



CHAIN REACTION

IMPROVING THE SUPPLY CHAIN EXPERIENCE FOR SMALLER FIRMS

Published: June 2018

 @fsb_policy

fsb.org.uk

fsb⁰⁸
Experts in Business

ACKNOWLEDGEMENTS

This report was project managed by Andrew Poole, Senior Policy Advisor, with major contributions from David Hale, Senior Public Affairs Advisor; Richard Hyde, Regulation and Home Affairs Policy Advisor; Lorence Nye, Taxation & Finance Policy Advisor; Dana Elman Vishkin, Innovation, Enterprise and Trade Policy Advisor; and Daniel Bellis, Local Government Policy Advisor.

Special thanks to all those in FSB's media, public affairs and policy teams in Westminster, Scotland, Wales and Northern Ireland who provided insight and support, in particular Will Black and David Moore Crouch. Special thanks also to former colleagues Greg Warren and Annie Peate for their roles in planning and drafting this report.

This report would not have been possible without the expert small business insights of FSB members, in particular: Tim Coleman, FSB Procurement Chair, and all those who provided their time to participate in the survey and in the development of case studies.

The research was carried out by Verve – the market research agency responsible for administering the survey. The report was designed by Cactus Design Limited – a small business based in Wales. This project would not have been possible without all the FSB members who participated in this research, generously taking the time out of running their small businesses.

ABOUT FSB

The Federation of Small Businesses (FSB) is the UK's leading business organisation. Established over 40 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that's led by our members, for our members.

Our mission is to help smaller businesses achieve their ambitions. As experts in business, we offer our members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in government.

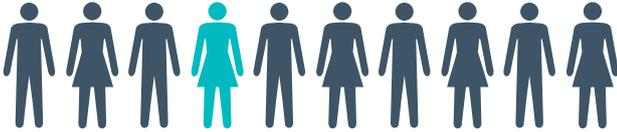
FSB is also the UK's leading business campaigner, focused on delivering change which supports smaller businesses to grow and succeed. Our lobbying arm starts with the work of our team in Westminster which focuses on UK and English policy issues. Further to this, our expert teams in Glasgow, Cardiff and Belfast work with governments, elected members and decision-makers in Scotland, Wales and Northern Ireland.

CONTENTS

Foreword	5
Executive summary.	6
Recommendations	10
Supply chains in focus	16
Factors affecting supply chain experience	20
Boosting UK productivity by better supporting innovation and skills	23
Untapping skills.	39
Increasing the resilience of UK suppliers	44
The scourge of poor payment practices	47
Increasing efficiency within supply chains.	58
Bringing fairness to public procurement.	69
Annex 1	75
Annex 2	80
Annex 3	82

CHAIN REACTION

IMPROVING THE SUPPLY CHAIN EXPERIENCE FOR SMALLER FIRMS



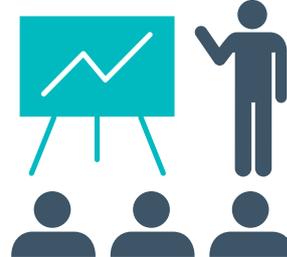
Only **12%** of **smaller suppliers** have received any **skills** or **workforce development support** in the previous two years



83% of smaller suppliers, that have received **help to innovate**, think it has had a **positive impact** on their business



30% of **smaller suppliers** receive **help to innovate** from their customers



66% of **smaller suppliers** hold at least one kind of **verified standard**



17% of **smaller suppliers** are paid more than **60 days** after providing an invoice



More than a third of smaller suppliers have had their **payment terms increased** over the last 2 years



The most **commonly reported risks** to smaller suppliers are:

- Customers **failing to pay** for services / goods provided (**51%**)
- **Losing** key members of staff (**37%**)
- Suppliers **unable to supply** (**30%**)
- **IT problems** (**29%**)



£2,800 a year is the **average cost** of certified standards



Almost **1 in 5** **smaller suppliers** are **paid late** more than half the time by the public sector

FOREWORD

FSB research suggests that 77 per cent of smaller businesses within the UK are part of supply chains. Healthy supply chains, and good supply chain practice in general, can yield significant benefits to smaller suppliers, customers (often larger businesses), the wider economy, and society as a whole. In a nutshell, good supply chain practice makes business sense, bringing a genuine competitive advantage to both larger business customers and smaller suppliers.

FSB welcomed the publication of the Industrial Strategy as a first step to setting out an economic blue print for the UK economy, post-Brexit. In particular, we were pleased to see the Government's commitment to a further review on how to improve SME competitiveness across all sectors of the UK economy. The recently published Call for Evidence on this subject is very welcome, particularly the explicit recognition that effective relationships in the supply chain are one of the characteristics of high productivity businesses.

However, recent events have shone a light on the pervasive culture of poor payment practice across UK supply chains, in particular the collapse of Carillion. Prompt payment is an essential prerequisite for healthy and resilient supply chains. This is critical for smaller suppliers, where cash flow is often managed on tight margins.

This report looks at the advantages to all actors of good supply chain practice, but also the consequences of poor practice. It makes a number of proposals to Government, including: how to hardwire good supply chain practice into the Industrial Strategy and the Sector Deals; how to improve payment practice; and how to strengthen the UK's standards regime. Critically, it also shows how supply chains can act as a lever to boost skills and innovation amongst smaller suppliers, enhancing the productivity of the wider business ecosystem.

Just as importantly, this report seeks to make the case to the Chairs and CEOs of the UK's largest businesses – to embrace good supply chain practice, to learn from each other and to lead from the front, with clear accountability at board level. Government should require larger companies (as defined by the Companies Act) to have a named non-executive board director with clear accountability for all supply chain issues.

This report also examines the critical role that Government and the wider public sector can play in promoting best-practice throughout their own substantial supply chains, a win-win for businesses and tax payers alike.

Supply chains can be a powerful lever for wider business and societal reform, from supporting smaller suppliers to export and innovate, to making it easier for smaller firms to take on apprentices. It's time to take full advantage and give our economy a much needed boost.



Martin McTague
FSB Policy Director

EXECUTIVE SUMMARY

Healthy supply chains are critical for boosting the productivity, resilience, financial strength and efficiency of smaller and larger businesses alike, and economic growth across the UK. However, there is a lack of data and understanding about the factors that influence supplier experiences in business-to-business (B2B) and business-to-government (B2G) markets.

This report shows that in order for policy to be designed to maximise the benefits of healthy supply chains, policy makers must consider the following factors that affect the experience of small UK suppliers:

- **Supplier size** (sole trader, microbusiness, or larger)¹

For example, suppliers with 11-20 employees are more likely to report higher levels of skills and innovation support from customers, compared to other size groups. And this size group is most likely to say their innovation support relates to ‘collaboration in design’, compared to other size groups which tend to cite ‘sharing of workforce expertise and time’. As suppliers grow beyond the size of a microbusiness, their payment terms tend to get worse, they are more likely to hold at least one certified standard, and tend to hold more of them (and pay more for them).

- **Sector** in which the supplier operates

For example, smaller suppliers in the manufacturing sector tend to receive more support for innovation from their customers, compared to some other sectors. Those in manufacturing are also most likely to cite ‘collaboration in design’ as the most common type of innovation support offered, with a very strong focus on product innovation. Those in manufacturing are much more likely to experience payment terms of more than 30 days, compared to other sectors, but are more likely to be paid on time. They are also less likely to hold at least one certified standard, and tend to hold fewer of them, compared to some other sectors. However, the standards they do hold tend to come at a high cost.

- **Geographic market(s)** covered by the supplier

Across all geographic markets, the most commonly cited benefit resulting from innovation support from customers is ‘improved reputation, credibility and profile’. However, the benefits of such innovation support get more diverse and numerous as the size of geographic market increases.

- **Relative size and type of customer**

For example, smaller suppliers to a single large business customer are much more likely to receive skills and innovation support, mainly focussed on ‘sharing workforce expertise and time’. This group is also most likely to report ‘increased turnover’ as the most common benefit of their subsequent innovation (other size groups reported ‘improved reputation, credibility and profile’). Those supplying to same size or smaller customers are much more likely to agree to payment terms in advance or on delivery, and more likely to be paid on time, compared to those supplying to larger customers, the latter of which, are also more likely to hold at least one certified standard, tend to hold more of them, and pay much more for the privilege.

- **Length of time** of business operation (e.g. whether a recent start-up)

Unsurprisingly, start-ups are more likely to receive skills and innovation support from customers, compared to more established businesses. Start-ups are also more likely to receive innovation support related to processes, as well as products. Across the spectrum of business life-cycles, the most widely reported innovation benefit is ‘improved reputation, credibility and profile’. However, for start-ups, ‘opportunities for other collaboration’ is also seen as a particularly important benefit as they seek to grow. Compared to more established businesses, start-ups are more likely to negotiate payment in advance or on delivery, and less likely to agree payment terms of later than 60 days. They are also more likely to be paid on time. They tend to hold fewer standards and pay less for them, compared to more established suppliers.

