

MSB Leaders



HIDING IN THE LIGHT

The 2019 UK Mid Size Business Leadership Study

Intelligence, evidence and inspiration
from an unprecedented study of
directors of UK mid size business.

Conducted by MSBLeaders in conjunction
with Salford Business School

Sarah McKenna
Dr Gordon Fletcher
Dr Marie Griffiths
2019

Recognising UK Mid Size
Businesses as a Distinct
Category and Their
Economic and Social
Value to the Nation

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If MSBs are to maintain their current economic contribution as well as realise national and regional industrial strategy ambitions, particularly in the context of Brexit uncertainty and a skills and talent shortage, they must evolve by leveraging their defining characteristics and resolving weaknesses.

Government and industry recognition of MSBs as a distinct category and the provision of tailored policy, regulation, services and support is a binary requirement for success – and long overdue.

MSBs themselves must lead this evolution with a focus on leadership diversity, emerging technology fluency, technology for productivity gains, innovation and contemporary workforce acquisition and retention.

This report, along with additional resources, more interviews and expert commentary is online at www.msbleaders.com



MSBLeaders is not a company or corporation, rather a research and advocacy collective. It was founded to make an impactful and lasting contribution to the economy by making sure evidence and robust research inform government's policies and regulations, academia's programmes and education, and industry's services and resources to better support mid size businesses in the UK and beyond.

The MSBLeaders mission is to raise the business impact and value of MSB leadership, directors and boards, to ultimately drive their growth and sustainability. If successful, we will positively impact and protect the UK economy and peoples' prosperity both nationally and locally – a legacy to be proud of, and a prosperous future we can hand to the next generation.

www.msbleaders.com



The University of Salford was established in 1967 to equip working people with the knowledge and skills they needed to succeed in the emerging industries of their time. We are committed to developing leaders and managers that are prepared for next-generation practices in the international marketplace. The contemporary business world operates on an increasingly global scale and this agenda sits at the very heart of how Salford Business School engages with its students and partner organisations.

Today, we're closer to industry than ever, with more links to small and mid size enterprises than any other university in Greater Manchester. We also count international businesses such as Siemens and Jaguar Land Rover among our partners. We build strong relationships with companies to create courses that enable our graduates to take on the challenges of today's working world.

This enables our teaching to be industry-led, inspired by contemporary practice and developed in partnership with business leaders. We teach the skills that employers need and, as a result, our graduates enjoy excellent international career prospects.

www.salford.ac.uk/business-school

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A Turning Point for Government, Industry and Academia

Research tells us that capable, effective leadership improves business performance and sustainability. This is particularly important in the context of mid size businesses, or MSBs, given their tremendous contribution to the UK's economy and communities. We also know that leaders and directors of MSBs face different issues than their peers from smaller and large enterprise.

Inconsistent, poor or redundant board practices and director competencies impede MSB growth, reduce productivity and increase their risks. If better supported, it is estimated that MSBs could create an additional £413bn for the UK economy by 2020, employing more people and generating greater prosperity for the population of our country.

Despite this, MSBs have significantly fewer and less credible resources to draw on than are available to directors of small and large businesses. We are addressing this imbalance by taking action and giving MSBs an identity and a better understanding of their distinct qualities and inherent value.

The robust research and expert contribution found in this study informs the implications and actions urgently needed to be undertaken by government, industry, service providers, academia and MSBs themselves if we are to protect their current contribution and amplify it.

This is not the first time that the government and the broader ecosystem has been warned of the implications of failing to act and better support MSBs. Barclays Business Bank and CBI have been strong advocates for MSBs since 2011, joined by LSE in 2013, Grant Thornton under Sacha Romanovitch's leadership in 2015, and more recently by accounting firm BDO and legal advisors Shoosmiths. This is indeed an influential group, but they represent a mere few championing a cause with such obvious and substantial gains. Other well-meaning efforts are either sporadic or disjointed or both.

The following report sets out a sound research-informed basis for defining MSBs and reveals the specific challenges they and their leadership face. This report highlights the importance of this category of business in its own right and provides a manifesto for a meaningful focus on MSBs and their advancement. It also opens up the agenda for further, more nuanced research on this segment and its needs and challenges, so we can better support one of our strongest economic and community drivers and unleash MSBs' potential.

In a coordinated effort, industry and government should use these results to develop and provide relevant resources and support for leaders, directors and boards of MSBs to help them do their job well, perform better and contribute more effectively.

We will continue to conduct research in the interim in order to inform and underpin these resources and advocate policy renewal for MSBs' changing needs.

I would like to say a special thank you to all the directors and leaders of MSBs who supported the study, giving up their precious time. Credit also must go to the project team and academics who tackled this immense undertaking with limited support, often on top of their day jobs.

We hope you appreciate the quality of the insights and the specificity of the recommendations. Please enjoy this report, and we invite you to contribute to the dynamic online version as well.



Sarah McKenna
Founder and Chair
MSBLeaders

“This research highlights the importance of this category of business in its own right and provides a manifesto for a meaningful focus on MSBs and their advancement.”

Recognising the Role and Potential of MSBs

The UK economy benefits greatly from the productivity and growth driven through mid size businesses (MSBs), with this sector being variously described as the foundation of local economies and the entrepreneurial heroes of the UK economy. Despite the significant challenges of the economic environment in which they operate, recent evidence suggests that the majority of such businesses continue to demonstrate growth and anticipate future growth. And yet, this sector is frequently overlooked in research and consequently poorly understood.

On behalf of the University of Salford, I am pleased, therefore, to welcome this report which explores the experiences of MSBs, recognises their potential and distinctiveness, and underscores their role as the engine room for the wider UK economy. The research undertaken by Salford Business School enhances our understanding of MSBs and highlights how this crucial sector can be better supported and developed to address contemporary and future challenges – which is critical to ensure the success of the UK's economy.

We are delighted that this research has been developed in partnership with MSBLeaders and Shoosmiths. The strategy of the University of Salford focuses on sector-facing industry collaboration zones and the development of exceptional industry partnerships. Through these, we co-create an understanding of the challenges facing each sector, co-produce the solutions to those challenges, and co-deliver the curriculum in support of the future workforce to meet those challenges.

The research here strongly reflects that partnership and co-production ethos; through this relationship, we believe this report delivers a “state of the nation” assessment of MSBs, building on an exceptional academic study focused on understanding the nature, needs and expectations of this influential and critical element of the UK ecosystem.

Significantly, the report is a starting point for further dialogue and collaboration, enabling the sector to implement the findings of this research. We consequently look forward to further developing this work and continuing to strengthen our partnership and collaboration with MSBLeaders. We extend this invitation to those other businesses, institutions and agencies that drive the economic ecosystem in which the findings and recommendations of this report will be enacted.

“This report delivers a “state of the nation” assessment of MSBs, building on an exceptional academic study focused on understanding the nature, needs and expectations of this influential and critical element of the UK ecosystem.”



Professor Richard Stephenson
Deputy Vice-Chancellor
University of Salford

Groundbreaking Applied Research on MSBs

This report is the outcome of an extensive, in-depth, longitudinal study by colleagues from Salford Business School, and I would first like to acknowledge and thank Drs Marie Griffiths and Gordon Fletcher for all the time and effort they have put into driving the research that forms the backbone of this report. We believe that it is, by scale and scope, a highly significant study focusing, as it does, on the mid size business (MSB) sector directly.

MSBs matter to the UK economy and the success of UK PLC. According to data reported by The Telegraph in 2015, the UK's MSBs overtook Germany's Mittelstand in terms of their gross revenue.¹

The Mittelstand (mid size, and other regional and family-owned businesses) have long been recognised as a key driver of Germany's economic success and been held up as a model for others to emulate. Mid size businesses have the same role and potential here in the UK.

Yet despite the growth and success of UK MSBs, they have not received anything like the same level of recognition and support as Germany's Mittelstand, and this has to be addressed. Salford Business School is therefore delighted to be partnering with MSBLeaders and Shoosmiths in the production of this report and helping to create the understanding that can drive the development of UK MSBs.

Our work with MSBLeaders and the research reported here paints a compelling picture of the importance of these businesses and the challenges they face. It provides a clear agenda for the growth and development of this sector and its leaders, and we hope this will act as a catalyst for the development of both the MSB sector and further research into better understanding this crucial aspect of UK business.

“The Mittelstand (mid size, and other regional and family-owned businesses) have long been recognised as a key driver of Germany's economic success and been held up as a model for others to emulate. Mid size businesses have the same role and potential here in the UK.”



Professor David Spicer
Dean
Salford Business School

Supporting MSBs on Their Growth Journey

Shoosmiths is delighted to partner with Salford Business School and MSBLeaders and sponsor this unprecedented national study of the issues and challenges faced by mid size business (MSB) leaders.

A large proportion of the work we as a national law firm undertake is with, and for, MSBs. We recognise that they face distinct challenges and, as a consequence, require different support to small businesses and large enterprises. Indeed, as a business with a turnover of £128m (in the financial year ending April 2018), Shoosmiths is itself an MSB.

Like you, we face challenges and opportunities as we continue to grow and as our business evolves. We know that the needs of MSBs can change rapidly as they grow and scale, and we understand the need to innovate, utilise technology, and invest in skills, training and working environments in order to attract the best talent.

We also recognise that MSBs make a significant contribution to the UK economy and will be the crucial backbone for the country post-Brexit, which is precisely why listening to MSB leaders and providing them with the right support is now more vital than ever. We hope that this research will lift the lid on the issues here and result in the directors and other leaders of MSBs being given more targeted support and access to relevant guidance, incentives, resources and services to enable them to continue on their growth journey. Shoosmiths will be acting on the findings in this respect and we encourage other professional service providers to do the same.

We hope you enjoy reading the report and the findings resonate with your own experience.



Simon Boss
Chief Executive
Shoosmiths LLP

“The needs of MSBs can change rapidly as they grow and scale, and we understand the need to innovate, utilise technology, and invest in skills, training and working environment.”



“I think MSBs have the best of both worlds. You have some level of capability because of your size, but you also should have a small business’ speed of action.”

Executive Summary

The purpose of this research is to classify and identify

This study had two primary domains of enquiry: the first was to provide a classification of what an MSB is and the second to identify the priorities and challenges facing MSB leaders.

MSBs need better support applying the research

The combination of an evidence-based definition for MSBs coupled with identification of their priorities and challenges should act as a catalyst for government, vendors, suppliers and advisors to provide policy, regulation, services, solutions, support and resources that are:

- Relevant – specifically addressing MSB issues
- Contemporary, needed topics – not just determined by vendors or suppliers
- Credible and independent
- Practical and usable
- User-friendly, rich media, accessed privately, on demand and affordable



Importance of the research

The importance of providing MSBs with a classification – a label that recognises their unique features, challenges and opportunities – should not be underestimated in terms of the direct value it provides them to identify relevant and effective solutions and support.

BREXIT



Brexit is a priority for MSBs and is negatively impacting innovation and growth

As more than half of MSBs export to the EU and see it as a pool for skilled talent and resources, Brexit is a major challenge – and it is a priority for many boards' agendas. Brexit has also fuelled increasing cautiousness among MSBs when innovating and planning for growth.

The ideal classification for UK MSBs is £10m-£149m with 50-499 employees

We can propose a broad definition of an MSB as typically having an annual turnover of £10m-£149m and a 50-499 employee headcount but propose additional criteria to include their six defining characteristics.

There are six defining characteristics of MSBs

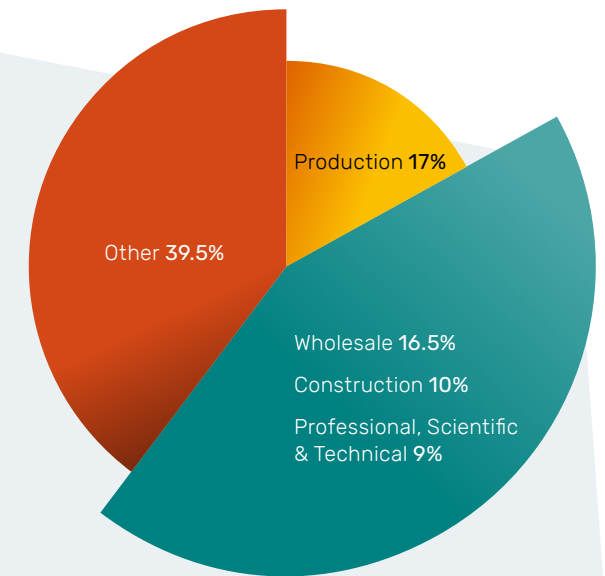
MSBs have their own inherent qualities that inform their unique value and support needs.

They are:

- Agile
- Cautiously innovative
- Social value contributors

They possess:

- (More) Experienced leadership
- Balanced perspective
- Technology-driven productivity



MSBs are not predominantly in manufacturing. There are currently around

29,730 MSBs

in the UK (in 2018)

The sectors with the highest representation of MSBs are production (17%); wholesale (16.5%); construction (10%); professional, scientific and technical (9%); and business administration (8%).

UK MSBs

75% of MSBs are outside London

MSBs are predominantly in regional areas.

Beyond the South East, the highest concentrations of MSBs are in the North West, East and West Midlands.



MSBs are underserved

Despite the clear importance of MSBs, there has to date been extremely limited independent, academic-level research undertaken. British industry also fails to appreciate the differences between small and mid size businesses with very little thought leadership, resources or services tailored specifically to MSBs.

MSBs have an 'identity crisis'

MSBs fail to identify as MSBs, with nearly half seeing themselves as small businesses when using traditional definitions. This means they are likely to be accessing and using services that are not designed for them or effective when it comes to their specific challenges and opportunities.

MSBs are vital to the UK economy

The contribution made by mid size businesses (MSBs) to GDP is only one aspect of their significance. The balance of size, risk aversion, talent focus and dynamism found with MSBs enables them to be national drivers for innovation, value creation and leadership philosophy.

The majority of MSBs are outside of production (83%), debunking the myth that most MSBs are found within this single sector.

83%

EXECUTIVE SUMMARY

Industry 4.0 has taken awareness among MSBs

Industry 4.0 is a poorly understood concept among MSBs. The risk is that, without any intention to explore this opportunity further, many businesses are missing out on potential competitive advantages and productivity improvements.

MSBs favour technology to drive productivity gains

The benefits of being an MSB was most evident in relation to technology-driven productivity. MSBs are more capable of linking specific actions with their overall strategic objectives. This ability to act on the big picture was particularly obvious with themes relating to the deployment of technology, including:

- Sensitive use of technology
- IT-led and smart technology initiatives
- Automation
- Using resources effectively
- Use of metrics
- Workflow management
- Use of technology experts as NEDs

MSBs have clear technology priorities

With MSBs, current technology priorities include cybersecurity, data protection and cloud computing.

Technology investments carry higher risk for MSBs

MSB leaders expressed a cautious view that many businesses could not financially sustain many technology investment failures.

MSBs more closely balance growth and profit as measures of organisational success

The results from the survey show a more closely balanced ratio between growth and profit as a measure of an organisation's success. In both small and large businesses, the emphasis on profit over that of growth was much greater.

FINANCE

MSBs are deterred by finance and financial service frustrations

While it is accepted that access to finance is a fundamental growth determinant for MSBs, the demand is kept low from them due to ever-present frustrations with the form and nature of the service they receive.

MSBs are in full financial control

The research indicates that when it comes to financial control.

PRODUCTIVITY & TECHNOLOGY

MSBs have the right scale to drive technology gains

When it comes to technology, MSBs should be able to take advantage of 'being in the middle' rather than feeling 'trapped in the middle'. MSBs are large enough to adopt new technologies but small enough to successfully implement them around existing business processes to fully realise the value of the investment.

The offering from technology service providers are not fit for MSBs

When it comes to technology service providers and advisors currently servicing MSBs, respondents felt they fell vastly short of their expectations and were perceived to be neither sufficiently proactive nor possess advanced competency. Most technology providers are seen to be unable to satisfactorily meet the needs of 'tech-savvy' MSBs.

MSB directors are sensitive to the human cost of digital transformation

There was some concern for what changes the introduction of technology is bringing to the workforce, but there was also a sense that businesses are aware of the ramifications of these decisions and yet feel that they have little choice in employing technology solutions to improve their productivity.

Skills and talent shortages are holding back MSBs, making this a top priority

MSBs see skills and talent shortages as a higher priority than small or large enterprises, irrespective of the sector they operate within. And while leaders are aware of the potential crisis (the skills shortage is a top priority for MSB boards), they were less clear on how to address it.

Staffing and talent challenges are an ongoing problem for MSBs

Unlike small and large enterprises, staffing and talent was not only a current priority, challenge and obstacle to growth for MSBs, but it has been a past challenge as well. This suggests that the problem remains unresolved.

MSBs are behind their EU peers on apprenticeships

Many UK firms are taking steps (or plan to take steps) to address the skills issue. However, only 37% of UK MSBs currently offer apprenticeships compared to 75% of German ones. Internships are offered by 33% of UK MSBs – well below the figures in France and Italy, and half that of the German level. This is indicative of a general lack of engagement with the apprenticeship levy in the UK since its introduction in April 2017.

PEOPLE

People are central to MSBs

MSBs value people and they're serious about it – with employee retention, satisfaction and wellbeing leading overall measures of business success.

MSBs' internal efforts to reskill are not enough

MSBs attempt to invest in and retrain existing staff but, for many reasons, this was not a reliable or sufficiently scalable solution to address attrition or growth demands.





Growth is not an urgent priority for MSBs, rather the outcome of doing things right

The research revealed a prevailing view of MSB directors that growth is a routine aspect of their business rather than being defined as a specific, high-priority objective.

MSBs use a wide range of growth strategies

A range of strategic growth drivers are used by MSBs:

- Looking for new markets – and particularly domestic expansion
- Innovation
- Commercial intelligence
- Customer intelligence and retention
- New staff (including leadership) to scale
- New structures, systems and processes to scale
- New technology to scale

Strategy is a priority for MSBs

Strategy and planning was high on the agenda for the directors and boards of MSBs, but how they plan for growth appeared to be somewhat haphazard.

GROWTH & STRATEGY



MSBs are cautiously innovating

'Innovation' is the second most important agenda item for MSB boards after 'succession planning'. MSBs are constantly balancing the risks of failing to innovate against the potential failure of innovation itself.

The concept of innovation is unclear for MSB directors

What actually constitutes innovation is a point of contention among MSB leaders. MSBs are more likely undertaking adaptation and improvement introducing new processes and generally improving what they do without specifically labelling this activity as innovation.

For MSBs, innovation is about small outcomes

MSBs approach innovation in the form of small incremental changes that are instrumental for improving productivity.

INNOVATION



Please note: For the purposes of this report, the terms 'mid size business' and 'MSB' are used interchangeably. Unless otherwise stated, or referenced, they reflect the category of UK private sector businesses turning over between £10m and £149m annually and with an employee headcount of 50 to 499.

Download the full 2019 Mid Size Business Leadership Study:
www.msbleaders.com and follow us on Twitter @MSBLeaders

Why are MSBs important?

For most, the term 'mid size business' (MSB) usually conjures up images of very little – or confusion with the SME concept.

Despite their tremendous performance and contribution, MSBs remain unrecognised and underserved. Too big to benefit from incentives aimed at small business and too small to grab talent and attention like FTSE companies, MSBs fall into a regulatory, policy and profile gap.

This was both the catalyst and starting point for our research.

Download the full 2019 Mid Size Business Leadership Study:

www.msbleaders.com and follow us on Twitter @MSBLeaders



MSBs outstrip everyone in terms of productivity

They are now Britain's most productive segment – ahead of both small and large companies.⁵



£413,000,000,000

MSBs can contribute even more

They will be contributing and estimated £413bn to the UK economy by 2020 and if barriers to MSB growth are removed they could add an additional £50bn by 2020.⁹

MSBs outperform on growth and profit

They have grown faster and generated larger profit growth over the last five years than small businesses and large companies combined.¹



MSBs are critical to regional economies

There are around 29,730 MSBs in the UK in 2018, with 75% outside London.¹¹

The main concentration of MSBs are in London and the South East – beyond this the highest concentrations are in the North West, East and West Midlands.¹²

The sectors with the highest representation of MSBs are production (17%); wholesale (16.5%); construction (10%); professional, scientific and technical (9%); and business administration (8%).¹³



www.msbleaders.com



MSBs disproportionately demonstrate 'value-creation' capabilities

MSBs are aspiring to increase revenues, create more full-time jobs and embrace disruptive technologies such as AI. They also spend over 20% of the UK's entire R&D spend.

MSBs innovate more

A higher proportion of MSBs report they are innovating more than small businesses or large enterprises, as well as obtaining a greater percentage of revenues from innovation.⁶



MSBs are better equipped for Brexit

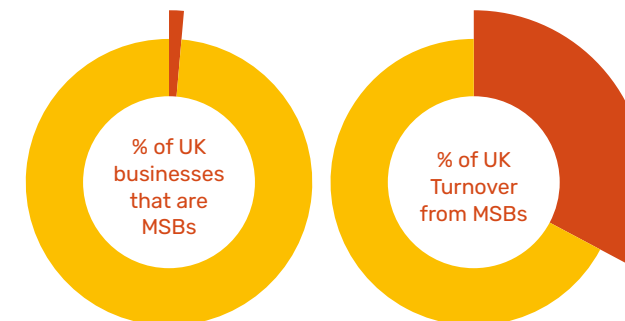
They have navigated Brexit uncertainty better than large enterprises and small businesses, increasing overseas turnover by 11%. By comparison, small and large businesses have seen a contraction in overseas turnover.⁷

MSBs create more jobs

Between 2016 and 2017, MSBs created more jobs in the UK than both small and large companies combined.²

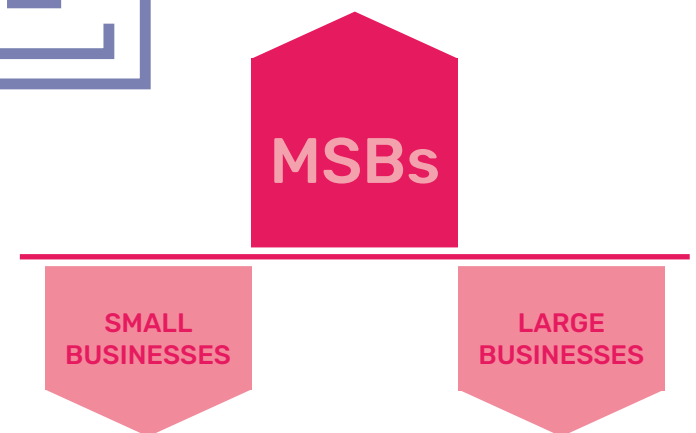
In 2016 alone they created around 780,000 jobs in the UK and were responsible for 1 in 6 jobs.³

It is estimated that 5 million people will be employed by mid size businesses (MSBs) by 2020.⁴



MSBs contribute disproportionately

MSBs represent only 1.5% of all UK businesses but contribute a staggering one third of all UK turnover⁸ and 22% of tax receipts.



The number of MSBs is increasing

While the numbers of small businesses and large enterprises are in decline, the number of MSBs is increasing.¹⁰ It is estimated the number of MSBs in the UK rose by 5% from 2015 to 2017.

Applying the Research: Recommendations Checklist

Brexit

- ☑ Given the disproportionate contribution MSBs make to the economy, government and academia may need to consider prioritising skills development and workforce supply for MSBs that directly meets their specific requirements.
- ☑ There should be greater levels of engagement directly with MSBs in tactical workforce planning, pipeline management and immigration solutions.
- ☑ Domestic expansion was a key priority for MSB boards, which could potentially be a response to Brexit's impact on impeding access to the single market of the EU. MSBs will need to improve their product and service innovation if they are to achieve this domestic expansion in what could become a highly competitive UK market. MSBs should qualify for a greater priority with government to raise their concerns regarding Brexit preparations and in relation to post-Brexit strategies such as increasing domestic competition.

