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1922 Business, Energy and Industrial Strategy Backbench Committee

INQUIRY 3:

Growing Enterprise Britain

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Setting the scene

Entrepreneurs and small businesses are the backbone of Britain's economy, with SMEs making up 99.9% of UK businesses. From COVID-19 lockdowns to the rising cost of energy bills, they are facing some of their biggest challenges for decades.

The Committee's third inquiry took place in the early Summer of 2022 and focused on improving support for entrepreneurs and small businesses, identifying the barriers to entry and growth, in particular for female entrepreneurs and those from non-traditional backgrounds. The Committee conducted the inquiry over three sessions on Tuesday 14th June, Tuesday 21st June and Tuesday 5th July, and heard from three key sets of stakeholders:

- 1) Trade Bodies, such as the British Chamber of Commerce
- 2) Conservative Backbench MPs and Peers
- 3) Small business platforms and financial providers

The Committee concluded that there is more that both government and the private sector can do to boost entrepreneurship, encourage entrepreneurship in education, provide better access to finance, improve digital transformation, reduce red tape and deliver stronger growth for small businesses across the UK.

Policy Proposals

The Committee suggests the following policy proposals:

Finance and Payments

- 1) The British Business Bank could be required to make available loans below its current minimum to small businesses, and provide better structure to support micro, small and medium sized businesses. Fair consideration by a more diverse board of assessors could be given to female-led business ideas.
- 2) The Committee agreed that the £1-£2 million annual investment cap on the EIS scheme could be enhanced, but welcomed the increase in the annual investment cap on the SEIS scheme to £250,000.
- 3) Government could recommend a more diverse EIS board, to enable a broader range of types of entrepreneurs to achieve success in funding applications.

4) Late payments in the SME supply chain is still a major challenge. The government could require the establishment of a user led TripAdvisor/Glassdoor style reporting payments tool that enables SMEs to source information on who is a reliable payer. This could be overseen by the Small Business Commissioner, who in turn could oversee an appeals process or mechanism that would prevent fake reviews.

Advice and Support

- 5) The government could reinstate the Start Up Britain and the Start Up Loans campaigns, that were both highly successful according to witnesses.
- 6) The Help to Grow Management Programme should be reviewed, with a focus on how it can be better structured to enable managers to participate in a 'bitesize' programme or access online resources. The programme could also be expanded to enable small businesses to scale up.
- 7) Help to Grow Digital has widely been considered to be a success. The government should consider expanding it to include businesses with a small number of employees. The Committee heard from a number of digital providers - it was felt that government should facilitate better signposting to the help available.
- 8) In order to facilitate better signposting of help and advice to SMEs, the government should consider the expansion of enterprise support, such as through the scheme already taking place within the British Library.
- 9) Job Centres should provide specific advice to UC Claimants looking to start a business. At present, Work Coaches are monitoring rather than encouraging new business initiatives. If specialist advice isn't available in a Job Centre then it could be offered through a local job club.
- 10) FE colleges could include teaching the practicalities of starting and setting up a business as an integral part of vocational courses like plumbing and hairdressing.

New ways of working

11) Many businesses are struggling to attract and retain the staff they need. The government should consult with trade bodies on introducing flexible work as standard and prioritise this as part of the Employment Bill. Post-Covid, issues of working remotely and combining caring and other responsibilities have become more important, and should be reflected in work contracts.

Challenges facing entrepreneurs and small businesses

Access to finance

The Committee received a number of representations on the difficulties facing entrepreneurs and small businesses, particularly around access to finance in order to support cash flow and expansion. One Committee member noted that between 2008 and 2013, there has been a reduction in finance to SMEs of 25%.

Geographical split

Kevin Hollinrake, MP for Thirsk and Malton, gave evidence to the Committee that commercial banks generally serve a certain type of customer and only in certain parts of the country. There is a clear need to 'level up' access to finance. Mr. Hollinrake noted that the Gross Value Added between the South East of England and North East is as wide as it was between East and West Germany before reunification.

Female Entrepreneurship

Craig Tracey MP, Chair of the APPG for Women and Enterprise, gave evidence to the Committee, highlighting two APPG reports into how we can increase the number of women starting their own businesses and becoming entrepreneurs. The Committee heard that there has been a significant increase in the number of women entrepreneurs in recent years, particularly aided by the rise in home working as a result of the COVID-19 pandemic. Last year, 140,000 all female firms were founded, up from 56,000 in 2018, with year-on-year growth now reaching 37%, with the largest increase in startups by over 50s women.

