

Harnessing the potential of high-growth business

Re:State


workday®

"We need a new relationship between business and government, where government provides the strategic certainty that allows businesses to do that they do best: create wealth."

Rt Hon Sir Keir Starmer, Prime Minister
The UK's Modern Industrial Strategy

Re:State was delighted to host this roundtable. The discussion explored the vital role that high-growth businesses play in the economy, and the policy framework needed to best support a thriving and dynamic private sector which can work closely with government to drive investment and higher living standards.

It brought together a cross-section of government officials, entrepreneurs and business representatives. The aim was to identify the common themes underpinning successful high-growth businesses based in the UK, and ways policymakers can capitalise on their potential to support the wider economy.

Gareth Davies CB, Permanent Secretary of the Department for Business and Trade, and Daniel Pell, General Manager UKI at Workday, opened the discussion. They discussed the size of the opportunity for business and the country, the key questions policymakers had for the sector, and recent success stories. The session was held under the Chatham House Rule.

Emerging themes

The UK remains one of the best places in the world to do business. It has challenges, but the fundamentals are all there for an even greater economic success story. Global access to talent, deep capital markets and strong institutions all make the UK a great place to start a high-growth business.

But there is more that government can do to unleash the potential of high-growth businesses, like those in the software, advanced manufacturing, and life sciences industries.

Participants shared their experiences of building companies in the UK – the reasons they chose it in the first place, the opportunities it provides for entrepreneurs, and some of the hurdles they have had to overcome.

Reassuringly, there was consensus that the barriers to doing business in the UK, particularly for high-growth companies, are mostly self-imposed and can be undone through better policy. Too often, we get in the way of our own success and undermine the kind of dynamic and prosperous markets we want to create. Participants felt this was particularly true when it came to scale. The UK economy is good at incubating innovations and has a vibrant startup ecosystem. But it struggles to support that growth trajectory as companies mature and look to expand. Only one per cent of SMEs in the UK are scaleups, but they contribute £500 billion to the economy.

There is a huge prize waiting for the economy if it can harness the abilities of successful entrepreneurs and business leaders. The slowdown in economic growth since the 2008 financial crisis has contributed to what feels like a lost decade for many in the UK, with stalling earnings and a much higher cost of living.

The Institute for Fiscal Studies assesses that GDP per capita is "nearly £11,000 lower than it would have been had pre-crisis trends continued". Lost tax revenues from a worsening financial outlook could have paid for better public services or helped absorb the impact of subsequent shocks like the Covid-19 pandemic and the war in Ukraine. Returning to a trend of higher growth will unlock immense opportunities for the UK.

I: Talent and skills

The UK is a global trading nation with an economy based on attracting highly skilled people from all over the world to work in Britain. London is a global capital city with an unparalleled talent density, and every year the best and the brightest from all over the world are drawn here.

Our world-leading universities attract early-career talent, and cities like Oxford and Cambridge have become incubators for high-growth companies and vital sectors like life sciences.

At the same time, competition for the top talent in areas like AI is less dramatic than it is in Silicon Valley. Companies find it easier to recruit workers with key skills in areas like AI without having to pay salaries as high as those in the Bay Area, and office space is not as much of a premium as it is in major US cities. One participant mentioned that London was now the second-most popular city for MBA graduates after completing their degrees. Others supported the Government's recent announcements on easing access to the Global Talent and High Potential visa routes.

However, participants felt policymakers could do more to grow the kind of skills and talent domestically that the UK could provide globally. For instance, funding cuts to Level 7 apprenticeships for learners aged 22 years old and older risk undermining the apprenticeships which underpin the services sector, supporting entry-level talent after their time at university.

And while the AI sector itself is booming, the real value of the technology will only be unlocked if the rest of the economy is able to adapt and integrate AI into its business models to achieve real productivity gains. The UK should not just be a market for the development of new software – it should be a leading adopter. But at present it chronically under-invests in software skills across most of the workforce.