Productivity

- ☑ As technology presents new opportunities to do things more efficiently, MSB leaders will do well to adopt the philosophy that they cannot protect jobs, only their people. They must make a conscious effort to build agility, adaptability and reskilling capabilities into their organisations, while simultaneously retraining the talent they currently have to assist in the realisation of productivity and innovation strategies.
- ☑ It is clear from the research that MSB boards need to be much more aware of Industry 4.0 and set clear strategies to define and apply its principles.
- ☑ All MSBs will be well served by the strategic consideration of the value of machine learning and AI technologies at the board and senior executive levels. This may take the form of, for example, an expert NED, specialist advisors, consultants, reaching out to local universities, or the specialist training of executive and board members.
- ☑ Investing in the health and wellbeing of employees is proven to increase productivity and should feature prominently in human capital and productivity planning of MSB boards.

Technology

- ☑ MSBs themselves (and particularly boards) should prioritise technology and develop a clear and explicit organisational perspective on what it means to them and its value to their organisation, and consider emerging and advanced technology centrally when planning.
- ☑ No matter the sector, the boards of MSBs should pursue a digital culture and adopt technology-based productivity drivers (including digital substitution, automation and transformation, and better use of data, AI and machine learning) to ensure that they are getting the full value of the technology available to them and their competition.
- ☑ Government and the public sector should do more, in regional areas and traditional industries, to shorten the long tail of MSBs that have not yet embraced digital culture or practices and strengthen their leadership capabilities in order to help them adapt and survive. Government-funded and provided business support programmes should be focused specifically on productivity and digital technology adoption.
- ☑ At the same time, government, the public sector, and venture capital and private equity firms should support and promote our advanced innovators to scale MSBs in new industries – focusing on managing the impact of growth and transitioning to large enterprises.
- ☑ Government (particularly local authorities) and industry bodies can do more to facilitate networking, meet-ups and niche summits among MSB entrepreneurs in new-economy sectors such as digital, data, machine learning and AI.
- ☑ MSBs should additionally have processes in place to ensure their service providers and partners have proactive approaches, targeted to their specific needs and the capacity and capability, to support them effectively.
- ☑ Equally, service providers and advisory firms should develop offerings and interventions that create demand from MSBs for technology and digital solutions while increasing their fluency, comprehension and internal capabilities.

Finance

- ☑ The failure of MSBs to recognise the importance of finance could represent a significant brake on their potential for growth. There is a need therefore to increase demand for finance among suitable MSBs by demonstrating its value and the potential it can create.
- ☑ MSB boards must consequently look carefully at the finances and growth plans, and work with funders to ensure they are leveraging the value of financing for their firm.
- ☑ Acknowledging that MSBs have very different requirements and challenges with regards to financing in comparison to micro and small companies, the sector must better educate on its various forms and fit for MSBs and continue to improve navigation and access. Government, banks and other funding providers also need to look carefully at their advice, guidance and support for MSBs to help firms and their boards access appropriate and effective finances to support their growth.

Workforce

- ☑ 'Growing your own' (looking for talent internally to retrain and retain) is seen as a first step for MSBs that want to address their skills shortage. These businesses need to look proactively at this and have clear workforce development strategies. MSBs also need to seriously examine how they can use the support available in the education, training and development sector, as well as apprenticeships, to aid their workforces' growth and development needs.
- ☑ MSBs can also consider more mature and advanced retention strategies with clear development pathways, and strong internal communication and culture-building.
- ☑ MSBs should consider adopting local employment charters, such as Manchester's Good Employment Charter or London's Good Work Standard, or developing their own to bring together and use best employment practices.

- ☑ SBs can use their size and defining characteristics to their advantage – they can attract employees by offering more opportunities to do meaningful work and contribute more directly to the success of the organisation. In addition, MSBs should consider better communications (using branding and marketing) with current and prospective employees to show what it is they have to offer and, for those in regional locations, the lifestyle benefits they pose to the city pool of talent.
- ☑ Industry, educational and public sector groups can adjust their services and programmes to be more responsive to MSBs, while MSBs can utilise their community role and profile to mobilise local schools, colleges, other training providers, universities and councils around education, skills and training needs, objectives and activity.
- ☑ MSBs should consider NED or advisory expertise in workforce development, and particularly in talent retraining, acquisition and retention.
- ☑ As MSBs grow and demand for talent increases, execution will be key – translating plans into reality will be crucial to avoid mid-market growth being choked by skill constraints.

Growth

- ☑ MSBs are in danger of confusing caution and consolidation with inertia and inaction. A failure to continually innovate and/or consciously and proactively plan in the service of growth – be it addressing new markets, products, services, acquisition, delivery or retention – will adversely affect MSB performance and stability.
- ☑ It is recommended that MSB boards prioritise and clarify growth ambition and identify clear activities to achieve success tactically and strategically.
- ☑ The professional services sector and government should provide appropriate, highly targeted growth and innovation programmes, services and resources. This will help MSBs better define strategic objectives and develop the perspective and capabilities internally to identify growth levers and design and implement growth activity.

Innovation

- ☑ There is clearly a need to heighten awareness of the understanding of and desire for genuine innovation and its value for all MSBs – not just those pursuing high-growth objectives who are already likely to be firm subscribers.
- ☑ Critical to this is defining innovation effectively for MSBs so that businesses can recognise their eligibility to access additional support and funding.
- ☑ Further research and plain-spoken and practical support for MSBs focusing on innovation will help demystify the concept and encourage more open approaches to innovation.
- ☑ The responsibility to act here is twofold. MSBs themselves, and particularly their boards, should prioritise innovation and develop an organisational perspective on it, its value to their organisation, and the methods to employ it. As part of this, MSBs need further awareness and clarity of innovation methods, tools, technology and techniques to embed and use in their businesses for both improvements and true innovation.
- ☑ Equally, service providers and advisory firms can – and should – make the case for and develop offerings and interventions that create demand from MSBs for innovation and furthers their internal capability. Partnering with academia and firms in their supply chain on this agenda is also likely to help MSBs develop more innovation.

Leadership capability

- ☑ Key recommendations for MSBs to lift and maintain board capabilities can be summarised as:
 - ☑ Match board roles, skills and competencies to the trajectory of the business
 - ☑ Use professional and robust recruitment practices (including psychometric profiling) which prioritises experience, broader leadership quality and emotional intelligence
 - ☑ Learn about the value diversity can provide and ensure diverse representation on the board and in senior leadership positions (and acknowledge that there is enough talent to not sacrifice a skills or culture fit to do so)

- ☑ Establish programmes for regular individual professional development
- ☑ Make space for regular board group professional development
- ☑ Instill a culture of board evaluation, self-renewal and succession planning.

Professional memberships

- ☑ Professional bodies must be exemplars of the expectations that directors have in relation to their own board's activities and composition – particularly around modern philosophies and practices, and diversity of age, ethnicity, perspective and gender.
- ☑ Membership organisations should consider providing support, resources, information and services that:
 - ☑ Specifically address MSB issues in a relevant way
 - ☑ Cover broader-based and more contemporary topics
 - ☑ Are credible and independent
 - ☑ Dispose of verbose, nebulous or theoretical solutions and focus on the practical, applied and usable
 - ☑ Are affordable and easy to access in the privacy of the home or online, and on demand.
- ☑ The most beneficial support that MSBs could receive from professional services and membership organisations would be to employ professional and contemporary practices to elevate, acquire and retain appropriately skilled and diverse talent – starting at the board and senior leadership level.

Summary of Recommendations in Response to Findings from the 2019 Mid Size Business Leadership Study.

This summary of curated recommendations is not exhaustive but acts as a guide to improve MSB productivity and performance. We aim to build on these over time in the online, interactive version of the report at www.msbleaders.com

And to contribute recommendations please contact us here

Introduction

This report provides a comprehensive overview of the state of the mid size business (MSB) sector in the UK. It is based on a rigorous and robust research programme with those businesses, designed to identify their nature and challenges.

For the purposes of this report, the terms 'mid size business' and 'MSB' are used interchangeably. Unless otherwise stated, or referenced, they reflect the category of UK private sector businesses turning over between £10m and £149m annually and with an employee headcount of 50 to 499.

To provide context to this report we first share the importance of MSBs and resulting purpose and importance of this research. Readers can then be assured by the robust and valid quantitative and qualitative research methodology and go on to appreciate the evidence-based classification for MSBs and their defining characteristics.

In the remainder of the report, we explore MSBs' relationship with, perspective on and approaches to Brexit, productivity, technology, finance, the workforce, growth, innovation, leadership capability and competency, and professional memberships. These represent significant themes identified in this research for MSBs and their development. Against these, the challenges, opportunities and priorities for MSBs are explored, drawing on both the results of this study and other robust (but limited and highly dispersed), recent related studies. These are acknowledged in References.

Implications and recommendations are proposed and are based around what actions should be followed in order to improve MSB productivity and performance with the implication of resulting community prosperity. The recommendations are not exhaustive and we aim to build on these over time in the online, interactive version of the report at www.msbleaders.com.

The report then concludes with an Expert Commentary series, where key leaders from the MSB sector offer their personal perspectives on the issues and challenges for their organisations. These seek to ground and reinforce the findings and recommendations of the academic study summarised here.

The research results are made all the more valuable considering MSB leaders are a particularly difficult group to engage with in terms of structured research activities.

Purpose of the research

Accounting firm BDO suggests that part of the reason for the relative obscurity of MSBs is that they are hard to define: "mid size firms cover a broad swathe of the UK economy and encompass family owned businesses, private equity-backed companies and AIM-listed businesses. But despite the variety of shapes, sizes and funding structures, these businesses share some common characteristics." Until this study, neither empirical evidence as to these characteristics nor a classification existed – and the report set out to address both.

The research is wide-ranging and ambitious in its scope for a number of reasons. Most significantly, MSBs are vital to the UK economy. The contribution made by these businesses to GDP is only one aspect of their significance. The balancing of size, risk aversion, talent retention and dynamism found with MSBs also enables them to be national drivers of innovation, value creation and leadership philosophy.

Yet despite the clear importance of MSBs, there has to date been extremely limited independent, academic-level research undertaken to understand these businesses as a separate and distinct segment. Instead, the still very limited existing research lumps small businesses and MSBs together and is either supplier-produced or without academic rigour.

We also know that industry fails to appreciate the differences between small and mid size businesses, offering very little thought leadership, resources or services tailored specifically to MSBs. Furthermore, industry and many key professional service and membership organisation offerings reflect the assumption that all directors lead large enterprises, failing to recognise the unique challenges and distinct differences of being a director, NED or chair of an MSB.

This research aims to correct this imbalance and the underserving of MSBs that are of critical economic and social value to our communities – particularly regionally.

On this basis, our research had two primary domains of enquiry: the first was to provide a classification or definition of what an MSB is, and the second to identify the priorities and challenges facing MSB leaders.

Our research hypothesis was that an MSB classification should be based on structural, operational and aspirational similarities – put simply, the businesses with the most in common when it came to complexity of issues, challenges, ambitions and performance.

The combination of an evidence-based definition for MSBs and identification of their priorities and challenges should act as a catalyst for government, vendors, suppliers and advisors to provide policy, regulation, services, solutions, support and resources that are:

- Relevant, specifically addressing MSB issues
- Contemporary, needed topics – not just vendor/supplier determined
- Credible and independent
- Practical and usable
- User-friendly – rich media, accessed privately, on demand and affordable.

Importance of the research

The importance of providing MSBs with a classification – a definition of their unique features, challenges and opportunities – should not be underestimated in terms of the direct value it provides to them in the search for, and provision of, relevant and therefore effective solutions and support. A clear, industry-shared classification would also allow for more informed understanding of the relationship, intersections and graduations between small, mid size and large businesses.

Research methodology

An academic and industry literature review was first conducted. A largely quantitative, mixed-method survey was then designed for electronic distribution to directors of UK businesses. The questions were based on the existing academic and industrial literature relating to the management and governance of small, mid size and large enterprises.

The survey was active over an extended 12-month period. Random, personal invitations were sent out through LinkedIn that included a link to the survey. Follow-up contact was made to prompt completion. This approach produced a large random sampling of national businesses.

476 valid responses were received from directors across the UK. Accepting that the number of businesses in the UK is large and indefinite at a confidence level of 95%, this produces a confidence interval of ± 4.49 . Given the difficulty of surveying business directors and the relatively small sample sizes of previous academic work in this area, this enables our analysis to produce robust and defensible results. The survey was then collated and analysed.

In addition to the quantitative work, a qualitative effort was undertaken with one-to-one interviews and focus groups conducted with a random sample of leaders from MSBs nationally. These were used to further explore the themes and issues identified for MSBs through the survey. In total, 40 MSB directors contributed to the interviews and focus groups.

The research results are made all the more valuable considering MSB leaders are a particularly difficult group to engage with in terms of structured research activities. The combination of a lack of recognition from government bodies as a distinct group and the resulting sense of being undervalued for the economic contribution of their organisations, as well as the time pressures felt by all directors, means there is resistance in coming forward to participate in any research that is not attached to an immediate, direct and tangible benefit for these directors or their organisations.

Our research hypothesis was that an MSB classification should be based on structural, operational and aspirational similarities – put simply, the businesses with the most in common when it came to complexity of issues, challenges, ambitions and performance."



Research Findings, Implications and Recommendations

What Are Mid Size Businesses?

The research reveals that, despite the deep complexity of mid size businesses (MSBs) in the UK, there is a common experience that is associated with their distinctness from micro, small or large businesses rather than regional or sector-based differences. Understanding these differences as a function of size enables the challenges faced by MSBs to be addressed in a way that is productive and beneficial.

As a result of undertaking this research, there is the prospect of creating an impact through the focus that it creates. By addressing MSBs as a separate category, there is an increased likelihood that the businesses themselves will begin to act differently to address their own challenges rather than those that commonly affect an SME or large enterprise.

Why the confusion?

Government use a formal definition for MSBs based on an annual turnover of £25m-£500m per year which is simply too broad, and the businesses within this range are too disparate in their operations, ambitions and needs to have effective application. The government's definition, while unhelpful, is clear. So why the confusion?

- Perhaps because this is how others see MSBs:
- In contrast to the broader government definition, HMRC research classifies MSBs as having £10m-£200m annual turnover and/or more than 20 employees
 - The EU define an MSB as having more than 250 employees – with no reference to turnover
 - CBI use a broad definition of £10m-£500m in annual turnover, although the focus of some of their significant MSB research has been on companies at the lower end of this range – with turnover between £10m and £100m or with 50-499 employees
 - Global research and advisory firm Gartner classes any company with between 100 and 999 employees and/or an annual turnover of £25m-£500m as an MSB
 - Accounting and advisory firm BDO defines MSBs based on an annual turnover of £10m-£300m and reference structure – a combination of private-equity owned businesses and AIM-listed companies
 - Their peers Grant Thornton see MSBs as having 50-499 employees
 - In recent global studies, banks like HSBC simply consider them to be firms with 200 to 2,000 employees and interchangeably use the term mid market enterprise (MME) with MSB.

In summary, you are an MSB if you turnover between £10m-£500m per year and have between 20 and 2000 employees – not a useful category of businesses who are meant to share issues, opportunities and requirements.

Classification

The initial task of the survey was to therefore identify a basis for defining an MSB in contrast to a small or large organisation. To achieve this, the objective responses from each respondent were extracted and analysed using non-metric multidimensional scaling (nMDS). The technique allows us to map respondents in a manner that spatially positions them accurately in relationship to one another.

This positioning is based on the combination of all their responses under consideration, and is usually represented visually on a two-dimensional graph. Respondents closer to each other on the graph are more similar than those further away. In other words, two respondents mapped to the same point share all the same responses, a respondent mapped nearby but to the right of these two respondents shares many of the same responses. A fourth respondent mapped to the left of the original two respondents also shares many of the same responses, but not the same ones as the respondent mapped further to the right.

nMDS uses an iterative approach to recognise the underlying patterns in a data set. Figure 1 shows the outcome of this of our survey respondents, which identifies a clustering of company sizes by headcount and turnover.

Businesses turning over £10m-£149m annually and with a 50-499 employee headcount have the most in common.

The MSBs with the most commonality cluster around a £10m-£149m annual turnover (represented by the green colour coding) and 50 to 499 headcount (counted as a star shape). With this classification there are inevitably overlaps between mid size, small (black circles) and large businesses (yellow crosses).

Some organisations share only one of the parameters (e.g. yellow stars). The small number of points outside the oval represent the extreme 5% in the data set and are effectively ignored. In general, the organisations that do not share both the defining parameters are found on the boundaries between small, mid size and large businesses. This liminality of experience further reconfirms the clustering identified through the nMDS.

In other words, each business that is positioned on the edges of the small, mid size or large business clusters tends to share a criterion with the two categories that it sits between.

The businesses marked in blue covered a turnover range that included the definition for small and mid size businesses. These businesses were excluded from further analysis. Many of the businesses marked with a blue star would, with further investigation, prove to have a turnover in excess of £10m and further reinforce the clustering effect visible through the nMDS.

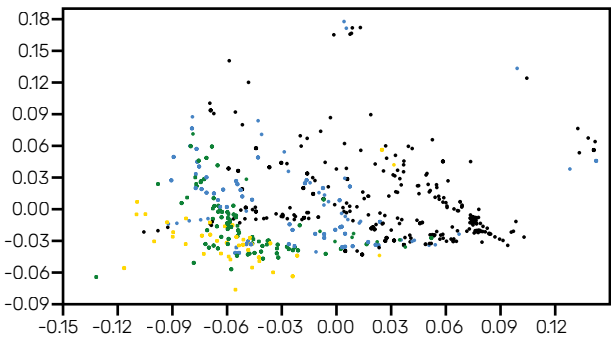


Figure 1: Colour-coded nMDS of mid size businesses
Key: Annual turnover: Black – <£10m, green – £10m-£149m, yellow – >£149m, blue – £5m-£24m (excluded from analysis)
Employee headcount: Circle – <50, star – 50-499, cross – >500

MSBs have an identity crisis and fail to see themselves as MSBs

This definition of 'mid size' highlights an identity crisis among MSB directors and their organisations, with nearly half (when a traditional, single-dimensional defining characteristic is considered, such as turnover) seeing themselves as small businesses.

Respondents were asked to self-identify as a small, mid size or large business. For small and mid size businesses the responses were consistent with the definition identified above: 94.1% of small businesses also self-defined themselves as small, and 84.9% of mid size businesses opted to describe themselves as mid size. This is inevitably a strong response that is a result of being based on the definition used for this research with a specific combination of both headcount and annual turnover within its criteria.

This alignment of the responses also offers confirmation that the definition identified through nMDS analysis is more accurate than those used in previous research or as formal classification with, for example, HMRC. When only a single criterion based on a headcount of 50-499 employees is used to define MSBs, 49.5% in the survey identify as mid size while 49.8% of MSBs regarded themselves as small.

A further classificatory concern is that only 41.7% of large businesses described themselves in this way – with 58.3% preferring to adopt the mid size classification. This result indicates an increasing tendency for directors to underestimate the size of their business as it becomes larger. This propensity for underestimation became more evident when directors were given the option to select multiple descriptors for their organisation.

When asked how they would describe their organisation from a list of 'enterprise', 'SME', 'scale-up', 'mid size business', 'midcap', 'large' and 'listed', these were the results:

- Small organisations strongly preferred 'SME' (76.7%) and 'scale-up' (29.2%). However, 19.1% also opted for 'enterprise';
- MSBs slightly preferred 'mid size business' (56.2%) over 'SME' (43.8%) with 'listed' and 'enterprise' each having 13.7% response rates; and
- Large businesses preferred 'mid size business' (58.3%) at greater rates than MSBs themselves, followed by 'large' (33.3%) and 'midcap' (20.8%).

Characteristics

The analysis of findings from the survey, interviews and focus groups also suggests that there are other characteristics which are significant in defining the nature, character and value of MSBs.

Agile

MSBs also reported having the resources and financial capacity to innovate while still being small enough to remain responsive in a dynamic external business environment.

This is underappreciated when the policy rhetoric focuses on generating new businesses and exporting on a global scale. The potential that MSBs offer to the overall UK economy is underutilised in the context of government's value-creation aspirations.

Cautiously innovative

Our respondents also clearly combined their innovation as a response to the external environment with large doses of caution and careful risk evaluation. Many of the statements that exhibited the preparedness of MSBs to experiment and innovate were tempered by vigilance or an itemisation of the associated dangers and liabilities.

Contributors of social value

MSBs report that a culture of engagement with their employees and communities is a central aspect of their nature. MSBs not only outperform on traditional success metrics, but they also have a connection to humanity and the communities in which they operate. Profitability with a sense of humanity is possible, and MSBs prove the case: they are committed to their family culture, local football club sponsorships and social value, and walk comfortably in the local communities with which they are intertwined.

This humanistic approach translated into real terms for MSBs with 'employee satisfaction' and 'employee wellbeing' reported as recognised measures of organisational success.

(More) Experienced leadership

It was evident from the survey that directors of MSBs were more experienced in comparison to those in small or large businesses. The experienced leadership of an MSB is an undervalued aspect of this group of businesses, and one that is not explicitly tapped into by professional bodies or government.

We calculated all directors' experience into deciles and then examined the proportion of directors from each category of company (small, mid size and large) in each decile. 9.6% of MSB directors were in the most experienced decile and 21.9% were in the 8th decile. 43.9% of all responding MSB directors were in the top four deciles. In contrast, 31.8% of directors from small businesses were in the top four deciles and only 8% in the most experienced top two deciles. For large businesses, 33.3% of directors were in the 4th decile and only 20.8% were in the top four most experienced deciles.

When asked to rate themselves on a ten-point scale about their own ability to be a director (with 0 being least capable and 10 being the most) there was less differentiation. 53% of small business directors placed themselves at 7 or 8 on the scale. 59.5% of MSB directors placed themselves at 8 or 9 on the scale. 54.2% of large business directors also placed themselves at 8 or 9. In contrast to directors from small and mid size organisations, no directors in the large category rated themselves below 6.

The follow-up question regarding directors' own opinions of themselves very lightly reveals a common trait of all directors when it comes to their high self-confidence to do the role. This provides some evidence for the impact of the transition from a mid size to a large business. The survey suggests that experience that has built up over time within the company is lost or diluted when there is a shift in scale from mid size to large organisation.

Balanced perspective

During the focus groups and interviews, the participants were asked what it means to be an MSB. Some common binary themes emerged that referenced the experiences of both small and large businesses. Being in the middle and experiencing the best and worst of both worlds reveals the difference of an MSB as they tackle the types of challenges found in small and largescale operations. The opportunity to benefit from being an MSB is balanced on the ability to reconcile these challenges:

- Short vs longterm perspectives
- Accountability vs agility
- Formal vs informal communications
- Team vs individually led.

This balancing of difference was even cited as a quick barometer for defining an MSB by one participant, "because at that point, the CEO can no longer know everybody's name".

Balancing the advantages of size is also reflected in the structure of the business.

When your business becomes mid size, you have to start introducing processes – you need a management framework, a governance framework and a delegator decision-making framework.

In the slightly larger businesses, there's a bit of a structure and there's a format. There's a system, there are regular directors' meetings... there is a structure there. The small business that I'm involved in, I think it's tremendous fun because it's all a bit hectic really.

The big companies have got masses of resources, departments, directors at every corner. The smaller companies lack a lot of that and therefore are very much forced to rely on the expertise of a relatively small number of people and a lot of sites – you are doing a great deal of it yourself.

They [MSBs] have all the complexity of a large organisation, it's a really difficult middle ground to live in. Small businesses don't have to go into that world until they become mid size.

I think in small and mid size businesses, you're closer to the business. You understand who buys from you, why they buy from you, and all the key operational things that are conflicted with any strategic decision you're actually trying to make. And I think something that affects both SMEs and MSBs is the owner's shared interest that's across the board – which is not the case for large companies who tend to have anonymous shareholder models and therefore their perception of value and what values actually are, in many respects, is quite different.

Technology-driven productivity

The benefits of being an MSB were most evident in the focus groups around discussions about productivity. MSBs are more capable of linking specific actions with their overall strategic objectives.

This ability to act on the big picture was particularly obvious with themes relating to the deployment of technology, including:

- Sensitive use of technology
- IT-led and smart technology initiatives
- Automation
- Using resources effectively
- Use of metrics
- Workflow management
- Use of technology experts as NEDs.

