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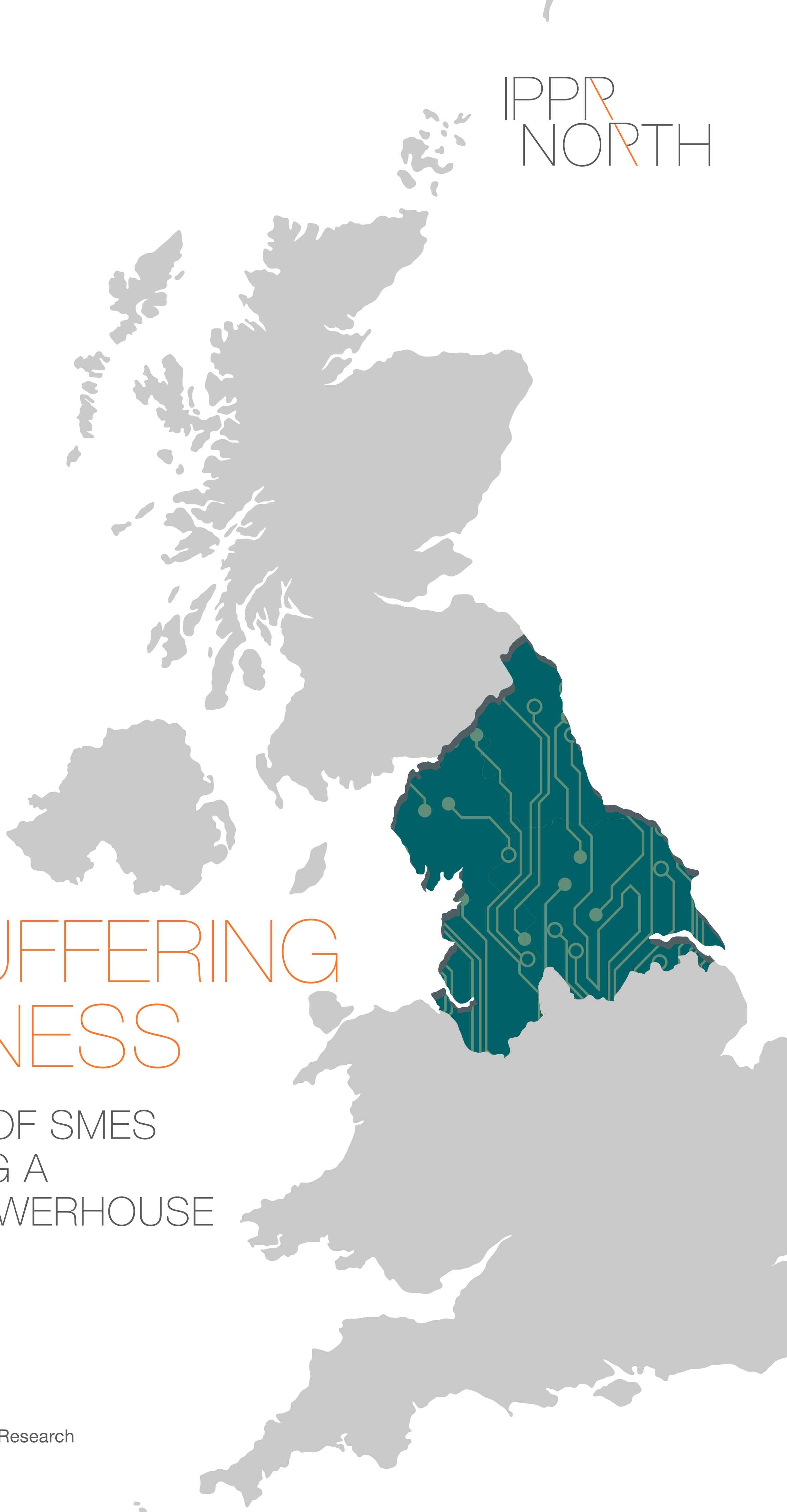

UNBUFFERING BUSINESS

THE ROLE OF SMES IN BUILDING A DIGITAL POWERHOUSE

Jack Hunter
and Sarah Longlands

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Institute for Public Policy Research

ABOUT IPPR NORTH

IPPR North is IPPR's dedicated thinktank for the North of England. With its head office in Manchester and representatives in Newcastle, IPPR North's research, together with our stimulating and varied events programme, seeks to produce innovative policy ideas for fair, democratic and sustainable communities across the North of England.

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CONTENTS

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SUMMARY

Businesses perform better when they do more online. Those with a strong web presence are more productive, create more jobs and are more likely to sell beyond their immediate area. However, the available evidence suggests that, as a whole, small and medium-sized enterprises (SMEs) are lagging behind other businesses in terms of their current digital capacity. If this digital divide is allowed to persist, the northern powerhouse will be less productive and less balanced than it could be.

The main obstacles are twofold: first, many SMEs, particularly those on business parks and in rural areas, lack access to quality, high-speed digital infrastructure. Small businesses are not being prioritised within the current rollout of broadband, and there is a lack of transparency around the activities of BT Openreach, the sole supplier. Second, many SMEs lack the relevant skills needed to do more online, yet despite considerable activity at a national and local level, the current provision of skills training remains piecemeal and partial.

This report argues that there is a clear need for the state to play a stronger and more active role to ensure that all small businesses are able to make the most of the opportunities available to them by doing more online. The government has made it clear that it sees improving productivity as a key objective for its new industrial strategy. In order to ensure that this aim is met, any such strategy should include a focus on encouraging SMEs in all sectors to do more online, as a proven means of boosting productivity. This should lead to policies designed to increase investment in digital infrastructure, as well as measures to ensure value for money in the current roll-out, as well as a long-term strategy to embed digital skills in the education system. However, just as importantly it should also include measures to better co-ordinate and incentivise digital support to small businesses to enable them to do more online.

Our recommendations for a more cohesive and strategic approach will help to build a digital powerhouse in the North.

RECOMMENDATIONS

1. Make digital support to SMEs a priority for LEPs and metro mayors. Improving the digital capability of SMEs should be a priority for the new metro mayors and local enterprise partnerships. This should involve developing a local plan to share best practice and enable communication and collaboration with existing private sector-led initiatives and local business networks, with the aim of raising digital skills in local SMEs. Each LEP and each new metro mayor should work to ensure that their local area passes the following five tests to ensure that they are doing all they can to encourage SMEs to do more online.

- **Prioritising:** how effectively does your LEP prioritise digital skills within the strategic economic plan for all sectors, and how is this reflected in the work of the growth hub? Have you set achievable targets in pursuit of this priority – for example, for the number of SMEs using digital?
- **Defining:** does your growth hub have a defined 'digital skills offer', which is clearly articulated on its website and via its advisers?
- **Reaching out:** are you making the most of the opportunities for collaboration and knowledge-sharing, such as the new GO ON Local online hub?[1] Do you have a framework for how to collaborate with the private sector in the provision of initiatives to boost digital skills among SMEs?
- **Mapping:** do you ensure that data collected on the availability of local support (via, for example, the growth hub) is used to create a comprehensive picture of the supply of support for SMEs on digital? How are you measuring the effectiveness of individual programmes? How is this data being made public?
- **Market shaping:** where clear demand for digital support for SMEs has been identified, are you exploring how to ensure that this demand can be met and the potential benefits for SMEs maximised?

2. Rationalise and further devolve government funding for digital skills to SMEs. There is a clear economic benefit to enabling SMEs of all sectors to do more online. However, government funds are necessary to overcome disincentives to private investment, and to encourage SMEs to invest their own resources in digital. To this end, the government should create a pooled pot of digital support that aims to address government priorities but which is devolved to LEPs. In addition, when the government is in a position to clarify the future funding settlement for LEPs following Britain's withdrawal from the EU it should provide specific assurances about the future of funding for digital support.

3. Prioritise superfast broadband for business parks and enterprise zones. The government and the relevant local bodies (including LEPs and local authorities) should ensure that access to superfast broadband for business parks and enterprise zones is heavily prioritised within the current rollout. Where appropriate, future funding for the roll-out of broadband should be devolved to combined authorities, and local bodies should consider a broadband voucher scheme for SMEs, to subsidise better connectivity.

4. Ensure greater transparency around the rollout of broadband. As a means of ensuring the success of a future universal service obligation, BT should publish full broadband speeds and coverage at a premises level, starting with SME premises and business parks ahead of domestic properties, providing full transparency regarding who is and who is not receiving superfast speeds. BT should also publish neighbourhood-level information about planned activity to upgrade existing infrastructure.

1 https://local.go-on.co.uk/

5. Continue support for growth hubs. Growth hubs are an important local platform by which local SMEs gain access to digital support, but they will require time in order to consolidate their presence in their local areas and develop their networks. While the objective of growth hubs should be to become financially self-sustaining, government support should be sustained at the current level until at least 2020. At a cost of £12 million per year, growth hubs are relatively low cost, and there is emerging evidence of the economic benefits of this continued investment.