2: Strong institutions

The UK's legacy of strong institutions makes it an easier place for businesses to thrive than many other countries. High levels of political stability and independent institutions like the Bank of England and Office for Budget Responsibility give markets confidence to make long-term strategic investments.

Our legal system is widely recognised as setting the standard for international arbitration and for providing confidence in respect for property rights and the rule of law. Because English law is so attractive to businesses and wealthy individuals, the Law Society estimates that English law governs £545 trillion worth of over-the-counter derivatives and £250 billion of mergers and acquisitions deals. This is a strong signal of the confidence that investors have in the British economy.

Participants also pointed out the strategic advantages that come with being native English language speakers and a GMT time zone that makes it possible to speak to partners in the United States, Europe and even India over the course of a working day.

3: Capital markets

The UK is home to one of the world's largest capital markets, and it provides unique financing opportunities to both UK-based and global companies. Its strengths in service exports, technology and innovation sectors are supported by flourishing private capital markets.

London is the third most successful city in the world for starting AI companies, and the UK is widely recognised as the third biggest player in AI globally, behind China and the USA. Investors have confidence in the British economy's ability to create unique value in this new sector.

Indeed, one participant remarked that they were seeing more investment of growth-stage capital into the kind of human capital-intensive services businesses which the UK economy is based

There are still challenges for UK capital markets. Many investors are concerned that UK companies are undervalued compared to their peers in other countries and that institutional investors are overly cautious about riskier investments, holding back the growth of startups and scaleups. The British Business Bank plays an important role in supporting early-stage investment, but it risks crowding out private capital and simply subsidising investments in companies which ultimately relocate to other, more profitable geographies.

4: Government partnerships

The UK's *Modern Industrial Strategy* promises a "new relationship between business and government", requiring a "more muscular approach to government: one prepared to back British businesses, invest in our comparative advantage, and take punts in pursuit of growth and productivity". The promise of a government which listens to business, and can partner for prosperity, requires a new framework for engaging and providing access to policymakers at all levels.

One participant highlighted how the Office for Investment has been a positive step in providing a central point of contact for foreign direct investment, and convening government decision-makers as a "one stop shop" for attracting companies. But others felt the Government's approach still had a lot to learn from other nations, such as Ireland's Foreign Direct Investment Agency and its success at attracting high-growth businesses.

5: Regulating for growth

One area where participants were unequivocal that government could unlock the potential of entrepreneurial high-growth businesses was regulatory reform.

In January, the Prime Minister said that "deregulation is now essential" and promised to cut through "thickets of red tape". The Government's *Regulatory Action Plan* establishes a new duty for regulators to consider the impact of their work on growth, alongside traditional regulatory priorities like safety, risk and competition.

But there is much to do to rebalance regulation as it stands. In one area, a participant talked about a meeting with regulators where they had claimed they felt their job was to ensure no company in the sector failed. This view mistakes creative destruction, which is essential for innovation and growth, for a kind of market failure. A regulatory approach which provides for no failures at all is unrealistic and undesirable.

6: Public sector procurement

With government spending nearly £400 billion a year buying goods and services from the private sector, public procurement markets are an underused tool for supporting high-growth businesses. The NHS is a particularly slow adopter of innovative technologies which could improve the quality of healthcare available to the public. Public procurement markets could be an incubator for high-growth companies which help them scale and offer the kinds of solutions they build for the State to clients internationally.

But at home, even sectors which are seen as strategically important by the Department for Science, Innovation and Technology, such as life sciences, are undermined in the domestic market. For example, the NHS' own payment model for pharmaceuticals seeks to depress prices in the short term to avoid costing the taxpayer more, but as a result makes investment in treatments unprofitable for business. In many areas of procurement, government does not have a joined-up approach to supporting the kind of companies it wants to see reshaping the rest of the economy with government contracts.

Conclusion

There remains huge potential in the kind of high-growth companies which have fuelled Britain's economic prospects in recent decades. While the business environment has become more challenging in some ways, none of our present challenges are structural. They are all amenable to policy changes by a government which wants to rebuild opportunities for business.

