High Growth Business Coaching: Helping businesses throughout the UK to meet the challenges of rapid growth

A document produced by *emda* on behalf of England's RDAs

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High growth business coaching

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FULL DOCUMENT

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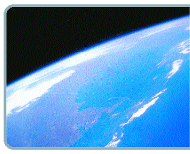

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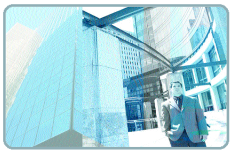

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INTRODUCTION

1 In his letter of 30 November to Terry Hodgkinson, Chair Yorkshire Forward, the Chancellor encouraged Regional Development Agencies collectively to develop a framework "…to ensure that focused, tailored coaching is available to businesses in each region". This report examines the rationale, and shape that such services should take. It discusses current provision in the English regions, sometimes nationally (England wide) designed, sometimes regionally, and also looks at provision elsewhere in the UK, and some interesting overseas comparators. It recommends a framework to ensure the consistent provision of such services across the English regions, within the context of the Business Link business model developed by the Small Business Service, and adopted by the Regional Development Agencies to ensure a consistent provision of Business Link branded services to small businesses, when the Regional Development Agencies take responsibility for the delivery network in April 2005.

2 "Coaching" is not a precise term or art. Annex 5 summarises the current discussion of the role of coaching in helping companies achieve their potential. For the purpose of this report, (tailored, focused) coaching is distinguished from "brokerage" (defined as independent, dispassionate advice seeking to provide quality assured guidance to SMEs of (Commercial) sources of expert advice). This, although it may be repeated many times as SMEs encounter new challenges, is in essence a single transaction; an enquiry is made, brokerage is undertaken, and expertise is purchased (this issue is explored further below). Coaching implies continued engagement with the SME – to build knowledge and skills within. In practice the judgments that SMEs face (in relation to e.g. developing markets, product and process innovation, raising finance and workforce development) are inter-connected. The advisory support that can help fast growing firms achieve their full potential needs equally to be based on a deep and company-specific engagement with each customer on a continuing basis. The approach of this report is to be pragmatic about what is understood by the phrase "tailored, focused (performance) coaching" and employs the term coaching as a philosophy drawing on a range of different approaches (for example mentoring, counselling etc) any of which can be utilised in order to provide practical customer solutions for growth development, rather than applying a strict interpretation. This concept is explored further in Annex 5.

3 There is some tension between national consistency and regional flexibility. Enterprise policy is a national policy, and RDAs accept that it is reasonable to expect a consistency in fundamental policy and delivery approaches to the provision of services to small businesses across the country. However Regional Economic Strategies have identified the very different challenges that the economies of the regions of England face; and that differentiation extends to the small business sector too. Different regions have different traditions and levels of entrepreneurship; the nature of the challenges that businesses in urban and rural settings face often differ markedly; different industrial sectors have a very different history and experience, and the balance between sectors will have given a distinctive shape to each regional economy. For all of these reasons and more, it is important that a framework encouraging consistent provision should not preclude considerable variation in the priorities and emphases that individual regions adopt, consistent with their own Regional Economic Strategies.

4 This is consistent with the approach that the RDA "Tasking Framework" itself takes, through which RDAs account for the public expenditure with which they are entrusted. This provides for a number of core output indicators – for example employment created, businesses supported, and new businesses starts, whilst also providing for supplementary indicators specific to a particular region's circumstances. The key Business Link indicators – market penetration and customer satisfaction – are outside the Tasking Framework itself, since they are measures of the brand's strength rather than direct indicators of economic impact. All RDAs are however committed to the continued collection of this data. Both of these indicators and also current attempts to assess the additional Gross Value Added generated by Business Link interventions will need to be revisited over the next 12 months to take account of the new Business Link business model described in detail at paragraph 11 below.

5 This report suggests that the mechanism that has been put in place to "quality assure" the provision of Business Link services in the English regions from April 2005 – the Business Link Strategy Board (chaired by an RDA, and comprising 3 senior

SBS managers and the Enterprise Director or equivalent from each RDA) – should also be the body that reviews the proposals submitted by each region setting out how they will implement a coaching framework. This should become an integral part of the annual business plan cycle – although it must be stressed that the Business Link Strategy Board does not have a management function – its role is simply to ensure that national and regional approaches to the provision of services to SMEs are properly aligned.

BACKGROUND

6 Financial support for small and medium sized businesses has been a feature of public policy in the UK for 30 years now (its evolution is described in more detail at annex 4 of this report). This focus has been a response to extensive research evidence that the majority of employment growth, and the flexibility of developed economies to respond innovatively to the challenges of the knowledge economy, has been derived from the dynamism of the small and medium sized (SME) company base, in the UK and elsewhere.

7 In the UK the rationale for public intervention has been "market failure". This has sometimes been interpreted as an affordability, or price resistance issue. Such an approach has been implicit over the years in a variety of sectoral and regional schemes, "encouraging" business to invest in capital equipment or specialist advice. More recently the issue of market failure in relation to the ability of SMEs to achieve their full potential, has come to focus on market imperfections in flows of information and advice to enable businesses to have the confidence to take informed decisions.

8 This element has always been an important feature - Small Firms Information Centres were created in 1977, but it has become increasingly clear that such support does hold the promise of overcoming market imperfections; whilst ongoing subsidy to purchase specialist advice risks entrenching market failure; it is expensive, and raises unrealistic expectations.

9 Enterprise policy is not of course simply a question of helping existing SMEs to achieve their full potential, in increasingly competitive global markets. It aims to stimulate a more entrepreneurial culture, and increased levels of business start-ups, and survival. It is worth noting that the research evidence does not justify a belief that High Growth Potential SMEs (potential for at least 20% sales growth annually, and often referred to as gazelles, pace David Birch) are largely young, small and high-tech. The conclusions of US research have suggested.

- Gazelles have little to do with high technology US figures suggests that only 2% of high growth SMEs are high tech.
- Gazelles are somewhat older than small companies in general.
- Few gazelles are found in the fast growing sectors. Only 5% of gazelles are present in the 3 fastest growing US sectors.
- Instead the top 5 sectors in which high growth SMEs were found (representing 40% of the total) were quite mundane and slow growing industries, such as chemicals, electronic and electrical equipment and instruments, paper products and plastics.

Recent European research by OECD and others confirms many of these findings. It is important therefore that any targeting of SME coaching, within the context of the Business Link business model overall, should not fall into the trap of "picking winners" through sector, technology, size or age criteria which can seriously mislead.

10 This report therefore proposes a framework to stimulate provision of coaching equally appropriate to ambitious start-ups, and to existing businesses with high growth potential. In this it is consistent with the Business Link business model which underpins the approach to providing advice and support to SMEs more generally. Within such a model there will be the need to target and prioritise the deployment of always scarce public resources – whether by sector, size, age or other factors. The best vehicles for determining such prioritisation in the English regions are Regional Economic Strategies. They are rooted in an extensive analysis of the challenges that regional economies face; all inevitably place a great deal of emphasis on enterprise, innovation and skills themes; and they have the endorsement of both public and private sector partners in each region.

CURRENT SME SUPPORT: THE BUSINESS LINK BUSINESS MODEL, AND THE ROLE OF SME COACHING

11 The model underpinning the provision of publicly funded business support has been variously articulated in recent years. Particularly influential has been the national Skills Strategy, published in summer 2003 jointly by the DFES and DTI, which elaborated a "no wrong door" approach to advice and support to SMEs. This superseded the ambitious, but in essence unrealistic, "One Stop Shop" approach that had prevailed through the 1990s. "No wrong door" places great emphasis on business to business networks; on independent brokerage; on (usually commercial) quality assured

service provision, and the interconnections between all 3. Annex 1 captures this model in simplified form.

As described above, and in its simplest form, the current model for the provision of Business Link services in the English regions comprises 3 components (Annex 1).

i) Creating demand
This recognises the "market failure" that information and advice is often not accessible to small business because of the cost both of reaching such fragmented markets, and the time pressures and lack of confidence in quality assurance that SMEs have when it comes to the purchase of professional services. Historically the response has usually been to advertise services/ sources of advice more intensively at national, regional or local level (usually depending on who holds the budget!) As the Skills Strategy recognises, in reality most small businesses, most of the time, turn to business peers (e.g. conventional networks such as Chambers of Commerce, Trade Associations, through supply chain links, or more informally). Publicly supported forms of advice need to ensure that they are well and consistently connected to these networks.

ii) The intelligent customer
This reflects the key market failure identified by research, and the main policy justification for intervention using public funds; that is, because of the high turnover of SMEs, the fragmented nature of the market, and the time pressures on small business, small businesses are often unaware, or unable to identify, the specialist professional support that might underpin or accelerate their growth. This report will examine further below the merits and practicalities of identifying potentially "high-growth" companies which might benefit from intensive and tailored coaching. Identifying this powerful subset is not easy though, as the Business Link model aims to make information and advice (increasingly through web-based solutions i.e. BusinessLink.gov), and where appropriate independent brokerage (Business Advisors operating in an IFA mode, with no pecuniary interest in the commercial or quasi commercial services recommended) very widely available.

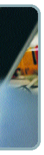
iii) Stimulating Market provision
It is vital that specialist services are supported in a way that grows, rather than inhibits market provision. For this reason persistent direct subsidy of commercial or quasi commercial services is unlikely to be justified; it distorts purchasing choices, and can create or reinforce a perception that such professional advice is worth less than it costs (it can alternatively unintentionally raise the price of such services). More important is quality assurance. Information and advice services, and where appropriate independent brokerage can point small business in the direction of specialist services - but a lack of confidence in the quality and consistency of service provision can then lead to a reluctance to incur significant costs. Independent brokerage therefore needs to be closely tied to quality assurance procedures (a publicly accessible register) to create the confidence on the part of SME customers.

12 The specialist services involved can be characterised in a number of ways. The following list identifies a number of key business areas:

- Support to establish and sustain new businesses
- Support to diversify, develop new markets & increase market share
- Support to increase productivity
- Support to innovate products & processes including design
- Support to raise development funding
- Support to adopt new technology & maximise the benefits of ICT
- Support to develop international trade
- Support to address skills gaps and shortages
- Support to develop leadership & management capacity

It is expected that all regions will be able to demonstrate the potential for SMEs to access such services, in ways that reflect particular regional and local circumstances. It is particularly important to stress the close link between skills and workforce development, and other business support and advice. They have often been seen as discrete programmes, for reasons more to do with the machinery of government than the needs of small firms. It is essential that the Regional Skills and Productivity partnerships and new Business Link arrangements are used to achieve a fully integrated framework.

13 It is this approach which underpins the Business Link business model which provides the framework for the delivery of services to small businesses for which RDAs are taking responsibility in April 2005. As is readily evident, this requires a great deal of discretion at the regional level about how such services are delivered; the strengths and weaknesses of the delivery infrastructure in each region are for each RDA to take account of in its



own approach, as are the priorities identified by each RES. The request from the Treasury in the Pre-Budget report highlights however that there are aspects of current SME service provision; and the special needs of certain potentially important target groups of SMEs (target in the sense of their potential contribution to economic growth) that are not fully served by the Business Link model described above. Indeed this issue is exacerbated if we consider the specific additional issues faced by start-ups (including pre-starts) as they may, in addition to the issues raised above, be unfamiliar with the whole business support marketplace. It would not be a gross over-estimation to assume that existing business would have come into contact with 'some form' of business support. This issue will be explored further when learning from the experience of others – see Annex 7.

14 In particular the model implies an atomised approach, where a small business decides (with the possible involvement of an independent broker) that it needs to buy in specific specialist advice. It then repeats the transaction, potentially a number of times, with each individual transaction self-contained, and disconnected from what has preceded it. Though this maintains"arms-length" integrity to the brokerage role, it does not reflect a wide experience of the way in which fast-growing SMEs have to confront the challenges that growth brings. Business planning decisions on e.g. marketing, finance, changes in production process, design are not disconnected events. Each impinges on the other, and if the connections are effectively managed, a virtuous circle of innovation stimulating further growth opportunities, is achieved.

15 Though the terminology and supporting infrastructure varies, the support available to SMEs in many developed economies – the importance of small businesses in the contribution they make to employment, enterprise and innovation is recognised worldwide – reflects an awareness of the role that coaching can play. Schemes introduced in Scotland under the Business Gateway banner, for example respond to this, and Annex 7 provides examples of approaches in North America, Europe, and the Far East (Singapore).

16 The "personal business adviser" role associated with Business Links throughout its 12 year history has, at various stages, comprised elements of both brokerage and coaching. Though this has brought the benefit of a continuity of advisory relationship with the small firm, it has also blurred the fact that coaching requires a deep and sophisticated skill set, not found in all business advisers. It would be quite possible to mark this distinction between the two roles by characterising them as "brokers" and "super brokers". But "coaching" better conveys the nature of the latter role, and the extended relationship with the small firm that it requires. The welcome move, described above, towards a more rigorous insistence on independent brokerage, provides a further reason for striking a clear distinction between the two roles. Independent brokerage is unlikely to be a chargeable service, but this report argues below that coaching should not be provided free, both for reasons of viability, and because our aim is to develop, not inhibit, the market for expertise advice to small firms.

17 Elements of the support available to small businesses in the English regions, and elsewhere, recognise this, too. "High Growth" programmes themselves are not new. Annex 6 describes in detail the most recent England – wide programme, put in place following the 1998 Competitiveness White Paper, and continued nationally to 2002. Elements of the programme are still in place in many regions, contracted through Business Link Operators or other parties. The programme focused particularly, but not exclusively, on start ups; and in taking forward the detail of an SME Coaching Framework of the sort this report proposes, full account should be taken of the conclusions of extant evaluations of the programme (e.g. Professor David Smallbone's report 2003). They provide helpful pointers on the technical and definitional issues to be tackled – though RDAs would of course argue that regional variations in approach, which are sometimes seen as "a problem" in relation to national programmes, are in reality a welcome recognition of the different characteristics of each regional economy.

18 Other elements of the support available to small businesses in the English regions, and elsewhere, respond to the requirement for coaching also. There are important current programmes too. The Manufacturing Advisory Service, widely acknowledged as a considerable success since its launch in 2001 (initially in the North West and the South-West), and subsequently in all other English regions is shaped to recognise the need for a continuing (but not cost free) engagement with companies seeking expert assistance to adopt new methods and technologies. The Employer Training Programme recognises a "tied" brokerage role to help the intelligent customer to negotiate and implement on-going training programmes with registered providers, either in the public sector (e.g. Further Education Colleges) or elsewhere. UK Trade & Investment working through specialist Trade Development Advisors (often based at local Business Links) to develop on-going advisory relationships with businesses seeking and entering

new markets. Such clients may draw, on a continuing basis, on chargeable services provided by overseas posts, or be signposted to commercial providers of expertise. A range of nationally and regionally developed finance packaging and investment readiness programmes also involve continuing advisory relationships, as do developing regional innovation programmes, and several of DTI's "National Business Support Products" – particularly perhaps the "best practice" product.