1. INTRODUCTION

The digital economy is now such an important part of the UK economy that it has become a cliché even to say it. For many companies the internet is now an established channel – the latest figures (for 2014) indicate that total website sales were £199 billion, representing an annual increase of 9 per cent and an increase of 80 per cent since 2008 (ONS 2015a). In retail, e-commerce now accounts for just under one-quarter (24 per cent) of all sales across the country (Capgemini 2015), and the internet is increasingly the most important means of advertising – in 2014, spending on internet advertising rose almost 11 per cent to £8 billion, accounting for half of total spending (Cookson 2015).

The internet offers companies of all sectors opportunities to broaden and diversify their customer base, to develop engaging and targeted advertising campaigns, and to cut down on some of the costs associated with doing business 'offline'.

In particular, small businesses that do more online are more likely to be successful. Small and medium-sized enterprises (SMEs) with a strong web presence grow more than twice as quickly as those with minimal or no presence – and create more than twice the number of jobs (Lord Young 2013). They are almost 50 per cent more likely to sell products and services outside their immediate region, and overall have higher revenues and boast higher rates of growth (BCG 2014). Evidence from the UK and overseas suggests that good usage of social media has a strong positive impact on the financial performance of SMEs as well.[2]

Consequently, the fact that that many SMEs are not making the most of the opportunities available to them through better use of digital is of concern. There is a growing weight of evidence to indicate that small businesses lag significantly behind others.

The new government has highlighted the need to develop a 'proper industrial strategy' that focuses on 'improving productivity' in order to get the 'whole economy firing' in the wake of the vote to leave the European Union (Prime Minister's Office 2016). IPPR analysis of the UK's 'productivity puzzle' (Dolphin and Hatfield 2015) has suggested that any approach to boost productivity will require supporting lower-productivity sectors, rather than only concentrating support on high-end manufacturing industries (as has been the approach by the current government to date). In addition, any such strategy would have to include major measures to support the productivity of small businesses, with a view to ensuring the development of a sustainable and balanced economy across the North (Cox and Raikes 2015). After all, supporting SME growth has been a

2 For UK evidence see for example Michaelidou et al (2011); for overseas evidence see for example Sulaiman et al (2015), Stockdale et al (2012), Nakara et al (2012).

core commitment of successive governments,[3] which have recognised that these businesses often face particular obstacles to growth as a consequence of their size and scope.

Specifically, however, there is a pressing need to make digital a clear strategic priority within such efforts to boost the productivity of small businesses in the North, so that as many of them as possible can safely make the most of the opportunities available to them online.

1.1 UNDERSTANDING DIGITAL SUPPORT FOR SMES

The focus of the research presented in this report was the support offered to SMEs to enable them to make better use of digital for their business development, which can be broken down into four main elements.

- Improving access to digital infrastructure such as superfast broadband – to make sure that SMEs have access to digital services for their business.
- Raising awareness among SMEs of the potential of digital technology for business development, especially among businesses that may not see digital as relevant to their business model.
- Improving the digital skills of SMEs, including their capabilities with regard to website development, use of social media, online selling and business-to-business networks.
- Helping SMEs to make the most of the potential of digital, particularly for businesses that may already be using digital for their business – exploring how they can maximise opportunities for product and service innovation.

1.2 RESEARCH OBJECTIVES

This report examines the provision of digital support to small and medium-sized enterprises in the north of England and has the following three objectives.[4]

1. To explore the current obstacles to SMEs doing more online, in particular demand-side challenges such as awareness and skills.
2. To explore what is already happening to support SMEs to do more online, particularly in relation to issues beyond the supply of digital infrastructure. In doing so, the research aimed to identify any particular good practice or gaps in provision.
3. To set out recommendations as to how public policy can best support SMEs to do more online.

The research was informed by a series of interviews with relevant stakeholders from across the UK, supplemented by desk-based research. The project was also informed by findings of commissioned work by IPPR North to evaluate Google UK's 'Digital Garage' programme.

3 See Page 2015 for an overview.

4 We here define SMEs as businesses that have fewer than 250 employees.

What do we mean by 'doing more online'?

As part of their work on digital inclusion, Doteveryone (formerly Go ON UK) has developed a common measurement framework for the basic digital skills that all businesses should be able to demonstrate (see table 1.1). This framework is useful because it moves beyond simplistic measures of digital inclusion (such as whether or not a business has a website, or a social media account), to examine the kinds of action that it is able to perform online.

TABLE 1.1

Business digital skills framework

Description				
Managing information	Communicating	Transacting	Problem solving	Creating
Find, manage and store digital information and content	Communicate, interact, collaborate, share and connect with others	Purchase and sell goods and services, organise your finances and use digital government services	Increase independence and confidence by solving problems and finding solutions using digital tools	Create basic digital content in order to engage with digital communities and organisations
Actions for organisations				
Managing information	Communicating	Transacting	Problem solving	Creating
• Store digital information on suppliers and customers • Search for new suppliers to find the best deals • Understand who uses your website • Discover potential growth opportunities for your business	• Maintain customer and client relationships • Use social media to promote your business and connect with new customers • Improve your customer service by providing accessible product information and answers to frequently asked questions	• Maximise your selling potential through a website • Save time by applying for government business permits and licences • Manage invoices and accounts • Receive payments or donations • Protect yourself from fraud or scams	• Save on business travel and be more efficient by using video conferencing • Quickly understand which products and services work based on online feedback • Interpret simple analytics to improve website performance • Get solutions to problems from safe, accurate sources	• Create an informational or e-commerce website • Create content (pictures, logos, text) to promote your organisation and reach customers • Use social media and create communities to engage with customers • Create resources to improve employee skill levels

Source: Adapted from https://doteveryone.org.uk/digital-skills/digital-skills-framework/

2.
SMES AND DIGITAL: THE CURRENT STATE OF PLAY

2.1 CURRENT USE OF DIGITAL BY SMES

Despite the benefits of doing more digitally, many small businesses, particularly microbusinesses,[5] lack even a basic online presence and are yet to make their first steps online. Estimates suggest that roughly one-third (32 per cent) of all SMEs do not have a website to promote their goods and services, 55 per cent do not sell goods online and approximately 43 per cent do not use social media (BIS 2015a). An estimated 1.85 million SMEs and charities (or 34 per cent of the total) have a 'low' digital maturity, in that they make no use of the internet at all and do not have any web or social media presence (Lloyds Bank 2015).

In addition, those who already have some online presence (such as a website or social media account) could do much more online. Most websites, for example, do not extend very far beyond offering basic information about the company and their activities, only one-third of small businesses sell online (HM Government 2013), and the Lloyds Digital Index points to a 'significant drop-off' in website functionality among small businesses and charities after the provision of basic information about the company and its products and services (ibid). One 2014 study of small business websites found that a large proportion lacked basic functionality. For example, only half of websites had a contact form, and even fewer – 39 per cent – provided a contact email address. In addition, 71 per cent were not mobile ready, and just 15 per cent of respondents ran online marketing (BuzzBoard 2014). A survey of SMEs in the North East found that very few businesses are actively involved in updating their site on a regular basis, and that some have not updated their website in years, citing lack of time as the main reason (Escher Group 2014). Finally, small businesses are increasingly at risk of a cyber-security breach – one survey suggested that 74 per cent of SMEs had experienced a breach in security in 2015, up from 60 per cent the previous year (HM Government/PwC 2015).

As might be expected, the use of digital varies significantly between sectors. ONS statistics suggest for example that retailers are most likely to be already using e-commerce, whereas small businesses in the primary/construction sectors are least likely to be involved (Baker et al 2015). Those in primary sectors were more likely to state that they had problems

5 A microbusiness is one that has fewer than 10 employees and a turnover or balance sheet total of less than €2 million.

with the internet, including low speeds and lack of broadband availability (ibid).

However, although the benefits of digital might vary between sectors, others have argued previously that all kinds of small businesses would benefit from doing more online. One report suggested that small firms would benefit from faster growth, reduced costs and improved customer service by doing more online (Strategy& 2012).

Overall, the smaller the business the less likely it is to be operating in any meaningful way online (Baker et al 2015b). Over time, and as online operations become increasingly ubiquitous, this could result in a growing digital divide, with the benefits disproportionately accruing to larger organisations with a more significant and effective web presence. Some have put it in even starker terms, suggesting that SMEs must either 'adapt or die' in the face of potential disruption from new digitally-savvy businesses that will be able to connect more easily to customers and undercut traditional business models on price (FSB Scotland 2015).

Small and medium-sized enterprises: A northern perspective

The north of England is home to over one million SMEs, which together constitute 99.9 per cent of all businesses in the region. Taken together, they make up a formidable part of the 'northern powerhouse' economy, providing 63 per cent of private sector employment (3.2 million employees) and 53 per cent of business turnover across the region (ONS 2015b).[6] Although the definition of an SME extends to those with 250 employees, the vast majority of businesses are significantly smaller – 95 per cent of all businesses in the North are microbusinesses (with fewer than 9 employees) and 74 per cent are sole traders. The largest sectors in the North for SMEs are wholesale and retail (29 per cent of total turnover), manufacturing (16 per cent) and construction (10 per cent) (ibid).