Around three quarters (77%) of FSB small businesses say they supply to business customers across a range of different sizes, and across both the private and public sectors. FSB research has highlighted some key areas where supply chain policies of Government and, in particular, larger business customers could have a major impact, either positive or negative depending on how they are implemented.

¹ This research looked at business size groups of 0 employees (sole traders), 1-10 employees (microbusinesses), 11-20 employees, and 21+ employees.

This report examines what more can be done to boost productivity through supply chains, by increasing practices that support innovation and skills development in smaller suppliers. It also explores what more can be done to improve supply chain resilience (by tackling poor payment practice) and efficiency (particularly by improving the UK's standards regime).

Boosting productivity by increasing innovation and skills

It is widely acknowledged that innovation and skills are drivers of productivity. FSB's research shows that when help to innovate and develop skills is cascaded down the supply chain, smaller suppliers benefit significantly. This benefits the UK economy as a whole.

FSB research suggests that almost a third (30%) of smaller suppliers receive help to innovate from their business or public sector customers. Of these, the most commonly reported types of support include the sharing of workforce expertise and time (33%), collaboration in design (23%), mentoring and advice (20%), and market research (15%). Of those that have received help to innovate from customers, the vast majority (83%) say it had a positive impact on their business.

Support for skills is less widely reported by smaller suppliers, compared to support for innovation. Only one in ten (12%) small suppliers say their business or public sector customers have provided any skills or workforce development support in the previous two years. Of those that have, the most commonly reported types of support relate to training and skills development (42%), discounted training courses (32%) and access to free resources (27%).

Of those small suppliers that have been offered, and accepted, skills and workforce development support from customers, more than half (55%) say it has improved the skills, knowledge and expertise in their business. This clearly indicates an area on which policy makers can build in the future.

Many larger business customers are well-placed to understand and work with their supply chains to identify and address any skills or operational shortfalls that might threaten to disrupt the service they receive. Larger companies should recognise the mutual benefits of supporting their smaller suppliers, sharing their knowledge and expertise to address skills shortages and boost innovation. This is a win-win scenario, with benefits inevitably flowing back up the supply chain and to the economy as a whole.

Increasing financial strength and resilience

Despite some recent improvements, many smaller suppliers continue to face challenges related to late payments, lengthy payment periods of more than 60 days, and other inequitable contract terms forced upon them by their larger business customers. At a time of rising costs associated with operating a business in the UK², these additional pressures further increase the risk of running a small firm.

FSB research suggests that a significant minority of smaller businesses (17%) are paid more than 60 days after providing an invoice. This data is remarkably similar to the 16 per cent figure obtained by Government from firms that are required to report their payment practices.³

FSB research has also revealed that payment terms are worsening for smaller suppliers. More than a third (37%) of FSB smaller suppliers say that their payment terms have increased over the last two years, while less than one in twenty (4%) have experienced an improvement in their payment terms. Previous FSB research showed that almost one in five (17%) FSB small businesses said they had experienced supply chain bullying⁴ in the previous two years, including retrospective discounting.⁵

In some cases, there is a clear power imbalance between smaller suppliers and the larger business and public sector customers they serve. Nearly a quarter (24%) of FSB smaller suppliers say they are unable to influence the terms of their contracts with customers. Furthermore, a sixth (17%) say they are unable to challenge their customers.

² FSB, Voice of Small Business Index, Q1 2018, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-sbi-q1-2018-v03.pdf?sfvrsn=0>

³ Gov.UK data, available at <https://check-payment-practices.service.gov.uk/export>

⁴ For example, large firms using the disparity of power in business relationships to squeeze their suppliers, delaying payments to improve their own cash flow.

⁵ FSB, Time to Act: The economic impact of poor payment practice, 2016, available at [https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-report--late-payments-2016-\(final\).pdf](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-report--late-payments-2016-(final).pdf)

In this context, it must be noted that ‘customers failing to pay’ is the top risk for FSB smaller suppliers (see below). Small firms must be empowered to understand and mitigate a broad range of risks, particularly those that threaten the quality of service they provide to their customers. However, a lack of resilience planning by many smaller businesses means that their supply chains remain vulnerable to potentially substantial disruption. This increases the risk of lower productivity growth, higher costs, customer complaints, lost revenue, and reputational damage. The most commonly reported risks to supply chains by FSB smaller suppliers are:

- Customers failing to pay for services / goods provided (51%)
- Losing key members of staff (37%)
- Suppliers unable to supply (30%)
- IT problems (29%)

Increasing efficiency and reducing costs

Increasing competition within supply chains, and reducing unnecessary costs, will increase the competitiveness of UK firms and supply chains more generally. Improving the UK’s complex standards regime would provide one of the greatest opportunity areas in this regard. Standards are too often designed ineffectively in ways that damage small businesses and fail to meet stated objectives.

FSB research suggest that two thirds (66%) of smaller suppliers hold at least one kind of verified standard, e.g. a quality management standard like ISO9001 (see ANNEX 2). On average, smaller businesses hold four separate certified standards, with that number increasing with the size of business. There is also a sectoral variation, with businesses in the construction sector holding more standards on average than those in others sectors like manufacturing and wholesale/retail. Across all sectors, the average cost of these standards for smaller suppliers is more than £2,800 a year.

Most (75%) smaller suppliers hold standards simply because they are required to by their customers or insurance companies. However, certified standards can bring benefits to some smaller businesses. Of those that do hold standards, around two fifths believe they help to differentiate themselves from competitors (43%) or help to improve the quality of their service or products (39%). Previous FSB research showed that the majority (70%) of small businesses recognise areas where some regulation, including certified standards and products standards, can have a positive impact.⁶

However, it is also clear that standards currently do not fulfil their potential and can create net costs to smaller businesses. This is usually due to their complexity, the time and costs required (often involving consultants), or their lack of interoperability, despite many standards covering the same areas.

Government and the standards industry must take action to reduce unnecessary costs to UK businesses and help ensure that smaller suppliers have a standards regime that enables them to play their full role in increasing productivity, employment and consumer benefit. This includes the removal of duplication within many standards requirements.

Public procurement

Government has an opportunity to lead by example on supply chain best practice, in relation to both the proportion of smaller suppliers with which it directly and indirectly contracts, and in the way it treats these businesses. However, the public sector is yet to set itself apart in this regard, and must do more to widen its use of smaller suppliers if it is to achieve its target of 33 per cent of public procurement with smaller businesses by 2022.

⁶ FSB, Regulation Returned: What small firms want from Brexit, 2017, available at [https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-report--late-payments-2016-\(final\).pdf7](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-report--late-payments-2016-(final).pdf7)

One of the areas where the public sector appears to do relatively well, compared to the private sector, is in collaborating with their suppliers on the design of products and services (28% compared to 23% population average) and also providing their suppliers with mentoring and advice (25% compared to 20% population average).

The public sector should also be recognised for its attempt to drive down payment terms. Those supplying to national or local government projects are more likely to agree payment in advance or on delivery (30% compared to 26% population average), or within 8-30 days (54% compared to 45% population average).

However, FSB data on late payments suggests that the public sector subsequently struggles to honour these terms. Almost one in five (17%) smaller suppliers to the public sector say they are paid late more than half the time (compared to 14% population average).

In terms of the innovation support provided to smaller suppliers by their customers, and the success this brings, the public sector appears to be relatively effective in particular areas. For example, of the smaller suppliers that are provided with innovation support by their customers, those supplying to the public sector were more likely to say this support improved their reputation, credibility and profile (43% compared to 39% population average), provided opportunities for collaboration (32% compared to 26% population average), and provided access to more customers (32% compared to 25% population average).

There is a noticeable difference in the prevalence of verified standards among those businesses that supply to the public sector (including public sector infrastructure projects) compared to the wider supplier population. Three-quarters (75%) of smaller firms that supply to the public sector hold at least one verified standard. This is nine per cent higher than the proportion across all businesses in supply-chains (66%).

RECOMMENDATIONS

Tackling the UK's poor payment culture

There are many existing initiatives in place to tackle poor payment practice, ranging from the newly appointed Small Business Commissioner (SBC), the Duty to Report, the Prompt Payment Code, public contract regulations, the Crown Commercial Services Mystery Shopper scheme, the Groceries Codes Adjudicator, and the Pubs Code Adjudicator. However, more needs to be done.

