



Department for  
Business, Energy  
& Industrial Strategy

# Professional & Business Services sector

Creating further demand and growth outside  
London

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The views expressed in this report are that of the author and do not necessarily reflect those of the Department for Business, Energy and Industrial Strategy.

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# Abbreviations

|           |   |
|-----------|---|
| AI        | Artificial intelligence                                 |
| BEIS      | Department for Business, Energy and Industrial Strategy |
| BIM       | Building Information Modelling                          |
| BL        | BusinessLink  |
| BPFS      | Business, Professional and Financial Services Sector    |
| BSA       | Building Societies Association                          |
| B2B       | Business to Business                                    |
| CA        | Combined Authority                                      |
| City-REDI | City-Regional Economic Development Institute            |
| EEA       | European Economic Area                                  |
| ERDF      | European Regional Development Fund                      |
| FG        | Focus group   |
| GVA       | Gross Value Added                                       |
| HE        | Higher Education  |
| HQ        | Headquarters  |
| ISCF      | Industrial Strategy Challenge Fund                      |
| KIBS      | Knowledge-intensive business services                   |
| LEP       | Local Enterprise Partnership                            |
| LIS       | Local Industrial Strategies                             |
| LQ        | Location quotient                                       |
| OECD      | Organisation for Economic Co-operation and Development  |
| ONS       | Office for National Statistics                          |
| PBS       | Professional and Business Services                      |
| PBSC      | Professional and Business Services Council              |
| RDA       | Regional Development Agency                             |
| R&D       | Research and Development                                |
| SME       | Small and medium sized enterprise                       |
| TVCA      | Tees Valley Combined Authority                          |
| UKCES     | UK Commission for Employment and Skills                 |
| UKRI      | UK Research and Innovation                              |
| UKTI      | UK Trade and Investment                                 |
| WMCA      | West Midlands Combined Authority                        |
| WMGC      | West Midlands Growth Company                            |

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## Executive summary

The UK's poor productivity performance continues to be of much debate in policy and research and is central to the development of the Industrial Strategy. This research focusses on how the Professional and Business Services (PBS) sector can contribute to Local Industrial Strategies and create growth both within the sector and be a driver of growth in other sectors. It takes our understanding of the sector beyond London and looks at what part it can play in redistributing wealth and helping to build strong places outside its traditional centre.

This research sets out to:

- Assess whether the PBS sector has the potential to support regional economies and help them to thrive.
- Examine how it contributes to understanding of Local Industrial Strategies (LIS) and suggest ways to unlock support from industry.
- Build up the evidence base to support the development of a shared strategy between industry and government to bolster the PBS sector outside of London.

The work was carried out using a mix of focus groups and interviews with businesses as well as a background literature review in two case study areas of Darlington and Birmingham. These places are at the opposite ends of the spectrum based on location quotients making them extreme, but representative places for the sector outside London.

We found that:

- The PBS sector plays a key role in regional economies and helps them to thrive, from supporting business planning, financial management and exporting to technology development, recruitment and marketing. However, the sector is highly reliant on a wider business demand for services and without it the sector will not exist. Currently government combats this through various business support programmes to address information failure where business fails to see the benefit of PBS type services. Therefore, there is a crucial role for government and the PBS sector to collaborate on raising demand to reduce the need for government intervention, address the market failure and grow that demand.
- There is a key role for the sector in helping shape Local Industrial Strategies (LIS) by providing services which drive growth and there is a need to ensure that the sector is seen as vital. However, there is a definition disconnect between how the sector is engaged with locally and nationally, which may create confusion in devolving national programmes and who can access them. This mainly applies to the financial and insurance services sector which is integral to local definitions but is supported elsewhere in national government.
- Development of a shared strategy nationally and locally between industry and government is key to bolstering the PBS sector outside of London. This includes developing better perceptions of place and opportunity, enabling the sector to innovate, and investing in infrastructure that supports the growth in jobs, businesses and attracts labour, alongside developing a mix of pathways and routes into employment.

The PBS sector continues to provide high value, good quality jobs and adds £190bn to the economy. It makes up 11% of productivity; 13% of employment with 2/3 of jobs outside

London; 27% of UK service exports; 25% of all businesses, making £34bn in investment and exceeding growth in the rest of the economy by 3 percentage points and growth in jobs by 2 percentage points. Current data on the sector potentially underestimates the local impact, due to the fluid project ecology of the services offered, where skilled individuals can now work and live anywhere and provide services locally, nationally and internationally due to technology. The way we collect data on productivity and where we recognise this value-added activity does not reflect how businesses work.

Given this level of impact and opportunity from the sector, a comprehensive and strategic approach to supporting its growth and an approach that utilises the sector's ability to be flexible across geography is an essential component of balancing regional economies.

The sector is gradually adapting to working practices similar to the 'gig economy' such as flexible working and meeting quality of life objectives, geographically diverse project teams, flexible working spaces and diversification of career paths, which brings new challenges to business models. Lifestyle factors are becoming more important to the workforce. As such it is vital that local economies go beyond the basic statistics and really understand the sector, local assets and opportunities to create strong local industrial strategies in partnership with the sector itself.

Our approach enabled us to examine two types of areas in relation to the sector at extreme ends of the place continuum for sector size and presence. This has allowed us to understand the needs of very different places, highlight differences where a local industrial strategy may need to act and similarity where there are opportunities for national action and intervention.

Key learning points for national intervention:

- Raise awareness of the job opportunities within the sector and tackle the negative perceptions associated with it.
- Raise awareness of the opportunities provided by places outside of London, quality of jobs and quality of life.
- Promote the engagement of sector representation in the development and delivery of local plans, with evidence of co-creation and collaboration.
- Invest in innovation and R&D, in a sector often overlooked in favour of STEM, and provide funding to drive "new ways of thinking", "entrepreneurial attitudes", understanding and preparation for technological change, client innovation, collaboration and cross sector innovation.

Key learning points for local intervention:

- Develop a differentiated understanding of the sector locally and promote its strengths and opportunities, building on key assets such as flagship companies, quality of opportunity and quality of life.
- Increase collaboration and engagement with local sector representation, with proactive support from companies to engage with local strategic bodies; to design appropriate interventions to support local growth and increased support of local sector representative bodies to co-create and deliver actions.
- Co-creation of wider business support programmes to ensure the public sector does not displace the PBS sector and programmes can be used and accessed by the sector for the benefit of their clients, maximising their wider impact.

- Make better use of apprenticeships at all levels, co-designed with the sector to meet local needs to ensure local people can engage with and benefit from growth in the sector.
- Design interventions and new pathways which support diversification of the labour force of the sector to ensure the sector represents its clients and locality to drive local embeddedness and bring new thinking which can contribute to innovation in the sector.
- Engage with local institutions leading on place infrastructure to factor in needs of the sector, such as appropriate commercial property, broadband, a diverse housing offer - especially high-quality family housing, cultural and sporting assets, business tourism and transport infrastructure which facilitates movement of project teams to clients.

There is however, an onus on companies themselves who have to be prepared to invest in local decision making to ensure strategies take account of their key needs. This is a sector that traditionally takes care of itself, but the rapid change in technology, changes in business models and services and the need to attract a different type of employee with different life goals means the sector needs to start looking beyond its own glass walls in order to adapt and survive.

# 1. Introduction

## 1.1 Background and purpose of the work

The UK government published its '*Industrial Strategy: building a Britain fit for the future*' in November 2017 and identified Places – alongside People, Infrastructures, Ideas, and Business Environment – as one of five foundations of its approach to transforming the UK economy. This strategy highlighted that whilst cities, towns and rural areas have competitive advantages that will be essential to shaping the UK's economic future, many geographic areas in the country are not realising their full potential. In fact, the UK has greater disparities in regional productivity than other European countries and the strategy highlights that English cities outside of London do not reflect the productivity found in other communities across Europe.

This suboptimal performance presents an opportunity to increase productivity and welfare by making better use of local assets, ensuring that every region in the UK is enabled to play a role in boosting the national economy. The PBS sector is an example of a local asset that already plays a role in supporting inclusive growth across regions and sub-regions of the United Kingdom. It does this through growing in its own right as a sector, whilst also supporting the growth of firms in other sectors and supporting the delivery of efficient services in the public sector. Removing any barriers to growth that this sector may be experiencing will help PBS firms to continue to grow and increase productivity across other sectors. This aligns with local industrial strategies, specifically supporting three of the five foundations of productivity identified by the Industrial Strategy:

- create prosperous communities throughout the UK
- make the UK the best place to start and grow a business
- create good jobs and greater earning power for all.

Although several government initiatives aimed at encouraging firms to make use of professional and business services were promoted over the past 40 years, the sector is still generally seen as self-sufficient (as emphasised by our findings) relative to other sectors and intervention has therefore been intermittent. This ranged from the provision of grants to buy consultancy from the private sector, to the government directly intervening in the provision of services through, for example, Training and Enterprise Councils and the now disbanded Business Link network within England. These interventions were based on the common economic rationale that market failures existed both in the demand for business support services by small firms that would benefit from assistance and in the supply of private sector provision, which varied in quantity and quality by locality. The lack of demand was due to business support being an 'experiential' good and that the benefits were unclear to owner-managers until they used business support and how concerns existed around impartiality and the quality of the services available. The aims of these interventions were to grow the market for business support by providing a subsidy to use services and educate non-PBS firms in the benefits of external advice and provide public investment in the development of new services.

To support engagement with the sector and support policy formulation, the government established the industry-led Professional and Business Services Council (PBSC)<sup>1</sup>. The council is made up of representatives from the PBS sector and is co-chaired by a BEIS minister. The ambition of the Professional and Business Services Council is for the sector to be at the heart of the UK government's Industrial Strategy, improving living standards and economic growth across the UK. This research was commissioned by BEIS to feed into the work of the PBSC and aims to explore and identify national and local barriers to the growth of the PBS sector in areas outside of London.

This work sits within a backdrop of the PBS sector facing significant changes, which are likely to re-engineer business models and practices, change jobs and functions and alter the geography and value chain of the sector. Artificial Intelligence (AI), data tech and process technology are all radically changing the service models, income opportunities and, as a sector which is already highly skilled, it is becoming even more so. As back office functions are replaced by technology, the traditional labour structures are altering, reducing and shifting. The business-to-business (B2B) professional services are characterised by complexity, knowledge intensity, and the importance of specialised skills and knowledge (Madhavaram and Hunt, 2017) and this propensity is intensifying. Recent government work has examined the potential of new technology to enhance the growth and competitiveness of the service sector of the UK economy, and outlines the challenges and opportunities provided by the digital revolution. This work presented the views and recommendations of panels of independent experts drawn from academia and business relating to: preserving and building on UK strengths, including industrial strategy sector reviews; automation, including addressing skills gaps; digital disrupters, including diffusing innovation and boosting broadband; servitisation, including the development of outcome rather than product-based contracts; and spreading success, including public and private sector enterprises working together to attract and retain human capital through education, housing, transport and other services (Government Office for Science, 2018). This report builds on the challenges and opportunities identified in this existing work.

## 1.2 Background to the sector

### Sector definition

The Professional and Business Services (PBS) sector covers a range of diverse knowledge-intensive industries and support functions (e.g. call centres and other business support services), which provide specialised support to businesses and the public sector. Covered sectors include legal services, audit, accountancy, advertising and market research, management consultancy, architectural and engineering activities and recruitment activities.

It should be noted that this varies from local sector definitions which are broader, including those used locally by the strategic bodies covering the case study areas, West Midlands Combined Authority (WMCA), the Greater Birmingham and Solihull Local Enterprise Partnership (who lead locally for the WMCA on this sector), Darlington Local Authority and the Tees Valley Combined Authority. At a local level, the definition is broader and significantly includes financial and insurance services, whereas the BEIS definition sees these sectors as being a significant client of the PBS sector.

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<sup>1</sup> For further information: [www.gov.uk/government/groups/bis-professional-and-business-services-sector-team#professional-and-business-services-council](http://www.gov.uk/government/groups/bis-professional-and-business-services-sector-team#professional-and-business-services-council) [Accessed 26.09.18]

This does mean in some instances below that the data from local areas uses the wider definition, for ease of understanding and comparison, the data is supplied in both definitions where relevant.

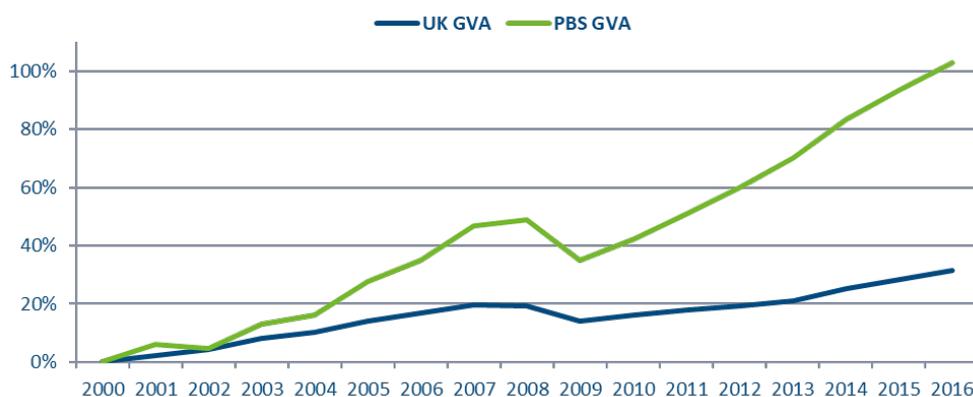
## Overview of the sector

The UK is a major exporter of PBS, providing 27 percent (£66bn) of the UK’s services exports (ONS, 2017). It is strongly competitive, being within the top three exporters of these services in the Organisation for Economic Cooperation and Development (OECD) in 2015 (with the US and France) (OECD, 2015). The PBS industry provides B2B services for other parts of the economy. The sector accounts for 25% of businesses (635,000), with a turnover of £399bn, and business investment growing from £18.5bn to £34bn in 2016. Growth in the sector has been above average, since 2000, average annual GVA growth in PBS exceeded that across the UK economy by almost 3 percentage points.

In employment, growth in workforce jobs has exceeded total job growth by almost 2 percentage points<sup>2</sup>. Furthermore, the sector plays an essential role in helping companies to raise finance, supports global business, and provides a range of investment opportunities for institutions and individuals (TheCityUK, 2016). Consequently, the sector has been forecast to be one of the most important growth sectors in the UK over the next fifteen years; however that growth is not uniform across the UK. This was supported by CityUK data that showed that whilst the sector was significantly affected by the financial crisis of 2008, employment and GVA have since risen. PBS firms also contain high-quality, high-skilled and well-paid jobs, all of which are forecast to increase significantly in the coming years and are more resilient to shocks.

Since 2000 the sector has seen significant and greater growth across the UK as a whole. Job growth exceeded UK job growth by 40 percentage points and GVA growth in PBS was triple that across all sectors. As a result, the sector’s share of the economy has grown considerably. However, growth has not been constant since 2000 with a sharp decrease in size following the financial crisis. The sector witnessed a greater decline than average, with GVA in the PBS sector falling by 9%, against a fall of 4% across the entire UK. That said the sector recovered more quickly, with GVA and the number of jobs returning to its pre-crisis peaks by 2012. From this point, sector growth greatly exceeded growth across the UK economy as a whole.

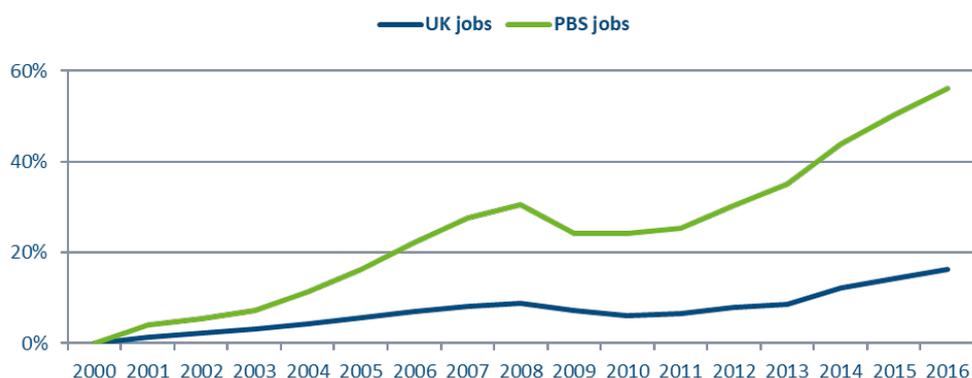
**Figure 1: PBS Sector GVA Growth compared with total GVA growth in the UK, 2000-2016**



Source: Office for National Statistics (ONS) GDP (O) low level aggregates, 2017

<sup>2</sup> Source: ONS workforce job series, 2017

**Figure 2: Jobs Growth UK and PBS Sector in the UK, 2000-2016**



Source: ONS workforce job series, 2017

The breakdown of employment for the sector can be seen below:

**Table 1: 2017 Workforce jobs in the PBS sector**

| Industry   | Great Britain (Count) | Great Britain (Industry Percentage) |
|--|-----------------------|-------------------------------------|
| 69 : Legal and accounting activities   | 780,000               | 2.2                                 |
| 70 : Activities of head offices; management consultancy activities               | 870,000               | 2.5                                 |
| 71 : Architectural and engineering activities; technical testing and analysis    | 615,000               | 1.8                                 |
| 72 : Scientific research and development   | 147,000               | 0.4                                 |
| 73 : Advertising and market research   | 206,000               | 0.6                                 |
| 74 : Other professional, scientific and technical activities                     | 354,000               | 1                                   |
| 77 : Rental and leasing activities   | 167,000               | 0.5                                 |
| 78 : Employment activities   | 1,032,000             | 3                                   |
| 82 : Office administrative, office support and other business support activities | 548,000               | 1.6                                 |
| <b>Column Total</b>  | <b>4,719,000</b>      | <b>13.5</b>                         |

Source: ONS Workforce jobs series, 2017

## People

The PBS sector tends to be dominated by highly-skilled individuals in professional roles. As a result, wages tend to be above the UK average, especially in professional services subsectors. The highest paid subsector was scientific R&D, which showed an average annual median wage of £39,000, almost £19,000 above the UK median annual wage. The lowest paid subsector was employment activities, with an annual median wage of £16,000, around £7,000 less than the UK median annual wage.

As PBS firms provide knowledge and skills-based services to clients and often require specific qualifications to enter, the level of qualifications in the sector is high. The 2015 UKCES Employer Skills Survey revealed that over half of surveyed business services<sup>3</sup> firms reported that at least half of their staff held a Level 4 qualification or above against a UK average of 35%. Academic qualifications are seen as a highly important factor by employers in business services with 61% of employers perceiving this as a factor of critical or significant importance in hiring candidates against 46% across all industries. Outside of degrees, apprenticeships offer a route into PBS roles. In 2015/16 47% (12,680) of all Higher Apprenticeship starts were in PBS roles, notably Human Resource Management and Business Administration. Since 2016, individuals can become qualified as a solicitor through apprenticeships, an alternative to the typical graduate route into the legal services industry.

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<sup>3</sup> Source: UKCES 2016 Employer Perspectives Survey; UKCES 2015 Employer Skills Survey; Department for Education, 2017

## 2. Methodology and approach

### 2.1 Research aims and objectives

The primary aim of the research was to investigate the limiting factors to growth at the local level and the ways in which providers of professional and business services can potentially help to address these. More specifically, it set out to do the following:

- Investigate the idea that the PBS sector has the potential to support regional economies and help them to thrive.
- Contribute to understanding of Local Industrial Strategies (LIS) and suggest ways to unlock support from industry.
- Build up the evidence base to support the development of a shared strategy between industry and government to bolster the PBS sector outside of London.

We collected evidence from two contrasting geographical areas outside of Greater London to provide insights into the differing level of change needed with the attendant impact on the local economy. One area was to be characterised by a high concentration of PBS firms, with the potential for accelerated sector growth from its current position of strength. The second was to be an area where the PBS sector has a lower level of presence and could be expanded. Birmingham and Darlington were selected as the two contrasting areas, based on an analysis of the PBS sector by Local Authority by BEIS<sup>4</sup>.

This research on Birmingham and Darlington focussed on addressing the following questions:

- a) How can PBS firms help the growth of local non-PBS firms, for example through masterclasses, mentoring, and advice on recruitment, training, advertising, marketing, accountancy or legal issues?
- b) How can PBS firms help local non-PBS companies to increase export opportunities?
- c) How can PBS firms help local areas to increase non-PBS inward investment from elsewhere and improve their wider economic and social infrastructure?
- d) What barriers exist to the growth of the PBS sector in each local area?
- e) What types of business support would address identified barriers and issues?
- f) What would make each local area more attractive for PBS firms to expand their existing business?
- g) What conditions in the local area would make it more attractive to PBS firms to further invest in the sector, e.g. infrastructure, transport networks, community safety, developing the right types of workspace, educational institutions/schemes and links to other sectors?
- h) How can each local area ensure that the PBS talent pipeline is sufficient and of quality?
- i) What would make the PBS firms' services more attractive to non-PBS local businesses?

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<sup>4</sup> CR18066ITQ - BEIS Professional & Business Services Sector – Creating Further Demand and Growth outside London

The research methodology for this work consisted of desk-based research and primary data collection. The first phase entailed desk-based research. This involved a thorough review of the academic literature, which explored, summarised, and critically analysed key concepts, theories, and arguments that related to the research topic. Furthermore, policy documents, secondary data, and web-based materials were explored. These secondary data sources were used to characterise the sector and the study areas, to provide some early indicators of local needs, including skills gaps.

Primary data collection followed, which involved telephone interviews with PBS firms (eighteen in each study area), focus groups with a range of stakeholders (two in Birmingham and two in Darlington) and case studies. The overarching aim of these qualitative research methods was to: (i) assess the importance of the PBS sector in the respective local areas and highlight any differences in needs between Birmingham and Darlington; (ii) identify issues which are constituting a barrier to the success of the PBS sector in the areas; (iii) suggest interventions to overcome these barriers on a local and national scale.

## Choice of sample areas

The PBS sector covers a range of diverse sub-sectors and support functions, which provide specialised support to businesses and the public sector. Covered sectors include legal services, audit, accountancy, advertising and market research, management consultancy, architectural and engineering activities and recruitment activities.

Based on previous BEIS research, the PBSC were presented with evidence of industrial strength, measured using a location quotient (LQ) as density of local employment in Professional and Business Services. The research also calculated LQs for the Finance sector, which is a complementary sector to PBS (with high levels of business to business sales – intermediate consumption – between the two industries). The suggestion from the Council was to select areas where PBS was strong but also areas where PBS was not a strength and could benefit from high density on complementary industry. An additional variable to discriminate between destinations was whether the local area was growing (i.e. there was increased demand for PBS). Cheshire, Birmingham, and Swansea were selected using this method. The Council were also interested in other variables, such as size of businesses, which determined the selection of Darlington.

There is currently no publicly available sample frame source that gives a comprehensive view of businesses in the UK. Therefore, we faced methodological issues in the selection of a sample frame, which we tried to mitigate for in our methodology as described below. Additionally, the choice of comparator places in this project also affects the sampling methodology, for example:

- By definition LQ is a way of assessing how concentrated a particular industry is in a place, and assessing 'uniqueness' relative to a national average; therefore, choosing two diametrically opposed places on this basis, means it is unlikely the size, mix and make up of companies is comparable.
- This methodology is also good for understanding the export orientation of companies as they are more likely to service beyond local boundaries, which again will impact on local embeddedness, productivity and net contribution to the economy in a place. High LQs also have higher multiplier effects in the general economy.
- It is also likely that the relative value and nature of companies and services offered are very different, and the value in the comparison is in understanding these differences and any transferable lessons.

