Unlocking the North East Productivity Puzzle: An Enterprise Solution.
The North East is host to a vibrant economy, shaped by a history of innovation, leadership in some of the world’s most exciting sectors and, importantly, thousands of successful SMEs. At PNE Group, we have spent the last 38 years supporting business in the region, helping over 10,000 businesses to start-up. The North East economy is, however, facing challenges which need to be addressed; one of the most important being a widening productivity deficit in relation to the rest of the UK.

Nine percentage points behind the UK GVA growth per head, the North East’s productivity puzzle is one of the biggest economic threats to long-term prosperity in our region. This booklet, one of a series, focuses on one of the challenges identified and recommends actionable solutions to overcome it.

Tracey Moore
Executive Director
PNE Group

How can we unlock the North East’s economic potential?.
The North East has fallen behind. The growing gap between North East productivity and the rest of the UK has been the subject of great scrutiny in the region, with government and private businesses alike calling for a solution.

The North East consistently suffers from a productivity deficit when compared with the rest of the UK¹. The region experienced 22% growth in GVA per head over ten years (2005-2015)². In the same period, the total UK growth in GVA per head was 31% ². The deficit puts increasing pressure on local businesses, small and large alike, to be able to deliver goods and services which are nationally and internationally competitive.

Behind the numbers, real social challenges are connected to the gap, with communities within the North East experiencing the reality of a region trailing behind the rest. For example, the North East had the third highest unemployment rate in 2017³ and performed in the bottom third for median weekly earnings⁴.

Exploring data on the birth rates and survival of businesses in the North East exposes a key barrier to productivity: the endurance of the region’s new ventures.

Business birth rates* in the North East Local Enterprise Partnership (NELEP) region increased, from 9.3% to 13.5% between 2010 and 2016, peaking at 14.4% in 2013. Yet despite this positive trend, figures are still behind the UK national rate, which stood at 14.6% in 2016 (13.9% excluding London)⁵.

The NELEP region also performs below all other regions, with the exception of Northern Ireland, in relation to business starts per working age capita, significantly below the national rate. There were 59 business births per 10,000 of the working age population (aged 16-64) in the NELEP in 2016, compared to 88 in the UK (excluding London)⁶.

It is valuable to note the New Enterprise Allowance (NEA), a Department for Work and Pensions campaign that supports unemployed people into self-employment, was responsible for nearly one in seven of the business starts in the NELEP region between 2011 and 2016; an estimated 5,060 new ventures in the North East⁷. In fact, NEA support in the North East was more successful for promoting business births than in the rest of the UK, with 62% of NEA participants in the region starting-up, in comparison with a 56% national average⁷.

Business survival rates offer a similarly challenging portrait of the North East’s business climate. Whilst the region’s businesses are more likely to survive than the national average in year one, the region falls behind in year two (75.1% to the UK’s 75.6%) and the gap continues to widen each year of the five-year data (41.8% to the UK’s 44.1% in year five)⁵.

The North East is not only creating fewer businesses than the rest of the UK, but is also losing these businesses at a higher rate. To support an improvement in business births and survival in the region, we must ask what solutions or tools can be introduced to help them start and succeed?

Introducing the Enterprise Challenge.

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* Birth rate: The number of new businesses as a percentage of the total number of active businesses


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Encouraging more businesses to start-up and empowering them with a better chance of survival could be a powerful tool for transforming the North East economy. PNE Group recommends three proactive approaches, utilising enterprise delivery, that can help the region to overcome these challenges.

**Solution One.**

Raise entrepreneurial aspirations in the region by increasing the visibility of the support network which the enterprise sector can provide to aspiring entrepreneurs.

**Solution Two.**

Promote continuing professional development as an effective approach to overcoming challenges to business survival and provide accessible opportunities for entrepreneurs to develop their business acumen.

**Solution Three.**

Improve the North East’s survival rate with business support targeting potential scale-ups and high-growth small businesses of the future.
Solution One.

Raise entrepreneurial aspirations in the region by increasing the visibility of the support network which the enterprise sector can provide to aspiring entrepreneurs.

The North East ranks lowest in the UK for entrepreneurial aspirations, and placed 89th of the 125 indexed EU regions. It achieved less than half the aspiration score London attained (35.8 of a possible 100 to London’s 77.7). The next lowest UK region was the East Midlands with 42.2, a notable difference that sees the North East trailing behind even the UK’s worst-performing regions.

In 2015, the North East also had the lowest proportion of people mixing employment and self-employment across the UK regions: around 1% of workers. As almost a fifth (19%) of those describing themselves as self-employed in 2014 started earning from self-employment while they were still a paid employee, this lack of appetite to pursue entrepreneurship in tandem with employment, or as a future replacement for employment, is further evidence of low aspiration to enterprise and its impact on business starts.

Key findings of the Santander Enterprise Index encouraged underperforming regions to “unlock their own aspirational premium” by encouraging entrepreneurs to have confidence in their ability to start a business. Engaging with and providing pre-start support to communities with a low track-record of starting-up, who have limited representation within current enterprise client demographics, would be an important step to achieving this.

Targeting communities with skills and experience that could support under-represented and under-developed sectors within the North East would further support an ‘unlocking’ of untapped economic potential.

This approach is supported by the significant contribution of the NEA campaign to the number of business births in the region (approximately 13% of formal new business starts). NEA’s core requirement of participants engaging with enterprise organisations and undertaking support to develop their business acumen indicates a correlation between the provision of support and the rate of business starts.

