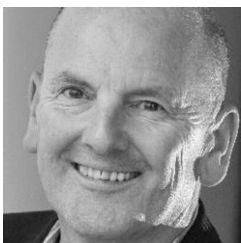


# *Anchor Institutions and Regional Innovation Systems for supporting micro and small businesses*

Nigel Culkin



## **Abstract**

The after-shocks of the global financial crisis, the EU Referendum, the growth in popularity of the Regional Innovation System (RIS), and the growing use of the term anchor institutions, have highlighted the crucial and strategic contribution certain types of organisation can make to their local community. Drawing on contemporary literature on the entrepreneurial university and regional innovation systems, I explore some key qualities and problems around universities as anchor institutions, and also the role they can play for Micro and Small Businesses (MSBs).

Following recent UK Public Spending and Department of Business Innovation and Skills remit changes, I also highlight the way universities should - and must - take a lead role as an *anchor institution* within their region, especially in light of the recent Brexit decision. Such a role will include providing a wide range of formal and informal support, knowledge and resources targeted at micro and small businesses (MSBs), complementing usual Small and Medium Enterprise (SME) support ([Wilson, 2011](#)). Drawing on my experiences as President of the Institute of Small Business & Entrepreneurship (ISBE), I offer four different ways to enhance collaboration to enable MSBs to make maximum use of “anchor university” support.

Findings suggest a need for regional policy makers to embrace an innovation-supportive culture; one that would enable firms and systems to evolve over time, with anticipated outcomes far in excess of those envisaged from recent UK Government spending and business support changes. Such changes will close and replace some robustly evaluated programmes, designed to support small firm growth, with a Government commitment to cut red tape and by increasing the take up of [business rate relief](#) for an extra year.

**Keywords:** Anchor Institutions, Entrepreneurial orientation, Regional Innovation Systems, Entrepreneurial Universities, Growth, Small firms, devolution

## Introduction: how “localism” is driving the MSB innovation ecosystem

Whether you were part of the Remain camp or a Brexiter, the die has been cast. We have entered uncharted territories and - to borrow from a speech delivered in 1898 by the politician Joseph Chamberlain (father of British PM, Neville Chamberlain) - *“I think that you will all agree that we are living in most interesting times.”*

Even before this decision to leave the European Union was taken, the UK faced a productivity challenge in that its performance has weakened compared to the rest of the G8 economies. Nevertheless, research demonstrates that micro and small businesses (MSBs) are a key under-utilised resource for addressing this challenge. This is especially so when engaged in international and innovative activities, that account for 60 per cent of all private sector jobs and 47 per cent of revenue (ERC, 2015). Improving the UK’s low productivity is a key challenge if we are to generate growth in the post-Brexit economy. While MSBs are a vital part of the economy, many commentators also recognise the key part played by business support initiative in helping stimulate growth amongst this group.

Take for example, [Growth Accelerator](#), a nationwide business advice programme for growth-oriented businesses, underpinned via a government subsidy. As is common in the vast majority of national programmes, Growth Accelerator was subject to numerous audits in order to evaluate its effectiveness. The estimates from government indicated that every £1 spent yielded benefits to the economy of between £4.54 and £9.92. If true, Growth Accelerator would have boosted the SME economy by £1bn (Mole, 2015).

Business support comes primarily from national government, but in the UK November 2015 public spending plans, the Department for [Business Innovation and Skills](#) was pressed to find 20% savings or face a possible a possible break-up. The Business Secretary argued it would be “a step backwards” if his department were abolished and while BIS remains, the Growth Accelerator ended abruptly the following month.

The closure of the Business Growth Service (BGS), which included the Manufacturing Advisory



BIS was formed in 2009 through a merger of the Department for Innovation, Universities and Skills and the Department for Business, Enterprise and Regulatory Reform.

Service (MAS) and the Growth Accelerator programme was announced by Anna Soubry, the Minister for Small Business. She said, *“Where taxpayers’ money is used to provide support, this is best done at the local level which is why we’re providing further funding to growth hubs and away from Whitehall.”*

So, given all that we know since, and also the plethora of policy-inspired business initiatives since 1983 that are outlined in the Appendix at the end of this article, the question is, how will this local support happen and who is going to lead the regional

level initiative?

