

Small business and productivity inquiry

Submission to the House of Commons Business, Energy and
Industrial Strategy Committee

Chartered Institute of Personnel and Development (CIPD)

March 2018



*Championing better
work and working lives*

Background

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has over 145,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers, to improve best practice in the workplace, to promote high standards of work and to represent the interests of our members at the highest level.

Management capability: What more can be done to provide co-ordinated and high quality support to improve management capability throughout the UK?

1. Introduction: People management capability is vital for SME productivity and growth

- 1.1. Small and medium-sized enterprises (SMEs) represent a significant segment of the UK economy – accounting for nearly half of business employment and turnover. To-date most attention on enhancing SME productivity has focused on financial and technology support. However our work in the area makes it abundantly clear that a focus on people management capability is also essential for productivity. And past research also shows that effective people management at all stages of SME growth is fundamental to sustainable performance (e.g. Cardon and Stevens, 2004¹).
- 1.2. The Bank of England’s chief economist Andy Haldane argues that a lack of management quality is a plausible explanation for the UK’s long tail of low-productivity companies and suggests that there are potentially high returns to policies that improve the quality of management within companies. This is particularly likely to be the case for smaller companies (fewer than 50 employees) given that there is a larger, longer tail of small firms with low, or even negative, levels of productivity growth. Haldane finds there is high potential for productivity growth among firms of this size, as small companies tend to exhibit faster rates of productivity growth than larger firms, even when it is from a lower base.
- 1.3. Constraints in time, resources and expertise often present particular challenges for SMEs to developing their capability in effectively managing and developing their people. For example, the majority of micro and small businesses won’t have a HR professional in post to provide expert guidance and develop an organisation’s people management capability.
- 1.4. While evidencing management quality as potentially material to the UK’s productivity problem is fairly straightforward, identifying how to address this issue, particularly among small businesses, is more difficult. The recent BEIS Select Committee inquiry² into industrial strategy concluded that business support for SMEs needs to be improved. It noted that the ‘Growth Hub’ network, which provides a gateway and advice service to many businesses seeking support, is providing a “patchy” service’ and ‘there is a need to set a clear national direction and provide stronger support’. The UK’s productivity problems cannot be tackled unless more small and medium-

¹ Cardon & Stevens 2004: Cardon, M, Stevens, C (2004) Managing human resource in small organisations: What do we know? Human Resource Management Review 14(3): 295–323

² <https://www.parliament.uk/business/committees/committees-a-z/commons-select/business-energy-industrial-strategy/inquiries/parliament-2015/industrial-strategy-16-17/>

sized firms raise their ambitions and improve how they manage and develop people. The evidence suggests they are unlikely to be able to do this on their own and require much better support.

2. How to improve people management capability in SMEs

- 2.1. Our consultation response summarises our work and research conducted directly with SMEs and demonstrates both the value of investing in people management capability for enhancing SME performance and our recommendations of the actions we believe Government could take to achieve this. Below we set out details of our People Skills programme and the resources we have made available, which we would be happy to share with the Committee.
- 2.2. [People Skills](#) is a UK pilot programme which provided small firms with HR support and advice. The project vision was to support SME growth and productivity by enabling better people management and leadership practice within the SME community. This vision was grounded in the long-standing concern about productivity levels in the UK and the view that better management, leadership and skills utilisation are likely to be some of the keys to addressing this.
- 2.3. In each of three locations – Hackney, Stoke-on-Trent and Glasgow – a small bank of independent HR consultants was recruited to provide free face-to-face and telephone employment and people management advice to small businesses on demand. The People Skills service also provided a range of group training events for participant firms and CIPD’s HR Inform online support system was also made available free of charge. The service was focused primarily on firms employing between 1 and 50 employees.
- 2.4. The programme was supported by J.P. Morgan through the JPMorgan Chase Foundation, and delivered through the CIPD and local partners. The pilot, which provided support to more than 400 small firms, ran from July 2015 to October 2016 and has been evaluated by a team at Manchester Metropolitan University through surveys and interviews with project stakeholders.
- 2.5. In each area the pilot was supported by key local partners for example the local council, Local Enterprise Partnership or chamber of commerce or a combination of these stakeholders.

