

PRODUCTIVITY LED
GROWTH. EVIDENCE
ON LEADERSHIP AND
KNOWLEDGE
(BUSINESS THEME)

PART OF THE EVIDENCE BASE
UNDERPINNING THE HEART OF THE
SOUTH WEST
LOCAL INDUSTRIAL STRATEGY

Document 007

Productivity-Led Growth – Leadership & Knowledge (Business) Theme

Evidence
Leadership & Knowledge
<ul style="list-style-type: none"> ✚ Management skills allow the successful exploitation of new ideas to boost productivity. The CBI in 'Unlocking Regional Growth' found that better management practices and a higher proportion of firms who export and innovate are two of the four main causes of regional productivity differences. ✚ How much do they invest in processes and capital? How much attention does management pay to practices, and how much do they invest in the training of their workforce?
Enterprise, Entrepreneurship & Business Growth
<ul style="list-style-type: none"> ✚ SME GVA per employee is on average 8.7% less than employees from larger firms. ✚ Smaller businesses find it harder to absorb business advice/support, access funding opportunities and participate in national programmes/opportunities. ✚ High numbers of micro businesses and SMEs provide an opportunity for growth, as well as a delivery challenge. ✚ There is a need to improve enterprise rates and growth rates, by making it easier to start and grow a business. ✚ Our levels of churn, which drive competition and innovation in an economy, are particularly low. ✚ Our business population spans both the rural and urban environment on a roughly 50:50 basis and analysis shows that with the exception of agriculture and land-based industries, the sector profiles are not so different. ✚ Rural businesses tended to have differing needs. ✚ Accessing business support is perceived to be a key barrier to growth. The main reason for this is a lack of awareness, relevance and understanding of the support available. Businesses that take up support do better than businesses that don't. ✚ Our enterprise and innovation performance is inconsistent and needs to improve. HotSW ranks 38th out of 39 LEP areas on many measures of innovation including patent registrations and Innovate UK funding. ✚ The South West has the 2nd lowest start up rate in England. ✚ 20% of businesses in HOTSW have a skills gap. ✚ We have too many disparate business support locations and services.
Science & Innovation
<ul style="list-style-type: none"> ✚ Linking knowledge centres with businesses is essential, as is developing the management skills so that businesses are challenging themselves to continually improve and find new ways of operating. ✚ Alongside innovation, maximising the success of existing firms and encouraging the creation of new ones not only introduces new ideas and way of working but it boosts competition. This in turn creates incentives to innovate and forces existing firms to be more efficient. ✚ The CBI found that more productive regions: have a greater proportion of firms offering management training; have higher levels of firms investing in research and development, software development and innovating new products and services; have higher levels of younger companies who bring new ideas to market; and have firms with a higher propensity to export but also that exporting makes firms more productive. ✚ The Audit recognised the challenges of our geography and recommended the establishment of an integrated network of Digital Innovation Hubs (DIHs) across the South West to bring together academic and industry expertise in underpinning technologies and more must be done in this area. ✚ Business expenditure and investment in research and development (R&D) in the Heart of the SW has lagged the majority of LEP areas. Business expenditure on R&D per full time employee ranks 31st of 39 LEPs and the proportion of firms engaged in product or process innovation ranks 33rd of all LEP areas. ✚ Patents in the Heart of the SW per capita are amongst the lowest of all LEP areas. ✚ Growth rates of innovative firms are significantly higher than non-innovative firms. The South West region ranks sixth out of 9 regions in England in terms of expenditure on R&D performed in UK Businesses, and third in terms of numbers of people employed in R&D. The wider region is categorised as 'low absorber, low user,

follower' on the EU regional innovation scorecard. This pattern continues to be played out at the LEP level, the Heart of the SW LEP being one of the worst performing on standard measures of innovation.

- ✚ The Witty Review highlighted the role of Higher Education in enhancing economic growth through: world class research in areas of comparative advantage; and engaging with innovative and potentially innovative SMEs and to support them with technology, know how, expertise etc.
- ✚ We are fortunate in the Heart of the SW to have a world class knowledge base including three universities as well as 11 further education colleges, with strong relationships with the LEP. However, it should be noted that none of the universities are located in Somerset.
- ✚ Our universities received over £67m in research grants and contracts in addition to £52m of projects supporting industry and live contracts – estimated to total over £200m. Both Exeter and Plymouth Universities have Innovation/Science Park infrastructure which are directly contributing to the economic performance of their surrounding areas.
- ✚ In 2011/12 the Heart of the SW had 43,395 undergraduate students and 9,270 postgraduates studying in our universities. This student population has an enormous potential for impact on our business community through programmes to link students/graduates to local businesses as well as Alumni returning to the region.
- ✚ some parts of the LEP, like Somerset and North Devon, the lack of local Higher Education infrastructure (HEI) means there is more opportunity for partnerships and outreach with Further Education Colleges and businesses from HEIs within this and neighbouring LEPs.
- ✚ Whilst we host a number of internationally recognised names, the majority (75%) of Heart of the SW businesses, particularly in rural areas, are SMEs with fewer than five employees, providing an entrepreneurial heartland rich in diversity and potential to grow. Our LEP hosts one of the highest concentrations of social enterprises and community based businesses in the country.