Technology has the capacity for making MSBs more productive and more efficient. Some of these actions were introduced through necessity, brought about as a result of a skills shortage, while others were a consequence of being large enough to introduce enterprise-level technologies that could not be introduced into a small business.

The awareness of technology and its applications (as well as the recognition of existing shortcomings in the knowledge of the board) is further evidence that MSBs are the powerhouse for innovation within UK business, able to appropriately introduce technology to benefit business objectives rather than introducing it in a speculative or ad hoc way.

Implications and recommendations

We can propose a broad definition of an MSB as typically having an annual turnover of £10m-£149m and a 50-499 employee headcount. However, it is evident that this is not a clearly distinctive group and there are significant overlaps with small and large businesses that reflects the transitional phases of growth that continually occurs between categories.

As a category, MSBs are powerhouses of knowledge and innovation. The experience of MSB directors is an undervalued asset of the national economy. The skill of leading a company that has greater resources than small businesses but less structure than large businesses is a tremendous asset in terms of agility. The strategic identification and deployment of technology to increase productivity and efficiency also sets them apart from small business as economy leaders.

Their size enables MSBs to retain a close proximity to customers, while their ability to learn and act swiftly sets them apart from larger organisations. Size brings additional benefit when it comes to staff, with MSB leaders instilling a 'family culture' and considering the impact of growth on the valuable asset that is their people.

On this basis, the classification of MSBs should move beyond being solely quantitative to recognise their clear defining characteristics as being:

- Agile
- Cautiously innovative
- Contributors of social value

And having:

- (More) Experienced leadership
- Balanced perspective
- Technology-driven productivity

Not dissimilarly, Mittelstand is the German term that is applied to mid size firms – as opposed to larger listed companies. They, most importantly, are characterised by a common set of values and management practices rather than demography alone.¹⁵ It is time the UK adopted a similar approach.

We can also report confusion when self-classifying; MSBs do not clearly identify themselves as MSBs when they are defined through a single-dimensional demographic criterion such as turnover or headcount. This 'identity crisis' and the inability to identify themselves correctly means that the business support services and advice being sought and used by MSBs may not be the right fit to produce an effective or even expected outcome for their challenges and opportunities.

The relative lack of specific recognition and attention to MSBs within academic and industrial literature is both an indicator and a contributor to this lack of clarity surrounding this category of business.

Furthermore, the same lack of a clear and consistent definition for MSBs across government departments, professional bodies and researchers contributes to a 'forgotten middle' in UK business. The potential benefit of being mid size is lost amidst the (currently popular) agenda of supporting startups and the rich territory that large enterprises offer for egos, suppliers and advisors.

The risk resulting from this identity confusion is that the use of a specific term to target a group for support and assistance may fall upon receptive ears, but those who are the most responsive may very well not be the intended target audience for the offered service.

Failure to act will only perpetuate the current identity crisis with the resulting significant consequence of further marginalising MSBs.

Government, service providers, academic institutions, and MSBs themselves, must recognise 'mid size business' as a distinct category with its own inherent, positive characteristics and unique needs – rather than being solely a functional categorisation for tax or employment purposes.

The combination of an evidence-based definition for MSBs and identification of their priorities and challenges should act as a catalyst for government, vendors, suppliers, advisors and membership bodies to provide policy, regulation, services, solutions, support and resources that:

- Leverage and amplify MSBs' inherent characteristics
- Specifically address MSB issues in a contextual way
- Offer broad-based, contemporary advice that is not determined solely by the capabilities of vendors and suppliers
- Are credible and independent
- Dispose of verbose, nebulous or theoretical solutions, and focus on the practical, applied and usable
- Are affordable and easy to access in the privacy of the home or online, and on demand
- Enable clearer targeting of national and regional business support functions to optimise investment returns.

MSBs and Brexit

This research was conducted in a period of significant external challenge for all businesses. The consequences of governmental and industrial responses to the result of the 2016 EU referendum were all emerging as the research was being conducted. As a result, Brexit was recognised across all sectors and sizes of business as some form of challenge. It is worth noting that, as the survey was open for a year and responses were collected in advance of the leave date, these perspectives will inevitably have shifted (and possibly been further amplified) as the 2019 deadline approached.

MSBs particularly see Brexit as challenge

As more than half of mid size businesses (MSBs) export to the EU,¹⁶ it is no surprise that they in particular saw Brexit as a future challenge – 12.9% compared to 6.8% of small business and 8.3% of large businesses. The varying level of concern was also echoed with the prominence of Brexit in the upcoming agenda for board meetings. While some small (28.8%) and large (29.2%) businesses did regard Brexit as an upcoming agenda item, MSBs (43.8%) were much more likely to be including the issue in board meetings over the 12 months that followed the survey.

Short text comments gathered from the businesses surveyed suggested that the specific forms of concern regarding Brexit were varied. Many only identified uncertainty and general trading difficulties, e.g. “stability in a Brexit Britain”. Some went further by seeking to stabilise their current situation or even attempt to expand the business, e.g. “growing sales to outweigh the loss of margin following Brexit vote” and “maintaining and growing margins and sales due to wider impact of Brexit decision and resulting weak pound”. Many recognised the internal impact of Brexit in terms of increasing scarcity of resources and increased labour costs, e.g. “impact on cost and labour availability” and “recruitment and markets unstable due to Brexit”.

The higher level of concern and prioritisation of discussion at a board level by MSBs does point to a greater sensitivity to these particular external conditions than either smaller or larger organisations.

Brexit implications and recommendations

Directors’ responses relating to Brexit generally echo the broader public uncertainty relating to the consequences of the referendum and any future agreement with the EU. However, the higher level of concern and prioritisation of discussion at a board level by MSBs does point to a greater sensitivity to these particular external conditions than either smaller or larger organisations.

This correlates with the greater concerns that MSBs express about recruiting and retaining the right people. The larger population base of the EU, combined with the varying education systems of the member states, provides a wider pool of critical mass to satisfy the staffing needs of MSBs. Their requirement for specifically talented and skilled people at greater volume may also be a factor for their increased apprehension about Brexit.

Concerns regarding the certainty of access to the single market of the EU also point to the mechanisms by which MSBs have achieved their growth. The seamless business environment provided by the EU points to easier routes to success than developing new products and services or expanding within the UK.

For smaller businesses, the challenges of Brexit – although inevitably present – are overshadowed by their more pressing needs around ongoing access to finance. Large businesses, too, reveal themselves to have different matters to attend to – principally around regulatory and legal compliance. Although these types of concerns are connected to the outcomes of Brexit negotiations, larger businesses are already capable of operating in a continuously changing environment.

Given the disproportionate contribution MSBs make to the economy, government and academia may need to consider prioritising skills development and workforce supply for MSBs that directly meets their specific requirements. At the very least there should be greater levels of engagement directly with MSBs in tactical workforce planning, pipeline management and immigration solutions.

Domestic expansion was a key priority for MSB boards, which could potentially be a response to Brexit’s impact on impeding access to the single market of the EU. MSBs will need to improve their product and service innovation if they are to achieve this domestic expansion in what could become a highly competitive UK market.

MSBs should qualify for a greater priority with government to raise their concerns regarding Brexit preparations and in relation to post-Brexit strategies such as ensuring domestic competition.



MSBs and Productivity

In terms of regional productivity performance, the UK city region with the highest productivity levels outside of London is Bristol. The next tier for productivity are the Midlands and in the North – Birmingham, Greater Manchester and Leeds.¹⁷ However, relatively speaking the UK's labour productivity has remained low since its deterioration during the financial crisis and the subsequent recession. The nation's productivity levels have continually lagged behind peer economies and any recovery in economic output that has been achieved was the result of increases in employment.¹⁸

So productivity gains and the means to achieve them should be a top priority for all business and particularly MSBs. MSBs are more productive than small or large business, and recent research hints as to why: There is little difference in productivity performance across the foundational economy (retail, hospitality etc) indeed the main characteristics associated with higher productivity are: businesses which trade internationally; and/or are foreign owned; and the stage of development – not age or size.

If we are to close the productivity gap, mid size businesses must recognise how digital, machine learning, data and AI technologies – which are at the core of Industry 4.0 – can support growth, productivity and innovation.

Industry 4.0 is a name given to the current trend of automation and data exchange in manufacturing and service technologies. It includes cyber-physical systems, the Internet of things (IoT), and cloud and cognitive computing. Industry 4.0 is commonly referred to as the 'Fourth Industrial Revolution' and is recognised as having massive potential to influence productivity.

While technology, data and artificial intelligence (AI) received some attention from directors in their responses to the survey and during the focus groups, Industry 4.0 only figures as a response to a question about the upcoming agenda for directors' meetings. Overall, this response is low at 4.2% – particularly so considering the opportunity that the directors had to select multiple responses to this question.

Industry 4.0 has token awareness among MSBs

Both the small business responses at 3.8% and those of large businesses at 4.8% confirmed the general trend. Mid size business (MSB) responses at 6.8% were noticeably higher, which at least confirms that awareness was greater within this category of business. But as Industry 4.0 was the least selected option and significantly less than the second least selected option (cloud computing at 19.2%), the survey responses all suggest that this awareness is still a primarily token acknowledgement.

MSBs favour technology to drive productivity gains

They followed with the statement, "elsewhere, we're improving productivity by using technology more and more and sometimes it's forced upon us, sometimes we're doing it ourselves." This response echoed the overall theme that technology was being used successfully across a range of sectors to improve productivity.

What does productivity mean? Well, because I'm a COO, I care a lot about cost – and productivity is part of that cost equation. How do you do more with what you've already got? So productivity for me is sensible use of technology to help take out those activities that are not value-adding, things that you don't need human beings to do.

Productivity for me is using technology in a very smart way to improve how you do things and simplify your processes.

[Improvements in productivity are] nearly all IT-led, but in all sorts of areas. We've streamlined all of our HR activities through smart technology... I'm not sure whether it's better, but it's all been streamlined and we're looking out for those kinds of things all the time.

We don't always get it right, but when we do the productivity just soars and we need less people, we handle more calls.

It's usually led by technology, but not exclusively so. The other big part of improving productivity is actually telling people how they're doing against their targets.

MSB directors are sensitive to the human cost of Industry 4.0

There was some concern for what changes caused by the introduction of technology are bringing to the workforce, but there was also a sense that businesses are aware of the ramifications of these decisions and yet feel that they have little choice in employing technology solutions to improve their productivity.

There will be, "huge ramifications about people but it's much more productive from that point of view than was formerly, and most of our productivity improvements come from the right use of technology."

Productivity implications and recommendations

Industry 4.0 is a poorly understood concept across all sizes and sectors of business. It may be that there is some resistance to the term if it is perceived as a buzzword or one with largely academic meaning. The risk is that, without any intention to explore this theme further, many businesses are missing out on potential competitive advantages and productivity improvements.

Yet the UK's economic competitiveness relies on businesses recognising how digital, machine learning, data and AI technologies – which are at the core of Industry 4.0 – can support growth, productivity and innovation. While particularly technology-focused MSBs might recognise the value of these fields directly, the additive and integrative implications they present are not recognised in MSBs sufficiently, nor do firms currently have the talent at a sufficient scale and diversity needed to ensure they are able to adopt the benefits of Industry 4.0 effectively. As a consequence, there is a clear risk that the potential of these technologies and their ability to impact on productivity will be missed.

There is acknowledgement from the focus groups that using technology to improve productivity does have a human cost that some directors are considering in balance when taking their productivity decisions. This suggests a further need for firms to explore Industry 4.0 and its ramifications.

Skill shifts have accompanied the introduction of new technologies in the workplace since at least the first Industrial Revolution, but adoption of automation and AI will mark the greatest shift we have seen in recent history.¹⁹ The Fourth Industrial Revolution is happening now, and one of its most significant effects will be its impact on the nature of work and the jobs that people do. MSBs that do not keep pace with this development are likely to lose out to competitors. There needs to be a recognition that while Industry 4.0 may replace some jobs, it is just as likely to create new roles and responsibilities that organisations and their employees will be required to take up.

Additionally, failure to address the demands of shifting skills could exacerbate social tensions and lead to rising skill-and-wage bifurcation. The ability to ensure the former scenario – and ward off the latter – will depend in large part on how well the workforce is trained and how adaptable our companies and workers will prove to be in the face of multiple new challenges from automation adoption.²⁰

It is important to build industry foundations that underpin greater productivity and prosperity across the MSB segment. There are high-productivity companies in all sectors, and a good baseline of innovation in particular sectors and locations. But shortening the long tail of low-productivity MSBs means there is a need to drive up low levels of innovation and to get the digital business culture right.

There are, at present, a range of digital technologies gaining resonance, for example the IoT, AI, robotics, data analytics, additive manufacturing, cognitive computing and drone technology. However, it is not the particular technology that matters, but rather business' digital means and culture that allows them to be open to using evolving digital technology to innovate and make their organisation more efficient.

MSBs have proven national leadership when it comes to productivity, consistently outstripping small and large businesses. As technology presents new opportunities to do things more efficiently, MSB leaders will do well to adopt the philosophy that they cannot protect jobs, only their people. They must make a conscious effort to build agility, adaptability and reskilling capabilities into their organisations, while simultaneously retraining the talent they currently have to assist in the realisation of productivity and innovation strategies.

It is clear from the research that MSB boards need to be much more aware of Industry 4.0 and set clear strategies to define and apply its principles. All MSBs will be well served by the strategic consideration of the value of machine learning and AI technologies at the board and senior executive levels. This may take the form of, for example, an expert NED, specialist advisors, consultants, reaching out to local universities, the specialist training of executive and board members or briefings.

MSBs should also consider the established relationship between poor physical and mental health of workforces and productivity. Investing in the health and wellbeing of employees is proven to increase productivity and should feature prominently in human capital and productivity planning of MSB boards.

The risk is that, without any intention to explore [Industry 4.0] further, many businesses are missing out on potential competitive advantages and productivity improvements.



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MSBs and Technology

Responses from the survey revealed relatively few technology-based issues, and results indicate that technology is now core business and routine. In discussing the role of technology for the organisation, one director summed up a potential reason for the lack of specific consideration in board meetings by observing: “But technology is at the heart isn’t it?”

This observation finds some support from the survey when directors were prompted, in relation to upcoming items for board meetings, to prioritise key technology issues. Four technology-related themes were identified and prioritised as follows among all the respondents:

- Data protection (39.2%)
- Cybersecurity (34.2%)
- Social media (27.5%)
- Cloud computing (15.8%).

As this research was conducted around the time that GDPR was coming into force, that may have supported the prioritisation of cybersecurity and data protection.

For small businesses, this pattern generally shifted downwards for cybersecurity (27.5%) and data protection (35.6%) but increased for social media (31.4%) and cloud computing (16.1%). The social media emphasis may be explained in part through a greater need for smaller businesses to establish their market presence with digital marketing activities and channels.

MSB technology priorities include cybersecurity, data protection and cloud computing

For mid size businesses (MSBs), technology priorities increase with cybersecurity (41.1%), data protection (46.6%) and cloud computing (19.2%) but decrease with social media (24.7%). This shift in priorities from that of small businesses in relation to social media suggests a more mature marketing strategy and greater market presence coupled with an increasing regulation and compliance awareness.

For large businesses, priorities of cybersecurity (50%) and data protection (62.5%) increases significantly while social media (20.8%) and cloud computing (12.5%) both decline against the overall pattern. Greater regulatory and compliance responsibility partly explains this further increase over the MSBs. In addition, the increased awareness of cybersecurity and data protection appropriately also echoes the increased risk and exposure that larger businesses face in these areas from active cyberattacks brought about directly as a consequence of their size and visibility.

MSB board-level knowledge of technology issues varies widely

MSB reports of widely divergent levels of board knowledge hint at the difficulty of conducting board-level discussions around new technologies and their impact.

Well, I’ve got one board that has absolutely no knowledge whatsoever and no idea what you’re talking about, and then the other one... I’ve been mentioning some examples, they are really switched on ... This is the manufacturing and data security company, it uses robotics and it also uses some of the simpler forms of AI. It’s the one that doesn’t know what [new technology] is that I’m worried about.

There was strong evidence from the focus groups that the boards of businesses within the technology sector are capable of having high-level technology discussions.

The data security business, absolutely – it totally understands it. It’s dealing with a lot of confidential and personal information, so it knows what blockchain is – the strongest technology that you can actually use in terms of keeping that data secure and completely unhackable.

MSBs have the right scale to drive technology gains

Interestingly, one MSB director made an observation regarding what size of business should be driving technology change: “I think MSBs are best placed for that because the big ones can’t move quick enough and the small ones just don’t have the finances.” This comment reinforced the broader observation of MSBs that they should be able to take advantage of being in the middle rather than holding a perspective that they are trapped there.

Technology investments carry a higher risk for MSBs

This comment brought a number of health warnings from other MSB directors in the focus group: “If you get it right it’s a great investment, if you get it wrong you’ve got a box of robotics or something sat in the corner doing nothing.” While there was also acknowledgement that companies can learn from such failures, many directors expressed a cautious view that the majority of businesses could not financially sustain very many failures of this type.

The offers of technology service providers are not fit for MSBs

There were also discussions on the quality of technology providers available to MSBs, highlighting that their size as a business can be a problem.

The problem with technology providers is quite often that they’re small, insular and backward, still working with very old technology rather than cloud-based. It’s like, you know, what are you going to know about this?

This comment was followed by another focus group member who also found current IT providers not able to meet the technology needs of MSBs.

It just strikes me that we seem to always be the ones who have to take the initiative.

Technology implications and recommendations

Our research suggests that, where technology is central to an MSB’s core business (generally within the technology sector), this digital culture is strong – with high levels of technology fluency and competency among leadership and the board. It follows that, in these MSBs, it is easier to attract and retain board members of similarly high competency. Where this is the case, MSBs’ awareness increases noticeably around cybersecurity, data protection and cloud computing compared to small and large business.

However, it is also evident from the survey and the focus groups that levels of technology awareness and leadership are generally low within MSBs, especially for those businesses outside the technology sector.

MSB directors express great frustration when encountering a lack of technology fluency and comprehension at board level, revealing an inability to discuss technology or its value among directors. This makes it difficult to not only improve performance, but to identify the need to bring in this capability and retain it.

When it comes to technology, MSBs should be able to take advantage of ‘being in the middle’ rather than holding a perspective of being ‘trapped in the middle’. They are large enough to adopt new technologies, but small enough to implement surrounding business processes and transformation to fully realise technology investment. However, there was an agreed need from respondents for caution as many MSBs could not financially sustain many significant technology investment failures.

MSBs should take advantage of being in the middle rather than holding a perspective that they are trapped there.

With regards to technology service providers and advisors currently servicing MSBs, respondents felt they fell vastly short of their expectations and were perceived to be neither sufficiently proactive nor possess advanced competency. Most technology providers are seen to be unable to satisfactorily meet the needs of ‘tech-savvy’ MSBs.

It is possible that this perceived shortfall from IT and technology suppliers and advisors may be as a further result of poor classification, with small business providers attempting to service MSBs that have higher order requirements. Equally, advisors and providers to large enterprises may not see the opportunities presented by MSBs that need a sophisticated service provision.

One possible theory is that it is difficult for current and advanced technology providers to connect with MSBs due to the all-encompassing ‘SME label’ which currently applies. As a result, the MSB does not benefit from the advanced products and services which these firms offer.

To help address these issues, MSBs themselves (and particularly boards) should prioritise technology and develop a clear and explicit organisational perspective on what it means to them and its value to their organisation, and consider emerging and advanced technology centrally when planning.

No matter the sector, the boards of MSBs should pursue a digital culture and adopt technology-based productivity drivers (including digital substitution, automation and transformation, and better use of data, AI and machine learning) to ensure that they are getting the full value of the technology available to them and their competition.

Government and the public sector should do more, in regional areas and traditional industries, to shorten the long tail of MSBs that have not yet embraced digital culture or practices and strengthen their leadership capabilities in order to help them adapt and survive. Government funded and provided business support programmes should be focussed specifically on productivity and digital technology adoption.

At the same time, government, the public sector, and venture capital and private equity firms should support and promote our advanced innovators to scale MSBs in new industries – focusing on managing the impact of growth and transitioning to large enterprises.

Government, particularly local authorities, and industry bodies can do more to facilitate networking, meet-ups and niche summits amongst MSB entrepreneurs in new-economy sectors such as digital, data, machine learning and AI.

MSBs should additionally have processes in place to ensure their service providers and partners have proactive approaches, targeted to their specific needs and the capacity and capability, to support them effectively.

Equally, service providers and advisory firms should develop offerings and interventions that create demand from MSBs for technology and digital solutions while increasing their fluency, comprehension and internal capabilities.

MSBs and Finance

Access to funding and financial stability is undoubtedly a key challenge for small businesses. However, the responses from mid size businesses present a different picture. As a past challenge, finance-oriented issues were second (16.4%) to staffing and talent (19.2%). This positioning as a former difficulty and in combination with staffing could be interpreted as an historical reflection of the organisational transition from a small to a mid size business.

MSBs are in full financial control

As a current challenge for MSBs, finance (8.2%) is only of equal fifth importance and lies far behind staffing issues (21.9%). Future challenges for MSBs also focus on a range of other topics rather than finance (6.8%), behind even 'none/unknown' (9.6%) and the top concern of – again – staffing (17.8%).

This de-emphasis of finance is also seen in the focus of MSB board meetings. From a list of choices that could include more than one selection, 'financial control' only figured as a focus for 38.4% of boards while the broader topics of 'strategy' (68%) and 'company performance evaluation' (63%) were of considerably greater priority.

These responses should not be seen as disregard for financial issues, rather they suggest that finance-related issues were neither a challenge nor a priority. Indeed, when the directors were asked if they believed that their company had effective financial controls on a scale from 1 to 5 (5 being the most effective), MSBs responded with 60.3% at 5 and 27.4% at 4. This places 87.7% of the responses in the top two quintiles, with a significant proportion in the top quintile. By comparison, 54.2% of large businesses ranked themselves at 5 and 29.2% at 4, placing 83.4% of responses in the top two quintiles. 47% of small businesses' responses rated themselves at 5 with another 33.5% opting for 4, meaning 80.5% placed themselves in the top two quintiles. MSBs are therefore relatively more confident on the extent and degree of financial control they have in place.

MSBs are deterred by finance and financial service frustrations

The focus groups revealed universal frustrations with finance issues generally, as well as raising capital, grants, borrowing and dealing with HMRC – to the point where a consensus emerged that MSBs "no longer bother as the process is just too difficult". This, coupled with their low risk appetite,²¹ leaves them preferring to grow organically and resigned to having to deal with multiple bank providers simultaneously.

When you're in a big organisation, it's a bit like the old adage: if you owe the bank manager a thousand pounds he's after you, if you owe him a million pounds he's your best friend. I've been in big organisations where you need some help from HMRC or something, and it'd be a 'no' if you were a small or mid size business – but in a big business all of a sudden you're heard. And the same goes for raising finance.

Finance implications and recommendations

Current MSB views around finance represent a significant opportunity cost for the economy. While it is generally accepted that access to finance is a fundamental growth determinant for MSBs,²² there appears to be low demand from them due to ever-present frustrations.

This is likely due to an already very low risk appetite, repressed further by caution relating to reduced access to EU markets, and a self-belief they are sufficiently well resourced to engage in enough innovation to keep pace within this sector.

The research indicates that when it comes to financial control, there is the risk though that this is actually representative of a measure of conservatism in board attitudes to finance, and that better financial governance might support a willingness to look further for financing to support growth.

The failure of MSBs to recognise the importance of finance could represent a significant brake on their potential for growth. There is a need therefore to increase demand for finance among suitable MSBs by demonstrating its value and the potential it can create. MSB boards must consequently look carefully at the finances and growth plans, and work with funders to ensure they are leveraging the value of financing for their firm.

And when it comes to those who do want to access finance, the results align with many banking and finance industry reports and 'insight papers' which state that MSBs struggle to find the banking solutions they require or the finance they need to grow.

Acknowledging that MSBs have very different requirements and challenges with regards to financing in comparison to micro and small companies, the sector must better educate on its various forms and fit for MSBs and continue to improve navigation and access. Government, banks and other funding providers also need to look carefully at their advice, guidance and support for MSBs to help firms and their boards access appropriate and effective finances to support their growth.