19 Of particular note in the English Regions in the last 5 years has been the development of more sophisticated approaches to supporting small firms' access to equity finance. Regional Venture Capital funds have been established in all regions, and have made a significant impact in helping to bridge the "equity gap" identified in much small firms research. The precise positioning of this market gap has been the subject of a great deal of debate. There is much evidence that the present initial £250k deal limit to which RVCF are restricted (to comply with State Aid clearance) is well below the level at which the funding gap is now experienced by many small firms in the English Regions. Increased attention has also been paid to investment readiness advisory programmes in recent years - Annex 6 provides detail on the experience of national pilots. The broad target market for this investment readiness support has been SMEs with growth potential. All the demonstration projects (except one which focuses on new technology companies) made no distinction between businesses from different sectors, and worked with businesses at a mix of development stages. Building on the experience of these pilots, and the potential for explicit linkage to other specialist support, should form an important aspect of the implementation of the coaching framework proposed.

20 The shape of all of these programmes, national and regional, vary considerably – sometimes through design considerations that are integral to the way the programmes themselves operate; sometimes through more or less researched views of customer need; and sometimes because of the public funding constraints on the programmes. Annex 6 describes this variety of programmes in more detail. Common features are that they seek to target a certain segment of the SME market: they are not expected to be utilised by all comers, but on the basis of pre-qualification (for example recommendation by an independent broker); or by targeting (on e.g. priority sectors, indicators relating to businesses' growth potential). Elements of mentoring and/or coaching are to be found in all of these programmes – though as is apparent from the brief descriptions above, it is also characteristic of most that they focus on one particular aspect of business need/demand e.g. in relation to workforce or trade development, finance or technological advice. Important as they are, they do not therefore offer the connectivity described above.

The approaches that these various programmes take therefore to plug the gap between general advice provided by business advisers ("independent brokerage") and specialist, commercially provided, support run the risk of maintaining – and sometimes reinforcing – the silos in the provision of advice on what are in reality strongly interconnected business decisions. Indeed in some circumstances this lack of connectivity can itself lead to reluctance to take the step of purchasing the commercially provided expertise required – reinforcing, or at least failing to overcome, the market failure. That market failure is not a lack of suitable specialist advice (supply) nor is it price resistance per se. Rather it is a lack of certainty on the part of the SMEs as to what the highest priority actions should be. Almost all companies know that they need to improve to stay competitive, almost all are striving to do it, and all are bombarded with different messages from well meaning publicly supported programmes about what to do next (exports, QCD, skills, product or process development, GVA, branding, supply chain positioning, outsourcing, etc.) Senior management time is precious – and SMEs have ruthlessly to prioritise. If there is too much uncertainty, strategic decisions are postponed, and then get buried in the daily issues of the tactical running of a business. Hence, strategic decisions get deferred, and specialist external advice becomes low priority.

21 Those strategic decisions will, however, be key to a company's ability to sustain its competitive edge. For example, a company's aspiration may be higher added value products and services, but by what route?

- new product features but keeping to the same market?
- a new product line altogether?
- use core skills to launch product into a new market sequent?
- develop the product alone, or in partnership?
- focus on new customer support services, and buy in product altogether

What are the respective costs, opportunities and risks of each approach? Such advice cannot be offered by generalist business advisors. This is where continuing coaching approaches are required. In the above example they have to be experts in strategic product innovation; equally taxing uncertainties arise on major issues such as brand

strategy. E-business strategy, or corporate restructuring for investment purposes. Few individuals will have the expertise to coach in all of these areas. But the support can only come from a deep and company-specific engagement with each "customer" on a continuing basis.

22 This engagement is distinct from independent brokerage, as understood in the prevailing Business Link business model; but also distinct from specialist service provision – individual "sales" of professional expertise by commercial or quasi commercial suppliers, which feature in that model as the invariable next step from brokerage. It should also be stressed that coaching should not seek to duplicate or displace standard and generally available sources of information and advice on e.g. health and safety, employment and environmental regulation, and tax issues. A great deal of investment has been made in ensuring that access to such expertise is more readily available to SMEs, though e.g. Business Link.gov – coaches will need to signpost firms to such sources where necessary, as indeed do brokers.

23 Annex 2 modifies the established "no wrong door" Business Link model pictured in Annex 1, to take account of this important link in the chain. The modification illustrates that by no means all SMEs making use of Business Link services will either want or need the tailored coaching and continuing relationship with a coach described above. How this additional support might best be targeted is discussed below. This report has confirmed that, in the English regions, the need is already met to some degree by the variety of programmes operating at national or regional level. They are however very inconsistent in shape and qualifying criteria, and do not exhibit the cross-discipline connectivity that is central to our effective coaching relationship. Few individuals will have the competence to coach in all areas; but they will need to have the ability to provide informed advice, and to facilitate access to, a wide range of specialist commercial services. Annex 3, drawn from the model underlying the delivery of the Manufacturing Advisory Service in the East Midlands (developed by PERA), illustrates the range of stages through which such coaching may take a growing SME. The diagram illustrates the stages at which interlinkage may be made to various part publicly funded programmes. This approach also expects strong linkages to be made to specialist service providers at every stage. In two dimensions the model seems to suggest a closed loop. In practice, deployed effectively it is a spiral. Completion of the circuit brings a company to a higher stage of competitiveness; but that also has to be a platform from which a new circuit/ set of challenges begin. Annex 8 provides two brief real life case studies as to how this process works in practice.

THE WAY AHEAD: DEVELOPING A FRAMEWORK FOR SME COACHING

24 Even were it desirable, it would not be realistic to seek to eliminate or radically redefine all of the current national and regional programmes that aim to meet this need for "focused, tailored" coaching. The transfer of Business Link responsibilities and resources to the RDAs, however, from April 2005 does provide an opportunity to develop the framework of the current Business Link Business Model to encompass specifically such coaching; and to work to ensure some consistency in the approach and criteria for delivery of these programmes (in selection criteria, considering the role for public subsidy, and "exit" criteria); and to establish effective interconnection, and where possible integration, to ensure that such tailored and focussed coaching does indeed reinforce an enterprise and innovation "cycle" within SMEs with high growth potential.

25 This overall framework comprises two elements. Annex 2 illustrates where such SME coaching fits within the overall Business Link Business Model. Annex 3 sets out a cycle of business development which coaching – ongoing facilitation effected through continuous engagement with the company – will seek to accelerate and reinforce.

26 How should we determine and target the small businesses that might best benefit from intensive coaching of this sort? The more general Business Link model, of course, implies a discriminating approach to the provision of support to SMEs. Not all will respond to the prompting of marketing, or informed advice received in dialogue within business networks. Not all who seek information or advice will require brokerage; not all who receive such support will then turn to specialist advice for which they have to pay. Extant research suggests that price resistance is not the real difficulty. In reality it is a lack of confidence that the information and advice is to hand that inhibits decisions; if that is overcome businesses should be left to make their own decisions, without consistent recourse to subsidy. It is much less clear of course that SMEs will be willing to pay for the services of a broker. Analogues commercial models often rely on e.g. commission payments to compensate for the consumer's reluctances to pay; and it is this that justifies the public subvention required to support independent brokerage with the Business Link model (posited on the rationale of market failure).

27 Whenever services are provided free, or largely free, there is the risk of course that provision will have to be underpinned, implicitly or explicitly, by rationing. However, in the case of brokerage, and even more, coaching, the provision of the service also has a cost in time, energy and

attention to the SME customer. This suggests that well designed services, properly marketed, are likely to be able to rely to a large extent on self-selection by SME customers with the ambition, and/ or facing the challenges which have stimulated recourse to external specialist advice as a high priority.

28 That is not to say that coaching should be provided as a "free good". To recruit and retain the expertise involved, and to ensure that well-intended interventions do stimulate the market for fully commercial specialist services, public funding should, as a rule of thumb, comprise no more than half the cost of providing such services (i.e. matched funding). Individual regions will no doubt wish to relate the shape of provision and incentive in their regions closely to the sectoral or cluster priorities that they have identified, too.

29 Cost of course is also an important element in the equation. The decision in SR 2004 to give responsibility for the Business Link network to RDAs has involved the transfer to RDA budgets in 2005/6 of some £142m. Total public support to small businesses in the English regions is difficult to define precisely; but taking account of the additional resources made available by RDAs; drawn from European Structural Funds; and provided by the workforce development activity funded by Learning and Skills Councils, it certainly comfortably exceeds £300m. What would be the cost of an integrated approach to coaching of the sort described in this report? Current programmes most similar in approach include the Manufacturing Advisory Service, and a variety of specific regional programmes – regional centres of "Business Acceleration", Business Champions (an East Midlands initiative), and the Business Mentoring programme in Scotland.

Cost estimates are of course highly sensitive to assumptions made around the intensity of coaching programmes, and levels of subsidy. The best guide from existing programmes is however, that provision should be made for a cost to public funds of some £5000 per company, per annum – assumptions; 10 days intensive coaching, at £1000 a day (overall cost, including overheads); subsidy provided at a level of 50% of the total cost. Assuming a 3 year duration to a coaching programme for individual firms (in practice some will drop out earlier) the total cost to public funds for each coaching intervention might be of the order of £15,000. To put it another way, were 10% (£30m) of the small business support budget estimated above devoted to intensive coaching, that would support some 2000 firms going through the programme at any one time, England-wide. It is difficult in practice to measure either market demand, or market potential (and different regions may wish to strike a different balance between e.g. brokerage, coaching, and specialised support). The figures illustrate possible scales of activity, though. The judgement about the balance to strike will also be influenced by the development of more sophisticated impact measures, as proposed in the conclusions below. This is not to argue that there is a requirement for additional resource. Much of this funding is already available through the existing programmes and activities described, though some resources may need to be deployed to achieve the inter connection between the programmes that this report advocates. SR 2006 will no doubt provide a further opportunity to examine the scale of resource required to support services to small businesses overall.

CONCLUSION

30 This report has argued that "focused tailored" coaching is an important component of the publicly funded support and advice that should be available to small and medium sized businesses, if we are to achieve the growth potential of the most ambitious, and most innovative (in the broadest sense). The role of such coaching relates to a philosophical approach and is not explicitly recognised in the Business Link business model against which RDAs are "benchmarking" their current plans for developing SME services as they take responsibility for Business Link services, but RDAs should be tasked to demonstrate, for the 2006-7 Business Planning round onwards, how they intend to ensure that coaching support is available to all of the companies who might most benefit, underpinning responses to the productivity agenda nationwide.

31 Programmes that contain elements of coaching already exist, devised and run both nationally and regionally. RDAs should ensure, individually, that regional and locally sponsored programmes are effectively aligned and interconnected - so that the challenges that fast-growing business faces – raising finance, developing markets, product and process innovation, workforce development – are handled as part of a seamless coaching programme (recognising that there may be particular issues for pre-start and start-up businesses). Collectively the RDAs will need to work closely with those resourcing and delivering national programmes to ensure that they too are aligned as far as possible in terms of coverage, eligibility and funding criteria, with regionally designed approaches – which will show some variation to reflect the priorities of individual RES's.



32 There are strong arguments for some consistency in the eligibility and funding criteria that underlie regional approaches. It is suggested

a) That candidates (customers) for these programmes should be as far as possible self selecting - unconstrained by attempts to "pick winners" among SMEs through pre-defining the characteristics of high-growth companies, by age, size, industry sector, previous growth pattern or otherwise.

b) That such coaching should be funded on a matched basis, or something close to. That is to say, it should be recognised that coaching should not be a free good (unlike, on the whole, brokerage); whilst at the same time that it is unlikely to be viable in the first instance as a fully commercially funded activity.

c) Some time-limit should be put on the availability of subsidised coaching - perhaps three years. If a company was unconvinced of the full commercial value of the support by then it would imply that coaching had not delivered the "added value" sought.

33 Regions will need to pay special attention to the resource available, and the infrastructure needed, to deliver "multi-disciplinary" coaching. Present programmes understandably focus on a range of specialisms, but the true value of the coaching proposed here is in the ability to support the company in meeting these interconnected challenges. A single individual who could achieve this would be a paragon of virtue; no doubt they exist, but are few and far between. The challenge will be to design, deliver, or contract with organisations who can bring together the mix of expertise, whilst building a continuous relationship with the SME customer.

34 The need to target additional coaching and business development towards ambitious start-ups firms and those with high-growth potential is linked strongly to making progress of the Skills agenda. It is critical that each region is able to integrate skills support effectively with other forms of business support to create tailored programmes for ambitious start-ups and high growth firms. This linkage is vital if the regions are to maximise the contribution of skills to an integrated business development programme; and create a more effective and streamlined delivery system.

35 RDAs have a vested interest in working within a national enterprise framework connected with the ability to try regional approaches. Customers ultimately will expect solutions rapidly found and deployed which require responsive supply. RDAs working closely with central government, the private sector and regional partners need to ensure that these necessary conditions are in place to support and anchor high growth businesses.

36 RDAs will work with current providers and others to ensure that the system and the expertise are in place to make coaching provision available from April 2006.

The report proposes that RDAs deal with this in two phases, as they inherit Business Links. The two stages are:

STAGE 1
(APRIL 2005 - OCTOBER 2005)

RDAs, within each region, work directly with the providers of national and regional programmes which do provide coaching of a sort. For instance: The Manufacturing Advisory Service, various innovation, investment readiness, and management best practice programmes, the Employer Training Programme, UK Trade and Investments specialist advisers and the Design Immersion Programme. RDAs will work with these bodies to ensure greater consistency of access and eligibility, but most important, a proper interconnection between the programmes: high growth small firms do not encounter market development, technology process, fund raising issues in the silos beloved of policy makers, but as inter-related and often parallel challenges.

STAGE 2
(NOVEMBER 2005 - MARCH 2006)

As a second stage, in the run up to Spending Review 2006, RDAs should then consider with Treasury and other interested parties

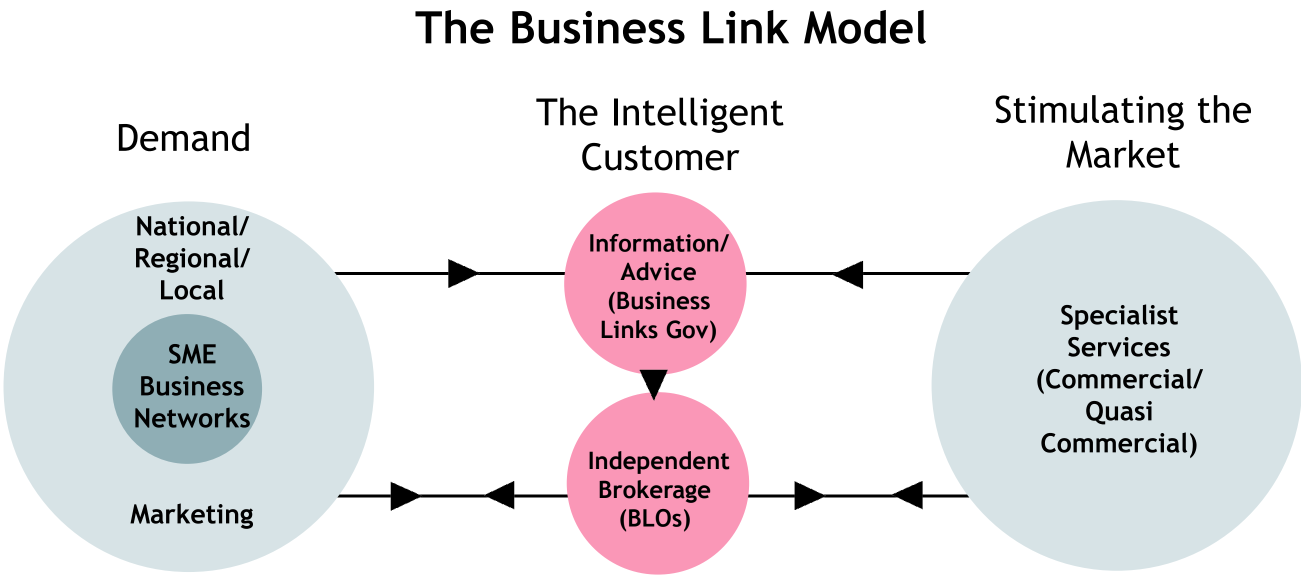
i. the alignment of relevant streams of funding within the RDA single programme, to achieve a framework of delivery that can ensure real integration.

ii. renewed effort to achieve more sophisticated performance measurement of part-publicly funded SME coaching.

iii. consideration of whether the grants available to SMEs in current regionally delivered national "products" (Enterprise grants, R&D grants) might be more effectively deployed if access to them was explicitly embedded within coaching programmes.

