We recommend building on the success of the CBI "M" clubs by forming an umbrella organisation encompassing the best from trade associations, Chambers of Commerce, Local Enterprise Partnerships and other more informal groupings. This will help provide MSBs with a stronger collective voice.

Work with local partners on skills agenda

- To help close the skills gap highlighted by MSB leaders, we recommend that MSBs explore partnerships with their local University Technical Colleges. These partnerships allow MSBs to help design the curriculums of their future staff, and will also help MSBs to start actively considering what their future skills needs might be.

Develop MSB talent

- MSBs typically have a less structured approach to talent development than larger companies, especially amongst their senior management. We recommend MSBs support their personnel with MBA type development where appropriate, and explore partnerships with local business schools.

Think big on exports

- We recommend MSBs take advantage of increased support from UKEF, UKTI and the Government’s global “GREAT Britain” advertising campaign, and explore exports to the higher-growth markets beyond Western Europe.

Explore financing options

- MSBs need stable and cost effective finance in order to grow, but are sometimes reluctant to access longer term equity finance. We recommend MSBs explore different forms of finance (including equity finance) where appropriate.
Our research shows that many MSBs have sufficient capacity to take on more debt, to fund possible acquisitions and fuel faster growth or larger market share. At a time when the costs of additional debt are low, we recommend MSB leaders explore increasing their debt levels to power growth, where appropriate.