



SUPPORTING **MEDIUM-SIZED BUSINESSES**

# GROWTH FROM THE GRASS ROOTS

They're often cited by the CBI as a potential powerhouse of economic recovery. But medium-sized businesses are often overlooked as media attention focuses on start-ups or large FTSE-listed companies. With the support of **Lloyds Bank Wholesale Banking and Markets**, our Squeezed Middle campaign aims to redress this balance and raise the profile of the sector with investors, policymakers and the public.

With this in mind, *economia* brought 13 prominent figures around a table including directors, chief executives and representatives of bodies that serve and advise mid-sized firms. The panel convened at the Birmingham Hippodrome in February to discuss the ways in which such businesses could boost growth in the UK, and the support that they would need to realise that goal. The session was hosted by David Richardson, regional MD of Lloyds Bank Wholesale Banking and Markets, and chaired by Michael Jones, group editor of PCP, publishers of *economia*.

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A theme that swiftly emerged was that of over-regulation. According to Sarah Buckley of ICAEW, recent research suggests that mid-sized businesses are dealing with a disproportionately large regulatory burden, and that government initiatives to lighten it have not yet had much of an impact.

She said, "We did a really interesting piece of research recently on regulation, which asked whether people had heard of the one-in one-out policy, which is something that government has said is a deregulatory policy. Something like 5% of people we asked had actually heard of it, and only 1% thought it was going to do any good." The numerous regulations and directives that arrive



**“I’ve known lots of graduates who work very hard and do unbelievably good stuff. They work hard if you set your structures up right and they think they can make a difference”**

**Jim Brigden**, chief executive, I Spy

from Brussels are proving particularly onerous for mid-sized companies, said John Whitehouse of manufacturing firm Weatherite.

“We’re drowning in them,” he said. “It’s our responsibility as managers to understand these regulations – so we have to have our own people who can provide guidance, and to examine and study the rules so we conform. A lot of people haven’t got a grasp of the volume that’s being thrust at us. It’s a major, major problem.”

Nevertheless, it was acknowledged that a robust regulatory regime brings advantages – especially in export markets. Clive Bawden of financial advisory firm Catalyst said, “It’s in some ways a good thing for business because you have to go through regulation to make the world’s best products.”

Philip Salt of manufacturer Salts Healthcare agreed, saying, “I don’t like the Brussels stuff, but there’s a lot of UK regulation which is really good, especially in the medical area. If we say that we follow the English regulations, then the foreign countries want that. Consequently, our products are accepted and are better than other products.”

Buckley spoke of the tension between active government – making strategy and forming initiatives to facilitate business – and the hands-off approach that is favoured by many industrialists.

The panel was asked which policy would best benefit medium-sized businesses. Ray Apted of Pharos Group put forward the case for a laissez-faire approach from central government, speaking of his frustration at continual changes in such

areas as tax relief and pension schemes. “It’s very simple,” he said. “Don’t do anything. Just leave it alone. Let’s have five years when we’re not facing these changes, when we can work closely in partnership with our banks and our professional advisors. When you come to predict, when you plan budgets in business, the one thing you don’t know is what is going to happen from other parties, in particular the British government. Just leave the thing alone and let businesses get on with it.”

Alex Hyde of Grant Thornton added, “There’s definitely a mismatch between the rhetoric and the action. We’ve got the most complicated tax system in the world. We’ve got a body set up, the Office of Tax Simplification, to try and address this code, to make it a bit more understandable and logical. And it seems to have got absolutely nowhere.”

**T**his fed in to the question of how businesses could best make representations to government. According to Michael Ward of national law firm Gateley, one of the most effective means of pushing forward the interests of medium-sized businesses is the new Local Enterprise Partnerships (LEPs).

He said, “I don’t think there’s any lack of political will at the moment, so we’ve got to use that opportunity to get these big messages across, and really set the structure for the next five to 10 years. The opportunity for me is through the LEP.”

He explained, “When the Regional Development Agencies were disbanded overnight, we all had a big panic attack – what’s going to happen? The government idea was to set up Local Enterprise Partnerships which are business-led. It’s a very young scheme, just coming up to its first year. But the strength of the LEP is that it’s a very short line into government – it’s bypassing Whitehall.”

It was agreed that recruiting the right people was essential for future prosperity; and there was energetic debate as to whether schools and

universities were supplying suitable candidates for industry – and in particular, for the manufacturing sector.

**A**nnemarie Wallis of the City of Birmingham Symphony Orchestra queried whether tomorrow’s workforce were being inculcated with the dedication to succeed in business. “They’ve got this instant-fulfilment, celebrity culture,” she said. “It probably is good for some industries; but I don’t know whether it is so good for some of the more long-term ones; because you spend ages moulding someone to your culture and so on, and they’re not going to stay around.”

