

# **Review of the Companies of Scale Pilot Programme**

**Final Report to:**

**Scottish Enterprise**

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Consultees

# 1: Introduction and Background

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## Introduction

- 1.1 This report sets out the findings of an interim review of the Companies of Scale programme. The programme has been in operation within Scottish Enterprise (SE) since early 2005. The background rationale lies in the fact that although Scotland has 9% of the UK population, it has only 4% of the UK's companies with turnover in excess of £100m. Analysis by the Royal Bank of Scotland (RBS) had suggested that the existence of companies of this magnitude brings substantial economic benefits. The purpose of the Companies of Scale pilot has been to test the proposition that the SE Network can deliver effective support to large companies which in turn can help them to grow to the level specified. Part of the hypothesis tested in the pilot was that a more intensive form of engagement could be justified with larger companies because of the level of benefits that would consequently be generated.

## Shape of this evaluation

- 1.2 The pilot is designed to run until 2009. This interim review has been undertaken approximately two years into the programme. Given that it took some time to identify companies and to start to do substantial work with them, the actual period of support has in many cases not been much more than one year. It was thus accepted at the beginning by the clients that clear evidence of economic impact would be difficult to obtain because of the delay in securing implementation or change in some cases and also because even where there might have been change in behaviour within some companies, effects on actual performance might not come through for some time. Thus, the main purpose of this review has not been to produce a value for money or accountability evaluation but to establish:

- § the difference which SE support has made so far in whichever form this might appear at present
- § the lessons that can be learned from the experience of the pilot so far for the future operation of the programme
- § some pointers which might shape a full evaluation at some time in the future
- § identification of performance indicators which might reflect the range of possible impacts.

- 1.3 Since the programme commenced, nine companies have taken part. Two are no longer on the programme, for reasons explained later. All companies which participated have been interviewed face to face, bar one which was interviewed over the phone. In the case of the companies still on the programme, the consultant was accompanied by the Companies of Scale Senior Account Manager. The main reason for this was to tie in with the regular six-monthly review meetings held with companies. In the case of the companies no longer on the

programme, interviews were undertaken by the consultant alone. The interview this time was undertaken in such a way that the results would be readily compatible with and could be incorporated into a full economic impact evaluation in 2009.

- 1.4 The fact that most interviews were conducted jointly between the Senior Account Manager and the consultant was appropriate for an interim review such as this. However, we would recommend that for the full evaluation, all interviews are undertaken by the consultant alone on a confidential basis with the company.

### The rationale for developing 'Companies of Scale'

- 1.5 The origin of Companies of Scale lies in a paper written by RBS in 2004 which reviewed the place of larger companies in the Scottish economy. It did not define the notion of Companies of Scale, but listed the top 100 in Scotland by GVA and commented accordingly. It concluded that these larger businesses brought substantial benefits to the Scottish economy through:

- § higher investment levels
- § being sources of innovation
- § providing good employment prospects for a younger, more dynamic population
- § higher levels of productivity, and
- § generation of 'externalities' such as industrial clusters and knowledge sharing (as well as a higher profile for the nation).

- 1.6 The RBS analysis suggested that Scotland was reasonably well represented in terms of very large Companies of Scale (for example in comparison with Ireland – with whom Scottish comparisons are generally unfavourable). However, Scotland was much less well represented in relation to the medium-sized firms (or the 'mid-corporate sector') with value added between £250m and £1bn. It was in this area – the businesses that are not major Companies of Scale at the moment but could grow to become those of the future – that Scotland was lacking, according to RBS.

- 1.7 SE gave active consideration to the challenge implied by the RBS analysis. It was accepted by SE that looking to support the development of companies to move towards the levels of scale implied by RBS was potentially a productive area to be involved in. An important question was the extent to which SE was able to intervene among companies of significant size, as this was a place in the market in which SE had not previously been heavily involved. It was believed that SE had so far had little meaningful involvement with prospective Companies of Scale (though some of those subsequently included in the programme had in fact been previously Account Managed). Indeed, earlier research had suggested that additionality of SE influence tended to be in inverse proportion to the size of the company being worked with. The average turnover of Account Managed companies is, for example, around £6m.

1.8 The pilot programme has now been in operation for two years with activity having taken place with nine companies. The pilot has tested:

§ working with a new group of companies

§ working with them in a new way.

A key question for the evaluation has been to establish the extent to which these combined new approaches have yielded positive results and the consequent lessons for the remainder of the pilot period.

1.9 Very closely related to this is the question of the market failure which should lie behind support from SE for these types of company – why it is that they might need support from SE to do things that they otherwise would not do? Rationale in market failure was not spelled out in the approval papers. A second purpose of this pilot has been to test how far such market failure might actually exist.

1.10 Measuring Progress Towards a Smart, Successful Scotland<sup>1</sup> has also taken up ‘businesses of scale’ by noting that Scotland lacks a critical mass of these businesses (defined as turnover of £100m and above). It suggested that growing more businesses of this order is a challenge for the Scottish economy and thus by implication a national priority. In order to reach the top quartile of UK Regions, it was noted that Scotland would need an additional 55 ‘businesses of scale’.

### The Companies of Scale

1.11 SE decided to run a pilot which would test the hypothesis that worthwhile engagement with potential Companies of Scale was possible. At the same time, a parallel research exercise was commissioned (undertaken by The Foundation) to investigate issues faced by companies as they grow to become Companies of Scale. The most significant insights (summarised in Figure 1.1) were that the key determinants of companies’ ability to grow were as follows:

§ *Visible Companies of Scale objective* – creating perceptions within a wide range of audiences that Companies of Scale matter

§ *X Factor People* – identifying, developing and supporting individuals with strong leadership skills who are willing to resist early exit and retain the company presence in Scotland

§ *Turning Points* – anticipating and influencing crucial points in companies’ growth journeys – instances where there is the potential to stimulate step change growth. These can be externally or internally generated