Most SMEs are well-established businesses – roughly 60 per cent of all SMEs in the North have been in existence for 10 years or more. Those running the business are roughly twice as likely to be male as female, and the majority (87 per cent) of owners and directors are aged 35 or above, including roughly 53 per cent who are aged 50 or above (BIS 2015a).[7] Age is potentially an important consideration with respect to digital – those born before 1980 are sometimes considered to be 'digital immigrants', who have had to adapt to the onset of new technologies that they were not accustomed to when they were growing up (Prensky 2001).[8]

6 By contrast, SMEs account for just 45 per cent of total business revenue in the rest of England – suggesting that small businesses are a particularly important element of the northern powerhouse economy (ONS 2015b).

7 Note that these figures do not include sole traders.

8 This may, however, be an oversimplification. There is a significant body of academic research that has questioned the validity of the generational interpretation of digital literacy (see Helsper and Eynon 2010). Furthermore, we should not assume that young people are automatically digitally literate – in fact, a significant proportion of young people still lack relevant digital skills (ECDL Foundation 2014).

2.2 KEY BARRIERS TO GREATER USE OF DIGITAL BY SMES – SUPPLY- AND DEMAND-SIDE FACTORS

The challenge to ensuring greater usage of digital by SMEs is two-fold. First, there is a pressing need to ensure that small businesses are supplied with high-quality digital infrastructure – in other words, high-speed broadband – as a basic prerequisite to getting online. Second, there are significant demand-side challenges: principally that it is necessary to ensure that firms are persuaded of the benefits of doing more online, and that they have access to the right skills to make the most of digital.

Digital infrastructure

It is now widely accepted that the availability of reliable and high-speed broadband plays an important role in increasing productivity in national economies. Evidence suggests that extending broadband to an area can impact positively upon firm productivity, the number of businesses based there, and local labour market outcomes (such as employment, income and wages) (see for example WWC 2015).

Government-commissioned research estimated that the availability and exploitation of faster broadband will lead to a net annual GVA impact of about £17 billion by 2024, mostly through enhancing productivity, but also by safeguarding employment, and by enabling more workers to participate in the workplace (including through telecommuting). Across all firms, the very smallest (those with between one and nine employees) would be expected to benefit the most. In addition, the availability of quality broadband makes a significant impact on employment growth at a local level, allowing areas to retain staff and businesses that otherwise would have migrated to areas with better connectivity. The report concludes that publicly funded intervention to boost access to high-speed broadband can therefore help safeguard net employment and the associated GVA at the UK level, as well as at local levels (DCMS/SQW 2013).

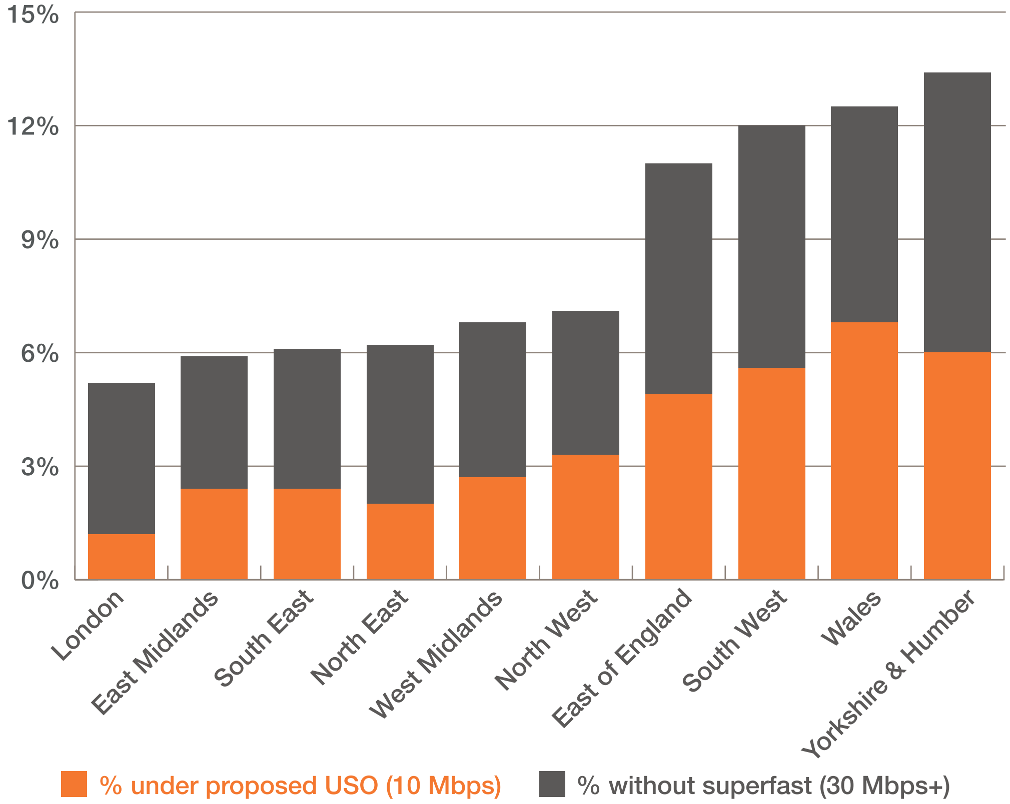
Overall, the UK is a well-connected nation, with over nine out of 10 households able to access superfast broadband. However, there is wide variation in the coverage of premises depending on region. London, for example, is the best-connected area, with just over 5 per cent of premises still unable to access superfast internet,[9] whereas in Yorkshire and Humber this figure is almost three times higher (13.4 per cent), including 6 per cent of premises that cannot access broadband of speeds over 10Mbps (which is the proposed minimum standard that will inform the government's universal service obligation [USO] for digital infrastructure).

9 Ofcom defines superfast broadband as having a download speed of 30Mbps or greater.

FIGURE 2.1

Access to superfast broadband differs widely between regions in England and Wales

Variation in broadband coverage by English region, August 2016



Source: Ferguson, 'Progress update on superfast broadband rollout for August 2016' (Ferguson 2016)

However, beneath these top-level figures for each region, coverage of broadband for SMEs is significantly lower than for the rest of the population. In fact, Ofcom figures published in 2015 suggest that just under one-third (32 per cent) of all small business premises still lack access to superfast broadband (Ofcom 2015).

Businesses in rural areas are more likely to suffer from poor connectivity – reflecting the fact that the rollout of broadband to date has tended to favour dense urban areas. Research from the Federation of Small Businesses (FSB), for example, found that half (49 per cent) of rural small businesses are dissatisfied with the quality of their broadband provision (FSB 2015).

In addition, however, many businesses based in or around urban areas may still lack quality broadband, particularly those in business parks and enterprise zones. Providing quality broadband to such areas carries with it larger costs to the supplier than other areas, such as high-density residential areas, and, as such, these areas have not been a priority for development. Anecdotal evidence collected by the FSB suggested that there are even cases where residential areas adjacent to business parks have access to superfast broadband but the business park itself does not.

Despite the relatively high rate of digital connectivity in Britain generally, it is clear that small businesses are being left behind. Given the clear economic case for boosting productivity among small firms by increasing access to quality digital infrastructure, it is imperative that this situation changes.

Demand-side: skills and awareness

A quality internet connection is clearly a prerequisite for SMEs to be able to do more online. Equally, however, the supply of infrastructure alone cannot lead to an immediate step-change in a firm's productivity. It takes time and the investment of resources in order to enable an SME to do more online.

Beyond infrastructure, then, a second barrier to a greater digital presence among SMEs is a lack of relevant skills. Nationally, the UK has a high level of digital literacy compared to other countries; however, according to research by Lloyds Bank, 23 per cent of SMEs across the UK still lack 'basic' digital skills (Lloyds Bank 2015).[10] This is particularly a problem in the North compared to the rest of England – the same report found that 29 per cent of SMEs in the North West, 24 per cent of those in the North East and 26 per cent of those in Yorkshire and Humber lacked such skills.[11]

The importance of developing digital skills was acknowledged in a survey of all LEPs by Go ON UK, which identified some of the main reasons why digital skills remained a barrier for many SMEs (Go ON UK 2015). The type of reasons identified by LEP staff included: a lack of awareness and understanding, a lack of resources (financial and staff), and general attitude and cynicism towards the benefits of digital technology.

Awareness is a key component of tackling demand-side barriers to greater digital access. A survey of small businesses in Birmingham suggested that although 92 per cent of SMEs stated that digital capability was important to their business growth, just over half (57 per cent) of businesses surveyed did not understand how to gain access to the benefits of digital technologies, and 50 per cent did not know where or how to access advice on digital technologies (BIS Committee 2015a). As might be expected from such a large group, the SME population is highly varied in its characteristics. Nevertheless, and generally speaking, there are some features that smaller organisations are more likely to display, which make it less likely that they take steps to do more online.