- A place with a lower LQ has a lower number of companies, which means the sample pool will be very constrained, and will potentially create 'over sampling' due to this lack of companies. In contrast, the place with the higher LQ will have more companies and overall lead to 'under-sampling'.

Therefore, by the nature of the original methodology used to pick Darlington and Birmingham, we have an inbuilt bias, in that we have diametrically opposed areas in terms of size, performance and types of services and potentially interventions required. However, we have, where possible, tried to ensure selection of companies was balanced based on size and sector of firm. As such neither is 'typical' as both represent extremes; therefore - in methodological terms - comparison is more important. On this basis, caution should be taken when generalising from the findings of this research and focus should be on lessons and differences between the comparator places. This has shaped our approach to the sampling methodology.

Initial discussions with policy officials in the two areas raised some further issues to bear in mind, which reinforce the LQ approach:

- In Birmingham, the PBS sector is a key growth sector and a significant proportion of future growth will be from this sector. The West Midlands Combined Authority (WMCA)<sup>5</sup> is currently developing intervention programmes for the sector and have carried out extensive work with the sector to understand the productivity issues. It is a core part of the Local Industrial Strategy and regional partners are currently developing an action plan to grow the sector.
- Conversely, in the Tees Valley (and therefore Darlington), the sector is seen as largely supportive of other growth sectors such as manufacturing, with some niche companies. There are no major interventions planned for the PBS sector and activity will only happen where it is to develop one of the other core growth sectors.

We used FAME<sup>6</sup> from Bureau Van Dyke as our sample frame. This is the standard recognised source for company information (outside of that which is held directly by the ONS). However, this presented a number of methodological issues when doing place-based research. The most significant one is the impact of 'head-quartering'. Companies generally publish accounts and all associated information from the head office location, therefore FAME allocates all activity there<sup>7</sup>.

Our experience in previous research (Riley et al., 2018), across other sectors and specifically in this sector has highlighted this as an issue, and the effects are:

- Large employers do not always appear in a local area as they are listed where their headquarters (HQ) is located (along with associated employment and turnover); this has a significant issue in terms of productivity and growth opportunities.
- Employment numbers can therefore also be skewed, as again they are allocated elsewhere.
- The data is also skewed to larger firms (as are most databases), as they have to be registered and file reports. This under-samples sectors which have high proportions of

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<sup>5</sup> In Birmingham, the PBS is a core part of Local Industrial Strategy (according to the consultation document available at: [www.wmca.org.uk/what-we-do/industrial-strategy/](http://www.wmca.org.uk/what-we-do/industrial-strategy/))

<sup>6</sup> FAME offers information on companies and incorporated businesses throughout the UK based on information filed with Companies House.

<sup>7</sup> As a result, we used enterprise units and business units to get a better picture of the distribution of companies.

self-employed people and can miss out Limited Liability Partnerships (important in the PBS sector).

- There are also significant issues with missing data within the records, which are important in regard to size of firm or turnover and therefore stratifying a sample.

To counter the issues above, we worked with local experts: Mark Carrigan (Business Investment Manager, Darlington Borough Council) and Hilary Smyth-Allen (Executive Director, PBS Birmingham). They reviewed the sample to sense check the companies appearing (e.g. do they exist? or are there significant companies missing?). This approach also ensured that the sample contained no gaps, miscoded companies and, helped us to sense-check the distribution of the sample and the size of companies. Throughout this process we checked the companies for fit and appropriateness and the connection with the expert for neutrality. The companies identified were a mix of companies the experts had worked with and not. Many had not been involved in this type of research before.

Working with local experts is a trade-off, of time and ease of access as they can introduce and refer companies with a much better success rate than cold calling versus detailed sample frames and standard random sampling approaches. In general, the numbers specified within this work are not large enough to do a fully representative sample, and as such, the focus is on achieving a methodologically robust sample for comparative analysis and thematic case study development.

We established a set of principles based on the original research requirements. Firstly, the key purpose of this research is to explore opportunities to grow the PBS sector outside of London. This is largely measured through an increase in GVA and therefore our focus was on firms with the potential to significantly improve GVA, i.e. large firms or firms with the potential for large growth (could be either small or medium sized). Second, we aim to be as representative as possible of the sub-sectors that the brief identified for this sector – Birmingham and Darlington are likely to focus on different areas within these sectors. Thirdly, we wanted to ensure that the firms selected highlighted the role they may or may not be playing in supporting the wider economy in each region. Finally, given the timeframes and the small sample size, we acknowledge that this research was designed as a qualitative study, and achieving statistical representation was never an objective. Therefore, the priority is on providing a descriptive, comparative story of the sector in the two places and ensuring, where possible, that the sample enables this.

Firms, therefore, were selected from within this long list, utilising a mixed methodology based on one used for previous research (such as the sector research for the West Midlands Combined Authority<sup>8</sup>). Starting with the FAME lists, this was cross-referenced with local market intelligence and local expertise, cross-checking sources included:

- Top tier firms in each sector cross-referenced with a geographical presence in the region.
- Firms that are listed as representatives on the PBS council.
- Market knowledge from peer networks e.g. PBS members, BSA members, West Midlands Growth Company and Chamber of Commerce members and independent research results and active companies in networks locally.

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<sup>8</sup> For further information: [www.wmca.org.uk/media/2236/business-professional-and-financial-services.pdf](http://www.wmca.org.uk/media/2236/business-professional-and-financial-services.pdf)  
[Accessed 26.09.18]

- A small number of companies were also selected as potential 'buyers' of services from the PBS sector to understand the potential growth market locally.

## Overview of approach in Darlington

In Darlington there were 407 firms in the list from FAME, but on review many firms were found to be missing. As highlighted, Darlington is a small place relative to the large urban centre of Birmingham, with very few companies to choose from especially at the subsector level; hence for some subsectors this may mean we have none or low numbers to choose from and they may not be typical of the sector. The local experts and quality assurance process generated advice on which best represent the area, based on their own research and knowledge of working with the companies. From talking to the Tees Valley Combined Authority (TVCA) and local council, we know the sector is largely seen as supporting the other key sectors and is characterised by smaller firms or call centre activity. Therefore, achieving the desired sample size (20 in each place), within the timescales for the research was challenging.

## Overview of approach in Birmingham

In Birmingham some previous research was carried out with 34 PBS companies across the wider BPFs sector, 25 of which sit within the narrower BEIS definition in the first quarter of 2018 (Riley et al., 2018). Some changes/additions were made to the original topic guide, but there was considerable overlap. Therefore, the consideration for this work was to fill in any gaps from the existing sample, to avoid duplication of work for research participants and to maximise the economic investment in the research. This ensures adequate representation across the sector as although the aims and objectives of the research were similar, a smaller subset was chosen as a priority in the earlier Birmingham work. Therefore, the focus was on prioritising interviews against the size and potential of companies in the remaining subsectors. The gaps were mainly related to real estate and associated consultancy combined with other services activities (as we know from previous SIC code analysis work that some of the big firms appear in this code and so need to be considered together). Along with support services, these were the clear priorities. Consequently, we had a long list sample (derived based on the same methodology as Darlington), targeting different firms from across the PBS sub-sector (including legal services, audit, accountancy, advertising and market research, management consultancy, architectural and engineering activities and recruitment activities).

## Literature review search strategy

Our search strategy involved searches of the formal academic literature around barriers and issues faced by the PBS sector using key word searches of the main bibliographic databases, plus more intuitive and iterative searches using search engines and targeted searches of key organisation websites to identify relevant policy documents and the use of our network of experts.

The following bibliographic databases were searched: Econlit (EBSCO), Business Source Premier (EBSCO) and the Web of Science (Clarivate Analytics) from which the following databases were selected, Social Science Citation Index, Arts and Humanities Citation Index, Conference Proceeding Citation Index (Social Science and Humanities) and the Book Citation Index (Social Sciences and Humanities) using the following terms: 'business to business', 'b2b', 'professional services', 'barrier\*', 'obstacle\*', 'challenge\*', 'growth', 'productivity' and some case searches were restricted to Great Britain where there was a large number of returns. No date or language restrictions were placed on the searches. The search results were stored in Endnote, which was used to identify duplicates before being first screened for inclusion on titles and abstracts by two members of the team. Full texts were obtained of

articles of potential interest which then underwent further screening for inclusion. Synthesis of included papers took the form of identifying key themes.

Overall, thirty-five relevant articles were identified from systematic searches of key bibliographic databases. A further thirty-nine articles were identified from the grey literature including policy documents, strategies, and research commissioned by government and sector bodies ([see Appendix A](#)).

## 2.2 Interviews

We used a structured interview tool (see Appendix B) to ensure consistency in question coverage and comparability across the two places. This tool was designed based on previous sector studies, development of questions from national surveys and in collaboration with the team at BEIS. The survey was based on the earlier WMCA tool, which had already been piloted and used in the field. The interviews were conducted via telephone and took on average 30 minutes. They were arranged after introduction (where possible or appropriate) from the local representative.

Within the time frame we carried out 18 interviews in each place, with an additional 25 interviews with relevant companies in the sector, from earlier work in Birmingham.

Reflections on the survey tool include:

- The further away from the core of the sector, focussing on business support activities, the company was, the less the questions potentially applied or were relevant in a sector context. For example, not many companies were involved in exporting either as a provider of services or as a company.
- There appeared to be no significant change in responses due to the slightly different time period from the earlier WMCA interviews, and main themes from that research were reinforced in these interviews.

## 2.3 Focus groups

The brief suggested the following stakeholder groups should be involved in the research: local authorities and institutions; professional and business services firms and industry associations; local businesses and other potential clients of PBS firms and education institutions. Where possible we minimised the impact on participants by organising around other events and activities. Focus groups (FGs) involved:

**FG1: Birmingham Policy leads (8 attendees)** – this included representatives from LEAs, WMCA, West Midlands Growth Company, local authority (Birmingham City Council), PBS, Local Chambers of Commerce and other sector champions. This was organised via PBS Ltd with the support of the WMCA and formed part of the ongoing work into the sector for the Local Industrial Strategy.

**FG2: Birmingham business leads (5 attendees)** – Mix of companies outside of the sector to get a view from users of the sector services. This was organised with the help of the Birmingham and Solihull Chamber of Commerce and followed the launch of the Birmingham Economic Review written by City-REDI at the University of Birmingham and published by the Chambers.

**FG3: Darlington Policy Leads (8 attendees)** – Local Economic Partnership, Tees Valley CA, Local Authority (Darlington Borough Council), sector champion and business support delivery leads. The policy and business focus groups were held as part of a business summit.

**FG4/5: Darlington Business leads (15 attendees)** – Small and medium-sized enterprises (SMEs) in the sector not covered by the interviews to get a complimentary picture and a separate group of companies within the sector.

Focus groups were to test and discuss the themes emerging from the initial findings and:

- Draw out local policy action in response
- Better understand the approach to Local Industrial Strategy
- Gain further insight into the approach to the sector and supporting growth
- Better comprehend barriers the sector may be facing.

### 3. Place comparison and context

Places vary because of their complex combinations of:

- people (demography, skills, preferences)
- built assets (housing, stadiums, cultural attractions)
- transport and communications infrastructure (from rail and roads to broadband)
- firms and local value chains (large and small, across different industry sectors)
- anchor institutions (city councils, local authorities, LEPs, schools)
- innovation assets and capabilities (universities, research and development (R&D) firms, science parks, start-ups).

These combinations attract and retain different businesses and skilled people, providing the foundations for different kinds of investments and driving different kinds of growth. Policy interventions need to take these variations into account and while there is a place for an overarching industrial strategy at the national level, which sets the direction of travel and focus, there is also a need for place-based industrial strategies in the regions which utilise and build assets and ensure a more balanced approach to growth. These regional industrial strategies across the UK should be developed as customised and focused variations of the national industrial strategy. They also need to be based on an understanding of the current and future competitive advantages and constraints at the local level. This “no-one-size-fits-all” approach builds on City-REDI research on smart specialisation (McCann and Ortega-Argiles, 2016), which encourages policymakers to develop policies that build on a region’s existing assets, rather than adopting “off-the-shelf” policies. It finds ways to foster entrepreneurship, technological diversification, and connectivity on the basis of the region’s existing skills, technologies, and institutions. The smart specialisation approach is underpinned by OECD (2011) thinking and links processes of self-discovery (Hausman and Rodrik, 2003) to place-based innovation policies in a manner that is aimed at helping regions to identify their competitive niches. The smart specialisation approach emphasises creating the right governance mechanisms to identify and cultivate growth opportunities, to undertake collaborative processes of planning and implementation, and to encourage a changing regional mind-set that prioritises novelty and risk-taking (Wolfe, 2011).

The focus of this work is the sector outside of London; therefore it is also useful to reflect on the importance of place. The methodology identified for choosing Birmingham and Darlington on the basis of LQs, specifically puts places on a continuum from those that have a low representation of the sector vis-à-vis the national average to those that have a high density, with both places representing the extremes of the continuum. This enables us to examine and compare two very different economies. However, as highlighted above, the places are likely to be very different.

## 3.1 Key Statistics - Birmingham and Darlington

### Overview of approach to PBS in Birmingham

The West Midlands uses a broader definition of the sector than BEIS, and includes the financial and insurance sector. Therefore, the approach locally covers the wider definition and the published documents including strategic economic plans, and research into the sector cover the wider definitions. The West Midlands Growth Company states that the region has the largest regional financial and professional services hub outside of London, employing nearly 260,000 people<sup>9</sup>. The city also has one of the largest legal services clusters in Europe and the largest accountancy cluster outside of London (West Midlands Growth Company, 2018). They actively promote the sector internationally as a regional strength.

- Largest regional BPFs hub in the UK bringing £10.5 billion into the area.
- Home to the Birmingham Law Society, the largest local law society in the UK, representing over 4000 individuals in 130 practices.
- Largest regional centre for major accountancy firms, outside London.
- Professional services hub and Enterprise Zone consisting of major Grade A office developments in Birmingham City Centre – including Brindley Place, Colmore Business District and Snowhill.
- The BPFs sector has been prioritised by the Greater Birmingham and Solihull LEP, the West Midlands Combined Authority (WMCA) and is a core growth sector for the emerging local industrial strategy (WMCA, 2018)<sup>10</sup>.
- A fifth of jobs and GVA in Birmingham in the wider BPFs sector are within the Finance and insurance sector which is not part of the sector nationally.

**Table 2: PBS share of total GVA for all industries in Birmingham, 2017**

| Birmingham  | Sectoral GVA (£ million), 2017 | Sectoral GVA as % of total GVA, 2017 |
|---|--------------------------------|--------------------------------------|
| Financial and insurance activities                | 2,398                          | 9%                                   |
| Real estate activities                            | 2,896                          | 10%                                  |
| Professional, scientific and technical activities | 2,122                          | 8%                                   |
| Administrative and support services activities    | 1,354                          | 5%                                   |
| Total   | 8,770                          | 31%                                  |

Source: ONS regional GVA (balanced approach), current prices 2017 [provisional estimates]

<sup>9</sup> For further information: <https://wmgrowth.com/invest> [Accessed 26.09.18]

<sup>10</sup> For further information: [www.wmca.org.uk/what-we-do/industrial-strategy/](http://www.wmca.org.uk/what-we-do/industrial-strategy/) [Accessed 26.09.18]

## Overview of BPFS in Darlington

The Tees Valley<sup>11</sup> also defines the sector to include the financial and insurance sector and promotes the sector as on the rise, predominantly as a low cost location and a cost effective place to invest as a business. They identify companies as looking at cost, quality and availability of premises, workforce availability, with purpose built offices and effective public transport. The positioning of the offer to the sector is low rents and rates on purpose built modern facilities in two enterprise zones. Darlington Local Authority<sup>12</sup> promotes the area as offering strong back office support, again based on a skilled workforce, good transport and digital connectivity. They are looking to attract back and middle office operations, highlighting EE and Capita as examples of key regional companies. Characteristics are:

- A small centre serving local industry with niche companies serving a national/international market.
- Employment levels in the sector 10 times lower than Birmingham.
- Large employers are back-office service providers, Student Loans Company, EE and Capita<sup>13</sup> and within the wider business services sector (InvestinDarlington, 2018).
- Promoted as having lower office and salary costs, whilst having access to high skilled labour market.
- The sector is not prioritised in its own right but is promoted as playing a vital role in supporting the other sector within the Tees Valley Combined Authority (TVCA) Strategy. No specific sector research has therefore been carried out.
- Similar to Birmingham, slightly less than a fifth of jobs and just under a fifth of GVA are in the finance and insurance sub-sector.

**Table 3: PBS share of total GVA for all industries in Darlington, 2017**

| Darlington  | Sectoral GVA (£ million), 2017 | Sectoral GVA as % of total GVA, 2017 |
|---|--------------------------------|--------------------------------------|
| Financial and insurance activities                | 141                            | 5%                                   |
| Real estate activities                            | 248                            | 9%                                   |
| Professional, scientific and technical activities | 173                            | 6%                                   |
| Administrative and support services activities    | 75                             | 3%                                   |
| Total   | 675                            | 24%                                  |

Source: ONS regional GVA (balanced approach), current prices 2017 [provisional estimates]

The previous chapter has highlighted the significant differences between Darlington and Birmingham, in terms of size and share of the PBS sector and the subsectors. The relative size of the PBS sector in each local area and the geography of the surrounding places is important to recognise and is illustrated in Figure 3 below. The darker blue circles represent the central local authority, with the size of the circle representing the number of companies, the larger

<sup>11</sup> <https://teesvalley-ca.gov.uk/business/key-sectors/professional-business-services/>

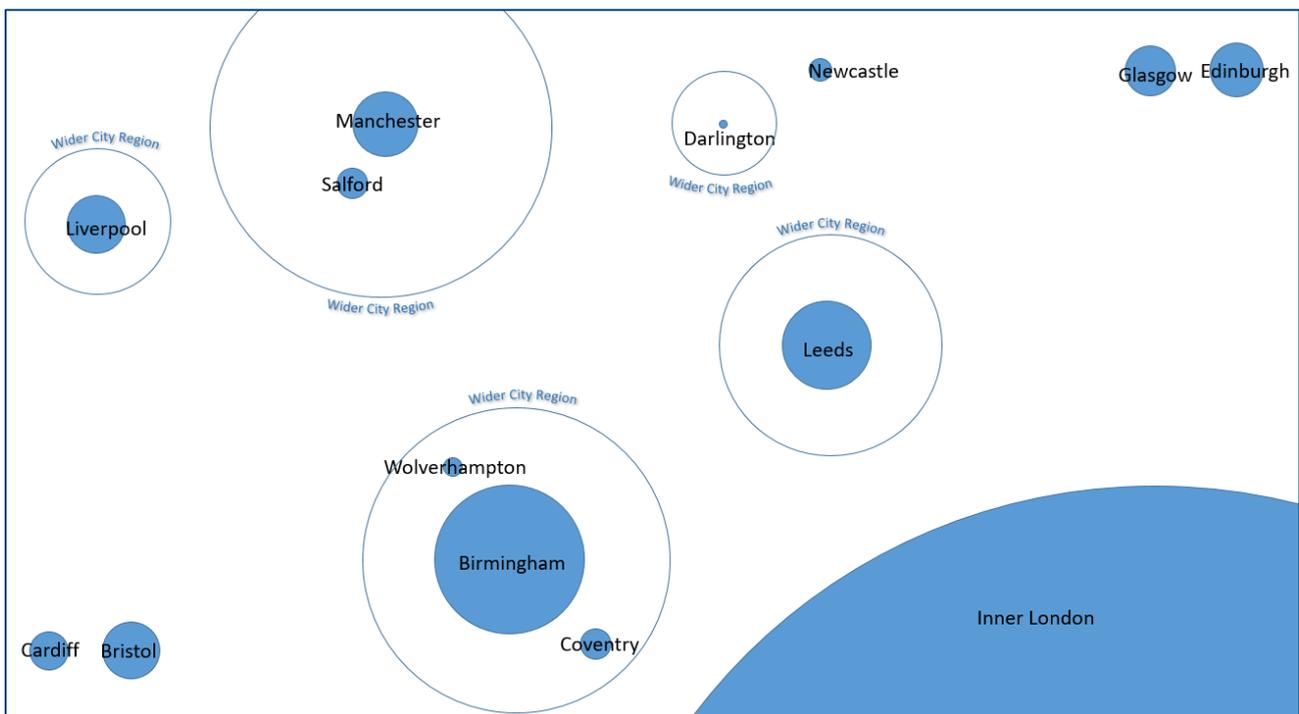
<sup>12</sup> [www.investindarlington.co.uk/key-sectors/professional-business-services/](http://www.investindarlington.co.uk/key-sectors/professional-business-services/)

<sup>13</sup> [www.investindarlington.co.uk/key-sectors/professional-business-services/](http://www.investindarlington.co.uk/key-sectors/professional-business-services/)

outline circle represents the size of the sector in the wider city geography (closest fit to combined authority). This illustrates that:

- Interplay and linkages are key, as are perceptions of those linkages – cities influence each other and they influence smaller places. For Darlington, the perceived attraction for staff and clients was to London, Newcastle and to some extent Leeds. As the diagram demonstrates Newcastle as the closest large city also has a small sectoral presence.
- Workers, clients and business flow around the network – smaller sectoral densities are further away from the orbit of larger cities and the denser company, client and project ecosystem.
- Urban concentrations of other businesses generate demand for PBS, so larger cities demand a larger PBS sector and provide enough demand for services to support the sector.
- Administrative boundaries disguise the geography of the sector; under-bounded city local authorities appear smaller and vice versa. However, this diagram shows for this sector Birmingham city centre acts as the centre for the sector whilst other cities such as Manchester have a more distributed sectoral presence (into neighbouring local authorities).