### **Think Local, Act Local: anchor institutions and Regional Innovation Systems**

In the rest of this article, I present some ideas as to why universities should take a central, or anchoring, role in this drive towards regional devolution. I believe that the benefits for the MSB community in embracing such an idea would come directly in the form of a) attracting foreign direct investment and b) increased retention of highly skilled talent. In Scotland alone, Universities are [cited](#) as a determining factor in almost half of all foreign direct investment (FDI) projects. As a producer of highly-skilled graduates and postgraduates, generator of world-class research and development and found at the centre of industry clusters, universities help create the conditions that make Scotland the most attractive place to invest in the UK, second only to London.

#### **The Road To Devolution**

The five devolution deals announced since – Liverpool City Region, North East, Sheffield City Region, Tees Valley and West Midlands Combined Authority – all build upon a foundation of city deals, growth deals, combined authorities, enterprise zones and university enterprise zones (UEZs).

As the devolution movement gathers pace, the terms anchor institutions and Regional Innovation Systems (RIS) will become increasingly important.

#### *Anchor institutions*

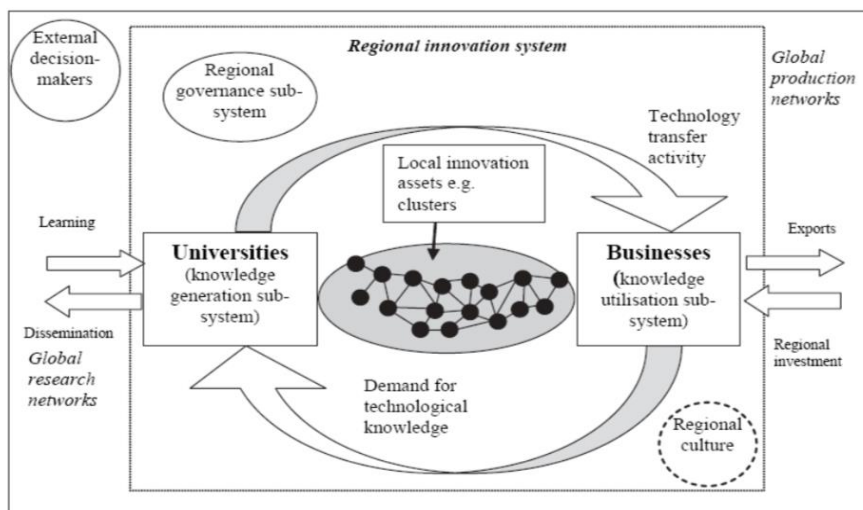
Anchor institutions are nonprofit institutions that, once established, tend not to move location. Emerging trends related to globalisation - such as the decline of manufacturing, the rise of the service sector, and a mounting government fiscal crisis - suggest the growing importance of anchor institutions to local economies. According to Community-Wealth.org (a project of The Democracy Collaborative in the U.S.), in many places, these anchor institutions have surpassed traditional manufacturing corporations to become their region's leading employers. Their scale and local links mean that they can play a key role in local development and economic growth, representing the 'sticky capital' around which economic growth strategies can be built and innovation fostered at a local level ([Work Foundation, 2010:3](#)). I would argue that this is why universities have powerful credentials and potential to be key anchors within UK regions. We know that universities are *somewhere* (i.e. in specific geographic locations) in the UK and that *somewhere* matters, more than ever before.

#### *Regional Innovation Systems*

Regional Innovation Systems encourage rapid knowledge, skills and best practice diffusion within a geographic area. Larger than a single city, an RIS is a supported innovation network that interacts regularly to enhance innovation in a region. The apparent shortcomings of traditional regional development models and policies, led Doloreux and Parto (2005) to develop a framework that highlighted the importance of regional scale and of specific and regional resources in stimulating the innovation capability and competitiveness of firms and regions.