Small businesses may see adaption and investment in new digital technology as risky because of the costs and time involved, particularly as many small businesses are likely to be extremely time poor. Businesses may be likely to assume that investment in digital comes with significant costs (ATG 2010), and this may be a considerable barrier

10 Go ON UK's 2014 definition of basic online skills was used for the Lloyds Bank index – for further details see https://www.go-on.co.uk/get-involved/basic-digital-skills/

11 There is some evidence that this divide is beginning to narrow, with the growth in maturity during the past year being concentrated in the less mature regions (Lloyds Bank 2015); however, many are still not developing their digital skills. Seventy-five per cent of small organisations (including small charities as well as SMEs) are not investing resources to improve their digital skills (ibid).

to the smallest firms, given that they are also the least likely to borrow for investment (see for example BIS 2015a). SMEs may also find it hard to grow their business because they can often face higher costs relative to their size (Thompson 2014). They are also less likely to have resources for training, or to undertake strategic planning: despite the stereotype of the nimble small business, many SMEs struggle to innovate, with just 13 per cent engaging in internal research and development compared to 23 per cent of large firms (Dellot 2015). In fact, growth ambitions vary widely across the SME population. One survey from 2014 by the Department for Business, Innovation and Skills (BIS) suggested that 20 per cent of SMEs had no plans to grow their business, and a further 65 per cent had 'moderate' ambitions for growth, although the survey also noted that their ambitions were liable to shift over time (BIS 2015b). This general ambivalence towards growth among some businesses may help to explain why adapting to digital technology is often not considered to be a priority.

The long-term solution, as acknowledged in the House of Lords report on digital skills last year (HLSC 2015), requires the provision of learning relating to digital skills throughout the education system, including further education and apprenticeship schemes, in order to embed digital skills across the emerging labour force.

However, it is unlikely that this can provide the skills needed by SMEs in the short to medium term. In addition to the long-term skills challenge (which is beyond the scope of this report), there is also ample scope to encourage and enable firms to take small but significant steps towards doing more online that have the potential to bring considerable benefit.

The rest of this report considers the state of support currently available to SMEs to improve both their access to digital infrastructure and to enable them to make changes to the way that they run their business in the short-to-medium-term, so that they can do more online. The wider challenges of how to embed digital skills in the education system are not considered – for reasons of brevity and clarity rather than their lacking importance.

3. THE CURRENT STATE OF DIGITAL SUPPORT FOR SMES

In chapter 2 we identified that there are clear benefits to the wider economy when SMEs are encouraged and supported to do more online. We also described briefly the main barriers that many SMEs encounter in developing their digital presence.

The current government has made it clear that it considers the digital economy to be a vital part of the wider UK economy, and Ed Vaizey, then minister for the digital economy, announced in December 2015 that a new digital strategy for the UK would be published in 2016.[12]

There are currently a wide range of activities – led primarily by the Department for Business, Energy and Industrial Strategy (BEIS), the Department for Communities and Local Government (DCLG) and the Department for Culture, Media and Sport (DCMS) – promoting digital technology and skills as a means to support future economic growth. In terms of digital support for SMEs, this includes work on two key elements of digital capability, covering both *infrastructure* (including the rollout of superfast broadband) and *use* (including awareness-raising and skills).

Local authorities are considered key partners in many central government schemes, and most if not all councils, combined authorities and local enterprise partnerships (LEPs) have undertaken work in this area. This often includes activity funded by the European Union structural funds, as well as central government programmes and local schemes. There is also considerable activity taking place within the private sector.

This chapter outlines the current state of digital support for SMEs in terms of what types of interventions are being developed and implemented to enable SMEs to do more online, at both a national and regional level, as well as detailing some of the non-government work being done by the private and voluntary sector. We conclude by drawing out some key themes from our analysis, and pointing towards how the current offer might be improved.

3.1 DIGITAL INFRASTRUCTURE

Rollout of superfast broadband

Access to superfast broadband has been identified as a key priority for the government (DCMS 2016a), and its approach to date indicates that it believes the state has a strong role in tackling what it has described as a 'market failure' (ibid).

12 However, in March 2016 Vaizey suggested that the new strategy would not be published until after the UK's EU referendum, and it may now be delayed further as a result of the Brexit vote.

Indeed, the government has stated that intervention in the market for digital infrastructure is required, because a commercial rollout of superfast broadband could only cover 75 per cent of UK homes and businesses (ibid) and because there are economic, social and environmental benefits from superfast broadband that are not reflected in the revenues available to the private sector (DCMS 2015).

The nationwide rollout of superfast broadband is managed by Broadband Delivery UK (BDUK), although responsibility for the development and procurement of broadband projects (including producing a local broadband plan setting out how comprehensive coverage will be achieved) lies with individual local authorities. BDUK allocates funding to support local plans on a competitive basis and also provides support and advice (DCMS 2011). Local bodies must generally provide matched funding to the central government grant,[13] and can also add extra money if they want, including from the European Regional Development Fund (ERDF) where they have made a successful bid. Money for infrastructure projects is available on a gap-funding basis, whereby the public sector procures broadband infrastructure services from a private sector supplier through a service contract, but public funding provides a subsidy to make the investment viable to the supplier, which also provides its own investment funding. At present, the sole delivery partner is Openreach, a division of BT.

The objective of phase 1 of the nationwide rollout of superfast broadband was to reach 90 per cent of all UK premises (both domestic and business), a target which was met at the end of 2015. The second phase aims to extend superfast coverage to 95 per cent of the UK by December 2017.

However, the programme has been repeatedly criticised by MPs (see PAC 2014 and DCMS Committee 2016) and by the National Audit Office (see NAO 2015), principally regarding its value for money, the lack of competition within the provider market, and the lack of investment that Openreach has put into it. There have also been concerns around the lack of information and transparency, for example around download speeds.

Of particular concern is the fact that SMEs are currently being overlooked in the rollout of high-speed broadband. Although national levels of connectivity are relatively high and improving (albeit with considerable regional and urban/rural variation), small business premises are lagging considerably behind. Just under one-third (32 per cent) of all small business premises still lack access to superfast broadband (Ofcom 2015), and nearly one in five SMEs (18 per cent) will not have access to superfast broadband in 2017 (ibid). Because premises in business parks and in rural areas are likely to incur higher costs to install broadband, and because Openreach's investment criteria are based on the cost per premise of deploying superfast broadband, premises housing SMEs are on average less likely to be commercially viable under Openreach's investment model than residential premises. In addition, there is a risk that, as a supplier, BT is being perversely incentivised not to invest in generic provision in

13 Around £740 million of the £1.7 billion invested in the superfast broadband programme has come from local government (LGA 2016).

business parks because it gains considerable income from the provision of dedicated lease lines to individual premises.

Broadband connection vouchers

In addition to the publicly funded programme to ensure the rollout of quality digital infrastructure, and in order to incentivise take-up of high speed broadband specifically by small businesses, the previous Coalition government developed the broadband connection voucher scheme, which ran from December 2013 until October 2015. Through the scheme, small businesses in 50 cities across the UK were able to apply for grants of up to £3,000 each to cover the costs of installing faster and better broadband. Businesses can apply for the vouchers as long as they are upgrading their current connectivity.

Roughly 25,000 vouchers were issued across the country, and early data analysis[14] suggests that the programme had a broadly positive impact – including return on investment of over £5 for every £1 spent. However, following a large spike in demand, the scheme was closed to new applicants in the interests of protecting public funds (DCMS Committee 2016)[15] and, during a survey of growth hubs in the North (further details below), IPPR North found that most areas were no longer offering this type of subsidy scheme.

3.2 DIGITAL SKILLS FOR SMES

In addition to its work on expanding access to high-speed broadband, the government has also taken steps to boost the digital literacy of the UK population. Within this work, there has been a strong SME element: the government's 2013 information economy strategy and 2014 digital inclusion strategy, for example, both aimed to boost awareness of the benefits of digital for small businesses (and small charities), and to enable them to build their digital skills.

In recent years, there have been a variety of initiatives to deliver these strategies. In 2014 BIS developed a £2 million challenge fund for local enterprise partnerships (LEPs) to develop 'innovative and sustainable' activity to 'help SMEs improve their digital skills and ultimately trade and grow online' (BIS 2015c). In total, 22 LEPs (including two joint bids) received funding. Projects included direct advice to businesses, supported by events, workshops and networking sessions. In Teesside, for example, the Tees Valley Unlimited LEP partnered with Teesside University to deliver a series of workshops to help small local businesses improve their digital skills.[16] The programme ran for six weeks and was favourably received by participants (BIS Committee 2015b). The BIS evaluation of projects delivered through this funding stream across the UK found that 'they have had positive influence on turnover, employment and cost-savings; increased awareness of new opportunities and new ways of working; and ongoing activity in these areas will be needed to

14 https://www.connectionvouchers.co.uk/schemefacts/

15 In giving evidence to a recent BIS select committee hearing, Ed Vaizey (former minister for the digital economy) praised the scheme as a 'good example of how Government can, as it were, physically intervene', and stated that his department would 'continue to engage with the Treasury about [continuing it]' (HoC-BISC 2016).

