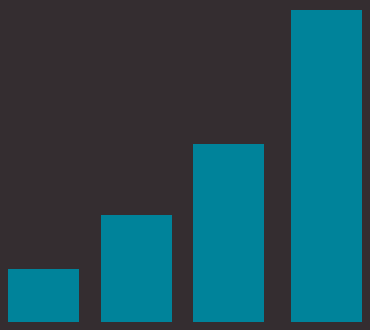


THE SCALE-UP REPORT
ON UK ECONOMIC GROWTH

Sherry Coutu CBE

An independent report to the government

NOVEMBER 2014

"We want nothing less than to make the UK the technology centre of Europe. This is the path we need to take to create new jobs, new growth and new prosperity in every corner of our country."[1]

George Osborne, Chancellor of the Exchequer

"First mover advantage doesn't go to the first company that launches, it goes to the first company that scales."

Reid Hoffman, co-founder of Linkedin

"Competitive advantage doesn't go to the nations that focus on creating companies, it goes to nations that focus on scaling companies."

Sherry Coutu CBE

Dear Chancellor,

I am pleased to share with you this report that shows if we take action now to focus on 'scale-ups', we will secure significant growth in jobs, taxes and wealth, and the competitive advantage of Britain for generations to come.

This report explains how a boost of just one per cent to our scale-up population should drive an additional 238,000 jobs and £38 billion to GVA within three years. In the medium-term, assuming we address the skills-gap, we stand to benefit by £96 billion per annum and in the long-run, if we close the scale-up gap, then we stand to gain 150,000 net jobs and £225 billion additional GVA by 2034. This report sets out a clear plan of action to close the scale-up gap. The plan centres on using data already collected by government to provide a platform that enables both public and private sector organisations to work together to improve the community of which they are a part.

Britain is a GREAT place to start a business.

With the supportive government policies, industry structure, geographic placement and talent supply we enjoy in the UK, we are in the position to create unrivalled national competitive advantage by increasing the proportion of companies that 'scale-up'.

> **A 'scale-up' is an enterprise with average annualised 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 observation period.**

This competitive advantage will be rewarded by economic growth per capita. The responsibility to become 'a scale-up nation' – to create an environment (ecosystem) where a greater number of companies reach global scale – rests with all of us who have an interest in supporting economic growth. Rather than look only to the US for inspiration, this report examines successful collaborations between business and government that have taken place over the past 20 years in 20 other countries and recommends actions that we can take now. Individually and collectively, businesses, educators and policymakers can co-create a future that is bright for our children and their children: a place where both scale-ups and start-ups flourish, with plenty of jobs and growing GVA per capita.

Commentators have observed that to nurture and raise a single child into a successful human being takes much longer and is a more complex and arduous process for society than to introduce an additional child into the world.[2] Similarly, Mariana Mazzucato of the University of Sussex argues:

"What I believe should be emphasised is not start-ups or entrepreneurs in and of themselves, but the innovation ecosystems within which they operate and which they depend on if they are to become what does matter: high-growth innovative firms (of any size) within that system."[3]

1 Osborne MP, G. (15 March 2012). Speech by the Chancellor of the Exchequer, Rt Hon George Osborne MP; Google Campus launch. Retrieved from: https://www.gov.uk/government/speeches/speech-by-the-chancellor-of-the-exchequer-rt-hon-george-osborne-mp-google-campus-launch

2 Isenberg, D. (2012). Focus Entrepreneurship Policy on Scale-Up, Not Start-Up. Harvard Business Review. Retrieved from http://blogs.hbr.org/2012/11/focus-entrepreneurship-policy/

3 Mazzucato, M. (2014). Startup myths and obsessions. Economist. Retrieved from: http://www.economist.com/blogs/schumpeter/2014/02/invitation-mariana-mazzucato

Getting our ecosystem to produce a greater number of scale-ups is more ambitious and challenging than producing a greater number of start-ups or celebrating entrepreneurs. Abundant evidence from countries around the world shows that collaborative initiatives can 'super-charge' an economy to increase the ability of companies to scale-up and to make superior contributions to the economy.

The UK economy may be growing faster than any other G8 nation, but recent data show that we lag behind the US and other leading economies in the extent to which our companies scale. This is the 'scale-up gap'. Our promising companies struggle to grow domestically and expand internationally and are taken over by larger – often foreign – firms at a significant discount to their potential. This is a major issue because scale-up companies are crucial to national competitive advantage in that they drive economic growth, job creation, and productivity in the longer term.