**Figure 3: Context of place - size and density of the PBS Sector**



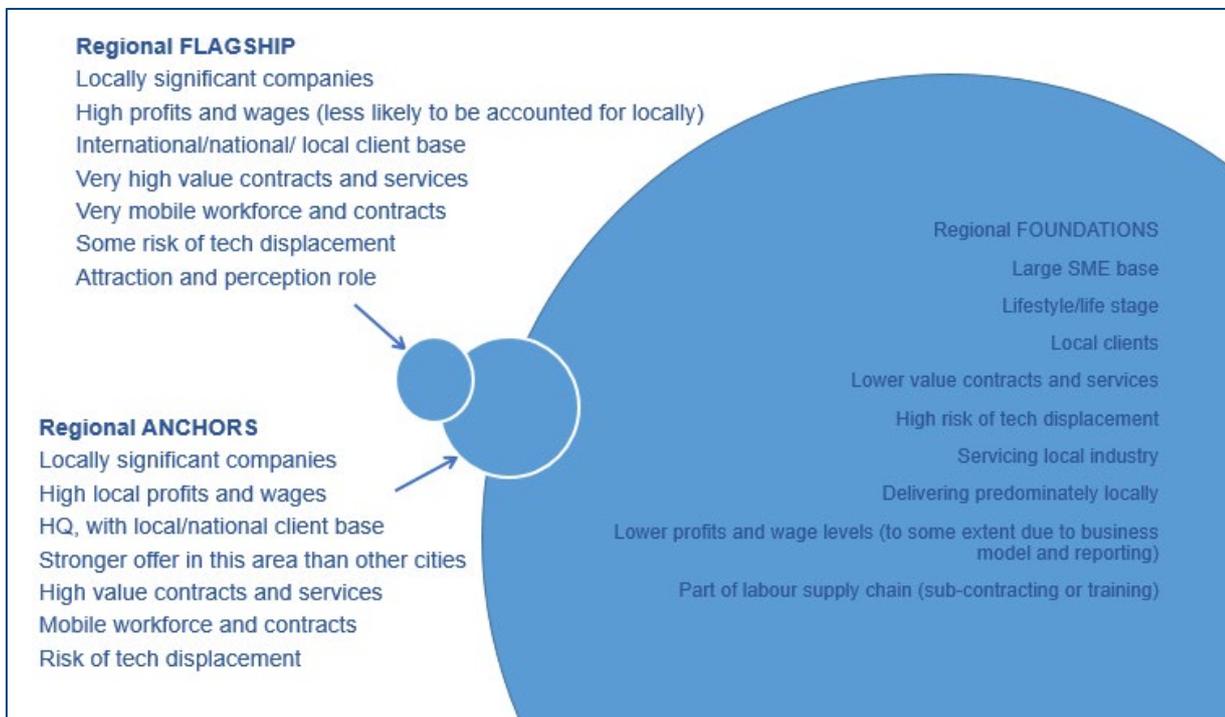
The primary research carried out for the West Midlands Combined Authority identified that local economies are built from three groups of PBS businesses:

- Regional flagships – local arms of international firms, high value contracts servicing national and international audience and contribute to a strong perception of place and opportunities for high value contracts and roles

- Regional anchors – large local firms with headquarters in a region, national/local client coverage, and adding depth and quality jobs to the local labour market and with greater regional embeddedness
- Regional foundations – the breadth and depth of companies in the sector, small to medium size companies, predominantly local companies servicing local client needs.

In Birmingham there were companies of all three types, with significant regional flagship companies investing in the city in recent years, with all of the “big four” consultancy firms having offices. The mix of companies within each group significantly affects the ability of the sector to grow; a lack of flagships and anchors constrains career progression and the quality and density of the labour market. Darlington lacks these flagship and anchor companies in the core of the PBS sector; the most significant within the sector is EE as a call centre rather than a strict telecoms operation. However, in both places the size and nature of the sector reflects the wider demands of the economy.

**Figure 4: Regional PBS business Structure**



Source: Riley R, Green A, Smyth Allen H, (2018) Business and Professional Services Deep Dive, WMCA

Our research found that the established large firms in the sector in Birmingham had a long historical tie to Birmingham, often going back centuries. Often even larger branded firms have offices in Birmingham due to significant mergers and acquisitions of high quality local brands. As part of the wider sector definition and as a significant buyer of services for the PBS sector, financial services firms include HSBC as a new flagship investor, which is relocating back to Birmingham (formally the Midland Bank) and is already creating significant impact on the wider skills supply and perceptions of the place. Birmingham is also home to the first municipal bank (TSB) and has a long history of financialisation and investment creating a core client base for the PBS sector. This legacy creates an asset base built on skills, attributes and the structure of the city. Darlington does not have this client opportunity, legacy or asset base to build on. This highlights the importance of historical path dependency on future assets.

As shown in the [table below](#), Birmingham Local Authority is around 10 times bigger than Darlington in terms of population. Birmingham is characterised by a younger population relative

to other cities, with a significantly higher share of young people than Darlington. The largest difference between the two places is in the 65 plus age range accounting for 20% of the population of Darlington and just under 13% of the population of the city of Birmingham. This has a significant effect on the culture, services, infrastructure and labour market of the two places. This creates a very different underlying population structure as labour supply for the PBS sector, which is characterised by high levels of graduates, and a constant supply of mobile workers. The young, diverse population was seen as a key strength of the region by interviewees; however companies found it difficult to unlock this resource.

However, Darlington performs significantly better on employment rates, inactivity rates, and unemployment demonstrating a tight labour market. Whereas Birmingham has higher self-employment rates and nearly twice as many business births, again it is important to note that as the PBS sector is characterised by large numbers of small firms, often micro, the more vibrant enterprise culture of the city creates better underlying conditions for the sector. A high business churn also creates demand for wider PBS services, such as business planning, accountancy, recruitment and marketing as firms establish and grow.

Darlington's GVA per head is higher than Birmingham, but this is a feature of higher unemployment and inactivity rates in Birmingham. This is also illustrated by the significantly higher wages in Birmingham, where those in work have a potential higher earning power. The overall GVA is significantly higher for Birmingham (see [Table 2](#) above) and has grown significantly since 2011 (see Figure 5 below).

In terms of Birmingham's wider BPFs sectoral GVA, banking and insurance has declined slightly as a percentage since the financial crash ([Figure 6](#)), however, this will not take into account recent relocations to Birmingham such as HSBC and investment by large corporates in the wider sector. However, a note of caution is advised when considering GVA for this sector; previous work in the West Midlands (Riley et al., 2018) demonstrated that companies themselves find it very difficult to allocate and account for where value-added activity takes place within a company structure, due to the flexibility of the business geography and workforce, especially when companies have large networked business structures. This was further emphasised in the FAME data where key local firms were not present in the data due to reporting mechanisms, this could impact on the ONS GVA allocations.

Darlington's large company risk is of concern given the share of employment in the sector and the significant difference in the information and communication subsector which will potentially be the presence of major telecoms call centres in Darlington as identified by the local authority. The presence of a small number of large employers can create constraints elsewhere, as other companies struggle to compete on wages and job quality. It also creates an economy dependent on the decisions of a small number of companies, and less resilient to threats.

Although across the skills levels Darlington performs better, at level 4 (graduate) this difference evens out, and as a percentage of the population they are broadly even. This is the most important group as the vast majority of PBS staff are, as a minimum, graduate level. Birmingham overall has a larger pool of highly skilled people to draw from to supply any jobs growth.

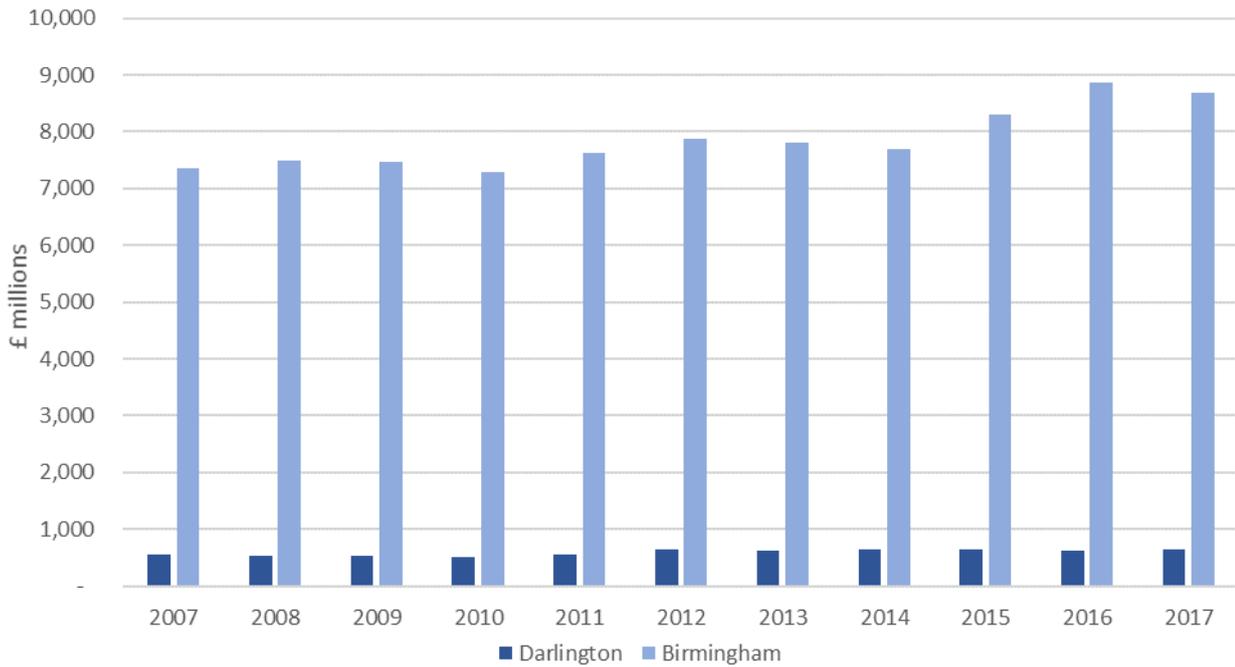
In terms of occupational structure, the distribution in both places is broadly the same, apart from a slightly higher proportion of professional and associate professional occupations in Birmingham and a greater a proportion of those in caring and leisure in Darlington (potentially a reflection of the significantly older population). Again this reinforces underlying structural advantages for Birmingham around the available workforce for the PBS sector.

**Table 4: Comparator Place Data for Birmingham and Darlington and their Combined Authority areas and England**

|   | Birmingham | West Midlands CA | Darlington | Tees Valley CA | England    |
|---|------------|------------------|------------|----------------|------------|
| <b>Population (ONS, 2017)</b>               |            |                  |            |                |            |
| Total                                       | 1,137,100  | 2,897,300        | 106,300    | 672,500        | 55,268,067 |
| Aged 0-15, %                                | 22.8       | 21.4             | 18.9       | 19.4           | 19.1       |
| Aged 16-64, %                               | 64.3       | 63.1             | 61.0       | 61.8           | 63.1       |
| Aged 65+, %                                 | 12.9       | 15.5             | 20.0       | 18.8           | 17.9       |
| <b>GVA (ONS, 2016)</b>                      |            |                  |            |                |            |
| GVA per Head (£)                            | 22,871     | -                | 24,381     | -              | 27,060     |
| <b>Employment (ONS, 2017)</b>               |            |                  |            |                |            |
| Economic Activity Rate, aged 16-64          | 69.4       | 72.4             | 79.4       | 73.7           | 78.6       |
| Economic Inactivity Rate, aged 16-64        | 30.6       | 27.6             | 20.6       | 26.3           | 21.4       |
| Employment Rate, aged 16-64                 | 63.6       | 67.3             | 74.4       | 68.6           | 75.1       |
| Unemployment Rate, aged 16-64               | 8.4        | 7.0              | 6.3        | 6.9            | 4.5        |
| Self-employment Rate, aged 16-64            | 9.1        | 8.2              | 6.4        | 6.7            | 10.9       |
| <b>Business demography (ONS, 2016)</b>      |            |                  |            |                |            |
| Business Births per 1000 population         | 8.2        | 6.3              | 4.4        | 4.2            | 6.8        |
| Business Deaths per 1000 population         | 4.9        | 4.2              | 4.0        | 3.6            | 5.3        |
| 5-year Business Survival Rate (2011 Births) | 39.0       | 41.5             | 44.8       | 40.6           | 44.0       |
| <b>Qualifications (ONS, 2017)</b>           |            |                  |            |                |            |
| NVQ4+, aged 16-64 (%)                       | 31.4       | 29.6             | 32.6       | 30.1           | 38.3       |
| NVQ3+, aged 16-64 (%)                       | 50.4       | 47.4             | 54.9       | 49.8           | 57.1       |
| NVQ2+, aged 16-64 (%)                       | 65.4       | 65               | 72.6       | 69.1           | 74.6       |
| NVQ1+, aged 16-64 (%)                       | 76.6       | 76.6             | 82.4       | 80.5           | 85.5       |
| No Qualifications, aged 16-64 (%)           | 12.6       | 13.1             | 9.4        | 12.1           | 7.6        |
| Other Qualifications, aged 16-64 (%)        | 10.8       | 10.3             | 8.2        | 7.4            | 6.9        |

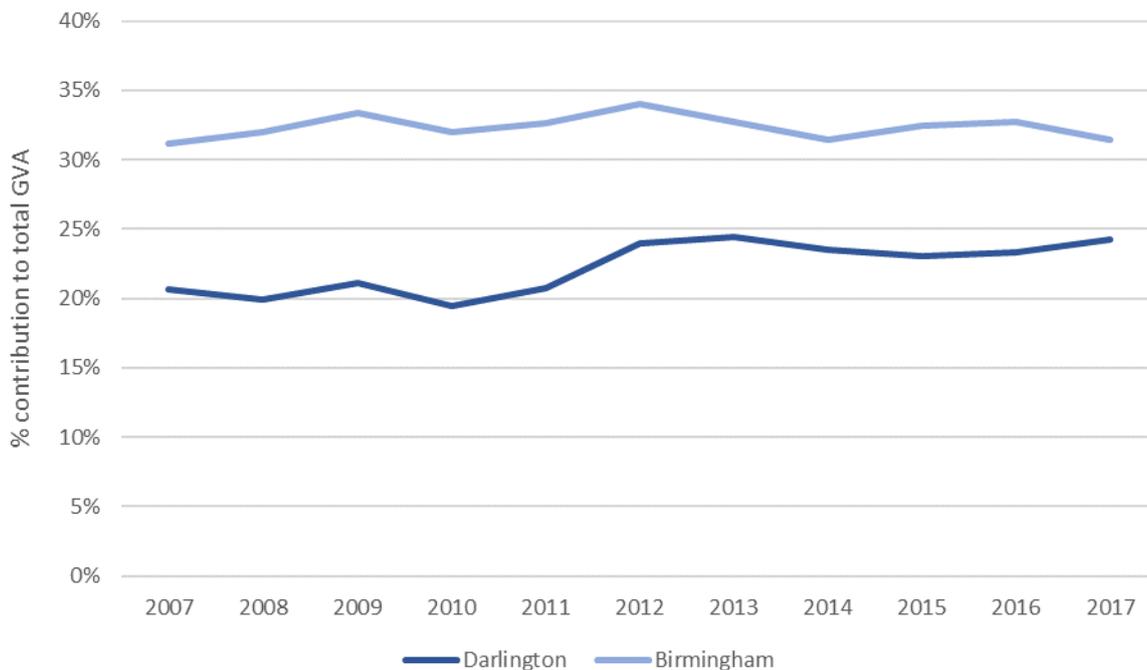
|  | Birmingham | West Midlands CA | Darlington | Tees Valley CA | England |
|--|------------|------------------|------------|----------------|---------|
| <b>Jobs (ONS, 2017)</b>  |            |                  |            |                |         |
| Jobs Density   | 0.79       | 0.76             | 0.83       | 0.69           | 0.85    |
| Managers, Directors & Senior Officials, % (SOC1)               | 9.5        | 9.1              | 10.0       | 8.3            | 11.2    |
| Professional Occupations, % (SOC2)                             | 19.2       | 17.7             | 17.3       | 18.1           | 20.3    |
| Associate Professional and Technical Occupations, % (SOC3)     | 13.0       | 12.5             | 12.2       | 11.8           | 14.6    |
| Administrative and Secretarial Occupations, % (SOC4)           | 10.1       | 10.7             | 13.0       | 10.3           | 10.3    |
| Skilled Trades Occupations, % (SOC5)                           | 8.9        | 10.2             | 8.1        | 10.9           | 10.2    |
| Caring, Leisure and Other Service Occupations, % (SOC6)        | 8.2        | 9.4              | 11.0       | 11.6           | 9.0     |
| Sales and Customer Service Occupations, % (SOC7)               | 8.1        | 8.1              | 9.2        | 8.9            | 7.4     |
| Process, Plant and Machine Operatives, % (SOC8)                | 8.7        | 8.5              | 7.2        | 7.7            | 6.2     |
| Elementary Occupations, % (SOC9)                               | 13.5       | 13.0             | 11.9       | 11.9           | 10.4    |
| <b>Industry (ONS, 2017) employment (selected sectors only)</b> |            |                  |            |                |         |
| Financial and insurance activities                             | 4.3        | 3.1              | 4.6        | 2.3            | 3.6     |
| Real estate activities   | 1.6        | 1.5              | 0.7        | 1.6            | 1.7     |
| Professional, scientific and technical activities              | 9.3        | 7.3              | 8.2        | 7.0            | 9.0     |
| Administrative and support service activities                  | 8.7        | 9.2              | 7.1        | 6.6            | 9.2     |
| <b>Earnings (ONS, 2017)</b>                                    |            |                  |            |                |         |
| Median Gross Weekly Pay, full-time workers (£) - residents     | 523.0      | -                | 502.6      | -              | 555.8   |
| Median Gross Weekly Pay, full-time workers (£) - workers       | 549.4      | -                | 490.4      | -              | 555.8   |

**Figure 5: Comparison on GVA of PBS sector at current basic prices 2007-2017 in Darlington and Birmingham**



Source: ONS Regional GVA (balanced approach), chain volume measures 2007-2017

**Figure 6: Comparison of percentage contribution of PBS Sector to total GVA at current basic prices, 2007 to 2017 in Darlington and Birmingham**



Source: Source: ONS Regional GVA (balanced approach), chain volume measures 2007-2017

## 4. Key findings

This chapter presents the key findings from this study, based on the evidence from the literature review and the themes emerging from the interviews and focus groups conducted in Darlington and Birmingham. The research findings are presented in a systematic way, addressing the nine research questions in order.

### 4.1 Contribution to driving business growth in other sectors

In this section, we describe the contribution of professional and business services in supporting the growth of businesses in other sectors within our two case study areas. It addresses the following research questions:

- How can PBS firms help the growth of local non-PBS firms, for example through masterclasses, mentoring, and advice on recruitment, training, advertising, marketing, accountancy or legal issues?
- How can PBS firms help local non-PBS companies to increase export opportunities?
- How can PBS firms help local areas to increase non-PBS inward investment from elsewhere and improve their wider economic and social infrastructure?

It is important to note that the respondents found it difficult to assess the impact their companies had and – as suggested by the academic literature – PBS is a difficult sector to measure in productivity terms. To some extent, this is due to the way companies collect and utilise performance data, which is rarely on a geographic basis, and more likely to be associated with functional team and project delivery. In performance terms, location performance is rarely a monitored target. Productivity is seen by the sector as better utilisation of staff, with measures such as income, charge out rate, recovery rate and amount charged out per person.

National statistics on productivity allocate activity based on PAYE and profit estimates, which this project ecology structure would not conform or be described by. This has implications for productivity measures, how accurately they reflect the sector and how useful they are as a measure. This is especially so for large cities such as Birmingham, where companies could not say exactly how many people worked out of an office at any one time, as staff moved fluidly between teams, locations and clients. This makes it difficult to estimate wage levels accurately beyond PAYE, and to identify where the nominated ‘base’ of the employee may be, rather than where they live or work from. In addition, profit levels are rarely reported at a local level but rather through head offices. This is worth bearing in mind when planning place strategies or monitoring the performance of the sector. Further research would be needed to understand whether the productivity differentials are real or a feature of the way the data is reported or estimated.

#### Wider literature and policy context

The review of the wider literature has shown that most member economies of the OECD have, or continue to, intervene in the provision of professional and business services to SMEs (e.g. Mole and Bramley 2006). While the provision of government non-financial business support in England has taken a number of forms over the past forty years, it has consistently aimed at building the market for professional and business services by supporting demand by non-PBS

firms. Government interventions have included providing information on the benefits of using PBS and subsidising the provision of business advice either through providing grants to buy consultancy services from the private sector (e.g. Enterprise Initiative between 1988 and 1994) to directly intervening in the provision of services that demonstrated the benefits of seeking external advice (e.g. Business Link network between 1993 to 2011).

The economic rationale for government intervention in the market for professional and business services has evolved and become more nuanced. UK businesses were seen as less competitive because they were considered to be not seeking appropriate external advice and support from PBS firms. There were market failures in the supply and demand for professional business advice and information failures in that professional business services are an experiential good. Market failures on the demand side included: firms being unwilling to pay for business support services, uncertainty in the minds of small firm owners regarding both the quality and usefulness of business advice, small firms often lacking the resources to analyse their problems and derive solutions and small firms focusing on survival rather than on development. Market failures in terms of supply-side issues included: perceptions of quality, location of consultants and business services being geared towards large firms. The benefits to owner-managers of the firm of using PBS only become clear through using them to address specific issues their business is facing. There were also concerns about institutional failures in government-funded business support services, which included diversity in services provision leading to inconsistency; duplication of services; perceived need for a one stop shop and a lack of economies of scale and scope. This formed the basis of the original economic rationale for the Business Link network, which was developed to encourage SMEs to use business professional services by demonstrating their value to businesses through subsidising provision that was impartial.

The evaluations of the Enterprise Initiative (Wren and Storey, 2002) and Business Link demonstrated the benefits of seeking external advice to individual firms assisted as well as underlining wider economic benefits (PACEC, 1998; Roper et al, 2001; University of Warwick, Aston and Kingston Business Schools, 2006). Nonetheless, there were concerns about Business Link potentially crowding out private sector provision and the service was reconfigured in 2001 with licence holders being required to provide information-diagnostic-brokerage model in which Business Links ceased to provide ongoing business support beyond diagnosing needs and the development of an action plan. Instead, companies were advised of relevant professional and business sector firms that they might approach for assistance. Responsibility for Business Links was transferred to Regional Development Agencies (RDAs) in 2003 to allow innovation at the regional level in line with the business support simplification agenda. The network was then closed along with Regional Development Agencies in 2011. The provision of information and online tools continues on GOV.UK. Responsibility for more placed-based policy interventions to support the use of professional business services by firms now rests with Local Enterprise Partnerships in England.

The 2010 White Paper '*Local Growth: Realising Every Place's Potential*'<sup>14</sup> announced the creation of Local Enterprise Partnerships (LEPs) with 24 initially approved from 62 proposals that were assessed against four criteria (support for business, natural economic geography, local authority support, and added value and ambition) and a further 15 subsequently approved. While LEPs took on some of the responsibilities of RDAs including the provision of non-financial business support, central government retained some responsibilities previously held by the RDAs including inward investment, innovation and access to finance. Like previous initiatives such as Business Link, LEPs have a board that must be chaired by a business person and half of their members must be from the private sector. While there was some direct

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<sup>14</sup> Available at: [www.gov.uk/government/publications/local-growth-realising-every-places-potential-hc-7961](http://www.gov.uk/government/publications/local-growth-realising-every-places-potential-hc-7961)

central government funding at the beginning to support set up and capacity building (Ward, 2017), the activities of LEPs are funded through bidding for Challenge Funds including the Regional Growth Fund, Growing Places Fund, the Single Local Growth Fund, and the Growth Deals and EU Structural and Investment Fund. The requirement to bid for funding is in line with a place-based approach: the development of bids supports the development of local innovative solutions and service configurations designed to meet the needs of local areas. This is reflected in how the business support services provided by Growth Hubs are configured differently in each LEP based on analysis of local needs.

A number of sub-regions have undertaken an analysis of the strength of professional and business service sectors and why companies should locate in their area including the City of London, Birmingham, and Leeds, for example. The City of London report (2018) is set out by policy themes. These include: achieving the best regulatory framework in the UK and with the EU, retaining and growing inward investment in financial and professional services; strengthening international market access; supporting UK innovation; and promoting inclusion and growth. The West Midlands Tech Deep Dive report into the region's technology and digital sector and the Business and Professional Services deep dive<sup>15</sup> are set out against the Treasury's productivity drivers and examine barriers and opportunities for growth and public intervention within the region. Generally, there has been a focus on financial firms more than the wider PBS firms in the documents reviewed.