NEXT STEPS
Subject to the Treasury's response, the report proposes that in 2005/6 RDAs will establish a task and finish group to implement a model for the delivery of a demand led SME coaching framework in their regions. This work will feed directly into Treasury consideration for the development of Spending Review 2006.

Annex 1



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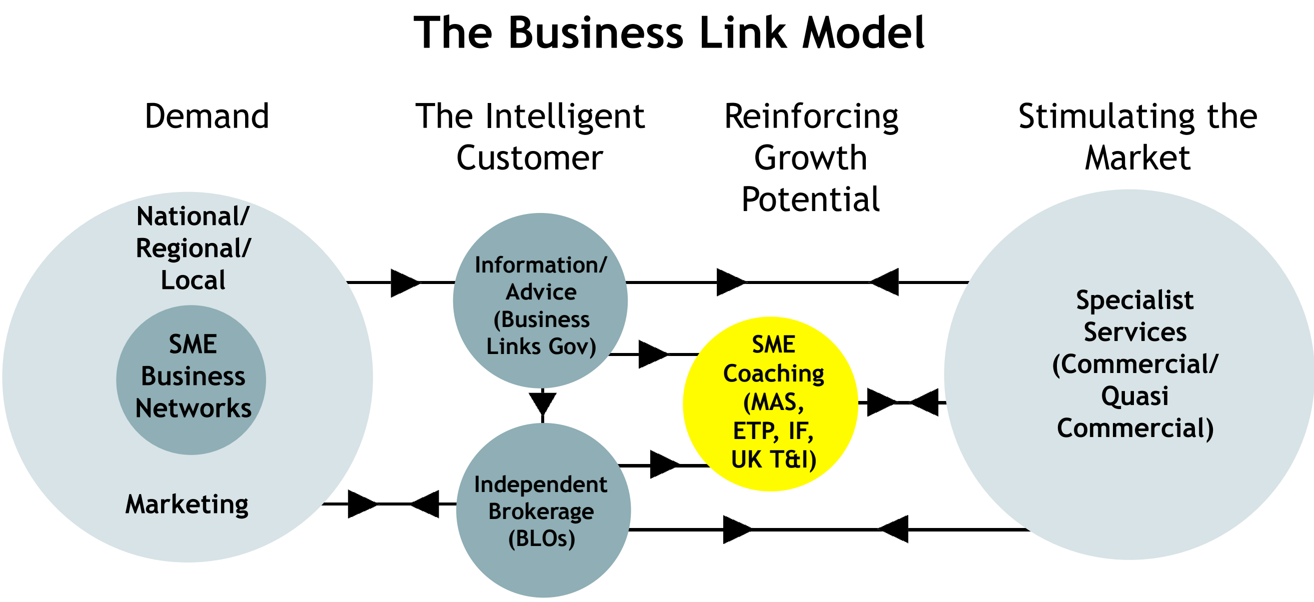

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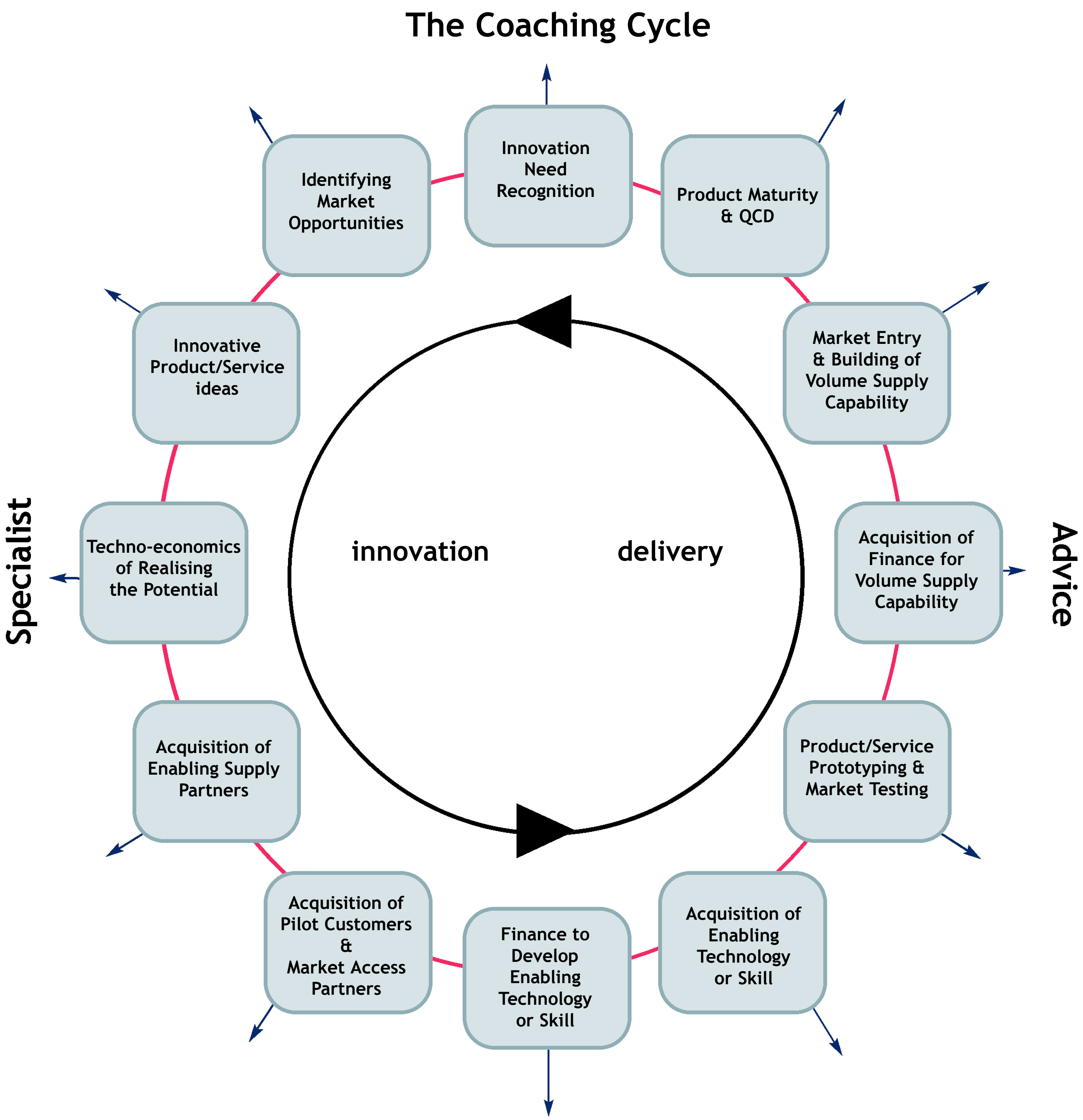


With full acknowledgement to PERA, who devised this in relation to the East Midlands MAS, and Innovation Factory

Annex 4

BACKGROUND TO THE CURRENT PROVISION OF SERVICES TO THE SMES IN THE ENGLISH REGIONS

It is important to recognise the continuous evolution of approaches to (part) publicly funded advisory services to small businesses in the UK. Chambers of Commerce have of course a venerable 200 year history in the UK, but public policy only began to pay serious attention to the economic potential, and particular needs of the small business sector in the early 70s (the Wilson report – 1970). As the UK economy itself came under increasing pressure (year on year the economy had grown in each year 1948-73), more attention was paid to the contribution that small businesses made to the UK's overall performance. It became commonplace to observe that 98% of registered UK businesses were small businesses; and that they contributed through the 1960s and 1970s almost all of the net new employment created over the period (this was not true only in the UK, as an influential study by David Birch, demonstrated – published 1979). Small Firms Information Centres were first created in 1977 – one in each region, under the wing of the DTI. As the name implies they were designed to meet the well-researched "market failure" in terms of the information and advice available to small firms, in relation to sources of expert advice available in relation to key aspects of business growth e.g. product and process development, finance, marketing etc. The benefits of such advisory services from the public policy point of view were seen largely from the perspective of their potential to generate new employment; closely linked with e.g. the Enterprise Allowance available to unemployed people wishing to start their own business. In the mid-80s the Small Firms Centres themselves were the responsibility of the Department for Employment, rather then the DTI.

Enterprise policy – the need to stimulate more individual interest in entrepreneurship, within education and within the workforce – came into sharper focus in the late 80s, encapsulated in the famous (some would say notorious) "whoosh" of the Enterprise Initiative, associated with Lord Young. This for the first time crystallised a pattern of advice and support to small businesses which has survived in some shape or form ever since, albeit with substantial and continuing change in the way that advice and support is delivered. The Enterprise Initiatives comprised three components

i) an emphasis on marketing the availability of support and advice to SMEs much more comprehensively than before.

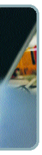
ii) The creation in each region of a cadre of "Enterprise Counsellors" recruited in the basis of their own small business experience, and carrying out an advisory and brokerage role, designed to direct small businesses to the specialist advice they needed.

iii) A series of registers of "quality assured" providers of business advice on e.g. marketing, manufacturing process, design and quality. These were commercial providers, though eligible SMEs receive a subsidy – at different levels in the Assisted and non-Assisted Areas – when they took up these specialist services.

The creation of Business Links in 1993 was a response to a sense, first, that whilst successful as a national approach, the Enterprise Initiative had failed to connect at a local level with many of the small and fast growing businesses that could benefit from specialist advice; and second, partly because of this "local" point, market penetration by the Enterprise Initiative had been poor. The Business Link initiative therefore paid much more attention to local delivery mechanisms (whilst looking to define a common core of services to be provided). The original ambition of Business Links was to be a "One Stop Shop", encompassing advice and services provided to SMEs by Training and Enterprise Councils, Chambers of Commerce, Local Authorities and central government (largely DTI). In some cases this saw a physical manifestation, but in many others it was a virtual arrangement, either through a joint-venture company (usually limited by guarantee), or a looser arrangement.

The public funding channelled though this network came from two main sources, the national DTI budget, and the "local initiatives" funds of TECs (small as a proportion of total training budgets, but large in relation to available "enterprise" resources). This link was also important because of the long standing tendency for skills and workforce development support to be delivered "sui generic", unrelated to other business support needs. Many attempts have been made in the last decade to bridge this gap. The Skills Strategy 2003, and the subsequent creation of Regional Skills and Productivity Partnerships is the latest. There is some optimism that both in terms of policy and machinery of government commitments, there is much greater likelihood of success this time. National resources were sometimes supplemented by European Structural Funds, in qualifying areas. Business Link networks locally evolved in very diverse ways. Sometimes it was argued that this was to meet the needs of diverse local customer bases; but in reality the shape was usually dictated by the relative strengths and weaknesses of the core partners – which varied greatly from area to area – as did the resources that were available.

The type of services available to SMEs retained much of the shape described in relation to the Enterprise Initiative, though the distinction between brokerage (Enterprise Counsellors – Personal Business Advisors under the first incarnation of Business Links) and commercial provision of specialist advise substantially dissolved. Resources available to subsidise the provision of specialist services (rather than to create the local network) were much more limited, and Personal Business Advisors (PBAs) were in effect often the "sales force" for quasi – commercial services provided by one or other of the local Business Link partners. The withdrawal of a standard subsidy for commercial



specialist services was not in itself a bad thing – there is no more reason, obviously, to subsidise the purchase of specialist advice than of capital equipment; and a clear danger that such an intervention will inhibit the emergence of an effective market, rather than encourage it. However, price resistance on the part of SMEs often led to recommendations of the part of the PBAs tailored to affordability; and the imposition by Government of income generation targets led some local Business Links to task their PBAs with "hanging on" to business generated.

Business Links "Mark 2", from 1999 were in part a response to the abolition of the Training and Enterprise Councils (TECs) - a key source of funding for local Business Links networks, and in part an element of the creation of the national Small Businesses Service (SBS). This, along with the Small Business Council, was designed to give a voice to small business "at the heart of Government". (Enterprise policy having been given fresh emphasis with the election of the Labour government in 1997). It created however some tensions of its own. Whilst the aim was to create more consistency in the delivery of services to small businesses across the country, this was achieved at the expense of the "all-encompassing" ambition of Business Links at local level; and often with the perception of an over-centralised national approach to management and delivery. There was also in reality some tension between the Small Business Service role in policy development (taking it into regulatory, regeneration and sustainability policy spheres); and its national responsibility for managing local Business Links (though their number had been rationalised from 87 to 45, when the Local Learning and Skills Councils were created.

Though Business Links were expected to contribute to the delivery of a wide range of national policy objectives (17 were elucidated at one stage), there were two or three key measures of their success that predominated; market penetration, customer satisfaction, and various attempts, not really satisfactory, to establish the additional Gross Value Added by individual businesses by dint of the Business Link intervention. With the creation of Regional Development Agencies in 1999, Business Links were also asked to show that their own business plans were consistent with, and contributed to, the objectives established in Regional Economic Strategy. This placed local Business Links in the somewhat invidious position of seeking to reconcile the terminology of, and sometimes the real tensions between, regional and national priorities.

For the same reasons that led to the increased national policy focus on small firms a generation ago, Regional Economic Strategies consistently give strong attention to the role and potential of business start-ups, and small firms, in achieving enterprise, innovation and employment goals. From an early stage therefore, many RDAs felt it to be anomalous that they had no direct influence over the shape and delivery of services to SMEs in their region. This tension was recognised in the Spending Review 2002 announcement that pilots were to be established in three regions where, between them, RDAs and the network of Business Link organisations would develop and manage the delivery of services. The pilot regions, the West Midlands, the East Midlands, and the North-West had all inherited varying "infrastructures of delivery", which influenced the development of the pilots.