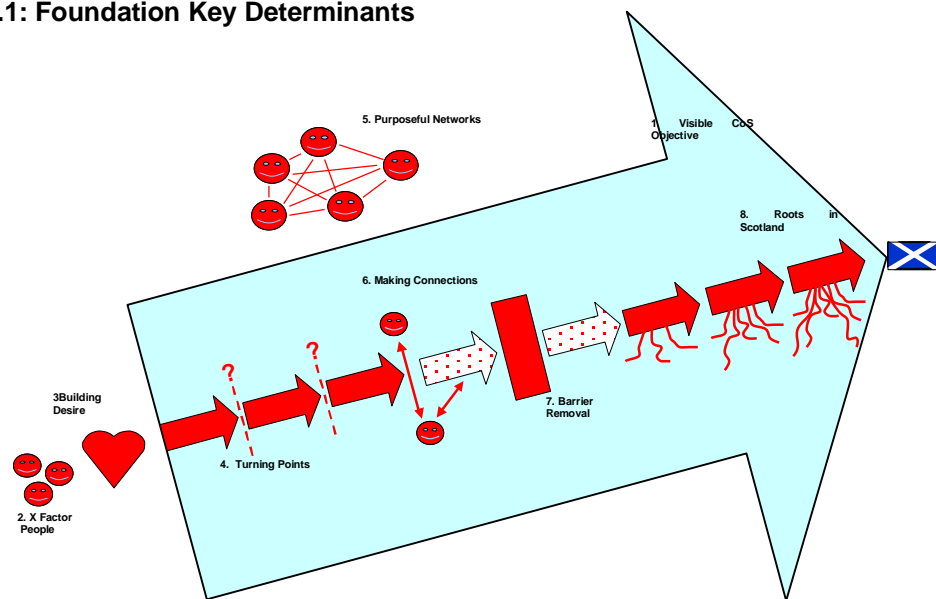
§ *Purposeful Networks* – creation and use of networks to achieve clear objectives - enabling participants to realise more benefits

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<sup>1</sup> Measuring Progress Towards a Smart, Successful Scotland; Scottish Executive; 2006.

§ *Roots in Scotland* – building a supportive infrastructure that helps retain businesses in Scotland.

Fig 1.1: Foundation Key Determinants



1.12 It is fair to say that most aspects of the programme of support actually put in place have directly addressed many of these points. Initial criteria set by SE for identifying the type of companies which should come on the programme were:

- § from an SE Priority Industry (unless exceptional case made)
- § identified opportunities to grow to significantly over **£100m<sup>2</sup>** turnover with associated levels of value add and employment
- § £15m+ turnover with potential and desire to achieve scale targets in less than three years
- § Scottish owned
- § commitment to retain a significant presence within Scotland (and retain much of the value add here)
- § strong leadership capability
- § be willing to engage effectively with SE.

<sup>2</sup> This level of turnover is somewhat below the RBS definition of the ‘mid-corporate sector’, but it was considered by SE to be a realistic and achievable target.

- 1.13 A variety of sources were trawled by SE to find companies with potential for support. These included:
- § Account Managers
  - § SE Industry Teams
  - § Business Insider 500 List.
- 1.14 A short list of 20 companies was drawn up and each was visited by the Director of Trade and Investment at SDI (who had been given initial responsibility to take the pilot forward) together with the Chief Executive or Growing Business Director from the relevant LEC. At these meetings, a judgement was made by SE about the enthusiasm of the company for the programme, its degree of ambition and its willingness to engage at the most senior level. A *joint* decision to proceed or not was made on the spot between SE and the company. About half of those originally approached took no further part. In the remainder, there was a follow up meeting which included the Senior Account Manager. Thus, a considerable effort was made to try to find the right type of companies to take part. If it has subsequently not worked out in every case, this cannot be put down to lack of rigorous research at the outset. Company selection is a major issue for the programme for the future and is commented on later.
- 1.15 Nine companies have taken part in the programme so far. Two started but are no longer participating since:
- § in one case It was considered that the company was not engaging with SE in a way which was a productive use of time both for SE and the company itself
  - § in the other, the structure of the company changed dramatically almost at the start of the process of engagement with the programme with the consequence that the actual impact in Scotland would be relatively small.
- 1.16 SE set no targets or benchmarks for expected changes to company performance.

### **How the programme developed and how it operates**

- 1.17 The original pilot was put together in 2005 by 'Task Team 19', one of the Change Agenda groups set up by SE. This included senior staff from several SE Directorates and LECs. This reviewed the RBS analysis, augmented it with new analysis and established some of the basic operational principles that were eventually followed.
- 1.18 This group evolved into an Implementation Team, charged with taking forward the pilot, ensuring that the principles became operational and supervising the early implementation. This met monthly. It again consisted of very senior SE personnel augmented by the two Senior Account Managers who had by this time been recruited.



- 1.19 A Champions Group was also established at the same time. This was specifically designed to be the channel for senior SE managers, who would not normally become involved in face-to-face activity, to engage with companies. It embodied an approach which was considered to be an important part of the evolving relationship with companies which was being tested through the Companies of Scale pilot. This group no longer meets. To have very senior staff meet regularly on the off chance that an opportunity for engagement with one of the pilot companies might emerge was not, as it turned out, a productive use of time. There continues to be, however, a direct line to a group of senior managers should their services actually be required.
- 1.20 Over the past twelve months or so this process has been simplified. There is now a monthly Team Meeting. This is chaired by one of the Senior Account Managers and consists of the Director of Company Growth, the other Senior Account Manager and a representative of the Growing Business Division of SE. It focuses on strategy and operational matters. It also monitors progress on the pilot (and was in part responsible for commissioning this interim evaluation). There are also 'Client Portfolio Meetings' which focus on client specific matters and act as a challenge mechanism. These are also chaired by a Senior Account Manager and also include the Director of Company Growth together with other senior colleagues from across the SE Network.
- 1.21 The main element of the programme as it has been implemented is the work of the two **Senior Account Managers (SAMs)**. They each work with a small group of companies. What they have done with individual companies is described in the next section of the report, but some of the main operational elements are set out next.
- 1.22 The intention is that an **Account Team** should be created around each company; this ideally should consist of the SAM, LEC Account Manager and others as appropriate, for example, Scottish Development International, SE Knowledge Management, Investment and so on.
- 1.23 A series of **bespoke programmes** has been created as follows:
- § **Accelerating Growth:** this involves two days work on Strategy Development for very senior staff delivered by Babson Executive Education, Boston. It has been delivered on one occasion. Seven companies took part. The companies met part of the cost.
  - § **Leading for Growth:** this was also developed bespoke for the programme by Case Western University. It covers a variety of elements important for company development including leadership style, innovation, organisational structure and service excellence. This has taken place this year in two separate sessions of two days each split by several months. Six companies have taken part with 15 individual participants. The companies again met part of the cost.
  - § **Learning Visits:** these are bespoke to individual companies; they were originally organised by Nottingham University Business School though this role is now about to be performed by Strategem.