Feser and Proeger (2018) identified from the literature the following factors that influenced owner-manager willingness to use knowledge-intensive business services:

- size, which affects internal capacity to work with Knowledge-intensive business service (KIBS) firms
- proximity
- stage of business growth
- ownership structure
- technological complexity of their product or service
- human capital within the firm
- market penetration.

## Research findings

The role of the sector as an intermediary in accessing public sector incentives and interventions was a critical aspect in the policy focus groups. Local delivery agents saw the sector as a vehicle to delivering change within the wider business ecology.

They highlighted the importance of PBS as levers, for instance accountants and lawyers have specialist knowledge and skills and have a portfolio of clients and can change business operations through their day to day service delivery. This can include becoming experts on new regulation or developing an intricate knowledge of tax incentives and other government schemes such as R&D tax credit. The second lever is the ability to connect individuals in their network or foster collaborations between clients where there is mutual business opportunity.

Equally, this ability can work in reverse. If the local PBS sector does not have the skills or expertise it can hamper the local business base. PBS firms in Darlington are often very

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<sup>15</sup> Riley et al, 2018.

traditional businesses who may not invest in developing this knowledge. This lack of willingness or resource capacity to stay current with developments has led to loss of opportunities within smaller towns like Darlington. For instance, the banking sector in the North East is less well equipped to understand and support businesses that lack intangible assets as collateral.

## 4.2 How local are PBS firms?

The literature review highlighted that the degree to which firms are embedded in a local regional economy impacts on their potential to support the region to grow. Therefore, this subsection explores how localised professional business services are in Birmingham and Darlington.

### The case for localised professional business services

The interviews revealed the importance of local, face-to-face networks. Typically, interviewees reported that their PBS firm was based, or opened an office, in their respective regions to be near to the client:

“It is important to have a regional presence because of the nature of recruitment – it is about people – need access to talent and clients in different areas” (Interview, Birmingham Recruitment business).

“Property is a global business but it is necessary to have people on the ground in particular places - most of Birmingham office work is within an hour's drive - Stoke, Banbury, Cheltenham. Nottingham” (Interview, Birmingham Property Business).

Interviewees also indicated that distance is less of a factor in the business decision to take on clients, as it is now the norm to travel to your client when necessary, and clients have an expectation of online communication and no longer perceive the need to be near to benefit from the advice.

#### **Case study: Importance of local relationships - Darlington accountancy firm**

This firm has two sides to its business – both with very different client geographies. The one side is more of a traditional accountancy service, with very few clients outside of the UK – in fact, the majority are within a 40 mile radius. They find that their clients tend to want to be close-by to their accountant and value face-to-face meetings. The other side of the business is based on one of the partners’ specialist knowledge and experience of Foreign Direct Investment (FDI). Building on this niche specialism, the firm provides advice to overseas clients on understanding UK state rules and how to approach applying for FDI grants. This stream of the business is smaller but highlights that not all PBS business is based on local relationships and services can be very diverse even within a single company.

### Size and nature of local market

Smaller local markets may be associated with a more traditional service offer and more dependent on social ties between PBS firms and their clients. In Darlington, the social ties between a PBS firm and its clients tend to be strong and a more ‘traditional’ service is provided.

In Birmingham, non-PBS firms have greater access to niche and high-value expertise. The service they receive may be managed by an account manager, who selects the right advisors from their firm's network of national or international experts.

In Darlington the PBS firms interviewed mainly focused on the local market:

“Clients tend to be regionally based in the Tees Valley, although there are some national clients (20%) and they are also looking at the international market (5%). I find that clients often like to work with local agencies that are just round the corner. However, this doesn't always work. There was a local hotel in Darlington who recently procured a London company, despite our assurances that they would be advantaged because we were just up the road” (Darlington Web Agency).

Amongst the PBS firms interviewed in Birmingham, there was greater variation in the location of their customers. Larger PBS firms reported having a greater national than local presence, with less than 50% of their clients being local. This reflects the national distribution seen earlier. On the other hand, in Darlington interviewees generally stated their clients were local, with some niche companies serving a UK market.

This can be seen in how the sector markets itself:

“The majority of clients are from the local Darlington area, they market the firm as a ‘community solicitor’ based in the town centre. But the firm as a whole deals with many national cases and has a strong reputation for many high-profile cases” (Darlington law firm).

Conversely, firms based in Birmingham market themselves as “international” and as part of their feedback on how the public sector can support them, they emphasised the need to “change the place narrative” as the services offered were high value and high impact in nature.

## Trust

For owner managers of non-PBS firms to take necessary actions identified by PBS firms to grow and develop their business they must have trust in the advice and other services provided. The adage that people buy people holds true. The development of trust, social bonds and satisfaction in the client firm encourage commitment to the relationship by the client which can be affective (liking and identification), calculative (instrumental and transactional) or normative (obligated) and leads to loyalty (Cater and Zabkar, 2009) and by extension willingness to act on recommendations. Face-to-face interactions strengthen the development of trust and social bonds (Cater and Cater, 2009). This was reflected in our interviews with PBS firm representatives in both Darlington and Birmingham:

“Very much a people business – like to meet and have face-to-face with clients” (Darlington Accountancy Company).

“Majority of clients are from the local Darlington area, they market the firm as a ‘community solicitor’ based in the Town centre. But the firm as a whole deals with many National cases and has a strong reputation for many high profile cases” (Darlington law firm).

“Being near to our key clients is a key advantage of us being here... our industry is still very much a people business and we need that interaction” (Birmingham Law Firm).

Trust and social bonds developed by good client management and interpersonal skills positively influence affective commitment, which is strengthened by face-to-face exchanges (Cater and Cater, 2009).

## New business dependent on local networks

New business for PBS firms often comes through reputation and word of mouth through personal networks that are frequently rooted in a locality. The absence of formal networks, or where they are ineffective, means that non-PBS firms resort to using local informal networks, which whilst reducing search costs, can foster the diffusion of negative experiences and scepticism towards the use of knowledge-intensive business services (Feser and Proeger, 2018).

## Projects create their own ecosystems

The support provided by PBS firms to non-PBS firms may be part of a project or series of projects, such as the development and launch of a new product, which tend to happen in a specific geography. Grabher (2002) termed this 'project ecology', which includes the interdependencies between projects and particular firms, personal relationships, localities and networks. There are advantages in project partners being co-located but this is not always required depending on the type of knowledge and expertise individual PBS firms bring to the project partnership. Projects may also be short-term and expertise moved around to different projects geographically and based on client's needs, this may or may not need a physical location. Examples of projects given were generally not R&D intensive, which as highlighted earlier, provides the greatest impact on GVA and companies highlighted that driving client demand for innovation can be an issue.

As a result, clients are highly distributed and adhere to this project ecology process. For example, in Birmingham the average percentage share for the geography of clients is local: 40%, national: 52% and international: 8% (however, large variations in the local and national numbers by companies exist). This reinforces the qualitative responses about clients being 'anywhere in the UK' and needing to offer a highly mobile service through mobile staff.

## Use of para-professionals

Para-professionals (related technical staff) are used both to manage costs and to make the best use of more qualified staff:

"Paraplanning – technically a financial advisor could do it – but would take them twice as long – helps the advisor get through more clients and cases" (Darlington Paralegal firm).

## Impact of technology on client communication and proximity

Face to face contact continues to be critical in building and maintaining productive relationships with clients, which tends to favour proximity. However, SME clients have increasingly become more accepting of online B2B communications and may develop a degree of e-loyalty to their professional service provider. This allows PBS firms to maintain and develop relationships with their client but this still depends on developing trust through face-to-face contracts and the quality of the platform they use for their electronic communications (Kingshott et al 2018). Our interviews in Birmingham and Darlington both found a shift towards greater use of technology leading to higher quality but less frequent interactions, supported by email, calls, and video-conferencing. Also, reported was the changing nature of their client

base, as services are moving up the value chain in terms of requirements, clients are prepared to access services from a wider geographical area to get the best service. Technology has enabled PBS firms to have a greater client reach and maintain the quality of the interaction, especially as different communication technologies and platforms are becoming the norm.

The critical difference in terms of proximity is the absence of large PBS firms in Darlington; larger firms use more technology for communication and have a wider geographical footprint. This enables them to have a more specialised offer, and technology ensures that specialism is accessible to a wider market.

The increasing role of technology, often adopted to support greater efficiencies, is impacting on, and may be at the expense of, the PBS firm relationship with its client, if not properly managed: “The focus in banking and other service sectors has also needed to shift to correctly configure the technological supported elements of the relationship, namely ensuring their online and mobile interfaces meet the needs and satisfaction of the customer” (Kingshott et al., 2018:57).

#### **Case study: Impact of technology - Birmingham recruitment firm**

This firm has automated the management of the temporary staff they provide for their clients, through the introduction of digital scanners for ‘clocking in’ and out. This has enabled clients to keep track of their ‘minute level costs’ and ensure accurate billing on a basis agreed with the client. Clients have benefited from reduced costs, as well as, raised productivity. Meanwhile, the employee has benefited from no longer being required to submit time sheets, reducing costs for the recruitment firm in terms of reporting, payment and administration.

#### **Case study: Drivers of technological innovation - Darlington architectural engineering firm**

The firm provides architectural and engineering services across a range of sectors, including retail, commercial, leisure, and health care. They employ ten members of staff, but pre-recession employed 23 members of staff, so have recently been exploring ways to innovate and continue to grow. Their competitive advantage is based upon providing good quality service, consistent design, efficiency and understanding their client needs. Recently they have invested in knowledge transfer with Teesside University to make their systems ‘BIM ready’. BIM (Building Information Modelling) is an intelligent 3D model-based process that gives architecture, engineering, and construction (AEC) professionals the insight and tools to more efficiently plan, design, construct, and manage buildings and infrastructure. This is partly driven by them wanting to protect their competitive advantage, but also it was in response to the UK government having set a timescale to introduce BIM by 2016. The firm invested early to make sure they were ready and so were frustrated when the policy did not come into effect.

### **Importance of perceived value**

Of greater importance than proximity to the client is perceived value, which is an important part of a service offer. Location and place can come into this, although currently it is not recognised in the academic literature in this way. Perceived value in this sense is more than value for money; it includes perceived reputation, corporate credibility, and relationship quality. Both Birmingham and Darlington companies described this place value phenomenon as their

position in a perceived value chain. Clients expect that as the service becomes more 'difficult' or 'higher value' it will travel up that place-based value chain. So although Birmingham companies know that the city is the only place outside of London where you can receive a 'full service' offer, client perception demands more difficult or bigger work goes to London. In reality - with the exception of a few areas related to hedge fund management, raising finance and wealth management - the work could be delivered in Birmingham. There was some evidence that because of the nature of 'project ecology', work would "end up back in Birmingham". Darlington firms also see themselves in this value chain, but in a different position, in that more valuable work moves up the chain to Leeds or Newcastle. In this case, however, this is more likely to happen than in Birmingham because of a genuine lack of skills, the type of companies, the depth of sector expertise and skills; and may therefore not just be a client perception.

### **Case study: Perceived value - Birmingham legal firm**

This firm has offices across a national network. However, their clients assume that there are higher skilled people in London, more able to deal with complex issues. So, although the firm has offices across the UK and a full-service offer in Birmingham; clients often want the 'London Office' to deal with them. Increasingly, the real specialist is anywhere in the UK, including Birmingham, where the charge out rate is lower. This potentially increases the legal firm's margins when their service is delivered by staff outside London.

The sense of being part of the immediate community was part of the perceived value that PBS firms in both places highlighted and believed they offered their clients:

"Darlington has very much a community feel, everybody knows, everybody. It is very collaborative in terms of wanting to improve prospects in the area. Need everyone to shout about the region and pull together" (Darlington Recruitment Firm).

In Birmingham interviewees highlighted the impact they were having on the place, including the significant regeneration of the city centre around the business improvement district. This is affecting retail, commercial property, road and rail and local services. The role of the mayor was seen as critical for the generation of a perception of "good place". A finding that was consistent in both places:

"Andy "bangs the drum" and puts the region "front and centre" (Birmingham Advertising Company)...

"Need to put more money in Andy Street – invest locally – giving more control of own destiny – encouraging more businesses to invest outside of London" (Birmingham Property Consultancy Firm).

"The Tees Valley Mayor is having a big positive impact – giving regions more autonomy and power in this way is positive – he shows no visible party allegiance – has become a big advocate for the Tees Valley in Westminster. Has set up the South Tees development corporation – bringing business leaders together with international delegations – in an attempt to secure big projects" (Darlington Recruitment Firm).

## The impact that the firms have on their local regional economies

“In regional innovation systems, Knowledge-Intensive Business Services play a crucial role in distributing innovations and improving the region’s overall innovative capabilities” (Feser and Proeger, 2018:62).

Knowledge Intensive Business Services (commonly known as KIBS) are services and business operations heavily reliant on professional knowledge. They are mainly concerned with providing knowledge-intensive support for the business processes of other organisations. In their review of the literature on the contribution of knowledge-intensive business services (KIBS) in supporting innovation in individual firms and the wider innovation system, Feser and Proeger (2018) identified:

- KIBS act as an important conduit for both the transmission of codified and tacit knowledge to clients, thereby, supporting their clients to innovate as a precursor to becoming potentially more competitive
- KIBS are dependent on good networks to both disseminate innovation and human intensive interactions to build their knowledge stock.
- The use of KIBS is suboptimal due to their services having properties of a credence good (requires faith from the buyer)
- Entering into a collaborative project with a KIBS often results in the client firms achieving higher sectoral productivity
- The client and service provider can both mutually benefit in terms of innovation and human capital.

PBS firms interviewed were often more concrete in terms of the benefits they created for non-PBS firms in the area such as bringing footfall to other local PBS firms located nearby:

“How do legal firms help non-PBS firms and the local economy? [Beyond their client offer?] Every time a client comes to the town centre to come to the office for legal advice, they might pop next door for a coffee first or go into a shop” (Darlington law firm).

It is also common for firms to use the local hotel and catering industry to carry out corporate entertainment. As a result of this, the business tourism sector in Birmingham is high value. This increases hotel stays and spend as well as sustaining a number of Michelin starred restaurants and high-value corporate entertainment venues. Overnight guests to the city increased 44% over the period 2013 to 2017 (The Telegraph, 2017). In Birmingham there was also a sense of the sector driving regeneration and development, with companies often pointing to the redevelopment of central city locations such as Paradise Circus, Centenary Square, and Snowhill, creating high value office space, significant urban landscapes and road infrastructure alongside retail and food investment.

However, regional embeddedness varies and is not something the firms either monitor or track. This was demonstrated by interviewees in large firms being unable to easily say where clients are as this is not a key performance target. The higher up the value chain the client is, the less likely they are to be serviced locally, or the greater the likelihood of them going outside of the local area for PBS support. Although, as highlighted earlier, this may occasionally be the case in Birmingham; this is more of a rule for smaller places such as Darlington. Therefore, a smaller PBS sector may have a lower impact on regional economies if local firms source services outside when the support does not exist locally or they do not seek the support at all.

Professional services firms and staff are not necessarily tied to the geographical footprint where they are located and are highly mobile, both in terms of staff and functions. This puts a greater emphasis on places needing to create attractive environments for the sector; in terms of access to skilled labour and high-quality building infrastructure and transport (nationally and internationally). Smaller places often do not have the capacity or infrastructure to attract the firms or staff found in larger cities.

Additionally, the PBS firms were found to not always procure additional services locally. This was particularly the case for larger, regional flagship firms that typically control their procurement from their HQ.

## Improving performance in other sectors

The growth of the PBS sector is linked to improved performance of non-PBS firms they assisted: they lose potential business if their clients fail and gain business both directly and indirectly when they grow or enter new markets. The consequence of this is that all income, wage, and profit of the sector might be said to be attributed to the growth of other sectors they service or increased growth of other businesses within the sector. However, this is difficult to quantify directly and the nature of value chains and supply chains in relation to client delivery means impact can be felt outside the place where the company is based. As explored elsewhere in this report, the nature of the occupations in the sector also means that highly skilled people in transferable occupations also move into and out of clients' firms, improving the performance of other companies, for instance a finance director moving from a large accountancy firm into a large manufacturing firm. A large construction firm interviewed stated they had over 900 staff in PBS occupations in a shared service centre which is larger in function and employment terms than many companies directly classified in the sector. Also, the nature of the firms' supply chains and client bases mean the impact can be felt outside of the region. [Section 4.4](#) looks in more detail at how the sector offers 'business support' relative to the public sector.

It was difficult to ascertain from the research the direct impact that the PBS sector has on other sectors for two reasons. First, the PBS companies themselves did not see it in these terms. For instance, the PBS firms certainly did not categorise or structure their activity in terms of impact on other sectors. Second, it was difficult to engage with firms outside of the PBS sector – we found that they were reluctant to give up their time to potentially support a funding case for another sector.

## Speed of delivery

Interviewees mentioned performance improvement in clients due to improved speed of delivery:

“A typical productivity gain for a client from the company's services is the speed at which a building can be sold or let - as this means there is more income coming in” (Birmingham property company).

Other examples include helping to speed up recruitment, reduction in processing times for contracts, the speed of invoicing and billing or managing and handling data. These services are offered to the client and are also part of their own performance improvement.

## Cost savings

PBS firms also improve the bottom line for clients through identifying and delivering cost savings due to being able to offer economies of scale and scope:

“Another productivity gain for clients is the cost savings that the business can generate through economies of scale in terms of access to property services - e.g. power, security services” (Birmingham property company).

## Adding value by providing wider services

Rather than provide a transactional service such as developing a website, interviewees referred to the value they added by considering the wider needs of their clients:

“Help local firms and the local region by not just building a website but the whole digital marketing platform around that, which aims to increase the firm's exposure and ranking” (Darlington Web Design Firm).

## Collaboration

One response to challenges is to form collaborative ventures. The performance of PBS firms is dependent on collaborations between PBS and their customers and PBS firms and their suppliers (Heirati et al, 2016). To respond to more competitive environments and more demanding customers, PBS firms increasingly have to look outside of their own resources and identify opportunities for collaboration to maintain a competitive offer which is responsive to the increasing complexity of their client's needs (Zaefarian et al 2013) often as a result of increasing specialisation of their clients to stay competitive in their sector. They may enter into partnership with other PBS firms to provide more tailored services but the success of such collaborations is dependent on each partner providing complementary resources and a commitment to knowledge sharing and learning. Similarly, PBS firms also need to learn from and be willing to collaborate with their clients to create the service that meets their expectations and some customers may be in a better position to provide a steer on the design and delivery of the service. Not only are clients the best source of information regarding their needs, they are a valuable source of ideas for new service products (Noordhoff et al, 2011). However, in smaller business markets such as Darlington there are constraints on this and the demand for innovation is low and innovative clients may not be present. Lack of competition constrains the client base and the sector's ability to innovate, whereas highly competitive environments such as London demand innovation activity to keep pace. Heirata et al (2016) suggest that competitive intensity and environmental turbulence are important drivers of the quality of collaborations and resulting services. They define environmental turbulence as the degree and frequency of changes in customer preferences and the unpredictability of technological change in the PBS firm business environment. To increase the likely success of a collaborative venture, PBS owner-managers have to maintain a deep understanding of their market and be willing to orientate their activities with the aims of their intra-firm collaboration. Collaboration is more likely to fail where there is a high level of environmental turbulence, especially where managers feel a sense of urgency and favour quick results placing pressure on their partners to produce immediate results, or switch to different partners (suppliers).

Both places emphasised the collaborative nature of the sector locally and inability to act as a network for the good of the client:

“Work can be passed around, either up or down the value chain or across professional groups, for instance, we don't do legal issues but would pass our client to a local law firm” (Birmingham Insurance Firm).

This collaboration was emphasised across subsectors:

“Work with other web design agencies in the Tees valley – one that offers more standardised designs will refer or subcontract us to produce a more bespoke design” (Darlington Web Design Company).

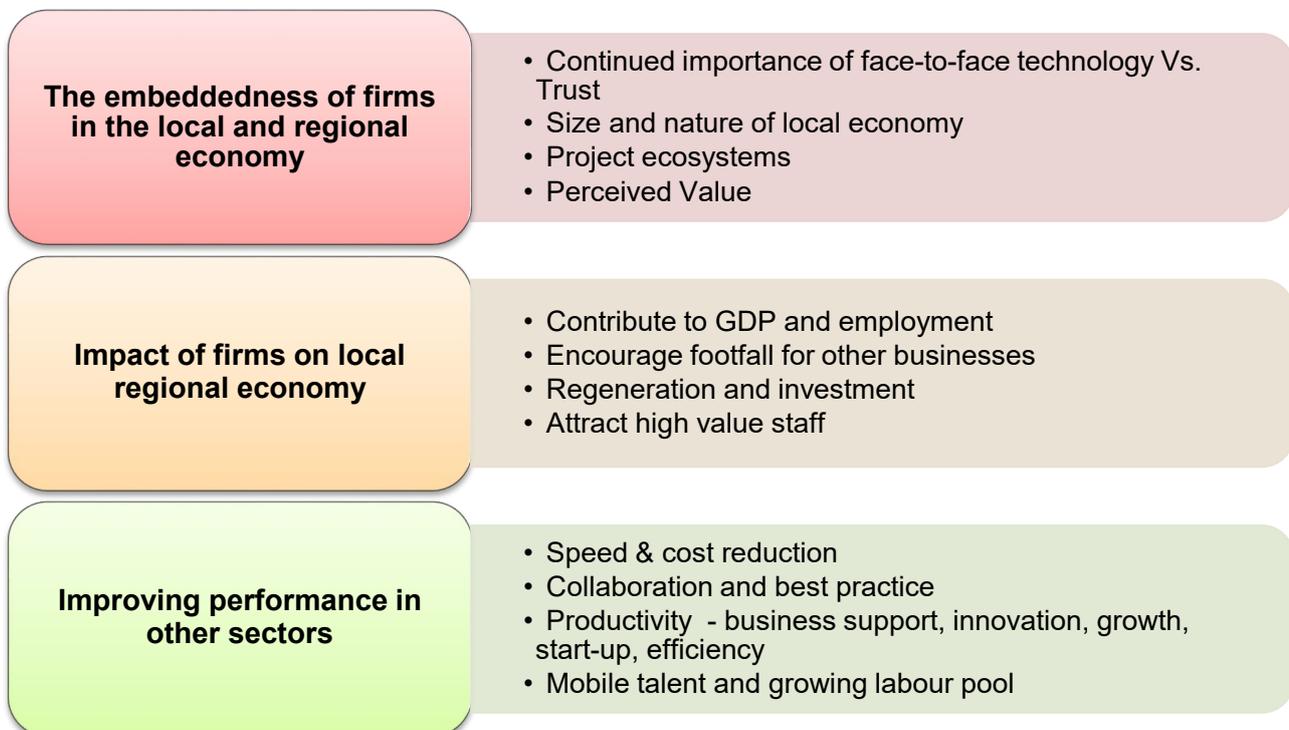
“Collaborative – getting on and doing it – next door to an accountant – aligning with them and other similar professional services” (Darlington Head Hunting Company).