The National Skills Strategy, launched in the summer of 2003 jointly by DFES and DTI, did however reinforce a common framework for the analysis of the needs of SMEs, and the way in which service provision should be shaped. Its most telling phrase "No Wrong Door", seems a long way removed from the original Business Link vision of the One Stop Shop; but is in reality simply a recognition that flows of information and advice have become more and more complex, and timescales more compressed; and that the idea of a single point of access through which all context and advice might be channelled, is probably undesirable, and certainly unrealisable, in today's world. It recognises, instead that small businesses will turn in many directions for advice and information – particularly to small business peers who they meet in networks, either formal or informal. The task of publicly supported advice services is to ensure they are connected to these initial points of contact in ways that link SMEs to the specialist services that they need. Though there may on occasion be the need to subsidise the provision of commercial or quasi commercial specialist services, care needs to be taken to avoid a "welfare state" approach to small business advice: the aim is to stimulate a well-informed customer base, and a growing market. Key to this is the role that genuinely independent brokerage plays; and quality assured register of specialist service providers.

Spending Review 2004 took the logic of the pilots one stage further, and announced the transfer of budgets for the delivery of SME services to RDAs (from the SBS/DTI budget) from April 2005. RDAs have undertaken to work with the Business Link Operators to develop these services further to take account of customer requirements and RES priorities, within the framework of a nationally consistent approach to the Business Link brand, and the associated business model.

For this purpose a Business Link Strategy Board has been established, chaired by an RDA, and comprise three senior SBS representatives (including the Chief Executive), and nine RDA Enterprise Directors, or equivalent. This is not in any sense a management board – the Accounting Officer line of responsibility runs from the RDA Chief Executive to the DTI Permanent Secretary. Its role is to advise the Permanent Secretary, and individual RDAs, in the degree to which their proposals, year by year, are consistent with the framework for branded Business Link services described above. RDAs will also be seeking to ensure a greater coherence between Business Link services to small business and those provided by other streams of public funding, an ambition that was at the heart of the Business Link approach as first envisioned.

Annex 5

Coaching

INTRODUCTION

Coaching is not 'therapy' by another name although the key theoretical underpinnings, models and techniques found their origins in the field of psychology and associated therapies like gestalt & cognitive behavioural therapy which have broad ranging applications in both organisational and personal contexts.

The key difference between coaching and the therapies is that coaching does not seek to resolve the deeper underlying issues that are the cause of serious problems like poor motivation, low self-esteem and poor job performance. Coaching programmes are generally more concerned with the practical issues of setting goals and achieving results within specific time-scales. Therefore, the basic premise of high growth business coaching is that it is a process that enables both individual and corporate clients to achieve their full growth potential.

Coaching and mentoring share many similarities so it makes sense to outline the common things coaches and mentors do whether the services are offered in a paid (professional) or unpaid (philanthropic) role.

- Facilitate the exploration of needs, motivations, desires, skills and thought processes to assist the individual in making real, lasting change.
- Use questioning techniques to facilitate client's own thought processes in order to identify solutions and actions rather than takes a wholly directive approach
- Support the client in setting appropriate goals and methods of assessing progress in relation to these goals
- Observe, listen and ask questions to understand the client's situation
- Creatively apply tools and techniques which may include one-to-one training, mentoring, facilitating, counselling & networking.
- Encourage a commitment to action and the development of lasting personal growth & change.
- Maintain unconditional positive regard for the client, which means that the coach is at all times supportive and non-judgmental of the client, their views, lifestyle and aspirations.
- Ensure that clients develop personal competencies and do not develop unhealthy dependencies on the coaching relationship.
- Evaluate the outcomes of the process, using objective measures wherever possible to ensure the relationship is successful and the client is achieving their personal goals.
- Encourage clients to continually improve competencies and to develop new developmental alliances where necessary to achieve their goals.
- Work within their area of personal competence.
- Possess qualifications and experience in the areas that skills-transfer coaching is offered.
- Manage the relationship to ensure the client receives the appropriate level of service and that programmes are neither too short, nor too long.

a. How does the coaching differ from other forms of support?

There are differences between coaching and other approaches to supporting rapid improvements in business performance. The table below contrasts three different approaches to coaching & mentoring, counselling and consultancy.

Table 1: Three different approaches to business performance support

Coaching	Counselling	Consultancy
■ Actively untaps potential. ■ Fine tunes and develops skills. ■ Development activities are designed to suit client's personal needs and learning styles. ■ Eliminates specific performance problems. ■ Can focus on interpersonal skills, which cannot be readily or effectively transferred in a traditional training environment. ■ Provides client with contacts and networks to assist with furthering their career or life aspirations. ■ Performed in the 'live' environment ■ Highly effective when used as a means of supporting training initiatives to ensure that key skills are transferred to the 'live' environment. ■ Coaches and mentors transfer the skills to the client rather than doing the job for them.	■ Explore personal issues and problems through discussion in order to increase understanding or develop greater self-awareness. ■ The aim of counselling is to lead the client toward self-directed actions to achieve their goals. N.B Many coaching relationships involve an element of counselling but this is distinct from the services offered by a professional counselling service. Professional counsellors deal with personal issues in much greater depth than would generally be explored within a coaching context.	■ Focus is on developing organisational practices, processes and structure. ■ Role generally more strategic and often used to instigate and design broad ranging change programmes ■ Consultancy frequently involves expert advice about specific issues and organisational processes. ■ Consultants are often brought in to provide specific 'solutions' to business problems and needs ■ Consultant does the job for the organisation, rather than the employee/client becoming up-skilled to do the job themselves. N.B. The term consultant coach is often used when the coach is external to the organisation and therefore offering services on an 'external' or 'consultancy' basis. This is not, however, the same as consultancy. per se. Coaching and mentoring has been offered by consultancy companies for many years, even though it is not specifically 'consultancy'. It is only recently that people have begun drawing a distinction which in some cases, like the distinction between coaching and mentoring is not useful in distinguishing between them.

It is clear that coaching, rather than alternative forms of support is the only solution that 'transfers' knowledge, know-how and experience to the business rather than doing it for them. This must be the only sustainable approach that will ensure the high growth prospect has the presence and understanding to fulfil its potential and plan its growth rather than simply outsourcing part of its competitive advantage to a third party.

(Source: the European Mentoring and Coaching Council - The Coaching and Mentoring Network)

Annex 6

CURRENT PROVISION IN THE ENGLISH REGIONS

Small business plays a crucial role in the economy. Small Firms employ 12 million people, and constitute 50 per cent of private sector activity. The small and medium enterprise (SME) is the seedbed for some of the future giants of the economy. Specifically, small businesses constitute 99% of all firms (there are 3.7 million in total), include 2.3 million self-employed people and have a turnover of over £1,000 billion a year.

However, as acknowledged by the Cross Cutting Review of Government Services for Small Business in 2002, small firms policy is still evolving. The Review goes on to state

"There is a legacy of different business support schemes, ideas and delivery mechanisms. From a macro perspective, we have moved away from a policy stance which stressed self employment primarily as a response to high levels of unemployment, and now see small firms as a sector largely in terms of their potential contribution to productivity and growth. On the schemes and support side there is micro evidence of the value of particular schemes. But it is extremely difficult to judge the value of schemes overall, in relation to one another, and in relation to spending on government services".

Source: Cross Cutting Review of Government Services for Small Business 2002

There are relatively few examples of publicly funded coaching programmes - some of the more well know examples (both past and present) are listed below:

National Programmes

High Growth Start-Up Programme

The Government's Competitiveness White Paper published in December 1998 launched the **High Growth Start-Up programme** (HGSUP) to provide a high growth quality advisory service that would establish 10,000 growth start-ups by 2002. The rationale behind the programme was to acquire welfare gains for the economy by encouraging those businesses with high growth potential to grow more rapidly.

By focusing the programme on assistance for start-ups with an annual sales turnover of £1m or more per annum, the programme aimed to be highly selective, since only about 1% of new business start-ups each year achieve annual sales turnover of this amount. The national target of enhanced support for 10,000 new potential high growth start-ups per annum by 2002 was translated into targets for each region, based on the region's share of the totally economically active population, which in turn was used to determine the budget allocated to each Government Office for regions (GORs) for the programme. Whilst GORs had considerable flexibility in determining the allocation of funds within their regions, the guidance notes emphasised the need for a regional or sub-regional strategic approach, rather than a pro-rota allocation for each Business Link. Funds allocated from the enhanced support budget were focused on advisory support and were not used to provide start-up loans, grants or take equity stake.

The Programme was designed to operate as an advisory service, with some provision for specialist assistance (discretionary and up to 50% of the cost) from public and / or the private sector where it could be seen to make a difference to the development of a high growth start-up business. Assistance was limited to a 12-month period, after which there was an expectation that HGSU client would be able to afford the service at market rates. In April 2001, a significant change was made to the way the Programme was funded and it was decided to allocate funds direct to individual Business Links, as part of their core budgets from the Small Business Service, rather than through Government Offices.

There has been considerable variation across the regions in the way the HGSU programme was developed and implemented. The Programme was designed to be flexible, allowing GORs to determine the allocation of funds amongst Business Links (BLs). This appears to have been determined by size and structure of business stock within a region, as well as by the degree of interest exhibited by individual BLs.

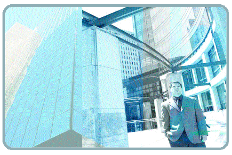
In practice three types of regional model were delivered:

(i) Regions (e.g. East and West Midlands) where there was a regional coordinated programme, operated to a common format across each Business Link

(ii) Regions (e.g. North West) where no regional coordination existed allowed individual Business Links to determine their own delivery mechanism

(iii) Regions where there was a degree of coordination, but where individual Business Links were able to deliver the programme in a number of different ways (e.g. some directly or alternatively contracting out the service)

The High Growth Programme ended in 2002 although elements of the programme for example in the West Midlands and its Mustard Programme and the High Growth Start-Up programme in the East Midlands, still exist.


SUMMARY

One issue faced in implementing the HGSUP concerns the distinctiveness of the needs of high growth start-ups, compared with other forms of start-up business.

Based on a study of the East Midlands programme which sampled 1,413 businesses, from a Dun and Bradstreet database that met the DTI definition, a stratified sample were surveyed and a number of profile characteristics of existing young high growth businesses were observed:

- 71% of HGSUs were managed by people with previous management experience
- 51% holding degrees or equivalent qualifications
- 42% had previously attended a management course
- 33% had used some form of external assistance support (excluding routine banking and accountancy services)
- It was noticeable that that there was significantly lower take-up of businesses that had achieved £1m sales within three years (8%)

This last point in particular supports the view that most of the best performing high growth firms are currently outside the mainstream business support system. One could further suggest that the Business Link network has been mainly assisting under-achieving firms, whilst the most successful performing firms are fending for themselves.

In trying to develop an understanding of the reasons for the gap between latent demand and assistance used, the dominant view expressed by the HGSUs was that owners of high growth start-ups have more specialized needs compared with other types of business, requiring a more customized approach to delivery. Informants referred to the potential advantages of mentoring (see earlier comments on definition vs. philosophy in paragraph 2) to nurture clients through the stages of business development, taking them through critical product appraisal, business planning, devising marketing strategies and helping them access resources. It was also noted that Investment Readiness is an appropriate initial focus for high growth support..."since few businesses are likely to be able to achieve £1m sales without access to significant external finance. Coaching or mentoring, rather than training was seen as more effective and flexible approach, based on the relationship of trust and providing a 'sounding board' for developing ideas that entrepreneurs appear to value"

The full paper can be found at:
www.qub.ac.uk/nierc/documents/SmallbonePaper.pdf

MANUFACTURING ADVISORY SERVICE (MAS)

The MAS was developed by the DTI in partnership with the Regional Development Agencies and the Welsh Development Agency, and was designed to help raise the productivity of UK manufacturers. The MAS is designed to address the needs of UK manufacturers, particularly SMEs, by providing practical hands-on assistance from experts to enable them continuously to adapt new methods and technologies. This process is deemed to be essential if these manufacturers are to compete effectively against low wage developing countries.

The MAS uses a network of Regional Centres for Manufacturing Excellence (RCME) in each of the English Regions and Wales that are responsible for the regional delivery of the service and provide practical hands-on advice. The first of these Regional Centres were announced in the South East and North West in October 2001. A further major component of the MAS is the creation of a National Network of Centres of Expertise in Manufacturing (CEMs). These Research Centres are nodes on this national network and are accessible through the MAS website launched in Spring 2002, thus reinforcing the Research Centres' ability to reach out to business. The RCME is designed to act as both a specialist provider and as a conduit to other specialist Centres of Excellence in Manufacturing located throughout the UK and numbering over 260.

The MAS employs specialist advisers to provide company support on a wide range of technology, operational and manufacturing best practice issues and is delivered by the Regional Centres working in co-operation with Business Links.

In terms of service structure, there are four main levels of interaction with firms:

- Telephone/website/email advice
- One-day diagnostic healthcheck (free of charge and termed Level 2)
- 7-10 day interventions (chargeable in East Midlands and costing £1,750 for firms and termed Level 4)
- Group events and seminars.

Performance measures for the first three of these services and their associated targets are set by DTI.

FINANCIAL SUPPORT

Over recent years the Government has taken a number of steps to improve the supply of finance. One of the most recent examples of the Government trying to improve the ability of businesses to secure or demand better finance opportunities has been to stimulate a small number of Investment Readiness Pilots in order to test different approaches to increasing the business knowledge of available financing options and the needs of investors.

To this end the Small Business Service established six Investment Readiness Demonstration Projects. At the same time it has provided funding to enable an existing programme, fit4finance, to be cascaded more widely. Together these enabled seven approaches to providing investment readiness support to be developed, tested and delivered, and the lessons learned to be captured.

The Demonstration Projects were chosen by competitive tender, launched in 2002 and ran for 15 months. The deliverers were located in five English regions. Apart from one, which targeted technology businesses, the projects worked with SMEs across all industry sectors. The projects varied in the level of emphasis placed on individual versus group delivery.

The key business support lessons from the pilots are cited below – an Executive Summary of the main report ('Evaluation of the Investment Readiness Demonstration Project and FIT4FINANCE', SQW, 2004), can be found by following the link below: **www.sbs.gov.uk/content/analytical/Investreadi_execsum_sep.pdf**

Client Focus

The broad target market for investment readiness support was SMEs with Growth Potential, with a particular emphasis on those seeking to access equity investment. All the Demonstration Projects except one (which focused on new technology companies) made no distinction between businesses from different sectors and worked with businesses at a mix of development stages.

Where businesses at a mix of stages of development participated in a group activity, concern was expressed by a few participants about the ability to learn from businesses not at a similar stage of development. However, the diversity of business experience was also valued by others. Where support was delivered on a one to one basis this issue did not exist. Feedback from businesses and deliverers was not conclusive, but the success of supporting a mix of businesses at different stages of development will be dependent upon the deliverer being familiar with and being able to accommodate the issues of businesses at different stages of development.

A clear recommendation coming from the report was that there should also be no 'age threshold' below which businesses would not be eligible for support. Several of the programmes worked widely with start-ups, and technology and knowledge based businesses in particular, equity was often appropriate and desirable at an early stage.