With the release of up-to-date data that the government already holds, some minor adjustments to policy, more training for key individuals and minimal adjustment in funding and resource levels, it is possible to close the scale-up gap and secure the competitive advantage of the UK for generations to come.

In growing from 10 to 100 employees, to 500, 1,000 and so on, companies have specific requirements for capital, management, skills and organisational processes. This can lead to 'growing pains' that can be easily and effectively addressed ('treated', to continue with the medical analogy). Government can help identify ('diagnose') those likely to be suffering from these 'growing pains', which can then be 'treated' by stakeholders in the ecosystem so that the company overcomes the 'growing pain' and system as a whole benefits.

The following factors, in order of importance, are the key reasons why companies are unable to scale in the UK. Companies have issues:

- Finding employees to hire who have the skills they need
- Building their leadership capability
- Accessing customers in other markets / home market
- Accessing the right combination of finance
- Navigating infrastructure

Our analysis of 20 other countries that have focused on developing their ecosystems to foster scale-ups shows these five barriers can only be overcome through coordinated efforts between stakeholders at a local level.[4]

Reaching a minimum standard of support across all five challenges is necessary for growth: in isolation, each is likely to be insufficient to generate additional growth. It is not feasible to ascribe specific economic benefits to each of the five, but there is some consensus that holistic co-ordination, talent and leadership capacity are the three most important drivers of success in the long term.

4 It is clear from international examples and case studies that 'local' is the correct 'body' to implement ecosystem economic development programmes. There is also some terrific recent reports issued by Lord Sainsbury and Jim O'Neill on clusters and cities. The point I make here is that the 'ecosystem' sometimes exists in a 'cluster' and sometimes in a 'city'. I am aware of the differences, but use the terms interchangeably in this report.

It is in our national economic interest to help local scale-up companies to overcome their challenges. This report investigates the potential boost to the UK economy if we could enable as many small companies to grow large by the implementation of support mechanisms as has been achieved in 20 other countries.

The UK needs a more evidence-based debate on where growth comes from and the impact that growth-enhancing investments can have over time. Like many other investors, I make sure that I have a portfolio of short-, medium- and long-term investments. Similarly, as a country we need to consider the impact of the UK's portfolio of growth-enhancing policies and initiatives — both public and private.

In bringing this publication together, I owe a real debt to Mark Hart, Dan Isenberg, Tamara Rajah, Alastair Reed, Janet Coyle, Antony Walker, Charlotte Holloway, Cat Townsend, Nick Harrison and Mark Fisher. In addition, it would not have been possible without the support of the Steering Committee, the Information Economy Council, techUK, BIS, the Cabinet Office, Deloitte, RBS, Nesta, YouGov, ERC, Babson College, London & Partners, Brunswick, McKinsey, Google, YouGov, and Korn Ferry for their enthusiasm and support for this project. I am grateful to many other people who have inspired my thinking and 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.

This report was commissioned by the Information Economy Council, a joint industry and Government body in March 2014.

I look forward to taking this agenda forward with colleagues and seeing what we achieve together.