Trade & Inward Investment

- ✚ 41% of businesses in the Heart of the SW Business Survey 2012 indicated that they traded beyond 100miles of their location and only 21% traded internationally. Whilst the proportion trading internationally compares to other similar surveys, evidence from UKTI suggests that businesses in the Heart of the SW are less likely to export and have a lower propensity to export.
- ✚ HMRC Regional Trade Statistics show exports in the whole SW only equal 6.1% of the total for England. Regional per capita value of exports is £2,522, significantly below the England average of £4,152 and making the SW the worst performing region.
- ✚ The Heart of the SW has one of the lowest export propensities among LEP areas. In 2010 just one quarter of firms with ten or more employees in a cross section of industries were actively exporting goods and services compared to one third of UK businesses.
- ✚ The Heart of the SW LEP Business survey found that the majority of businesses felt that exporting is 'not appropriate' to their circumstances and that there is no help that would help them trade more widely.
- ✚ A co-ordinated approach to inward investment is needed. National science and innovation products and services are not accessed consistently by existing business. Furthermore our national offer is not investment-ready so cannot easily take advantage of the potential of our Golden Opportunities.

Finance & Public Sector Investment

- ✚ Our business surveys and consultation work suggest 'access to finance' is perceived to be a barrier to growth for some businesses, but that it is not as significant as barrier as other factors, such as digital connectivity and general economic conditions.
- ✚ The research found that appetite for finance also remains limited with 15% planning to apply for a new or renewed facility in the 3 months after interview. Confidence that the application would be successful is considerably lower than actual success rates and the most significant barrier to applying for finance.
- ✚ Market failure in the commercial banking sector is resulting in some groups of SMEs being under-served.
- ✚ There is a lack of confidence from SMEs in applying for finance and in particular alternative non-bank sources. There is a need to raise awareness of alternative schemes and help businesses demonstrate their investment credentials to suppliers of finance.

Skills and Labour Supply (note: crosses over with People)

- ✚ There are skills shortages across sectors and occupations. Skills levels are a significant barrier to growth
- ✚ Take-up of STEM graduates is shown to raise business productivity and increase propensity to export.

Economic Infrastructure (note: crosses over with Places)

- ✚ Good transport connectivity enables agglomeration effects and economies of scale for the area, making businesses more competitive. Better connectivity with the rest of the country allows easier access to skills outside of the area, and makes trading easier and expands supply chain impacts both ways (from other areas to ours too – other areas can better access our suppliers). We need to consider supply chain resilience and optimisation as well as regional suppliers.
- ✚ Digital connectivity – Superfast/ Ultrafast broadband is essential for day-to-day business, and to enable online trading as well as resilience.
- ✚ Capital projects – employment space (offices/ warehouses etc.), logistics infrastructure, Enterprise Zones, incubation spaces, Science Parks etc. have an important role.
- ✚ All of the above would also make our area more attractive for inward investment and FDI.
- ✚ There is evidence that procurement processes could be simplified. There is an argument for adding to the list of requirements if we link it to skills and to social inclusion.
- ✚ Capital and revenue projects should be joined up, e.g. for an EZ. Demand from businesses drives supply of infrastructure, and infrastructure enables or limits business growth depending on whether appropriate to business needs.
- ✚ Sparse/ disparate business support locations limits access and take up of business support. This leads to low rates of business growth support take-up and entrepreneurial/start-up activity. Inward investment, internationalisation and trade, and our visitor economy are held back because the Heart of the SW is perceived to be a distant periphery – disconnected from rest of the country.

Strategic Priorities

- ✚ An insufficiently skilled workforce and limited pool of available labour is one of the greatest challenges for many of our existing sectors; it is also often a potential deterrent for inward investment – development and up-skilling of our supply of labour to meet 21st century business requirements is therefore crucial to bringing in business.
- ✚ We need to further develop our infrastructure to support our existing businesses and workers and to attract new ones. We need better and more resilient infrastructure: roads, railways, and broadband.
- ✚ To accommodate an expansion in our business base and our workforce, housing growth must also keep up.
- ✚ Enabling a more effective, far-reaching support environment for businesses is essential to sustain those we already have and make the area more attractive to inward investment and home-grown entrepreneurs.
- ✚ Availability and cost of real estate is an issue. If supply increases, costs fall and that makes our area more attractive.
- ✚ Lower-than-average wages in our parts of our area are currently attractive to prospective investors; however, low wages are unattractive to prospective high-skilled workers looking to move here.
- ✚ Our natural capital is also an asset, e.g. deep water access for marine businesses.
- ✚ We need to make the best use of our R&D capacity to grow thriving economic clusters and open up new markets.
- ✚ There is also a need to retain or attract back graduate talent in our local economy.
- ✚ The knowledge base should be easier to access for relevant businesses.