16 http://www.headintodigital.com/about/

maximise future impacts' (BIS 2015c). However, it also suggested that in the absence of continued money from government, long-term financial sustainability was difficult to achieve: despite demand from SMEs, very few LEPs had been able to continue to carry out activities under this theme (beyond maintaining a 'digital legacy' – in other words, a website) once funding ceased (ibid).

BIS is also responsible for the *Do More Online* campaign, which includes a dedicated website with resources for small businesses to learn about basic online tasks such as building a website, engaging customers through social media, managing finances, and staying safe online. Until recently, BIS had been working with Go ON UK, a digital skills charity, to develop a regional model to help SMEs acquire basic digital skills (see below). This included working closely with LEPs to assist them in developing a more sustainable programme of digital support for SMEs, and to share best practice between different areas.

In addition to this, there are also a variety of programmes more specifically targeted on particular segments of the SME population, such as the UK Trade and Industry e-exporting programme; the Women and Broadband Challenge Fund to enhance digital capabilities among female entrepreneurs; and the Digital High Streets programme's e-tailing courses. Information on cyber security for business is also provided through the Cyber Essentials website. However, to date there has been limited evaluation of the precise impact of these programmes on the effectiveness and growth of SMEs (Baker et al 2015).

Private and third sector

As well as digital support provided through the public sector, there are also a significant number of initiatives run by private sector companies, such as Google Digital Garage, many of which arguably have a strong interest in encouraging more businesses to do more online. Some prominent examples are set out below.

Doteveryone

Go ON UK (now Doteveryone) was a charity responsible for helping people and businesses get online. Led by a cross-sector alliance of national, regional and local partners working across the UK, Go ON UK was a partner in the SME Digital Capability Programme with BIS, which included the development of a pilot delivery model in the North East for digital support, based around developing local stakeholders as 'small business digital champions' and face-to-face training delivered through a dedicated website (digitalskills.com[17]).

Recently, Go ON UK was reinvented as a new organisation, Doteveryone – a charity with a Community Interest Company (CIC). The focus of this new organisation is much broader as it aims to promote the uptake of digital technology for a far wider audience, rather than specific initiatives dedicated for SMEs. Doteveryone is currently developing its working model, and it currently lists three live projects. Of these projects, the most relevant to this area of research is Go ON Local, which is aimed at local councils, support providers and community groups, providing an

17 However, this website has now closed.

online resource bank to enable them to run digital skills activities in their local areas. The site was developed as a cost-effective way of replicating previous offline work in the North East, North West and Northern Ireland, and is currently in beta form. As well as a library of online resources, which users can add to by uploading their own resources, Go ON Local also provides a collaborative platform to help these organisations to connect, share and promote best practice.

Virgin Big Digital Skills Hub

This is a free digital learning platform designed specifically for SMEs. Comprising of 15 tutorials across five digital modules, each module provides information and support on a particular aspect of digital skills – for example using social media, maximising your online presence or setting up a new website. The website also features testimonials and advice from digital experts, which are designed to encourage and support SMEs as they develop their skills as well as signposting users to other sources of support.

Barclays Digital Angels

As with Virgin's Digital Hub, the Barclay's Digital Angels offers free online digital support for individuals, communities and business. Like Virgin, the Digital Angels website offers a specific learning platform, the 'digital driving licence', which includes a specific section for businesses. This includes a range of courses on topics such as 'understanding Google', 'introducing e-commerce' and 'understanding the changing times', which business can work through at their own pace.

Google UK: Digital Garage

Google's Digital Garage aims to boost the online presence and expand the online customer base of small and medium-size enterprises as part of a wider commitment to provide digital skills training to 250,000 people in 2016. The Digital Garage was targeted locally at businesses that already had an existing online presence, with a view to supporting them to take the opportunities offered by doing more online.

The first Digital Garage was set up during 2015 in Leeds and has been run in a number of UK cities, including Birmingham and Manchester, as well as in a number of smaller locations as part of a national 'tour'. It has now also been rolled out as an online learning platform for small businesses across the country.

Digital support to small businesses through the Digital Garage consisted of 'masterclass' presentations, led by Google UK staff, covering the basic elements of how to 'tell your story online' (covering website design and content; analytics) and 'get new customers online' (covering search optimisation and online advertising).

One-to-one mentoring sessions were also available with Digital Garage staff, to discuss the particular needs of individual organisations and receive a digital 'tune-up' for their website, online content and social media presence.

In addition, a small team of staff were onsite every working day, and the space was designed to be an open 'walk-in space' where people were encouraged to spend time, co-work, share ideas and get informal advice.

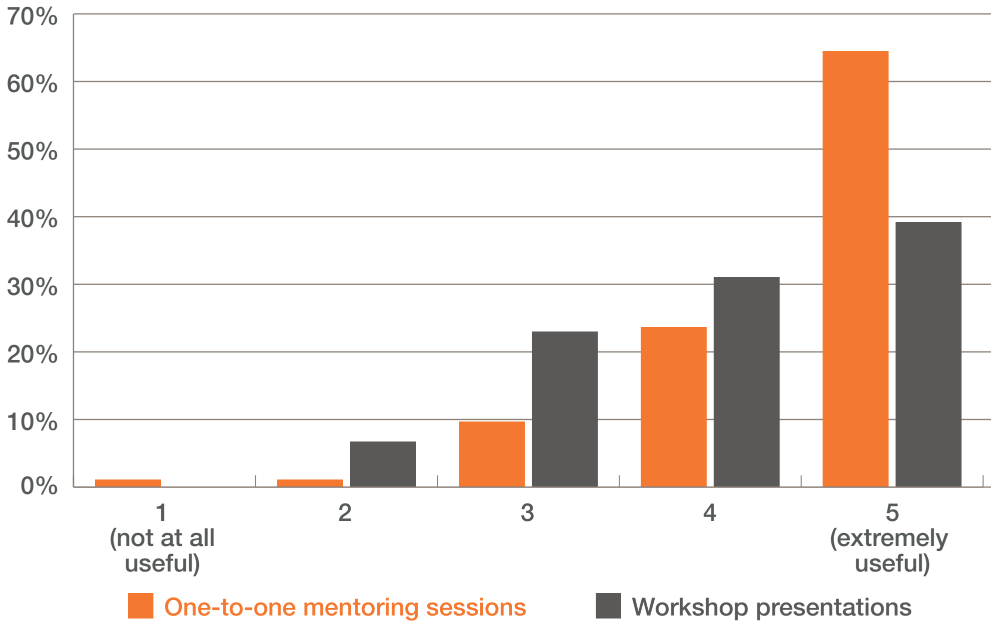
IPPR North was commissioned by Google UK to provide an independent evaluation of the Digital Garage programme.[18]

The Digital Garage was explicitly targeted at those businesses with some existing digital presence (such as those with an active website, or social media account). As such, the vast majority of Digital Garage participants were not 'new' to the internet, but few had done little beyond developing a basic web presence. Indeed, almost all of those who attended Google's training sessions had made their first steps online, but most had done little to develop beyond a basic website and therefore displayed considerable scope for improvement.

Overall, immediate feedback from the Digital Garage was highly positive, in particular with regard to the one-to-one mentoring, with 65 per cent saying that they found it 'extremely useful'. The workshop presentations were also very popular, with just under 39 per cent saying they found it 'extremely useful'.

FIGURE 3.1

Feedback on the Digital Garage was highly positive
Attitudes towards the Digital Garage from participants



Source: IPPR evaluation of Google UK's Digital Garage programme

18 As part of our work to evaluate the Digital Garage programme, all participants at the workshop presentations and the mentoring sessions were invited to complete a survey (available online and in paper form). IPPR North then emailed all those who indicated that they would be happy to be contacted again with an invitation to complete two additional online surveys: the first approximately six weeks after they completed the original survey; the second at approximately 20 weeks. In total, 1,404 useable responses were received to the first (week 1) evaluation survey. Of these, 221 were duplicates (that is, people who completed more than one survey – in these cases the first completed survey was used), leaving 1,183 unique responses. There are currently 198 responses to the follow-up (week 6) survey and 356 responses to the final (week 20) survey.