The Committee heard that women are more likely to seek specific business advice, and that 40% of female entrepreneurs took up targeted business support. There are still, however, a number of challenges. There is a high dropout rate for women who start a business

“There has been a significant increase in the number of women entrepreneurs in recent years, particularly aided by the rise in alternative working as a result of the COVID-19 pandemic”

Craig Tracey MP

Case Study: Koru Kids

Koru Kids is a highly curated marketplace for childcare, pairing parents with carefully selected nannies, and offering an efficient end-to-end service which allows customers to locate and manage their childcare in one central location.

Founder and CEO Rachel Carrell started Koru Kids after she had a baby, and quickly realised “just how difficult it was to find great childcare”. Koru Kids aims to “reinvent the whole childcare product from scratch” says Rachel, answering the question of what childcare would look like if it “was based on tech and data, using modern principles of product driven start ups”.

“EIS and SEIS are very useful for raising initial funding, and extremely helpful for the UK system in general. We’ve raised two rounds – the first for £600,000 in January 2017, and the second for £3.5 million in March of 2018. It’s a phenomenal cap table – some of London’s top angels and VC funds.” The money raised has so far primarily been spent on the tech product and content.

and do not continue. This could be because women tend to be more risk adverse but also because they do not receive the same level of funding as male-led businesses.

The Committee also discussed the issue of unconscious bias, with the need for more women to work in funding spaces to encourage and highlight the presence of female-led businesses. It was suggested that the EIS could look to have more women on its board to address this problem.

Young Enterprise and Cultural Challenges

There is a lack of knowledge amongst some young people, and also among those for whom running a business is not the first choice. There could be an initiative, similar to the Kickstart scheme to help young people start their own business, which could be delivered through the Job Centre Plus.

Payment terms

The Committee heard from representatives who highlighted the challenge of payment terms for entrepreneurs and startups, with a number of witnesses commenting that payment terms of 90 days is not fast enough for small businesses who often have to pay their own supply chain faster. There is a need for further government action in order to develop fairer payment terms.

The Committee recommends that the government could support the establishment of a user led TripAdvisor/ Glassdoor style reporting payments tool that enables SMEs to source information on who is likely to be a reliable payer. This could be overseen by the Small Business Commissioner, who could oversee an appeals process or mechanism that could help tackle malicious practice.

An entrepreneurial Britain

There has been a significant shift in the entrepreneurial nature of Britain since the Conservative Party entered government in 2010, with research from the House of Commons Library showing a consistent increase of the number of businesses established.¹

Research from UHY revealed that there were almost 726,000 new businesses created in the UK in 2020 compared to just over 636,000 in 2019. Data from HMRC also shows that in March 2021 more new businesses were created than in any other month since records began in 1989.²

However, too few of these SMEs develop into more substantial businesses, despite growth possibilities. We need to help businesses with the ambition and potential to grow and achieve that aspiration.

Advice, education and campaigns

The Committee heard from several witnesses about challenges in two key areas: business support – particularly with the current rise in energy prices – and in growing startups. Currently, only 1.9% of UK startups go on to turn over more than £1 million within three years.

From a micro business employing their first member of staff to a small business taking on an apprentice, to a growing business expanding and developing their own HR and digital strategy – every step of the way, a self-employed business owner will need support, information and education. Making this transition is a big step.

There is a need for greater access to advice, education and support in order to boost the number of successful businesses in Britain.

1 <https://researchbriefings.files.parliament.uk/documents/SN06152/SN06152.pdf>

2 <https://www.uhy-uk.com/insights/number-new-businesses-uk-increases-14-despite-impact-pandemic-outpacing-global-average>

Financial entities Case Study: Starling Bank

Anecdotal customer evidence from Starling Bank has revealed that SMEs are concerned about late payments, recruitment/talent retention, disruption to supply chains, digitisation and scaling up.

The latter is more prevalent in women-led businesses, with only 17% of SMEs led by women and businesses led by women tend to have a smaller turnover and are less profitable. Women lead businesses in sectors that typically employ more women.

To support their customers, Starling Bank have:

- Published a series of business guides for SMEs
- Worked with BEIS to promote the Help to Grow scheme
- Launched the 'Take Flight' campaign, offering a bursary for 10 companies of £5,000
- Identified customers at risk from cost of living pressures
- Support the High Growth Women Led Enterprise Taskforce, with their CEO Anne Boden chairing the initiative.