Outcomes of the programme

- 2.6. The project demonstrates that there is demand for HR support amongst SMEs, and that a model of bespoke, face-to-face provision by independent consultants is an effective way of meeting that. Its value is illustrated by Glasgow City Council continuing to fund the project after the initial pilot had ended, with local stakeholders highly supportive of the *People Skills* business support model.

- 2.7. Tangible improvements to SME employment practices can be delivered through this model, which in turn provides a foundation for more transformational change and greater business confidence.
- 2.8. People Skills proved to be a highly effective operating model that met demand for people management support from SMEs efficiently and effectively. Feedback from small firms which used the service was overwhelmingly positive.
- 2.9. Survey responses and data from case study interviews indicated that the quality of support provided was highly regarded. SMEs particularly welcomed the flexibility of the offering, and the bespoke nature of guidance offered, and 'deep-dive' respondents were unanimous in reporting the substantial difference that People Skills had made to their business.
- 2.10. **Getting people management 'basics' in place is key to build a foundation for growth.** Small firms' people management needs were overwhelmingly quite basic (for example contracts, legal compliance), and they were often not ready to engage in more 'transformational' work (for example workforce development, performance management). However the results suggest that 'getting the people management basics right' is highly valued in its own right, and provides a key foundation for further development (and greater confidence).
 - 2.10.1. For example, survey data captured improved self-ratings among owner-managers on a number of workplace effectiveness measures, suggesting the development of greater confidence among owner-managers and potentially a link to enhanced workplace productivity. For example, owner-managers surveyed were more likely to report their organisation is better or much better than similar firms in their sector on measures of workplace relations, labour productivity and financial performance after using the *People Skills* service than they were prior to using it. These benefits also came through in the in-depth qualitative interviews with owner-managers.
 - 2.10.2. The evaluation of People Skills suggested that investment by small firms in more value added activity, for example in leadership and people management development and apprenticeships, is only likely to occur once the people management 'basics' are in place and more transformational change is likely to take longer to achieve than the year-long duration of the pilots.
 - 2.10.3. The evaluation highlighted the value of bespoke face-to-face support for small firm owner managers that goes beyond what is available on the internet. The delivery model adopted in People Skills of locally-based HR consultants offering face to face advice proved successful, not least because of its flexibility and because consultants were well versed in local challenges and opportunities facing SMEs and understood the needs of the owner managers they worked with. The data suggests strongly that the provision of digital support, for

example, online tool kits for small firms will not be nearly sufficient in themselves to move the dial on small firms' people management capability.

- 2.11. **People skills boosted demand for investment in people management capability.** The data from the evaluation shows that the vast majority of owner managers that used the People Skills service had never received support from an HR consultant previously because of a lack of awareness of how valuable this type of support was for their business or because of cost. There was some evidence that a People Skills type of initiative providing SMEs with a limited amount of free, high quality support could over time help build demand for further investment by small firms in improving their people management practices. There was no evidence of SMEs using People Skills to avoid paying for HR support already in the market.
- 2.12. **Long-term commitment is key.** Take up of the service was primarily from SMEs who already had relationships with local partners/sought business support, which highlighted the challenges of reaching 'hard-to-reach' SMEs that are not members of a business network or part of a supply chain. This highlights the importance of providing a rationalised, no/low cost, easy to access and well understood business support offer at local level which is there for the long-term. Building understanding among small firms of the value of improving people management and raising awareness of the support available to achieve this is a long-term agenda.
- 2.13. **Local skills 'eco-systems' is important.** The degree of success of the pilots was dependent on there being a local infrastructure in place that provided an effective mechanism for engaging SMEs. Where such networks were relatively well developed, as in Glasgow and Stoke, the initiative was successful, compared with Hackney where networks were less developed.