Sherry Coutu CBE
17 NOVEMBER 2014

EXECUTIVE SUMMARY

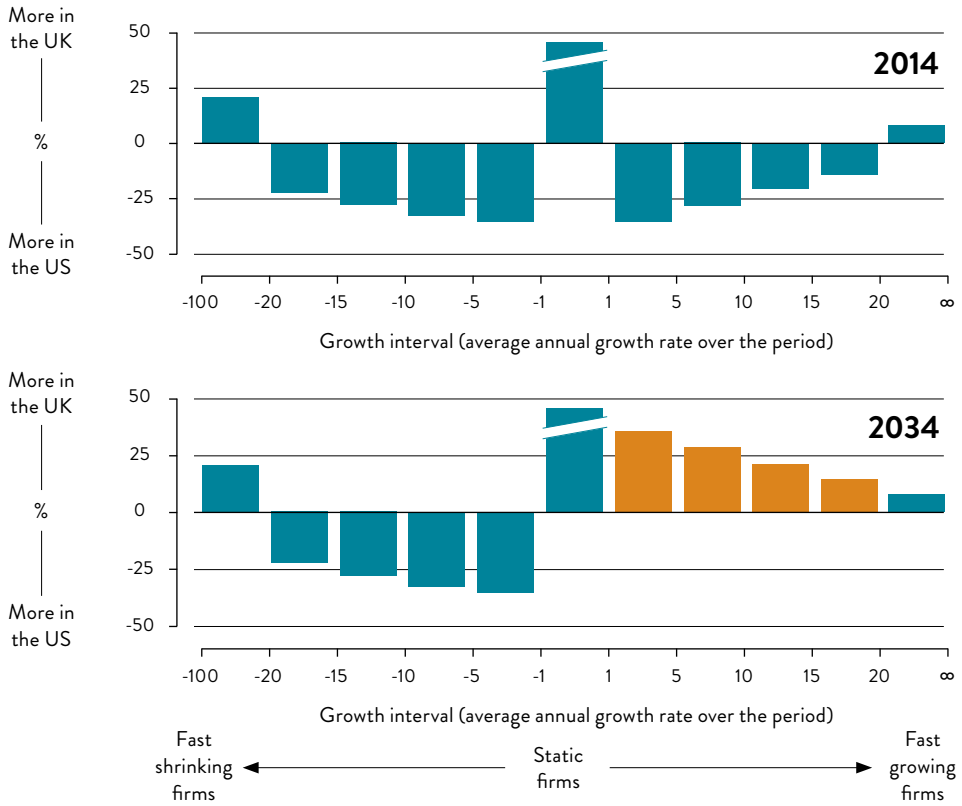
Executive summary

A small group of rapidly expanding 'scale-up' companies create a significant proportion of the UK's economic growth; however, we lag behind the US and other leading economies in the relative proportion of these vital scale-up companies. This is not because of a lack of ambition or ability in the leaders of these companies and we can reverse the trend.

If we manage to close the scale-up gap, we will secure significant economic value and the competitive advantage of Britain for generations to come:

- **In the short-term, RBS analysis suggests an additional 238,000 jobs and £38 billion additional turnover is possible within three years of reversing the scale-up gap.**
- **In the medium-term, Nesta research shows a possible boost of £96 billion per annum is possible.**
- **Long-term analysis by Deloitte shows a potential of £225 billion additional GVA and 150,000 net jobs by 2034.**

Figure E.1: Closing the gap between the UK and US average annual company growth rate



5 Boston Consulting Group (June 2014), Building a Digital City: Challenges, Opportunities and Lessons from London. Retrieved from http://mikebloomberg.com/files/Building-Digital-City-London.PDF

6 Adzuna accessed here: http://www.adzuna.co.uk/about-us.html

Working together, government, entrepreneurs, educators, investors, and large corporates have an opportunity to target support towards scale-up companies using company data already collected by government, so that companies have an equal, if not greater, chance of scaling because they are in the UK.

As in any investment portfolio targeted to 'growth', and given the impact scale-up companies have on economic growth and national competitive advantage, the UK's strategy should be adjusted toward increasing their proportion. Numerous examples from the UK and other countries highlight how an environment can be developed in which companies can successfully scale-up. Their success can also have a powerful effect on other entrepreneurs around them, helping to give them the confidence to scale. In essence, the aim should be to close the gap with the US in the medium- to long-term and then go on to become the best place in the world to scale a company.

The report makes recommendations for national and local government, universities, schools, colleges, large corporates and the media to improve the ecosystem for scale-up companies.

This plan focuses on six areas:

1. **Targeting, supporting, promoting and reporting on scale-up gap closure**

   Freeing data makes it possible for stakeholders in the economy to identify scale-ups. This is the most important thing government can do to help them grow. Collaborating with and promoting others who help scale-ups fulfil their potential is the second most important thing government can do.

2. **Accessing talent**

   For leaders of scale-ups, the number one problem that prevents them from being able to accept customer orders is access to talent[5], namely a skilled supply of people who they can hire. If they can't hire the staff, they can't accept the customer order. According to an interview with the CEO of job-tracking company, Adzuna, there were 990,000 open positions in the UK in July 2014[6] and the skills gap is forecast to deepen in the future.

3. **Developing scale-up leadership**

   The second most important factor cited by scale-up leaders as stopping them from growing their revenues faster (by accepting customer orders) is lack of capacity and experience in the senior leadership team. It is hard to grow a company hundreds of times faster than is 'normal' without the right training and support.

7 Morris, R. (December 2013). What do the best Entrepreneurs want in a City? Lessons from the Founders of America's Fastest-Growing Companies. Retrieved from http://issuu.com/endeavorglobal1/docs/what_do_the_best_entrepreneurs_want

8 This is in line with guidance to evidence for policy as set out in: Intellectual Property Office (2013). Guide to Evidence for Policy Update 2013. Retrieved from http://www.ipo.gov.uk/consult-2011-copyright-evidence.pdf

4. Increasing customer sales at home and abroad

Barriers exist that prevent companies creating new products and services for domestic markets, and selling successful products in other countries. A review of existing research and the survey of scale-up companies undertaken for this review found that eradicating barriers to this is third and fourth from top of the agenda for scale-ups, significantly ahead of finance.[7]

5. Financing scale-ups

Fast growing companies often turn to the US or Asia for their financing. The financiers there have developed mechanisms for assisting the companies they invest in to attract and retain talent and therefore to continue to be able to accept ever increasing customer orders. There is scope for improving financing so that entrepreneurs based in the UK have an easier time raising capital in the UK and do not need to go to the US or Asia.