Richardson urged caution in generalising about current school-leavers and graduates. He said, “I’ve spent a lot of time in Birmingham with some of the youngsters who are making their way in professional careers. There are some amazing talents. I’m not saying they’re all amazing talents, but we weren’t all amazing talents when we left school either.”

His experience chimed with that of Jim Brigden from search marketing agency I Spy. “I’ve known lots of graduates who have worked very hard and done unbelievably good stuff,” he said. “They’ve worked 60-hour shifts installing service centres, and setting up places in Japan. They work very, very hard if you set up your structures right and they think they can make a difference.”

Salt made the point that while the UK education system earns global respect, it is no longer geared to delivering the expertise required in manufacturing. “That’s why you’re not getting the sort of people you want. A lot of our engineers are coming from the Eastern Bloc countries. They come out with engineering degrees and they’re very good. Whereas we look to take [UK graduates] and make them into engineers.”

Apprenticeship was a subject picked up by Whitehouse. “It’s definitely the way forward,” he said. “It’s fundamental to any business, not just in

manufacturing, that you need to bring people up; and the best way to train people to suit your business is to take them on as apprentices. They pick up the culture – and adopting the culture in your business is crucial.”

It is a topic close to the heart of Oliver Nyumbu – who, alongside his work as chief executive of leadership consultancy Caret, sits on the UK Commission on Ownership. He has closely examined Germany’s successful Mittelstand model of mid-sized businesses. “We have far fewer companies in that category – family owned companies that really act globally – than they have there,” he said.

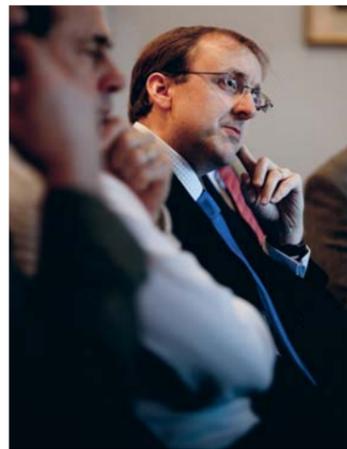
**O**ne of the hallmarks of the Mittelstand is what I call the T-shaped approach to doing things. They say, ‘I can’t afford to do everything, so I’ll be highly specialised’ – but the horizontal bar is their globalisation. They say, ‘I can’t afford to be left in my home market; I have to be global.’

But there’s also an issue around apprenticeships, where people are inducted into the discrete family values of the business in a strong way. The long-term perspective [of the Mittelstand] is to say, ‘I have to manage this business as though it’ll be around for 200 years.’ How many UK corporates think like that?”

There are other aspects of the German business culture that produce a more supportive environment, said Andrew Litchfield of manufacturing and retail company AAC Group. “In 1995, I visited a German company. They had sent an invoice to Porsche and then received a cheque back two working days later. They had never heard of a late-payment mentality. If large organisations, which have much better access to credit, paid on time and had their payment terms reduced, then I would anticipate that a huge amount of cash could be injected back in to the economy.”

Exporting worldwide, as a means of helping the

WORDS: WILLIAM HAM BEVAN / PICTURES: SOPHIA SCHORR-KON



**“When German companies do a trade mission, the government puts an awful lot of money behind them. When the Brits do it... the firms have to fund it themselves”**

**Clive Bawden**, business development director, Catalyst

UK economy grow its way out of recession, was a recurring theme – with differing perspectives on the practicalities of doing business with non-traditional markets.

On trading with Japan, Brigden said, “I think our two nations are very similar. They’re competitive, they’re aggressive, and they’re a sea-trading country on the edge of a big continent. I’ve got some Japanese people coming to our office who are very interested in taking some of our technology and licensing overseas, and they’re great to do business with. So how can we embrace the future rather than protect the past?”

Salt said, “I think that’s a very important point. Everybody’s talking about barriers; but really, the only way is to have the best product at a competitive price, and that’s what we need to drive them. It won’t necessarily keep you in business, but if you don’t have it, you won’t get it.”

Hyde added, “There’s a lot of doom and gloom here about all the regulation and the government. But there are a lot of fantastic stories in the mid-market of UK companies in this region and elsewhere manufacturing in a variety of sectors, who are world-leading companies. We’ve got fantastic IP, fantastic technology, good people, and are now starting to go into those export markets and grow the businesses.”

Bawden said that that the way Germany does business with the Far East may usefully be compared with Britain’s approach. “We’ve done some work with the China-Britain Business Council about entering China. One of the

observations they make is that German firms do a lot of trade missions; and when they do a trade mission, the German government puts an awful lot of money behind them.