Government support for business

The Committee received evidence from Emma Jones CBE, founder of Enterprise Nation – a community of small businesses and advisors that has over 75,000 subscribers who benefit from business books, events and funding support. In 2011, having been asked to do so by former Prime Minister David Cameron, Emma founded Start up Britain, a campaign to encourage more people to start a business and to support existing businesses to grow.

The campaign was focused on the private sector, with support from the government, and helped individuals to set up, and organisations with between 1 and 10 employees to grow their businesses. There was general agreement from the Committee that such government backed campaigns are vital to instill confidence in potential entrepreneurs. Around the time of the launch of the campaign, Start Up Loans were also launched by the coalition government, providing government financial backing for SME start-ups.

When the campaign ended in 2015, Emma argued that Britain was a far more entrepreneurial place, and that one of the most significant changes in the last decade is the advent of large private sector organisations supporting small businesses, and that they have a key role to play in delivering advice and support.

The Committee was in general agreement that government backed campaigns are important to both stimulate entrepreneurship and provide government reassurance. Whilst Britain's start up growth and entrepreneurship is healthy, it is clear the government needs to look at the potential for similar campaigns in order to fuel start up growth, and to help entrepreneurs – particularly those with micro businesses – to access finance which is currently time consuming and expensive.

The Committee also received evidence from The Federation of Small Businesses' Filippo Pollara.

Help to Grow Digital was cited, and generally agreed by the Committee as a specific scheme government could look to expand. Under the scheme, eligible businesses can get a 50% discount on approved software solutions up to a maximum of £5,000. The FSB welcomed the

change to the scheme whereby the employee threshold was lowered to under 5 employees. It was discussed that take-up of the scheme needs to be improved, with a focus on visibility and more software systems available within the package to help a businesses' ability to upskill and grow.

The Committee also agreed that the Help to Grow Management Programme could be reviewed, with a focus on how it can be better structured to enable managers to participate in a 'bitesize' process or through online resources. Currently, they or an employer has to physically be away from the workplace for a prolonged period of time which is not sustainable.

British Business Bank

The British Business Bank was noted as a particular issue for SMEs as being difficult to access and requiring a loan of around £1 million before consideration is given. It was suggested that the government needs to think about the needs of businesses more closely to ensure there are support schemes available for businesses of all sizes.

The British Business Bank could be required to make available loans below its current minimum to small businesses, and provide better structure to support micro, small and medium sized businesses.

Making support easy to access

A consistent theme in all representations made to the Committee was the difficulty small businesses and entrepreneurs often face in accessing support. Two key issues were identified:

- 1) Time: entrepreneurs and small business owners spend so much time 'in' their businesses that they don't have the time or expertise to work 'on' the business.
- 2) Knowledge: knowing what support is available, where it can be accessed, and what costs – if any – may be incurred.

The Committee received evidence from Alison Cork, Founder of Make It Your Business and an Ambassador for the British Library’s Business & IP Centre about support ‘hubs’. These could form part of banking hubs and could be established in the likes of post offices and libraries. A scheme is already in operation at the British Library, where around 70% of those founders and entrepreneurs are female. Small business support hubs would not only make it easier for small business owners and entrepreneurs to access support, but also normalise entrepreneurship in Britain, and encourage further uptake.

The Committee agreed that these support hubs and schemes should be expanded.

They also agreed that FE colleges could include teaching the practicalities of starting and setting up a business as an integral part of courses like plumbing and hairdressing.

Private Sector Support

Enterprise Investment Scheme

The Enterprise Investment Scheme (EIS) is designed for a company to raise money to help grow their business. It does this by offering tax reliefs to individual investors who buy new shares in the company.

The Seed Enterprise Investment Scheme (SEIS) is designed to help a company raise money when it’s starting to trade. It does this by offering tax reliefs to individual investors who buy new shares in a company. A maximum of £150,000 can be received through SEIS investments and this includes any other de minimis state aid received in the 3 years up to and including the date of the investment and counts towards any limits for later investments through other venture capital schemes.

The cap imposed on the Enterprise Investment Scheme (EIS) was cited by Committee witnesses as a particular challenge for business growth.