§ **Aeolus Network.** SE pays the subscription for this networking service. A key element is facilitated introductions at the regular networking-orientated dinners which are organised under Aeolus. Most of the nine companies which have taken part in the programme have attended. Aeolus also promotes leadership exchange between participating companies with one business on the Company of Scale programme about to take part in such an exchange.

1.24 There was also a Joint Ventures and Strategic Alliances Training event which took place in August 2005. Six of the companies (12 attendees) participated. The Companies of Scale team within SE also organised a Preparation for Initial Public Offering seminar, particularly relevant to one of the companies.

1.25 There are also one-off forms of support which the SAM will deliver as appropriate for each company. As well as these programmes, Companies of Scale can also benefit from the standard forms of support which Account Managers are able to provide.

1.26 This is significantly different from Account Management, in the first instance because of the level of resources attached to each company. This principally relates to the *time* that the SAM can devote to each company (an Account Manager will typically have a portfolio of 20 or so companies). The following aspects are also additional to the standard Account Management service:

§ the Account Team

§ the six monthly review meetings

§ the Support Group

§ the two bespoke leadership development courses.

1.27 It might be argued that all Account Managers would like to have this. The extent to which there are other differences in approach, and how far the companies have noticed this, is covered in the next section. Lessons for Account Management generally are covered later.

## Resources

1.28 The original budget was set at £460,000 per annum made up of SAM costs, administrative support and project spend. It was expected that LECs would supplement this with individual spend per company. The beneficiary organisations are substantial companies. Rather than make an estimate of how much Companies of Scale costs to SE, it is as interesting to look at it from the point of view of the companies that benefit. There are three elements to the resources devoted to companies:

§ Companies of scale spend. We understand that in the event, about £100,000 per annum has been spent on Companies of Scale support programmes. This includes

Accelerating Growth, Aeolus etc. Over two years, £200,000 has been devoted to companies from this source

§ The Development Plans for each company of scale provide an indication of items of spend which come from LEC sources – albeit channelled via Companies of Scale activity. Based on what appears to be the case from the Action Plans, this amounts to about £140,000 over the lives of the Development Plans so far.

§ Thus, the value of overall project spend on the companies comes to £340,000 or approximately £38,000 per company

§ The companies benefit from free consultancy, as some of them are willing to acknowledge. If we assumed that each company had benefited from a half day per week of SAM time for 40 weeks per annum over 1.5 years, at say a value of £700 per day, this comes to £21,000 per company.

1.29 Companies do pay for part of the cost of Accelerating Growth and Leading for Growth. We estimate that this could provide an income of about £20,000. But there may also be inputs that we have not been able to quantify. Overall, we would suggest that companies have benefited so far from inputs to a value of **£59,000 per company**.

### Report structure

1.30 In the remainder of this report:

§ Section two looks at the potential Companies of Scale, what has been done with them, how it has changed behaviour and the emerging evidence of impacts

§ Section three looks at some emerging themes to do with effectiveness and choice of company

§ Section four draws the main conclusions and makes recommendations.

## 2: The Companies – Activities, Changes in Behaviour, Impacts

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### The Companies of Scale

2.1 There have been nine companies of scale on the programme so far:

- § Caledonian Alloys - Reversion/Aerospace
- § Craig Group - Oil and Gas Services
- § Enterprise Foods - Food Supply Management
- § Forth Holdings - Construction Services
- § Graham Technology - Business Software
- § Jacobs and Turner - Sports Clothing
- § James Jones and Sons - Timber Manufacturing
- § Optos - Healthcare - Retina Imaging
- § RBG - Oil and Gas Services.

2.2 Two are no longer on the programme, leaving seven still active. The main characteristics of the group as a whole (including the two which have left) are as follows:

- § Current turnover varies from £15m to £160m – the average is £77m
- § Three of the companies are already over the £100m turnover mark with two between £80m and £100m. Four, however, are turning over £40m or below - in one case as low as £14m. The implications of this for the targeting of companies in future are covered later.
- § All bar three have shown substantial turnover growth in the last few years - in some cases this is down to growth in commodity prices as well as what the companies would call 'solid business growth'.
- § Six are in worldwide markets, two in UK markets and only one in mainly Scottish markets (though even within this company there was a significant Division which is currently making substantial inroads into the English market) – so the likelihood of displacement associated with SE support is very limited
- § Seven of the nine are in SE priority industries.

2.3 Two specific points were made by the companies during the interviews:

§ Some were concerned that turnover should not be the main criterion for success in the initiative – these companies were far more concerned with profitability as the important indicator

§ There was also concern that the £100m criterion was rather arbitrary and that a shortfall should not be seen as failure.

2.4 The next section sets out the main findings of the review in relation to:

§ Actions with each company

§ Engagement level

§ Change in behaviour

§ Additionality/deadweight, and

§ Quantitative impacts – insofar as these can be ascertained.

### Actions with companies

2.5 The actions with companies fall into three clear categories:

**Participation in the main bespoke programmes** created for Companies of Scale; for example, six companies are taking part in Leading for Growth and seven took part in Accelerating Growth; one took part in the IPO seminar (since it had a particular relevance to that company at that point).

**Actions which follow from established SE programmes** of support, such as Lean Management – four have taken part in this or are about to.

**Actions which are specific to each company;** there have been many examples of this. Some of the more significant ones include:

§ changes to shift patterns

§ strategy development

§ brand strategy

§ training for senior management

§ training plans for the workforce as a whole – with implementation

- § internationalisation support
- § support for RSA applications, and
- § support to recoup tax repayments.

2.6 In general, the approach has been for the SAM and the company to sit down at the beginning of the process and at regular intervals (principally through the six-monthly review meetings) to agree the shape of action to be taken. In some cases, this is essentially driven by the company; in other cases, especially in relation to participation in some specific programmes such as Accelerating Growth and Leading for Growth, the initiative has come from SE. Most important, at the start of the process the SAM has engaged in *strategic dialogue* with all of the companies. The opportunity to influence companies at this level and in this way is not, as we understand it, common among other SE interventions with companies.

### Engagement level

2.7 At the start of the process, senior staff from SE introduced the companies to the programme and explained what it was about. These meetings normally took place with Chairs, Chief Executives and MDs. All those that were interviewed believed that the initiative and the process were explained to them properly.