The focus groups revealed universal frustrations with finance issues generally, as well as raising capital, grants, borrowing and dealing with HMRC.





▮▮ There was a real sense that they feel a deep responsibility for their employees' security and safety – they are connected to the people in their charge. This makes their contribution, and the nature of this contribution, even more important to the nation as both performance and leadership role models.”

MSBs and Workforce

GE Capital’s The Mighty Middle reports that execution and follow-through by MSBs will be key if they are to prevent a low-skill equilibrium and address the already present skills shortage. The term ‘low-skill equilibrium’ refers to the trap “in which the majority of enterprises, staffed by poorly trained managers and workers, produce low-quality goods and services”.²³ This happens when the supply of trained workers in the market is insufficient to meet demand – and for MSBs this is a past, present and future priority.

People are central to MSBs

All forms of staffing issues heavily dominate mid size businesses’ past (19.2%), current (21.9%) and future (17.8%) challenges, with it being persistently the highest ranked challenge.

This is also reflected in the responses for boards’ measures of success. While small (23.7%) and large (25%) businesses did identify staff retention as one measure of success at fifth place, MSBs (37%) had a slightly higher emphasis on this criterion placing it fourth.

Employee satisfaction and wellbeing were two further options for success criteria in the same question. For MSBs, employee satisfaction (41.7%/3rd) and employee wellbeing (30.1%/5th) revealed workforce issues as being just over one third of all the key measures of success (108.8/319.2 or 34.1%).

For small businesses, employee satisfaction (27.5%/4th) and employee wellbeing (20.3%/6th) clustered together shows that workforce issues (71.5/263.6 or 27%) are just over a quarter

of all the measures of success. For large businesses, employee satisfaction (41.1%/3rd) and employee wellbeing (25%/6th) revealed workforce issues (91.7/300 or 30.5%) are just over a quarter of all the measures of success but with much stronger emphasis towards satisfaction.

During both the interviews and focus groups, a universal theme emerged: “growth will not come at the cost of what we have created and value”,

often described as a ‘family-like culture’ – leaders of MSBs refer to this consistently.

However, when directors were asked their single most important measure for success, neither employee satisfaction or wellbeing reached 5% of responses overall or within any category of business size.

But, at the same time, you sell your soul to a lot of those organisations [large corporations] – in terms of your working hours, your work/life balance, what the expectations are... There are a lot of, particularly women, but men too, particularly parents that want some ability to actually work flexibly. In an MSB you can actually offer that flexibility. That’s something that maybe the FTSEs can’t do.

Skills and talent shortages are holding back MSBs, making this a top priority

When asked to identify upcoming agenda items for board meetings, the skills shortage featured in all sizes of businesses and overall was identified in 38.1% of all responses. MSBs identified an even greater urgency with 46.6% of the respondents flagging this agenda item.

There are a few reasons why MSBs feel this skills shortage the hardest:

- MSBs lack the brand awareness that larger companies enjoy and, with their names less widely known, they attract fewer applications from high-calibre candidates;
- MSBs in particular look for graduates, which is reflected in a below-par apprenticeships take-up;
- MSBs tend to seek fully qualified candidates rather than look for someone already within their ranks who is ready to advance;
- Lean HR teams tend to be more operational than strategic, making it hard for MSBs to field resources to fill open positions;
- MSBs are not progressively engaging in ongoing outreach to stock talent pools;
- MSBs have undeveloped retention strategies and career advancement paths; and
- Despite the fact that the middle market is responsible for most new job creation, the workforce initiatives and resources that do exist often focus on larger, more well-known companies. When public-sector resources do consider size, they tend to lump MSBs together with small businesses.²⁴

MSBs’ internal efforts to reskill not enough

The focus groups revealed many attempt to invest in and retrain existing staff but, for multiple reasons, this was not a reliable or sufficiently scalable solution to address attrition or growth demands. One of several respondents’ reference to internal promotion efforts cited prioritising existing staff in the first instance:

I have tried to get our financial controller to become our finance director because she is very good in the management meetings which are, sort of, the next level in senior management, but she doesn’t want to.

MSBs behind their EU peers on apprenticeships

Many of the UK firms are taking steps (or plan to take steps) to address the skills issue. However, only 37% of UK MSBs currently offer apprenticeships compared to 75% of German ones. Internships are offered by 33% of UK MSBs – well below the figures in France and Italy, and half the German level. This is indicative of the general lack of engagement with the apprenticeship levy in the UK since it was introduced in April 2017.

MSBs’ lack of diversity at board level, and the means to improve it

The focus groups also revealed the extent to which a lack of diversity of perspective, age, gender and ethnicity continues to be a major disadvantage, with the majority confirming few female board directors and little ethnic variance.

The MSBs that I work with all struggle to recruit good people because lots of them want to go and work for something, you know, FTSE 100 or something – they want the bigger corporate.

MSBs on the whole acknowledge the need for increased diversity on their management teams and boards. But it is questionable if this need is associated with value and the tangible operational and organisational benefits diversity is evidenced to deliver – rather, diversity is a box needing to be ticked.

While this aspect remains unclear, the means and methods to increase diversity within their own organisations were seen as universally difficult. One respondent offered:

We just can’t find any good women. All the good ones are gone.” Many were in agreement. Other respondents commented that their focus was on a diversity of knowledge and expertise across their boards.

These comments are ironic given the results relating to directors’ own capabilities to discharge their duties, with experience, leadership and emotional intelligence counting more heavily than technical skills.

Succession and continuity planning is a priority for MSB directors

Within the survey, some of the open-ended responses were revealing. Responses to the question, “As a director, what is the biggest challenge you have faced in the last three years?” produced some very direct succession statements such as “finding a new CEO” and “removing a CEO”.

Future challenges also mention the “need [for a] competent CEO to help drive the business and maintain a clear strategy for growth leading to higher profitability.” And elsewhere one response to “What activities are currently undertaken to improve the board?” included “one-to-one training for the CEO” and “refreshing the board”.

Although these are a small set of individually isolated comments, it does hint at significant succession planning challenges for businesses where the directors are prepared to share the insight. On rare occasions, there are signs that businesses are proactively dealing with their succession issues by, for example,

Currently undertaking a board succession plan and having already promoted three top managers to associate directors and, somewhat less positively, a restructure is planned to remove non-contributory board members.

Even at less senior levels of the organisation, retaining and recruiting the right staff is a consistent issue for all sizes of organisations. However, for MSBs it is significant to reiterate that it all forms of staffing issues heavily dominate past (19.2%), current (21.9%) and future (17.8%) challenges.

Exit strategy. Succession planning – it is an area whereby the focus is on development to balance sheet value, to enable shareholder returns, to enable business sustainability. It requires a different skill set to the skill set of managers ... If succession planning, it’s usually one of three routes: it’s either going to be somebody you know that’s going to buy in, it’s going to be a deliberate marketing exercise to attract acquisition, or it could be made to sustainably grow the business. So, all of those are in the mix here. The measure of the success of any one of those is actually the net worth of the company, which in turn will give you a share value. And that area there, the skill set that the management of the business have had to that point is not sufficient, necessarily, to take it through ... Succession planning is one of the biggest and most important areas that the board need to determine and regularly review because it can be very expensive, and it can also be the most critical part of your business model as a shareholder.

It’s a bit of a home topic of mine and I’ve had some success pushing the boards that I sit on to address it. Nobody really wants to, but I’ll always say, ‘look, you know, if you get hit by a bus next Friday, what are we all going to do?’ I don’t think we’re there by a long way, but on a couple of the boards, there is a very clear succession for the two or three most senior directors.

You can be attracted to go and work for the blue-chip companies. So there is some, kind of, brand work that needs to be done for MSBs to say why you’d want to actually work there.

We’ve managed to get across the fact that there’s the possibility of a career here rather than just a job. Nothing wrong with that – just a job – but here there’s a career, there’s a bit of a path... and to that extent we do have people who have come through areas, layers of management and that is a form of succession, I guess.

MSBs face significant challenges around people irrespective of the sector they operate within. And while leaders are aware of the potential crisis (focusing on the skills shortage was a top priority for MSB boards), they were less clear on how to address it.

Workforce implications and recommendations

Management author and educator Peter Drucker coined the phrase, “Culture eats strategy for breakfast”. Perhaps this is the secret to MSBs’ success? MSBs value people and they’re serious about it – with employee retention, satisfaction and wellbeing topping overall business success measures. At the focus groups, there was a real sense that MSBs feel a deep responsibility for their employees’ security and safety – they are connected to the people in their charge. This makes their contribution, and the nature of this contribution, even more important to the nation as both performance and leadership role models.

However, despite this advantage, MSBs face significant challenges around people irrespective of the sector they operate within. And while leaders are aware of the potential crisis (focusing on the skills shortage was a top priority for MSB boards), they were less clear on how to address it.

‘Growing your own’ (looking for talent internally to retrain and retain) is seen as a first step for MSBs that want to address their skills shortage. These businesses need to look proactively at this and have clear workforce development strategies. MSBs also need to seriously examine how they can use the support available in the education, training and development sector, as well as apprenticeships, to aid their workforces’ growth and development needs.

MSBs can also consider more mature and advanced retention strategies with clear development pathways, and strong internal communication and culture-building.

MSBs should consider adopting local employment charters, such as Manchester’s Good Employment Charter or London’s Good Work Standard, or developing their own to bring together and use employment best-practice.

However, achieving the right fit of skills for the specific needs across all levels of the business is difficult. For MSBs, this need is accentuated with the knowledge that the business must develop and innovate to succeed, but this should be undertaken with a degree of caution. Identifying this combination of abilities within individuals is challenging when it is further combined with a desire to fit those individuals with the specific ethos of the business. It is also not a scalable solution.

MSBs can use their size and defining characteristics to their advantage – they can attract employees by offering more opportunities to do meaningful work and contribute more directly to the success of the organisation. In addition, MSBs should consider better communications (using branding and marketing) with current and prospective employees to show what it is they have to offer and, for those in regional locations, the lifestyle benefits they pose to the city pool of talent.

Industry, educational and public sector groups can adjust their services and programmes to be more responsive to MSBs, while MSBs can utilise their community role and profile to mobilise local schools, colleges, other training providers, universities and councils around education, skills and training needs.

MSBs should consider NED or advisory expertise in workforce development, and particularly in talent retraining, acquisition and retention.

As MSBs grow and demand for talent increases, execution will be key – translating plans into reality will be crucial to avoid mid-market growth being choked by skill constraints.²⁵

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MSBs and Growth

Growth is not an urgent priority for MSBs, rather the outcome of doing things right

In discussing growth, a focus group member offered: “I think you should constantly be striving for more growth. The knack is to figure out how to do it.” This observation revealed a prevailing view of mid size business directors that growth is a routine aspect of their business rather than being defined as a specific, high-priority objective.

Growth was highlighted as a current challenge for only 11.5% of all businesses surveyed. For small businesses this rose to 12.7%, and 12.5% for large businesses. Only 8.2% of MSBs identified growth as a current challenge. This variety of responses to the growth objective is partially explained for MSBs by the responses that identify growth as being a past challenge. 11% of all businesses also identified growth as a past challenge. Only 4.2% of large businesses recognised growth as a past challenge, but 10.2% of small businesses and 13.7% of MSBs said growth had been a past challenge.

Strategy is a priority for MSBs

Around a third of MSBs reported that their recent past growth had been opportunistic. More recent converging pressures of Brexit, technology and shifts in consumer expectation appear to have focused leaders on taking a more strategic approach to growth.

Strategy and planning was high on the agenda for the directors and boards of MSBs (68.5%), but how they plan for growth appeared to be somewhat haphazard judging by the responses from focus groups. References to clear, shared and well-understood strategy or planning processes were notably absent and – importantly – the concept of growth versus general improvement appeared confused.

Boards are frightened of [models for growth]. They aren't aware of them and a lot of the companies, like McKinsey, Bain and BCG, have held them very tight. But they are very accessible and there's so much stuff online. I think those frameworks in terms of planning future growth, for example, are so useful for companies – so they could be adapted and brought into the boardroom. You know, things like McKinsey's strategic drift model, I think is really interesting.

On discussing key strategies, I find it a bit patchy. I mean, I've got some people who I work with and on whose board I sit who are incredibly alert to the future and opening up new avenues. Not all of them work, but they're up for it. And then there are others where, well, provided we just do a bit better than last year, that's good enough.

Domestic expansion was seen as a key priority for board meetings in the 12 months following the survey, with 40.4% of all directors identifying this theme in some way. Both small (39.8%) and mid size (41.1%) businesses echoed this general theme, although large businesses (29.2%) were putting less emphasis on this specific form of growth. The impact of Brexit is clearly influencing the short-term priorities of many companies.

Part of the growth strategy of MSBs includes managing the impact of growth. The job of growing from a small to mid size business is clearly a significant challenge for some directors. There was some discussion on the positive and negative impact of growth, echoing the balance of innovation and caution that hallmarks successful MSBs.

There's negatives and positives that come out of every growth surge, on any subject. Financially, there's huge risks with the increased growth; there's also increased resource risk with unplanned growth. I think if it was easy, everybody would be doing it. For me, the battle with growth is the biggest.

And don't forget most businesses go bankrupt growing and declining ... Funding your growth is I think the other thing to concentrate on. There's an awful lot of businesses that are declining, and dealing with growth is a lot easier than dealing with decline.

MSBs use a wide range of growth strategies

Mechanisms used by businesses for achieving growth and managing its impact were revealed during the focus groups. On discussing what approaches are adopted by MSBs, participants elaborated upon their experiences:

I was brought in [to the business] because they were hitting that [growth] problem. Property services businesses traditionally don't have more than 15 offices because, at that point, the CEO can no longer know everybody's names and run the business with just themselves at the helm. So, I was brought in to help get through the growing pains of having to put both people and technology infrastructure in place, and put controls in place that allow you to delegate better so your organisation can actually grow beyond the size of the CEO.

I've worked on boards of companies for a couple of private equity firms and the question that they always ask is 'is this management team the right team to take this business forward to the next level?' And I think they're asking that question because there is a difference in the size of the organisation and the pace of growth as to whether the current management team is capable and has the right skill sets to move the business to the next level. Often the person who grows the business [from] a small SME isn't the right person to take it on to an MSB, and the person that is isn't the right person to take it on to a large enterprise.

The themes that were revealed documented a range of strategic growth drivers used by MSBs:

- Looking for new markets – and particularly domestic expansion
- Innovation
- Commercial intelligence
- Customer intelligence and retention
- New staff (including leadership) to scale
- New structures, systems and processes to scale
- New technology to scale.

MSBs more closely balance growth and profit as measures of organisational success

A general collective awareness of the challenges to growth is hinted at when directors were asked which single measure, in their opinion, was the most important criterion for success. The overall emphasis of directors was on profit (40.8%) rather than growth (23.5%). Small business directors followed this pattern (with 41.9% opting for profit and 25.8% for growth), as did MSB directors (41.1% for profit and 20.5% for growth). Large business directors took a different view with profit (33.3%) and share value (20.8%) being regarded as more important than growth (16.7%).

When asked about the measures of success employed by their boards, the respondents were given a number of choices from which they could select any number. In all three size categories, 'profit' was the preferred choice over 'growth' (which was consistently the second preference). The ratios between the preference for profit and growth are more indicative than the value themselves. Overall, profit to growth was 73.8:62.7 or 1.18. Small businesses responded at 70.3:57.6 or 1.22, MSBs were 75.3:67.1 or 1.12, and large enterprises were 70.8:58.3 or 1.21. The suggestion is that MSBs more closely balance growth and profit as measures of organisational success.

Number one current barrier to growth for MSBs is staffing and talent challenges

The primary current challenges varied for each category of business. Small businesses identified that their primary challenge in relation to growth was funding and finance (15.7%). MSBs said it was staffing and talent (21.9%), while large businesses said it was internal change (20.8%). We expand on this issue under 'MSBs and the Workforce'.

Staffing and talent challenges are an ongoing problem for MSBs

Growth was not reported as the most significant past challenge for any size of business: for small businesses that was funding and finance (24.2%), for MSBs it was staffing and talent (19.2%), and with large enterprises it was regulation and compliance (16.7%). However, each of the factors identified can be regarded as bearing a relationship to growth and thus a potentially unrecognised causal factor at each category of organisation.

Growth implications and recommendations

The growth ambition, scale and pace for MSBs can be described as modest, with most directors recognising the risks, complexities and often negative effects that are associated with uncontrolled growth.

The organisations surveyed and the directors from the focus groups acknowledged growth as one measure of business success but were also cautious over its intricacies and the impact of growing. The relationship of growth with the introduction of greater risk into the company shaped the majority of perspectives.

This balancing of increased risk against greater scale that is brought about by growth, coupled with the general level of uncertainty created by Brexit, may explain why businesses are cautiously setting out to protect their long-term viability with strategic planning that incorporates multiple actions.

In an uncertain business environment, growth can be a risky strategy – and its measurement as an evaluation of sustainable business success can be equally risky. From this point of view, growth appears to be currently regarded as an outcome of good and profitable business activities rather than being a direct strategic objective or priority.

And while profit clearly predominated as the preferred measure of success across all of the businesses irrespective of their size, MSBs more closely balanced growth and profit, which also reflects the lack of growth planning and priority in this segment.

MSBs are in danger of confusing caution and consolidation with inertia and inaction. A failure to continually innovate and/or consciously and proactively plan in the service of growth – be it addressing new markets, products, services, acquisition, delivery or retention – will adversely affect MSB performance and stability.

It is recommended that MSB boards prioritise and clarify growth ambition and identify clear activities to achieve success tactically and strategically.

The professional services sector and government should provide appropriate, highly targeted growth and innovation programmes, services and resources. This will help MSBs better define strategic objectives and develop the perspective and capabilities internally to identify growth levers and design and implement growth activity.

▮▮ The growth ambition, scale and pace for MSBs can be described as modest, with most directors recognising the risks, complexities and often negative effects that are associated with uncontrolled growth.”

MSBs and Innovation

MSBs are cautiously innovating

Mid size business (MSB) boards have 'innovation' as their second most important agenda item after 'succession planning'. It is clearly on the agenda, but our focus groups also indicated how problematic the concept can be both in its definition and inherent risks. As a result, innovation brings cautious responses from MSB leaders. The reality for most responding businesses is that innovation is a continuous exercise in balancing caution with the necessity to take risks in order to keep pace with their sector and competitors.

The concept of innovation is unclear for MSB directors

What actually constitutes innovation is itself a point of contention among MSB leaders. Existing research literature indicates that innovation, in the business sense, is an area of ambiguity. Innovation was also a difficult topic to define for a number of the participants in the focus groups.

Responses included the confessional admission that businesses don't really know how to be innovative and are more likely undertaking adaptation, introducing new processes or improving what they do without specifically labelling this activity as innovation.

I think innovation and strategy get all muddled up together, and really some of the things we talk about when we talk about strategy, hopefully, some of it is innovative.

I don't think we're really doing innovation in the way that this group means it ... is it innovation or is it continuous improvement? Is it a step change, you know, which is it? That's what I did like about working for [a high street retailer], they understood the differences between those things.

We wouldn't hold our hands up and say, 'oh, we're gifted entrepreneurs'. We're not. We're probably rather good at running a fairly functional business, but the fear of being left behind means we do have a strategy group who are looking at things that might catch on.

MSBs are proven innovators and credible champions to advance us towards new-economy skills and a value-creation economy.

One participant in the focus groups referred to innovation as a form of copying:

"My rule was, if I saw something, somebody doing something new, and I saw it repeated at least once, that might turn into something that's worth copying."

For MSBs, innovation is about small and large outcomes

Our findings closely echo those of a recent report from the Federation of Small Businesses, titled *Spotlight on Innovation: How Government can Unlock Small Business Productivity*. This study confirms the report identification of the need for clear definitions regarding what is innovation. The report states that, "innovation shouldn't necessarily be seen as making radical market disrupting changes. Smaller incremental changes are just as instrumental for innovation and productivity." This observation will be a reassuring message to MSBs that are balancing change agendas with their stated aversion to high risk.

Innovation. Innovations. Innovative thinking, followed by action, tends to do things that you were doing before, but differently and better. That's part one. Part two is looking at the marketplace and opening up goods and services for emerging markets before anybody else – so, again, commercial intelligence.

MSBs disproportionately demonstrate 'value-creation' capabilities

Arguably it is the existing MSBs in the UK that are best placed to spearhead the scaling of these capabilities systemically as they aspire to increase revenues, create more full-time jobs, and race to embrace disruptive technologies such as AI.²⁶ MSBs also spent £3.8bn on research and development – over 20% of the UK's entire R&D spend.²⁷ Furthermore, a higher proportion of MSBs report that they are innovating more than small or large businesses, and obtain a greater percentage of revenues from innovation.²⁸ Finally, MSBs are destined to create new economic drivers – new solutions, new technologies, new capabilities, new business models and, ultimately, new businesses.

Yet our findings suggest that genuine innovation is a challenge for many MSBs. For the majority of businesses, innovation is a priority at board level. However, what exactly innovation is, whether it is important right now and how to achieve it remains unclear.

Brexit, the continuously changing digital environment and global competitive forces are elevating innovation to even greater importance for UK MSBs. For some, these pressures are pushing them to become more innovative. However, our evidence is that many MSBs are responding to these pressures with caution and using incremental changes – the most marginal of innovation – to only keep pace with competitors.

Innovation implications and recommendations

The UK's road towards a value-creating economy is one that is innovation focused – creating original ideas and intellectual property that can be exported globally. In contrast to a value-adding economy, a value-creating economy calls for more research and product development (rather than the more traditional focus on manufacturing, production and assembly) to move beyond producing incremental value or the mass scaling of existing value.

Value creation is about producing what the rest of the world is not, in order to command premiums and create competitive advantage. It is key to higher-order economic gain.

If we are to realise the ambition of Government's industrial policy and the supporting local industrial strategies, MSBs must work as an ecosystem of innovators, entrepreneurs, partner advisors and government supporters to develop three central capabilities:

- Productivity (including digital substitution, automation and transformation brought about through the advanced use of data, AI and machine learning)
- Commercialisation of new ideas from concept to deployment
- Business creation, incubation and scaling

Yet MSBs are constantly balancing the risks of failing to innovate against the possible failure of innovation itself. This is alarming as it creates the potential for significant risk to business: MSBs must remember that doing nothing (while the market, customers, consumers and competitors move forward) is the same as going backwards.

MSBs' ability to produce new solutions, new technologies, new capabilities and new businesses outstrips their small and large enterprise counterparts. However, it appears market forces are bringing increased levels of caution when it comes to innovation among MSB leaders – just when innovation is needed the most.

MSBs are proven innovators and credible champions to advance us towards new-economy skills and a value-creation economy. It presents an even greater risk economically if our epicentre of innovation and commercialisation begins to slow its cogs just when they need to be in top gear.

There is clearly a need to heighten awareness of the understanding of and desire for genuine innovation and its value for all MSBs – not just those pursuing high-growth objectives who are already likely to be firm subscribers. Critical to this is defining innovation effectively for MSBs so that businesses can recognise their eligibility to access additional support and funding. Further research and plain-spoken and practical support for MSBs focusing on innovation will help demystify the concept and encourage more open approaches to innovation.

The responsibility to act here is twofold. MSBs themselves, and particularly their boards, should prioritise innovation and develop an organisational perspective on it, its value to their organisation, and the methods to employ it. As part of this, MSBs need further awareness and clarity of innovation methods, tools, technology and techniques to embed and use in their businesses for both improvements and true innovation.

Equally, service providers and advisory firms can – and should – make the case for and develop offerings and interventions that create demand from MSBs for innovation and furthers their internal capability. Partnering with academia and firms in their supply chain on this agenda is also likely to help MSBs develop more innovation.

MSBs are constantly balancing the risks of failing to innovate against the possible failure of innovation itself. This is alarming as it creates the potential for significant risk to business: MSBs must remember that doing nothing (while the market, customers, consumers and competitors move forward) is the same as going backwards."