- ❖ firstly, the importance of interactions between the actors of the innovation system in relation to the exchange of knowledge;
- ❖ secondly, the set-up and the role of institutions supporting knowledge exchange and innovation within a region; and
- ❖ thirdly, the existence and role of RIS in regional innovation policy-making.

**Fig. 1** below depicts the RIS concept, showing the main actors and dimensions and how they interact (Cooke and Piccaluga, 2004). As such, we can see how innovation is very much an interactive and dynamic process heightened by networking with related *actors*. Whilst lonely individualistic pursuit happens, more generally supportive, symbiotic relationships within networks trigger innovation. Innovation and technological advancements are very complex processes with mutual interdependencies. Figure 1 also illustrates how key anchor institutions act as a life support system, particularly for MSB growth firms.



**Fig 1.** The Regional Innovation System. Source: Cooke and Piccaluga, 2004

*The importance of supporting the UK MSB sector and improving start-up and scale-up survival rates*

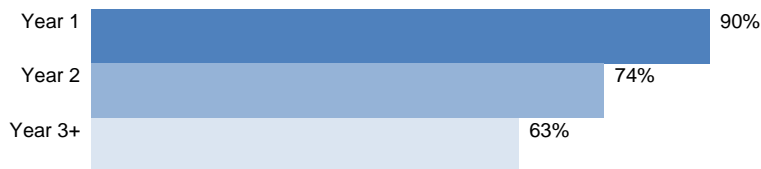
Without a political champion in Whitehall, it has not been easy to evidence the impact that the MSB sector makes on the UK economy, or the barriers it faces. The creation of the Enterprise Research Centre (ERC) in 2013 - with its core mission to help understand what drives small firm growth - has already gone some way to identify policies,

**Enterprise Research Centre**  
 The ERC was established in 2013 to answer one central question, 'What drives SME Growth?' Originally funded by the ESRC, Innovate UK, BIS and the BBA, the ERC is a collaboration of senior researchers from Aston, Warwick, Imperial College, Queens University Belfast and the University of Strathclyde. The Centre aspires to become the international focal point for research, knowledge and expertise on SME growth and entrepreneurship.

structures, processes and techniques that are effective in supporting MSB growth and development.

Thanks to the work of ERC experts we now know that MSBs employ 12.1 million or 60% of all UK employees. Equally important is the life expectancy of a MSB; just 63% manage to survive their first three years trading, as can be seen in **Table 1**. What's more alarming are the findings of Anyadike-Danes & Hart (2014), who point out that of all UK firms born in one given year (1999 in this particular study), around 90% no longer existed after fifteen years. Of that cohort, only about 5% of those start-ups add a substantial number of jobs to the UK economy.

**Table 1: Life Expectancy Rates of a MSB**



Passing the five-year survival point and building critical mass of five or more employees massively increases an MSB's survival chances. This is one reason why we need anchor institutions with a remit built in, to help firms through those early years – from start-up to scale-up. The 2015 [CMI/CABS survey](#) highlighted limited business capabilities in many MSB's. For example, three quarters of UK customers shop online, but 44% of MSB's have no website, 71% are not mobile ready and 69% do not use social media marketing, thus missing significant revenue opportunities. Moreover, only 7% of MSBs seek support to increase productivity. Universities have the capabilities, in the form of industrial placements, student projects and more, to make significant inroads in the resourcing requirements of local MSBs.

**Making the case: universities as anchor institutions**

Certain universities already play a key role in enterprise support and entrepreneurship within their region. They do this by responding to the need to develop competent individuals to work across commercial and public sectors and cope with today's uncertain and complex business environment. UK universities are learning how to teach enterprise and entrepreneurship programmes, in a way that goes well beyond the physical confines of the business school, extending across the institution and embracing wider networks (James & Culkin, 2015).