A more joined up approach

The UK Government should:

- Immediately support a more coherent, joined up relationship between the Prompt Payment Code, Small Business Commissioner, and Duty to Report. For example, in due course, data from the Duty to Report will provide an opportunity to scrutinise payment practice and, for those that are signatories, adherence to the Prompt Payment Code.
- Carry out an annual, anonymous survey of smaller businesses to provide an annual state of play on payment practice, including late payments. This could be based on the similar survey carried out by the Groceries Code Adjudicator. This measure would reduce reliance on direct reporting of poor practice from smaller suppliers, something many are unwilling to do.
- Set up a Cabinet Committee Implementation Taskforce, led by the Chancellor of the Exchequer, with a clear remit to ensure the strategic, coherent delivery of multiple interventions to eliminate poor payment practice. This would transform the UK economy into a world leader for good supply chain practice, including prompt payment.

Strengthening existing initiatives

The UK Government should:

- Strengthen the Prompt Payment Code by introducing a new penalties regime, overseen by the Code's Compliance Board. Government should put in place a formal, transparent process to ensure that companies with systemic poor payment practice are removed from the Prompt Payment Code. Data from the Duty to Report will play a critical role in enabling this verification to occur. For those signatories that wish to re-join the Code, they should be required to demonstrate that tangible steps have been taken to improve payment practices, with a final decision taken by the Code's Compliance Board.
- Explore how it could play a key role in preventing disputes, or ensuring problems and disagreements are resolved before they become disputes. Smaller businesses suffer from a lack of resources, cash-flow and working capital that inhibit their ability to invest in and develop helpful specialist business ancillary skills, such as negotiating and contracting.
- Explore where it could design and provide basic tool kits and advice on relationship management, negotiating and contracting for smaller businesses.
- Review the performance of the Small Business Commissioner after they have been operational for a year. Carry out an audit of best practice models for tackling late payments around the world, learning from other countries as appropriate.

The Small Business Commissioner (SBC) should:

- Remain focused on tackling poor payment practice and supply chain bullying. The Commissioner should use their 'name and shame' powers to maximum effect, focusing on the most serious instances of supply chain bullying, as well as highlighting areas of good practice. FSB successfully lobbied for the creation of a Small Business Commissioner in 2015, and supported the appointment in October 2017.

- The Small Business Commissioner (SBC) could develop a hub for small businesses through which they can access training in key aspects of commercial relationship management, negotiation and contracting.

New legislative remedies

The UK Government should:

Actively explore opportunities for potential new legislation to ensure larger companies pay their smaller suppliers on time. Any new legislation would need to be enforceable and workable, and would need to be phased in to apply to larger businesses first.

Corporate governance

FSB welcomes the UK Government's recent commitments to improve transparency around company director obligations towards stakeholders, as set out under section 172 of the Companies Act (2006). We support the work carried out by the Financial Reporting Council (FRC) in this regard. However, FSB does not believe current proposals go far enough.

The UK Government should:

- Require company boards to appoint a responsible non-executive director with a specific duty to report on behalf of the company suppliers. This director should present to the executive board and, subsequently, their findings should be included in the Annual Report. The responsibilities of this non-executive director would also include the investigation of any poor payment practices affecting suppliers, reporting publically on how the problem has been tackled.
- Require forthcoming FRC changes to the Corporate Governance Code (on the representation of employees) to also include treatment of suppliers. FRC should encourage large firms to focus on specifically highlighting supply chain practices in their annual reports, explaining where they have achieved (or failed to achieve) best practice.

Industrial Strategy

The Industrial Strategy must address the full spectrum of supplier experiences. These suppliers include the self-employed, microbusinesses, small and mid-sized businesses; those that sell to different geographic markets; those in different sectors; and those at different stages of their life-cycle, including both start-ups and long-established businesses.

Using supply chains to support innovation

The UK Government should:

- Encourage larger companies, in particular those that have already claimed R&D tax credits, to support their own innovative smaller suppliers, where in scope, to make their own claims. R&D tax credits are available for advances in science and technology that are considered new-to-the-field, meaning that the project must aim to create an advance in the overall subject area, not just within a particular business.

FSB is keen to see larger companies work with their supply chains to promote and improve understanding of the SME R&D tax credit, the Research and Development Expenditure Credit, and HMRC's Advance Assurance Scheme. The Research and Development Expenditure credit is particularly relevant to supply chains as it can be claimed by smaller businesses that have been sub-contracted to do R&D work by a larger company. The Advance Assurance scheme is welcome as it removes the need to rely on intermediaries, but there is lack of awareness among smaller suppliers of this scheme.

- Ensure that any applications for UKRI Challenge Funds include a credible plan for developing supply chains. Applications must not be allowed to proceed if they do not meet this criteria.

Using supply chains to support skills development

The UK Government should:

- Government should urge levy-paying businesses to prioritise transferring some or all of their digital vouchers to small businesses in their supply chain. To encourage levy paying businesses to support apprenticeships in their wider supply chain the 10% restriction on Levy transfers could be increased. Currently there is a perception that the administrative burden is higher than the value of the Levy that can be transferred. The restriction on the ability to only transfer funds to one employer should be removed, helping levy paying businesses to think more strategically about supporting apprenticeships and training in their supply chain.
- Address the failure of supply chains to transfer skills development activity, particularly from larger customers to smaller suppliers. This requirement should be hardwired into Sector Deals that are developed and delivered with devolved governments, procurement with primary contractors, and wider public provision.
- Build on the clear requirements set out in the Stevenson / Farmer review of mental health and employers (Thriving at work⁷), ensuring that adherence to the review's proposed enhanced standards are extended to cover those in the supply chain, as well as those in direct employment.

Sector Deals and cross Government support

The UK Government should:

- Ensure that all long-term Sector Deals include measures to address co-ordination failures that frequently affect smaller suppliers. The strength of sectoral supply chain practices should be a key criterion on which sector deals are assessed. There should be clear guidance from central Government on how Sector Deals are designed. Sector deals should set out clear strategies for helping the diverse community of smaller suppliers, with specific measures to:
 - Increase their levels of product, process, organisational and procedural innovation, with focus on the adoption and diffusion of existing technologies.
 - Encourage them to start or enhance their levels of exporting and wider internationalisation activity.
 - Help them plan and prepare for internal and external supply chain risks.
 - Reduce their current and future skills gaps through a variety of different interventions, including support in taking on apprentices.
 - Support their development of leadership and management skills.
 - Support mental health provision, as set out under the core and enhanced standards in the Stevenson / Farmer review. The supply chain can play an important role in wellbeing support, from encouraging open conversations about mental health, to identifying support available for employees, to directly providing mental health support and signposting to clinical help.
- Require the Implementation Board for each Sector Deal to report on delivery of their supply chain obligations in a transparent and robust way.
- Use the Business Productivity Review (of long tail performance) to look at supply chains as one lever through which to support the adoption and diffusion of new-to-firm innovation. However, support through supply chains will not remove the need for dedicated and targeted business support for both new-to-market and new-to-firm innovation.

⁷ Thriving at Work: The Stevenson / Farmer review of mental health and employers, 2017, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/658145/thriving-at-work-stevenson-farmer-review.pdf

Local Enterprise Partnerships (LEPs) and Growth Hubs (in England)

The UK Government should:

- Continue to fund Growth Hubs in England and take action to strengthen those that are weaker and less well-funded. Local Government should assess where it can support the capacity of LEPs and Growth Hubs in England, including through the secondment of staff. LEPs, Local Industrial Strategies and Growth Hubs must all focus further attention on addressing gaps in support for smaller suppliers.

LEPs should:

- Develop local industrial strategies that bring forward specific measures to deal with market failures that affect the full spectrum of smaller suppliers. Government guidance on development of local industrial strategies should reflect this, and Government should not approve any local industrial strategy that does not contain such proposals.
- Develop metrics to measure how effectively larger companies competing for funding will support their supply chain, with a particular focus on smaller suppliers. Government should assess any bids for funding on the quality of these metrics.

Growth Hubs should:

- Aim to increase the proportion of the smaller firms in England which make business continuity planning a routine business practice, particularly those that are least able to plan and prepare for these risks.
- Provide more access to better quality leadership and management training, especially for long-standing businesses that are, otherwise, unlikely to receive support through their supply chain. This measure should include the introduction of Leadership and Management Champions. These face-to-face business advisers would play a key role in supporting business owners in understanding areas for improvement, particularly their managerial and leadership capabilities.
- Provide support for innovation, specifically addressing gaps in supply chain support. For example, good supply chain practice must be hardwired into any sector deals associated with strategic economic plans or local industrial strategies.

Reforming the UK's standards regime

Government must commit to a thorough review of the UK's standards regime in order to drive efficiency in UK based supply chain activity.