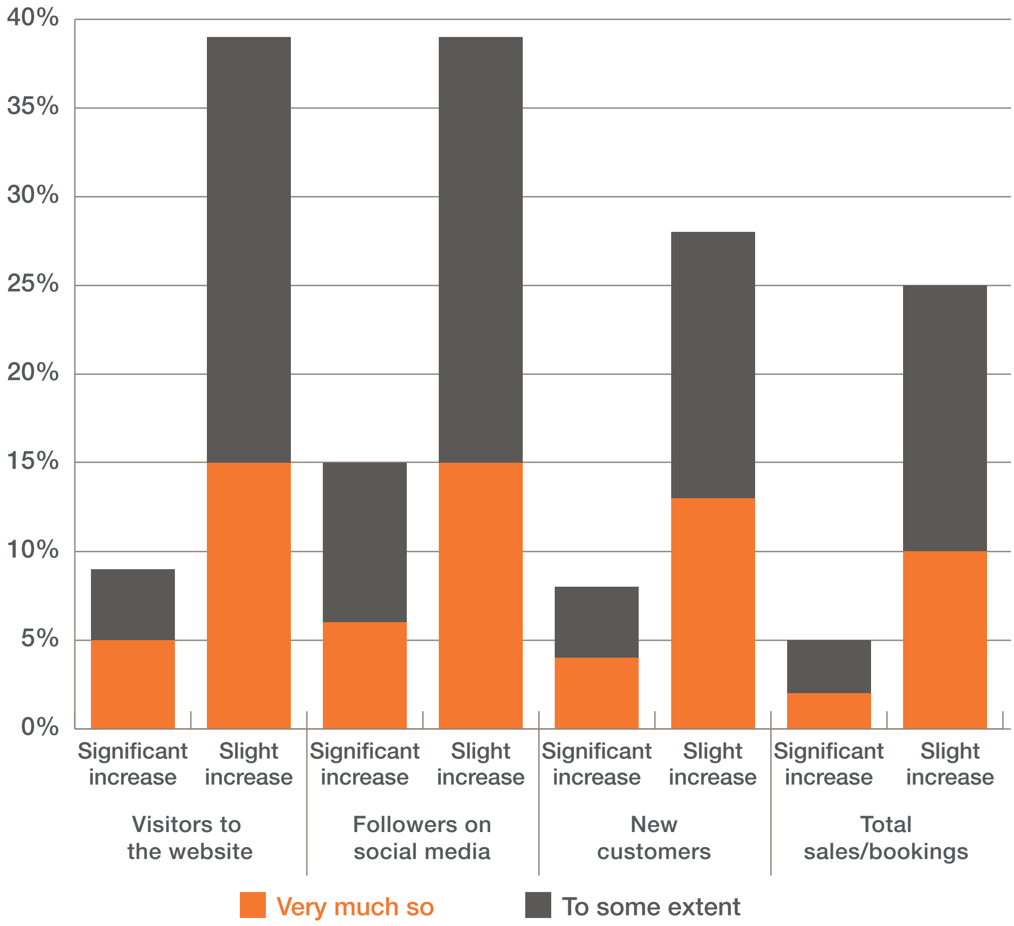
For the week 20 survey, participants were offered an incentive for completion, in an attempt to reduce the risk of self-selection. Nonetheless, given that the sample is not chosen randomly, we cannot eliminate the possibility that the data is not fully representative. Therefore the analysis and conclusions should be understood in this light.

Beyond this, available data indicates that a significant majority of participants (almost 90 per cent) had made changes to the way that they do business online that they would attribute in some form to the Digital Garage. Although it is hard to draw direct causal links between advice and support received and improved outcomes, a significant proportion of businesses indicate that they have seen some degree of positive outcome so far, including 49 per cent who have seen some increase in website visitor numbers, 32 per cent who have seen an increase in customer numbers, and 27 per cent who have seen more sales or bookings. Eighty per cent reported that their confidence in using digital had increased as a result of attending the Digital Garage.

FIGURE 3.2

After 20 weeks, many participants had seen some degree of observable improvement

Self-reported change following participation at the Digital Garage



Source: IPPR evaluation of Google UK's Digital Garage programme

Key characteristics that make the Digital Garage effective

- **Diversity of digital support provision.** The Digital Garage project employs an 'open access' approach to digital support and uses a variety of different mechanisms with which to engage with business, including masterclass presentations by Google staff, one-to-one mentoring, online video tutorials and 'walk in' space in city centre locations.
- **The importance of one-to-one support for SMEs.** The evaluation of Google UK's Digital Garage project highlighted the importance of one-to-one support in helping to maximise the effectiveness of digital support programmes, and as a means to provide users with the confidence to take up online sources of support.
- **Digital branding 'hook'.** A key factor in Google UK's successful delivery of the Digital Garage project has been its association with a global brand which is easily recognised and trusted by SMEs; similarly, with other schemes such as the Virgin Digital Skills Hub.
- **Free at the point of demand.** The fact that Google's Digital Garage operates as a free service for SMEs means that it reduces one of the potential barriers that may prevent such businesses from accessing this type of support.

Limitations of the Digital Garage approach

- **Resource intensive.** The most popular element of the Digital Garage programme is the one-to-one mentoring support offered by Google staff. While it does appear to be effective, this approach is heavily resource intensive, which has implications for its cost to the provider where the service is provided for free.
- **Time-limited.** Digital Garage support is provided through a 'pop-up' model, where a small, dedicated team set up shop for a fixed period of time (for example seven months in Leeds). While there are understandable reasons for taking this course of action, not least because of the resource-intensive nature of the support provided, there is evidence from our evaluation that demand for a more long-term programme of support exists.

4.
THE CURRENT OFFER ‘ON THE GROUND’

Responsibility for the design and delivery of the majority of local business support, of which support for digital is one element, is currently handled by local enterprise partnerships. LEPs were created by the previous Coalition government, which defined them as ‘joint local authority-business bodies brought forward by local authorities themselves to promote local economic development’ (HM Government 2010). There are currently 39 LEPs across England as a whole, covering the entire country, with 11 covering the regions of the North.

In this chapter, we explore the extent to which digital is prioritised by LEPs and what the current offer for support for small businesses looks like ‘on the ground’.

4.1 LOCAL ENTERPRISE PARTNERSHIPS AND GROWTH HUBS

LEPs began as largely strategic partnerships between major local businesses and local government, intended to advise on local economic priorities. However, their role has increased significantly in recent years, particularly when compared to the shrinking capacity of local authorities to act beyond their statutory obligations. Nationally, the amount of central government funding received by LEPs is projected to rise to £12 billion between 2015/16 and 2020/21 via locally negotiated growth deals (NAO 2016). In order to secure funding from the growth deal, each LEP is required to develop a strategic economic plan (SEP), which sets out each area’s economic priorities for investment and growth. In addition to receiving growth deal funding, LEPs have responsibility for over £5.3 billion of European structural and investment funding between 2014 and 2020.

LEPs are now also charged with coordinating business support at the local level through growth hubs. There are 39 growth hubs across the UK, one in each LEP area, and they currently exist at a number of stages of development, with many very recently opened. A growth hub is a local public/private sector partnership that is established and led by the LEP and intended to promote, coordinate and, in some areas, deliver business support. The government hopes that growth hubs, currently supported by a dedicated funding stream of £12 million per year from central government until 2018, will help to ensure that local business support is ‘simpler, more joined up and easier to access’ (BIS 2016). Growth hubs will bring together existing business support provision and provide signposting for businesses to access information and advice, in order to simplify what can be a confusing landscape of private and public sector funding and support.

The primary point of contact for businesses accessing their local growth hub will be either online or via telephone, which means that the business can then be referred to an appropriate support provider that may be local, regional or national. The support provider may be a local council's economic development department, local chamber of commerce or a private sector provider who delivers specialist support, and may be offered free or for a charge. In some circumstances, and often depending on the circumstance of the individual business, the growth hub may be able to direct an SME towards financial support – for example, the 'new markets' project based at the Liverpool Growth Hub provides 35 per cent match funding from the European Regional Development Fund (ERDF) for SMEs to support projects which will enable small businesses to grow.

Because they have been established locally, growth hubs vary in terms of how they work and how they are structured. For example, in Liverpool, the growth hub is branded separately online from the Liverpool City LEP and has direct links to business support services at each of the local councils in the Liverpool city-region. In Manchester, the growth hub is also branded separately with its own website, and is structured in terms of the types of support that businesses may want to get advice about – such as 'growth start-up', 'green growth' and 'digital growth'. In Leeds, however, the growth hub is integrated within the LEP website with the emphasis more on 'business support'.

Most growth hubs have a dedicated phone line for businesses to call, although not all offer this facility. Those that do not have a staffed telephone number (such as 'Business Compass' in Tees Valley and 'How's Business', in York, North Yorkshire and East Riding) direct businesses to the national business support helpline. Of the eleven growth hubs across the North, only Manchester has a physical 'shop front', where people can walk in off the street. However, most will organise some form of 'pop-up' events or workshops in different places across their dedicated region instead, with a view to advertising their services to the wider business population.

4.2 A REVIEW OF THE LOCAL 'OFFER' FOR SMALL BUSINESSES ON DIGITAL SUPPORT

Because of their importance in curating local business support, IPPR North conducted a short survey to understand how digital is prioritised within the SEP of each northern LEP area. This was intended to give an overview into the current state of support for digital available to small businesses in the North and comprised the following three stages:

- a desk-based review of the SEP of each LEP in the north of England, to determine how the role of digital is prioritised in each LEP/growth hub area
- a review of information available on the websites of each growth hub in order to determine how small businesses are signposted to digital support online
- a phone survey of growth hubs in the North to understand exactly what support for digital is available to SMEs in each area through each hub.

The results of this review are synthesised in the appendix. From the analysis, several trends emerge.

The role of 'digital' for supporting economic growth is a recognised priority
First, it is clear that the digital economy is recognised as an important priority by every LEP in the North. This is frequently articulated through support for digital infrastructure and strategies to boost the digital/creative sector.