Specialist Focus

A specialist focus, such as one of the Programmes which focused on new technology companies would enable a specialised delivery team to provide high quality and targeted advice and inputs, and in group conditions for the business to benefit from technical experience exchange at a level which would be uncommon in a more generalised environment. A targeted Investment Readiness programme would also enable specialists to be made available to participants cost effectively, and introductions to specialised investors and networks made.

The Demonstration Projects did not test widely the validity of this approach, but the study suggests:

- Specialist programmes should have a wide geographical catchment area
- There may be benefit in establishing a network of programmes, each focusing on a different sector or specialism

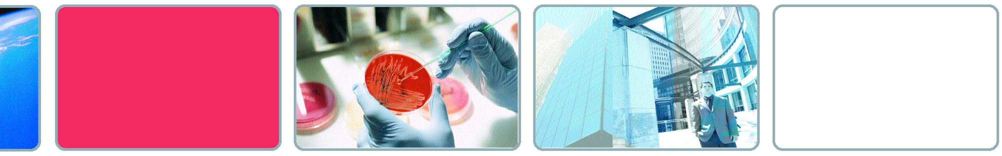
Focus on Equity Candidates

The practice was not to restrict support only to those which were obvious candidates for an equity investment but to adopt a flexible approach, providing the business fitted the target profile of 'start-up' or early stage business with growth potential. The basis for this flexibility was that:

- It was not always immediately clear whether equity was the appropriate route for funding the business until the grooming process was underway
- A finance solution combining a mix of equity and another form of funding was often an optimal solution
- If equity turned out not to be immediately appropriate, it could very likely be the follow on funding route after grant or loan funding.

Marketing Awareness and Selection

Marketing was usually the first activity organised by the deliverers once the design of the programme



was in place. Marketing was usually, but not always, linked to an event which had four purposes:

- to raise awareness with participants about the different forms of finance available
- to educate about the benefits of equity and to provide information on the process involved in accessing it
- to present the concept of the Investment Readiness Programme and encourage participants to consider taking up the full programme
- to act as a gateway to the selection process

The range of marketing approaches adopted can be classified into two categories;

- Wide Funnel Marketing using mailshots, distribution of literature, advertising and competitions in order to reach a large number of SMEs
- Referrals from other intermediaries.

The wide funnel approach took longer and more effort than the projects anticipated with a considerable cost attached. Large numbers were needed via this route due to a low response rate. Once started the wide funnel approach needs to be maintained as a one off marketing campaign will not provide the stream of candidates required.

Referrals were lower cost, required less effort but were dependent upon the deliverer being well networked with appropriate organisations to identify candidates accurately. If this works well the business will have gone through an initial filtering process. The reputation of the deliverer is paramount to success via this route.

Selection of candidates was carried out through diagnostic meetings. Assessment varied in length and intensity and led to a decision about whether the business would be invited to receive the full programme.

An in-depth diagnostic was a feature of all programmes that offered intensive support. As a minimum the review covered the business, an assessment of its need for finance, the identification of whether it was appropriate for equity and required a minimum of 1.5 hours contact time with the candidate. In one case the initial review formed the start of the support with much more contact time up front through a 'tutorial' session with the management team.

All but one of the programmes addresses Mason and Harrison's (Designing an Investment Ready Programme: Some considerations, for SBS, 2001), three dimensions; Equity Aversion, Investability and Presentational Failings.

Intensity of support across the programmes was almost all through intensive continuous support over a sustained period with only one offering 'injections' of support. It suggests that future Investment Readiness support should be designed around an intensive model.

Taking a business to investment readiness is a lengthy process often taking several months. Access to a rolling programme with flexible entry and exit points was recommended.

Interaction with Investors

This played a substantial role in all the programmes and their involvement was a valued ingredient. Business Angels and Venture Capitalists were brought in as presenters and via mock panels. For investors not having a direct role in the programme benefit was still derived from more robust investment propositions put forward and reduced costs in terms of time and effort.

The Delivery Team

Whatever methodology was used the key ingredient to success was the quality of the delivery team. A number of characteristics were prevalent amongst the organisations and individuals contracted to deliver and it is recommended that the profile of organisations and individuals delivering Investment Readiness support in the future should reflect these characteristics outlined below:

- The programmes were designed and delivered by senior members of the delivery organisations.
- The principal deliverers brought substantial track records and an impressive range of experience.
- The core team delivering the support, and those imported to provide specialist understanding were able to demonstrate experience as practitioners in their own specialist field enabling them to establish credibility with the client business.
- Every member of the team did not have to be an 'expert' but they had to be able to demonstrate sufficient understanding of the issues to know when to bring in specialists.
- The quality of networks the deliverers brought to the investment readiness process was impressive in terms of the extent, range and access.

- The appropriate calibre of Coach/Trainer can be brought in.

- Highly specialised advice can be brought in as required.

- Introductions to potential funders, in particular equity networks, can be provided.

- Recruitment can be carried out to fill gaps in participating businesses teams.

- Serious commitment to the concept of the Investment Readiness grooming and the ability to devote sufficient core team resources to the provision of support - where the projects were successful the deliverers treated the Programme as a core aspect of their activities.

UK TRADE & INVESTMENT (UKT&I)

UK Trade & Investment's international trade support in the English regions is delivered by the International Trade Teams which are based, for the most part, in Business Links. The work of the International Trade Teams in each of the English regions is coordinated by a UK Trade & Investment International Trade Director, working in conjunction with the Business Link Chief Executive and taking into account the regional international trade strategy.

Traditionally, trade and investment promotion has focused on increasing exports, and for most trade promotion organisations around the world this is still the case. However, in the UK there is a recognition that public sector resources can be better used in helping new or inexperienced businesses in doing business overseas – especially SMEs – build the capacity they need to compete in world markets. For this reason since 2000 the emphasis has shifted to supporting business development and building the international competitiveness of companies. The change of approach also recognised business development and international competitiveness are benefits overseas companies can gain from investing in the UK.

To complement this change of emphasis, the trade development advice offered by UKT&I is now focused much more on the needs of sectors, to help individual businesses access those markets in those countries that provide the best opportunities for their particular sector – in other words employing coaching techniques described previously to encourage new export growth. In making these changes, the Government has worked with business to bring public sector support for trade and investment more in line with the real needs of companies, and add value to their performance.

Source: DTI Trade and Investment White Paper 2004. For further information see **'The Review of Export Promotion'** February 1999, Sir Richard Wilson, Secretary of the Cabinet.

BEST PRACTICE PROGRAMMES AND NATIONAL BUSINESS SUPPORT PRODUCT

This product aims to increase take-up of best practice in companies where it will have greatest productivity impact, by helping overcome the known barriers to implementation. The provision of information through the Demonstrating and Disseminating Best Practice product is complemented with incentives to take action, including help to diagnose problems and start the process of change.

This product takes a radical approach to the provision of support for firms adopting best practice. It builds on the successful Manufacturing Advisory Service approach, extending the scope to cover the service sectors and the priority themes underpinning the awareness activity.

The product delivery comprises a three stage process:

- a free initial performance diagnostic, delivered by trained Business Link Advisors,

- a matched funded project, using external accredited expertise, designed to address key issues identified by the diagnosis,

- a follow up performance review by the Business Link Advisor, demonstrating project impact and reviewing potential next steps.

The product introduces a national minimum standard to ensure the credibility of the external advisors. The post project review and follow up process are aimed at building the market for firms seeking to take their next steps, growing their use of proven expertise from the market place, without expecting business.

The diagnostic is in principle available to all sizes of company, to help identify issues where performance could be improved through the adoption of better practices. However the primary target for supported projects is small and medium-sized companies that are capable of growth, and have the capacity and resource to undertake projects. The research evidence suggests that these companies face barriers and need additional incentives to kick start change.

The product design also integrates a number of elements that enable the adoption of best practice tools and techniques including e-Business (from UK Online for Business), business process and relationships improvement (from Construction

Excellence, Industry Fora, Partnership /Work Life Balance) together with the well-respected Benchmark Index diagnostic toolkit.
The delivery of the product is set out in more detail below:

Helping companies identify issues which could be addressed with a form of best practice:

- Through a facilitated diagnostic with a Business Link Adviser, flag key areas for improvement.

- Priority area for change identified and customer is signposted to appropriate advice and support, and to organisations accredited under the Customer First system, that can help plan and implement a project.

- Facilitator will be trained to deliver the diagnostic and have access to a database of Customer First-accredited suppliers and other sources of Government/regional support, including sector/cluster specific regional activities.

Supporting projects to implement change through best practice:

- Following the diagnostic, the customer chooses an accredited supplier to help plan and implement a project which is tailored to their needs.

- On agreement of the project, it is registered by the supplier and the funding offer is confirmed. DTI will provide up to 50% of project costs up to a maximum £5000 for individual firms, for short projects to kick start change within an organisation.

- Additional support for supply chain improvement projects will be available for groups of at least 5 companies in a supply chain, who will be able to share resources and efforts to improve productivity. In recognition of the complex nature of this activity these projects can receive 50% funding up to £25,000 per project.

- Unions and employers working together in partnership brings wider benefits to an organisation, and DTI wants to attract larger companies to address these issues. The same process for securing projects will apply as under the basic model. However, in recognition of the need to attract larger organisations, and the additional time that partnership projects require to achieve change, additional support will be available, with 50% funding up to £25,000 per project.

EVALUATING THE IMPACT OF THE CHANGE:

- A follow up diagnostic is carried out by a Business Link Adviser six months after the project is completed.

- This also provides DTI with detailed evaluation material and early evidence of the impact of support.

- Successful projects will form case studies to be disseminated under the Demonstrating and Disseminating Best Practice product.

- Companies undertaking projects will also be encouraged to join networks, such as those promoted under the Demonstrating and Disseminating Best Practice product, to encourage continuous improvement and sustainable change.

The product therefore assists companies to measure the benefits of successful best practice projects and demonstrate long-term improvements in performance, thus building up market demand for best practice services. The key to turning a kick started project into sustainable change will be the ability to demonstrate to the customer the bottom line benefits of the best practice work; the intention is for the customer not only to continue with the particular best practice introduced through the project, but also encourage the company to explore using other forms of best practice, without DTI intervention.

BUSINESS VOLUNTEER MENTORING (BVM)

The Business Volunteer Mentors (BVM) Project is funded by the Phoenix Fund through the Small Business Service (SBS) and is a Business Link branded service, managed nationally by the **National Federation of Enterprise Agencies** (NFEA) The programme is delivered locally by Enterprise Agencies and other business support organisations, and provides free of charge mentoring from volunteers to assist and support pre-start, start-up and micro businesses.

The scheme was piloted in February 2000, and is now in its fourth year. and will continue until at least March 2005.

The BVM Project is based on a core of volunteers - both retired and otherwise - who are drawn from all sections of the business community and who provide support for people looking to start their own business, or who are already running a small business. For the mentor, the benefits of being a part of this scheme are many and varied. Many say that they get a buzz from helping others who are in a position that they were once in themselves. Others say that they learn

new skills themselves, and most would claim to feel a sense of achievement.

Although the NFEA hold the contract for the scheme nationally, in order to ensure that the scheme is delivered in the best way to both meet local needs and to ensure that it compliments existing services, it is delivered by approximately 40 sub-contractors throughout England.

To date, over 1,200 mentors have been recruited, over 25,000 client-mentoring sessions have taken place and over 14,000 businesses have been assisted. There are currently 40 contractors delivering the BVM Project throughout the country with a total of 1196 mentors.

EMPLOYER TRAINING PILOTS

Employer Training Pilots offer an interesting commentary on skills brokered support although not necessarily linked to high growth.

Employer Training Pilots (ETPs) were established in six Learning and Skills Council (LSC) areas in September 2002, to test their effectiveness in stimulating additional work-based training leading to improved qualifications for low skilled employees. The aim of the pilots is to engage with employers and employees that do not normally get involved with qualification based training.

The Pilots are administered by local LSCs in partnership with local Business Links and other agencies, through a network of local brokers or learning advisors, and were originally planned to last for a year. They offer training with registered providers to either NVQ level 2 or equivalent or in basic skills, to employees not already qualified to level 2 (e.g. with fewer than five GCSEs at grades A to C or equivalent).

There are, four main elements on offer:

- Free or subsidized training
- Paid time off for training (funded for either 35 or 70 hours)
- Wage compensation (paid to employers for the time employees spend on training)
- Information, advice and guidance to employers and employees

In the pre-budget report in November 2002, it was announced that the original six pilots would be extended both in length - to last for two years instead of the original one - and in coverage - an additional six one-year pilot areas were established.

The standard ETP approach to NVQs has been to assess an individual's competence, train to identified skills gaps, and conduct a final assessment .i.e. assess/train/assess. However, fewer than half the learners receive comprehensive needs analysis. Other approaches also appear to exist including:

- Train/assess/train/assess/train/assess – whereby the provider and the learner work through the full NVQ (regardless of the learner's area of competence) through a combination of off-the-job inputs and the on-the job compilation of evidence assessment.
- Train/assess/assess/assess – where the provider gives the learner a major training input up-front and the rest of the 'training' is in effect assessment i.e. the compilation of a portfolio.
- Assess/assess/asses/assess – as above, without the initial training input, and where the provider spends their time supporting the learner in collecting evidence e.g. through providing proformas and support material.
- Train/train/train/assess – where most of the work involves formal training inputs, with an assessment or test at the end

The most common approach used in identifying employees was for the employer to put candidates forward (some 43% of employers), however this was not the only approach used to select. Other common methods used to identify learners included individuals putting themselves forward (40% overall); asking for volunteers (38% overall); surveying all employees (29%) and prioritising certain groups of employees (29%).

(Source: Employer Training Pilots: First Year Evaluation Report, Institute for Employment Studies 2002)

Regional Programmes

Regional Innovation Factory (East Midlands)

The Regional Innovation Factory (also known as The Regional Centre for Business Acceleration) is managed by Pera Innovation, based in Leicester. The aim of the programme is to provide companies in the East Midlands Objective 2 area with access to a wealth of support schemes by which they can seek information, receive broad-brush business advice, and be sign-posted to providers of specialised services and subsidised assistance. The schemes are a mixture of regional initiatives, such as the Food and Drink Forum, connecting national programmes such as those run by the SBS and Business Links, or



European programmes such as the Craft scheme for cost-sharing innovation.

The basic premise of the programme is that there is no problem with the supply-side, but it is the **demand-side** which is too weak. More companies should be aggressively using the support services to significantly improve their competitiveness and growth. Moreover they should be pro-actively driving the agenda for the services that will be most useful, not leaving it to the service-providers to set the agenda. With a weak demand-side, the East Midlands will have a raft of services indistinguishable from most other regions and without the other advantages of areas such as those around Munich, Stuttgart, Cambridge, Veneto, Utrecht, etc, we could be running hard but still not achieve the regional top twenty aspiration.

High-growth companies generally have a clear view of their innovation and change strategy. They understand where their gaps are and hence what new capability they need to acquire. They become the proactive users of whatever support services exist. However, there is one common reason why manufacturing companies, particularly SMEs, are not more proactive: busy senior staff are pinned down with operational issues and do not have the resource to tackle all the uncertainties surrounding innovation. They need to study market trends, international competition, new business models, technology options, risks and costs, skills upgrading, supply changes and so on. Therefore the core thrust of the Innovation Factory is to create an affordable and quick way to unlock these issues for manufacturers in the Objective 2 area, and thereby swiftly achieving a level of change in these businesses.