The UK Government should:

- Require each department and all regulators to review those standards that operate across their respective sectors.
- Investigate where a support offering to smaller businesses could help reduce the complexity of the standards landscape and help smaller firms to navigate it more effectively.
- Examine the development of market signalling tools which will help smaller businesses to assess the relative benefits of different standards offered by private providers.
- Encourage standards bodies, both nationally and internationally, to review how well they integrate the small business perspective into the development of their own standards, and how these standards are aligned across different bodies.

The Competitions and Markets Authority should:

- Look into sectors where there are large numbers and duplications of standards, analysing their impact on competition in business-to-business markets.

Public procurement

In regard to its own supply chains, Government has a responsibility to ensure it is taking an efficient and best-practice approach, particularly with regard to the treatment of smaller businesses in its own supply chain. FSB recognises that public procurement is devolved to the Scottish Government, Welsh Government and Northern Ireland Executive, respectively. Therefore, the mechanisms for implementing these recommendations should reflect the unique structures and processes of those devolved administrations.

Boosting smaller suppliers

The New Small Business Champion Ministers should:

- Review the practices in their respective departments with the aim of delivering increased value for money through opening up public procurement to more small businesses. Small Business Champion Ministers in each department should regularly brief the respective Secretary of State and the Cabinet Office, and submit an annual report for publication to the Cabinet Office concerning their department's progress compared to the following key steps:
- Identify opportunities to disaggregate contracts, which are more accessible to smaller businesses, increase competition and reduce public exposure to 'too big to fail' companies.
- Improve the use of Dynamic Purchasing Systems (DPS), by examining all Framework Agreements within their departments to identify those framework agreements where moving to DPS will lead to improved value for money to Government and prevent the public sector being denied access to small businesses, especially new start-up businesses and those unused to accessing public procurement contracts and the framework process.
- Ensure the effective enforcement through the supply chain of the public procurement regulations (2015) that require payment within 30 days, reporting on steps taken to increase effectiveness in respective departments.
- Ensure non-departmental agencies under the purview of their department are following central government best practice in advertising and awarding procurement contracts.

The UK Government should:

- Review the cumulative burden of verified standards – particularly where there is unnecessary duplication in standards – in increasing barriers to small business public procurement.
- Require public bodies and local authorities to follow the advice of the Mystery Shopper Service (MSS).
- Take comprehensive action to improve wider aspects of Local Authority practice, including more widespread use of Contracts Finder and increased use of DPS.

Boosting productivity, innovation and skills

The UK Government should:

- Build on initial good work that does exist is a number of public sector project to encourage innovation in the public sector, promoting best practice throughout its departments, agencies and primary contractors.
- Offer public sector training opportunities to smaller businesses within its supply chain, including the offer of surplus places on existing training courses, and inclusive of tools and training developed for use in the public sector in response to the Stephenson/Farmer review's recommendations.

Ensuring better payment practice

The UK Government should:

- Press ahead with its own recent proposals to ensure better payment practice. These proposals include measures to exclude large suppliers from major central government procurement opportunities if they cannot demonstrate fair and effective payment practices in relation to their subcontractors. They also include measures to provide subcontractors with greater access to buying authorities in order to report poor payment performance.
- Act to improve the default use of Project Bank Accounts, or equivalent schemes that achieve at least an equally positive outcome, in public sector construction projects through requiring a ministerial statement to Parliament if project bank accounts are not used. Project bank accounts will ensure that the money that is due to suppliers is correctly ring fenced and buyers will not be incentivised to hold on to their suppliers payments, and are frequently used in Scotland, Wales and bodies such as Highways England.
- Introduce a trust account for retentions, similar to the Tenancy Deposit Scheme, whereby funds would be held in a separate bank account. Such a scheme would ensure that, upon completion, an independent representative is responsible for surveying the work and releasing the funds.
- Learn the lessons following the collapse of Carillion as to how the Crown Representative Network can improve how it operates with strategic suppliers including to reduce risk to the taxpayer.
- Consult on controls and incentives to encourage departments, agencies and public bodies to pay invoices on time. These public sector organisations should be required to automatically pay interest on any payments made later than agreed terms. Government should also urgently review the extent and nature of disputed invoices in the public sector.

SUPPLY CHAINS IN FOCUS

Effective and efficient supply chains are a source of competitive advantage for businesses, underpinning a healthy small business sector. Supply chain management practices:

*'...can have discernible impact on competitive advantage and organizational performance.'*⁸

In recent years, the UK Government, and opposing political parties, have started to recognise the crucial impact that the health of the UK supplier base has on economic growth, productivity and employment.

However, recent FSB research suggests that policy makers continue to lack enough understanding about the factors that influence supplier experiences, particularly in business-to-business (B2B) and business-to-government⁹ (B2G) markets.

This report is based on a survey of 1511 smaller businesses across the UK, of which 1094 are active in B2B and B2G supply chains across all sectors. The data presented within this report focusses specifically on those 1094 businesses that supply to B2B and B2G customers, either private or public sector. These are referred to throughout as 'FSB smaller suppliers'. Those that provide solely to consumers have been filtered out of the data set.

FSB believes that Government has not demonstrated enough ambition in using supply chains as a potential tool for boosting productivity within individual firms, across individual supply chains, and throughout the UK economy. Healthy supply chains are critical for driving productivity, resilience, financial strength and the efficiency of small and large firms alike. They are also an important tool for Government to achieve its broader social policy aims.

FSB research has uncovered what factors most influence the experience of small firms in supply chains across the whole of the UK. This report draws on the experience of FSB small business members to examine the factors that define what 'good' looks like in a supply chain, including:

- How smaller suppliers can be supported to drive productivity growth in their business, through support from their supply chain on innovation and skills development.
- How the resilience and financial strength of suppliers is affected by numerous issues, including late payment and poor payment practice more broadly, and how these can be improved.
- Where efficiency can be improved, both within supply chains and across the economy as a whole, through reducing 'blue tape' and regulatory burdens.

FSB believes that not enough is being done to address these issues. While Government has taken some welcome steps in recent years to strengthen the UK supplier base, policy interventions have tended to focus on sector-based solutions. The Advanced Manufacturing Supply Chain Initiative and the Nuclear Supply Chain Action Plan are two instances of this. It is essential that Government and industry learn from these previous plans when building supply chain support into Sector Deals.

In addition to these sector specific vertical interventions, horizontal policies are also needed to improve the experience of UK suppliers and drive a step-change in their productivity, resilience, financial strength and efficiency.

⁸ Li, S et al. 'The impact of supply-chain management practices on competitive advantage and organizational performance'. (2004).

⁹ Including Central Government, Local Government and Public Infrastructure Projects

The following are some of the important factors to consider when exploring policy interventions:

- **Supplier size** (sole trader, micro, small or mid-sized business)
- **Sector** in which the supplier operates
- **Geographic market(s)** covered by the supplier
- **Size and type of customers** (relative to supplier)
- **Length of time** of business operation (e.g. whether a recent start-up)

All of these factors have a significant, and in some cases, surprising influence on the experience of small businesses in supply chains. This report will provide policy makers with a more holistic understanding which, until now, has been lacking in the public debate.

The analysis in this report is not limited simply to the experience of firms in private sector supply chains. Recent market failures – most notably the collapse of Carillion – have highlighted the shortfalls in Government’s effectiveness at enforcing public contract regulations in relation to payment practice throughout its entire supply chain, both to the prime contractor and also their sub-contractors.

The public sector spends £200bn on procurement each year¹⁰, yet in 2017 only 23 per cent of procurement contracts awarded were advertised, marked or identified as suitable for SMEs, let alone smaller suppliers.¹¹ Cabinet office data suggest this figure has fallen from 24 per cent in 2015-16 and 27 per cent in 2014-15.¹² Government must address these public procurement issues to improve value for money for the tax payer and – critically for smaller businesses – lead by example on good supply chain practice. This report seeks to highlight the experience of public sector suppliers, and makes recommendations about how public sector use of small private suppliers can be improved.

In both the private and public sectors, policy makers must gain a better understanding of the UK’s supply chains. This is particularly important at a time when the UK economy is facing rapid change and uncertainty related to issues such as:

1. Domestic political decisions, notably Brexit

Many smaller businesses export directly or indirectly to Europe.¹³ The majority of these smaller suppliers contribute to export markets indirectly, supplying domestically to a UK based exporter, or via an intermediate supplier. Therefore, it is vital that policy makers understand the needs of those that export to Europe, both directly and indirectly. This is the case in relation to the consideration of different customs arrangements. Some of the options under discussion would require a smaller business to know the export destination for goods, at the point at which those goods were imported. This becomes particularly challenging if the goods being imported are component parts, which are subsequently sold on further up the supply chain.