Whilst it is helpful in the short-term that our fastest growing companies can access finance elsewhere, over a 20 year timeframe this will dampen UK economic growth. Although capital is available for entrepreneurs leading successful companies, if the company floats or is sold and the shareholders are not based in the UK, the gains do not flow into the economy. Additionally, the pressure on a company to re-domicile is greater if the majority of its funding is based abroad. This exacerbates the scale-up skills shortage.

6. Accessing infrastructure

Entrepreneurs say lack of access to infrastructure makes it more difficult to scale their companies in the UK than elsewhere. In the short-term, this should be addressed, but over the long-term, it is not of that great economic importance, but it is an irritant that can be removed. Examples of pain points cited by scale-ups range from planning laws that make it difficult to grow, to inflexible landlords that force them to enter into long leases, and broadband not being available on a timely or sufficient basis. Suggestions include sharing physical infrastructure with large established corporates.

The final chapters set out the impact analysis that demonstrates what kind of economic growth would result from our closing the scale-up gap between the UK and other leading economies.

The report is aimed at a wide-ranging audience with an interest in business and economic growth, including business leaders, investors, academics, educators, and local and national government. Every effort has been made to ensure the evidence contained here is transparent, verifiable and able to be peer-reviewed.[8]

METHODOLOGY

The findings are based on both primary and secondary research in the UK and other leading economies, including:

- A review of a wide range of academic research into the dynamics of business and economic growth. In particular, the report builds on research conducted into 'high impact' entrepreneurship by experts at the universities of Aston, Oxford, Cambridge, MIT and Harvard, as well as the Babson Entrepreneurship Ecosystem Project, Boston Consulting Group (BCG), Nesta, the OECD, Endeavor, Kauffman, the Enterprise Research Centre (ERC), Prelude, and McKinsey. The Enterprise For All report by Lord Young[9] and three recent reports focused on economic growth in the UK: the Adonis Review[10], the McKinsey/Centre for Cities report into economically significant clusters[11] and the Heseltine Report.[12]
- Workshops with practitioners, investors, business leaders and policymakers to understand current practice and future plans.
- Interviews with hundreds of scale-up policy-makers and practitioners from the UK and the world
- A survey of hundreds of UK scale-up leaders to understand from their point of view and in their voice what the main barriers were to their growth.[13]
- An evaluation of the most effective initiatives aimed at supporting scale-up companies, which are showcased throughout the report and at www.scaleupreport.org/casestudies (see Appendix 5 for further details).
- Commissioning Deloitte and Royal Bank of Scotland to support the analysis of the potential impact on the UK economy of closing the scale-up gap. Deloitte has published its analysis in full in a separate paper entitled *Scale-up Challenge: An Impact Report by Deloitte*. This includes a detailed methodology that sets out their approach and the assumptions underpinning the projections.[14]
- Peer-review by leading academic and policy experts whose research this report seeks to build upon and the review's Steering Committee (see Appendix 2 for the full membership).

9 Lord Young (June 2014). Enterprise for all: The relevance of enterprise in education. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/338749/Enterprise-forAll-lowres-200614.pdf

10 Adonis, A. (2014). Mending the Fractured Economy. Retrieved from http://www.policy-network.net/publications/4695/Mending-the-Fractured-Economy

11 Centre for Cities/McKinsey (2014), Industrial Revolutions: Capturing the Growth Potential. Retrieved from: http://www.centreforcities.org/assets/files/2014/14-06-26-Final-web-Industrial-Revolutions.pdf

12 Lord Heseltine (2012) No Stone Unturned; In Pursuit of Growth. Retrieved from https://www.gov.uk/government/uploads/system/uploads/

13 In association with YouGov recommendations.

14 In summary, Deloitte investigated a range of impact estimates for the UK economy for the period 2014-2034. These are based on a range of data sets, including the Office for National Statistics, the Department for Business, Innovation and Skills and Oxford Economics, as well as using Deloitte's Long-term Economic Growth Framework that sets out how levels of employment and productivity determine GVA. Deloitte controlled for the expected displacement of economic activity and deadweight to determine projections for the potential net impact of this report's

SUMMARY OF RECOMMENDATIONS

Summary of recommendations

Recommendation 1
National data sets should be made available so that local public and private sector organisations can identify, target and evaluate their support to scale-up companies, and evaluate their impact on UK economic growth.