The programme is tightly co-ordinated with, and complements, the Regional Centre for Manufacturing Excellence (RCME). Just as the latter is a pro-active and invasive programme for helping productivity improvements, the Innovation Factory is a pro-active and invasive vehicle for the next stage - exceeding the productivity frontier. Both centres integrate with other business support mechanisms at the regional, national and European level. They create awareness and sign-post to those agencies offering broadband help with business performance. The two centres will share the distinguishing feature of having experienced practitioners whose job is to help "shift the needle" of company performance by active, practical engagement.

User companies were identified from networking and references from the pilot companies acting as champions; from referrals from the rest of the business support network; from banks; and as strategically-identified companies targeted by *emda* and Pera. Manufacturing due diligence reviews and efficiency audits serve as the preliminary screening mechanism for companies prior to being offered Innovation Factory assistance. Only those companies suitable for, or able to, achieve high growth are initially selected for the full programme.

E-MENTORING PROGRAMME (SOUTH EAST)

Purpose

E-mentoring is the provision of mentoring through electronic communication - including email, telephone and Instant Relay Chat.

MentorsByNet seeks to explore the potential for developing and encouraging individuals to grow their business, help to realise new business ideas and ventures. It does this by bringing people together from a massive pool of talent to share their knowledge and experience and to learn from each other.

Background

A pilot MentorsByNet programme was conducted in 2003 with the aim of developing and growing the skills, knowledge, and the confidence of SME owner/managers to help them to succeed. The initial pilot was conducted over three months, involving over 40 mentoring partnerships and concluded at the beginning of May 2003, following which, a comprehensive independent evaluation was undertaken which measured areas such as perceived experience of the programme, programme outcome, satisfaction with contact frequency, satisfaction with online training, expectations of benefits from the scheme; concern for the practical relevance of the programme; responses about focusing on the realisation of specific goals and plans; and expectations of the benefits of the e-mentoring programme.

The overall effectiveness of the MentorsByNet programme can be judged by the positive responses to the post-programme questionnaire. Some of those findings were as follows:

- 96% of mentees and 80% of mentors described their e-mentoring experience as a positive one.
- 91% of mentees and 84% of mentors indicated that they would participate in a similar programme at some time in the future
- over 60% of mentees and over 70% of mentors cited convenience, flexibility and ease as the major benefits of email-based mentoring.
- over 50% of mentees and mentors indicated that they were planning to or thinking about continuing their relationship after the conclusion of the pilot

Details can be found at:
www.mentorsbynet.org.uk/contact/purpose.asp

Annex 7

SME COACHING: THE GLOBAL EXPERIENCE

The recommendations in the main report are framed against the background of the mechanisms for advice and support to small businesses as they have developed in the English regions over the past several decades. Though a similar analysis has informed the development of small business policy across the UK, the institutional setting for implementation has been somewhat different. In Scotland in particular the distinction between enterprise and skills programmes has been less marked, with Local Enterprise Companies, subsidiaries of Scottish Enterprise playing a role somewhat similar to that carried out by the independent Training and Enterprise Councils in England until 1999. Section (a) below describes programmes implemented in recent years in Scotland with a bearing on the design of successful coaching programmes. Many RDAs already have lively contact with Scottish Enterprise and the Welsh Development Agency, and have taken account of their experience in shaping their own programmes of regional business support. A new and explicit focus on coaching will provide a fresh opportunity to draw on recent experience outside England.

SECTION (A): The UK Perspective

SCOTLAND

The Scottish Programme for high growth business focuses almost exclusively on technology start-ups supported by specific incubation facilities.

THE EMBRYONIC HIGH GROWTH MODEL

The Embryonic High Growth Model (EHGM) is based on an approach that has operated successfully in Lanarkshire (Scotland) for the period of approximately seven years, after which it was moved to Glasgow and enhanced to become a National High Growth Unit for Scotland. This section describes the key characteristics of the model and the factors influencing the success of its initial implementation. It is suggested that the early implementation and establishment of this successful High Growth model are the most relevant to the English Regions given that the subsequent National Unit was only possible after a reputation was established. The Scottish National High Growth Unit now also focuses on much higher value propositions that will result in market valuation of a new start being several million pounds in many instances, with a small number of clients supported at any given time.

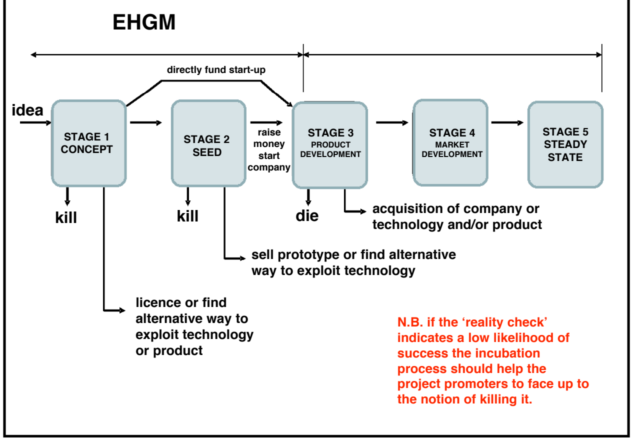
Model

The original concept of the EHGM was derived from work published by Bell and McNamara[1]. The model (and its implementation) recognises that there are five broad stages of company evolution:

- Concept
- Seed
- Product Development
- Market Development
- Steady stage.

The model focuses on the first two of these five stages (Figure 1). In so doing, it effectively addresses the issue of investor readiness – ideas that are appraised and developed through this model will be investor ready at the end. This is critical to the model's success.

Figure 1 - The Embryonic High Growth Model



Concept Stage - The concept stage typically involves a business idea that is poorly structured and relatively ill-defined. However, at the core, there will be evidence of an idea that offers commercial potential. The idea should be commercially viable and its principal elements should be robust.

[1] High Tech Ventures – A Guide for Entrepreneurial Success : C. Gordon Bell and John E McNamara

The duration of the concept stage is not limited and is dependent on the dynamics of the team. The team itself is often very small, comprising one or two people. The investment capital at this stage will be provided by the core team members and the ideas are often self-financed.

The input from the mentors at this stage will be the development of a skeletal plan that is sufficiently detailed and robust to attract funding for Stage Two (Seed) or Three (Product Development).

Seed Stage - This Stage typically lasts in the order of three to twelve months. Most, but not all high technology start-up companies pass through the seed stage. Those that do usually find that it strengthens the management team and results in a stronger business plan being developed.

In the case of the EHGM, most of the mentors' input is invested in this stage. Their objectives are to:

- Ensure that critical technology is validated
- Establish product/market feasibility
- Create an initial product definition
- Produce a realistic business plan
- Secure funding for Stage Three.

With the current delivery of the EHGM, by the end of this stage:

- The business idea has been fully assessed
- Firms' expectations are realistic and focused
- A sound legal and commercial assessment has been made of the idea
- A clear funding requirement has been prepared for Stage Three and for subsequent stages.

THE EHGM MODEL COMPONENTS

The implementation of the EHGM complements other business start-up initiatives. The EHGM team comprises three dedicated business advisors who provide mentoring support to entrepreneurs and who are based in a business incubator.

The model focuses on the formation of high-growth firms whose unique business ideas usually have some form of intellectual property (IP). The formation of teams is not a requirement (but often occurs in practice). This focus on IP has emerged as being particularly important in recent years – firms that have 'protectable' know-how are often those that offer greatest potential for further growth.

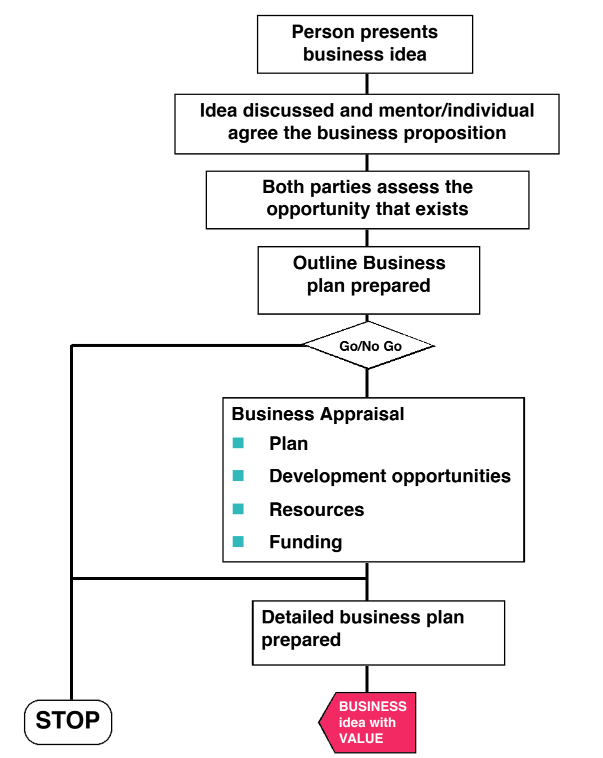
ACTIVITY

When providing support, the mentors aim to coach firms to assess accurately their true growth potential. In so doing, it ensures the business idea is robust before presenting it and the firm to potential financiers. The mentors work intensively with the firm to ensure that it gets advisory inputs and assistance that is tailored to its needs. They place a priority on developing an appropriate business model and a sound investment strategy with the firm's management.

Support is typically offered for a period of nine to twelve months.

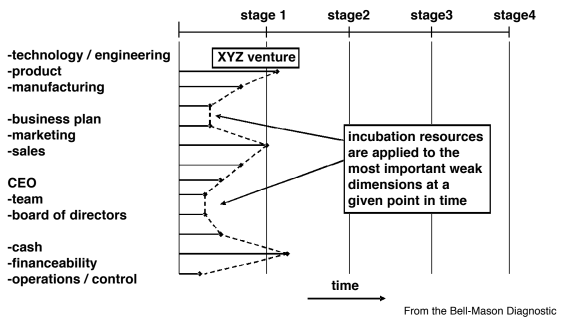
The EHGM approach is depicted diagrammatically in Figure 2.

Figure 2 - EHGM Appraisal & Development Process



When appraising cases, the mentors apply a version of the Bell Mason Diagnostic. This diagnostic enables them to review twelve independent characteristics of the potential firm's profile and to map each of the characteristic's relative strength (Figure 3).

Figure 2.1 Appraisal Criteria



From the Bell-Mason Diagnostic

Those characteristics of the proposed business idea that are weak are targeted by the mentors for intensive development.

Once the idea has been identified as sound and the firm wishes to proceed, they effectively move on to the 'seed' stage.

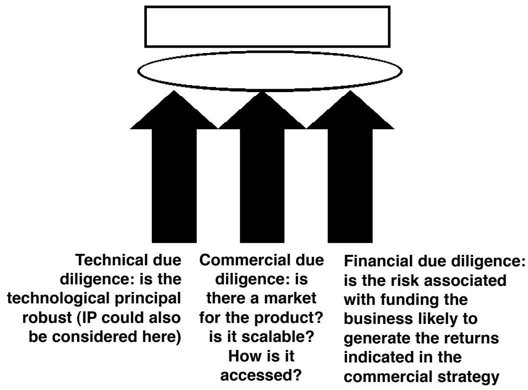
In this stage, the mentors aim to develop as strong a business model as possible through establishing:

- That the core technology is robust and will operate effectively (firms, whose businesses have a technology focus, usually have a good understanding of the technological issues)
- The potential market for the product or service (firms often have a weaker understanding of the commercial potential of their products and the mentors' input is especially valuable here)
- The financial requirements of the business (firms usually have a poor understanding of the investment requirements of the business not just in the short term but over the first three to five years of their life).

In order to address these issues and any outstanding issues relating to Intellectual Property, the mentors undertake three main forms of due diligence (Figure 2.2).

Figure 2.2 Mentors' Inputs

Mentors put three main strategic foundations in place...



Mentors also have a significant role to play in getting the novice entrepreneur to learn quickly all facets of business. Importantly, the mentor can help the entrepreneur to avoid 'commercial traps'. Mentors who have sector specific contacts can play a useful role in helping the entrepreneur identify key people to fill gaps in the team. It is important to note that the input of the EHGM aims to develop the idea to the point where it is 'investor ready' – once the firms attract first round funding, the intensive input from the mentors ceases.

LINKAGES

The mentors have built a close working relationship with a broad range of associated specialists including:

- Legal firms (Commercial Law and Intellectual Property experts in particular)
- Patent Agents
- Technical and market appraisal experts
- Funding specialists from corporate finance (deal management)
- Investors and venture capital firms
- Banks

Feedback from these firms indicates that the critical success factors associated with the mentors' inputs are the quality and robustness of the business cases that result. The investors in particular have observed that critical issues associated with IP, commercial and financial strategies have been addressed in advance. This has resulted in significant trust being developed between the commercial parties and the EHGM core team.

The Venture Capital (VC) community has cited the mentors' negotiations with universities as a specific example of the value of their input. On occasion, it has been felt that the universities' have unrealistic expectations regarding the proportion of the equity they can expect to retain given the risk associated with growing the business - this has caused the VC firms to withdraw. However, these issues are addressed in EHGM mentored firms and the VCs report (anecdotally) that this has rekindled their interest in supporting university spin-outs.

Feedback from assisted firms shows clearly three key areas of value:

- The analytical strength of the input made by mentors
- Mentors' links to business and financial networks (and the advice they offer to firms when structuring finance deals)
- The mentors' independence.

Links between the mentor and relevant business networks are very important.

MENTORS PROFILE

The mentors chosen to deliver the EHGM are selected based on several success criteria:

- They have rounded commercial experience preferably acquired through establishing (technology based) businesses
- They have an appreciation of a specific technological or market discipline
- The can work intensively on a range of projects simultaneously
- They have a strong reputation with the commercial and finance communities.

In addition, it must be stressed that the mentors are paid a salary and do not take equity stakes in businesses they assist – this independence is essential for maintaining their objectivity when providing advice, especially in difficult trading conditions.

The experience in Scotland suggests that it is difficult to identify and recruit individuals of the calibre necessary to add real value to the firms being incubated – these are special people who can be found but not without difficulty.

THE 'PACKAGE' OF SUPPORT

In terms of design, the firms are also offered two additional elements of support. The first comprises:

- Prestigious office accommodation which is rent & rates free for up to nine months (pre-trading only)
- Secretarial/admin/reception services
- Access to meeting rooms with presentation facilities.

The second element includes access to business start-up support that is being run separately by government agencies and other organisations and signposting to specific support programmes, for example:

- R&D Grant for Business
- Selective Financial Assistance

However, although these elements of support are relatively standard, the EHGM approach to service delivery is very different, especially in terms of intensity and the advisors knowledge. None of the three forms of assistance is sub-contracted. The advisor and the applicant will jointly prepare the bid for funding.

SUMMARY

The EHGM is quite different from most forms of business support in that it focuses on a very difficult area of the market. Few models focus on the 'seed' stage or provide intensive (sometimes daily) support over many months. In addition, it

enjoys the practical support of some of the best professional firms who are happy to be part of a 'virtual' team. The close public-private sector (hands-on) relationship is in our view quite unique in the UK and Ireland.