Such universities, located at the heart of a defined region, encourage innovation amongst MSBs, stimulate entrepreneurial aspiration from students and provide skills, knowledge and experience to help start their own business. In so doing, they send signals about innovation and growth

**Case Study 1: Digital Estate Value-Added Reseller**  
Hertfordshire Business School (HBS) is Hertfordshire's principal regional university and as such attracts significant inquiries from the local business community. These inquiries are often related to existing business challenges, specifically those associated with skills gaps in three main areas: marketing related, product development and operational issues. One such business RealTech, approached us in 2008 with a small project for our Graduate Consultancy Unit, this involved us evaluating the current trends concerning digital estate in Tier 1 retailers. Our Graduate Consultancy Unit (GCU) was made up of undergraduate final year, postgraduate students and a group of academics with various sector and enterprise competencies.

RealTech were keen to both understand the current digital estate in these Tier 1 Retailers, and to also understand the customer's use of these information systems, and their appetite for more. The GCU delivered its first report, details a technology vs. product roadmap, and suggestions for RealTech concerning future customer latent needs. They commissioned a second study involving accompanied shopper journey research, again a report was delivered.

Four years later RealMedia came back to us, this was a Management Buy-Out (MBO), from the original RealTech, and were looking for another study.

In the intervening four years, we have conducted two contract research projects, and had two postgraduate student project teams work with RealMedia to provide further Market/Product Concept testing assistance.

to smaller businesses (Mason, 2014; Culkin & Mallick, 2011). Universities can stimulate regeneration, skills acquisition, innovation; and business support, provided that businesses understand the scope of what is available (See Case Study 1 embedded in the following link).

One only has to look at the citations for each of the eight [Entrepreneurial Universities of the Year Award winners](#), and the REF2014 Impact Case Studies (that speak to small business and entrepreneurship), to see the anchoring role certain universities already play for the MSB sector, as well as the wider business community ([Witty, 2013](#)).

### **What does a successful anchor institution do?**

I want to conclude with a call to action. Despite the uncertainty that a Brexit victory has caused, there are four simple steps required in order to enable universities to take on the mantle of anchor institutions, operating at the heart of their regional innovation system and helping the MSB sector grow and prosper in an increasingly devolved nation. These activities involve boosting university-business collaboration, simplifying and clarifying collaboration processes between, government, universities and businesses, encouraging MSBs to become strategic and entrepreneurial thinkers, and positioning universities as thought leaders in their local labour market. In the following sections, I elaborate on these propositions.

#### *1. Boosting university-business collaboration*

MSBs need to value opportunities to collaborate with universities. Hughes & Kitson, (2013) and [NCUB](#) (2014) found that ‘universities and colleges are brimming with expert knowledge that attracts scholars and businesses from all over the world. However only a small percentage of UK firms cite universities as their principal source of information for innovation (5% of SMEs and 2% of larger firms)’. It is not surprising therefore that Dame Ann Dowling’s [Review](#) of Business-University Research Collaborations in the UK (2015), highlighted that collaborative R&D funding for commercial projects with two or more academic partners was twice as high for those without any academic partner.

#### *2. Simplifying and clarifying collaboration processes between, government, universities and businesses*

There is massive potential for universities to raise impact through simplifying and clarifying agency support roles. Dowling (2015) found that complexity causes frustration and confusion, especially among MSBs. Hence the UK economy is not reaping full potential from connecting businesses with University research, and such arrangements need simplification. Projects should be needs-driven. As Kevin Mole (2015) argued in the [Guardian](#) Newspaper “Growth hubs are certainly interested in the same outcomes as ... government, but will not deliver more effective programmes than [Growth Accelerator](#)..... because the programmes and projects are developed on the basis of the funding, rather than an evidence-based view ..... abrupt policy changes undermine confidence and squander resources. Closing Growth Accelerator was costly – not for the Treasury but for the economy as a whole.”

Initiatives targeted at MSBs need to be tailored and targeted to specific market niches. Smallbone *et al.* (2015) believe that many market failures in the small firm sector result from a *one-size fits all approach*. In addition, key *mind-sets* and personality drivers need to be better understood. Support for different MSB owner-manager personality types and helping businesses in a targeted way at critical stages in their development are important. Focusing on identifying MSBs with greatest growth potential is highlighted in a BIS Paper (2015) on the [Sociology of Enterprise, which](#) distinguishes between *growth inclined* businesses (where there is a strong vision for the future) and *growth ambivalent* and *growth resistant* organisations. Initiatives characterised by a psychological dimension will help to target scarce resources on improving start-up and small business scale-up success rates.