MSBs and Leadership Capability and Competency

Directors were asked to identify what one thing had most improved their ability to be a director. This was an open question, with the directors able to add any text they wished. The results could be categorised into seven broad options with a final category of 'other':

- Experience/time
- Listening/support from others (in other roles)
- Training/development/MBA
- Mentoring/coaching (external)
- Self-awareness/understanding
- Peers (internal)
- Memberships
- Other.

MSB directors see development as a personal journey

Overall 34% of respondents identified 'experience/time' as the key factor with 'self-awareness/understanding' a distant second choice at 14.6%. This second option was a more sophisticated response than that of 'experience/time' and was identified when the director offered a statement that was more than simply the number of years that they had been a director. But it did not suggest the influence of anyone else internal or external to the organisation. This means that 48.6% of directors identify their improvement as a primarily personal journey.

Experience/time determines MSB directors' ability

Directors of mid size businesses also preferred the option of 'time/experience' (34.2%) but a larger proportion opted for 'listening/support from others' (16.4%), 'training/development/MBA' (12.3%) and 'mentoring/coaching (external)' (9.6%) over 'self-awareness/understanding' (5.5%). For small business directors, 31.4% identified 'experience/time' and 16.5% stated 'self-awareness/understanding'. This again shows that 47.9% of directors in this size of organisation describe a personal development journey. Directors of large businesses, however, returned to the overall trend – with 'experience/time' (37.5%) and 'self-awareness/understanding' (16.7%) representing a total of 54.2% preferring personal development.

MSB directors are more experienced

Directors were also asked about their experience in terms of the number of years they had held this position and their own capability to be a director.

Directors of MSBs were the most experienced. We calculated all directors' experience into deciles and then examined the proportion of directors from each category of company (small, mid size and large) in each decile. 9.6% of MSB directors were in the most experienced decile and 21.9% were in the 8th decile.

43.9% of all responding MSB directors were in the top

four deciles. In contrast, 31.8% of directors from small businesses were in the top four deciles and only 8% in the most experienced top two deciles. For large businesses, 33.3% of directors were in the 4th decile and only 20.8% were in the top four most experienced deciles.

When asked to rate themselves on a ten-point scale about their own ability to be a director (with 0 being least capable and 10 being the most) there was less differentiation. 53% of small business directors placed themselves at 7 or 8 on the scale. 59.5% of MSB directors placed themselves at 8 or 9 on the scale. 54.2% of large business directors also placed themselves at 8 or 9. In contrast to directors from small and mid size organisations, no directors in the large category rated themselves below 6.

The second question regarding directors' own opinions of themselves very lightly reveals a common trait of all directors when it comes to their high self-confidence to do the role.

The varying experience of directors at different business sizes offers some evidence for the impact of the transition from a mid size to a large business. The survey suggests that accumulated experience built up over time within the company is lost or diluted as there is a shift in scale to the largest sizes of organisations.

In combination, these patterns suggests that MSB directors are somewhat more experienced than directors in other sizes of businesses and are as a result more open to different forms of development.

Directors' overall assessment of the capability of their boards came through in the focus groups and reflected in a continuum of opinions. For example, the attitudes and experiences of board-level training activities ranged from observations about the lack of adequate and relevant opportunity or provision through to the opinion that director-level training was a personal activity. There was also the belief that training was only ever undertaken for compliance reasons, as well as strong assertions that structured and continuous training was essential.

The composition of the board also influenced their capability. Some directors acknowledged the impact of personal ego influencing decision-making processes and the many ways that this can reinforce the "old ways" of doing things that can stifle innovation.

Discussions concerning diversity also generated another continuum of opinions. Encouraging diversity on the basis of gender or ethnicity was not always seen as a way to improve board capability. Instead, many directors expressed preference for what they regarded as a more direct solution to any capability shortfalls by emphasising the need for identifying the rights skills or intellectual ability in new directors.

MSB directors value experience, including leadership and emotional intelligence, more highly than technical expertise

MSB directors value experience, including leadership and emotional intelligence, more highly than technical expertise. Feedback from across the focus groups concerning leadership and competency was authentic and generated much discussion.

I'm not sure people really understand the difference between being a senior manager and being a director. It's a huge step and I think it's one of the problems we have in MSBs because actually we have lots of senior managers pretending to be directors...

The role of a director in an MSB, I think, isn't so much about the 'professional managerial' model – I think the fundamental core issue is leadership and their leadership style. I'm much more interested if somebody is aware of their emotional intelligence than they are about some of the more technical skills.

Others were more candid and gave a more 'brutal' opinion on board competencies required for a growing business. The issue of experience in contrast to capability was a highlighted concern.

One board member provided insight on bringing in capability to a small, family-run business that was experiencing growing pains:

These people have grown up with the family business or have grown up knowing and respecting each other, and the board doesn't change that much unless people retire. A lot of the time they want it [the family business] to look like them – and I go in when there's problems – and really the last thing they want in the world is me, sort of, joining the team.

MSB directors are somewhat more experienced than directors in other sizes of businesses and are as a result more open to different forms of development.

The insight from experienced directors regarding board competency and leadership was telling:

But, I think when you set a business up, you do, you put your heart and soul into it, and you've got all this angst and this worry about whether it's going to work, and what you're going to do if it doesn't, and then when it does, you kind of do give yourself a bit of a pat on the back and think, wow, this is brilliant. We're doing a great job. I do think there are egos sometimes. People think ... we can do it better than everybody else, because look what we've done and look what we've created. But, I also think that that becomes very stagnant. We set our business up 14 years ago, and we were great at what we did 14 years ago; have we really developed ourselves? Have we developed the way that we do things? I don't think we have. I really don't. We've still got the same values that we had when we set the business up; we're still very focussed on our clients, very client-driven. We want to delight our clients. That's what's important to me, is to make my client happy, so they come back to me for business. I think, again, when you think to yourself, should we bring in a non-executive person, or somebody with a fresh set of eyes and a fresh set of ears and some fresh ideas, to maybe give us some guidance, kind of the hackles come up, and it's like, well, no, we don't want to do that because we don't want someone taking over our business and telling us that what we've done for the last 14 years now should be done like this.

Some directors acknowledged the impact of personal ego influencing decision-making processes and the many ways that this can reinforce the "old ways" of doing things that can stifle innovation."

Leadership capability and competency implications and recommendations

MSB directors are more open to different forms of development. The key things they felt most improved their ability to be a director were experience and time, listening and support from others (in other roles), training, development or an MBA, and external mentoring or coaching.

MSB directors' overall assessment of the current capability of their boards, as opposed to individual capability, varied widely.

However it can be concluded that most directors had at some point experienced boards possessing directors who were 'passengers', 'old-school thinkers', 'driven by personal ego', 'incompetent' and 'business celebrities'. This coupled with a lack of diversity reinforced "old ways", stifling innovation and reducing board capability.

It can also be concluded – on the basis MSBs face unique (and very challenging) growth and management requirements – that experience, including leadership and emotional intelligence, counted more heavily than technical expertise as a determinant of MSB director capability.

There was a further caution for MSB directors to more fully understand the difference between operational leadership and directorship, and importantly hold the ability to discern the necessary skills to recruit and manage capable board members.

This theme can be expanded into the need to objectively determine when the business has outgrown either the operational executive team or the board, or both. Being aware of this and able to act was seen as a significant obstacle and had an impact on board capability and business performance.

The survey and focus group indicate that there is still much work needed by the majority of MSBs to improve their board capability and competency. While diversity is regarded by directors as 'token' or 'imposed' requirements, rather than a key route to improving overall business performance, the pace of this progress will be slow.

Key recommendations for MSBs to lift and maintain board capabilities can be summarised as:

- Match board roles, skills and competencies to the trajectory of the business
- Use professional and robust recruitment practices (including psychometric profiling) which prioritises experience, broader leadership quality and emotional intelligence
- Learn about the value diversity can provide and ensure diverse representation on the board and in senior leadership positions (and acknowledge that there is enough talent to not sacrifice a skills or culture fit to do so)
- Establish programmes for regular individual professional development
- Make space for regular board group professional development
- Instill a culture of board evaluation, self-renewal and succession planning.

On the basis MSBs face unique (and very challenging) growth and management requirements – experience, including leadership and emotional intelligence, counted more heavily than technical expertise as a determinant of MSB director capability.”



MSBs and Professional Memberships

Most insight regarding mid size businesses' relationship with professional memberships came through the focus groups. As an overall theme, the relationships with providers can be generally described as negative.

Professional membership is not catering for MSBs

Most directors felt that the professional services sector was primarily geared to servicing large enterprises. They felt that accessing professional services was either expensive or locked them into wide-ranging contracts that included services not relevant or useful to their business.

The sentiment around the membership of professional bodies dramatically increased this negative perspective and garnered much debate.

The (organisation) is a membership organisation like any other and it's rubbish.

Yeah, it's a dusty organisation. I've met people for a coffee or lunch and they have no desire whatsoever to join it.

I never joined the (organisation) because I just thought they were irrelevant.

I think the professional bodies need new board members, people that get people to interact and do more with their membership. I don't believe, in 14 years, we've gained anything from being a member of the (organisation).

I'm an ambassador for the (organisation) but I'm appalled, absolutely appalled, that the (organisation) membership is massively SMEs but their board is made up 'from the great and the good'. They don't represent the membership at all.

I've been a member for 25 years for the airport lounges and the places in London to meet.

I was a member of the (organisation) until last year and I was a member for 24 years ... it's become a marketing organisation more than anything else and therefore I haven't had any benefit. What I have had benefit from is where the bank has organised peer group sessions with other chief executives. We've come together and we've exchanged the issues that are facing us and we've found that very beneficial. And it was the bank that arranged it.

I think the jury's out on [whether membership organisations add value], and has been for the last 30 years. The organisations that are out there that the MSBs can join, they must only do so on the basis that they're going to make it work, they're going to play a proactive part.

Despite the generally negative tone, there were some benefits of memberships identified by directors in the focus groups:

I would say that professional membership of some description is a good thing for people who sit on boards ... because being a member of a professional body normally comes with some conduct or some kind of standards, and the discipline and ethics that you get from that are invaluable.

Directors generally felt that the effectiveness of membership was low. This opinion was coupled with concerns over the relevance of the agenda of the professional body. Some directors went as far as to describe the professional bodies as "old school".

Directors did describe alternative ways of working with external bodies and individuals, citing more informal channels such as meetups and networking groups set up by, for example, banks.

Most directors felt that the professional services sector was primarily geared to servicing large enterprises."

Professional membership implications and recommendations

Robust, contemporary, professional bodies usually benefit members and the profession by improving one or more of the following five categories: productivity or professional status; social mobility; governance; ethical standards and policy formation.

However, directors of MSBs express the feeling of being the 'forgotten middle' most vocally in relation to professional memberships. The financial commitment needed to access these services and bodies outweighs the perceived benefits for most MSBs. The lack of diversity in terms of gender and ethnicity as well as skills and knowledge was a concern expressed by many directors, including those who were sometimes less worried about the lack of diversity on their own boards.

This highlights the need for professional bodies to be exemplars of the expectations that directors have in relation to their own board's activities and composition – particularly around modern philosophies and practices, and diversity of age, ethnicity, perspective and gender.

Membership organisations should consider providing support, resources, information and services that:

- Specifically address MSB issues in a relevant way
- Cover broader-based and more contemporary topics
- Are credible and independent
- Dispose of verbose, nebulous or theoretical solutions and focus on the practical, applied and usable
- Are affordable and easy to access in the privacy of the home or online, and on demand

In addition, the most beneficial support that MSBs could receive from professional services and membership organisations would be to employ professional and contemporary practices to elevate, acquire and retain appropriately skilled and diverse talent – starting at the board and senior leadership level.

The financial commitment needed to access these services and bodies outweighs the perceived benefits for most MSBs.

Conclusion

Mid size businesses (MSBs) make a disproportionate financial contribution to the broader UK economy. They are particularly vital to regional economies and in their role as employers. However, it is their far greater contribution as masters of new-economy skills and value-creation capabilities that warrant government and industry recognition of MSBs as a defined and distinct category – as well as the provision of targeted, relevant resources and support.

Through this research and report we have shone a light on the often ignored middle segment of UK businesses. The report offers a definition of an MSB that we would recommend for adoption – recognising, as it does, not just the size and scope of MSBs in staff and financial terms, but also the character of this segment in the UK. We would encourage government and the wider business support community to recognise and use this definition to help better distinguish and support the MSB sector.

Germany's Mittelstand are characterised by a common set of values and management practices, rather than demography alone.²⁹ It is time the UK adopted a similar approach and stopped lumping MSBs in with small businesses under the term 'SMEs'.

The importance of providing MSBs with a classification – a definition of their unique features, challenges and opportunities – should not be underestimated in terms of the direct value it provides to them in the search for, and provision of, relevant and therefore effective solutions and support.

Fuelling MSBs – removing obstacles, and helping them to better traverse the impact of growth and to realise their ambition – makes both economic and social sense. This is because MSBs possess a mastery of many of the sought-after capabilities needed to be economically competitive in the future, including R&D, innovation, invention, incubation, scaling, IP development, technology-driven productivity, and the adoption of digital technologies, data, machine learning and AI.

MSBs also lead differently and in a more people-centred way than large enterprises. They measure success in human terms and are sensitively aware of the profound impact technology and Industry 4.0 will have on the people in their charge. This is yet another critical value they offer the UK economy in an intensifying contest for skills and talent.

Despite this considerable contribution and rare value, MSBs have both a crisis of identity and confidence – and it is little wonder as their gains have been hard fought and won with little acknowledgement or support.

MSBs don't see themselves as MSBs; when looking in the mirror of confusing and widely varying industry classification, they are unable to recognise themselves and identify with common and universal signatures of the segment. This sets them adrift from their peers and bouncing off the pinball-machine cushions of services for small businesses and large enterprises – caught often in the no-play zone.

For the majority, the lack of confidence which ensues is exacerbated by Brexit, the skills and talent shortage, and growing technological and digital challenges. This manifests as a tempered growth ambition, cautious innovation, strategies to consolidate and maintain sustainability, and improvement-led productivity. MSBs' similarly conservative attitudes to financing may act as a further brake to growth.

This is a tremendous opportunity cost for both MSBs themselves and the wider economy, which will be felt most by regional communities upon which community prosperity relies so greatly. While some MSBs are ambitiously growing, and at the forefront of driving value through technology, this remains a subset of technology-oriented firms.

MSBs are in danger of confusing caution and consolidation with inertia and inaction. A failure to continually innovate and/or consciously and proactively plan in the service of growth – be it addressing new markets, products, services, acquisition, delivery or retention – will adversely and directly affect MSB performance and stability.

In driving growth, genuine and radical (as opposed to incremental) ambition and innovation is needed. MSBs can be more consciously connected to the innovation ecosystem, working closely with their supply chains, universities and the innovation support available to drive this agenda. All MSBs have potential benefits to be gained through developing a genuinely digital culture and in understanding and enabling the productivity benefits of the Fourth Industrial Revolution. Industry 4.0 is here and now, and the nature, scale and scope of MSBs means they are ideally placed to reap its benefits.

As MSBs grow and demand for talent increases, they can, and should, do more to retain and retrain their current and future employees. This is particularly true in thinking about succession planning, and in developing the capability of their senior teams and boards.

For MSBs, boards are an active and influential function, setting their ambition and direction. MSB directors, NEDs and chairpersons should feel proud of their achievements in the context of the findings of this report. However, a new wave of challenge and complexity is approaching – boards will be well served to put in place priorities and practices that ensure an understanding and application of technology-driven productivity gains, Industry 4.0 (including but not limited to data, machine learning and AI), innovation, strategies for leadership and board diversity, success planning, skills acquisition and general renewal.

Alongside the opportunities for MSBs, there is a clear need for government and the commercial ecosystem to be much more aware of the distinctive nature and needs of MSBs. Government, service providers, academic institutions, and MSBs themselves, must recognise 'mid size business' as a distinct category with its own inherent, positive characteristics and unique needs – rather than being solely a functional categorisation for tax or employment purposes.

The combination of an evidence-based definition for MSBs and identification of their priorities and challenges should act as a catalyst for government, vendors, suppliers, advisors and membership bodies to provide policy, regulation, services, solutions, support and resources that:

- Leverage and amplify MSBs' inherent characteristics
- Specifically address MSB issues
- Offer broad-based, contemporary advice that is not determined solely by the capabilities of vendors and suppliers
- Are credible and independent
- Dispose of verbose, nebulous or theoretical solutions, and focus on the practical, applied and usable
- Are affordable and easy to access in the privacy of the home or online, and on demand
- Enable clearer targeting of national and regional business support functions to optimise investment returns.

It's time to act, and a simple classification has the potential for profound impact should Government, industry providers and MSBs themselves recognise the category and respond accordingly.

If MSBs are to maintain their current economic contribution as well as realise national and regional industrial strategy ambitions, particularly in the context of Brexit uncertainty and a skills and talent shortage, they must evolve by leveraging their defining characteristics and resolving weaknesses.

Government and industry recognition of MSBs as a distinct category and the provision of tailored policy, regulation, services and support is a binary requirement for success – and long overdue.

MSBs themselves must lead this evolution with a focus on leadership diversity, emerging technology fluency, technology for productivity gains, innovation and contemporary workforce acquisition and retention.

The combination of an evidence-based definition for MSBs and identification of their priorities and challenges should act as a catalyst for government, vendors, suppliers, advisors and membership bodies to provide policy, regulation, services and resources that fuel and amplify MSBs contribution to our economy and our communities.



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Emotionally, business leaders must let go and learn to keep hands-off at various points to seed and grow the business. They need to hire really well and often employ people that aren't like them."

The Life and Times of a CEO and Chairman of MSBs

Tim Brooks

Serial Chairman

I've spent a good proportion of my career in businesses with a high public profile, especially in the media industry. What I've found is that, in some industries, you have to be large to compete. The media industry, on the other hand, has always been a sector in which you can start small and grow big – or be bought out by one of the bigger companies. You don't have to be large to be a success."

It's perhaps also true that many creative-sector managers are home-grown and self-created, so you're much less likely to encounter people with an MBA compared to other industries. Lots of these people will be self-taught or taught by the leaders they've replaced as the boss, so their management skills are mixed in quality. It's difficult to generalise about such skills in any sector though.

The creative sector is extremely cut throat: there are more publications per head in the UK than anywhere else in the world. There is a ferocious competition which requires absolute focus from leaders and managers. So they may have learnt some bad leadership habits, but this fierce commercial environment has forced them to be extremely good at creating a business that survives changes and can work at a fast pace.

Is dealing with MSBs different to dealing with other types of businesses?

I once lectured to the MBA class at London Business School, and many of the students there had paid for their tuition. The majority had worked for very large companies and now wanted to start their own small business employing 5-10 people. Many of them were moving away from the impersonality of the large corporation.

Every small business wants to become a mid size business (MSB), and that is probably the biggest challenge – bigger than moving from a mid size to a large company. If you think of a chef with one restaurant, on a Saturday night they can probably see everyone they employ, they can see the product and the customer, and they get instant feedback – it's almost the perfect business because you're able to control everything at a glance. The move from that to an MSB and multiple sites is that you can no longer be as personal, you have to lose control. This is a huge leap for people to take, especially as they need to regain the creative spark that got the business going in the first place.

Emotionally, business leaders must let go and learn to keep hands-off at various points to seed and grow the business. They need to hire really well and often employ people that aren't like them. This is hard for those who don't yet have good experience with recruiting.

How do you grow from an MSB to a multinational business?

Once you go beyond one territory, you have to be much more rigorously organised and have a more diverse workforce. If you're a British company but you're trading successfully in other countries, you have to have people of those countries working for you. The idea you can just send out a UK team to run the business in a foreign environment is fanciful.

When you find yourself in the position where you have diversity, you have to formalise things more – the team have to understand the differences they will encounter working with people from different backgrounds. You need strong governance and processes for risk management and to deal with multiple legal frameworks.

It probably sounds incredibly boring, and what you need in those situations is people that don't find that boring – people who are good at process management to keep you on the rails.

What have been the biggest lessons as a CEO of a multinational MSB?

When I became CEO, our company was trading in India and the USA – but it wasn't working. The first thing I did was hire an MD for each country, including one to lead our expansion into China. That was quite a risk, so we had to spend a considerable amount of time making sure those MDs understood the culture and the nature of the business. It paid back in spades, however, because our UK growth was capped and international opportunities were plentiful.

One of my big learnings was around an individual that was quite wrong for our business. We wouldn't have known about it except, as part of our cultural management, we live-stream our management team meetings. That meant any employee could watch our meeting on our intranet. People across all our offices could see how respectful and courteous we were and how we made decisions together – we collaborated really well during these meetings. After watching one of these meetings an employee from one of the countries had the guts to contact me to let me know what was going on there and how it wasn't aligned with our culture. As a result, we dug deeper – and ultimately had to let that leader go. It was a big lesson for us, and we put more controls in place to reduce the likelihood of us getting key overseas appointments wrong in the future.

How do you convince a board to expand internationally, and how do you manage the risks?

In terms of the risk, it wasn't a no-brainer – it was a substantial change to the shape of the business. The compelling argument though was that we had low or no growth in our domestic market and high potential for growth elsewhere. When you expand overseas, there is a risk of burning the money and not gaining traction, but there is also a bigger risk that if you don't do it and your competitor does, they are going to get bigger and you will get smaller.

We hadn't done enough risk mitigation, but we instituted a programme of job swapping between countries to build a web of connection between territories that are personal and institutional. When those personal connections are made, the office overseas becomes real – not just an entity that delivers income. It becomes personal to everyone in the business because that's where John or Sharmila work, and we know those people and we like them.

The bigger point though is that when the business grows, communication is essential – the workforce cannot read your mind so saying something important in a very clear way and repeating it frequently is a vital part of the success of a larger organisation.

We also displayed printed posters on the wall with the company's ambitions – the actual things we were trying to do. The average employee on £30k per year does not walk around thinking of your corporate objectives 24/7 so this is what we used to keep them informed.

How do you manage companies with a large public profile?

Businesses with a large public profile have a great deal of colour about them, and people set out to work with them because it's where they always wanted to work and they share its values. When I worked for the New Musical Express, everyone who worked there loved rock music.

One of the challenges of that colour and having people with very strong personalities and conviction in your business is that when you want to change, it's very difficult. I led The Guardian, a company that's journalistically led, through the digital change as we launched the first news app in 2007. During the change, it was really important to get good developers into the business. Attracting them to work for us wasn't hard, but once they were there it was a struggle for them to get heard over the voice of the journalists. We were losing good people.

The big shift we made was to sit the developers next to the news desk and, people being people, they spoke to each other and these walls started to break down due to increased contact. The journalists realised that the developers had good ideas and the skills to improve the way they were able to tell their stories. Journalists would present their concepts for stories to these new people, and with their digital skills they would work together on an infographic or a way to bring the story to life and increase the engagement of the reader. Once this starts to happen, attitudes and then behaviour changes as a result.

What have technical innovations added to the industries I've worked in?

At The Guardian, we used to be very wedded to focus groups of readers, listening to what our readers think of our work. Our editors were obliged to sit on the other side of a two-way mirror and listen to what our readers were saying about what they didn't like about our publications. One of our competitors had a debate with me as she felt that this was crippling my editorial team, saying that I didn't trust them. However, their views were vital to us.

Most of our editors lived in a bubble in the middle of London and didn't meet their readers very often, so they didn't always know what they thought.

UX is now used, and we get proper user feedback right from the start of the development of a story or product. Unfortunately, we now have developers who don't always take account of feedback regarding UX, but we can overcome that. User feedback can be gained in more ways and it's very sophisticated, so we don't need to hold those small focus groups anymore – instead, we can have hundreds and thousands of people giving us real-time feedback by using our sites and reading articles.

What are the key differences between being a chairman as opposed to a CEO?

What I enjoy most about management is helping talented people to flourish and achieve what they are capable of within a business. And as a chairman, you're in a unique relationship to the business' CEO and management team, and you have a great opportunity to really help those people. If they're smart, they will ask for your advice. Sometimes you just have to tell them what you think. It can be very rewarding, helping people avoid the mistakes you made. Also, it's very lonely being an MD or a CEO, you cannot share all your concerns with your management team because they are looking at you to make decisions and get them right. You especially can't share concerns about whether your team are up to the job they need to do. So the CEO can share their problems with the chairman and they can give them a real perspective and sounding board.