2. Rapid technological change, especially in the areas of digital and artificial intelligence technologies

Rapid technological change, and what is sometimes referred to as the Fourth Industrial Revolution, reinforces the need for a fresh and more detailed understanding of the changing nature of UK supply chains. While much focus is given, understandably, to automation and its effect on jobs, most of those jobs are currently organised within firms. However, it is important for policy makers to understand how process innovations, skills and retraining can be cascaded through supply chains so that workers, and indeed the firms themselves, can survive and thrive in the context of technological change. This will be particularly relevant as Government seeks to roll out innovation clusters, with the aim of positively influencing regional economic performance.

10 Public Expenditure: Statistical Analyses, 2017, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/630570/60243_PESA_Accessible.pdf, p78

11 Tussell online database of public tenders and government contracts in the UK, available at HYPERLINK “<http://www.tussell.com>” www.tussell.com – HYPERLINK “http://t.sidekickopen24.com/e1t/c/5/f18dQhb0S7IM8dDMPbW2n0x6i2B9nMJN7i5X-FdSD1CN4Xy-6bd0v7PT97k-5lhSgj103?t=https%3A%2F%2Fclient.tussell.com%2Fcontract_awards%3Fnew_at%3D%26order%3Dpublished%26uid%3Daa223492-89b0-4770-9c07-9bc387c01bf8&si=7000000000193708&pi=01cb619d-71b2-4dfc-dbf9-9e6fb4cf2189” total government procurement spend in 2017 = £293bn, contract value advertised as HYPERLINK “http://t.sidekickopen24.com/e1t/c/5/f18dQhb0S7IM8dDMPbW2n0x6i2B9nMJN7i5X-FdSD1CN4Xy-6bd0v7PT97k-5lhSgj103?t=https%3A%2F%2Fclient.tussell.com%2Fcontract_awards%3Fnew_at%3D%26order%3Dpublished%26uid%3Df4f7db67-7654-40a5-a0e8-cebaec23f427&si=7000000000193708&pi=01cb619d-71b2-4dfc-dbf9-9e6fb4cf2189” suitable for SMEs = £67bn (22.9%)

12 Gov.UK, Central Government Direct and Indirect Spend with Small and Medium sized Enterprises, 2015/16, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/650797/Central_Government_Direct_and_Indirect_Spend_with_Small_and_Medium_sized_Enterprises_2015-16_CC.pdf

13 FSB, Keep Trade Easy: What small firms want from Brexit, 2017, available at https://www.fsb.org.uk/docs/default-source/fsb-org-uk/keep-trade-easy_-what-small-firms-want-from-brex-21-march-2017.pdf?sfvrsn=0

3. The changing nature of work, including the rise in self-employment

Changes in the organisation of work – including increasing automation and the rapid rise in self-employment – underline the importance of looking beyond sector-specific supply chain challenges. For example, the self-employed sole trader experience of the supply chain is very different to that of a large or medium sized company, or even that of a small or micro business. This may come with distinct advantages, but also highlights the need for different solutions based on the exact nature of the challenges faced.

4. Geopolitical tensions and increased participation in the globalised economy

FSB believes strongly in the value of a competitive economy and easy global trade. Barriers to trade reduce opportunities for smaller businesses. Therefore, FSB welcomes new opportunities for their participation in the globalised economy, particularly in light of the rapid development of some emerging economies. However, small businesses already face a number of unfair practices across a variety of markets, and this exposure could be further exacerbated as they enter new global markets at a time when geopolitical tensions are raised. As the economy becomes increasingly globalised, Government must do more to support the UK supplier base, ensuring fair access to customers, regardless of supplier size.

Post-Brexit arrangements for trade remain uncertain but will likely see a shift in the balance of the UK, EU and global economies. As part of this re-balance, there may be opportunities for import substitution, where technological and global change mean there is genuine comparative advantage for reshoring activities in the UK.

FSB welcomes the significant steps that Government has taken to increase focus on the role of supply chains in economic growth, with particular emphasis on public procurement practices. But much more needs to be done. The Government's implementation of the Industrial Strategy offers a timely opportunity to address the inadequacies that still exist in current policy.

Boosting UK productivity by better supporting innovation and skills

The UK suffers from a skills shortage. Recent FSB research found that a quarter of small business owners lack confidence in their basic digital skills.¹⁴ Brexit could worsen this skills problem, something FSB has highlighted many times during our substantial and broader contribution to the public debate. For example, previous research by FSB suggested that one in five (21%) small employers have recruited at least one member of staff from elsewhere in the EU.¹⁵

Although it has potential to exacerbate the existing problem, Brexit is neither the cause of, nor the solution to, the UK skills problem. In fact, the skills gap has been consistently one of the top barriers to small business growth for many years. It is clear, therefore, that domestic policy will play a major role in addressing this issue.

Beyond much-needed Government intervention, at an industry level, many B2B and B2G customers (particular those operating at the larger end of the scale) are well-placed to understand and work with their supply chains to identify and address any skills or operational shortfalls that might threaten to disrupt the service they receive. However, in this regard, FSB research suggest a worryingly low level of training being offered to UK firms through their supply chains, something which threatens jobs, pay and productivity. Both Government and industry have a role to play in fixing this drag on UK productivity.

Increasing the resilience and financial strength of the UK economy

Many smaller suppliers continue to face challenges related to late payments, lengthy payment periods, and other inequitable contract terms forced upon them by their larger business customers. At a time of rising costs associated with operating a business in the UK, these additional pressures further increase the risk of running a small firm.

¹⁴ FSB, Learning the Ropes: Skills and training in small businesses, 2017, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/skills-and-training-report.pdf?sfvrsn=0>

¹⁵ FSB, A Skilful Exit: What small firms want from Brexit, 2017, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/a-skilful-exit--what-small-firms-want-from-brexit.pdf?sfvrsn=0>

Most businesses are paid within a time frame which would be compliant with the letter of the Prompt Payment Code. FSB research suggests that eight in ten (83%) small businesses are paid within 60 days. These numbers tally well with the data released by those large businesses with a duty to report their payments data.¹⁶ However the aspiration of the Prompt Payment Code is to encourage signatories to work towards payment within 30 days. Of the 652 business that had met this requirement by February 2018, more than half (51%) said they pay after 30 days while the average wait time for a supplier to receive payment is 44 days.

Of course, poor practice associated with payment and contracts is not the only factor that can threaten the productivity, or even survival, of smaller suppliers. Small firms must be empowered to understand and mitigate a broad range of risks, particularly those that threaten the quality of service they provide to their customers. However, a lack of resilience planning by many smaller businesses means that their supply chains remain vulnerable to potentially substantial disruption. This increases the risk of lower productivity growth, higher costs, customer complaints, lost revenue, and reputational damage.

Increasing efficiency within supply chains

Previous research by FSB suggests that two thirds (62%) of small businesses believe the burden of regulation outweighs the benefits.¹⁷ However, most small businesses (70%) recognise areas where some regulation has a positive impact, particularly in areas that allow those businesses to demonstrate their relative superiority over their competition (e.g. certified standards and product standards). One of the most positive aspects of regulation for smaller businesses is the role it plays in helping to build trust among customers (51%).

However, Government regulation is not the only mechanism for encouraging businesses to adhere to certain standards. Many larger business customers require those in their supply chain to adhere to specific certification and verified standards. Subsequently, these requirements are passed down through the supply chain to those operating at Tier 2 and below. So, although these standards are voluntary, they become *de facto* compulsory because, without them, a business is unable to engage in certain commercial activities. Of those smaller suppliers that hold verified standards, three-quarters (75%) say their motivation was simply that they are required by customers or insurance, either always, often or occasionally.

The role of Government in good supply chain practice

While FSB has welcomed important steps announced by Government to widen access to public procurement, we are also calling for urgent action to address late payments to those smaller businesses that have won government contracts. FSB wants Government to introduce penalties for departments, agencies and public bodies that fail to pay invoices on time. Payment beyond 30 days would also be a breach of the public procurement regulations. Additionally, these public sector organisations should be forced to automatically pay interest on any payments made later than contract terms.

¹⁶ £36 million annual turnover, £18 million balance sheet total or 250 employees.

¹⁷ FSB, Regulation Returned: What small firms want from Brexit, 2017, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-regulation-returned-report.pdf?sfvrsn=0>

FACTORS AFFECTING SUPPLY CHAIN EXPERIENCE

This report shows that, to maximise the benefits of healthy supply chains, policy makers must consider the following factors that affect the experience of small UK suppliers:

Supplier size

Figure A1 (ANNEX 1) shows a number of trends in broader supply chain experience, related to size of supplier. There is a degree of uniformity in how suppliers of different sizes are treated, in terms of the level and type of innovation and skills support they are given by customers. Most describe these levels of support somewhere between 8 and 14 per cent for skills, and 28 and 34 per cent for innovation.