“When the Brits do it, it’s generally either low profile or with few people, and the firms have got to fund it themselves.”

**O**f concern to many of the panel were protectionist measures taken by other countries, and how they could be overcome – as well as whether they should be emulated here. Litchfield wondered whether there should be a tax incentive for British companies to buy within the country. “I’d love some clever economic statistician to say, if you spend a certain percentage more on buying British it’ll save you, because that means people off benefits and tax on company profits coming back into the system.

“I’ll throw in a daft idea – the more you buy in the UK, the lower your tax rate. There’s got to be some way these clever guys can come up with something that encourages this.”

Richardson drew the session to a close by asking the panel for their forecasts for the coming year. “I think we are seeing some encouraging signs in the UK,” he said. “On 27 July, London 2012 kicks off – we’re hosting the the biggest international event in the world, that has to be at least one good reason for some optimism.”

“My view is that we’re bouncing positively along the bottom, and maybe by the time we get to the second half of the year, the environment will be better. I want to know, is that fair, or am I way off the mark?”

**B**rigden said, “I’m in a media and technology business and there’s massive growth and opportunity. There’s iPad sales – five million in the UK, 20% growth over the Christmas period – and smartphones are everywhere. Lots of British companies manufacture things that go into those

devices. Usage grows and technology businesses are growing. We’ve got a long, hard struggle, but I’m optimistic about this year.”

Apted was more guarded, and pointed to the predictions of RBS chairman Sir Philip Hampton in the February issue of *economia*. “When asked how worried we should be about the euro, he replied, ‘Terrified’. He knows a lot more about that than I do. That doesn’t stop you or me from being highly successful. We’ve got plenty of companies around the table which buck the trend. But I think there’s a case to be concerned.”

He advocated that company growth should come from funds already held in reserve, rather than through leveraging – a viewpoint also espoused by Whitehouse. He said, “If I were chairing this session, I’d be encouraging anybody to be conservative and not to go into a leveraged situation. I think what the responsible businessperson needs to do is to make sure that whatever his investment or development plans are, he can finance them.”

Ward commented, “Most of the banks’ chief economists would have the view that the fiscal tightening hasn’t even happened yet. In the next four years, the amount that’s budgeted to go out of the economy and bring that debt down is the largest number that anybody’s ever seen. We don’t know what the effect of that is going to be – or whether the government’s got the resolve to do it.”

This sense of uncertainty, Buckley said, often came up in conversations that ICAEW had with members and businesses as part of its qualitative research. “On the ground, people are quite positive,” she said. “A lot of people are saying, we’ve got growing markets, we’re exporting. There are lots of opportunities, we’re taking people on, everything seems really gloomy but actually, I’m not having a bad experience at the moment.

“But then when you look at something like cash reserves, people just don’t know what’s going to happen. They know that the spending cuts haven’t

**THE SQUEEZED MIDDLE PANEL**

**David Richardson**  
regional MD,  
Lloyds Bank Wholesale  
Banking and Markets

**Michael Jones**  
group editor, PCP  
(publishers of  
*economia*)

**Sarah Buckley**  
public affairs  
manager, ICAEW

**Phillip Salt**  
chief executive,  
Salts Healthcare

**Ray Apted**  
owner, Pharos Group

**Mike Ward**  
senior partner, Gateley,  
and president of the  
Birmingham Chamber of  
Commerce and Industry

**John Whitehouse**  
chairman, Weatherite

**Andrew Litchfield**  
finance director,  
AAC Group

**Clive Bawden**  
business development  
director, Catalyst

**Annemarie Wallis**  
finance director, City  
of Birmingham  
Symphony Orchestra

**Jim Brigden**  
chief executive, I Spy

**Alex Hyde**  
director, Birmingham  
Transaction Advisory  
Services, Grant Thornton

**Oliver Nyumbu**  
chief executive, Caret

**“People are optimistic in the short term but uncertain in the long term. People just don’t know what’s going to happen”**

**Sarah Buckley**, public affairs manager, ICAEW

started yet; they know that it’s completely uncertain what’s going to happen in the eurozone. So people are optimistic in the short term but uncertain in the long term.”

Hyde said, “I suspect we’ll see a bumpy ride for a long period; but there is pent-up opportunity there. There are private equity houses sitting on a lot of cash. Banks are lending to big businesses, but deals are taking longer to do because as you go through the process, you find issues, and acquirers and funders just want to see another month’s trading, to see whether this recovery is actually solid. They just want to see what’s around the corner.

“We are looking at forecasts in a lot more detail because nobody quite knows what’s going to happen. I’m optimistic – but I think it will be a long time before we get out of the status quo.” ■