Recommendation 2
Publicly funded organisations such as Local Enterprise Partnerships and cities seeking public funding should review and report on the extent to which the top 50 scale-ups in their areas are increasing their turnover and job growth from year to year with the objective of increasing the proportion of scale-ups with more than 250 employees by three per cent by 2025.

Recommendation 3
50 per cent of public funding and promotion currently reserved for 'entrepreneurship' should be directed towards collaborative initiatives based on evidence of these initiatives' track-record that demonstrates impact on employment and turnover growth of scale-up companies and the return on investment of their efforts.

Recommendation 4
A Minister should be made responsible for reversing the scale-up gap by 2025 with cross-departmental resources allocated, independent bodies named to monitor and a task-force appointed to deliver a scale-up report to the PM every November for the next five years.

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 'Scale-up 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.

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 scale-ups.

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.

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.

Recommendation 12

Government and industry must ensure that progress in infrastructure areas is maintained and review and report on the extent to which scale-ups, in particular, are catered for.

ABOUT THE AUTHOR

Sherry Coutu

Sherry is an Entrepreneur, Non-Exec Director, Investor and Advisor to Companies, Universities and Charities

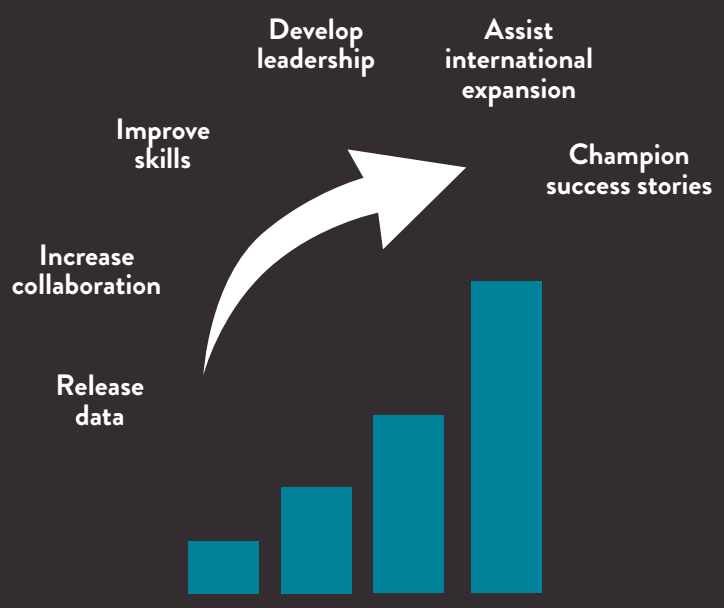
She possesses a deep understanding of the dynamics of both b2b and b2c businesses, portfolio management and macro-economics.

She currently chairs Founders4Schools and is a non-executive member of Zoopla plc, the London Stock Exchange Group plc, Cambridge University (Finance Board), Cambridge Assessment, Cambridge University Press, Raspberry Pi and Artfinder. She also serves as an advisor to LinkedIn, Harvard Business School European Council and is a former Trustee of Nesta.

As an angel investor, she works with entrepreneurs to solve problems that she feels matter and specialises in consumer internet, information services and education. She has made angel investments in more than 50 companies and holds investments in 5 venture capital firms. She was voted by TechCrunch as the best CEO mentor / advisor in Europe in Nov 2010. In May 2011, she was voted by Wired magazine as one the top 25 'most influential people in the wired world', and one of the top ten most influential investors and women.

As an entrepreneur, Sherry has founded a number of businesses and charities. The first business (acquired by Euromoney plc) has operations in more than 70 countries. The second, which she was CEO and chairman for was responsible for the first e-commerce transaction in the financial services industry in Oct 1995 and was the most over-subscribed IPO on the main market when it was floated in February 2000 (on London and Nasdaq).

Philanthropically, she supports the Prince's Trust, the Crick Institute SVC2UK. Sherry has an MBA from Harvard, an MSc Economics (with distinction) from the London School of Economics, and a BA (Hons with distinction) from the University of British Columbia, Canada. She was awarded Commander of the Order of the British Empire (CBE) for services to entrepreneurship in the New Year's Honours List 2013 by Her Majesty the Queen.



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