The lack of growth-focused organisations has returned us to a *policy proliferation period*, during which [Greene and Patel](#) (2013) noted that 891 different sources of support for MSB's and 18 access to finance schemes co-existed. This is hardly the most efficient arrangement, some might say, and we need to make a more determined effort to learn from other approaches elsewhere in the world (e.g. Mazzucato, 2013; Kellor & Block, 2012).

### 3. Encouraging MSBs to become strategic and entrepreneurial thinkers

Start-ups need to balance enthusiasm with strategic clarity in order to scale-up. Universities can help with strategic thinking, whilst acknowledging that recovering from a flawed strategy is very challenging. MSB start-ups need to balance being *strategic entrepreneurs* with living as enthusiastic *opportunity seekers*. A lack of strategic focus is at the heart of many business failures. Entrepreneurial ventures are often effective in identifying opportunities but less successful in developing competitive advantages to drive value (Culkin & Smith, 2000; Ireland *et al.*, 2003). The chances of moving from start-up to scale-up can be improved by paying attention to three key, inter-related strands. These are:

- Strand #1: Making appropriate decisions about strategic positioning, "knowing where to play to win".
- Strand #2: Finding "focus for maximum impact".
- Strand #3: Determining to follow "the minimum route to success and maximising limited resource usage".

Business School academics know that when it comes to leadership, the skills required to steer a start-up through its first 12-18 months are very different from those required during the subsequent scale-up period. The skills needed to attract, develop and mentor can place additional unforeseen burdens on the MSB founders during this period. This can often create a need to bring in a new skill set from outside in the form of faculty with experience of navigating the a much larger, more mature form of company.

#### 4. Positioning universities as thought leaders in the local labour market

Universities drive thought leadership and prompt fresh thinking. People find it increasingly difficult to progress from low to high skilled jobs, which partly explains why many consider setting up an MSB. Anyadike-Danes & Hart (2014) stressed that universities can support individuals in the labour market, concluding that just over one in four of all jobs in the private sector are destroyed or created over an average of 12-month period. Coupled with the survival rate of MSBs, *joined up thinking* is essential to universities when approaching the MSBs and the low skilled sector. This is why, as part of its [RAKE](#) initiative in 2015, [ISBE](#) focused on the role of anchor institutions. In today's *primary* labour market individuals receive training to keep pace with technical change and raise productivity. In the *secondary* labour market and within MSBs, people gradually fall behind in skills. Universities enable networking opportunities and can help MSB and the lower skilled sectors alike.

#### **Concluding Mantra: think local, deliver applied research, and collaborate**

Here, I have set out the role universities can play - as anchor institutions within a devolved regional innovation system - for the benefit of MSBs. My view is that much value can be gained when universities lead in terms of providing thought leadership and offering initiatives to support MSB communities to help overcome systemic concerns that hold back competitiveness and innovative performance. A recent Universities UK [blog](#) highlights the direct and indirect effects that universities can have on the economic, cultural and social spheres in the areas they operate. Long-term challenges, that include hard-to-fill vacancies and skills shortages, demand systemic solutions. Universities have a pivotal role to play through their relationships, especially at local level, and fulfilling management leadership needs. These can be combined as the basis of new local learning and innovation ecosystems, engaging learning providers, employers and other stakeholders into a shared solution.

The majority of academics live in the same region as their host university, which recruits the majority of their students and governing bodies from the cities and regions in which they are located. As Dowling (2015) says "We need a change of culture in our universities to support and encourage collaboration with industry. In the UK we can be a bit dismissive about research that actually has an application, but in reality such use-inspired research can be truly excellent."

I would add that collaborations with industry should focus on the local catchment area and start with micro and small businesses. This would acknowledge the importance of "*the somewhere*" which the winners of the eight Entrepreneurial Universities of the Year Awards recognised.