2.8 Subsequently, however, the level of engagement has varied. We have made our own assessment of the extent to which the *top management* in each company as a whole is engaged with and enthusiastic about the relationship with SE through the programme. On this basis, we estimate that the level of engagement is:

- § high in three cases
- § medium / partial in four cases
- § low in two cases.

2.9 It was assessed to be high where the Chair or Chief Executive appeared to be closely involved in and knowledgeable of the work done under the programme. In the medium / partial category there were instances where the management as a whole acknowledged that the responsibility for lack of engagement was on their side. There were three cases (one where overall commitment levels were assessed to be low) where *part of* the organisation was enthusiastic but where this could not be said to be true of the organisation as a whole. In two of these cases, the hope was that good practice introduced into one Division would eventually spread throughout the organisation, though it remained to be seen how far this would actually occur. In one case, a Chief Executive who had been highly committed to the relationship had moved on to be replaced with one who was less enthusiastic.

2.10 There are thus quite different circumstances in each organisation. In some cases, key senior staff moving on has had an effect; in others senior management, while signing up at the start,

have subsequently been lukewarm or indifferent. Overall, however, there has been potentially productive engagement in some form in eight out of the nine companies with *very high engagement in three*. Potential for engagement is an important element in our recommendations which follow at the end of the report.

## Change in behaviour

2.11 If there is no change in behaviour among these companies as a result of Companies of Scale intervention, then there will be no impacts. In only two cases was there no change in behaviour in any form, and in one of these, there was a prospect that things might change in future. In those where there had been change in behaviour, it can be categorised as follows:

§ Change in attitudes among the Senior Management Team (SMT); our assessment is that this has occurred in five cases – in three where there has been high engagement and in another two where the partial engagement has involved change in attitude in part of the organisation (for example in particular Divisions)

§ Change in practice – for example, through implementation of Lean Management or change in shift patterns; this appears to have occurred in six of the nine. In some cases, it has followed from the change in management attitudes, but not in every case.

§ Other one-off changes. These are quite specific to individual companies though still potentially important. They include specific supports for market entry, support for RSA applications, help to secure tax due from the Inland Revenue and so on.

2.12 In practice, for support to be sustainable within the organisations assisted, change in behaviour should be ‘transformational’. From the evidence gathered, it seems that some of the most likely transformational changes have come from actions taken to help change attitudes among the SMTs and in some cases it is clear that Leading for Growth and Accelerating Growth have been influential in this respect.

## Companies of Scale contribution and deadweight

2.13 This was not a full evaluation, so we have not attempted to quantify the degree of deadweight, relying more on a qualitative view from the companies themselves about how far any actions taken and change in behaviour might have happened in any event or to a greater or lesser extent. In explaining the assessment below, we have adhered to the terminology set out in the SE Economic Impact Assessment Guidance Note.<sup>3</sup>

§ Our assessment is that **in four cases there was no deadweight** (all of the benefits were as a result of the intervention). These companies said that they just *would not* have made the change in behaviour (for example the change in attitude coming from Senior Management Team Development Needs Analysis) without the intervention of

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<sup>3</sup> Scottish Enterprise Economic Impact Assessment Guidance Note, 2007.

Companies of Scale. The Companies of Scale contribution in these cases was very good.

§ In two companies, deadweight was assessed to be 'low' (the majority of the benefits resulted from the intervention). In these cases, the company believed that it would have taken them significantly longer to secure any changes (for example implementation of Lean Management) without the support, but additionality was not absolute because something similar might have been done at some time in the future.

§ In one case, deadweight was judged to be 'high'; in this case, there was a degree of time additionality relating to some very straightforward functional matters, with no real change in behaviour.

§ In two cases, there was 'total deadweight' because there was no change in behaviour.

2.14 Overall the picture relating to additionality and deadweight is a good one with an excellent contribution being made in some companies.

### Quantitative impacts

2.15 In the proposal which was written to address the work to be undertaken, it was suggested that there would be a 'low expectation of quantification' given that in most cases, the support and the intervention were recent and still ongoing. It was therefore accepted at the start that this review would not provide the degree of quantitative analysis that would be expected of a full evaluation, for example as will be undertaken on the programme in 2009. Nonetheless, it was put to company interviewees that quantification of benefits resulting from the support was important and that they should try to put a figure on change in performance in whichever shape this might take. It is good to report that in seven of the nine cases, some degree of quantification was possible. It took many forms (so could not be reduced to GVA or turnover). The figures can be presented, we believe, without breaching any confidentiality agreement with interviewees. They were as follows:



<b>Possible 1%-5% of future increase in turnover</b>
<b>Partial contribution to £7m sales improvement</b>
<b>Utilisation in one Division up from 50% to 110%</b>
<b>Contribution to £10m turnover growth</b>
<b>£13m sales brought forward by one year</b>
<b>Expected turnover growth in this Division greater by 25%</b>
<b>Return to profit in one Division</b>
<b>Significant contribution to regaining a £7.5m contract.</b>

2.16 While it is important not to stretch this data too far, it is also useful to try to put some orders of magnitude on it so that SE can get a feel for the possible impacts that may be emerging. Thus:

§ where one company suggested that any future growth in turnover might be 1% - 5% down to the Companies of Scale support, based on past performance this could amount to up to **£1.4m pa**.

§ where £13m was brought forward by one year, the benefit to the company of turnover received earlier could be valued at just over **£0.45m** (discounting for one year at the Treasury discount rate of 3.5%)

§ where expected turnover growth was greater by 25% as a result of the support, this could amount to **£1.0m pa**

§ the significant contribution to the £7.5m contract could be as much as **£3.75m**, given the nature of the comments made by the beneficiary company.

2.17 It is clear that some of these are expected benefits, some are a little vague but some are quite specific. We have not sought to reduce them to a single figure because that would be to stretch the data too far. However, they help to make the points that:

§ some differences in performance as a result of companies of scale support have been or will be quite significant

§ quantification of benefits in the form of changing performance is possible – this should be a feature of the programme moving forward.

2.18 Finally, it is important to mention again that all of these companies (bar one) are primarily or wholly trading in markets outside Scotland. There is thus very little prospect of **displacement** of activity in Scotland occurring. There may, however, be the prospect of **leakage** in two

cases where the company has operations outside Scotland which will derive benefits from the support accessed through the Companies of Scale programme. As this is a non-quantified interim review, we have not sought to establish **supplier multiplier** values for these individual companies, but this would clearly have a positive effect on any of the above 'gross' impacts. Our overall impression is that with deadweight relatively low, displacement also low, leakage only a small consideration and with reasonable supplier multiplier values likely, the gross to net relationship within the pilot's impacts would be very positive.