However, as chairman, you're ultimately acting on behalf of the shareholders. That means you're also judging the CEO's performance, and that can make things tricky sometimes. I learned early on in my management career that if someone isn't right for your business because of their behaviours or actions, then they need to leave, and you need to be the one to make that decision. As CEO or chairman, you can't be best mates with your colleagues or fellow board members because there is a relationship there that involves evaluation and some distance and objectivity.



Entrepreneurs: Victims of their Own Success?

Helen Sachdev

NED, Chair and Co-Founder

WOMBA (Work, Me and the Baby) Group Coaching Consultancy



In my experience, you still use the vision and capability of the entrepreneur to drive the business – but you give them far more capacity within their business to achieve the vision.”

Entrepreneurs that are used to leading the business as an SME often struggle to grow the business any larger because, while they are very capable people, the limits of their capability define the limits of their business. There are often insufficient management structures and processes in place to help the business get to the next level.

SME business leaders can be a victim of their own success because one person can only do so much. As a COO, I was able to help leaders put the structure and processes in place to double the size of their businesses and ensure they keep on growing.

The secrets to growth

In my experience, you still use the vision and capability of the entrepreneur to drive the business – but you give them far more capacity within their business to achieve the vision.

I focus on the right things for each business, but this generally consists of three main things:

– IT systems

Cloud based systems developed in an agile way

– Management layers

Clear role definitions and robust processes

– Growth strategy

Helping the leader see outside their own knowledge areas and apply their insights to a broader market using data and analytics.

The speed of change

When a business moves from small to mid size business they need to change. The speed of implementation needs to be led by the appetite within the business.

Some are more keen than others to make changes – you need to find the open doors, the enthusiasts. Bit by bit, we are able to change things – but this happens over time, not overnight.

Can leaders and executives lead the change alone?

When people talk about training, they are often thinking about classroom learning. But if you think of skills transfer, training is only part of that mix.

Demonstrating how work gets done, and passing on those skills, is more important for leaders in order to release capacity and have confidence in others to run the business.

The value of coaching

In high-pressure roles, people need a coach. They may not understand it when they first meet a coach, but it can be the most valuable thing in your career: someone to talk to and reflect with about your own management style and approach to work, and someone to help identify the things that are holding you back.

I found the experience of being coached so compelling that I decided to train as an executive coach myself. I can now pass these experiences on to other people.



Lawyers need to be accessible – not just in terms of being on the end of the phone, email or messaging service, but in the way they communicate complex legal points in simple and clear terms.”

The day to day work of my team concerns advising businesses on how to achieve their objectives by protecting and leveraging the intellectual property (IP) which they own and use.

Innovation and intellectual property are central to the growth and development of mid size businesses (MSBs) and are seen as high priorities for CEOs.

MSBs are generally clear on the direction they want to grow as a business, and they know how to deliver their products and services effectively. MSBs have the ability to really leverage their IP to achieve their commercial objectives. We work collaboratively with management teams to develop and execute a company's strategy for this. This close relationship benefits both us as an advisor and the business as a client.

MSBs may have legal advisors in-house or directors with a good knowledge of the law. Investing in these key relationships allows us to advise, not in a vacuum but within a strategic framework which we develop with the client and in the context of a good understanding of the business.

When MSBs are sure of their strategy, they are better placed to use professional services. They become sophisticated users of professional services and clear on what they want to achieve.

What MSBs Should Look for When Engaging a Legal Partner

Laura Harper

Partner – Intellectual Property

Shoosmiths LLP

What we have learnt to do is make sure our services are delivered in an accessible way to support client goals.

What should MSBs look for when engaging a legal partner?

The quality of advice which a business will receive from a leading law firm is accepted. However, other key elements which are not always a given can be broken down into three elements:

1. The lawyers should have a good knowledge of your business sector and the challenges within it. The reputation of the lawyers in the field you work in (and their reputation for delivering commercially accessible advice) is the first thing to look for;
2. You should understand how the law firm will work with your business. Ask how the team will engage with you. Sometimes a partner will carry out your work but then will soon push it down to the most junior lawyers. That might be great for cost in the short term, but in reality, you will probably benefit from a partner-led approach where you are supported by the wider team. Even if most of the day-to-day work is conducted by junior members of the team, this approach means that you have a joined-up service and that the work is going to be managed properly; and
3. The lawyers should have enthusiasm for your business and an appetite to help you reach and achieve your business goals. Your legal partner needs to have an empathy for what you are doing, and you should be able to gauge this from your initial meeting with the lawyer.

Once they've engaged a legal partner, how should MSBs expect them to work?

Firstly, lawyers need to be accessible – not just in terms of being on the end of the phone, email or messaging service, but in the way they communicate complex legal points in simple and clear terms.

Lawyers should also have great sector knowledge so they are not learning from you “on the job”. Checking that the team share the same resolution-driven approach to matters helps avoid protracted correspondence on particular issues.

What are Shoosmiths doing to help MSBs develop IP and business strategy?

We work with MSBs in various ways. We generally start by conducting ‘smart’ IP audits for companies whose business strategy is defined by the IP they produce, use, market or sell. We have a human-centred design approach; we put the client at the heart of the process, identify the problem we want to solve – whether it's growth, investment, product development or market positioning – before sitting down with the stakeholders in the business and immersing ourselves in the challenge with the client in the context of the business IP. We then run through potential resolutions to the issue, and this is followed by the implementation stage where we work with the client to put the optimum resolution into effect. The beauty of this process is that we work with the client at each step to determine required results.

MSBs are the perfect size of business

MSBs are large enough to be significant players in the economy and small enough for us to work directly with the board and become a valuable member of the team. We have invested of ourselves and in specialist products for these businesses, and our empathy for the companies has been key to successfully supporting MSBs.

We have a ‘can-do’ approach and a willingness to get involved with businesses as much or as little as required so that we can understand the organisations we are working with and offer advice beyond a purely legal perspective. A resolution-driven approach is absolutely how legal services should be delivered.



Be brave and Value People

Ken Lindsay

Chair and Non-Executive Director

Cambridge Nutritional Foods Limited



The battle for talent is fierce and you need to put resources behind their personal development in multiple spheres – help them to achieve both within and outside your business.”

Be brave and invest when necessary. You need to always be forward-looking and always thinking of the future. Many owners want to take money out, rather than invest for the long term. Depending on the ownership structure, you will need to approach these conversations differently.

Part of the role of the board is to have these conversations and try to persuade the owner(s) to invest appropriately rather than always take out every penny of profit. It's not just investment of cash either – it's also being prepared to do things better than your competitors, to take people off the front line and supply them with what they need in order to think of innovative solutions to problems.

Owners and the board need everyone aligned, excited by the vision and bought in, in order to pursue growth. One individual has to start the process, but there's no point in going ahead with the investment unless you can sell it to the entire business.

It's a bit of a dark art – being courageous and ambitious about what's possible, but also daring to dream big. You must accept that something may take two or three years, even with a level of urgency, to have an impact on your business.

What's your view on engaging the customer?

Do you really know and understand your customer, and do you know your market? It can be easy as a mid size business to become quite insular. If you're falling behind, are you aware of this? You can't be if you don't understand your customer. Do you know what your customers' challenges are? You need to do whatever you can to achieve this. Businesses should be increasing the opportunities for senior managers and leaders to interact with customers, but you have to do it correctly.

You've got to always keep the customers in mind as your single most important priority. You must be willing to ask them what they think, educate them, and sometimes take a risk to delight them with something that they will really value and that makes sure you stand out from your competitors.

Value your employees, win the battle for talent

Businesses are run by people, so be willing to invest in your staff – train them well, celebrate their achievements and assist them in developing new skills. And find ways to say thank you to them for going that extra mile, whether that is through cash or simply by publicly acknowledging them in front of their peers.

It's about how you view your employees. Do you get the most from them by command and control management, or do you see them as individuals? Does the CEO recognise them as human beings? Are you open to helping them where you can as a business, and are genuinely seeking their ideas that could help you too?

What about when times are tough and you need to reduce costs?

I've worked with businesses who have had to make large numbers of redundancies. I've also worked in stressed businesses where they have worked with the staff to reduce costs. Employee-led reduction in staff costs took longer and wasn't perfect, but it can sometimes work better than forced redundancies in many cases – it all depends on the culture of the business.

We can't always avoid redundancies, but we can always treat individuals as humans – even where we have to make hard decisions. Managers must take responsibility for these decisions and carry them out in a humane way so as not to lose customers or valuable people. Everyone watches how you deal with people during tough times and they judge you partly on how you go about making tough decisions.



Accessing Capital Markets

Bod Buckby

Head of UK Primary Markets – North

London Stock Exchange



MSBs' challenges are around trying to define a strategy that has clear, long-term growth and will be attractive to the market.”

The primary way we help mid size businesses (MSBs) is through providing access to capital. Whether you're looking to invest in new technology, attract the right people, export or grow overseas, it all needs money to make it happen. That's what we do at the London Stock Exchange.

Every year, billions of pounds are invested through London. Investors are looking for fast-growing MSBs that will be the next big companies of tomorrow. It's our role to help companies find their voice and get their story out to the market, while at the same time finding the investors for those companies.

AIM has been incredibly successful as a growth market. In Q3 2018, over 80% of all the capital raised through European growth markets was through AIM. This is what it was set up to do: to help high-growth businesses.

Investors and risk

AIM is designed to give a more flexible approach to regulation and governance. We are conscious that, by running a growth market, we are dealing with dynamic companies. They don't necessarily have the infrastructure of a FTSE 100 company and shouldn't be bogged down with over-governance, so we provide the conditions for investing in those sorts of companies.

What are MSBs' challenges when raising capital?

These are not just businesses that are dependent on current market conditions. MSBs' challenges are around trying to define a strategy that has clear, long-term growth and will be attractive to the market. The ones that are successful are generating recurring revenues and are building value for the long term.

For example, AJ Bell, a financial services company based in the North West, has recently had a successful IPO because they have a very good reason to invest: a customer-orientated platform that they have built and that is highly attractive to the public market because it can be scaled up easily.

Which companies are most attractive?

Investors are generally realistic about growth rates (we don't all expect to see the next Facebook or Amazon), but they are looking for businesses that are ambitious and can likely scale internationally – companies with huge penetration in the UK that are well placed to deliver products and services overseas.

It's our role to help companies find their voice and get their story out to the market, while at the same time finding the investors for those companies.



Leading an MSB: Creating the Best Leaders for your Business

Peter Collins

Chairman

Fast Forward Growth



As an SME becomes an MSB, it's important that the leaders gain the ability to recognise and be aware not just of their surroundings but also of how they are acting and influencing those surroundings."

It's hard for an individual leader to say, 'if I were to change, would I be happier and a better leader?' Finding the answer to this is further complicated by a lack of connectivity to new knowledge.

An MSB leader must recognise that not only is professional development important in order to keep going, but that personal development equally needs to start and run parallel to it.

The acknowledgement of this issue can only be done with external help from independent sources. It facilitates their own particular thinking to come to a conclusion where they recognise the problem and are then prepared to do something about it.

For leaders to decide on what particular professional development courses or groups are suitable for them also requires this external independent help. Those that were available when they were smaller are now not appropriate to where the company has moved to. They can't just do the same course they enjoyed when the company had 10 employees.

So, what is the best training and development resource for MSB leaders?

The range of products in the marketplace that are relevant for mid size and large business leaders are quite small and very specialist. They are almost always residential programmes.

One of the greatest training and professional leadership development businesses in the world is the British Army. Some of their techniques have been taken into private ownership and operate at locations around the country. They are always fully booked so you need to plan attendance 12 months in advance.

They are aimed, in the main, at improving your self-awareness as a business leader. It's not the type of programme that ends with a performance report to the company; it's very much designed for you to discover yourself to a greater degree than any of the programmes that most people attend as they start their career.

||| An MSB leader must recognise that not only is professional development important in order to keep going, but that personal development equally needs to start and run parallel to it."

How can we measure the ROI for these types of training programmes?

It's really simple. It's been proven many times. The best example I can give is Clarks Shoes. As they grew, they did a really large step change a few years ago and nobody could quite understand why this step change had occurred and sales had gone through the roof. The year before they actually used one of these awareness programs to send their entire senior management team on.

When their Leaders went back to their areas of control, they had a completely different attitude and really focused on utilising their own self-awareness and utilising their strength to provide a very clear, very simple environment. Their areas could operate not only really well but also they'd actually created a lot of enjoyment in their area for their teams.

All senior managers were interviewed about 18 months later on and they said the programme they had been on was life changing.

Dealing with leaders when the business outgrows their skill set

If someone has been with a company in a leadership role, the company can outgrow their skill set. These people end up really lost and not sure what to do, so we see them being moved around the organisation – from commercial director to operations director, and so on.

The company is trying to find a hole for them, where really they should be confronting the issue for the benefit of the individual concerned. Not only do they need to recognise the problem, but they need to come up with a strategy to move forward to a solution.

But the problem is really much more personal than you would think. This is not a business problem, and when you recognise there is a difference and you focus on the person, ask: "What is it that we need to do to help you get through this phase of your career? What is it that we need to do to take away the stress you are now suffering?" Companies must focus on the individual in front of them.

One of the best things that they can do is basically say, "okay, let's both accept that there is a problem, let's find a way around it that works for you personally" – because if you can fix the personal issue, you inevitably end up fixing the business issue.

On so many occasions I've seen this problem. Between the business and the individual, we've agreed that we need to try and help them resolve this thing in their career, outlining what we need to do and asking if they are prepared to do it. We can then expose that particular individual to a high-level self-awareness course.

Quite often at the end of these programmes we either get a completely reinvigorated individual who bears no resemblance to the person they were before they went, or we get someone who has decided, "I've got to this stage in my life, I recognise that I'm not at the right place, I need a different career and I need to make a step change." They have been exposed to a greater understanding of themselves and the role they play, and of the relationships they have developed with their environment and the people around them.



Getting the Balance Right

Keith Faulkner CBE

Chair

Twin Group



Decision-making should be widely spread, and direction-making should be based on wider inputs rather than the loudest voice in the room."

Mid size businesses (MSBs) want to grow, and they often need an investment of cash to achieve this. How to develop the working capital you need to go into new markets without losing too much control is the challenge though. Investment for MSBs is not well supported by the banking sector, so you need to look outside of that.

At one of the companies I was chairman of, we went on the journey of raising capital, but we rejected them in every case because the investors wanted too much control or their ambitions did not align with ours. We used brokers for this, but even with a thorough evaluation and good introductions we still couldn't find the right people to work with us. Ultimately, we met a dead end, and further down the road we ended up selling the business and losing complete control in order to find investment. This can lead to a situation where the senior management team leaves, the culture of the business changes significantly, and much of what you built is effectively destroyed. It's a shame.

Finding the right balance in the business

Employee recruitment and retention is a big component of a successful MSB, so you have to create an environment where they want to stay with the business. If you're doing a good job and people like working for you, bigger players will want to poach your staff. This is a good sign and, if you're doing all the right things, more often than not key staff will not be blinded by the big lights and will want to stay with you on your company's journey.

Getting the governance right in an MSB is also vital. You'll need the input of executive managers and non-executives to the business but won't have the structures that larger organisations have. That can lead to an operational bias: too many people focused on running the daily aspects of the business, and not enough people concerned with direction, the future and how to get there.

In an MSB, you often have a chairman or CEO with a long history with the business. These people are quite charismatic, and they have a big say in who else joins the board. It then becomes hard to hold a difficult or challenging discussion around a future direction because they are all too close.

Decision-making should be widely spread, and direction-making should be based on wider inputs rather than the loudest voice in the room.

What's the impact of getting things wrong in the boardroom?

Some businesses do not operate in the same way that they would like to think they do. People closer to the front line can't always recognise the view of the business that leaders have. Therefore, leaders can sometimes take a short-term decision based on opportunism rather than a properly worked-out plan. As the chairman, you need to use the strategic plan to hold the tension. A good relationship that holds the tension between operational needs and strategic direction is essential to making good decisions for the business.

There should be more rigour around the strategic plan. If you only look at your strategy infrequently, then you are not addressing the issues you need to. For example, if you are looking at the strategic opportunities for overseas development and identify a target market as the project progresses, there may be local economic or political volatility that is counter to your original assessment. An operations team that wants to press ahead regardless can lead to financial disaster, while a knee-jerk withdrawal can let in a braver competitor. As new information emerges, you should assess it in the light of your strategic purpose as well as the short-term financial implications.

If you do open up your business overseas, you need to have a person in-country leading it – and you must stay close to them. You need to ensure they know your business and they understand and can replicate your company's values.

Just as in your domestic operation, as CEO or chairman, sidestep management occasionally and have a chat with anyone you see around the office. The more junior the better – they are far more likely to give you the unvarnished truth.

How to recruit your board and make good decisions

Ego often can get in the way of running a business. You have to be very careful who you recruit. Too often you will find people in the team that the CEO can be very comfortable with – they have cloned themselves in their team. You need people who think differently to you. Values are critical but you need diversity of talent and personalities to create the tension in the top team. Accept that you will make mistakes and build a team around you that will save you from yourself.

You need to put a significant investment in market analysis and pulling out data from your business so you can be as certain as possible that you are making decisions based on hard evidence. Too often, businesses make mistakes based on gut instincts – on opportunities that haven't been properly assessed.

Growth – most of us want to see it. You don't stand still in business. But too many people get focused on revenue, and it's easy to increase. More importantly, you should look to increase profit.

This becomes apparent much later in the business cycle and causes management to then spend time explaining why it wasn't as high as it could have been. It's part of the symptom of an operationally focused board. You should instead look to increase the cost to competitors of entering the market. Accumulating profit is key to this.

The importance of avoiding too much management

Most companies are over-managed. They have too many people in the middle and not enough people in the field. If you can somehow open up the business and involve your staff more often, then you'll have a better business. You need to remove the clay layer (the middle of the business) and get senior staff closer to the issues on the front line so they can understand the organisation better and communicate with their teams more effectively.



Sidestep management occasionally and have a chat with anyone you see around the office. The more junior the better – they are far more likely to give you the unvarnished truth."



Are MSBs in Constant Transition?

Marcus Moir
Non-Executive Chairman
Archwood Group



Mid size businesses (MSBs) are too big to rely on the effort and energy of the founders, but not big enough to have huge teams of people putting in place very expensive systems and processes.”

They are inevitably in a transition status, always looking to grow and learning what they need to do to achieve growth.

New jobs and new challenges for MSBs

The new job of the management team in companies that reach MSB status is to stop managing the product and the customer, and start managing the infrastructure of the business.

They need to begin making the tough decisions about where to allocate resources, knowing that if the investment doesn't work, it can take you backwards not forwards – and this is a big risk to MSB leaders.

How to break through to being more than an MSB

In order to break through from an MSB to an enterprise business, you must have either an excellent approach to sales and a large market to sell to or an excellent product with a huge demand that sells itself.

MSBs sometimes feel as if they are in constant transition; they are between an SME and an enterprise business – sacrificing the lifestyle aspects of the former to go through significant pain points, but not being so big that they have the comfort and the clout in the marketplace of the latter.

Sales challenges as you grow

SMEs can often sell the founder's story and they have the challenger brand appeal. As they grow to mid size, there is a lot of SME in their DNA. They are still excellent at sales and product development, but the difficulty is that sales teams tend to be restless and harder to please – so retaining good talent in that department becomes more difficult.

They no longer can sell the founder's story, they become embroiled in disputes over sales targets, and they start to demand more. Additionally, they can start to cause problems for the production or operations side of the business in order to reach their targets. MSBs need to learn how to manage this and still grow quickly.

The new job of the management team in companies that reach MSB status is to stop managing the product and the customer, and start managing the infrastructure of the business.



What to Do When Your Membership Renewal Comes Around

Jean-Philippe Perraud
General Director
NEDonBoard



Whilst it is difficult to measure the impact of professional bodies overall, recent data indicates that professional qualifications in general add, on average, more than £150,000 to an individual's lifetime.”

Professional bodies are increasingly important in developing professionals to meet their career potential and overcome the challenges they will face. This benefits not just the individual but wider society as well.

Joining a professional body should provide professionals with a range of benefits, these include the opportunity to stay up to date with current news, regulation or other developments in their industry; to network with like-minded professionals who wish to discuss and learn about similar topics, or perhaps meet with those that can provide a difference of opinion and perspectives; to connect with experts for advice and guidance; to find a means to track and prove professional development and employability through well-regarded courses and events; and so on.

Sometimes, however, professional bodies can miss their mark. It is apparent that directors of mid size businesses feel that some professional bodies do not provide the value to their members that they should. For example, in our ecosystem (i.e. board of directors), there is a discrepancy between the needs of board members and what is provided. In a very fast-changing world, some bodies might be perceived as old school or out of date.

Robust, contemporary, professional bodies usually benefit members and the profession by improving one or more of the following five categories: productivity or professional status; social mobility; governance; ethical standards and policy formation.

The importance of trust

Providing foundations upon which a profession and the public's understanding of it can be based enables trust within and of the profession to be established. Trust is an essential component of a professional body's existence and purpose. Setting technical or ethical standards, which are adhered to and developed upon through a professional's career, provide a basis for this.

The value of professional bodies

There are very diverse needs and interests of practitioners working in MSBs, which constitute the majority of professional bodies' members. In many cases, the role of professional bodies is currently focused on providing a secretariat function to support the work of volunteers, rather than specialist best practice – and they do not hear and act upon the needs of their members. Key to the success of professional bodies are their abilities to:

- Maintain a strong moral compass (i.e. safe environment)
- Encourage excellence and authenticity
- Support leaders who embrace innovation and progress
- Champion and demonstrate honesty and integrity
- Position themselves as a disruptor (e.g. at NEDonBoard, we promote and provide opportunity for more diversity in the boardroom)
- Develop highest standards
- Provide a platform for the community and ongoing professional development.

MSB leaders should look for professional bodies that, in the main, deliver these benefits and to continue to adapt to suit the needs of their members, their industry and those of the public.

If they don't, then it's time to reconsider the value of your membership and if better value can be found elsewhere.



Growing Pains, Joy and the Importance of Being Innovative

Tony Foggett
CEO
Code Computerlove



A sustainable way to deal with growth is to focus on creating the conditions for people to fulfil their potential, rather than introduce controls and processes that get in their way.”

Once your business reaches a certain number of people (too many for a single person to manage – over 100), I’d describe that business as mid size. After this, the complexity you have to deal with in terms of corralling those people into doing the things you need them to do is of a much higher level than for a smaller SME.

Looking back, we have gone through what were probably quite predictable stages of change as we responded to the challenges that growth brought. As we moved from a small to a mid size business, we started spending time on the company rather than working in the company.

There was definitely a stage we went past – for us it started around 30 people – where we had to reorganise ourselves to deal with the new complexity that more people brought. This invariably led to a need to systemise aspects of our process and introduce measurement to focus and understand performance.

As we moved from a practitioner role into a leadership role, we had to focus much more on creating clarity and embedding it in the business. We started to think about where we were going, what the plan was, and how to steer the business to that future. Apart from having to communicate with a greater number of staff than we ever had to before, we faced the challenge of getting them to collectively adapt to the changes we saw we needed to make.

How did that impact on you as one of the leaders?

As an individual, there was a moment where I started to understand that my role was managing the business and the problem – I wasn’t particularly well prepared for that!

I was an accidental leader, a practitioner at heart with an instinct for leadership. I was running a good business, but the growth brought challenges that I was unprepared for.

What impact did growth have within the business?

The positive impact of growth has been the opportunities it has created. Growth has opened the door to working with bigger brands, more exciting work, attracting better staff and, from a personal perspective, has meant that my job has remained challenging and I have continued to grow professionally.

The negative aspects come when the changes you make to deal with growth start to impact on your culture and the recipe that had delivered your success in the first place. For example, as a small, sub-20 company, we were operating as a high-performing team that benefited from the efficiencies that great team dynamics brought. As we grew, we introduced layers of management, and did predictable things like move our practitioners into departments and introduce roles focused on efficiently trafficking work through the business. Of course, there was a hidden cost to all of this in terms of the silos we had introduced and the lack of staff motivation due to the removal of autonomy. It taught me a valuable lesson as a leader that a sustainable way to deal with growth is to focus on creating the conditions for people to fulfil their potential, rather than introduce controls and processes that get in their way.