The cap has not been lifted for a long period of time, the board is largely male dominated, and for every £1 of venture capital investment in the UK, all-female founder teams get less than 1p. There was some discussion as to whether this was due to lack of information made available, or lack of diversity on the board.³

The Committee agreed that the £1-£2 million annual investment cap on the EIS scheme could be

³ <https://www.british-business-bank.co.uk/uk-vc-female-founders-report/>

enhanced, but welcomed the increase in the annual investment cap on the SEIS scheme to £250,000. The Committee also agreed that the boards of each scheme could focus on diversity, with a mix of gender and diverse business experience to give entrepreneurs applying the broadest chance of success.

The Committee heard that the EIS board is currently male dominated, and that only 1% of loans were awarded to women.

Private sector support

The Committee received representation from a number of larger organisations who support small businesses through their business practices. This included Meta, and small business trade bodies such as the Federation of Small Businesses.

It was noted by some witnesses that a large part of entrepreneurship growth in the UK since 2010 is as a result of businesses stepping up with free advice and support and cash grants. This was particularly evident during the COVID-19 pandemic when large organisations – particularly those in unaffected industries, or those which benefited from the change in economic activity – provided financial and education support to businesses.

Business Advice Case Study: Yorkshire Connect

Yorkshire Connect was an example provided by Kevin Hollinrake, MP for Thirsk and Malton. Yorkshire Connect links businesses with a turnover greater than £20m per annum with SMEs to provide free business advice and support. It was generally agreed that government should look to see whether the scheme can be rolled out elsewhere in Britain.

“Gross Value Added between the South East of England and North East, in relative terms, is as wide as it was between East and West Germany before reunification.”

Kevin Hollinrake MP

Digital platforms

The Committee received evidence from Meta, the umbrella company which owns Facebook, Instagram and WhatsApp. Meta's business model thrives on advertising from other businesses and with over 3 billion users worldwide, the company's reach is significant. The Committee heard that during the pandemic, Meta established a Small Business Resource Hub on Facebook, providing free online resources and over £5m to UK businesses in cash grants.

Workforce and recruitment

The well documented current labour market shortage remains a challenge for small businesses and entrepreneurs. Witnesses to the committee explained that unusually, there are currently more vacancies than there are available staff and at present, a key barrier to growth is recruitment.

New migrants from places like Ukraine and Afghanistan were cited as examples of where businesses will need to be more flexible in their approach in order to recruit staff. Many jobs, particularly in the hospitality industry adhere to an 8-hour shift pattern which can mean working early in the morning or late at night. All parents with caring responsibilities struggle to meet the shifts.

It was agreed by the Committee that government needs to work with business and the wider industry on terms and conditions for employees. Despite the push towards home working, many businesses are not flexible, particularly for women with regards to childcare and unsocial hours. Favourable terms and conditions are now a unique selling point for organisations looking to attract and retain the best talent.

The Committee agreed that government could enter into a consultation with trade bodies on introducing flexible work as standard and prioritise this as part of the Employment Bill.

Government could also discuss with trade bodies the best way to promote the idea of employers thinking more broadly about different caring responsibilities, remote working and the opportunities this brings them for finding new staff by offering flexible ways of working. Companies could offer opportunities like this to older workers and with this flexibility, employers will get greater loyalty from their employees.

Digital support Case Study: Kooky Bloom

In 2020, Sophie Mitchell came across a Facebook ad for a jewellery making class and soon started making unique necklaces, establishing 'Kooky Bloom.' She's grown her business significantly, selling over 20,000 items to customers worldwide, using Meta technologies to do so.

Sophie posts on both Facebook and Instagram to showcase her products and uses Stories to increase her engagement levels. This organic content has proven to be very effective for the business, with 98% of all website traffic now coming from Instagram alone.

Sophie also runs Facebook and Instagram ad campaigns through the use of Boost posts. This allows her to expand her reach and her potential customer base by delivering her ads to people based on factors such as their location and interests. Sophie now attributes as much as 55% of all customers to this strategy. Overall, Sophie's use of Facebook and Instagram has been instrumental in the growth of her business, with as much as 86% of her total sales now originating from these platforms.

Flexible work: Case Study

A company, located in the Midlands specialises in laundering towels and sheets for the hospitality industry. Many of its workers are young people starting out in their first job, and the company is focused on making their workplace an inclusive and fun place to be. To encourage recruitment and generate employee loyalty, the company offers free food, drinks and snacks during shifts as well as a break room with snooker tables and video games. This focus on making the workplace a welcoming environment has encouraged employees to remain with the company and has generated employee loyalty.

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With thanks to

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Starling Bank

And the following Parliamentarians who contributed to some or all of our sessions:

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