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In original research conducted by PNE Group with enterprise clients participating in the Link up: Start up workshops, delivered as part of the NEA campaign, the need for business acumen learning was the most reported barrier to starting a business, trumping access to finance and getting clients. Increasing the visibility and accessibility of support to develop business acumen would support an increase in confidence among this group, and therefore an increase in business births.

Business acumen is strongly linked to business performance. 65% of business leaders, polled from 16 industries globally, believe that a lack of business acumen strongly limits strategy execution. The impact of business acumen on performance is even greater when a business faces challenges, with 74% believing it strongly limits strategy execution in a low-performing organisation.

Only 10% of business leaders believe that business acumen has a weak impact on strategy execution, with the remaining 25% believing that the impact is moderate.

In keeping with this trend, businesses are placing an increasing focus on retaining and developing talent internally, as opposed to recruiting externally to plug skills gaps. Senior business leaders and managers expect that formal learning and development approaches will become more important in developing business acumen over the next few years, with a reduced emphasis on recruitment and on-the-job training; in fact, learning and development approaches are expected to grow by 47% between 2015 and 2020.

Providing widely accessible opportunities for business acumen and skills development for business owners and leaders between years one and four would encourage an increase in survival rates. Building a culture of continuing professional development into early-stage entrepreneurs would further encourage ‘life-long’ learning amongst the region’s next generation of entrepreneurs, further promoting business longevity as learning is increasingly utilised as a tool for overcoming business challenges.

The appetite for this type of support is already tangible in the current market, with 45% of SMEs reporting that they want the government to provide subsidised training courses and professional training.

Solution Two.

In the North East, 40% of management teams have no previous experience of growing a business prior to the one they currently work in. This has translated into a lack of confidence in business management, with over one third of business owners reporting a fear that their management team will be a barrier to growth.

A lack of self-confidence is evident nationally, with less than two fifths of small business owners and managers in the UK seeing themselves as an entrepreneur, compared to three quarters of German business owners and two thirds of American business owners.

Aspiring and pre-start entrepreneurs in the North East mirror this trend, reporting a lack of confidence in their own business acumen.

Promote continuing professional development as an effective approach to overcoming challenges to business survival and provide accessible opportunities for entrepreneurs to develop their business acumen.


* Data set and study details are included in the back pages of this report.
Solution Three.

Improve the North East’s survival rate with business support targeting the potential scale-ups and high-growth small businesses of the future.

The NELEP performs in the top third of English LEP regions for scalability, with 7.4% of firms recording a turnover of between £1m and £2m in 2014 successfully scaling to a turnover of over £3m in 2017. This demonstrates an ecosystem better placed to support scale-ups than the lower performing two-thirds°. This strength illustrates the importance of increasing the survival rate of North East businesses, as once over the hurdle of short-term survival they have above average potential to successfully scale-up.

High-growth small businesses (HGSBs) correlate with regional economic performance and are significantly more productive than an average UK business; therefore they have great potential to contribute to the region’s GVA. However, despite strong scale-up success among the pool of businesses demonstrating high-growth potential, the North East has a below-average share of HGSBs, experiencing the lowest amount of any region except Northern Ireland. Currently there are less than 1,000 of this kind of business in the North East, with a drop in numbers reported between 2014 and 2016°°.

The share of GVA net worth attributable to HGSBs is higher than the English average and is the fourth highest in the UK°°, indicating that this type of business has a significant role to play in regional economic growth. Tailoring support to businesses with high-growth potential, particularly during the second and third year, would increase the survival rate, enabling a larger number of businesses to scale-up in the future and contribute to a stronger regional economy.

The provision of business advice is linked to increased survival rate. 33% of businesses reporting on the benefits of business support cite it specifically enabled the survival of the business°°. 46% reported increased sales and 41% increased profitability, strengthening the business.

°° Department for Business Innovation and Skills (BIS). (2011). Research to understand the barriers to take up and use of business support. London.
Between April and September 2017, PNE Group conducted research with enterprise support clients participating in Link up: Start up workshops. Participants were aspiring or pre-start entrepreneurs, attending the workshop as part of the New Enterprise Allowance (NEA) campaign. NEA is a support scheme aimed at those aged 18 and over and receiving Jobseeker’s Allowance, Income Support, or Employment and Support Allowance.

The survey polled 91 workshop attendees on what they perceived as their most significant barrier to starting a business. The table (left) shares the results of the survey.

### Table: Barriers to enterprise survey, 2017.

<table>
<thead>
<tr>
<th>What do you perceive as the most significant barrier to you starting a business?</th>
<th>% response</th>
</tr>
</thead>
<tbody>
<tr>
<td>A need to develop business acumen (i.e. planning, financial)</td>
<td>30%</td>
</tr>
<tr>
<td>Access to finance</td>
<td>26%</td>
</tr>
<tr>
<td>Personal (family, health, confidence)</td>
<td>16%</td>
</tr>
<tr>
<td>Gaining clients (i.e. marketing, competition)</td>
<td>14%</td>
</tr>
<tr>
<td>External fulfilment barrier (i.e. legal, time)</td>
<td>13%</td>
</tr>
</tbody>
</table>

**Research: Barriers to Enterprise.**

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PNE Group are enterprise experts, passionately pursuing innovative ways to enable positive social and economic change where we work.

Our areas of practice include enterprise consultancy, programme management and evaluation, and grant management, for large businesses, third-sector organisations and government.

Additionally, we provide start-up and business support across the North East of England through PNE Enterprise; professional development and management qualifications through PNE Development; manage a property portfolio of commercial lets through North East Workspace; and provide digital enterprise solutions through PNE Digital.

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