## 3: Themes

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3.1 This section of the report looks at some of the general considerations which arise from the findings of the survey work with the companies. There are three main headings:

§ are these the right companies to be working with?

§ are the right things being done with them and is this making a difference?

§ is market failure present and if so in what form?

### Are these the right companies to be working with?

3.2 The previous section looked at various aspects of the relationship with the nine companies which have participated in the pilot. At the start of this report, it was suggested that there were important criteria which could help determine which companies should benefit from the special form of support. We believe that these can be distilled into three over-riding factors:

§ willingness to engage

§ potential net economic impact

§ ambition.

3.3 None of the companies interviewed lacked ambition, so they would all score evenly on that criterion. Willingness to engage and potential net economic impact resulting from the intervention are both equally paramount in our view. Without willingness to engage there is likely to be little economic impact and without net impact arising from the intervention, there is no point in using scarce resources to provide support.

3.4 Our assessment is that two of the nine qualify *outright* on the basis of these criteria.

3.5 It is important, however, not to be mechanistic about this analysis. On the question of engagement, there is one company which was very committed to the approach at the start of the process but where this has clearly waned with the arrival of a new chief executive where it is not 'on his agenda'. On the other hand, there are two companies where although the organisation as a whole is not committed (or not yet), significant elements within the organisation *are* committed and are delivering change in behaviour and quantifiable benefits already.

3.6 On the question of scale, the programme is currently tied to a benchmark of £100m turnover as the definition of a 'company of scale' to be aspired to. Some of the companies are at this level (or above it) but there is a significant group which is well below and unlikely to meet this benchmark, at least not in the short term. Should they be ruled out for that reason alone? We would suggest that in two of these cases, the companies have already derived benefit

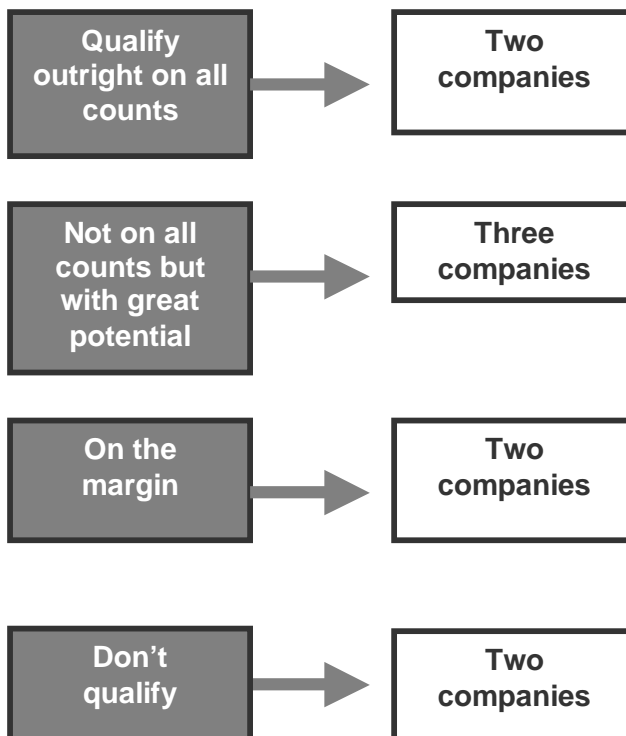
from an approach which is significantly more intensive than that which would have been possible under regular Account Management and it looks as if substantial growth in the businesses will be the result, though falling well short of the £100m mark. Based on the interviews with these businesses we would suggest that SE should not dismiss companies which:

- § would be willing to engage
- § could derive considerable benefit from an approach somewhat more intensive than Account Management
- § could deliver substantial growth in turnover – say reaching a level of £50m within three years....

.....because they would not reach the £100m benchmark. Thus, while this benchmark has been useful in guiding the development of the pilot so far, it may not be the best guide around which to move forward.

3.7 There is within the pilot group a small number of companies where there was a very low level of engagement or potential for economic impact and another small number where the level of engagement was moderate but subject to change – either upwards or downwards depending on how things develop with the company.

3.8 We can summarise these views on the appropriateness of companies for the support provided as follows:



3.9 Companies of Scale is a pilot project. Those involved in setting it up were to a large extent pioneering the approach with little guidance. The overall picture suggests five winners from

the original group of nine and two where the jury is still out. This is a reasonable outcome, as is the suggestion that through this process of learning the actual benchmark or definition of what constitutes a 'company of scale' should be looked at again.

### **Are the right things being done with them and is this making a difference?**

3.10 It was noted in the last section that the types of support provided fall into three general categories:

§ aimed at change in attitudes among the Senior Management Team (SMT);

§ aimed at changes in practice

§ other one-off changes.

3.11 There is no need to go over these again but we would broadly suggest that the actions are appropriate; in some cases they are driven by the company; in others (for example Leading for Growth) they are clearly driven by SE. And there are other cases where the SAM has participated in and influenced strategic thinking within the company, where the intensity of support and the time which it has been possible to devote, have led to a degree of influence which would go beyond what would be expected under regular Account Management. As was noted earlier, this degree of involvement and potential influence is not that common in SE interventions.

3.12 There are a few general points that can be made about the support that draw together some of these strands. Where it works, it appears to bring the following benefits – mentioned on more than one occasion by the companies:

§ **Providing thinking capacity** – management in these businesses, large as they are, is principally concerned with day-to-day matters; the immediate problem to be solved, where the next order is coming from and so on. Companies of Scale support provides an opportunity to 'take a step back' and consider what should be the priority in the medium to longer term, working 'on' the company and not 'in' it. This was mentioned time and again by the companies.

§ **External ideas and stimulation** – small and medium sized enterprises are notoriously unwilling to take on board ideas that come from outside. The same can be said of this group. One pointed out that it is an 'insular' organisation with limited external stimuli. Companies of Scale has widened horizons significantly for some (though not all) of these companies.

§ **Networking** – this is clearly related to the previous point. One significant factor appeared to be that the most important networking comes not through events organised specifically for this purpose but through the Accelerating Growth and Leading for Growth training. Meeting others from similar sized companies in an

informal, even team building, atmosphere, and discovering that firms in widely different sectors face the same problems, provided useful learning for participants.