This may suggest that national data on client input and output may mask end client demand. It was common for respondents to perceive they had low supply chain connections however it is common for firms to use specialists, interims and associates on a project by project basis and although there may be one end client, there may be many SME or self-employed inputs to a project.

### Development of mobile talent within the region

There is evidence of staff moving into different sectors especially at senior levels in Birmingham, often into clients’ companies. Most companies saw this as beneficial and considered former colleagues as clients. Highly trained accountants for example moving into Tier 1 and 2 manufacturing companies is common. This improves performance in the wider business sector, through the transfer of skills and expertise gained in a competitive PBS environment. However, in Darlington one member of the policy focus group highlighted the lack of a career path in the PBS sector locally as their reason for moving into the public sector. This may indicate that smaller places may find it more difficult to sustain the local ambition, which could result in people moving out of the sector (or area).

**Figure 7: Contribution of PBS in driving business growth in other sectors**

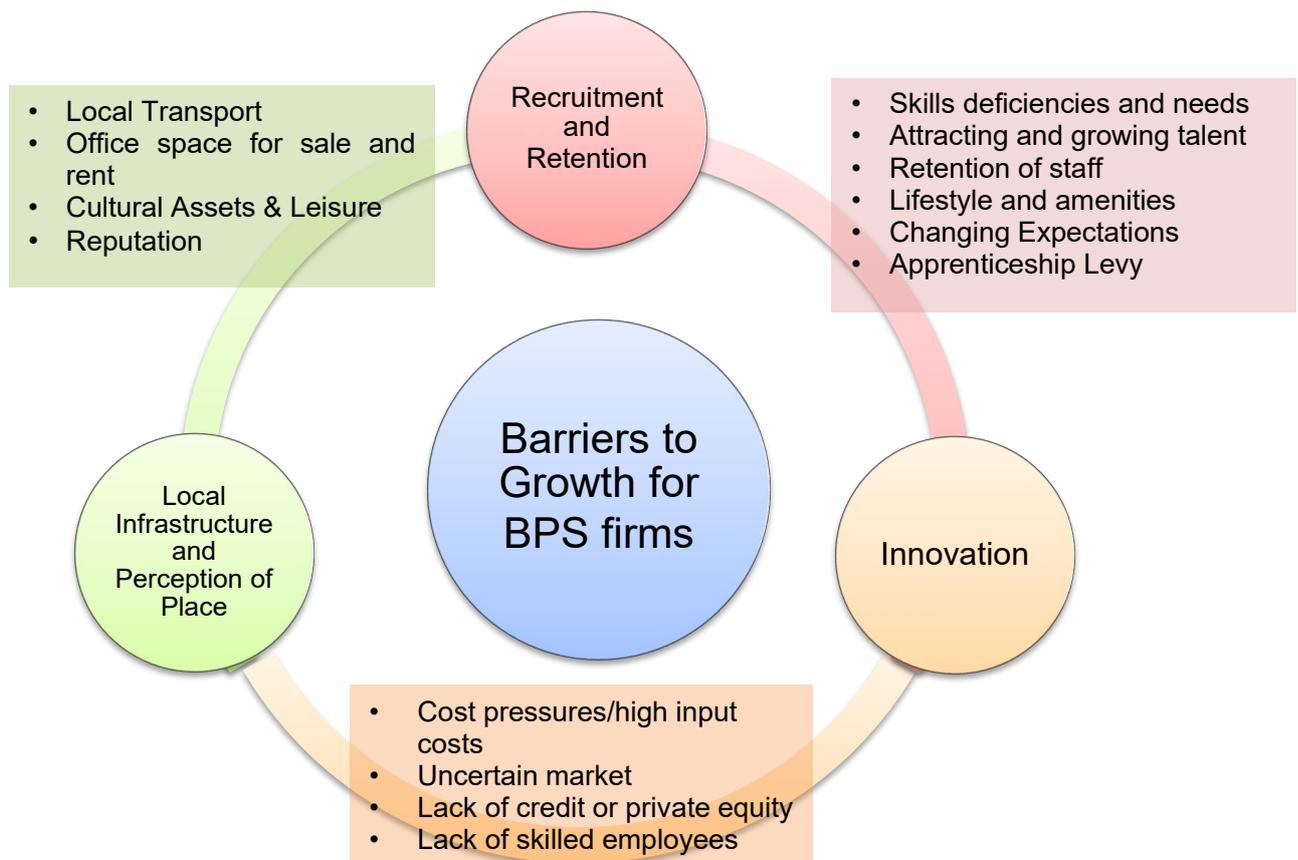


Source: The authors

### 4.3 Barriers to growth

The aim of this section is to understand the barriers to growth that exist in the PBS sector. The research found that the barriers to the growth of PBS firms in Darlington and Birmingham are generally similar, although they vary in terms of local context and scale. Consequently, when the interview participants were asked to outline the three main challenges currently facing their firms, there was considerable overlap in the examples identified. The four most common challenges and thus the focus of this section are: (i) recruitment, retention, and training of staff; (ii) local infrastructure; (iii) perception of the sector; and (iv) barriers to innovation (Figure 8).

**Figure 8: Barriers to growth for PBS firms**



Source: The authors

Additionally, there are the impacts of the economic uncertainty relating to Brexit, as well as firm-specific challenges which the research identified. For example, one Darlington law firm identified succession of ownership as an issue and a cause of uncertainty for them. Similarly, a Birmingham law firm explained that their “No win, No Fee” policy created challenges for them in terms of cash flow.

All of the PBS firms that were interviewed identified recruitment and the retention of staff as a key challenge they are currently faced with, as they struggle to find the right people, with the right skills and experience and then keep them. [Section 4.3.1](#) explores this barrier to growth, whilst highlighting the main areas of similarity and contrast between Birmingham and Darlington. [Section 4.3.2](#) extends the discussion around skills with a focus on the Apprenticeship levy within the sector, which the research participants identified as sub-optimal in its current form for skills development.

The recruitment and retention of staff in Darlington and Birmingham PBS firms is impacted by the local infrastructure and place branding, which influences whether they are perceived as an attractive place to live and work. This too can impact on investment decisions and the attitude of prospective clients towards the firms. Additionally, there are misconceptions around the nature of work in PBS firms and the variety of jobs available, which influences the number of graduates and young people drawn into the sector. [Section 4.3.4](#) focus on these two challenges respectively. [Section 4.3.3](#) focuses on local infrastructure and place, presenting the hard and soft infrastructure needs of Birmingham and Darlington for supporting the growth of the PBS sector.

Another challenge identified by the PBS firms in the two areas is barriers to innovation, which include cost pressures, lack of internal finance and lack of skilled employees. [Section 4.3.5](#) focuses on this challenge.

Finally, the research identified the economic uncertainty surrounding Brexit as a significant barrier to growth for the PBS firms in Darlington and Birmingham. [Section 4.3.6](#) explores the nature and complexity of this challenge.

#### 4.3.1 Recruitment and retention challenges

This sub-section is concerned with recruitment and retention challenges which lie at the heart of securing the supply of skills. The discussion of recruitment issues encompasses the quantity and types of skills required by firms and how and from where they are sourced. Retention is concerned with keeping hold of existing staff. Two further cross-cutting themes identified in the interviews as pertinent to both recruitment and retention are discussed also: perceptions of place attractiveness ([see also section 4.3.4](#)) and changing expectations of staff. At the outset, it is worth noting that many of the skills needed by the PBS sector – notably analytical, technical, digital and communication skills – are not unique to the sector. The recruitment and retention challenge therefore not only concerns competition within the sector, but competition from other sectors too – especially for ‘top talent’.

The main areas of similarity and contrast between Birmingham and Darlington, many of which are rehearsed in this section, are summarised in [Table 5](#).

**Table 5: Areas of similarity and contrast on securing the supply of skills**

| Areas of Similarity  | Areas of Contrast  |
|--|--|
| <p>In both Birmingham and Darlington, there is a challenge in recruiting employees with digital skills. This reflects a wider national shortage where PBS firms are competing amongst themselves and with other sectors.</p>   | <p>The different PBS services offered in Birmingham and Darlington have implications for the quantity and range of skills demanded. Individuals in Birmingham have a greater range of specialist options and potential pathways for advancement in the PBS sector – and in related sectors where their skills are in demand, than in Darlington.</p> |
| <p>Firms in Birmingham and Darlington are facing a challenge in recruiting individuals at middle-/senior management levels with around 10 years of relevant experience. This reflects a national downturn in recruitment in the sector in 2008-2010.</p>   | <p>The PBS sector in Birmingham has a number of local universities and colleges from which it can source recruits to the sector. Darlington is unable to draw on local universities as a source of labour supply in the same way.</p>  |
| <p>In the face of recruitment challenges and poaching of trained staff (albeit of different magnitudes in the two areas) PBS firms are increasingly looking to recruitment and development of 'home grown' talent as a key component of their workforce development strategies, alongside recruitment of key skills from outside (where possible). 'Attracting back' individuals with family/ other previous connections to Birmingham and Darlington is another common pillar of PBS firms' recruitment policies.</p> | <p>A key feature of a 'home-grown' talent development strategy in Birmingham is an ability to make the sector markedly more diverse (in ethnic and socio-demographic terms), so adding capacity for 'thinking differently' and for innovation. Darlington has a less diverse local population on which to draw.</p>                                  |
| <p>In both Birmingham and Darlington 'place attractiveness' was reported as rising in importance in the ability of PBS firms to recruit and retain skilled workers. In both places, there is scope to improve place images.</p>  | <p>Birmingham is better placed than Darlington in terms of its cultural, retail and urban amenity offering, which is attractive to younger employees in particular. This is mainly a function of size and a bias in major cultural investments towards large cities.</p>   |

The literature highlights that people are a key source of competitive advantage for the PBS sector (Zupan and Kaše, 2007). Maintaining strategic advantage in the sector and the wider market-place requires recruitment of top quality talent capable of fostering innovation and building relationships with clients (Suseno and Pinnington, 2017; Howden and Pressey, 2018). Analysis of skills requirements at work over time highlights that complex problem-solving skills have become more important (Henseke et al., 2018). This suggests that recruiting people with the requisite skills lies at the heart of a growing and productive PBS sector.

#### 4.3.2 Skills deficiencies and needs

The interviews in Birmingham and Darlington highlighted specific challenges in recruiting employees with digital skills. An IT services company in Birmingham considered that skills shortages were “becoming worse”, leading to a situation where the firm was “competing with other big companies”. In Darlington, a Web Design agency found web designers “particularly hard to find” – especially those with “the right experiences”. More generally, a recruitment

agency in Birmingham pointed to difficulties in finding “the right people to manage the technology”, and “we can buy it from London, but I would rather buy it locally” (Birmingham accountancy firm).

Interviewees also pointed to the need for staff to have “digital skills” alongside more traditional skills, so leading to firms seeking employees with the “right mix of skills”. For example, a Birmingham advertising agency pointed to a lack of commercial skills amongst potential recruits, suggesting that “commerciality is not being taught”. A recruitment firm in Birmingham indicated that it was “hard to find the right people” because although there were highly qualified graduates they often did not have “the required emotional integrity”.

As well as finding the “right staff” (i.e. individuals with a particular suite of skills), some employers faced a challenge in securing the right mix of skills within the firm. Here a common issue was a lack of candidates at middle- and senior management level. As an interviewee from a Birmingham property company explained, while recruitment at graduate or apprenticeship level was not a problem, it was a challenge “at middle tier of middle and senior management”. This could be traced back to not recruiting 10 years ago in recessionary conditions, leaving a gap in the workforce a decade on, as highlighted in data earlier (Figure 2). The result of this specific labour shortage was salary inflation and potentially over promotion, especially at these levels. This was noted to be a problem across the sector, with the “same recruitment issues everywhere”. In Darlington and the North East generally, however, the PBS sector was noted by attendees at a policy roundtable as particularly cost-sensitive. One outcome of this was reported to be insufficient investment in in-work training. It was noted that new talent with specialist skills from outside of the region could really make a difference to a PBS firm/ the PBS sector, and in turn, this could support non-PBS sectors. An example was given by a law firm that effectively captured the market by recruiting someone from outside the region with R&D tax credit knowledge.

### **Attracting and growing talent**

In the context of labour shortages and skills deficiencies in Darlington, and a lack of success in attracting talent from elsewhere – in the words of an interviewee from a Darlington accountancy company: “the right skilled people are not coming into the region” – a ‘grow your own’ strategy was identified as an appropriate way forward. A Darlington paralegal firm was “taking on a range of graduates and then training them up – targeting graduates with a range of skills that have the ability to interpret, resource and write”. A Darlington Call Centre was providing training on online customer interactions, as part of a myth-busting strategy to improve the perception of jobs that were difficult to recruit to. A Darlington Architecture firm was looking to recruit people who had lived in the area before. Such ‘attract back’ strategies targeting individuals with connections to the city or region were also used in Birmingham where various firms were also seeking to diversify their recruitment base as part of a strategy to broaden the skills pool, enhance capacity for innovation and to ensure that the staff profile was more representative of the city’s population. Discussions around the perception of place and the impact this is having on attracting and retaining staff in Darlington and Birmingham is further explored in [section 4.3.3](#).

Interviewees in Birmingham saw their most significant recruitment challenge as diversifying the workforce, both to tap into the local labour market, but also to better reflect their changing client base. They saw diversifying as a solution to their innovation constraints and recruitment tensions, which are as acute as the national levels. Firms found they were struggling to attract a diverse workforce, despite the levels of diversity locally in Birmingham. They saw the main barriers in perceptions of the sector as ‘not for me’ or ‘responsible for the [economic] crash’, and in its predominantly ‘white, male and stale’ perception. Although there were examples of

attempts to diversify, these were small scale and within companies; recruitment practices and activities were on the whole not changing the mix to the extent they felt necessary.

### **Retention of staff**

Securing the supply of skills is about retention as well as recruitment. The literature on the sector suggests that loss of key staff impacts negatively on firm performance, through loss of specific skills and tacit knowledge, and individual staff relationships with particular clients (see Biong and Ulvnes, 2011; Kumar and Yakhlef, 2016). Regarding staff relationships with clients, one school of thought suggests that even with greater use of technology in service provision, providers of complex services need to develop relationship proficiency and cannot rely on technology (Schertzer et al., 2013); so suggesting that staff retention is important for developing such relationships. A counter-argument from the literature on management consultancy suggests that “while individual relationships have traditionally been intimate, more instant relationships and knowledge of context is replacing intimacy under increased formalization and goods-dominant logic to ensure co-production” (Skjølsvik, 2016:163). While this counter-argument suggests relationships have become less important, it remains the case that staff retention is important to ensure that firms have a good knowledge of the context in which they operate.

In general, interviewees in Birmingham and Darlington were concerned about retaining staff in order to capitalise on skills developed and utilised, and because of concerns regarding replacement. Poaching was a common concern, with both Birmingham and Darlington interviewees referring to poaching from London and a perception among employees that ‘good jobs’ are there. A Birmingham law firm pointed to London firms poaching staff that they had trained and stated that “Birmingham companies can’t compete with the salaries being offered by London firms”. However, most respondents said salaries were largely comparable with London, especially where there are structured career paths and expected salary rates. The workshop held in Coventry for the earlier WMCA work highlighted that this happened to firms there, where Birmingham pulled staff in from the surrounding smaller cities. An interviewee from a Darlington paralegal firm reported: “retention is hard as people follow the money”, and a Darlington accountancy firm interviewee asserted that people: “leave the North East for the South, for higher salary and to the detriment of the region”. In Birmingham poaching could also be from outside of the sector, especially from large high-profile local employers, with Jaguar Land Rover cited as posing a “big risk” in terms of “losing good and experienced people”.

Not providing training in the face of poaching was a non-starter, given the recruitment challenges faced, workforce development (identified as an imperative in most instances and an aid to retention) and the need to provide a quality service. In view of the difficulty in competing in monetary terms, one PR firm in Darlington had offered perks - such as gym membership and healthcare schemes. Nevertheless, the reality was that the “workforce can still be fickle and follow the large firm big pay packet”.

### **Case Study: Attracting and Retaining Staff - Darlington PR Firm**

This firm had located in Darlington because the owner was from the local area, good office space was available and there was limited competition for PR services, but good transport connections. Recruitment of high quality staff proved problematic, given the growing range of skills required – ranging from traditional journalism skills to digital skills and social media proficiency, given the increasing need to “tell stories digitally” so that they “came to life”. Going to universities and giving guest lectures, blogging and posts on Facebook were some of the channels used by the PR firm to stimulate interest in opportunities. For employees, the firm established a training academy providing seminars to help address skills requirements. Yet, despite the offer of non-monetary rewards (including gym membership and health care schemes), it remained difficult to retain staff because they could earn more elsewhere.

An interviewee from a Web Design Agency in Darlington highlighted careful recruitment as a key to retention, indicating that they would not employ anybody that they did not think would fit well into the team, and also underlined maintaining “a happy and fun environment with a team work ethic”, with social events to help maintain this.

### **Lifestyle and amenities**

Turning to the first of the cross-cutting issues, the relative attractiveness of place – and specifically what it offered in terms of lifestyle and amenities - was highlighted by both Birmingham and Darlington interviewees as a key factor for recruitment and retention. The consensus amongst interviewees was that this was growing in importance, as exemplified by a comment from an interviewee at a Birmingham property company: “Space of work is much more important now for attracting and retaining best talent – gyms, coffee shops, close to other amenities – lifestyle offer is becoming more important”. Importantly the amenities of large cities were regarded as a positive attraction for younger workers. Birmingham firms acknowledged this and benefited from it, whereas Darlington firms lost out, with the town centre deemed unattractive for young professionals, with Newcastle and Middlesbrough seen as more attractive: “junior young solicitors want to be in Newcastle, not Darlington” (interviewee from Darlington law firm). Although Darlington is a relatively cheap place to live, and so workers would have more disposable income than in a city like Newcastle, “it isn’t enough to convince them” to move away from the major metropolitan areas. While Darlington was acknowledged as having good schools, colleges, and transport links, attracting people back after university was difficult. Interviewees considered that the majority of infrastructure investment in recent years had gone to the larger cities in the north of the region (i.e. Newcastle and Gateshead) and from a skills perspective the knock-on effects of this were manifest in recruitment and retention problems. In the West Midlands a similar picture was evident, but with Birmingham emerging as the beneficiary in recruitment and retention terms vis-à-vis other smaller cities and towns in the region. Birmingham could also benefit in terms of new skills from people relocating from London – as the example of a media company shows.

### **Case Study: Capitalising on lifestyle, amenities and local diversity to build the skills required for growth - Birmingham media firm**

This firm had been established by relocation from London. It is an example of those attracted by the prospect of a “house with a garden at a reasonable price” in Birmingham. CVs of London workers with media experience wishing to follow the same path were welcomed as having “a regular pipeline of people from London” was regarded as ideal. Given the reputation of the media industry as “white and middle class” a great deal of emphasis was placed on local recruitment also: “inclusivity and diversity are very important”. In recent years traditional graduate recruits had been supplemented with apprentices from a more diverse range of backgrounds, which has appeared to benefit the company in terms of skills mix and different outlooks offered to clients. This has been part of the efforts to try and reach untapped talent pools, bringing in people with a broader range of experiences and perspectives. Companies have also been more accepting of potential employees with lower grades and are encouraging ‘blind CVs’, in terms of universities attended, to try and reduce unconscious bias. The success of this strategy was such that it was being rolled out from Birmingham to offices elsewhere.

### **Changing expectations**

A second cross-cutting issue concerns changing expectations regarding work-life balance. While some interviewees felt that many young people had “unrealistic expectations” regarding salaries and job content, there was a more general view that the current young generation of workers were less committed to organisational careers than previous cohorts of workers. An interview from a Credit and Customer Management firm in Birmingham referred to younger people as being “less committed to the role, not long-term”, whilst an interviewee from a Darlington law firm expressed a recurring sentiment that increasingly young people “are reluctant to commit to partnership level”. This had implications for recruitment and retention strategies, which were responding by “flexible hours, etc. to suit the younger cohort” (at a Birmingham Credit and Customer Management firm) and a shift to more “mobile working” and “flexible working” at a Birmingham Construction Services firm. This was deemed successful in enhancing retention.

### **Apprenticeship Levy**

Apprenticeships are paid jobs which incorporate on the job and off the job training. They take between one and four years to complete and are available at a variety of qualification levels, from Intermediate (Level 2), to Advanced (Level 3), Higher (from Level 4 upwards) and Degree (at Levels 6 and 7). They are a current skills priority area, with the government setting a target in 2015 of creating 3 million apprenticeships by 2020.

According to an evaluation of apprenticeships policy by the What Works Centre on Local Economic Growth (2015), there is some evidence that apprenticeships improve individual skills levels and stimulate further training. The evidence also shows that they have a positive effect on participants’ subsequent employment. Higher level apprenticeships deliver substantially higher lifetime wages relative to lower level ones, suggesting that the quality and level of apprenticeships matter. Importantly, at the firm level, evidence suggests that participating businesses see productivity and profit gains.

In April 2017 the Apprenticeship Levy came into effect. This involved all UK employers with a pay bill of over £3 million per annum paying the levy, set at 0.5 percent of the value of the employers’ pay bill, minus an apprenticeship levy allowance of £15 thousand per financial year.

The levy was ring-fenced at the outset for expenditure on apprenticeship training and assessment, accessed through an account created with the Apprenticeship Service.

Since the introduction of the Apprenticeship Levy, there has been a reduction in apprenticeship starts, with 290,500 apprenticeship starts in the first three quarters of the 2017-18 academic year compared with 440,300 in 2016-17. Since it was introduced there have been calls for greater flexibility in how employers can spend the levy. In October 2018 the Chancellor of the Exchequer announced reforms to the levy, including permission to transfer a large share of their annual training fund to other businesses in their supply chain, and greater investment to enable a broadening of apprenticeship options, including in STEM subjects.

The interviewees who commented on the levy were overwhelmingly negative. There was a claim from a Birmingham temporary staffing agency that due to paying the levy it could no longer afford to train people and it could not access the levy. In these circumstances the levy was seen as an unwelcome burden, a view endorsed by some policy stakeholders in Birmingham who noted that in a sector such as PBS without a strong tradition of engaging apprentices, accessing the levy was not worth “the hassle”. An interviewee from a Birmingham advertising agency spoke of having to “sacrifice a significant amount of money because of the apprenticeship levy – but the apprenticeships are not suitable for the industry. The concept of an apprentice is very traditional and not fit for purpose for the PBS industry.” On a similar theme, a Darlington architectural services firm complained about the lack of appropriate digital skills in the Architectural Apprenticeship scheme.

However, there were also some positive experiences of using apprentices. A professional consultancy firm in Darlington reported a positive experience of the apprentices that they had recruited following the introduction of the levy, pointing especially to the “Can Do’ approach” of the individuals concerned. Similarly, where large PBS firms in Birmingham had started recruiting and embedding apprenticeships (prior to the introduction of the levy in the case of a Media Company) the individual apprentices were considered an asset because of their “real hunger” for the work and the fact that they were “not above doing anything”. This extra recruitment route also added to the diversity of the intake of staff; this was seen as a key positive factor about apprenticeships amongst the larger companies.

