# **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.

# 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

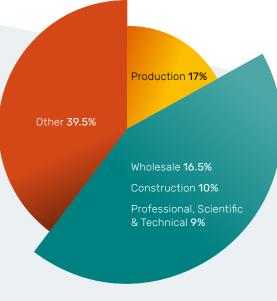
MSBs have their own inherent qualities that inform their unique value and support needs.

#### They are:

- Agile
- Cautiously innovative
- Social value contributors

#### They possess:

- (More) Experienced leadership
- Balanced perspective
- Technologydriven 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.



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

83%

#### 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 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 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.

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- 12

#### **EXECUTIVE SUMMARY**

#### Industry 4.0 has token 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 more closely balance

of organisational success

growth and profit as measures

#### 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 are deterred by finance

While it is accepted that access to finance is a fundamental growth

# and financial service frustrations

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.

#### 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 in full financial control

The research indicates that when it comes to financial



#### 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.



#### 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

#### 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.

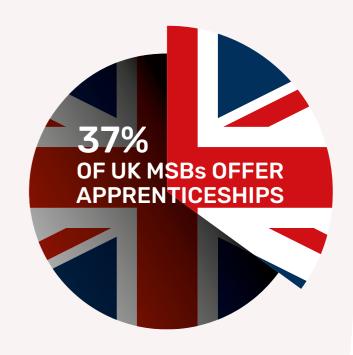
#### MSBs' internal efforts to reskill are not enough

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.

#### 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.



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# MSB board-level knowledge of technology issues varies widely

MSBs' reports of widely divergent levels of board knowledge concerning technology and its impact points to the difficulty of conducting board-level discussions around these topics.

# Succession and continuity planning is a priority for MSB directors

MSB directors and boards are acutely focused on and addressing succession planning and leadership continuity as the businesses mature – seeking to match the evolving needs of the business with board and operational management capabilities, experience and expertise.



**LEADERSHIP** 

#### MSB directors see development as a personal journey

Directors identify their improvement as a primarily personal journey rather than the responsibility of the group, board or organisation.

# Experience and time determine MSB directors' abilities

Directors of MSBs preferred the option of 'experience and time', 'listening and support from others in different roles', 'training and development' and 'external mentoring or coaching' as methods for improving MSB directors' capabilities.

# Professional membership is not catering for MSBs

Directors of MSBs express the feeling of being the 'forgotten middle' most vocally in relation to professional memberships. Almost all MSB directors felt that the professional services sector was primarily geared to large enterprises and provided content, support or services that were not relevant or useful to their business.

The financial commitment needed to access professional services and bodies outweighed the perceived benefits for most MSBs, and their lack of diversity in terms of gender, ethnicity, skills and knowledge was a concern expressed by many directors.

### MSBs lack diversity at board level

A lack of age, gender and ethnicity diversity continues to shape perspectives and be a major disadvantage, with the majority of MSBs confirming few female board directors and little diversity of perspective.

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

As 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.

## MSB directors are more experienced

Directors of MSBs were the most experienced (in terms of years served as a director) and reported being more capable than their small or large enterprise peers.

# 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.

#### 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.

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.

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17