What is less clear, however, is the extent to which some LEPs value the provision of wider digital support to SMEs. This is apparent, for example, within the strategic plans of individual LEPs across the North.

- Digital infrastructure is acknowledged as a key priority for action across all areas. Every SEP makes explicit reference to boosting 'digital connectivity' or to the provision of 'high-speed broadband' – and most cite quality internet connectivity as an economic necessity akin to physical infrastructure.
- In addition, most SEPs also make clear mention of the importance of the digital and creative sector as an important growth area. For example, Tees Valley LEP identifies 'Digital/Creative' as a 'growing Key Sector', which employs 'over 10,000 people' in the region; while Humber LEP commits to the creation of a hub for gaming, digital creativity and content creation industries.
- Despite this clear recognition of the importance of the digital economy, however, relatively few LEPs have identified support for small businesses to do more online as a clear priority for their work. Just four SEPs make any explicit reference to the importance of digital support for SMEs.

It appears from this brief analysis that the main emphasis of the SEPs in terms of digital support is on the supply of broadband capability and support for the digital sector.

Varied approach to signposting and delivery of digital support for SMEs
Second, there is considerable variation in the ways in which growth hubs offer support for digital for SMEs. For some hubs, digital does not appear to have been identified as a clear support need for businesses at all, whereas others have a more clearly defined 'offer'. In addition, many hubs currently see their role as a passive one – in terms of identifying support already available in the local area, and signposting local businesses towards it. On the other hand, some growth hubs appear to actively participate in curating and even delivering digital support for SMEs. In part, this variation can be explained by the fact that many growth hubs have been established relatively recently and have different levels of resourcing; for example, some growth hubs have access to sources of EU funding to supplement their work whereas others are reliant solely upon central government funding.

An example of this variation is that references to digital are often difficult to find on some growth hub websites, and few have a dedicated area of the website devoted to digital skills (in contrast with, for example, financing and funding). Some growth hubs list 'digital/creative' as a key sector for growth, rather than a cross-cutting theme for business development, which does not necessarily encourage businesses that are not traditionally associated with digital to seek support in this area. However, each growth hub is able to provide a comprehensive directory of local and national business support, which frequently includes elements of digital support such as signposting to Digital Garage and the Virgin Big Digital Skills Hub. However, digital's presentation on some growth hub websites suggests a lower priority to other themes, such as business finance.

While the primary purpose of growth hubs is to act as a local centre for coordinating information about business support – a 'one stop shop', as it might be described – the research showed that some growth hubs proactively deliver packages of digital support. For example, many growth hubs provide one-off training workshops on digital skills that are run either by the growth hub itself or by partners in local government or chambers of commerce. Some growth hubs such as Manchester have developed a dedicated digital growth team whose digital support package can include one-to-one support for businesses to assess digital needs; masterclasses for SMEs on different aspects of digital support; and a digital portal with online training facilities. This programme is supported through ERDF funding. Similarly, plans are in place in Leeds for a new region-wide programme to enable 1,000 businesses to develop their 'digital maturity'. The programme will include masterclasses and workshops; one-off events; and one-to-one mentoring. Funding for 40 per cent of costs for equipment and expertise will also be available – however, this scheme is subject to ERDF funding.

Passive rather than proactive approach

Third, the growth hubs tend to work on a generally passive rather than proactive approach to digital support in that they are reliant upon businesses contacting them in the first instance, rather than generating demand for business support services. In addition, the fact that much of the growth hubs' support is presented online may present a further barrier to businesses that are as yet unfamiliar with the growth hubs or unacquainted with this type of online support. The danger of relying on businesses to initiate the request for digital support is that the SMEs that do come forward will be self-selective and therefore not necessarily include those 'harder to reach' firms that may not consider digital technology to have any relevance for their business.

IPPR North's evaluation of Google UK's Digital Garage demonstrated the importance of face-to-face support when it came to delivering digital support, a finding backed up by the Lloyds Digital Index (Lloyds Bank 2015). Both pieces of research found that face-to-face support was more effective at securing long-term change within businesses. However, this more intensive support is costly and provision at a local level appears limited due to funding constraints. This has also been identified as an issue in Go ON UK's survey of digital support with LEPs in 2015 (Go ON UK 2015). It appears that only the major city-regions such as Manchester and Leeds are able to offer a more comprehensive and strategic package of support based around digital, although these support packages are heavily reliant upon ERDF funding, which, following the Brexit decision, are unlikely to continue longer term.

5.
CONCLUSIONS AND RECOMMENDATIONS

5.1 CONCLUSIONS

A strong digital presence is vitally important to businesses of all kinds. Doing more online is related to gains in profitability and productivity, and, as such, efforts to boost local economies should necessarily have a strong digital element.

However, the available evidence suggests that, as a whole, SMEs are lagging behind other businesses in terms of their current digital capacity. If this digital divide is allowed to persist then the northern powerhouse will be less productive and less balanced than it could be.

The challenge to ensure greater usage of digital by SMEs is twofold: on the supply side, there is a pressing need to ensure that small businesses are supplied with high-quality digital infrastructure – in other words, high-speed broadband – as a basic prerequisite to getting online. Additionally, there are significant demand-side challenges, principally the need to ensure that firms are persuaded of the benefits of doing more online, and that they have access to the right skills to make the most of digital.

In its aim to improve broadband connectivity, the government has taken a strong and proactive approach, which recognises that intervention is necessary where wider economic and social benefits would not be realised through a purely market-led approach. Public funds are used to make the investment viable to the private sector, and the latest element of this approach will be the introduction of a universal service obligation, to give individuals the right to request a broadband connection.

In addition, the broadband voucher scheme for SMEs also demonstrates a recognition from government that many small businesses may require support with fixed costs, as a ‘nudge’ towards best practice that they may not otherwise make use of. This is important because small businesses often operate in a ‘firefighting’ mode for survival. This, along with their often informal management arrangements, can mean that decision-making processes can often be led by a ‘gut feeling’ rather than strategic cost–benefit analysis. Instead of seeing the initial time required to set up an online presence and gain basic digital skills as a positive investment that would lead to greater time-savings in the future, organisations see this as an extra commitment that they simply cannot manage (Great British High Street 2015). Even among those with some digital presence, there is evidence to suggest that adoption for many is driven by an anxiety of failing to adopt what is perceived to be a new essential tool, rather than a purposeful strategy based on maximising the use of digital in their business (Durkin et al 2013).

There are clear and urgent issues with the current approach, including problems with competition and transparency. Although the government has made digital connectivity a clear priority, the current rollout is not working for all areas, particularly business parks and rural areas where coverage remains poor for many SMEs. In particular, there are considerable disincentives to the current provider to deliver broadband to business parks, not least because some businesses may already be using dedicated and more expensive leased lines.

However, the government's approach to the supply side to date is useful because it recognises, first, that state intervention is justified where the market is failing to deliver an optimal solution, and second, that small businesses do not always act in a rational way – as the conventional wisdom of market economics might otherwise suggest.

In contrast, the current approach, on the demand side, to support on digital skills and awareness seems to be informed by a different logic – one that broadly maintains faith in markets to deliver the best result and that relies upon small businesses to always act in their long-term best interests.

However, there are, and have been, programmes targeting specific parts of the SME population. There has also been work with local enterprise partnerships, notably the Digital Capability Programme, and more recent work to share best practice, but much of this has lacked both a clear strategic direction and a sustainable funding source.

Initiatives such as the Digital Garage indicate that there is significant demand among SMEs who have already taken some first steps online, but it is clear that a market for paid-for support is suboptimal. Few small businesses appear willing or able to pay for dedicated support for digital.

Growth hubs are a new model for co-ordinating local business support, including support for digital, which is worth developing. However, at present, in many areas they are restricted by the resource allocated to them and have a passive role in identifying and advertising existing business support.

Given the potential benefits that have already been highlighted of a greater online presence among small businesses, including the possibility of expanding a customer base, there is a clear role for local bodies (that is, both local authorities and LEPs) to take positive steps to ensure that these SMEs are able to make the most of digital. Our desk review, however, has highlighted the fact that few local areas are prioritising SMEs' use of digital in a way that ensures that they will be able to take such steps.

One final yet crucial issue is the UK's decision to leave the EU and its as yet unknown consequences. Many initiatives that address the digital needs of SMEs draw upon funds from the European Regional Development Fund,[19] and it is not yet clear in what form this allocation

19 The ERDF allocation for England totals £3.6 billion. It is specifically designed to support local economic growth, including support for small and medium-sized enterprises. Funds are allocated according to nine priorities, of which the second is 'Enhancing Access To, and Use and Quality of, Information and Communications Technology', which includes projects both to increase the coverage and usage of high-speed internet and to develop ICT products, support e-commerce and increase demand from SMEs (which can include training, support and mentoring for digital support).

to LEPs will continue, if at all. Local government is currently seeking clarification from the government that these allocations will continue once the UK has left the EU.[20]

The government has made it clear that it sees improving productivity as a key objective for its new industrial strategy. In order to ensure that this aim is met, any such strategy should include a focus on encouraging SMEs of all sectors to do more online, as a proven means to boosting productivity. This should lead to policies to increase investment in digital infrastructure, as well as measures to ensure value for money in the current rollout, and a long-term strategy to embed digital skills in the education system. But it should also include, as a matter of equal importance, measures to better co-ordinate and incentivise digital support to small businesses to enable them to do more online.