However, in this regard, suppliers with 11-20 employees stand out. Businesses in this size category report higher levels of skills support from customers, compared to other size groups (18%). While 'sharing of workforce expertise and time' is the most commonly cited type of innovation reported across all other groups, businesses in the 11-20 category are most likely to say their support relates to 'collaboration in design'. In terms of the benefits of this innovation, those in the 11-20 category are most likely to cite 'increased turnover', unlike smaller businesses that are most likely to cite 'improved reputation, credibility and profile'. In this regard, the larger business group (21+ employees) also differ from the norm, most likely citing 'opportunities for collaboration'.

In terms of the factors that can put downward pressure on small suppliers (payment practices and certified standards), there is a clear difference between the smallest businesses (self-employed sole traders and microbusinesses) and those with more than ten employees. As suppliers grow beyond the size of a microbusiness, their payment terms tend to get worse, they are more likely to hold at least one certified standard, and tend to hold more of them (and pay more for them). On the one hand, this may be an indication of how larger businesses are better able to cope with less favourable payment practices and the increasing burden of conforming to standards. On the other hand, these additional factors may act as another barrier to growth to many microbusinesses looking to expand.

Supplier sector

Figure A2 (ANNEX 1) shows a number of common themes across the major smaller business sectors (for which information was available). The construction and, in particular, manufacturing sectors appear to have specific (and contrasting) stories to tell, in terms of their broader supply chain experience.

Smaller suppliers in the manufacturing sector tend to receive more support for innovation from their customers, compared to some other sectors. In this regard, they share something with the information and communication sector, both citing levels of support at 37-38 per cent, compared to 23-27 per cent across the other selected sectors. Again, like the information and communication sector, those in manufacturing are most likely to cite 'collaboration in design' as the most common type of innovation support received from customers, with a very strong focus on product innovation.

The challenge for Government is both to examine how to increase innovation in sectors that do well, but also how to build innovation in sectors that are much weaker. Sector Deals are an ideal way for Government to ensure that large companies receiving Government support play a full role.

In terms of the factors that can put downward pressure on small suppliers (payment practices and certified standards), there is a clear difference between the manufacturing and other sectors. Those in manufacturing are much more likely to experience payment terms of more than 30 days (30% compared to 12-18% across the other selected sectors). Interestingly, this does not mean they are also less likely to be paid on time. In fact, manufacturing fairs better than other sectors in this regard (17% compared to 8-14% across the other selected sectors).

Those in the manufacturing sector are also less likely to hold at least one certified standard, and tend to hold fewer of them, compared to some other sectors (particularly construction). However, like construction, the standards they do hold tend to come at a high cost (£3593-£4186 compared to £1850-£3091 in other selected sectors).

Geographic market

Figure A3 (ANNEX 1) shows fairly broad consistency of supply chain experience of suppliers across different geographic markets. However, there is some variation between those supplying mainly at a regional and national level, compared to those supplying to European and global markets.

The level and nature of skills and innovation support remain fairly consistent across all geographic markets (with a slight increase in innovation support reported by those supplying at a global level). The most common type of innovation support across all geographic markets relates to 'sharing workforce expertise and time', although 'mentoring and advice' is also important for regional suppliers, while 'collaboration in design' is also important for global suppliers.

In terms of the resultant benefits of this innovation support, the most commonly cited across all geographic markets is 'improved reputation, credibility and profile'. However, the benefits appear to get more diverse and numerous as the size of geographic market increases.

The Industrial Strategy, Sector Deals and Business Productivity Review must take account of geographic market if Government is to achieve its policy aims in this area.

Time in business

Figure A4 (ANNEX 1) clearly highlights a particular story for start-ups in terms of their supply chain experience. Compared to more established businesses, suppliers that have operated for less than four years show a distinct pattern which reflects their unique circumstances.

Unsurprisingly, start-ups are more likely to receive skills and innovation support from customers, compared to more established businesses. Like more established suppliers, the most commonly cited type of support is 'sharing of workforce expertise and time'. However, for start-ups, 'mentoring and advice' is also widely reported. At the other end of the scale, 'collaboration in design' is most important for the most established businesses.

Innovation support related to 'products' is most frequently cited by suppliers across the whole spectrum. However, start-ups are more likely to receive innovation support related to processes, as well as products. In terms of the benefits of the resultant innovation, again, start-ups tell a slightly different story. Across the spectrum, the most widely reported innovation benefit is 'improved reputation, credibility and profile'. However, for start-ups, 'opportunities for other collaboration' is also seen as a particularly important benefit as they seek to grow.

Compared to more established businesses, start-ups are more likely to negotiate payment in advance or on delivery, and less likely to agree payment terms of later than 60 days. They are also more likely to be paid on time. They tend to hold fewer standards and pay less for them, compared to more established suppliers.

While start-ups may appear to be relatively well positioned in terms of the burden of payment practices and verified standards (compared to more established businesses) it is also important to recognise their fragile nature. New start-ups may simply feel unable to compete for contracts that involve lengthy payment terms.

Further, the increase in these burdens as a business becomes more established may reflect another barrier to growth to many start-ups looking to expand. Many more established businesses may have become highly reliant on existing customers, and are therefore unable or unwilling to challenge payment terms.

Relative size of customer

Figure A5 (ANNEX 1) shows some variation in supply chain experience depending on the size of customer.

Smaller suppliers to a single large business customer have a unique story to tell. Only five per cent of smaller suppliers say they supply to a single large customer. However, those that do are much more likely to receive skills and innovation support, mainly focussed on 'sharing workforce expertise and time'. And, unlike those with different supplier/customer arrangements, those that supply to a single large business are most likely to report 'increased turnover' as the most common benefit of their subsequent innovation.

Elsewhere, other patterns emerge in the data. For example, those supplying to same size or smaller customers are much more likely to agree terms of being paid in advance or on delivery, and more likely to be paid on time, compared to those supplying to larger customers.

Those supplying to multiple large business customers are more likely to be paid late. This group are more likely to hold at least one certified standard, tend to hold more of them, and pay much more for the privilege.

BOOSTING UK PRODUCTIVITY BY BETTER SUPPORTING INNOVATION AND SKILLS

The UK continues to experience a shortfall in productivity, relative to our international competitors. The latest ONS data suggests that, in 2016, there was a productivity gap of 16.3% (output per hour worked) and 16.6% (output per worker) between the UK and other G7 economies. On a current price gross domestic product (GDP) per hour worked basis, UK productivity in 2016 was lower than that of the US by 22.6%, France by 22.8%, and Germany by 26.2%.

The UK also has the largest productivity puzzle¹⁸ in the G7 – 15.6% in 2016 compared to an average of 8.7% across the rest of the G7. However, the Industrial Strategy White Paper has rightly identified how Britain's relatively poor recent record in productivity is not uniform. The UK has some of the world's most productive businesses.

Recent research also shows that the UK has an unusually 'long tail' of underperforming businesses, pulling down the overall average.¹⁹ As Andy Haldane of the Bank of England has said:

*'...even marginal improvements to productivity among the long tail of low-productivity companies – or, equivalently, a speeding up of rates of technological diffusion to these companies – could make significant inroads into the productivity puzzle.'*²⁰

In order to tackle this productivity gap, both at a firm level and economy wide, the UK must increase both innovation and skills for all businesses, including the long-tail of relatively underperforming firms. As the Industrial Strategy also identified, the diffusion of best practice will play a key role, particularly in improving the UK's relatively underdeveloped domestic supply chains.

This chapter sets out the extent to which both innovation and skills are cascaded through supply chains, and how this differs between firms of different sizes, sectors, ages and geographic market regions. The diffusion of good practice clearly provides great benefit, both in terms of innovation and skills. However, there remains limited activity in this regard, particularly around skills.

Supplying innovation

Innovation covers a diverse range of activities and technologies. There is little consensus on how innovation is defined. However, according to the OECD, innovative firms are those that make improvements in their business through one or more of the following four types of innovation:²¹

- Product (good or service)
- Process (production or delivery method)
- Organisational (new business practices, workplace organisation or external relations)
- Marketing (a new marketing method)

Supply chains are critical to the success of companies, industries and sectors throughout the UK economy. Therefore, the drive to improve how products and services are supplied is not just important to suppliers, but also to customers. It is in the interest of customers to have an efficient, tailored and dynamic supply chain that responds quickly to their changing requirements.

¹⁸ The difference between post-downturn productivity performance and the pre-downturn trend.