§ **Support for the 'enlightened'** – the companies chosen for the pilot are very mixed in character. A few give the impression of being very traditional, family run businesses perhaps a little set in their ways. Also, some are groups of independent or semi-independent businesses that have only recently come together, embodying quite different cultures. There have been a few occasions (perhaps two or three) where Companies of Scale has supported an individual or small group to think about and introduce new practice within an otherwise indifferent organisation.

3.13 An important criterion identified in The Foundation work was that it would be good to work with companies which were at 'turning points' where major change was likely and where they might be susceptible to external stimuli. The group of nine were not chosen with this in mind but in possibly three cases the companies are at this stage and in one of them the support has been especially timely. The Foundation work has been important in highlighting this and other 'determinant' factors.

3.14 Of all the forms of intervention, the interviews with companies suggest that there are three elements in the support that seem to make the greatest difference:

§ The time that the SAM can make available to the business and the SAM skill set. This is in effect free consultancy to the company, which they otherwise would probably not think about or would be reluctant to pay for. It does, however, provide them with 'thinking time', a sounding board or stimulus for new thinking which some of them have found invaluable.

§ Anything that changes the attitudes of Senior Managers (such as Accelerating Growth and Leading for Growth) – many of the impacts which were referred to earlier have come through this route. It is our impression that these form the greatest influences on future company performance which if handled correctly will be more sustainable in the longer term than some of the more one off forms of support.

§ Lean Management – if one more practical or immediate form of support (or Network Product) was to be singled out for effectiveness it would be this one. It appears to have been introduced (or about to be introduced) into four of the companies with positive effects apparent already in three.

3.15 In seven out of the nine we can see change in behaviour as a result of the work undertaken with these companies, in some cases quite significant or potentially so. There are generally low levels of deadweight. So the contribution has been good so far, which is highly positive given that this is a pilot project and that few at the start would have been able to predict how well it would have worked out. It is also encouraging that with a degree of prompting, senior staff in the companies were prepared to try to quantify the achieved or expected impacts,

albeit in somewhat general terms in a few cases. It is also clear that in some companies these impacts could be significant.

### Differences with Account Management

- 3.16 It was always anticipated that Companies of Scale support should be of a different order compared to Account Management. The main obvious difference is the amount of time that each SAM can devote to client companies compared with Account Managers. However, it is clear that this time has in some cases provided the wherewithal to develop a strength of relationship which has become strategic in orientation, where the SAM has used the freedom to generate solutions in discussions with the company. It has not been like this in every case, but in those where influence has been greatest, these characteristics have been present. Time on its own is not enough; it is a necessary but not sufficient condition for the development of a productive relationship. The uses to which the time is put and the way in which the skills of the SAMs have been brought to bear have been equally important. In the most positive cases, the combination of time, SAM skills and application have resulted in highly productive relationships.
- 3.17 Six of the potential Companies of Scale had been Account Managed previously so they were able to make comparisons between the different approaches. In most cases, the Companies of Scale approach appeared to be more:
- § proactive/intensive
  - § central to the company
  - § structured, and
  - § less product driven.
- 3.18 Rather than there being any criticism of the Account Managers, this reflects the way that the SAMs have taken advantage of the significantly greater time that they can devote to a single company (compared with an Account Manager). Indeed, some companies went out of their way to praise the service that they had received from Account Managers. That said, a couple mentioned that they would not have been interested in a relationship with SE that was Account Management based since they perceived it to be too partial and reactive.
- 3.19 There has been some, though limited, use of the expected Account Teams and only limited evidence of the programme being used as a channel to companies for the time of very senior staff from SE (though there were a couple of notable exceptions to this). In one case, the Account Team has specifically reflected the fact that the company has operations across several LECs in Scotland, but this is a quite specific instance. It may well be that the original approach to be piloted was over-specified. That said, the shape of Account Teams can take many forms and may in some cases be quite appropriate for a particular company's needs, as the above example illustrates. There may be no standard approach but the option of forming an Account Team, where appropriate, should be retained within the programme.

- 3.20 There is a question about whether this is more or less cost-effective than Account Management. The question is, had the SAMs been Account Managers instead of SAMS, would the same or greater outputs have been achieved? Is the marginal benefit of the Companies of Scale approach higher than using the same resources under Account Management?
- 3.21 This is difficult to respond to since the quantitative data on impacts of Companies of Scale is so limited – as indeed is the evidence on the impacts of Account Management. It is also potentially invidious to make a comparison between a pilot programme involving nine companies and a well-established one with nearly 1,000 participants.
- 3.22 It is important, however, from SE's perspective to be able to draw some form of tentative conclusion on this question. It is first worth noting that while the SAM resource cost devoted to each company may be higher than an Account Manager's time devoted to a company, the cost of programmes devoted to each company in the Companies of Scale pilot may well be lower than in Account Management, as under Companies of Scale there is greater emphasis on the contribution of the individual SAM.
- 3.23 We can only make a very broad judgement at present because comparable data on the two approaches is not available. Even if it were, it would have to be collected under strictly comparable terms. In one respect, however, SAMS are like Venture Capitalists; they only need one or two big successes for the entire effort to be worthwhile – especially in view of the relatively modest cost of the programme. We would suggest that the broad indicators of output contained in para 2.16 suggest that devoting time at the margin to Companies of Scale rather than devoting the same resources to Account Management is likely to provide significant potential net benefit to the Scottish economy. This can only be an impression given the uneven data available but it is backed up by what the MDs or Chief Executives of several of the companies said during interview as well as some of their impressions of Account Management, a few of which had previously been beneficiaries.

### **Market Failure**

- 3.24 The companies in the pilot are significant organisations with substantial experience and revenue. A moot point is why they should need support from SE to do things that they otherwise might be expected to do on their own? Among the companies interviewed one had indeed used its own resources to hire consultants to advise on strategy and another had been on the point of engaging a consultant to help improve its relationship with the LEC.
- 3.25 What then is the market failure which SE is addressing in this instance? This basically comes down to the attitudes within the businesses themselves. While there might be consultants who would provide services similar to the SAMs for a charge, the market failure lies in the perceptions of these businesses which means that, in Scotland at any rate, there is currently limited market demand for this type of service. SE has in effect potentially stimulated the emergence of latent demand and demonstrated that an external view can bring benefits to



companies. The experience of the interviews suggests that among these businesses there is 'sub-optimal' behaviour in the sense that:

- § the companies are not normally receptive to new thinking – many are traditional in their approach
- § they are preoccupied with day-to-day matters
- § they tend to be insular and rely a lot on their own experience.