Overall, use of the apprenticeship levy within the sector was sub-optimal for skills development. Yet as increasing flexibilities are built into use of the levy there is potential for PBS firms to promote improved use for skills development and productivity enhancement – within the sector, in their supply chain and by advising their clients in other sectors, as the positive examples of engaging apprentices outlined above illustrate.

Overall, the picture is one of firms facing difficulties in recruiting people with certain specific skills (e.g. digital skills) and individuals with certain combinations of skills. In some instances, this was due to national skill shortages. Firms also faced difficulties in retaining sought-after skills and referred to poaching by firms – inside and outside PBS sector. In general, firms are better placed to address recruitment and retention challenges in large cities offering a range of amenities attractive to highly skilled individuals but were also seeking to address changing expectations of workers through adjustments to working practices.

### 4.3.3 Local Infrastructure and place branding

Both Birmingham and Darlington interviewees identified local infrastructure as a key barrier to growth for PBS firms. Respondents from both areas identified local transport infrastructure as a barrier to growth and underlined how it has a negative impact on recruitment and investment. In Birmingham, “rail and cross-city links need improvement... it is impossible for someone living in Lichfield to get to Solihull” (Birmingham Recruitment Agency). This is specifically a problem for firms based outside of Birmingham city centre: “there are big problems with the transport infrastructure, we are very reliant on staff being able to drive, but we need more people to expand and it’s difficult to do that with no major bus or train routes nearby” (Birmingham Advertising Agency, based in Solihull). Similarly, in Darlington “the East to West rail connections in the North are not fit for purpose” and “the traffic in and out of the main towns can be a nightmare” (Darlington legal firm).

Additionally, Darlington is impacted by the limited availability of local office space. For example, a Darlington Paralegal firm commented that they were “getting close to filling their 2500sq foot office – with not a huge number of other options for rent – could buy a property but with that brings challenges... may need to rent two spaces separately”. Respondents from both Darlington and Birmingham also identified that bad broadband connection impacts on their progress. A Darlington head hunting company for instance, has clients in California, but struggles to manage that relationship “without proper fibre”.

In Darlington, there are also growing concerns around the shrinkage in the number of high street shops and whether the local library and theatre might be closing - both would be detrimental to the cultural offer of the town and mean that “local people would have little to do in the evenings” (Interview, PR and Communications firm). A Darlington legal firm argued that investment is important because of “the old ‘Manchester United effect’, where firms and employees only want to join a winning team. If there is a lack of investment in Darlington then that will create warning signals”. Alongside major infrastructure investments, however, there are ‘softer’ interventions which would also make a difference. These relate to the reputational branding of the two places.

Soft (including, cultural assets and leisure amenities) and hard infrastructure (transport links and availability of affordable housing) impact on the perceived reputation or image of local places by prospective employees, clients and investors. However, the reputation of a place is also influenced by its branding and what people think and associate with the locality. For example, for Birmingham “there is a perception issue for the Midlands as being grey and industrial” (Interview, Birmingham PR and communication marketer) and Darlington is perceived as “a sleepy town, in which people come back to retire” (Interview, PR and communication marketer). Reputation is important because it impacts on the growth and productivity of firms in three ways. First, it influences the relative attractiveness of place – and specifically what it offers in terms of lifestyle and amenities – which impacts on recruitment and retention of skilled employees ([as outlined in section 4.3.2](#)).

Second, the reputation of where the firm is based influences the perceived value of the firm and its service, impacting on the attitude of prospective clients. If the reputation is negative or inferior to other places then it can impact on the nature and amount of work the PBS firms can win. A Birmingham PR and communication marketer finds that “in the UK, in media, London is very clearly the main centre; there is a perception that London is the mecca for the industry”. This was reinforced by another PR and communication marketer, who argued that: “a key challenge they face is around the perception of Birmingham and the West Midlands – London is seen as a centre of excellence in the advertising world, Manchester is second place and Birmingham is behind that. The image of Birmingham has not caught up with reality – the place

is a lot better than is expected“. Consequently, firms in both Darlington and Birmingham have been hit by “potential clients going to London, thinking they will receive better advice” (Interview, Property Agency). A Birmingham legal firm explained that there can be the misconception amongst clients that “being served by the Birmingham agency is a bit ‘second division’ – i.e. a Championship rather than a Premiership team”. To overcome the perception issue a paralegal firm and franchise consultant based in Darlington have set up satellite service offices in London, which they use to attract national and international clients, who “trust them more if they are seen to have a London base” (Interview, Franchise Consultancy).

Third, the reputation of Birmingham and Darlington impacts on whether other firms choose to invest in the area, which, in turn, influences the economic vibrancy and diversity of the two economies. The PBS firms in both Darlington and Birmingham agreed that both places need to get better at “shouting about why they are great”, in order to encourage investment, as well as, international and regional trade. A property agency in Birmingham reported things had recently improved in Birmingham, with “a lot of positive press for Birmingham around New Street Station, HS2 in recent years”; however, there is still work to be done.

#### 4.3.4 Perception of the sector

PBS firms in Darlington and Birmingham are challenged not only because of the perception of their place, but also because of the misconceptions surrounding their industry. The majority of the interviewees explained that often clients do not fully understand or appreciate the range of services they have to offer. One Darlington based PR and marketing company expressed its frustration at potential clients assuming that they could only offer “sending out a few tweets”. Similarly, a Birmingham based engineering consultancy firm explained that they expect the market is not aware of “half of what they can do”. This is problematic, since clients do not always understand or appreciate what the firms do, it means they may be “less willing to invest” or have “unrealistic expectations around what the service should cost”. This was an experience shared by a Darlington Web Design agency who finds that prospective clients “are unwilling to make a big investment, despite the fact that when done cheaply it will only lead to further difficulties”.

This not only impacts on their client relationships and potential sales, but also has an effect on recruitment, since young people do not understand or appreciate the range of jobs that are on offer in the PBS sector. There is growing frustration for the Birmingham based civil engineering and surveying companies who find that when young people think of the construction industry they have a tendency to “only think of labour intensive jobs, like brick laying”. This creates a challenge when there is such as high demand for Architects, Surveyors and Construction Project Managers. These roles require “years of education and training before becoming qualified plus years more to gain experience” and so encouragement into these professions is required some years before the individuals start training. Similarly, for legal and accountancy services “there is a challenge with the perception of back office functions being boring”. A Birmingham PR and Communication Marketer commented that: “Birmingham needs to do better at promoting the industry. Everybody knows about JLR in the West Midlands, but what about well performing business and professional service firms?”

### 4.3.5 Barriers to innovation

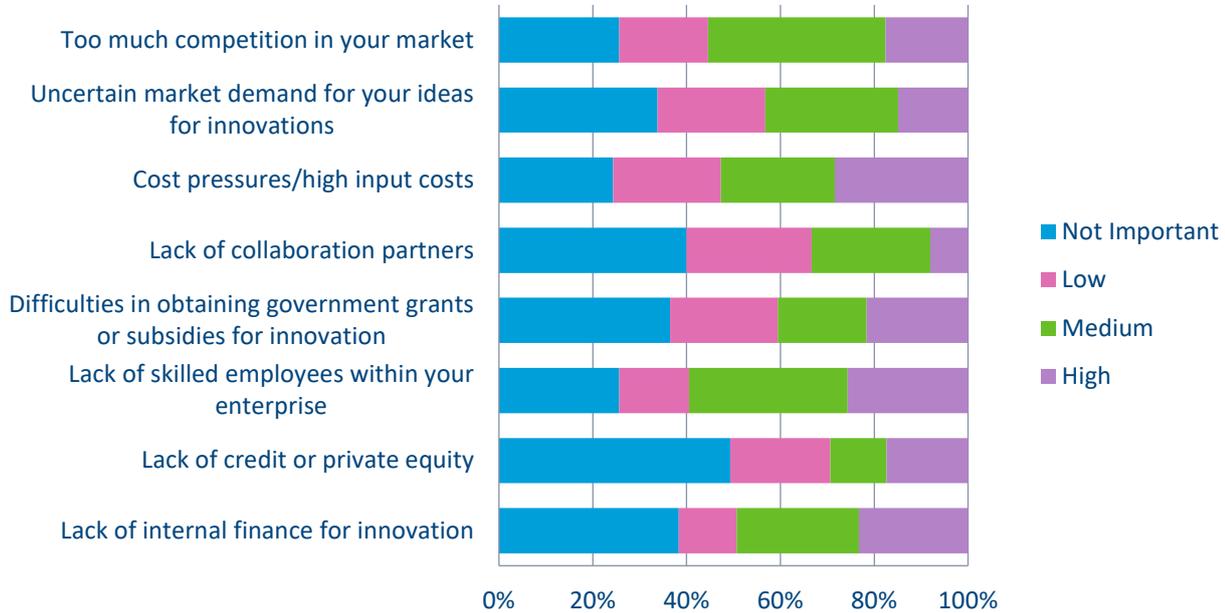
Innovation is an essential – perhaps the essential – driver of firm-level competitiveness and regional economic growth. Firms succeed or fail on the basis of their ability to (1) continuously create new products and services that customers are willing to pay for, and (2) develop processes for delivering these products and services more cost-effectively (Collinson, 2018). For Birmingham and Darlington PBS firms, competition and “wanting to remain attractive to their clients” (Birmingham IT service company) is driving innovation. Competition in the PBS sector happens at all levels, international, national and local, and in a way unlike other sectors, as their client, supplier and competition base are multi-sectoral, there are indications that competition can come from other sectors. Competition is linked to innovation, as it drives firms to recognise market change and innovation elsewhere and make changes internally; firms that do not innovate in this way, keeping up with the competition, ultimately go out of business. The sector generally responds to client asks and further reinforces the need for very close relationships with clients. This client driven innovation raises the importance of sophisticated business development skills, which enable individuals to develop solutions to client problems and operationalise them. In Birmingham, respondents often referred to industry networks and events as their main source of innovation beyond clients but felt the region lacked the density of this type of activity as available in London or internationally (Riley et al., 2018).

The research found that the primary focus of innovation in the PBS sector is on new forms of technologies. Examples included: the implementation of online systems (architectural and engineering activities); an online inquiry management system (legal); ‘biometric clocking in’ to make invoicing and payments simpler (recruitment); bespoke webpage frameworks; telling stories in a digital way (advertising and marketing); automated accountancy systems (audit and accountancy); steps towards paperless and secure filing of sensitive, personal data and documents (legal services); and monitoring who is on site and when (construction management). Other areas of innovation mentioned were changing business models and new recruitment targets: “we are now increasingly looking for people from a tech background, as well as those that are able to write good content, with good data analytical skills” (Media Company, Birmingham).

As analysed below, firms in Birmingham and Darlington reported a range of barriers to innovation, limiting their ability to improve products and services or the way these are produced and sold. This undermines firm-level competitiveness, but also reduces the positive effects that innovation has on the regional economies. In Birmingham, City-REDI and The Greater Birmingham Chamber of Commerce worked in partnership to extend the ‘Quarterly Business Report’ (QBR) regional survey of firms to better understand these location barriers to innovation. 81 PBS firms responded and by comparing these responses with the findings from the interviews in Darlington and Birmingham, we can gain some insights into some of the broader challenges the sector is facing. The figure below shows a ranking of managers’ list of barriers to innovation taken from this survey of 81 Birmingham PBS firms.

**Figure 9: Barriers to innovation**

**To what extent are the following barriers to innovation important for your business?**



Source: City-REDI and GBS Chamber of Commerce; analysis of 2018 QBR Survey Responses.

**Cost factors**

Birmingham firms rated ‘cost pressures’ as the most pressing constraint in the QBR survey, and this was corroborated by interviews with the Darlington firms. Cost factors are important as innovation is driven by firm-level investment in skills, new equipment and new processes. Current political and economic uncertainties are constraining this investment at a time when business leaders need to aggressively develop new competitive advantages. They need to be agile and adaptable to changes in the cost base and the UK domestic market and to develop export capabilities to reduce dependence on this market.

Innovation underpins strategic opportunities in the PBS sector and a confident, proactive approach to competitive markets means investment. However, in addition to cost factors, the QBR survey and interview findings highlight that a significant barrier to this investment is a lack of internal finance for innovation:

“Everyone wants to be seen to be doing innovation but ‘Business As Usual’ makes the money. Innovation is a long-term investment and we can’t afford that, there is a lack of funding” (Birmingham Credit and Customer Management Solutions Company).

“Our day job is what restricts innovation from happening and having to balance clients vs. investments” (Darlington Construction Management Company).

“The company has a lot of public sector clients but these clients’ budgets are being squeezed due to lack of government funding. This is then squeezing our profits and available funds for investment... The lack of funding in government bodies is stifling the rest of the economy. Also public sector projects often don’t pay on time!” (Birmingham Construction Management Company).

## Skills for innovation

General discussions about innovation tend to focus on R&D and technology-related developments. We need to remember that most innovation is driven by people having the capability and incentives to continually improve processes, products and services. ‘Non-technological’ innovation is responsible for twice as much firm-level innovation as technology-related innovation according to the UK Innovation Survey. ‘New business practices’, ‘new methods of organising work responsibilities’ and ‘changes to marketing concept or strategies’ top the list of innovation-related activities that make a difference in innovative firms. As identified by one Birmingham PBS firm: “the technology is only ever as good as the people that use it”. Consequently, the recruitment and retention challenges that are facing the sector are very much intertwined with the firms’ barriers to innovation, as there is a growing need for digital skills in the sector.

Additionally, innovation relies on business development and leadership skills in the sector. This was observed by a Birmingham Property firm who argued that a “lack of leadership and investment can prevent innovation from occurring in the sector”. Generally, it was noted that the PBS sector is by nature, risk averse, given their business purpose is often to advise on how to avoid and mitigate risk, whether that is avoiding penalties for breaking the law, avoiding legal costs or de-risking imports, the whole structure of the services is reducing business costs and risks. Responses were often “we are an organisation filled with accountants”; which is to say they are largely roles which are about managing the costs and reducing investment waste, therefore investment in new and risky services or products can be difficult. They stated that this means innovation does not come ‘naturally’ to employees. They find it difficult to successfully exploit new ideas as they are trained to reduce risk and implementing the ‘new’ with unknown returns and impacts goes against their training.

### 4.3.6 The economic uncertainty relating to Brexit

At the time of this research in July-October 2018, there were many unknowns relating to Brexit, regarding (i) the nature of the final trade deal and (ii) the potential responses of firms and consumers to any major shock like Brexit. As such, accurately modelling such outcomes is almost impossible. Nevertheless, “a partial but still very wide-ranging and impact assessment can be undertaken even without such specific knowledge of the final trade deal and the associated responses” (Los et al. 2018)<sup>16</sup>. For instance, it is possible to model the level of Brexit-exposure of UK industries, by examining the extent to which they depend on trade with the EU (Chen et al, 2018)<sup>17</sup>. Research coordinated by City-REDI with research partners from the University of Sheffield, the Groningen Growth and Development Centre at the University of Groningen, Erasmus University of Rotterdam and the PBL Netherlands Environmental Assessment Agency in The Hague has measured this exposure level for the wider BPFS sector. The exposure level is a measure of the “employment (or value added) that currently crosses a UK-EU border at least once, embodied in a product” (Los et al, 2017). It also “indicates how much the industry has to restructure its role in supply chains (via re-shoring stages of production and exploiting non-EU markets, etc.) to mitigate the value added and employment losses due to reduced trade with the EU”. The research argues that in administrative and support services activities, almost 0.5 million jobs are at risk and in legal and accounting services another 172,000 jobs are at risk. The PBS sector is significantly exposed in this way because the services are not only exported directly to EU countries, but

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<sup>16</sup> Los, B., Chen, W., McCann, P., Ortega-Argiles, R. (2017) An Assessment of Brexit Risks for 54 Industries: Most Services Industries are also Exposed, City-REDI Policy Briefing series, December 2017

<sup>17</sup> Chen, W., Los, B., McCann, P., Ortega-Argiles, R., Thissen, M., van Oort, F (2018) The Continental Divide? Economic Exposure to Brexit in Regions and Countries on both Sides of the Channel, Papers in Regional Science, 97(1), 25-54, DOI: 10.1111/pirs.12334.

also sell intensively within domestic supply chains to UK manufacturing firms exporting to the EU (Los et al, 2017).

In addition to the potential future impacts of Brexit, since the referendum there has been a marked decline in investment in R&D, technology and training, due to growing uncertainty regarding market conditions and the Brexit process. The research found that this has negatively impacted on the growth of PBS firms operating in advertising and market research, management consultancy, architectural and engineering activities and recruitment activities. For instance, a Darlington recruitment agency noted that “a lack of investment on new lines and equipment” in the automotive sector (one of its largest clients), coupled with the reduction in Diesel cars, had negatively impacted on their business. This was true for a Birmingham recruitment business, who found that its clients have become more “risk-averse in terms of recruitment” because of Brexit. Similarly, architectural and engineering companies in Darlington and Birmingham have been impacted by “delays in decisions on investment and construction” (Birmingham Construction Company); a Franchise Consultancy company headquartered in Darlington argued that “any kind of economic uncertainty is bad for business”, although they have not noticed a significant impact since the referendum.

Conversely, among the firms interviewed in the legal and accountancy sub-sectors, Brexit was not seen as one of the major challenges for them as companies. In fact, it was viewed as a growth opportunity, since they expect their clients to seek advice from them on how best to deal with Brexit. Those that provide international services are already international businesses; those that are not could benefit from providing post-Brexit services (Riley et al., 2018). This contrast highlights the idiosyncratic nature of individual services and the challenge this presents from a policy perspective in terms of how best to support the growth of PBS firms that can be so different in their outlook.

## 4.4 Business support

The aim of this section is to identify the types of business support which would help to tackle the barriers and issues identified. This section does not cover skills interventions as this is covered earlier in the report. This sector is characterised by low levels of interventions aimed specifically at sectoral level.

The sector is both a business to business, and business to consumer sector, and as such is also a broker for interventions, such as R&D tax credits rather than just a receiver of interventions. This creates a potentially competitive relationship between the private sector and public sector providers.

Therefore, this section also looks at the PBS sector as a solution provider for business support needs in the wider economy. However, there are the wider market failures that also come into play, in terms of information, where a business fails to identify its own growth needs and demand or knowledge requirements and therefore fails to procure the services of the PBS sector appropriately. In this latter instance there is a role for the public sector to drive that understanding and demand for services.

Generally, this is not a sector with significant public intervention, nor does it typically ask for it directly. However, a lot of interventions are driven by the sector itself, especially around developing local labour supply chains, diversifying the labour force and attracting talent. Within Birmingham, research for the WMCA carried out extensive mapping and impact of those interventions, modelling them where possible. Business Support challenges are less related to gaps that need plugging; rather they concern issues of scaling and efficiency of impact.

The context provided by wider academic research suggests the key issues are:

- Improving the productivity of SMEs can help governments and local places achieve economic growth:
  - Being able to access and understand mechanisms and the information needed to monitor and measure productivity (Green et al., 2018)
  - Unlocking the creativity and productivity of all employees (CIPD, 2015)
  - Regulation and tax compliance generating high costs for SMEs looking to expand or move into higher value added activities (OECD, 2018)
  - Lack of awareness among client base, lack of trust in government advisors, limited cash flow and skilled resources – this is particularly relevant for SME's
- Innovation and exporting are fundamental drivers for boosting the productivity of SMEs:
  - Exporting SMEs are three times more likely to introduce innovative products (ERC, 2016)
  - Innovative firms are more likely to export, and export successfully (ERC, 2016).
  - Exporting offers firms the opportunity to identify new innovation opportunities (Gkypali et al., 2018)
  - Nationally, 9-12% of non-exporting firms within the UK could become exporters (ERC, 2018)
- The ability to hire people with the right skills is fundamental to the survival and growth of SMEs, because of:
  - Attraction – raising awareness of career prospects, brand reputation
  - Retention – when companies fail to recruit or lose employees to larger firms, because it is difficult to compete on wages and employee benefits (e.g. pension schemes)
  - Training – there is a lack of resources for training, this was more likely due to time to release fee earning staff, but also a conflict with paying for the levy
  - Lack of labour mobility – constrains ability to provide services and grow (Green et al., 2018).
- Access to capital is critical for SME growth, because:
  - High-growth businesses face most difficulty accessing finance because lenders and investors struggle to assess their growth potential (Hatfield, 2017)
  - Equity finance has several advantages for high-growth firms, but just 5% of high-growth firms use it
  - Equity finance is more resilient than bank finance in a downturn and investors are more likely to higher level of risk (Hatfield, 2017)
  - Lack of awareness of alternatives to bank finance.

The sector offers all of these services to their clients, and improving the performance and capacity of this sector will improve their ability to advise their clients.