¹⁹ HM Government, Industrial Strategy, 2017, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf

²⁰ Productivity puzzles: Speech given by Andrew G Haldane, Chief Economist, Bank of England, 2017, available at <https://www.bankofengland.co.uk/-/media/boe/files/speech/2017/productivity-puzzles.pdf?la=en&hash=708C7CFD5E8417000655BA4AA0E0E873D98A18DE>

²¹ The Innovation imperative: Contributing to Productivity, Growth and Well-Being, 2015, available at <http://ifuturo.org/documentacion/the%20innovation%20imperative.pdf>

Since the launch of the Industrial Strategy, the Government has been working on a roadmap to reach the new R&D target of 2.4% of GDP by 2027 and 3% of GDP in the longer term. As a first step, an additional expenditure of £2.3bn is allocated in 2021/22, representing a total increase of £7bn over five years from 2017/18 to 2021/22. Additionally, the Government will invest a further £725m in the Industrial Strategy Challenge Fund (ISCF) over the next four years.

R&D tax credits are available for advances in science and technology that are considered new-to-the-field. FSB is keen to see larger companies in these fields work with their supply chains to promote and improve understanding of both the SME R&D tax credit and the Research and Development Expenditure Credit. The latter can be claimed by SMEs who have been sub contracted to do in scope R&D work by a large company.

FSB research suggests that just under a third (30%) of smaller suppliers receive help to innovate from their customers. Figure 1 shows that the level of innovation support from customers increases with size of geographic market. A quarter (25%) of those supplying at a regional²² level receive this support, rising to over a third (36%) for those supplying at a global level.

Figure 1: Proportion of smaller suppliers receiving innovation support from customers (by geographic market)

Source: FSB supply chain survey, 2018

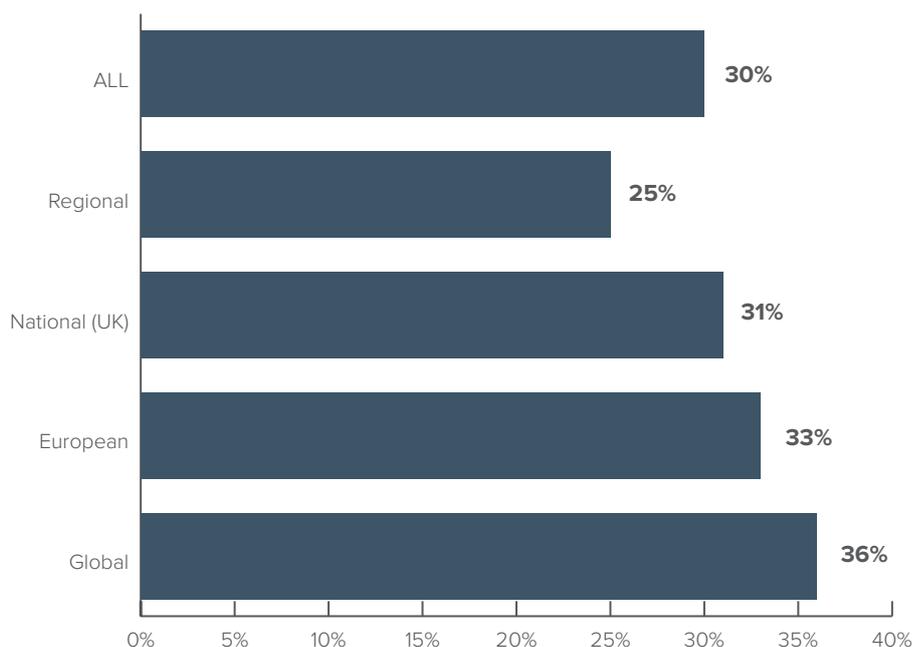
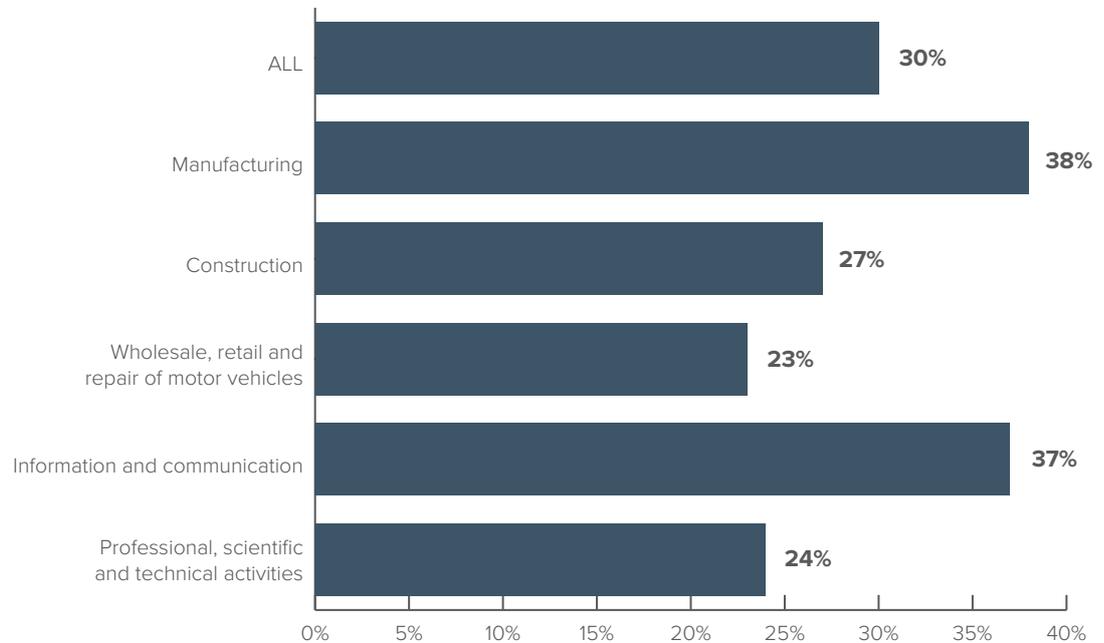


Figure 2 also shows that the level of innovation support from customers varies with sector. Small suppliers operating in the manufacturing and information and communication sectors are more likely to receive support for innovation (38% and 37% respectively, compared to 30% cross sector average).

²² Within a 100 mile radius.

Figure 2: Proportion of smaller suppliers receiving innovation support from customers (by sector)**Source: FSB supply chain survey, 2018**

Type of innovation support

Figure 3 shows the variety of innovation support that small businesses have received from their customers. Of those that have, the most commonly reported types relate to the sharing of workforce expertise and time (33%), collaboration in design (23%), support with mentoring and advice (20%) and market research (15%).

Figure 3: Type of innovation support received by smaller suppliers from customers**Source: FSB supply chain survey, 2018**

Type of support	Proportion of smaller suppliers
Sharing workforce expertise and time	33%
Collaboration in design	23%
Mentoring and advice	20%
Market research	15%
Sharing/providing machinery, equipment or software	7%
Sale of research and development	3%
Provide financing	1%
Leverage in external third-party expertise	4%
Licensing use of their IP	2%
Other, please specify	23%

Figure 4 shows variation between those that supply services and those that supply goods. The support received by smaller suppliers of services is more likely to relate to the sharing of workforce expertise and time (35%) and mentoring and advice (24%), compared to those that supply goods (29% and 18%, respectively).

Meanwhile, the support received by those supplying goods is more likely to relate to collaboration in design and market research (26%), compared to those that supply services (21%).

Figure 4: Type of innovation support received by smaller suppliers from customers (goods versus services)

Source: FSB supply chain survey, 2018

Type of support	Proportion of smaller suppliers		
	All	Goods	Services
Sharing workforce expertise and time	33%	29%	35%
Collaboration in design	23%	26%	21%
Mentoring and advice	20%	18%	24%
Market research	15%	16%	13%

Supplier size

Although the sharing of workforce expertise and time is most frequently cited by smaller suppliers, the level of this support varies with their size. For example, Figure 5 shows that customer support received by those with 11-20 staff is most likely to relate to collaboration in design (40%, compared to 23% population average).

Figure 5: Type of innovation support received by smaller suppliers from customers (by supplier size)

Source: FSB supply chain survey, 2018

Type of support	Proportion of smaller suppliers				
	ALL	0 employees (self-employed sole trader)	1-10 employees (microbusiness)	11-20 employees	21+ employees
Sharing workforce expertise and time	33%	36%	31%	33%	34%
Collaboration in design	23%	24%	20%	40%	23%
Mentoring and advice	20%	23%	21%	17%	10%
Market research	15%	9%	17%	11%	14%

As suppliers increase in size, mentoring and advice becomes less widely reported. Only one in ten (10%) suppliers with 21+ employees say the support they receive relates to mentoring and advice (compared to 20% population average).