- 3.26 In many ways they are not all that different to small businesses. For these reasons, they would not of themselves create the demand for the external services that have been provided by the public sector on this occasion. The fact that there is a degree of additionality and potentially limited deadweight within the change in behaviour and performance suggests that outputs have been achieved (or will be achieved) which would not have been achieved had the market been left to its own devices – so a degree of market failure exists in this respect too. The Treasury 'Green Book' defines market failure as 'a situation where, for one reason or another, the market mechanism alone cannot achieve economic efficiency'. With this in mind, we can express the market failure in terms of **Economic efficiency – Imperfect Information**. This relates to the attitudes of the businesses and their failure in normal circumstances to appreciate the benefits that can come from external support.
- 3.27 At least as important is '**market adjustment**'. In theory there should come a point where the businesses themselves appreciate that the kind of service provided by the SAMs is valuable enough that they source it independently of SE. Similarly, the service provided by the SAMs should probably not continue indefinitely with companies of this calibre – there should be an exit strategy or 'succession planning' which promotes sustainability of any behavioural changes which have occurred. Our impression is that at least some of the companies are appreciative of this and accept that while Companies of Scale deserves to be more than a pilot programme, there should be 'churn' within it with new companies entering as others move on – expanding the portfolio at the same time.
- 3.28 The impression is that effort so far has naturally been concentrated on delivering services of value to the companies. While there has been an exit strategy in relation to those which have correctly been assessed to be inappropriate for the programme, this is not the case for the others. Our recommendation would be that active consideration about how the intervention could naturally mature with some companies, leaving a positive and enduring legacy behind, will be important in the next stage of the development of the programme. The possibility of eventual payment by the companies for some of the services received should not be ruled out.

## 4: Conclusions and Recommendations

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- 4.1 This section briefly summarises the main points which have emerged from this short interim review and sets out the main recommendations which follow from the analysis. This is a pilot programme, part of the purpose of which has been to test how far companies of a certain size could benefit from intensive support from SE. There was also an element of testing how far there might be evidence of market failure that SE could beneficially address.
- 4.2 Accordingly, the main findings from the review are as follows:
- § There have been some excellent examples of top management engagement and enthusiasm. While not true in every case, where this has worked, it has worked well.
  - § Even where the engagement of top management might have been lukewarm, in most cases, the offer of support from SE has been welcomed. There have been a couple of instances where this might not have been the case, but overall, it is a positive finding for moving forward and searching for new companies to take part.
  - § There have been changes in behaviour in seven out of the nine companies. In some cases, these have been significant and are potentially 'transformational'.
  - § There is market failure – it relates primarily to information or attitudinal issues among companies of this size which predisposes them against taking advice from outside.
  - § The support provided has been intensive and is of a value of about £59,000 to each of the beneficiary companies. Overall, however, the costs of the programme are relatively modest (about £200,000 plus salary costs).
  - § Quantification of benefits has been varied and of mixed accuracy, but it would suggest that it could be of an order that would exceed the resource inputs by a considerable margin. It is not possible to say more than this given that this is an interim review of a relatively immature programme, but the indications are promising.
  - § It seems likely that the SAMs' time has been more productively taken up by this venture than it would have been had they been engaged in Account Management. This is not to belittle Account Management but to suggest that companies of this size are less likely to be attracted to it, are looking for something more intensive and can deliver net benefits in proportion.
  - § The SAMs have used the time to good effect and have brought considerable skills to bear in developing strong relationships with several of the companies participating in the pilot.
- 4.3 Overall, the pilot can therefore be judged to be a success, as far as the evidence so far indicates. It has not been a success in every respect and with every company, but part of the

purpose of a pilot is to test what works and what might not. There are issues still to be addressed; for example, there are two companies still on the programme where there is still a degree of doubt about their appropriateness.

- 4.4 More importantly, an element in the rationale for the programme in the first place was the fact that companies in Scotland seem to grow and then leave once they reach a certain level. The Companies of Scale programme was designed to address this and promote retention in Scotland of companies of a particular size. The Foundation work re-emphasised this, with 'Roots in Scotland' being an important determinant of success. The work so far with companies has not really addressed this, concentrating more on promoting company growth. If the programme is to move forward, as we suggest it should, attention will soon have to be given to how retention in Scotland can be put on the agenda.
- 4.5 Finally, there is the question of what exactly is a 'company of scale'. The original definition was derived indirectly from the RBS work and subsequent analysis by SE and this suggested the £100m turnover benchmark. This is a pretty arbitrary figure and in the event, most of the companies in the pilot have been below this level, in some cases well below.
- 4.6 What has emerged from this pilot is not so much that SE can support companies to reach the £100m – although in some cases this will certainly be possible – but that there may be a group of companies which lies between the Account Management level (average turnover £6m) and £100m where a more intensive form of support from an Account Manager working with a small portfolio, can potentially reap rewards. We suggest that a group of companies be identified by SE (probably not called 'companies of scale') which could benefit from 'Account Management Plus' with the benchmark that they aspire to reach at least £50m turnover (say) within three years on the basis of more intensive SE support. If a group of 40 or so such organisations could be identified, this could potentially form a very productive initiative for SE.
- 4.7 In moving forward it will also be important to give careful consideration to the key determinants identified by The Foundation, principally, 'X Factor People', 'Turning Points' and 'Roots in Scotland'. These and the foregoing analysis lead to the following **recommendations**:

## Recommendations for identifying companies

- 1 The initiative should continue with the existing group of companies; it should no longer be seen as a pilot.**

Some of the participating companies are puzzled as to why this is still a pilot. The evidence from this interim review also suggests that the need for it to be considered as 'experimental' is no longer necessary. There would be merit, however, in carefully monitoring the level of engagement among the two 'marginal' companies to see what and how far this might provide wider lessons for the programme, to do particularly with vulnerability of engagement to

change in senior personnel in the company and how far partial but enthusiastic engagement in one part of a company can eventually rub off on the rest.

- 2 The search for new companies to come on board should be ramped up but should not be limited by the £100m benchmark; companies that aspire to at least £50m turnover within three years should be eligible and targeted – not ruling out companies that are already bigger than this.**

The rationale for this has been discussed above.