## Place comparison

Although Darlington and Birmingham have similar requirements for services, how and if those requirements are fulfilled varies. The following table summarises the areas of contrast and similarity as regards business support:

| Areas of Similarity  | Areas of Contrast   |
|--|---|
| <p>In both places, this sector can help to deliver productivity improvement in the wider local economy and can be a direct delivery agent of productivity interventions.</p>   | <p>Capacity and skills for delivery for the wider business support function is lower in Darlington than Birmingham, due to a lack of capacity and resources to invest in understanding the public sector intervention landscape. In these areas, public sector intervention and skilled public sector staff can become more important as businesses may not be able to access support from the PBS sector directly.</p>   |
| <p>The wider economy of both areas demand broadly the same services and functions, but the complexity and breadth matches the level and type of demand, this is dependent on size of market and complexity of client needs.</p>  | <p>Where services are found and procured differs substantially. PBS firms in Birmingham can supply all services locally and there is broad competition and depth of provision to ensure access to high quality services. By contrast, Darlington is more constrained and often businesses have to go to the nearest city, but this is driven by local demand for those services. Birmingham also has a PBS sector which services local and national markets equally and therefore has a wider exposure to higher value client needs and demands. Where companies in Darlington were servicing national (niche) needs, local demand was often low.</p> |
| <p>Businesses within the sector work well with public sector bodies at the local level where a wide range of interventions come together. There is evidence of collaboration to improve the wider business base. However, conflicting national policies can create issues of duplication at the place level.</p> | <p>Where the PBS sector is stronger in Birmingham, there is some evidence that collaboration on intervention delivery and policy shaping can be constrained. In that many of the large firms also have contractual relationship with the public bodies, as suppliers of services bound by procurement processes which can prohibit collaboration.</p>   |
| <p>Perceptions of place are issues for both places, which leads to firms experiencing issues related to needing to invest more substantially in marketing themselves as employers and having good jobs, to counteract perceptions of the places in order to attract staff.</p>                                   | <p>The general place perception issue is very different in the two areas. Whereas Darlington is seen as a 'retirement' location, Birmingham is seen as having high crime and low value jobs. Both places have a perception of lack of opportunity. However, Birmingham is seeing significant signs of change, and investment in infrastructure and the city centre is dramatically changing the opportunities for the sector. Conversely, Darlington still suffers from under investment in the local infrastructure to attract businesses.</p>   |

The What Works Centre for Local Economic Growth<sup>18</sup>, has a number of toolkits and assessments of interventions in offering business support, in relation to this research a number of areas are of interest:

| Policy Area                            | Description   | Key Findings  | Relevance to PBS sector and intervention design   |
|--|---|---|---|
| <b>Access to Finance</b> <sup>19</sup> | Enabling start up, supporting growth and development  | <p>This approach is effective at access to debt support, however, some evidence loan guarantees increase debt.</p> <p>This approach does not always translate into firm performance.</p> <p>Support to individual firms can come at the expense of other firms.</p> <p>No evidence that a targeted approach is better or worse than a generic approach.</p>   | <p>Evaluation evidence is unclear and given the sector (primarily accountancy) is constantly advising on finance and debt management, there could be better opportunities to collaborate on developing shared understanding of what works, and the wider impacts on local economy and on firm performance. Closer collaboration and information sharing on what is available would also improve the service offered by PBS firms.</p>   |
| <b>Business advice</b> <sup>20</sup>   | Structured advice or longer term mentoring – as a market failure in the PBS sector, who may not be providing the advice already | <p>Overall, government delivered business advice has a positive impact on outcomes for firms, but mixed outcomes on specific aspects. For instance, there is some evidence that it results in better sales but not employment or productivity gains. Also it is possible that gains are at the expense of other firms.</p> <p>Mentors – this improves sales, value added and productivity.</p> <p>Public advisors – improves employment, firm creation and survival.</p> <p>Subsidised consultancy – more positive for firm performance outcomes i.e. profit generation, staff utilisation and more aligned to the demands of companies.</p> <p>Tailored support – more likely to increase employment and productivity.</p> | <p>Public intervention appears to sit best in start-up and where specific local market failures in the PBS sector exist. Therefore whole system support is more important in places like Darlington where the sector does not have the capacity, density or resources. In places with a vibrant sector government should focus on early stage or high risk change, where companies do not have the resources to procure advice or the risk incentive to invest. The public sector needs to be mindful of displacing private sector delivery and skewing the market for business support services. This means careful consideration of intervention tipping points at a place level should be key, as regards when the public sector steps in (early stage and high risk) and when it hands over to the private sector (maximising growth and firm performance) and the mechanism to hand over. However, this transition point is likely to be different in different places. The aim should be to create an optimum continuum of support locally which grows the business support ecosystem as a public/private collaboration. A focus should be on how this collaboration can improve our understanding of the effectiveness of interventions.</p> |

<sup>18</sup> Available at: [www.whatworksgrowth.org/policy-reviews/](http://www.whatworksgrowth.org/policy-reviews/)

<sup>19</sup> Available at: [www.whatworksgrowth.org/policy-reviews/access-to-finance/](http://www.whatworksgrowth.org/policy-reviews/access-to-finance/)

<sup>20</sup> Available at: [www.whatworksgrowth.org/policy-reviews/business-advice/](http://www.whatworksgrowth.org/policy-reviews/business-advice/)

| Policy Area   | Description   | Key Findings   | Relevance to PBS sector and intervention design   |
|---|---|--|---|
| <b>Investment promotion agencies<sup>21</sup></b>     | Range of support agencies delivering specific support on investment | Evidence suggests these organisations increase flows of investment, with regional approaches no more or less effective than national. Lack of evidence on which advice is effective or cost-effective. Lack of evidence on wider effects. Some evidence that public-private sector partnerships are more effective. Private sector membership on boards of IPAs has a positive effect. | Lack of evidence on effectiveness and wider benefits would suggest a need for greater collaboration between the private sector and government agencies in understanding what support works. Where there is evidence, greater private sector involvement in design and delivery has a positive effect.   |
| <b>Export promotion/ credit agencies<sup>22</sup></b> | Services that aim to help firms sell their products overseas        | It can increase exports, and evidence suggests it does not crowd out domestic sales, broader evidence suggests firms learn by exporting. However most do not, so better understanding of the impact is needed. Focus should be on educating and informing businesses about exporting. Public sector support in the UK is as effective as in other countries.                           | The PBS sector does offer exporting advice and guidance, often specialised and niche areas and fitting into broader packages of advice, in areas such as business support and insurance. Again places with larger firms (Birmingham) have a competitive edge, where they can source expertise from a larger pool of national and international expertise. Companies pass clients internationally within firms or through collaboration between international networks of national firms. However, in smaller places (Darlington) the firms with the capacity to do this, do not exist. Therefore the education and information exchange is not happening naturally and it may be more important for the public sector to step in. There is evidence that companies also go to the nearest 'city' for this advice. |

In summary, the important issue for local industrial strategies to tackle is understanding the tipping point at which the public sector should hand over to the private sector. As noted in other research “the value of regional economies for collective learning has been reported by numerous scholars” (Faulconbridge, 2007:965) and collective knowledge brokerage should be shared across the public private ecosystem. This knowledge should be developed to further understand the impact of business support advice and guidance and ensure the public sector does not displace the private sector but supports the wider business base to access the services businesses need. There is a lack of good quality evaluation around business support and greater understanding could be developed through better public/private collaboration.

Birmingham’s PBS sector has a different distribution of skills and expertise relative to other places, generally providing a higher skilled expert workforce to support other businesses to grow. This strong labour force enhances the performance of clients and their access to support. It also means there is a bigger occupational pool of labour for cross-sector roles i.e. finance, marketing and HR, where individuals can move out of the core sector having built

<sup>21</sup> Available at: [www.whatworksgrowth.org/resources/business-advice-toolkit-investment-promotion-agencies-ipas](http://www.whatworksgrowth.org/resources/business-advice-toolkit-investment-promotion-agencies-ipas)

<sup>22</sup> Available at: [www.whatworksgrowth.org/resources/business-advice-toolkit-export-promotion-agencies](http://www.whatworksgrowth.org/resources/business-advice-toolkit-export-promotion-agencies)

national and international expertise and move into the local business ecosystem improving their performance, providing an internal business support solution. This depth of occupational labour market does not exist in smaller places like Darlington, and high growth companies have to attract workers from elsewhere for high performing PBS occupations. This restricts company access to internal business support infrastructure.

However, there is a lot of confusion over delivery at a local level, generated by different organisation delivering similar activities:

“Below the Mayor there seems confusion on what drives what? What do LEPs do (vis-à-vis the CA)? Where does the Growth Company sit? ... This confusion might hold the region back” (Interview, Birmingham Media Company).

“Not clearly explained by the council where and how funding can be accessed from” (Darlington Paralegal firm).

“Think the local authority and chambers of commerce could do better with communication. There is a lot going on, but they don’t tell us. Would be helpful to have a quarterly update or similar” (Darlington Recruitment business).

“Birmingham City Council/ the LEP and the Combined Authority sometimes have competing priorities – need to work better together and create a common message” (Interview, Birmingham Property company).

#### 4.4.1 Sector use of external business support

The majority of companies surveyed used very little external support themselves; however, they had a good understanding of government support in order to support their clients. Companies in the sector generally did not buy in services from other companies, and there was limited evidence of supply chains. Given the nature of the sector, selling services not goods, this is typical. However, some companies made use of associates in a limited capacity to fill specialised gaps. They also tended to buy in technology support, due to a lack of skills internally.

In terms of business support that the sector accesses and needs, overall the sector does not have a lot of specialised interventions currently and interviewees consistently felt the sector was largely ignored. However, the key themes which emerge from the research in terms of business support needs are:

- Innovation, capacity and resources
- Understanding technology and impact on the sector
- Skills development and supply
- Sector and place perceptions.

Research suggests that “Professional service firms will perform best when they function as entrepreneurial, market – oriented enterprises that link all units of the firm through a pervasive set of core values. Their success will be measured by their ability to remain entrepreneurial and innovative” (Simon and Welsh, 2011:21). The research with firms in both comparator places highlighted this ability to innovate as a constraint.

The business focus group in Birmingham also highlighted the lack of brokerage expertise helping small businesses. There is a mistrust of government advisors, based on:

- Time and resource costs associated with accessing services or support
- Lack of practical knowledge from advisors
- Not wanting to share business information with government.

Conversely, they see advisors from the PBS sector as:

- Having knowledge of business
- Having practical understanding and empathy with business owners
- A relationship built on trust and buying of services.

There were very few examples of business support highlighted within the research. Most companies focussed on skills development as the key area, and within the focus group UKTI (UK Trade and Investment) was highlighted as an effective intermediary for exporting or building relationships abroad.

By far the most common demand of business support was improving the perceptions of the sector, such as better careers information, promotion of the sector as a growth area and provider of good quality jobs, and perceptions of the place - in order to attract investment, staff and grow the sector.

“Recommendation for support from local Authority – need a single focused portal that will show upcoming tenders in the local region (public and private sector opportunities). Currently there are lots of different portals but nothing that brings the tenders together in one place – to make it easier for businesses to view their opportunities. The Combined Authority have been very supportive in helping the firm engage with local graduates, the graduates have just not been up to scratch, for the reasons highlighted above” (Darlington Web Design Agency).

However, this statement highlights the fact that these portals do exist at a local (North East Procurement Organisation)<sup>23</sup> and national level<sup>24</sup> and businesses are not aware. The policy focus groups also highlighted that businesses find it difficult to access contracts from the public sector either because of the high costs and resource requirements of bidding, a lack of skills to bid and the process for procurement.

These issues were also highlighted when bidding for business support funding. The cost of bidding for grants and finance is a barrier for firms generally including those in the PBS sector.

#### 4.4.2 Business support implications

The main barriers to accessing support highlighted among PBS firms were:

- A lack of awareness of support available, including eligibility criteria
- Difficulty in applying and resource investment
- Evidence required appearing unrealistic and involving a heavy reporting burden
- The application process being perceived as too long
- Covering match and risks being associated with clawbacks

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<sup>23</sup> Available at: [www.darlington.gov.uk/business-and-licensing/doing-business-with-the-council/](http://www.darlington.gov.uk/business-and-licensing/doing-business-with-the-council/); [www.in-tendhost.co.uk/birminghamcc.aspx/Home](http://www.in-tendhost.co.uk/birminghamcc.aspx/Home)

<sup>24</sup> Available at: [www.gov.uk/contracts-finder](http://www.gov.uk/contracts-finder)

- Perceived benefit and the return on investment from applying being seen as unworthwhile.
- A lack of understanding and clarity over what support is available.

These issues are common with business support in general. This would suggest the sector does not have any specific barriers. However, given the sector's role in providing business support and being a broker for government schemes, it is crucial that this sector understands the government business support offer.

### **The role of exporting in the sector**

In both places, exporting was described as a local service firm's offer to their clients, rather than their own companies 'exporting' services. Larger companies often describe themselves internally as a networked structure which allowed them to pass clients around dependent on client's needs. This was usually where the company was already large and international in nature. Other companies (potentially) still large were more national in focus, in these cases however a common business model was to be part of a networked set of national companies, working internationally through this network. Clients would be referred to their partner company in the country they were looking at exporting to. This way they presented themselves as the UK expert to clients referred to them from their overseas partners.

As people and the skills they offer are the main 'sale' of the company, 'exporting' is a by-product of that activity. A particular specialist may never leave the country but advice and services are carried out through networked collaborative project ecosystems – within firms and across firms. However, this service is vital to other sectors and businesses exporting and investing who utilise services locally to drive their own investment and business planning. The sector is an enabler of exporting, examples in the interviews include:

- Legal firms who refer clients to local legal experts within their network to help companies to understand local employment, contractual and business regulation
- Management consultancies that facilitate introductions to supplier networks, potential clients, governments, and overseas investors and venture capitalists.

The research highlighted that international success relies on local knowledge, support from the domestic market and compliance with regulation, and the same focus on networks, client skills, negotiation, flexibility are required to successfully work internationally. This is a sector that depends on intellectual capital therefore "people are the most important source of competitive advantage" (Birmingham Accountancy firm) both at home and internationally.

### **Areas for business support investment**

A clear theme in the responses was the ability to innovate. The sector is highly client responsive and there are issues with capacity to innovate and knowledge of how to innovate. This client-driven innovation raises the importance of sophisticated business development skills, which enable individuals to develop solutions to client problems and to operationalise them. Respondents often referred to industry networks and events as their main source of innovation beyond clients but Birmingham respondents felt the region lacked the density of this type of activity that they perceived as available in London or internationally, Darlington had very little opportunity to share best practice in this way and businesses have to travel to nearby cities to access this. Specific areas mentioned include understanding new forms of technology, changing business models and new labour markets.

The most mentioned specific skills gap were tech skills, although there was a marked difference in the sub-sectors in how they were approaching filling this gap. Companies in the banking sector are building the capacity and competing for staff against other sectors, which is impacting on the PBS sector directly as occupations are common across the two sectors. Often the wider PBS sector cannot compete on wages with the banking sector generally, whereas other subsectors were typically buying specialists in on a project by project basis or partnering with tech companies, although there are outliers to this trend in the regions. However, in both places, the skills or tech companies are not based in the regions and they are more likely to go to larger cities or London to access them. These skills are not purely FinTech and attached to the narrower finance sector (where policy and investment is currently focussed), the same skillset is applied more broadly and are broad based in terms of functional deployment across document management, AI, process management, client management, business intelligence, modelling and knowledge management. The lack of tech cluster means these services are being bought outside of the region and creates a gap in the local value chain. Birmingham respondents found this issue more acute, this may be down to awareness, which raises some issues about whether Darlington businesses are preparing for the changes that tech is bringing.

Investment in the future workforce and attracting highly skilled labour into the region is of significant concern to the sector and the predicted growth cannot be sustained unless the labour pool is grown. The speed required means that there is a need for a twin approach and long-term local labour market development and short-term attraction process, which overcomes the significant perception issues faced by Birmingham and the West Midlands. More so, there was significant concern that the regional narrative was not a reflection of the reality; that these job opportunities and the function of the sector were being underplayed and unrecognised in common rhetoric.

### **Making local areas more attractive for PBS firms to expand their existing business**

This research demonstrates the need for a differentiated approach towards the sector in local areas, and that the sector varies significantly according to local demand and the wider markets of businesses. This would indicate that to grow this sector, other parts of the economy have to grow to drive demand for services. In turn, this suggests that industrial strategies need to look at the growth in other sectors and its impact on the PBS sector as a specific task. The sector needs to keep pace with the wider client base whilst local government structures need to ensure the sector is aware of growth plans and its role in supporting them. This sector is generally good at mobilising and moving to growth hotspots, and the highly mobile workforce, project based ecosystem, and lack of fixed assets mean firms will move with client demand and investor sentiment. Therefore working with key players to ensure understanding of growth plans, projects and wider economic investment is key to attracting growth in this sector.

This raises the issue of needing greater clarity over local industrial strategies beyond the pilots, especially for places with a smaller economy which may miss out on the mobilising opportunity that the development of a local strategy can create; where local areas could have an important role in driving the delivery of the industrial strategy, this would suggest that central government needs go further than agreeing a local industrial strategy in three areas: Greater Manchester, West Midlands and Oxford/Cambridge corridor and provide support and guidance across all areas. Research highlights the large disparities in productivity and wage growth across the country, suggesting that central government needs to agree different local industrial strategies with all parts of the country. Evidence suggests that the need for more clarity on the role of strategic authorities, and enhanced powers of economic competence and revenue raising are fundamental to improving local economies, therefore local delivery partners need the tools to deliver sectoral growth locally (Jameson, 2018).

## **Creating conditions for further investment to make it more attractive to PBS firms to invest**

This research emphasises the need for clear growth plans, with the role of the sector clearly defined. In both local areas, this existed and was differentiated; the sector in Birmingham is seen as a strategic sector in its own right, servicing a national and international client base. Significant investment is going into the sector, providing infrastructure and services that meet the needs of the business and employees. The city centre is being changed and improved to service this growing business and professional sector. The core area is a Business Improvement District; redesign of the city centre enables this area to flow. Previously, the sector has been broken over a number of smaller pockets which are now becoming a larger contiguous space. Flagship investors such as HSBC and Deutsche Bank are signalling that the city is growing and further investment is already showing signs of growth. Although most respondents highlighted the pace of change and the difference in the city in the last few years for the better, wider infrastructure conditions still need investment especially around appropriate housing, commuter transport infrastructure and connectivity to London. They consistently highlighted that investment in perceptions of Birmingham is still needed as the city is finding it hard to shift old perceptions around the quality of available jobs, opportunities and housing, and access to services and cultural infrastructure.

Darlington however does not have the city centre offer and competes with Leeds and Newcastle for staff and clients, therefore the sector is composed of either, small and highly specialised firms serving national needs or typical SME service providers, not differentiated but providing a key service to local businesses. The wider business base would currently not sustain a larger PBS sector. The approach being taken by the government bodies in the region is however appropriate, the sector is seen as a support infrastructure to other sectors and potentially the industrial strategy could further emphasise this, ensuring local growth opportunities can access services locally.

## 5. Conclusions

This report adopted a mixed-methods approach to investigate the issues facing the PBS sector outside London. The objective of this research was to understand how the sector could be supported to grow.

The research revealed both similarities and differences in the barriers to the growth of the PBS sector in Birmingham and Darlington and points towards the need for a differentiated approach at a local level, emphasising the need for Local Industrial Strategies to be appropriately tailored and targeted.

There is an important role for historical legacy and central organisation in the establishment of PBS clusters, the sector is dominated by long established firms and new entrants are often created by people exiting these firms. The two case study areas shed light on the benefits arising from co-location of companies in the same industry or closely integrated industries, and the importance of the past structure of place for its future opportunities.

The research found three main challenges facing the sector: (i) changes to technology; (ii) changes to the attitudes and motivations for the people entering the sector and (iii) how these are affecting the business models of businesses. These challenges are outlined in the table below.

**Table 6: Challenges facing the PBS sector**

| Technology Dilemma   | People Dilemma   | Business Model Dilemma   |
|--|--|--|
| <b>Firms do not see themselves as ‘tech’ but need tech skills, however, they are competing in labour markets where tech skills are drawn into more attractive sectors.</b> | In both case study areas, there is a tight knit sector, with collaborative networks based on trust and a sense of place community.   | New entrants have different attitudes and drivers so the standard partnership model is under attack and not working well in some firms.  |
| <b>The current workforce, especially decisions makers, are not tech literate, which makes it difficult to predict change.</b>  | Other sectors are more attractive than PBS and new factors are affecting the sector, including work life balance, sense of ‘doing good’ and diversity. This is driving a need to be in places that offer a good quality of life. | Companies are trying to create different environments to attract different recruits and compete with other sectors. The ‘tech style’ open plan, lounge, and break out areas are becoming the norm. |
| <b>There is a labour surplus in some areas because tech is displacing jobs.</b>  | There is a lack of skilled people at the 5 to 10 year experience levels creating a gap at the middle management level. This is largely due to the crash in 2008.   | Low input and high volume work is disappearing, threatening high street companies and lower skill/pay level jobs are going.  |

| Technology Dilemma   | People Dilemma   | Business Model Dilemma  |
|--|--|---|
| <p><b>The perception that ‘we will never be replaced’ is dissolving. There is a tension between self-service mentality of clients (getting everything online) and the demand for personalised problem solving consultancy services. Companies in the sector are diversifying in both directions.</b></p> | <p>Leadership is ‘pale, male and stale’.</p>   | <p>Work carried out is ‘spaceless’: it can be carried out anywhere, with a highly mobile workforce a feature of many companies across many sub sectors.</p>                                     |
| <p><b>Rigid business processes are more at risk of replacement and process management software is replacing it.</b></p>  | <p>There is a need to create stickiness in a highly mobile workforce – which is driving activity in developing local recruitment drives. There is also evidence of larger firms consolidating into a smaller number of cities with attractive lifestyle options.</p> | <p>The core services and business models are changing and companies are going through varying degrees of changes to cope with tech and people demands.</p>                                      |
| <p><b>Tech is seen as disruptive competition; however there are significant trust and legal understanding issues in the tech sector, in commoditising the standard PBS activity.</b></p>   | <p>The mobile workforce, can work anywhere at any time and elements of gig economy concepts are entering the core business. This is extending the brass plate concept to glass boxes in major cities which offer a base for the mobile workforce.</p>                | <p>Client and project value chains are changing the nature of working, with internal and external value chains changing both real and perceived client delivery, value and project ecology.</p> |

The evidence gathered in both geographic areas points to the importance of understanding the ‘tipping-point’ of where the government should step in and where the PBS market should deliver. On the one hand, Darlington highlights the need for a strong and broad government business support service, which could generate demand for services and address information failures in the local market. On the other hand, Birmingham demonstrates the need for highly targeted government business support only at high risk points, such as start-up, exporting and growth; alongside better brokerage relationships with the PBS sector to ensure government schemes are utilised efficiently. Here larger companies already help the growth of local non-PBS firms, for example through masterclasses, mentoring, and advice on recruitment, training, advertising, marketing, accountancy or legal issues as a business development activity.

Regional organisations need to cooperate, coordinate and prioritise support programmes to focus limited resources to reduce the most significant barriers to innovation and build on the region’s distinctive advantages. The challenge for local government, enterprise partnerships and public agencies is to identify the potential future areas of regional competitive advantage, attract new investment from existing firms and attract new firms to the region to complement existing strengths as part of a smart specialisation strategy. This includes a focus on ‘scale-ups’ as well as start-ups, given the high business mortality rate in the region.

The role the established sector plays in skills and professional development is significant but currently the competitive environment means this is often done in isolation. If the sector wants to diversify, it has a responsibility to invest in local skills supply chains development, and act collaboratively to create a deeper, higher quality labour market and a pipeline of people invested in local communities.

Perceptions also appeared to be key to the future of the sector, both in terms of the sector itself and its ability to attract staff and investment, as well as in terms of perceptions of their location. As staff become increasingly mobile and highly-skilled, labour markets become less localised, yet the role place-based assets play in attracting staff is likely to grow in importance.

Innovation activity outside London is essential. R&D accounts for the largest share of GVA but this activity is low in both Birmingham and Darlington, which was highlighted as a major constraint. Public sector investment in innovation in this sector is also lower than in the STEM areas, especially outside London. However, it is targeted innovation development outside London that could play an essential role in driving growth in the sector.

Finally, better connections between universities and local businesses are also needed to bridge the supply-demand skills gap and support the development of new practices, processes and business models. Regions with leading UK business schools are already working with local firms but a wider range of stronger collaborations (e.g. through apprenticeship programmes, export promotion workshops aimed at small-business mentoring, etc.) are needed, together with investment in graduate entrepreneurial and innovation skills.

The evolving Local Industrial Strategies and regional skills strategies should match industry focus. Matching developments in local infrastructure, including transport, housing and digital as well as cultural amenities will help to improve the attractiveness of the region to skilled workers, retain talent, and is likely to create opportunities for local residents.

## 6. Recommendations

### High level recommendations

- The government and the PBS sector should work together to promote the sector as a good employer with high quality jobs and opportunities, and focus on opportunities outside of London.
- The government and the PBS sector should consider jointly developing an information campaign targeted at non-PBS sectors both at national and local level with clearer messages about the benefits of using services provided by PBS and public sector initiatives to support access to help grow demand and take-up of PBS services.
- Acknowledge PBS firms have an important role in enabling the UK government to achieve its ambitions for encouraging innovation and growth in UK firms. PBS firms may need to invest in developing a more detailed understanding of the public support available so that they can direct their clients. This also requires the policy owners at national and local level to communicate what is available more effectively with the sector.
- BEIS in partnership with the PBSC, working through local authorities and agencies, might encourage and incentivise PBS firms to develop specialist knowledge in specific sectors identified as potential engines of local economic growth. This would allow a more differentiated and place-based approach to growing the PBS sector, recognising its ability to drive growth within local and regional economies.
- Policymakers should acknowledge that few PBS firms are well placed to support non-PBS firms to enter new export markets unless they have the necessary international networks. Since willingness to enter international markets is dependent on business owners having the confidence to do so, greater attention might be paid to the role that PBS have in developing capabilities within non-PBS firms so that they might in the future be in a position to consider entering international markets.
- Local authorities and enterprise partnerships acknowledge that the PBS community is well placed to articulate the relative advantages of their local area/ region and involve them closely in the development and delivery of strategies to secure inward investment.
- The role of the public sector should also focus on fostering collaborations between PBS firms alongside directly delivering services to non-PBS firms.
- Large firms should be encouraged to consider local firms during their procurement process. Currently, many services are procured at the HQ level, which limits the regional impact.