The following recommendations for policymakers will facilitate a more cohesive and strategic approach to help build a digital powerhouse in the North.

5.2 RECOMMENDATIONS

1. Make Digital support to SMEs a priority for LEPs and metro mayors. Improving the digital capability of SMEs should be a priority for the new metro mayors and LEPs. This should involve developing a local plan to share best practice and enable communication and collaboration with existing private sector-led initiatives and local business networks, with the aim of raising digital skills in local SMEs. Each LEP and each new metro mayor should work to ensure that their local area passes the following five tests to ensure that they are doing the most they can to encourage SMEs to do more online.

- **Prioritising:** how effectively does your LEP prioritise digital skills within the strategic economic plan for all sectors, and how is this reflected in the work of the growth hub?[21] Have you set achievable targets in pursuit of this priority – for example, for the number of SMEs using digital?
- **Defining:** does your growth hub have a defined 'digital skills offer', which is clearly articulated on its website and via its advisers?
- **Reaching out:** are you making the most of the opportunities for collaboration and knowledge-sharing, such as the new GO ON Local online hub? Do you have a framework for how to collaborate with the private sector in the provision of initiatives to boost digital skills among SMEs?
- **Mapping:** do you ensure that data collected on the availability of local support (via, for example, the growth hub) is used to create a comprehensive picture of the supply of support for SMEs on digital? How are you measuring the effectiveness of individual programmes? How is this data being made public?
- **Market shaping:** where clear demand for digital support for SMEs has been identified, are you exploring how to ensure that this demand can be met and the potential benefits for SMEs maximised?

20 See for example Good News Liverpool 2016 and Worley 2016.
21 https://local.go-on.co.uk/

2. Rationalise and further devolve government funding for digital skills to SMEs. There is a clear economic benefit to enabling SMEs of all sectors to do more online. However, government funds are necessary to overcome disincentives to private investment, and to encourage SMEs to invest their own resources in digital. To this end, the government should create a pooled pot of digital support that aims to address government priorities but which is devolved to LEPs. In addition, when the government is in a position to clarify the future funding settlement for LEPs following Britain's withdrawal from the EU it should provide specific assurances about the future of funding for digital support.

3. Prioritise superfast broadband for business parks and enterprise zones. The government and the relevant local bodies (including LEPs and local authorities) should ensure that access to superfast broadband for business parks and enterprise zones is heavily prioritised within the current rollout. Where appropriate, future funding for the roll-out of broadband should be devolved to combined authorities, and local bodies should consider a broadband voucher scheme for SMEs, to subsidise better connectivity.

4. Ensure greater transparency around the rollout of broadband. As a means of ensuring the success of a future universal service obligation, BT should publish full broadband speeds and coverage at a premises level, starting with SME premises and business parks ahead of domestic properties, providing full transparency regarding who is and who is not receiving superfast speeds. BT should also publish neighbourhood-level information about planned activity to upgrade existing infrastructure.

5. Continued support for growth hubs. Growth hubs are an important local platform by which local SMEs gain access to digital support, but will require time in order to consolidate their presence in their local area and develop their networks. While the objective of growth hubs should be to become financially self-sustaining, government support should be sustained at the current level until at least 2020. At a cost of £12 million per year, growth hubs are relatively low cost, and there is emerging evidence of the economic benefits of this continued investment.[22]

22 One evaluation of 15 recently established growth hubs found that they had leveraged £66 million of private sector match funds to the regional growth fund (Lancaster University 2016).

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APPENDIX

TABLE A.1

A summary of key research findings from desk review and survey of LEPs and their growth hubs in northern England

	Strategic economic plan					Growth hub	
LEP	Growth hub	'Digital connectivity' or 'high-speed broadband' identified as a priority	Support for the digital/creative sector	Supporting SME growth identified as a priority	Support for SMEs to do more online	Digital support for SMEs listed as a specific theme on website?	What support for digital is offered through the growth hub
Cheshire and Warrington	Cheshire and Warrington Growth Hub	Yes		Yes	No mention	Online support finder allows businesses to filter services listed as 'digital support/getting online'	Signposting to local and national support providers and local events (via website, phone line, business advisers), including one-off training workshops on digital skills (run by local authorities, free to attend)
Cumbria	Cumbria Growth Hub	Yes		Yes	No mention	Nothing specific in relation to digital	Signposting to local and national support providers and local events (via website, phone line, business advisers One-off training workshops on digital skills (run by growth hub, free to attend One-to-one support from business advisers as well as match-funding, which could include advice on digital (ERDF-funded, B2B or manufacturing sectors only)
Greater Manchester city-region	Business Growth Hub	Yes	Yes	Yes	'We will… offer specialist help and advice to promote business innovation and the adoption of superfast broadband technologies'	Listed as 'digital growth' with named contacts, blog, and themed events	Signposting to local and national support providers and local events (via website, phone line, business advisers) A dedicated 'digital growth' team, which provides: • one-to-one support for businesses to assess their digital needs and develop an 'action plan' • one-to-many classroom-style overviews and masterclasses • conferencing and networking events • a digital portal with online training resources • match funding available where appropriate There is also support for women-led businesses and female entrepreneurs to improve their digital skills through the 'evolution' programme
Humber	Within the LEP website as Humber Growth Hub	Yes	Yes	Yes	No mention	Listed under 'IT and digital' with referrals to support organisations	Signposting to local and national support providers and local events (via website, phone line, business advisers) One-off training workshops on digital skills (run by growth hub, free to attend
Lancashire	Boost Business Lancashire	Yes	Yes	Yes	No mention	Nothing specific in relation to digital	Signposting to local and national support providers and local events (via website, phone line, business advisers Little specific support available, beyond social media and e-commerce training offered to start-ups Funding available which can be used towards digital support where appropriate

Strategic economic plan						Growth hub	
LEP	Growth Hub	'Digital connectivity' or 'High-speed broadband' identified as a priority	Support for the digital/ creative sector	Supporting SME growth identified as a priority	Support for SMEs to do more online	Digital support for SMEs listed as a specific theme on website?	What support for digital is offered through the growth hub
Leeds city-region	Within the LEP website as 'Business support and finance'	Yes	Yes	Yes	'Ensuring digital technologies are used to optimum levels to improve SME productivity'	Listed as 'broadband and digital skills' but currently under development	Signposting to local and national support providers and local events (via website, phone line, business advisers) Subject to ERDF funding, a new region-wide programme aims to enable 1,000 businesses to develop their 'digital maturity'. It will feature masterclasses and workshops; one-off events and one-to-one mentoring. Funding for 40 per cent of costs for equipment and/or expertise will also be available. Support will primarily be delivered by Leeds city council, working in partnership with other LAs
Liverpool city-region	Local Growth Hub	Yes	Yes	Yes	No mention	Nothing specific in relation to digital	No specific digital support programme for SMEs. Signpost support on the website and provide a 'brokering support' model. Businesses can receive a diagnostic appraisal of their business needs which may or may not include digital support. They can also access funding to support future growth through the 'NEW Markets' project – offering 35% towards business innovation to open up new markets – this might include some form of support for digital
North East	North East Growth Hub	Yes	Yes	Yes	'Raising awareness of the benefits of superfast broadband and driving demand' 'Overcoming the barriers to digital adoption'	Listed as a 'growth theme' under 'innovation and technology with signposting to support services. The website also has a 'business support' area where businesses can identify 'websites' and search engine maximisation as a theme and filter support services	Signposting to local and national support providers and local events (via website, phone line, business advisers), including to an ERDF-funded programme, 'Business Northumberland' Peer-to-peer mentoring and advice available (on all topics, not just digital) on the growth hub website
Sheffield city-region	Sheffield Growth Hub	Yes	Yes	Yes	No mention	Digital will sit within an 'innovation' spoke, currently being developed	Signposting to local and national support providers and local events (via website, phone line, business advisers), including one-to-one sessions on digital led by local authorities, free to attend An online portal for support to businesses, including match-funding where available. See http://sheffieldcityregionskillsbank.co.uk/
Tees Valley Unlimited	Tees Valley Business Compass	Yes	Yes	Yes	No mention	Nothing specific in relation to digital	Signposting to local and national support providers and local events (via website, phone line, business advisers), primarily to university-run programme
York, North Yorkshire and East Riding	How's Business?	Yes	Yes	Yes	'Where broadband has been rolled out we will help businesses make the most of it'	Site lists business articles and advisers which can be filtered using, for example, 'online sales', 'social media' and 'website development'	Signposting to local and national support providers and local events (via website, phone line, business advisers) Direct matching with a 'local expert' on social media Regular articles on digital available through the website Pop up business café across different locations (15 a year) – not specifically digital but with a strong digital element