- 3 Key criteria for identifying new companies to come onto a reconfigured programme, in addition to the scale criterion mentioned above, should be:**

- § top management engagement
- § turning points.

It is hard to overestimate how important top management engagement is to this programme. This is a clear lesson from the survey work undertaken. Without it, benefits are possible, but they are much more uncertain. Every effort was made at the start of the pilot to ensure that this level of engagement was in place. The fact that this has eventually turned out not to be present in all of the nine companies cannot be laid at the door of the SE Executives who undertook the preparatory work. However, SE should consider how, looking forward, a more sure indication of top management commitment over a period of time can be assured. Seeking a view from some of the Chairs and Chief Executives who currently *are* wholly committed might provide some helpful insights.

The same is true of 'turning points'. These are hard to predict, as The Foundation recognised. However, Account Managers and others with close relations with businesses should be able to provide knowledge about this. If the potential population of companies is to be increased by lowering the £100m threshold, there should be more scope to find those which are entering a turning point stage.

### Recommendations for working with companies

- 4 In the effort to develop 'X-Factor People', efforts should continue to be targeted at initiatives which change attitudes and behaviour among the Senior Management Teams.**

This follows from the analysis of the interviews and the statements made by companies about what seems to have influenced them most. Leading for Growth and Accelerating Growth seem to have been especially effective.

- 5 Active consideration should be given to how 'retention in Scotland' can be addressed with the companies.**

This was discussed above and does not need further explanation.

**6 In return for the substantial support received, companies should be asked (and should agree) to record:**

- § change in behaviour
- § change in performance.

This is related to the degree of commitment as well as the need to measure effectiveness and impacts. The interim review has shown that this type of information is available, even where based on impression and opinion. Companies should be made aware that if they participate, and secure a reasonable level of free resources as a result, there is an obligation on them to collect information which will allow assessments of value for money to be formed later on. Our impression is that many would understand the rationale for this. There need not be a straightjacket or framework since change in behaviour and indicators of performance can take many forms in this type of intervention, but the principle should be established at the start of any relationship.

**7 The possibility of agreed targets with companies should be considered.**

This is a possibility but should be treated with some care. Some companies might not be susceptible to this and could see it as unnecessary SE interference. However, other Account Managers have an achievement benchmark so there seems to be little reason why the SAMs should not have one too. Targets or benchmarks for achievement were not appropriate during the pilot phase but would be more so now.

**8 Both with the existing group and with any new entrants to this or a similar programme, there should be discussion of the exit strategy with the company, how the support can be altered in shape over time to promote market adjustment (and churn within the programme itself) while at the same time leaving sustainable and transformational change in the company.**

It is very important that there should be a structure to the engagement which envisages a pattern of change over time. It is not desirable for the support to continue indefinitely – as some of the companies recognise. There should be an aim to secure transformational and sustainable change within one company and then move on to provide the service to another. As one means of moving towards ‘market adjustment’, the possibility of these significant companies eventually paying for SAM services (at least in part, noting that they already meet some of the cost of the events and LEC-supported initiatives) could be considered. The ‘moving on’ process need not be absolute; while detailed or programmed work diminished over time, a relationship could be maintained with companies allowing future opportunities to be identified.

### **The 2009 evaluation**

**4.8** There will be a full evaluation of the programme in 2009. One of the agreed tasks for this interim review was to flag up the issues and indicators which would be important for the full

evaluation. This should be relatively straightforward, and follows from much of the analysis above, though there are one or two distinctive features of the programme that the evaluation should consider. The key variables would be as follows.

<b>Table 4.1: Elements for the 2009 Evaluation</b>
<p><b>SE resources devoted</b></p> <ul style="list-style-type: none"> <li>• SE resources devoted – financial, SAM time, SE products, SE personnel engaged.</li> <li>• Shape of SE engagement, including use of Account Teams, engagement of the Account Manager, use of reviews with the company.</li> <li>• How the support was managed – how it changed over time and the extent to which the company eventually took complete ownership of the process</li> </ul>
<p><b>Change in behaviour / attitudes within the company</b></p> <ul style="list-style-type: none"> <li>• Recording of change in behaviour within the company – this should be made easier if companies have collaborated in collecting information as suggested above.</li> <li>• A view on how far this has been: <ul style="list-style-type: none"> <li>• Sustainable</li> <li>• Transformational</li> </ul> <p>This would be a matter of judgement based on a discussion between the evaluator and the company.</p> </li> <li>• Specific effects on behaviour and attitudes among the SMT.</li> <li>• Extent to which the company as a whole has become more open to outside influences.</li> </ul>
<p><b>Change in activity within the company</b></p> <ul style="list-style-type: none"> <li>• Specific changes to processes, products, marketing, human resource development.</li> </ul>
<p><b>Influence of the support – deadweight</b></p> <ul style="list-style-type: none"> <li>• Extent to which behaviour would have changed in this direction, even had there been no support from SE.</li> </ul>
<p><b>Change to performance of the company</b></p> <ul style="list-style-type: none"> <li>• Entry into new markets supported through the programme</li> <li>• Change to company performance, which followed from the support provided, including: <ul style="list-style-type: none"> <li>• Sales</li> <li>• Exports from Scotland</li> <li>• Profit</li> <li>• Cost reduction</li> <li>• Productivity</li> <li>• Employment in Scotland clearly safeguarded</li> <li>• Employment created in Scotland</li> </ul> </li> </ul>
<p><b>Retention in Scotland</b></p> <ul style="list-style-type: none"> <li>• Extent to which 'retention in Scotland' has been addressed and if so in which form and how successfully.</li> </ul>
<p><b>Markets and displacement</b></p>
<p><b>Suppliers in Scotland (for multiplier effects)</b></p>

- 4.9 During this review, two interviews were undertaken with companies no longer on the programme. The SAMs were not present. These companies would not be visited again during the final evaluation in 2009. We would be happy to make available to the consultants who undertook the 2009 evaluation, in confidence, the results of these two interviews.

# Appendix

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## List of consultees

Carole McCarthy, Director Company Growth

Simon Scholes, Senior Project Manager, Company Growth

Lorraine Macmillan, Operations Director, SE Renfrewshire

Denis Taylor, Director, Scottish Development International

Eric Simpson, Manager, Global Companies Development

Stewart McBride, Account Manager, SE Renfrewshire