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### **Appendix: A chronology of Government support initiatives for business (1983 – 2009)**

#### **The Department of Trade and Industry (1983-2007)**

**1983** Margaret Thatcher announced that the Departments of Industry and Trade would be merged to form the Department of Trade & Industry (DTI). The new Department combined the functions of the previous Department of Industry with the commercial relations and trade functions of the Department of Trade. The Department gained responsibility for radio frequency regulation from the Home Office whilst responsibility for the shipping policy, marine and civil aviation policy and international aviation and the accidents investigation departments were transferred to the Department of Transport.

**1985** David Trippier was designated Minister with special coordinating responsibilities for issues relating to reclamation and recycling of waste. Mr Trippier combined this new post with his then current one of Minister for Small Firms. Later in the year these functions were transferred to the Department of Employment.

**1987** The Enterprise and Deregulation Unit (EDU) and Inner Cities Unit (ICU) were transferred to the Department from the Department of Employment.

**1988** On 12th January Lord Young announced a new role for the DTI in a White Paper entitled "DTI - the Department for Enterprise". The following reorganisation caused the industry divisions to be replaced by market divisions, which were organised by sector and covered a wider range of activities.

**1990** Nicholas Ridley announced a DTI reorganisation following the conclusion of the review started by Lord Young. The DTI's work would be grouped together in new divisions, each responsible for an overall policy theme. The new divisions that were created included: Business Task Forces; Information Technology; Manufacturing Technology; Telecommunications and Posts; Economics, Market Intelligence and Statistics.

**1991** The creation of the Joint Directorate was announced. This new unit was drawn from the staff of both the DTI and FCO. From April all export services available through DTI and FCO were marketed under a new brand name 'Overseas Trade Services'.

Commented [BM1]: FCO = Foreign and Commonwealth Office??

**1992** On his appointment to the DTI on 11th April Michael Heseltine chose to revive the title President of the Board of Trade instead of using the now more usual title of Secretary of State. The Department of Energy merged with the DTI. It then took responsibility for small firms from the Department of Employment. However the Inner Cities Unit was transferred to the Department of the Environment, work on films and the export licensing of art to the new Department for National Heritage and the Financial Services Division would move to the Treasury the following month.

Also in **1992** Michael Heseltine announced a major DTI reorganisation which reshaped the Department to relate more closely to sectors of industry. Eleven new divisions were created, seven of which were sectoral divisions.

**1993** A new hotline called 'Business in Europe' was launched to help UK companies to do business in Europe.

**1995** The Department of Employment was merged with the Department for Education to become Department for Education and Employment (DfEE) The DTI inherited the functions of industrial relations from the Employment Department. Also from the Cabinet Office came the Office of Science and Technology (OST). The Competitiveness Division and Deregulation Unit were transferred from DTI to the Cabinet Office.

**1998** The new Labour Prime Minister Tony Blair undertook a cabinet re-shuffle and appointed Peter Mandelson as Secretary of State for Trade and Industry.

**1999** In April, the Overseas Trade Services of the DTI were combined with the overseas posts of the Foreign and Commonwealth Office to form British Trade International. British Trade International is

headed by a Chief Executive answerable directly to the Secretary of State for Trade & Industry and the Foreign Secretary.

**2001** Major changes in the responsibilities of the DTI included taking over responsibility for the Regional Development agencies and the construction industry from the former DETR.

**2005** Following the May General Election the DTI's name was changed to the Department for Productivity, Energy and Industry. But within a week the old name had been reinstated.

**2007** three new departments were formed from the DTI, DFES and the Better Regulation Executive. The work of the Office of Science and Innovation was moved to the new Department of Innovation, Universities and Skills. The rest of DTI and the Better Regulation Executive (BRE) from the Cabinet Office became the Department for Business, Enterprise and Regulatory Reform with John Hutton as its first Secretary of State.

**2016** July – following the Brexit outcome, giving a popular mandate for the UK to withdraw its membership of the European Union, we can expect further business initiatives and reorganisations.