The most difficult area of economic development blends new technology, new team and new start together to form potential global businesses.

MARKETING

The founders of major technology based new start up projects do not, in most cases, consider their first port of call to be a Business Link or a Small Business Gateway in Scotland. This is especially so where a range of complex issues need to be addressed to ensure 'investor readiness' and particularly where significant sums of investment are required to launch the business. There will always be exceptions, but the majority of major projects do not utilise the economic development networks, preferring instead to engage private sector professional firms that have corporate finance experience.

Several years of advertising high growth schemes in Scotland and Ireland has confirmed that press advertising has very little success, particularly after the first round of advertising has been placed. It is possible to achieve a volume response through advertising but once the applications are appraised (and sifted), the quality of projects is generally low and the cost effectiveness of these approaches is questionable.

The most effective means of identifying quality projects is for the incubator team to build effective networks with professionals in the private sector and with higher education.

Building strong working relationships with patent attorneys, corporate legal, corporate finance and venture capitalists can provide a steady stream of projects. Many venture capitalists will dismiss a project if it is not 'investor ready' in their view. They will be reluctant to get into any form of dialogue with the project team and they are seldom willing to invest the time necessary to shape a project for it to become suitable for investment. The VCs do not see this as their role. Separately, many VCs will not consider a business plan unless the introduction has been made through a corporate finance professional.

Universities can provide a rich vein of projects and it can be very beneficial to develop close working relationships with Commercialisation Managers or individual faculties. In Scotland and Ireland, Proof of Concept and Enterprise Fellowship schemes have resulted in major high technology projects being funded[2].

All universities are keen to further develop links with their alumni, particularly when they hear of successes of forming active associations in USA and elsewhere. Targeting the alumnus (particularly those with science and technology degrees) and delivering practical workshops on high growth start up can attract large numbers of highly educated and strongly motivated individuals.

WALES

In May 2004 the Chartered Management Institute published "Developing Managers: A European Perspective" which contained the results of a survey conducted by Birkbeck College, London of management training and development in the UK, France, Germany, Spain, Denmark, Norway and Romania.

There was unanimous agreement in all seven countries about the importance of mentoring and coaching, and mentoring and coaching came in the top three most favoured methods, ahead of formal qualifications, in-company job rotation, e-learning and external assignment, placements or secondments.

As a result of this work and from discussions emanating from their previously published report "Management and Leadership Development and Training in Wales – An Agenda for Action" (2003) the Wales Management Council convened a small group of experts to consider the development of an extended business mentoring system. Presented below are the key findings from this research.

Mentoring in Wales

Mentoring in Wales takes many forms:

[2] In Scotland six new optoelectronics spin outs came through the above routes and each received venture capital funding ranging from £5m - £110m


- Mentoring used as a key par of staff development in organisations large and small
- Business advice networks in which mentoring plays a part
- Publicly funded mentoring programmes
- Private consultants offering mentoring support and training
- Business to business mentoring relationships
- Mentoring relationships between colleagues

The challenges and opportunities are:

- recognise the importance of mentoring in all sectors
- provide greater support for public sector mentoring programmes
- co-ordinate and extend current provision
- provide more information about the techniques, ethics and boundaries of mentoring
- help advisors and consultants define their role as mentors more precisely
- give wider recognition that many people are already involved in mentoring
- promote mentoring as a strategic, high impact cost-effective development route
- to clearly differentiate between mentoring, coaching, counselling and advice

The report focuses down and concentrates specifically on the value of mentoring in business. Business mentoring in this sense is defined as follows:

In industry the term usually refers to an organisation's use of experienced staff to support the development of new or less experienced employees.

Within the field of business start-up and development support, mentoring is used to describe a role in which someone with business experience works alongside individuals or groups to share that experience and any related wisdom. The role can be carried out either through a specified mentoring scheme or as an integral part of a more general package of inter-personal business advisory functions.

The dividing line between the roles of business advisor, counsellor, coach, facilitator, mentor and many other variations can be blurred – both in the eyes of the users and providers.

Consequently the report, in an attempt to avoid the danger that much good practice would not be captured due to labelling, sought to identify the key characteristics of best practice rather than to define the mentoring precisely (an approach wholeheartedly endorsed by this paper). The key characteristics are:

- *Be built around a long-term relationship, a supportive and learning relationship, and a mutual relationship*
- *Meet a development need, often in a period of change*
- *Empower, help to learn and facilitate personal growth*
- *Require a considerable level of empathy and the ability to listen and act as a sounding board*
- *Be capable of sharing experiences*

While the above characteristics are a pragmatic response, the report did highlight a distinct blurring of quite closely affiliated roles which is particularly marked in the business support arena.

This issue was picked up and tackled in one of the reports main recommendations:

"The valuable assistance that mentoring can clearly give to people during periods of considerable change, such as starting or growing a business, suggests that it should be regarded as an essential ingredient within all business support packages.

Therefore those involved in providing business support need to be aware of the key characteristics of mentoring.

They should have a clear understanding of how and when mentoring will be useful; how it differs from all levels of advice and information and how it links in with the function of account manager and other roles within support organisations.

There is a great danger in labelling and selling business mentoring (SME Coaching) as a separate 'product' – yet another initiative to sell to SMEs. It should instead be integrated within a range of support available to those setting up and developing business". *(Source: Mentoring in Wales, Wales Management Council, 2004).*

As is always the case, engaging the attention of small businesses is likely to be a persistent problem, however there is clear research evidence that, unlike many other training and development programmes, the very fact that mentoring (and coaching) by definition is:

- flexible
- focused entirely on client needs
- aims to achieve the results the client defines

means that,

- success (over time) is assured
- results are immediately visible
- cost effectiveness can be assessed

As a result, small businesses quickly come to realise that this support is not 'magic' but really works. Interestingly the research goes on to conclude that many would argue "coaching/mentoring for all" or at least "the opportunity for coaching/mentoring for all" should be the strategic objective. But the logistics and finance that would be required make this unachievable if all funding is to come from the public sector.

SECTION (B): The Global Perspective

European and US experience has also influenced the development of small business policy and programmes in the UK. Regional development and Framework programmes at the European level have encouraged the exchange of information and experience for 25 years now, e.g. through development agency networks. Exchange of best practice has often been more active in this field at the regional level than nationally, and Structural Funds have of course been deployed in qualifying areas to holster the resources available to support small business development. Weaker levels of enterprise than average have been characteristic of the majority of areas supported by Structural Funds in the English regions.

EUROPE

This part of the paper has aimed to discover patterns and trends in the coaching and mentoring of businesses across Europe. In Europe as in the UK, coaching is not restricted to the development of businesses, however. Both coaching and mentoring are offered in education at all levels, and we found examples of mentoring being offered to people relocating in another country (again, often associated with third level education). Mentoring is also offered between countries, and examples of this can be seen in terms of organisations in new EU member states being mentored by organisations in original member states.

In this piece of research, however, the coaching and mentoring relationships we examined were where people with experience of business or with specific expert business skills offered support and advice to people who were starting out in business or who wished to develop their business.

Mentoring and Coaching programmes were identified in Spain, Italy, France, the Republic of Ireland, Germany, Sweden and Finland.

The terms "mentoring" and "coaching" are used fairly interchangeably throughout Europe, and countries occasionally use these imported words to describe Mentoring or Coaching Programmes. More often, however, there are specific local terms for mentors, and these reflect the cultural expectation of the mentor's role. For example, mentors are often referred to as "godfathers". This is the case in France, where the term "parrain" is used to refer to a mentor, and a mentoring relationship is referred to as "parrainage". In Finland, the term is "yrityskummit", which translates as godfather. In Italy, the imported term "il mentor" and "il mentoring" are used, since godfather is likely to have a rather more negative implication. However, the same word (padrone, meaning "godfather" in both Spanish and Italian) is used without prejudice in Spain.


Mentoring programmes are frequently designed to encourage women to start up businesses and to develop entrepreneurship in women. In Italy, this is referred to as the "Madrefiglia" (mother/daughter) programme and is available throughout the country. Two other well-established programmes aimed at women exist in Sweden and Finland.

It is also possible to distinguish between programmes that are run as "non-profit organisations", e.g. Spain's Senior programme, programmes that are state-sponsored, e.g. Sweden's ALMI programme and programmes that are run by either business angels or venture capitalists, e.g. BTU-Frühphase in Germany. Most European programmes are aimed at very early stage companies. There are few examples of mentoring aimed at established companies.

Because of the breadth of programmes across Europe it is impossible to cover them all in detail here, therefore a brief overview (with references) of programmes in seven countries is provided below.

FINLAND

Yrityskummit (Godfather). Yrityskummit ry[3] is a Finland-wide, not-for-profit organisation. One of the main actors in providing this service is the Confederation of Finnish Municipalities.

The mentoring takes the form of a collaboration between the local municipality, a small or medium size enterprise and a mentor (the Godfather or sponsor). The purpose is to increase the level of commercial and industrial activity in the municipality. This is achieved by making use of the business experience, know-how and networks of local former or current executives/business managers.

The guidance/mentoring offered by the "godfather" is provided on a voluntary basis. A retired business manager offers his/her know-how for 8-12 days per year. Business managers who are not retired offer 4-5 days per year. There are currently around 400 business godfathers operating in Finland, offering an estimated 15,000 years of business management experience. There is a Handbook (a 30 page pdf document) on their website giving information about the service.

Mentoring is also provided by regional Business Agencies, for example, the **Oulu Regional Business Agency**[4].

Mentoring for Women. The Women's Enterprise Agency in Finland, **Naisyrittajyyskesus ry,**[5] aims to promote entrepreneurship among women. Mentoring is one of the services offered, to potential female entrepreneurs. Face-to-face mentoring, brainstorming, formal training and informal mentoring are offered by experienced women entrepreneurs. Group mentoring is also described, where one mentor works with a group of women who intend to start or who have recently started a new business. This service was originally available only in the greater Helsinki area. However, its initial success meant that from 2003, it was offered in other parts of Finland. It is proposed to offer the model in countries where the Women's Enterprise Agency has partnership or co-operation agreements. Russia and Lithuania are mentioned specifically.

Technopolis Ventures Ltd[6]. is an organisation aimed at identifying innovative technology based ideas that have potential to become high-growth businesses. Ideas that make it past the initial stages are offered incubator places and a range of services including mentoring. The mentors are experienced entrepreneurs or experts in specific business areas and their services are offered on a voluntary basis.

SWEDEN

ALMI[7] **Business Partners** provide a mentor programme offering expertise and advice to help develop existing companies. ALMI is part of the Swedish Enterprise network, with 21 regional offices. The ALMI parent organisation and the local county council run each regional office jointly. Working together with specialised service providers, each office selects and recruits people with a thorough experience of business development and management, and with the personal skills necessary to act as a mentor. These are carefully matched with participating companies. The mentor programme can run for up to one year. It consists of a short training session and a kick-off meeting, after which the "adepts" (mentees) and their mentors meet once a month. In addition to one-to-one mentoring, companies can also avail of network

[3] www.old.kuntaliitto.fi/yrityskummit/ [4] (in Finnish, no English version). www.oulu.ouka.fi/ouluseutu/yrityspalvelut/English/index
[5] www.naisyrittajyyskeskus.fi/inenglish [6] www.technopolis.fi/ventures/incubator/godfather_en [7] www.almi.se/almi_in_english

meetings, providing lectures and opportunities for networking and exchange of experiences.

SwedBAN is a Business Angel Network in Sweden. It lists around 3,000 members and has been running since late 2001. It is aimed at post-start-up technology based firms and offers a link to business mentors as well as the possibility for business angels to become personally involved with the firms they finance.

TripleLogic is based in Stockholm, and is aimed at companies who help SMEs develop new products and services. It suggests coaching as a key tool. They have produced a guide, including information about coaching, choosing a coach etc. Target clients are in the area of sustainable development.

ITALY

The **Tuscan Chamber of Commerce** are setting up a Mentoring Programme for Women Entrepreneurs called "MadreFiglia". The aim of the project is to provide female mentors for women who have recently started a business or who intend to start a business. The mentors are women who have themselves started and run a business, who will be able to offer support, advice and access to networks to new entrepreneurs.

Mettersi In Proprio, Turin.[8] Mettersi In Proprio (Start your own business) is a national government programme in Italy aimed at encouraging people to start their own businesses. In Turin, the programme offers 24 months of mentoring support to new start businesses that meet their criteria. This programme is mainly aimed at encouraging people who are currently unemployed to start their own business.

Mentoring in Genova.[9] This programme is offered by the Province of Genova in Italy, with the aim of improving new-start business survival rates. Thirty hours of mentoring over about six months is offered to businesses that have been in operation for less than one year. The mentors are themselves successful entrepreneurs or consultants/experts. At present, the opportunity is only offered to 30 firms who must apply to take part and go through a selection process.

IRELAND

There are several schemes to provide mentoring support to businesses in Ireland.[10] **Enterprise Ireland** offers a mentoring programme to both new-start and existing organisations. The support is not limited to manufacturing companies. The one-to-one mentoring involves a maximum of 10 meetings over the course of about one year and, if two quite separate issues need input, there is the possibility of having feedback from more than one mentor. They also offer a mentor-panel session, in cases where a new or growing company needs experience of making a presentation (e.g. in order to obtain venture capital). This is a one off session where a panel of mentors will offer feedback.

Local enterprise boards also offer mentor services: for example, **Cork City Enterprise Board**[11] offer a mentor programme using volunteer mentors.

PLATO,[12] this is an EU programme running in more than one country (e.g. Denmark, Sweden, Slovenia). Rather than one-to-one mentoring, PLATO offers the opportunity for larger and more established companies to "parent" or mentor smaller organisations.

GERMANY

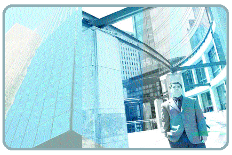
BTU-Frühphase (BTU Earlyphase). This is a programme run with financial support of the German Federal Ministry for Economics and Work (BMWA). The primary aim of the organisation is to provide capital and networking support for new start firms, or firms in operation less than 6 months. It is aimed at innovative, technology-oriented enterprises. The programme was set up as a result of the finding that early-stage (Seed and Pre-Seed capital phase) firms found it difficult to gain access to finance. Up to 150,000 Euros are available to assist with the production of a business plan and other early stage activities. The mentor (referred to as a "care investor") acts to help founders through the early stages by providing experience and networking support. The ultimate aim of the programme is to make innovative new-starts investor-ready.

In North Rhine/Westphalia, the **Go! Network**[13] offers a similar service, but uses Coaching, rather than Mentoring, as the description. Go! was launched in mid-2003 and offers support in terms of developing business plans, discussions with banking

8 www.mettersinproprio.it/checose_en 9 151.8.182.122/pal/pagina.asp?id_sez=2&id_link=3&id_slink=164

10 www.enterprise-ireland.com/CommonPages/mentor_programme 11 www.corkceb.ie/advice

12 www.plato.ie/index 13 www.go-online.nrw.de/


and finance organisations, marketing advice and company-growth. The Go! experts/coaches are volunteers. In addition to valuable technical and business knowledge and contacts, the coaches offers mediation, counselling, and business advice. There were about 350 Go! experts working in the North Rhine/Westphalia region. There are 13 different organisations coordinating their activity, and in 2002, around 1,000 entrepreneurs and new-starts had been assisted.