## Recommendation 1 - Myth busting

| Action/Ownership   | Short term   | Long term  |
|--|--|--|
| <b>PBS – Changing perceptions and myth busting</b>   | <p>Myth busting information, advice and guidance to promote the sector as a good career path with jobs that add value to the economy, people and places. Focus on promoting opportunities starting at school level, to diversify the workforce and promote quality jobs outside London - including promotion of tech opportunities.</p> <p>Myth busting about places outside London, the opportunities and roles and the lifestyle they can provide.</p>                         | <p>Develop better pathways into the sector, focus on better utilisation and design of apprenticeships and vocational programmes which create diverse pathways into the sector, to fulfil local skills demands and needs.</p> <p>Work with universities to ensure all degree programmes have a tech element which is fit for purpose for the sector, tackling the issue of perception of types of tech jobs in the sector.</p>                                      |
| <p><b>Key Actions and owners:</b></p> <p>Place, Skills, Communication working groups</p> <p>BEIS Policy and Cities &amp; Local Growth Unit/ Department for Education/ IfA</p> <p>BEIS regional outreach</p> <p>PBSC</p> <p>Sector and individual companies</p> | <p>PBSC input to proposed PBS sector deal.</p> <p>LIS to cover the sector as appropriate to the place, with evidenced approach to assets and strengths.</p> <p>Programme of events and campaigns in collaboration with the sector addressing myth busting issues.</p> <p>Development of local skills strategies which take account of the needs of the sector.</p> <p>The sector providing a co-ordinated approach locally to promoting the opportunities and jobs available</p> | <p>Development of programmes to encourage local recruitment and diversification of workforce to specifically recruit from local labour markets and embed companies in regional economies.</p> <p>Improved and co-ordinated use of the apprenticeship levy to deliver the skills requirements of the sector and broaden the employment base.</p> <p>Development of schools sector mentoring programmes co-ordinated across the companies and delivered locally.</p> |
| <b>Output and outcomes</b>   | <p>Increased applications to the sector and interest from school through to postgraduate level.</p> <p>Develop place based apprenticeship programmes with the sector.</p>  | <p>Increased employment in the sector.</p> <p>Increased diversity at all levels, including gender, disability, socio-economic class, geographic background and ethnicity.</p>  |

### **Case Study: Inspiring the Next Generation – Professional Services Week Campaign**

Professional Services Week, led by Business Professional Services Birmingham, provides a unique hands-on insight and experience of the diverse employment opportunities of the sector to secondary school students. The campaign offers young people, through their schools, opportunities to visit professional firms in the city, to experience the business environment in situ and to hear from and talk to young professionals. It is a concept that has been embraced by the professional services community as collective effort to a shared challenge, with private sector funding to kick-start the initiative, as well as benefit in kind. Teachers and pupils have welcomed the opportunity to connect with a key sector and stakeholders, including the West Midlands Combined Authority, Greater Birmingham and Solihull Local Enterprise Partnership and West Midlands Mayor recognise the growing importance of the campaign through collaborative promotion. 2018 marked the third Professional Services Week campaign in Birmingham, since its inaugural year in 2016, and has an established delivery model. We know - through the work of the Careers & Enterprise Company - that encounters with business as part of careers education make a critical difference to the outcomes of those students as well as supporting talent pipelines for a growing sector.<sup>25</sup> This type of activity is important for addressing the pressing productivity challenges of the sector.

### **Case study: Birmingham Metropolitan College (BMet)**

The college has an embedded PBS sector skills programme overlaid on top of traditional further education subjects. This programme includes extended employer encounters, and experience in businesses and is recognised for its quality by the sector. This course and approach was the most commonly cited example of good practice. The approach is also helping to diversify the workforce by working collaboratively to provide accelerated acquisition of core business awareness skills and including high levels of placements from a diverse and different population of students into local firms.

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<sup>25</sup> For supporting evidence refer to: Gatsby benchmarks (specifically benchmark 5) and the work of Careers & Enterprise Company. Available at: [www.careersandenterprise.co.uk/schools-colleges/understand-gatsby-benchmarks](http://www.careersandenterprise.co.uk/schools-colleges/understand-gatsby-benchmarks).

- See bullet point 4 here: [www.educationandemployers.org/research-main/key-findings-from-our-research/](http://www.educationandemployers.org/research-main/key-findings-from-our-research/)

- And more on Gatsby here: [www.gatsby.org.uk/education/focus-areas/good-career-guidance](http://www.gatsby.org.uk/education/focus-areas/good-career-guidance)

## Recommendation 2 - PBS as driving local growth

| Action/Ownership   | Short term   | Long term  |
|--|--|--|
| <p><b>Boosting PBS local engagement and commitment to place</b></p>  | <p>Ensure local arms of national/ international firms engage in the local industrial strategy development, providing local leadership from industry.</p> <p>The strategic approach taken by the PBSC should happen locally, given the impact the sector can have on local growth, and working towards collaborative responses which maximise impact. This may vary by place, but firms should be willing to commit time and resources to developing better local strategies which respond to their needs and CAs/ LEPs need to be prepared to actively engage and collaborate.</p> | <p>Embedding local PBS leaders in delivering the LIS, to enable regional representation. Collaborating on sector action plans, including business support and skills and recruitment specifically, helping to shape local plans.</p> <p>Make better use of publicly funded programmes which allow businesses to buy the services of the PBS sector, especially small scale brokerage of services from industry experts (i.e. as non-exec board directors and advisors to Micro-businesses and SMEs), and at key tipping points of growth.</p>  |
| <p><b>Key actions and owner:</b></p> <p>BEIS Policy + Cities &amp; Local Growth regional outreach</p> <p>Combined Authorities and local Authorities</p> <p>PBS sector champions</p> <p>Place/Skills working groups</p> | <p>PBSC input to proposed PBS sector deal.</p> <p>PBSC input into Local Industrial Strategies – focus on differentiated spatial nature of the sector and opportunities for specialisation and supporting local economic needs.</p> <p>PBSC input into local regeneration, infrastructure and investment plans.</p> <p>Evidence and specific focus on the role of the sector locally in LIS.</p>  | <p>Building a differentiated local sector capacity and growing the sector locally to meet wider economy needs.</p> <p>Strategic local bodies to champion the needs of the sector locally and ensure collaboration on the design of interventions.</p> <p>Proactive approaches and long term engagement in shaping local policy.</p> <p>Increased take up of brokerage and funding for private sector support for start-up and growth.</p> <p>Industry led masterclasses on key areas such as international markets, sales and marketing, business efficiency, skills gap assessment, application of technology etc.</p> <p>Programme of business to business networking and consultancy to increase skills within local sectors.</p> <p>Networking events between local delivery bodies and the sector to promote government schemes and exchange best practice/understanding.</p> |
| <p><b>Outputs and outcomes</b></p>   | <p>Increased engagement in local plans and measurable commitment from firms to place based strategy.</p> <p>Co-designed business support.</p>  | <p>Increased sector business support activity.</p> <p>Increased local recruitment into the sector.</p> <p>Increased size of the sector in local areas, responding to local needs.</p>  |

**Case Study: Local sector champions contributing to the Local Industrial Strategy**

Deloitte, Business Professional Services Birmingham Ltd and City-REDI developed a sector 'deep dive' which has provided insights and an evidence base to support collective action by the sector within Greater Birmingham. Deloitte provided the resource of a strong locally-based champion for the sector, with investment from the public sector to grow the evidence base. The same team has gone on to develop the sector action plans and lead on consultation on the Local Industrial Strategy (LIS). This local networking and collaborative working at city-region level recognises the important role of industry leaders supported with resources and draws them into the executive team developing the LIS, creating greater buy in from the sector. This was a joint funding of academic research and business engagement facilitation to accelerate and improve access for the research team as well as market intelligence (i.e. what BPS did). Business Professional Services Ltd committed time to the project, to the value of approximately £15k.

## Recommendation 3 - PBS as innovator for growth

| Action/Ownership   | Short term   | Long term   |
|--|--|---|
| <p><b>Driving innovation above and beyond PBS</b></p>  | <p>Rebalance of government investment in innovation to also include innovation in the PBS sector – thinking beyond widgets to commercialisation.</p> <p>Promote investment in innovation activities at the firm level locally. Potential innovation funding to support development of roles and functions and build networking capacity and skills at the local level.</p> | <p>Grow the innovation capacity in the sector through investment in innovation lab activity that funds work to understand the risks and opportunities facing the sector. Potentially refocus Innovate UK funding or UKRI to proactively look at this sector as a driver of growth.</p> <p>Look at the future of Business Support investment post ERDF on how innovation can be driven in the sector post Brexit for the benefit of the wider local economy.</p> <p>Increased take up of key government programmes through the sector i.e. R&amp;D tax credits, growth support programmes.</p> |
| <p><b>Key actions and owner:</b></p> <p>PBSC<br/>Productivity &amp; Innovation working group<br/>UKRI/BEIS/<br/>InnovateUK</p> | <p>PBSC input to proposed PBS sector deal.</p> <p>PBS industry sponsored prize.</p> <p>Industry led Growth Mentoring/SME masterclasses.</p> <p>Applications for Public funding through Industrial Strategy Challenge Fund UKRI/Innovate UK/other competitions yet to be identified.</p>  | <p>Promote take up of brokerage and funding for private sector support to businesses.</p> <p>Industry led masterclasses on innovation and cross collaboration across sectors.</p> <p>Programme of business to business networking and consultancy on innovation areas i.e. AI, tech, new business models at a local level.</p> <p>Networking events between local delivery bodies and the sector to promote government schemes and exchange best practice/understanding.</p>  |
| <p><b>Outputs and outcomes</b></p>   | <p>Increased networking events locally.</p> <p>Research funding streams broadened to include PBS led bids.</p> <p>Increased take up of PBS company services.</p> <p>Increased take up of government funding via the PBS sector.</p>  | <p>Increased bids from the sector.</p> <p>Increased R&amp;D activity by client firms in wider economy.</p> <p>Increased jobs, businesses and growth and survival rates in local economy.</p> <p>Increased product and process development.</p>  |

### **Case Study: Encouraging and Delivering Innovation**

An international insurance firm described an innovation 'hive' where performance and productivity ideas are submitted internationally and assessed through a 'dragons den' approach, if chosen to be developed, staff have the opportunity to be "bought out" of their day job to deliver the innovation. This creates a process of innovation where the reward is career development, and investment in your ideas, creating an environment where innovation is rewarded and encouraged.

### **Case Study: Higher Education Interest in the Sector**

Higher Education Institutions are now showing greater interest in the sector, willing to partner and provide support, which has resulted in a number of projects. This is in response to the recent calls such as 'Industrial Strategy Challenge Fund' (ISCF) have generated interest in the sector and created a wide range of responses and project ideas from higher education (HE) - however they are unusual in size and scale. There are novel ways of delivering support developing such as degree apprenticeship programmes and placement programmes which drive engagement between the sector, HE and the student. However this is piecemeal across universities and companies.

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## 8. Appendices

### A. Literature search results

Table A1 below sets out the returns from each of the bibliographic databases searched. The searches were completed on 7th August 2018. The searches were varied by database depending on the volume of returns to make screening more manageable.

**Table A1: Results of searches of key bibliographic databases**

|  | Web of Science | Econlit | Business Source Premier |
|--|----------------|---------|-------------------------|
| 1. Business to business OR B2B         | 3,069          | 230,410 | 4,040,461               |
| 2. Professional AND Service*           | 39,303         | 7,476   | 357,751                 |
| 3. 1 AND 2                             | 91             | 5,350   | 150,962                 |
| 4. Barrier* OR obstacle* OR challenge* |                | 63,913  | 434,977                 |
| 5. 3 AND 4                             |                | 358     | 8,186                   |
| 6. Growth OR productivity              |                |         | 928,440                 |
| 7. 5 AND 6                             |                |         | 795                     |
| 8. RESTRICT 7 to Great Britain         |                |         | 43                      |

Additional searches were undertaken of the grey literature by IDOX and the research team. These searches yielded some additional 39 potential texts that were considered for inclusion. Targeted searches were undertaken of key websites to identify policy and strategy papers.

## B. List of subsectors covered through the interviews

| SIC code (subsector)   | No of Birmingham firms interviewed (earlier City-REDI research) | No of Birmingham firms interviewed (BEIS research) | No of Darlington firms interviewed (BEIS research) |
|--|---|--|--|
| 64 - Financial service activities, except insurance and pension funding            | 12  | 1  | 2  |
| 65 - Insurance, reinsurance and pension funding, except compulsory social security | 3   | -  | -  |
| 69 - Legal and accounting activities   | 16  | 1  | 5  |
| 70 - Activities of head offices; management consultancy activities                 | 5   | -  | -  |
| 71 - Architectural and engineering activities; technical testing and analysis      | -   | 4  | 2  |
| 72 - Scientific research and development   | -   | -  | 1  |
| 73 - Advertising and market research   | -   | 2  | 2  |
| 74 - Other professional, scientific and technical activities                       | -   | 1  | 1  |
| 77 - Rental and leasing activities   | -   | 5  | -  |
| 78 - Employment activities   | -   | 3  | 3  |
| 82 - Office administrative, office support and other business support activities   | -   | 1  | 2  |
| <b>Total</b>   | <b>36</b>   | <b>18</b>  | <b>18</b>  |

## C. Topic guide for interviews

### Participant information sheet

BEIS Professional & Business Services Sector – Creating Further Demand and Growth outside London

**Description:** To review the sector and its position in the region, understanding its position in terms of driving business growth and how the combined authority, businesses, and other bodies can stimulate and develop the sector for the good of the wider region

### Research objectives

The aim of this research is to create an evidence-based strategy to set future industry and government strategy to bolster the PBS Sector outside London.

To this end, we wish to focus on the following objectives:

- Contribute to our understanding of local Industrial Strategies and suggest ways to unlock support from industry.
- Investigate the limiting factors to inclusive growth locally, and ways in which providers of professional and business services can potentially help address these.

### Invitation to participate and explanation of what participation entails

You have been invited to participate in the study because you hold a significant decision making position within a company of interest for the research. Participation is voluntary and if you choose to participate, you are free to withdraw at any time without reason.

By participating you will agree to be interviewed in regard to the company you are employed by and your role within the firm. The interview will last approximately 20-30 minutes. The content of the interviews will not be shared with other participants either from within your firm or other participating firms.

The verbal interview will be recorded unless you state that it would be preferential not to. This is to ensure the accuracy of data and mitigate misrepresentation.

### Confidentiality/anonymity and data security

The data generated will be treated as confidential. Both your data and your organisation's will remain anonymous in the outputs of the research, unless you specifically ask for a comment to be made identifiable.

If you agree to take part in the research, any information will be safely stored in accordance with the Data Protection Act (2018). Access to the data will be restricted to the researcher. Both electronic and hard copies will be stored securely, through password protection and a locked filing system. On completion of the study, the data may be deposited in the Economic and Social Research Council (ESRC) data archive. If this occurs, all identifiable information for both participant and company will be removed.

We will start with background to the company

**How would you describe the main business activity of the firm (function, products or services)?**

**What factors determined your location Birmingham/Darlington?**

|                              | <b>Do not consider</b> | <b>Low importance</b> | <b>Moderately important</b> | <b>Important</b> | <b>Very important</b> |
|------------------------------|------------------------|-----------------------|-----------------------------|------------------|-----------------------|
| Reduced building costs       |                        |                       |                             |                  |                       |
| Reduced labour costs         |                        |                       |                             |                  |                       |
| Client opportunity           |                        |                       |                             |                  |                       |
| Near to client               |                        |                       |                             |                  |                       |
| Labour market                |                        |                       |                             |                  |                       |
| Access to wider market       |                        |                       |                             |                  |                       |
| Standard of living for staff |                        |                       |                             |                  |                       |

Other .... write in

**How many people work at this establishment** (including yourself):

(If relevant) How many people work in the organisation across the UK as a whole:

**Is this site the Head Office of the organisation?**

|     |  |
|-----|--|
| Yes |  |
| No  |  |

**Is the headquarters of your organisation based in the UK or outside the UK** (provide location)?

|                |  |
|----------------|--|
| Within the UK  |  |
| Outside the UK |  |

**How many/ what proportion of people are employed in the following occupations?**

*(Note to interviewer: need to record one or the other of these.)*

| <b>Occupation</b>   | <b>Number</b> | <b>Share (%)</b> |
|---|---------------|------------------|
| Managers, directors and senior officials for example:<br>Functional managers and directors<br>Financial Institution Managers and Directors  |               |                  |
| Professional occupations for example:<br>Information Technology and Telecommunications Professionals<br>Legal Professionals<br>Business, Research and Administrative Professionals (incl Accountants)   |               |                  |
| Associate professional and technical occupations:<br>Information Technology Technicians<br>Legal Associate Professionals<br>Business, Finance and Related Associate Professionals<br>Sales, Marketing and Related Associate Professionals                         |               |                  |
| Administrative and technical occupations:<br>Administrative Occupations: Finance<br>Administrative Occupations: Records<br>Other Administrative Occupations<br>Administrative Occupations: Office Managers and Supervisors<br>Secretarial and Related Occupations |               |                  |
| Sales and customer service occupations:<br>Call and contact centre occupations<br>Customer service occupations  |               |                  |
| Elementary occupations:<br>Postal workers, couriers<br>Cleaners and domestics<br>Security and related   |               |                  |

**Clients**

**Can you tell me about your client base? Who are your main clients (sector and type)?**

Where are your clients based? What % are based...

|  |  |
|--|--|
| Locally (regionally West Midlands / Tees Valley) |  |
| Nationally (in UK)                               |  |
| Outside the UK                                   |  |

## Competitors

**Who are your main competitors?** (sector and type)

Where are your competitors based? What % are based....

|  | % |
|--|---|
| Locally (regionally West Midlands / Tees Valley) |   |
| Nationally (England)                             |   |
| Within the UK                                    |   |
| Outside the UK                                   |   |

## Focusing on productivity measurement:

- a) What do you understand productivity to mean?
- b) What productivity measures do you record and what is your rationale for doing so?
- c) For what business units do you measure productivity? (e.g. individual, team, division, establishment, whole organisation, etc.)
- d) Over what period do you track productivity? (e.g. daily, monthly, quarterly, etc.)
- e) What role does productivity measurement/ improvement play in business strategy? (probe for reasons, changes, etc.)
- i) What do you consider to be the main causes of reduced staff efficiency?

|   |  |
|---|--|
| The development of new products and services  |  |
| The introduction of new working practices   |  |
| The introduction of new technology  |  |
| They are new to the role – IF NECESSARY ADD either because they have recently started the job or have recently been promoted to a higher level role |  |
| They have not received the appropriate training   |  |
| Their training is currently only partially completed  |  |
| They have been on training but their performance has not improved sufficiently  |  |
| Unable to recruit staff with the required skills  |  |
| Problems retaining staff  |  |
| Staff lack motivation   |  |
| Are there any other reasons? (SPECIFY)  |  |

## Barriers to growth

**What would you say are the 3 main challenges currently facing your company? Your Birmingham/Darlington Office?**

**What are the consequences of these challenges?**

**How are you dealing with them (e.g. business model change etc)**

**What types of business support would address identified barriers and issues?**

**What, in any, are the barriers to exporting? And what barriers could be addressed to encourage more exports?**

**Improving performance elsewhere – explain that an important part of this study is understanding the role the firm plays in driving economic growth in the local/national economy.**

**How does your company improve productivity in your client base?**

**Can you describe a typical productivity or performance gain for a client (for example, reducing costs, efficiency of delivery or new products introduced)?**

**Are clients aware of the range of services offered by PBS firms?**

## Innovation

**What are the key areas of innovation in your company**

**What would you say are the key drivers of innovation in your sector?**

**In your opinion, what prevents innovation from occurring in your firm?**

**And in the wider sector?**

## Skills

In this section we will explore skills in more depth:

**Compared to 12 months ago, has the number of people employed at this establishment...?**

|                         |  |
|-------------------------|--|
| Remained about the same |  |
| Increased               |  |
| Decreased               |  |

**Is there a particular qualification that your staff need to have?**

**Are you facing any specific recruitment challenges? If so, what are they?**

**In your opinion, is there an issue with the sector attractiveness to employees?**

(Prompts: Wages offered are lower than those offered by other organisations; Geographic location of the site; Unattractive conditions of employment; Lack of career progression; Long/unsocial hours; Too much competition from other employers; Not enough people interested in doing this type of work; Staff don't want long term commitment)

**How does this compare with your larger organisation or other offices in other places (particularly London)?**

Same          Better          Worse

**What conditions in the local area would make the sector more attractive to the workforce/investors?**

(Prompts: Infrastructure, transport networks, community safety, developing the right types of workspace, educational institutions/schemes and links to other sectors)

**How can this local area ensure that the PBS talent pipeline is sufficient and of quality?**

**Are you aware of any actions taken to achieve this?**

**What role do you think the combined authority (and Mayor) or other organisations could play in delivering these improvements?**

**What role could the National government play in delivering improvements?**

## Consent form

Thank you for agreeing to take part in this interview. Please read and sign below to acknowledge you have read and understood the information provided, and give your consent for the interview process to continue.

Please read and indicate:

Please circle

|   |     |    |
|---|-----|----|
| I confirm that I have read, or have had read to me, and understand the information sheet for the above study  | Yes | No |
| I have had the opportunity to consider the information, ask questions and have had these answered satisfactorily  | Yes | No |
| I understand that my participation is voluntary and that I am free to withdraw my consent at any time   | Yes | No |
| I understand that if I disclose during my interview any criminal acts or issues around safeguarding that are not being adequately addressed, that my interviewer may terminate the interview and may be required to break confidence. | Yes | No |
| I understand that I can refuse to answer any question without the need to explain why   | Yes | No |
| I understand if I mention something in the interview that I feel may cause harm to others, or to myself that I can request that it remains confidential and it will not be reported.  | Yes | No |
| I understand that the researchers may wish to record the interview / focus group for research purposes, however, this is optional and I may decline to have the interview recorded  | Yes | No |
| I agree to the interview / focus group being audio taped  | Yes | No |
| I understand that the interview / focus group will be confidential  | Yes | No |
| I agree that the researchers may use some of the things I say when writing a report on the understanding that my name will not be mentioned unless I expressly consent for it to be mentioned   | Yes | No |
| I consent voluntarily to take part in the above research  | Yes | No |

Name of Participant: \_\_\_\_\_

Name of Researcher: \_\_\_\_\_

Signature of Participant: \_\_\_\_\_

Signature of Researcher: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Day/month/year

Day/month/year

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