As we have now become part of a much larger business, we have experienced some of the new challenges associated with larger silos of different P&Ls and centralised services such as HR, finance and operations where making broad decisions can be done at a group level. These decisions are often driven by what the person in the position of responsibility can control, and they don’t always consider the long-term impact they might have.

I’ve also witnessed, in some of the larger organisations we have worked with, the inefficiencies created by individuals building their own empires or pursuing agendas to benefit their careers.

It’s rare that these individuals are actively trying to be disruptive, more that the measurement frameworks that define whether they are successful or not drives non-collaborative behaviour and prevents togetherness as a business.

How do you solve these problems?

As an SME, we did it with a combination of non-executives that brought some wisdom and progressive insight to us, and the employment of more experienced people in the business with better ways of doing things.

We had the exuberance of youth on our side and, in some respects, this naïve confidence did us a favour as we weren’t frightened to experiment with change. However, the experience these people brought showed us the full picture and put the issues we were facing into context.

Funnily enough, in later life I’ve now understood that sometimes just getting moving with things is more important than being right about them or getting them perfect – so you need a balance.

Do you have any guidance on how MSBs should approach innovation?

If we’re talking about how we keep evolving the way we’re doing things as an organisation, then perhaps that requires more of an iterative evolution – and there’s an aspect of innovation within that. If we’re talking about real, new product development and being first to the market, that’s a different kind of innovation.

I think innovation and attitudes to experimentation and change is driven to quite a large degree by the personalities of your leadership team. I personally am excited by change, and I’m always interested in what’s next – or slightly paranoid that we need to keep moving and adapting.

The challenge is to make this central to the culture of your business, to ingrain it within the belief system. In a new world economy, you need to be running continual experiments to improve your business just to keep up with the competition.

Part of the way to do that is to design continual evolution into the day-to-day habits, routines and way you organise yourselves as an organisation. This both democratises innovation and makes it unavoidable. At Code, we look for certain qualities in potential new team members when we recruit; we expect our staff to be constantly improving themselves and the world around them, and we reinforce this through our hiring and career progression routines.

I think, because of the nature of being a digital business, innovation is also to some extent what we sell – our job is ultimately to help organisations navigate the opportunity that digital creates.

We purposely built the flexibility to be innovative into our business. We’ve standardised some things and created a way to run our client work that is quite robust and streamlined. Then around that we have created more autonomy within the structure of the business and the way we operate.

More recently, we introduced some lean methodologies to give us a much more outcome-oriented approach to innovation. When I talk about culture, it includes the methodologies and the actual processes we have in the business, not just what our values are. We are what we do.

What’s the best training you’ve been on? And how did that help you as a leader?

One of the things that has helped us grow is being able to step foot in other places and come out of our bubble. To see other organisations and how they’ve done things has moved us forward because our perspectives have shifted.

From a training perspective, the most valuable thing I ever did was go on a leadership course with a Swedish training organisation called Hyper Island.

It was at a time when we were starting to face the complexities and difficulties caused by the very things we had introduced to deal with our growth.

Inevitably, the processes and changes we had introduced to manage the growth had started to undermine the ingredients that had driven our success in the first place. We started to lose the very magic that had got us to that point. As we saw inefficiency grow, we dealt with it by concentrating more and more on the outputs – trying to control profitability and introduce new business to increase revenue, rather than stand back and look at the inputs.

Ultimately, Code is a talent business; our success is dependent on our ability to attract, retain brilliant people and help them fulfil their potential while they’re here. The Hyper Island course allowed me time outside of my organisation to look in and get a different perspective.

I studied our business model and the value profit chain, and I started to see that we were going about things the wrong way. For the first time, I realised that it wasn’t my job to have all the answers – and I recognised that some of the things we had introduced to improve short-term effectiveness had actually undermined people’s motivation and reduced their autonomy to do the right thing. I saw that it was my role was to set the direction, define the lines to work within, and provide the right platform for the brilliant people I’d brought into my business to perform.

The programme was aimed at accidental leaders like me. It was practical and experiential – learning by doing, which was perfect for me. It provided me with many different tools mainly focused on self-leadership, collaboration and continual learning. I brought those back, embedded them in to how we work, and they are still there today.



The first point to make is that the situation a mid size business (MSB) is in can be very different to that of an SME or large enterprise. They therefore need different advice and help.”

I enjoy working with diverse companies, and it's rewarding to work with failing businesses to help turn them round – either for investors or for the employees. As a non-executive, you have to work out what the owner or CEO wants. Often, they are not honest with you because they don't want to admit what state the company is in. Not all owners are capable at directing and/or motivating the management teams to do what is necessary in order to make the business successful.

What mistakes do MSBs make to get themselves into a bad situation?

There are so many reasons why an MSB gets into a bad situation – one very common one is that the company grows too big and too fast for the management team that it has. The owner has a highly geared business and wishes to retrieve their investment, but they haven't developed a successful strategy or motivated the executive team. This then leads to the sensitive matter of the owner needing to change the team around them.

What's the most important skill as a chairman of an MSB?

In my view, studying Law was the best training I ever had because it taught me objectivity. To be a non-executive, one of the greatest qualities to have is to be absolutely unemotional and impartial – about the people, about the company, about the future.

It's hard to retain that objectivity as the company grows. Usually this happens when the company has performed better than you expected – you get drawn in by the bright people who are looking forward to the future. If they perform worse than expected, it helps you retain your objectivity.

As a non-executive, it's a serious risk to go along with the flow. You must always believe you are adding value. If you're not, get out.

Be Objective and Brave Enough to Do the Unthinkable

Nicholas Jeffrey
Non-Executive Chairman
LSE Retail Group Limited

Do certain sectors have particular challenges?

Not really. If you look at my CV, you'll see I've been in many sectors. I find this fascinating, but I come back to the salient question: is the risk ratio of cost to reward too high? Very often, it is – and sometimes you have to be upfront and tell people that. For example, a company I'm working with now sells the same product that it did when it was struggling but in a completely new way. The problem with the business initially was that the management could not face the change.

The bright future only emerged when the company went into administration. We had got all the money back for the investors and they couldn't resist calling the debt in, taking their money out and leaving the business broke. The result was a management team in situ that knew the old model didn't work. So we started a new business model with the same product and it's proven very successful.

Management teams very often have an emotional attachment. You need a ruthless objectivity.

What tools and techniques are used to turn a business around and retain objectivity?

Honesty and bravery. You have to be honest with the people you work with because they have to trust you. You have to be brave enough to think the unthinkable and tell the executive your thoughts. The minute you lose the trust of the management team, it's over.

I've just started with a new company and I can see already that it's going to be very hard to change the culture. I asked them several questions: "What's your ambition? Are you up for the changes that need to be made?" The reality is that, with an ageing population and new diseases, the need for and use of their services is changing. What I need to find out is whether the management team recognise that, and if anything can be done to resolve the matter.

I also need to work out what the other people's views are and what their vision for the company is. There will be people that don't agree, and some people we have to leave by the wayside.

It's not about being a dictator; you have to be open to your mind being changed. You have to ask, "what is it we want to achieve and how are we going to achieve it?" If there is a consensus that this is the best way to do it, then you need to get on with it. Get the governance arrangement and controls in place, and these will determine whether or not it will succeed.

You have to get the business on board and make them see what's in it for them if the business turns around. The CEO has to lead well and use targets, honesty and a sense of reality. They need to ensure everyone is aware that the business is not playing games, and that it will only reward people when it is meeting its objectives. This ensures everyone knows the situation and that the reward is there if they make progress. You have to have respect and trust in place to do this.

We have to remember as non-executives that we don't do the work – the management team and the business does, and we need very clear lines of responsibility.



I think MSBs have the best of both worlds. You have some level of capability because of your size, but you also should have a small business' speed of action.”

One of the reasons I attend mid size business events is because there are MSB identity problems. I describe my business as small because we only have around 160 staff. My previous experience is with larger PLCs, so that's why it feels small to me.

MSBs are at a size where lots is expected from them, but they don't have the resources to give everyone the ability to deliver everything. Their costs are finely tuned, so they don't spend many resources looking at the latest guidance and legislative requirements. As a result, they often find out about things through happenstance.

Additionally, MSBs are so busy on the day-to-day management and finances of the organisation they don't have the time that larger businesses have to deal with these issues. Cash is quite complex in an MSB. Their levels of stock, debtors and creditors become difficult – big liabilities which distract from a focus on profit because they're so busy looking at their cash position.

The Importance of Innovation and Business Intelligence

Paul Hetherington
Chief Executive
C&C Marshall Limited

I once went to a presentation by a professor at the University of Warwick that studied the companies with the highest year-on year-growth rates over a five-year period. He found that the only thing they had in common was that they were in fast-growing markets. When he followed these companies for a further five years, the cohort became average.

When the CBI says MSBs aren't ambitious, it's a junk phrase. You can't treat the whole industry in one broad sweep.

Innovation is all about creating a sustainable business advantage

The building materials industry is one of the most innovative sectors I know. Most people don't think of us in that way – they look at Google and Amazon as innovators. However, the companies I've been involved in are always looking for that sustainable competitive advantage. That's almost exclusively innovative – doing something cleverly or differently.

My current company has innovated to the extent that we use 80% recycled PVC in our products. This saves over 3,000 tonnes of old PVC windows going to landfill, creating a huge social saving. We compete daily with companies who primarily use virgin PVC. Our customers get this environment benefit at the same prices. As people move forward, they will realise that companies like ours are doing things right. It cost us lots of energy, pain, investment and changes to get to 80%, and it's worth it.

I think sometimes it's about incremental improvement, but then you reach a tipping point and your customers see you as innovative.

How do you use data and business intelligence?

A big step for our business was to introduce good-quality business intelligence. This enabled us to see customer data, detailed margins and much more granular information on the business drivers.

Many leaders I speak to are really interested in this but haven't implemented it within their businesses. They just get the usual reports from outdated systems.

The business intelligence in our company has enabled us to move from paying salespeople on sales targets to gross margin targets. This enables them to focus on maintaining price and improving product and customer mix as well as growing sales. It required training for people to understand, but then they became aligned with the business drivers.

Dealing with legacy as an MSB

You have a lot of legacy in an MSB. If the company has grown over a period of time, you have lots of people who feel very strongly about the business. You also have people who have only ever worked in one place, so they have no exposure to other experiences.

When I look at our sector, most of our competitors are multinationals. We can change and bring new products to market quicker than they ever could. We can look around the world, tweak products for the UK market, and deliver for our customers. These multinationals struggle to make changes for relatively small markets.

Be bold, don't be afraid

One thing I would say to MSBs is to look at your competitors, realise your opportunities and leverage your size. Don't be afraid of multinationals' deep pockets. If a division makes a loss, huge changes are made – and if they don't work, they often divest that part of the company.

MSBs have many of the advantages of larger companies' financial strength and small companies' agility, and so should be scared of neither.



As the business grows, you need to bring in talent and manage through other people. Many founders struggle with this step."

Transitioning to Being a Leader of an MSB

Scott Fletcher

CEO and Investor
ANS

Small businesses are very much about cash and owner management. The founder is the shareholder, the MD, the FD and the manager all at once, and they tend to manage the entire team directly. As the business grows, you need to bring in talent and manage through other people. Many founders struggle with this step.

At the top end of the SME range, you have to manage through more layers – you have a leadership team, a management board and junior management. This is when you start to go into the corporate world, and that needs a completely different set of skills. You become more of a figurehead and you are no longer involved in the day-to-day management of the business. Some people can go through this transition and others can't. You go from being a manager to becoming a leader.

Cash flow becomes less of an issue as you grow because you get access to capital markets and a team of people and advisors who can manage that for you. In a nutshell, it's a gradual journey – it's not sudden, it's progressive.

What advice would you give to a CEO of a business going through the growth transition?

I would always say, begin with the end in mind. For example, you may have a very good business that has value. One avenue might be to grow, but at the same time it may make sense to sell it because you have taken it as far as you can go. The business may be turning over £10m – you're making a million and you need to decide whether or not to go to the market to secure the funds to invest and grow, or you may decide that's your limit.

You will need to invest in more senior hires, more salespeople, a better product... that might result in you not making any money for a while, effectively giving up your million in return for higher profits that you may not have the skills to achieve. Your stress increases and that's a massive change. The rewards could be huge, but suddenly you're risking a comfortable life and something that you've built for a huge unknown.

You might take the money at this point, exit the business and start working as an angel investor or build another business of a similar size.

It's about risk vs reward. If you do continue, it's about getting the best people around you.

Get an excellent finance director, sales director and operations director, and then build a great plan. A business that makes 10% on £1m turnover doesn't necessarily do the same as it scales – especially if it means opening up other locations.

What do you look for in a leadership team?

I like to back founders on the basis that I can see a strong work ethic, and an ability to learn and be flexible. As an example, I might invest in the initial idea, but as things develop, the founder may need to pivot and reinvent the company. This is why the individual's make-up is more important than the business in a lot of early-stage investments.

You also want to invest in individuals who have the ability to look years ahead and know what's coming up in their industry. Sometimes corporates know what's coming but they can't change quickly. They can see the changes, but the staff are not bought in and change is slow. They tend to have no vested interest in the success of the company. An owner of a small or mid size business has bet their career, their home and their life on making a success out of it. So, if they see changes ahead, they can (and do) react swiftly. After all, they're going to want to beat the market and be the first mover. That's what I'm looking at when I think about investing.

Obviously, you look at the numbers too. It's easy to make money on a spreadsheet – you see loads of weird and wonderful numbers on them, but you often know in your gut that it's never going to happen. By challenging that, you get a very good impression by seeing how that person reacts – do they listen or get defensive? I invest money and give advice.

If they don't listen and consider the advice carefully, then would they be listening to their team or their customers? The best ones listen and argue the case back, they adapt their plans by taking account of someone with experience.

Tell us about your personal journey as you've grown your business to an MSB

You've got to make lots of your own mistakes. There's nothing quite like just getting on with it, taking action and moving forwards. You can analyse and review something forever, but you don't know if it's going to work unless you start moving forward. Take some action, and it might only be 80% right but at least you've done something positive. You can still resolve the problems with a little course correction, but that's fine. If you stop moving and overanalyse or procrastinate, that's when the real problems start.

What training or other learning has helped you build your business?

I like reading and going to seminars. The biggest thing for me was going to Tony Robbins weekend – a 4-day seminar covering motivation and many other things. It removed lots of the self-limiting beliefs that I had. I grew up in a humble way, and when you start your business thinking, "it would be amazing to make £100k" it feels great to get there – but then as you start to make millions it's hard to comprehend. Your brain can't fathom what that looks like. This can hold you back or even cause you to subconsciously work against yourself – it's a kind of fear of success.

Coaching and surrounding yourself with people that you want to be like – like-minded people who you can learn from – is also essential. You tend to become the sum of the people you associate with.

We like to work and socialise with other companies in our industry, but you always try to stay one step ahead of competitors. You want them to be impressed with what you did so they think, "argh, we need to catch up to them!" In the meantime, we need to be working on new products and services to keep us one step ahead. We talk about what we've done, not what we are going to do.

What advice do you have for leaders when setting up and leading the board?

Employ people on your board that are better than you. If you're the founder, you want a team of superstars around you. You want the best people in the market.

Your job is to lead and make the ultimate decisions. These people are there to advise and guide you but, as the CEO, you make the call. The buck stops with you. I think small business boards are much more dynamic and have less politics than a public company board, for instance – and the longer you can keep it that way, the quicker you will be able to adapt to the changes in your business.

Get an excellent finance director, sales director and operations director, and then build a great plan."



Public or Private? This Is the Biggest Difference Between Companies

Ian Edmondson
Non-Executive Director
Dunlop Aircraft Tyres



Two areas are vital for a board to work on: alignment on strategy, and making sure you have the right people (the right CEO and CFO – or CTO if it's a tech company). The criticality of having the right people in the right positions in the executive team is necessary for the delivery of a successful strategy. You may have the right strategy, but if you haven't got the right people, it won't work."

I don't think size of business matters. What I think matters is the type of ownership arrangement you have in place. It does tend to mean that if you're a smaller company, you're more likely to be private – and the larger you are, the more likely you are to be publicly listed. That to me is a far more substantive difference than the size itself.

The key differences are accountability, directness or a lack of authority. Clearly a listed company has obligations to shareholders who tend to be many and various. A private company, on the other hand, has obligations to fewer shareholders – it may only be one.

Large companies have to deal with increased legislation and scrutiny. They have to be doing all those sorts of things as well as managing scale (which further complicates life), the bureaucratic administration that goes with those types of organisations (which are absent in smaller privately-owned companies), as well as making it more amenable to making more changes. Of course, it can go to the authoritarian end of the spectrum too with single private ownership, but it's less likely.

Is it better for an MSB to go public or to retain the control and directness of authority?

I would always retain control, be direct and keep the shareholder numbers to a minimum, because I think mid size is not huge. I think £50m to £200m in annual turnover is still not huge – depending on the nature of the business. Directness of decision-making is very powerful and the lack of it in the end can lead to the demise of large corporations.

There is a caveat, and that is: if you are fundraising either because the owners want out or because you're looking to invest in the business, you may need to go public. It depends on the growth aspirations of the owners and of the company.

How should MSBs go about analysing what to invest in, in order to improve productivity?

I think it depends very much on the nature of the business as to what you do to improve productivity. If you looked at the cost analysis, depending on how you measure productivity of course, it may be the cost per unit of output. You need to look at your cost analysis and understand it. I think the key then is to pick the areas of priority for productivity.

In some situations, if you have a product with a high labour cost, you either move to a country with low labour costs or you automate where you can. If you have a low cost of labour but high material cost, you may have logistical issues and you may need to make sure you're located near your raw materials.

You have to do the cost analysis. If you're going to go for automation in one form or another, then you have an investment cost. You need to work out what the return will be on that investment and see whether it makes more sense than seeking a lower unit labour cost. In many cases, it will be a combination of the two.

Some business sectors I know, and have been in, have very high margins which need to be generated because of the high cost of product development – take the aviation or pharmaceutical industry as examples of this. So, any investment in productivity gains needs to factor in high future profit margins.

If you're in a low-margin industry where you're making more of a commodity type of product, then your hands are tied more closely, and you need to understand whether it is a labour cost opportunity or a raw materials cost opportunity. Many times you may have no choice but to invest and improve productivity, because to be competitive in a global market you need to be up with the best in the globe – competition comes from everywhere. If you're in a business where your products can be shipped from and to anywhere in the world, you always invest in better productivity.

How do you manage boards that don't understand the analysis required to get investment?

There is an element of persuasion required. At board levels you have politics and personal egos which in the end are easy to recognise. You need to find the best way of dealing with people. You can either find a way to deal with them or you can't – so there's no good in beating your head against a brick wall over it. In most private companies, you will have egos and personalities, but they are generally straightforward and you can deal with them. In the end, if you can't, you move.

What is the importance of a board to an MSB?

It's crucial – it's part of the leadership vehicle. The board expresses opinions and direction, often through the CEO, for the direction and the benefit of the company – so having the right board is important.

In a private company environment, the board has an objective shared by the senior management team (and hopefully by the whole company) which is to improve the lot of the organisation and all the people who are engaged and involved in it. My role on the board is then to either create the strategy for the business or underwrite it if it has been created by the management team. There should be a common strategy, owned by the board, in line with the ownership and executive teams' thinking.

If there's a single challenge on the board, it is to align these two things.

In larger companies it's different. Mid size businesses are more simple and clear-cut. It's more complicated in a larger or public company where they have much more complex political or legal issues.

Two areas are vital for a board to work on: alignment on strategy, and making sure you have the right people (the right CEO and CFO – or CTO if it's a tech company). The criticality of having the right people in the right positions in the executive team is necessary for the delivery of a successful strategy. You may have the right strategy, but if you haven't got the right people, it won't work.



Growth is more complicated in a MSB than an SME because you have to find the right balance between the entrepreneurial talent in an SME and the administrative roles required to keep a larger business on track.”

If you go to the gym and work out, you reach a level where you plateau and you don't seem to get any fitter. To get better, you hire a personal trainer and they push you further – you always feel like you've had a good workout and you get even fitter. It's the same with an MSB: you reach a certain point, and then you've got to bring in new energy and talent to run a larger business.

Entrepreneurs can get tired and bored running a larger business because they have to deal with admin, legal issues and bureaucracy. Sometimes the solution to the success of an MSB is to buy the founders out – other times it's to skill them up and help them transition into new roles.

You need to keep the bureaucratic parts of the business streamlined. It's a fine piece of management, ideally from the board, to turn that entrepreneurial spirit into focus rather than letting it run all over the place – you can't follow up every single idea.

How Can a Hedge Fund Manager Help an MSB?

Ian Morley

Chairman

Wentworth Hall Consultancy

Don't ignore internal talent

You'll often have a lot of internal talent that people ignore. So, tap into the resources you have rather than the ones you don't have. Everybody thinks the outside expert knows much more than the inside people – it's rarely true. The people inside your business do it every day and they know what's wrong.

The best thing to do is identify the key people in your business – the ones that offer you vision and growth and hard work – and then try and incentivise them and give them roles, time and space to allow them to work to the benefit of the business rather than letting their ideas fester and become gossip and resentment.

In larger businesses, the talent can get buried too far from the board and the management team. MSBs are perfectly placed to make the most of their own talent.

How can a hedge fund manager help MSBs?

When we set up the Alternative Investment industry, we were looked down upon as a destructive part of the market. We are seen as short-selling stock and crippling growth companies. From our perspective, this isn't true. Often, senior managers and directors know their company value has no relationship to their profit and loss, but no senior executive is going to give a message to the market that devalues their own stock.

It's the job of the hedge fund manager to say, "We don't believe this". We take up an arbitrary position within a market, for example; we may feel that Airline A is overvalued and Airline B is undervalued, so we will buy one and sell the other. We are judging one against the other based on the relative value of the businesses because we want to protect our investors' money.

You can't hide reality. Rather than not talking to the hedge fund managers, they should be the first ones you talk to because they will be able to give you a far better view of the market and much more information about your competitors than anyone else. They look at companies objectively – either from a fundamental or some algorithmic point of view. You can get very valuable information not only about the market but also about how your competitors see you.

What do you look for when you meet a new CEO?

I look at what kind of people they are. How do they relate to their colleagues? Do they do in reality what they say? If you meet the CEO and their team, and the CEO says, "we have an open team here and everyone speaks their mind" but then he talks for an hour uninterrupted, I would say it's likely they are lying.

If I see behaviour which contradicts the narrative, I would think something was not right. I'd need to have one-to-ones with direct reports to see what the underlying issues are.

How to deal with new innovators in your industry

Closing your eyes to technological change and disruptors is dangerous. So you need to look at those. If you're General Motors and someone comes along, like a Tesla, you may ignore them – or you may think, "bloody hell, they're doing things that we should be doing, so we need to learn from them and adapt."

We don't need to buy the IP, we need to ensure the lens we view the market through allows us to take advantage of these disruptors and learn from them. This is especially important for MSBs because they don't have the cash to buy up every new innovation in the market, and they could be the first ones to be impacted by it.



Innovation is not a democratic process. It should never be confused with ideation.”

As research shows, defining what 'innovation' is has its difficulties. But to define it well means turning it from an end goal in itself into an everyday activity. In my experience, this starts by defining innovation as the commercialisation of a great idea.

For me, it is the emphasis on 'commercialisation' that really matters here. Just having a great idea is simply not enough. No matter how creative it is, if you cannot turn the advantage that an idea brings into a worthwhile return for your business, why bother?

After all, every business leader wants to grow – grow their revenue, grow their audience, or grow their impact as a brand. If innovation doesn't directly serve that end goal, it can't realistically hope to outweigh the risks associated with it.

How to minimise the risk of innovation

In my experience, the best way to offset risk is to look beyond creativity alone. If you look at successful innovators, you will recognise a ruthlessness streak when it comes to process, not just creativity. They show dedication to focus and action, not just to a disruptive mindset or the urge to upend the status quo.