SPAIN

Although mention was found of a number of coaching/mentoring programmes operating in Spain (the term "padrone" or godfather was used more frequently than "coach" or "mentor"), it has proved very to find any detailed discussion of mentoring practices with a few exceptions.

One exception is the **BANCORioja**[14] **Business Angels Network**, which specifically includes Coaching and Mentoring in its process for making firms investor-ready.

Also in Spain, an organisation is called SECOT[15], **Seniors Españoles para la Cooperación Técnica** offers mentoring of sorts. This is an independent not-for-profit organisation and was founded in 1989 under the auspices of the Spanish industry. SECOT provides voluntary advice to financially weak small and medium size enterprises, as well as young entrepreneurs, helping them to establish their operations and thus to provide new jobs. SECOT also renders assistance to not-for-profit organisations in need to improve their management skills and techniques. SECOT maintains a roster of 800 skilled Senior Experts with life-time experience in all fields of the economy. To date, 5000 assignments in Spain and 50 international assignments have been implemented.

Where these organisations exist, they are typically dependent on the goodwill of retired executives and entrepreneurs. Only expenses are paid. The services are aimed at very new start organisations. In both cases described here, some training is offered to mentors in advance of taking part.

FRANCE

Emergence Incubator[16], Maine. This is a Technology Incubator based in Maine (Alencon/ Laval/Le Mans), France. Twenty-eight enterprises have used the incubator's services in the first few years of operation, with a total of 15 companies created of whom 12 have graduated from the incubator. It is a publicly funded initiative based in the town of Le Mans. Enterprises accepted for incubation are offered coaching services as part of the incubation package. The coaching services can extend up to a maximum duration of two years. The incubator staff provide coaching services and these are supplemented by partner organisations.

UNITED STATES OF AMERICA

US experience has also informed the development of small firms policy in the UK. Significant support is made available to SMEs in the US at the Federal level through the work of the Small Business Administration. It plays a similar role in providing national policy advice to the SBS in the UK. It also provides a variety of grants and loans to small businesses, relating both to capital expenditure and research and development. The approach overall shares some of both the strengths and weaknesses of the approach that has prevailed in the UK in the past. A consistency in criteria and access across the US has been of significant benefit, but the impact has been weakened by vagaries of funding availability (resources often limited through the imposition of moratoria, and competitive bidding rounds); and a degree of disconnection from the small business advisory and counselling services available at the State and more local level.

The pattern of provision of small business advisory services varies much more widely between states than the variations seen between English regions. State Governors and legislatures place different emphases on industrial and enterprise policies, and where these do exist and have "bite", they are often implicitly much more strongly focused on competition between states or areas within them. Thus grants or tax incentives may be made available specifically to attract industrial activity from another state, or to inhibit movement out. Widespread concern over outsourcing and offshoring in recent years has also reinforced

14 www.bancorioja.com 15 www.secot.org 16 www.incubateur-emergence.com

in some states a protectionist instinct that looks to reward locally based output. The level of resource devoted to such programmes is however sufficiently marginal to have little real impact in inhibiting competitive pressures.

Small Business Advisory networks vary considerably in shape from state to state depending on local political interest and the infrastructure of state and regional business representative organisations. The SBA funds Small Business Development Centers which provide advice and guidance free to small firms at a local level about SBA programmes, and other aspects of business development. These are often attached to (and part sponsored by) higher education (college) organisations. These are only informally aligned with advice available, and programmes developed at state or locality level. These vary considerably. In Chicago, for example, the Chamber of Commerce itself contains an Entrepreneurial Center (a division within the Chamber) which provides advice to both start-up and growth companies. This centre is funded one-third from public (state) funds, and two-thirds through sponsorship. The advice focuses strongly on two elements – capturing new clients (developing markets), and raising funds. These are the two elements seen by the Entrepreneurial Center – and many other commentators in the US – as the prime areas where advice is sought – and welcome – by small firms.

In Massachusetts, in contrast to Illinois, Chambers of Commerce are less strong, but industry representative bodies play an important role (e.g. the Associated Industries of Massachusetts, and the Mass Software Council). These derive their revenue largely from membership fees, and the sale of services members. They have an important representative role, in lobbying at state, and sometimes in concert at Federal level. They also provide many of the networking and advisory services associated with the Business Link network in England, including referral to provide of specialist commercial services through directories available to their membership.

Higher Education Institutions are also highly active in providing advice and guidance to entrepreneurs, often through clubs and association of their own alumni. Few though reach the sophistication of the Enterprise Forums developed by Massachusetts Institute of Technology (MIT) (now with 28 chapters in the US, and 4 internationally, with a number of others under development). These are self funding networks, which provide a mix of high level keynote speakers ("entrepreneur superheroes") and practical workshops/ masterclasses. Sponsorship by major professional services also plays an important role. They reflect the cutting edge that MIT has created in combining innovation (including science excellence) and entrepreneurship. This model looks to be highly transferable, if the entrepreneurial ambition is there, and could usefully inform one strand of the work of the emerging Science and Industry Councils in the English regions.

ASIA PACIFIC – THE EXAMPLE OF SINGAPORE

In preparing this report, the opportunity was also taken, facilitated by the British Midlands office in Singapore, to re-examine current provision of support and advisory services to small and medium sized businesses there. Singapore has paid a great deal of attention to the stimulation of enterprise and innovation in recent years, as it has sought to diversify its industrial structure away from the Multi-National companies and their associated supply chains which have played such a dominant role in Singapore's economic success over the last 40 years. Its approach to innovation and technology transfer programmes, to the development of industrial clusters, and to training and workforce development programmes (e.g. the Skills Development Fund) has been studied before in relation to the development of small firms policy in the UK (e.g. as background to the Competitiveness White Paper in 2000). Less attention has been paid to delivery mechanisms, and the relationship between SME advisory networks, and business representative organisations.

In this respect the "best practice" conceptual and operational traffic is clearly two way between Singapore and the UK. Officials from Spring (previously the Singapore Productivity and Standards Board, expanded to encompass an important innovation role too) visited both the UK and Ireland last year in planning enhancement of business advisory programmes in Singapore. The **SME First Step shop service** was launched in Singapore in 1997, providing information, assistance and referral services including in relation to government assistance and training programmes, licences and


permits, doing business in Singapore, etc. This approach has suffered from the well-known drawbacks of "First-Step" – it often seems from the SME's point of view simply to add another step in the arduous process of getting to a real source of help. Efforts are being made by Spring to transform the present service into a One-Stop Shop; and somewhat surprisingly "no wrong door" as a phrase also now has widespread currency in Singapore (obviously last year's research in the UK was very influential!). The approach in Singapore seems to be the very ambitious one of getting each and every part of the Government and public agency machine to take direct and personal ownership of each contact with an SME enquirer. An attempt is being made to stretch this to encompass business advice and support services, training services (sharply distinguished from business support services by distinct Departmental responsibilities, and the role of the Skills Development Fund – in effect a training levy – as part of the Central Provident Fund), and even regulatory bodies. There seems a degree of scepticism both in government and business circles on the deliverability of this.

Fresh attempts are also being made to draw business representative organisations into the delivery of business services, to make a more effective connection between government designed services and business networks. Chambers of Commerce (there are four in Singapore, plus the Singapore Manufacturers Association) are voluntary membership organisations – they do not have public law status – though the government, impressed by German arrangements, has created a Singapore Business Federation, membership of which is compulsory above a certain size (defined by capitalisation, but largely excluding small firms). Spring is now promoting the establishment of "Enterprise Development Centres (EDC)" in each of the key business representative organisations. These will be "embedded" advisory services, open to members and non-members, and involving some capital cost in their establishment. In some respects the approach resembles that where Chambers of Commerce in England manage Business Link contracts. The money available to outplace these One-Stop Shops in very limited (c £800k per EDC per annum) and most of the representative organisations are reluctant to take them on (with the exception of the Association of Small and Medium Sized Enterprises, more recently established than the Chambers (18 years), and regarded itself as serving small businesses who feel their voice would be lost in the long-established Chambers).

The reluctance to participate on the part of the business representative organisations stems from three reservations.

a) An unwillingness to deliver Government services which have not been genuinely attained to customer needs – a suspicion that government still wants to "educate" its customers, rather than adapt to their needs.

b) A fear that these services may in reality be competing with services already commercially provided by e.g. Chamber members.

c) A doubt about the sustainability of the funding.

On this latter point, only one year funding provision seems currently to have been made from for the EDCs. There seems on the part of Spring to be some (certainly misplaced) hope that the richer Chambers will subsidise the services, and/or develop specialist services that are saleable commercially, and cross-subsidise advice and brokerage. But this re-inforces the fear at (b), and through a specialist focus could also undermine the one-stop shop approach. It will nevertheless be interesting to see how this initiative develops (the first EDC is to be launched in late March 2005).

The "infrastructure" environment for the delivery of small business advisory services is of course very different in Singapore from the English regions, but it is notable nevertheless that it is looking to wrestle with many of the same challenges. The scale – by business population – is of course closer to an individual English region than the UK as a whole. And furthermore the geographical scale is that of a single locality. It is nevertheless important to keep an eye on developments in Singapore, as it confronts very directly with the challenges of globalisation as they impact SME's, in the China and South Asia context.

Annex 8

SYSTEMIC INNOVATION – CASE STUDY A

The company background

Company A was a typical British injection moulding company losing business to cheaper competition in lower employment-cost countries. In particular a major OEM customer in the domestic white goods sector was threatening to take its moulding subcontracts to Asia.

The Company had sought advice from Business Link advisors but all the advice had been concerned with productivity issues, in order to try to reduce short-term costs. The advice was not helping the step change that the business needed; i.e. tackling the fact that Company A had no differentiated offerings.

Some technology-transfer advice had been offered by universities but it was all technology-push and not related to the market imperatives as Company A saw them.

Innovation Practitioner contact

A specialist Innovation business support provider was pro-actively discussing product innovation and supply-chain issues with the OEM customer. It was clear that supply-chain SMEs would need urgent innovation in their product and service offerings and hence could be helped by specialist SME support programmes.

In conjunction with the OEM, Company A were in turn pro-actively targeted and then quickly convinced by a SME Coach that a market-led approach to innovation could protect their existing business and lead to significant growth.

Initial nature of the intervention

The SME Coach methodology known as the "innovation factory" (iFactory). The first step of which was to work with the Managing Director to analyse the Company's markets and products and also identify new markets and customers for the core skills.

Follow-up coaching sessions then generated concepts for new products and services, with the market opportunities, risks and business case for each concept being assessed. The Coach then facilitated a process of finding new technology and supply chain partners so that Company A was able to create a shared-cost innovation consortium that could make the highest priority concept affordable.

The leading concept was to develop the first low-cost, high-performance device for recovering waste heat from waste water, eg from showers and baths. The technology development necessary to realise the product concept was assisted with approximately £0.4m assistance from an EU Framework Programme grant specifically aimed at companies like A. (This is the Craft scheme which assists companies with excellent innovative ideas but without the means to realise them alone.) The new innovation consortium partners also contributed around £0.5m of resource.

Business impact

Company A, together with their new cost-sharing partners, has since formed a new company as a business vehicle to commercialise and market the new product. The goal is £60m sales per annum in Europe by 2008.

However, by virtue of the SME coaching approach, Company A's management team has become more entrepreneurial and innovative and has been identifying other opportunities for the new technology in other market sectors. For example, a new core competence in laser drilling has led to investigation of all-plastic disposable injection needles for one-off medical use, such as by diabetics. The innovation was created by combining the expertise of industrial and research partners, again under the coach's guidance, and Company A, in February 2004 launched a medical sector subsidiary to tackle the £3bn per annum needles market in Europe. It is also pursuing wound-management systems.

By April 2004 the MD of Company A announced record sales of £6.2m in the year, a 50% increase on the equivalent figure in 2000 before the SME Coaching engagement began.

Continued advice

The senior staff of Company A continue to seek advice from their coach on their innovation strategy and how to implement it, but progressively need less hands-on support as the coach has helped them to embed the necessary skills in their own business. Their R & D spend has increased from virtually zero to around 4% of turnover and that will be multiplied by the cost-sharing consortium.

Company A is now a specialist precision moulder with a very bright future, supplying high-value assemblies into a market-leading shower manufacturer and increasing its market share of the high margin medical device market.



SYSTEMS INNOVATION – CASE STUDY B

Company background

Company B is what would normally be regarded as a low-tech manufacturer, with an established range of roller garage door systems. Approximately 200 per week are manufactured in-house and approximately 50 per week are customised versions of doors sourced from the USA.

The Company's growth had stalled due to lack of differentiation between its products and those of its competitors. The managers had identified the need for innovation but had no real resources or ability to action it. External advisers had been of limited assistance, probably because they did not see such a company, in such a sector, as a potential for high growth.

SME Coach contact

Following a recommendation from a more far-sighted individual in the local development agency, Company B contacted a specialist Innovation Support provider who provided a small team to identify the key developments that would provide the catalyst for business growth.

It was apparent at the outset that the senior managers were of high quality but were faced by too many uncertainties over risks, market potential, competitor action. This uncertainty was stopping new investment.

Initial nature of intervention

The Innovation Factory methodology showed that an increasing market share within existing markets could provide significant potential. Company B were coached to develop new customer relationships and a new distributor management system.

Innovation workshops were conducted that identified unique, added-value design features for the existing steel door product. Expansion of the steel door business was planned based on a low-cost global procurement strategy.

Business impact

The initial measures will help Company B grow their steel sectional door business by over 200% over the next three years. However this will not ensure the long term growth and profitability of their business. To achieve this they must have a unique and protectable manufacturing technology that creates high added value products.

Coaches connected Company B to tailored workshops which allowed them to develop a manufacturing technology concept that will give this advantage, enabling them to not only grow their garage door sales but also move them into new markets for reinforced large panels. This process technology will include:

- large, reinforced plastic panel forming technology
- one off panel size manufacturing process automation
- late customisation finish colours (including wood effect)
- polyurethane foam filling technology

Not only will this process technology give Company B unique cost and performance advantages in the garage door market but it will also give them a manufacturing process technology that enables them to attack other European markets such as flood defences, loft hatches, scaffold board, door panels and many other large structural panels.

From a recent turnover of £3.7m, Company B are now planning to increase to £30m within five years. They will have their own unique manufacturing process technology.

Continued advice

Company B are in continuous contact with the Coach and connected with technical and market experts as the new technology is becoming exploited. R&D spend will go from zero to 15% of turnover as a combination of their own spend and resources brought in from a European cost-sharing consortium with new innovation partners.

"Specialist Innovation business support service gave us access to innovation specialists who have provided a clear direction for growth in our business and who are now helping us to achieve this growth. We would have been unable to take forward these opportunities without their support. I strongly recommend specialist Innovation business support service to any company who has serious growth aspirations."

Chief Executive, Company B

A special thanks to Martin Briggs for leading the production of this report.

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