Our recommendations to Government

- 2.14. **The CIPD recommends a national rollout of the *People Skills* initiative** as part of a renewed focus in industrial strategy on enhancing workplace productivity by boosting managerial quality, increasing investment in skills and strengthening the quality of business support through local level institutions.
- 2.15. If the *People Skills* model were adopted by all Local Enterprise Partnerships in England, it would require **initial funding of around £13 million per year for at least three years**, according to provisional CIPD estimates. This could be funded by allocating £40 million of the £23 billion National Productivity Investment Fund. The three-year time period would allow for the anticipated changes to take root and for the development (through independent evaluation) of a sound evidence base for future government policy.
- 2.16. We also recommend that Government:
- 2.16.1. Provides practical guidance and resources for SMEs to enhance people management capability.

- 2.16.2. Develops a clear communications campaign to SMEs (including those hard to reach) about the support available and where they can access information
- 2.16.3. Provides a one-stop-shop of resources as SMEs often do not know where to go to access information relevant to them, or find support is fragmented.
- 2.16.4. Utilises CIPD research, including the framework of SME growth, to inform the development of management training and wider SME support offering.

3. CIPD research and practical support for SMEs to support sustainable business performance

- 3.1. Our People Skills work demonstrated that SMEs, in the main, lack professional people management support. This support is vital for business growth and sustainability. Other CIPD research provides a detailed understanding of how the people management requirements of SMEs changes over time. This in-depth knowledge is vital if the government is to provide the most appropriate support and boost productivity of a huge cohort of UK business, typically accounting for two thirds of private sector employment.
- 3.2. A wide range of organisations are represented within the umbrella term SME, which is unsurprising given 99.9% of UK enterprises are classified as SMEs. A micro business of less than 10 people operating and having different needs from a medium-sized business with a workforce approaching 250. It therefore follows that the most appropriate people management practices to support business growth and productivity will change as the business grows and matures, and also dependent on the business' strategy.
- 3.3. Larry Greiner (1994)³ advocated that unless businesses adapt their management practices, they won't prosper: 'those unable to abandon part practices and effect major organisation changes are likely to either fold or to level off in their growth rates'. Our research provides practical ideas and guidance for those responsible for people management in an SME, whether they have a HR professional in post or not, to help them develop their people management capability over time, in line with business needs.
- 3.4. We have identified four distinct stages of SME transition that businesses need to pay attention to, each characterised by different people management issues and opportunities⁴. Between each stage is an inflection or transition point, reflecting a time where practices that have worked to date are no longer suitable for the organisation's current needs or future direction. Our research helps to anticipate and respond to these transition points in a timely way that people management

³ Larry Griener 1994: GRENIER, L.E. (1994) Evolution and revolution as organizations grow. In: MAINIERO, L. and TROMLEY, C. (eds) Developing managerial skills in organizational behaviour: exercises, cases, and readings. 2nd ed. Englewood Cliffs, NJ: Prentice Hall. pp322–9.

⁴ https://www.cipd.co.uk/Images/achieving-sustainable-organisation-performance-through-hr-in-smes_2012-research-insight_tcm18-9103.pdf

approaches will continue to support business growth and productivity. Alternatively, the risk is that outdated management practices will hold back growth. The four stages are:

- 3.4.1. **Entrepreneurial edge** – the start-up, entrepreneurial phase, characterised by informality with an emergent strategy, fluid structures, flexible job roles and tacit knowledge exchange.
 - 3.4.2. **Emerging enterprise** – the organisation’s structure tends to be formalised and processes introduced to guide work. Flexibility is still important. People and performance issues are likely to become more salient at this stage, so HR processes and procedures are required to guide work.
 - 3.4.3. **Consolidating organisation** – reflection and improvement are the key characteristics of business activity in this stage. With the business strategy tending to be more planned, a more strategic people management approach is required, ensuring practices support long-term performance.
 - 3.4.4. **Established organisation** – attention shifts to the long-term health of the organisation. People management attention needs to focus on the internal context (the culture, engagement and collaboration) and the external context to ensure practices and approaches support business aims and are aligned to the business’ vision and values.
- 3.5. Building on this initial framework, we focused our subsequent research with SMEs on two areas they told us were particularly difficult. Both of these reports outline key people management challenges and the practical ways to consider in overcoming them, with case study examples:
- [Recruitment and talent development](#)
 - [Keeping culture, purpose and values at the heart of your SME](#)