Leaders of mid size businesses should take real comfort from this, because this is a game that they can play. After all, being able to create a simple, nimble innovation process and fuel it with bravery does not depend on size. MSBs really don't need to commit to all-involving innovation processes that sprawl across teams, time and budgets.

Bigger, Better, Fewer Ideas

FJ Rutjes

Founder

Hey-Ho Let's Go

Instead, the aim should be to hunt for bigger, better and fewer ideas. Nothing good has ever come from wanting a vast collection of innovative ideas. It only adds the wrong kind of pressure. Just focus on getting to that one idea that you can execute and commercialise. That will help you grow your business in whatever way you believe is best.

I appreciate this is hard. But what makes it hard is not finding that single idea – it is ignoring all the other ideas you might come across. In business, we are so used to having multiple options that committing to a single idea seems downright masochistic. It appears to amplify the possibility of failure and, in turn, paralyses many MSBs.

The four behaviours to effective innovation

To overcome this paralysis, I work with founders, leaders and boards of MSBs to foster four key behaviours in their companies:

1. To start, be selfish

One of the biggest misconceptions is that innovation has to be all about the customer. Although it nearly always leads to customer benefits in the end, it doesn't have to start there. To kick-start a more innovative mindset, removing the pressure of having to delight customers can be immensely helpful. Focusing first on innovating for yourself rather than for your customer can deliver plenty of benefits, fast. When you have become comfortable in generating, assessing, dismissing and committing to ideas, innovating for customers will feel far less risky.

2. Dial up, not down

Internal innovation is also an excellent way of appreciating that scale really matters; it is far easier to course-correct something small and experimental than to pare back something big that you have bet the business on. And when large businesses are training employees in 'innovation sprints' or involving them in 'growth experiments', MSBs should really take note.

This isn't just a case of looking after the skill sets of their employees. It is far more likely that they are trying hard to cultivate smaller, faster, more nimble thinking – something that MSBs are already excellent at.

3. Be Brave. Experiment.

If you want to kill innovation, do it slowly – there is always someone out there who is willing to go faster than you. One way of making sure that you are at least part of the race is to experiment. This means testing highly practical ideas, hunting for small but measurable impact. Experiments like this can become the perfect fuel for your innovation. And, although it might require a sizeable dose of bravery, it doesn't require large budgets or demand a huge amount of time. As a matter of fact, you will be surprised what a one-hour 'growth experiment' session can bring.

4. Innovation is not a democracy

However provocative as a statement, innovation is not a democratic process. It should never be confused with ideation. Of course, everyone in the company can donate their time, know-how and expertise to generating ideas, but this kind of shared responsibility doesn't apply to innovation. Remember: innovation is the commercialisation of a great idea. And that decision – which idea to commercialise and how to make it a reality – rests only on a few shoulders. For founders, leaders and boards of MSBs, this can quickly feel heartless. But experience shows that without this clarity, most innovation efforts end up as team-building rather than company-building exercises.

On balance, MSBs are much better placed to innovate than their larger counterparts. They are more flexible, closer to customers and haven't yet lost the ability to experiment. Perhaps more surprisingly, MSBs are often also better placed than startups to innovate. They might not have the exuberance of startups, but they also don't need to constantly prove their right to even exist. And where both startups and big companies are often forced to throw everything but the kitchen sink at being innovative, MSBs can still celebrate their flexibility to follow through on bigger, better and, more importantly, fewer ideas.



When Professional Services Can Be Partners

Karen Procter

Partner

Shoosmiths LLP



If you're regularly working with a 360-degree corporate lawyer, they will help you look at everything in your business and identify problems and opportunities as they arise."

The legal services we typically provide to mid size businesses can often be related to a transaction or commercial objective which is transformational for the business.

This can make buying legal services daunting for MSBs. Your transaction is incredibly important to you and you want to get it right, but you also need to keep a tight rein on costs.

What types of legal services should MSBs be using?

As a corporate lawyer, I advise boards of directors and senior management teams to help them achieve their business goals and ambitions. For MSBs less used to working with a legal partner, sometimes the barrier to getting the relationship started is that they are not sure how we can help or how they can access the specific advice they need from inside a full-service law firm like Shoosmiths.

If you're an SME, you'll find there are lots of resources made available to you by various organisations – and often for free. If you're a very large business, you may have your own in-house team of lawyers to fulfil most of your legal needs. This team will be experienced at buying add-on legal services from external firms when required.

For the MSB, especially those on a growth spurt that may not have engaged with lawyers before or who may have outgrown their current legal advisors, there is often a perception barrier to instructing a larger, full-service law firm.

Often an MSB's first contact with us will be driven by a particular need – they want to do a transaction, or they have a specific problem. They come to us with what they think is the solution and with a very narrow scope of work because they are scared about the fees. They think that if they only tell us what we need to know to provide the limited pre-determined solution, their exposure to legal fees will be limited.

Whereas if they have an early and open conversation with us about their business more holistically, and give us all the background to their current issue/opportunity, we can work with them to deliver the bespoke legal services they actually need in an efficient and cost-effective way. As a result, they will get much better value from their legal partner.

How should MSBs approach these services to get them more involved and reduce their costs?

That's the challenge for us. The majority of the legal work that MSBs need is bespoke to them. We can't just put a product on the shelf for them to buy. There is a perception that lawyers have an hourly rate and a clock ticking the moment they pick up the phone. However, most of us are more than willing to have initial meetings and conversations for no charge, especially when understanding the background and scoping out with the client how best we can help them. We want to make those conversations meaningful, building a relationship and getting to know their business over time.

Rather than MSBs thinking that they need to buy legal services from a law firm reactively, it would be wonderful if they could build relationships with a pool of trusted advisors and have quick answers to some of their day-to-day queries. That way we can outline the more complex or bespoke support they will need in advance, helping them plan their business strategies and giving them options to make the best use of our time. This is crucial to ensure they get the best value legal services to realise their business goals.

Legal services can be expensive, but I'd like to dispel the myth that lawyers are always 'on the clock'. It's not the case – we are happy to come and sit in on your board meeting and listen to the issues you are kicking around so we can help with your options. Our advice may well be different and most likely cheaper.

“The majority of the legal work that MSBs need is bespoke to them. We can't just put a product on the shelf for them to buy.”

Can you provide examples of how legal advisors can help by working with MSB leaders?

Many of our 'no charge' chats with MSB leaders are about potential routes to an ultimate exit or how we can help a business get ready for sale. Someone might be preparing for retirement and looking for a trade buyer or succession planning for the next tier of management.

However we can come in and discuss key business areas such as commercial contracts, corporate governance, IP, regulatory, HR and pensions to identify (and fix) any risk areas or weaknesses and help MSBs prepare their thinking ahead of any transaction.

Even where a business is nowhere near ready for an exit, pausing to take stock and taking a step back from the daily operations can be hugely beneficial.

If you're regularly working with a 360-degree corporate lawyer, they will help you look at everything in your business and identify problems and opportunities as they arise. We talk to a lot of businesses at various stages in their life cycle so there is not much we haven't seen before. Whether you're looking at launching a new product or reorganising a department, talking to us from time to time will mean identifying the legal aspects of your objectives sooner and more effectively – and most likely will save you money on legal fees and reduce management time.



Challenges of scaling: the people dynamic

John Shinnick

Portfolio NED

Coach, Mentor, Adviser



Numbers don't make decisions. Numbers don't make great businesses. People do."

People don't resist change they resist being changed. Peter was and remains, a leader in organisational development. He championed the idea of the 'learning organisation'; the natural state for a scaling, growing, developing business where there is a constant and dynamic need to accept change. But this need to be a learning organisation transcends growth. With the pace of technological change and the dissemination of everything from knowledge to rumour, an MSB needs to be learning and adapting just to remain in a steady state.

"Numbers don't make decisions, people do"

I was given this insight four decades ago and its relevance has only increased over time. The availability of data upon which to make decisions within MSBs has increased in volume and speed. Are we matching that with the structured emotional intelligence that will give the best opportunity for those decisions to stick and create change? Structured emotional intelligence: the recognition that a decision within a business will be perceived differently by every single person that it affects and the intelligence to find a collaborative solution that produces the optimum outcome.

Why should an MSB access structured emotional intelligence?

This perhaps highlights one of the issues identified within this report: MSB directors see development as a personal journey. What if it was seen as a collaborative undertaking where the leadership team or preferably the whole organisation developed together? Imagine an organisation where all of the people understand the direction of travel and where they fit into the plan.

And this is where, I think, MSBs lose out to smaller businesses: the concept of the Dunbar number. Robin Dunbar is a social anthropologist who researched the affect that group size has on collaboration. He found that the point at which a group dynamic fundamentally changes is somewhere around 150 people: think Roman legions, think mediaeval villages, but also think small agile companies with great cultures.

This MSB population of businesses with teams of 50 to 499 people moves out beyond that ideal collaborative, community size. It possibly goes out beyond where there is regular, EQ communication between the senior team – the directors – and the whole of the workforce. It moves towards the 'them' and 'us' that damages the ability to accept positive change. I don't think this has to be an inevitability.

What would accessing structured emotional intelligence mean to an MSB?

It comes back to challenging that view that MSB directors see development as a personal journey. Make it a group journey. Make it an organisational journey. Go behind the accessible and recognisable field of training and journey into effective group development. Put EQ, Emotional Intelligence, at the core of the change dynamic.

What would that give the organisation? Think of the times when you have seen the organisational challenges in a growing entity. Often, the challenges are around stretch and communication. The leaders feel too busy or consumed by doing the things in front of them. They miss out on the opportunities that collaboration and leverage can bring. "I will take on this part, this responsibility, myself because it has to be done effectively". "the time taken to translate this for others and embed it with them, is better spent getting on with it". "I don't know whether they are ready or really understand".

You achieve great collaboration when you know yourself and when you know others have that same alignment.

Three core elements of EQ that would serve an MSB team well: Self-awareness, Self-regulation, Empathy. Start with introducing it to the individual so that they can see how it improves their working existence, their ability to recognise that relying on others is a strength. Then introduce Group-awareness, Group-regulation, Group empathy and you have a powerful force.

Why might it not be happening?

When you get up past that Dunbar number, group relationships appear less important and then investing in group relationships can slip down the priority list. Combine that with a reducing but still prevalent cynicism on the power of softer skills and you have a lack of investment.

Let me leave you with this thought: the Dunbar number is not an absolute and derives from habitual group dynamics. Change the dynamic, introduce conscious emotional intelligence and I believe you can significantly increase the size of an effective group: of an effective corporate team.

Numbers don't make decisions.
Numbers don't make great businesses.
People do.



Using science to drive great leadership recruiting and performance

Joanne McTiffin

Director

Tindall Perry Partnership



Most of us believe we have great intuition and that it is effective and serves us well. But research regularly reveals that it is exceptionally poor at predicting future job performance.”

Few would argue that a great leadership collective is an essential pre-requisite to the success of any organisation. A strong leadership team has the power to act as a multiplier for a business, with its combined efforts having a far greater impact than the sum of the individuals within it. Recruiting into this team is a vital, challenging and potentially hazardous exercise. Whilst getting it right can reap huge benefits, getting it wrong can have far reaching ramifications.

Diversity proven to perform

Research shows that it is cognitively diverse teams perform best. But despite this, and much as we would like to deny it, many recruitment decisions are based on gut feel, on our instinct. We recruit those that we have an affinity with and can ‘get on with’, those we think will ‘fit in’ and that ‘match our culture’. Be in fact if you are interviewing someone you think will be just perfect and fit right in, they probably aren’t the person you should be recruiting into your senior leadership team. You don’t want a mini me, a clone, someone with very similar opinions and experiences to the incumbents. A successful team is a diverse group of colleagues who share the same values but who bring different perspectives and interpretations.

And that’s because such diversity is not about tokenism, it is ultimately and most importantly about profit. McKinsey’s 2018 report ‘Delivering through Diversity’ substantiates this with evidence based real life analysis but the most important benefits of diversity are around a deeper cognitive diversity.

The Harvard Business Review (2017) shows us clearly the correlation between diverse and high performing teams - cognitively diverse teams are more successful in the way they solve problems faster and are more innovative.

Diversity elevates the conversation and delivers better strategy

Cognitively diverse teams also spot RISK more quickly as ‘group think’ is minimised. For CEO Alan Joyce, the spectacular turnaround he led at Qantas reflected an underlying condition: “We have a very diverse environment and a very inclusive culture.” Those characteristics, according to Joyce, “got us through the tough times . . . diversity generated better strategy, better risk management, better debates, [and] better outcomes.”

Having a diverse senior team also has knock on benefits in us being able to recruit from a wider talent pool throughout the organisation. Potential candidates from all backgrounds, thinking styles and skillsets can look to the leadership team and see role models at a senior level that they can emulate and it confirms to them that this is a diverse organisation where they can thrive and have as much chance as the next person of reaching a senior level.

The challenge for CEOs and their Boards is a great one when putting together a diverse team.

Acknowledge what’s driving decision making

It’s true that relying on our intuition is often highly valuable and can help us make better decisions. This intuition comes from our primitive brain, an artefact from the early days of man when the brain’s ability to detect hidden dangers ensured our survival. Our intuition has developed over time, is honed by past experiences and shaped by our knowledge and time in the workplace. Most of us believe we have great intuition and that it is effective and serves us well. But research regularly reveals that it is exceptionally poor at predicting future job performance and it drives recruitment decisions based on subjective, somewhat irrational factors which include affinity and other types of unconscious bias.

Get the basics right and drive out risk of poor recruits

There are however a series of positive steps we can take when recruiting...

1. Use psychometric testing

All candidates bring their best face to a recruitment process. Senior, experienced candidates in particular prepare well and bring a series of well-rehearsed stories that are honed to highlight their successes and their strengths. Using new breed of psychometric tests can assist in uncovering whether the strengths and traits being presented in interview are really likely to be evident in practice. Psychometric assessment is remarkably accurate at assessing traits around thinking style and cognition as well as hard to detect traits essential for authentic senior leaders and if a candidate will bring a different thinking style and new perspectives to the team.

Assessing the current incumbents within the team before starting a recruitment process is also highly valuable as this can reveal the overwhelming style and traits already within the leadership team to enable targeted recruiting not to mirror and match what is already there but to add to and enhance the team. Run a proper, formal recruitment process

Many hiring decisions are made following introductions from the network and then proceed through a series of informal meetings and ‘get to know you’ chats. These plays strongly towards our reliance and use of intuition and unconscious bias.

Running a formal process with multiple, simultaneous candidates involved, where dates and interviewers are booked ahead and candidates are interviewed on the same days in a structured manner not only allows fair and equitable comparisons to be made but it means the time invested by senior leaders in the recruitment process can be maximised and decisions can be made promptly.

Recruitment processes also give candidates an insightful window into the business. Great candidates – the ones you’d like to secure – accept offers from those they perceive to be great businesses. And great candidates will often be the most sought after, most likely to secure several competing offers. Long, unstructured processes rarely secure the best candidates.

2. Remember that three may be the magic number

Recent CIPD research gives the ideal number of people involved in the interview and selection process (from the hiring side) as three. Having other senior stakeholders involved in the process brings different opinions and perspectives – and by that I don’t just mean them being a part of a rubber stamping exercise, but involved in the full interview process. It challenges unconscious bias and can limit poor decisions – and with 85% of managers admitting to having made a bad hiring decision that’s a key consideration.



How Should MSBs Approach Growth?

Neil Mitchell

Partner

Rickitt Mitchell



For obvious reasons, growth by acquisition is often viewed as a more difficult option – but it can also be the most efficient way for a business to scale up.”

Driving growth is not always the only focus for shareholders and management teams of mid size businesses (MSBs). It is often the case of management teams being focused on the immediate day-to-day needs of their organisation without considering a longer-term view to understand the strategic direction of the business.

In this respect, setting a strategic plan over several years will help an MSB define the steps needed to help achieve its long-term goals and objectives. Often, this will involve thinking about key growth objectives and how shareholder value can be maximised.

The two avenues to organic growth

Growth can be achieved organically by continuing to increase market share in existing markets or revenue streams, or by the acquisition of other businesses or assets. For obvious reasons, growth by acquisition is often viewed as a more difficult option – but it can also be the most efficient way for a business to scale up. Making strategic acquisitions that increase market penetration, geographical spread, or product and service offerings in a complementary way have an immediate impact. There can be more risk making acquisitions compared to organic growth, but by approaching this in the right way and taking relevant advice, a lot of risks can be mitigated and result in accelerated growth.

To help support an acquisition, a company will often raise finance. The options available to MSBs are wide and varied and include debt finance (of which there has been an increase in the diversity of sources over recent years) and equity finance that can come from sources such as private equity funds or the public markets. Often a combination of both debt and equity finance is the most appropriate funding structure.

The importance of finance and advisors

It should also be noted that raising finance can also help deliver an organic growth plan. Financing can be used to increase productivity through investing in assets and talent, or to support geographic or product expansion.

In summary, businesses that are unable to define a strategic plan to grow can often see slower growth and missed opportunities as the competitive landscape will be dynamic in all industries.

To help execute a strategic plan and support growth, many businesses could utilise the professional community of advisors, such as corporate financiers, that are willing to engage with MSBs in initial discussions to help explore the opportunities available to them. This needn't mean incurring costs as most advisors are willing to have exploratory discussions to ascertain the likelihood of executing a strategy.



Financing can be used to increase productivity through investing in assets and talent, or to support geographic or product expansion.”

This report, along with additional resources, more interviews and expert commentary is online at www.msbleaders.com

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Through her advisory firm Evidence 2 Action (E2A) Sarah is an advocate for, and advisor to, small and mid size businesses that wish to grow or better manage the impact of growth. She is an expert in mid size business leadership, transition, strategy and growth – with special technical expertise in digital, innovation and new-economy marketing, advising business and government, and serving on boards as a chair and NED.

Sarah immigrated to the UK after a decade in Asia Pacific, specifically Singapore and Indonesia, where she grew the SEA and APAC footprint and was President Asia Pacific for FutureBrand, one of the largest, listed marketing services firms in the world, and the first woman to be appointed to their global board.

Her career spans both the public and private sector during which she was the first woman to hold the post of Deputy Chief of Staff in the Victorian Government and has worked with prime ministers, senior levels of government and industry leaders on organisational and nation transformation, country branding and direct foreign investment. In Australia she held functional leadership roles in major transport and infrastructure projects (CityLink), the decentralisation of mental healthcare (Victoria) and the development of the Independent Commission Against Corruption (ICAC).

Sarah has a Bachelor of Arts and a Master of International Relations, and is currently completing her PhD in Business. She proudly calls the UK home with her husband and three children, and has learned to love Bovril, a butty and the weather.



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Gordon's research focuses on specific examples and experiences of digital business, culture and practice. He has published work around conflict within online finance communities, economies within the virtual game world, and the practices of online grieving and mourning. Other work includes the use of science fiction prototyping in the development of business visions and the delivery of executive courses around digital transformation and innovation.

Gordon is an editor of Digital and Social Media Marketing: A Results Driven Approach (Routledge 2016) and co-created many of the models that underpin the core philosophy of the book. Gordon is currently preparing a further two 'results-driven' books in the areas of strategic digital transformation with Marie Griffiths and Alex Fexton, and is developing an effective digital presence with Noel Adolphus.



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Dr Marie Griffiths is a Reader in Digital Technologies, the PGR Director at Salford Business School, Co-Director for the award-winning Centre of Digital Business at Salford Business School and President of UK Academy in Information System (UKAIS). She is Programme Leader for PG Digital Business and Managing Innovation and Information Technologies and she has teaching commitments within these areas.

Marie has significant practical experience gained from working on varied digital 'live' research projects, including 7 KTPs over the past 10 years, which have explored the commercial and societal implications of technological change. Five of those previous KTPs involved the development of a digital platform to support innovation and productivity. Her current research agenda focuses upon digital transformation and the consequences of emerging innovative technologies such as nearables and wearables, and disruptive business models as enablers and value creators. Marie also researches identity, privacy and surveillance technologies in these areas.



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David is Dean at Salford Business School. He joined Salford in February 2016 following 17 years at The University of Bradford's Faculty of Management and Law.

At Salford, David is developing the Business School to be at the centre of the university's industrial collaboration strategy. This has led to a programme of significant revisions of Salford Business School's degrees, as well as driving increased business and industry engagement and the development of cross-institutional collaborations, and increasing the work related and applied opportunities for study within the curriculum.

At Bradford he was Associate Dean with responsibilities at different times for learning and teaching and academic management and planning. Prior to this, he was MBA Director and a Head of Department, and he was Interim Dean at the time of his departure.

David has commercial experience in the retail sector, working in both store operations and human resources. His research interests lie in the study of learning and change in organisations – specifically organisational learning and strategic adaptation, change agency and leadership.



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Carly is a Project Officer with E2A and played a vital role in coordinating the research parties and recruiting respondents. Without her, this study would not have happened. Research is one of her passions and she is delighted to have contributed to both the quantitative and qualitative elements of this study.

She has a 1st Class BA (Hons) in Criminology and is currently studying for further qualifications in counselling. Having held various roles in business and the voluntary sector in the UK and Australia, she enjoys balancing the differing challenges both areas present.

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Dedication

In 2014, two months after immigrating to the UK, my mother Dr Glenda Banks passed away.

Like so many who lose a loved one, this tremendous loss had a profound effect on me and how I wished to continue living.

My siblings and I packed away my mum's things in such a relatively short amount of time and her 'material self' was gone. What remained, however, was so much more significant and meaningful, and it was then that I was struck by my mum's legacy.

Glenda was an editor and journalist for (at the time) Melbourne's leading mainstream media and the radio station 3DB. She was considered a champion of women's rights and used her positions to take on many social causes to change the attitudes towards women in the 1970s and 80s. Her efforts led to changes in policy, regulation and laws for women's health, child protection, sexual assault and family law.

Remarkably, she also raised three children, earned a master's degree and a doctorate, ran a publishing company, and published six books: A Respectable Married Woman, Mothers Really Matter, Fathers Really Matter, Helping Your Child Through Separation And Divorce, Your Guide To Successful Family Living and Options: A Handbook For The Elderly & Those Who Care For Them.

While she had gone, her positive mark on society remains. Real people, families and children benefited (and still benefit) from the impact she had made.

I set myself a challenge to do the same, to use my skills and the life I had left to try and do something, imperfect as it may be, that would benefit people.

This three-year study and resulting report aims to change policy, regulation and support for MSBs to make it easier for them to perform well and continue their vital role in our communities as employers and social contributors – particularly in regional areas where the prosperity gap is greatest.

So this report is dedicated to Dr Glenda Banks, and all the people with what I call the 'real' jobs: teachers, nurses, doctors, carers, counsellors... anyone really who is working to enrich and improve our and our children's lives through their skill, dedication, kindness and love.

In the end, there is no better way to live nor greater legacy to leave than to improve life for others.

Sarah McKenna
Founder and Chair
MSBLeaders



Dr Glenda Banks



“This report highlights the importance of the category of midsize business in its own right and provides a manifesto for a meaningful focus on MSBs and their advancement.”

“I had heard of ‘midsize business’, but I’ve got the detail of it now. I just think part of any focus is the lobbying of midsize businesses to actually access the funding to be able to provide connectivity to a much more specific professional support platform than is currently available in the UK. It’s huge.”

“You’re almost in a little bit of a black hole of nothingness, really... when you’re setting a new business up, everyone wants to help you. You just feel, at the level that you’re at now as an MSB, that no one picks the phone up and says, ‘let’s come and have a chat with you, and see what we can do to help.’ It just doesn’t happen. So, whether it’s the banks, HMRC, whoever it may be... I think that what everyone’s trying to do is definitely the right way to go, to hopefully get us some more help.”

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UK MID SIZE BUSINESS LEADERS SUMMIT

9 & 10 JULY 2019

Government and industry recognition of MSBs as a distinct category and the provision of tailored policy, regulation, services and support is a binary requirement for their success - and long overdue.

The summit will draw together disparate parties, expertise and investment to act as a collective.

Representatives from Government, industry, academia and MSB leaders are invited to come together to prioritise and advance recommendations.

Request an invitation or see information at
www.msbleaders.com

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