Sector

Figure 6 shows high levels of sectoral variation in the most common types of innovation support received by smaller suppliers from customers.

Of those that receive innovation support from customers, collaboration in design appears to be particularly prominent for suppliers in the wholesale, retail and motor vehicle repair sector (33%), information and communication sector (33%), and manufacturing sector (31%), compared to the 23% cross sector average.

Similarly, the type of innovation support received by those in the construction sector is more likely to relate to mentoring and advice (29% compared to 20% cross sector average).

The type of innovation support received by those in the wholesale, retail and motor vehicle repair sector is more likely to relate to market research (27% compared to 15% cross sector average).

Figure 6: Type of innovation support received by smaller suppliers from customers (by sector)

Source: FSB supply chain survey, 2018

Type of support	Proportion of smaller suppliers					
	ALL	Manufacturing	Construction	Wholesale, retail and repair of motor vehicles	Information and communication	Professional, scientific and technical activities
Sharing workforce expertise and time	33%	26%	32%	36%	29%	37%
Collaboration in design	23%	31%	22%	33%	33%	25%
Mentoring and advice	20%	13%	29%	12%	13%	20%
Market research	15%	10%	10%	27%	11%	13%

Geographic market

The prominence of different types of innovation support received by suppliers varies, depending on the size of their geographic market (Figure 7).

For example, the type of support received by those supplying to larger geographic markets is more likely to relate to collaboration in design (33% for those supplying at a global level, compared to 23% population average and just 16% for those supplying at a regional level).

Conversely, the type of support received by those supplying to regional markets is more likely to relate to mentoring and advice (30% compared to a 20% population average).

Figure 7: Type of innovation support received by smaller suppliers from customers (by geographic market)

Source: FSB supply chain survey, 2018

Type of support	Proportion of smaller suppliers				
	ALL	Regional	National (UK)	European	Global
Sharing workforce expertise and time	33%	32%	35%	33%	31%
Collaboration in design	23%	16%	25%	31%	33%
Mentoring and advice	20%	30%	15%	20%	16%
Market research	15%	13%	18%	17%	22%

Areas where smaller suppliers have been helped to innovate

As part of their analyses of funding applications, government agencies – particularly UKRI and its arm Innovate UK – require larger companies to provide evidence of good supply chain practice, including support for the diffusion of innovation through supply chains.

In this context, it is important to note that innovation in supply chains is not limited to new-to-market advancements. It also covers new-to-firm innovation, like the adoption of existing technologies, new leadership and management training, and new business models. Although Government has tended to focus on new-to-market innovation, it must also take action to support the adoption and diffusion of existing innovation, including support for the adoption of digital technologies ranging from cloud accounting, accounting software and e-commerce.

Almost a third (30%) of FSB smaller suppliers say they have had help to innovate from their customers. Figure 8 shows that, of those that have received support, the vast majority (85%) describe innovation that is new-to-firm²³, while around a quarter (24%) describe innovation that is new-to-market²⁴.

new-to-firm innovation is generally more common than new-to-market innovation across UK businesses.²⁵

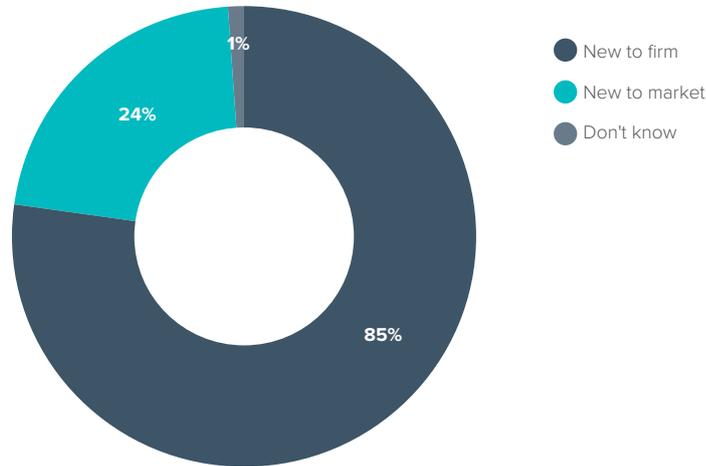
²³ Diffusion of an existing innovation to a firm, meaning that the innovation may have already been implemented by other firms.

²⁴ The firm is first to introduce the innovation to its market.

²⁵ Eurostat, Share of enterprises that had product innovations, 2012–2014, available at [http://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Share_of_enterprises_that_had_product_innovations,_2012%E2%80%932014_\(%25\)_YB17.png](http://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Share_of_enterprises_that_had_product_innovations,_2012%E2%80%932014_(%25)_YB17.png)

Figure 8: New-to-firm versus new-to-market innovation in smaller suppliers

Source: FSB supply chain survey, 2018



Interestingly, Figure 9 shows that those supplying products and services via online platforms (like Ebay or Amazon) are more likely to introduce new-to-market innovation (34%), compared to the 24% population average.

Figure 9: New-to-firm versus new-to-market innovation in smaller suppliers (via online platforms)

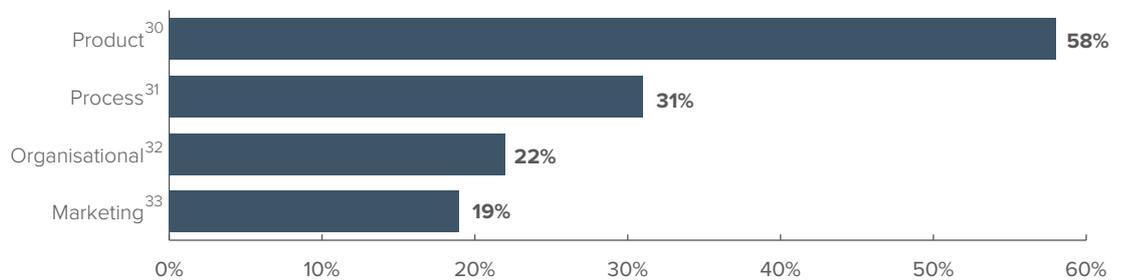
Source: FSB supply chain survey, 2018

Type of innovation	ALL	Via an online platform (Ebay, Amazon, freelancer.com, booking.com etc.)
New-to-firm	85%	87%
New-to-market	24%	34%

Figure 10 shows that, of those that receive innovation support from customers, the most common outcomes are related to improvements to products (58%), processes (31%), organisation (22%), and marketing (19%).²⁶

Figure 10: Areas where smaller suppliers have been helped to innovate by customers

Source: FSB supply chain survey, 2018



26 Not mutually exclusive options - small businesses often improve one or more aspect.
 27 Develop new products to my business* or Develop new products to my market*
 28 Implement new business practices for organising procedures
 29 Implement new methods of organising work responsibilities and decision making
 30 Implement changes to marketing concepts or strategies

Supplier size

Figure 11 shows that, of those small suppliers who receive help to innovate from customers, there is variation in the types of innovation that result from this support, depending on supplier size. For example, product innovation is a more likely outcome for those with 21+ employees (71% compared to 58% population average). Organisational (29%) and marketing (30%) innovation are more likely outcomes for those with 11-20 employees (compared to 22% and 19% population average, respectively).

Figure 11: Areas where smaller suppliers have been helped to innovate (by supplier size)

Source: FSB supply chain survey, 2018

Area of innovation	Proportion of smaller suppliers				
	ALL	0 employees (self-employed sole trader)	1-10 employees (microbusiness)	11-20 employees	21+ employees
Product	58%	54%	58%	64%	71%
Process	31%	30%	30%	36%	32%
Organisational	22%	19%	22%	29%	21%
Marketing	19%	24%	16%	30%	12%

Sector

Similarly, Figure 12 shows that, of those small suppliers who receive help to innovate from customers, there is variation in the types of innovation that result from this support, depending on sector. For example, product innovation is a more likely outcome for suppliers operating in the information and communication sector (79%), wholesale, retail and motor vehicle repair sector (76%) and manufacturing sector (73%), compared to 58 per cent cross sector average. This type of innovation is much less likely for those in the construction sector (36%).

Marketing innovation is a much more likely outcome for those suppliers operating in the wholesale, retail and motor vehicle repair sector (29% compared to 19% cross sector average). Perhaps this is unsurprising for a sector focussed on sales, and often dependant on direct customer engagement and promotion.

Figure 12: Areas where smaller suppliers have been helped to innovate (by sector)

Source: FSB supply chain survey, 2018

Area of innovation	Proportion of smaller suppliers					
	ALL	Manufacturing	Construction	Wholesale, retail and repair of motor vehicles	Information and communication	Professional, scientific and technical activities
Product	58%	73%	36%	76%	79%	54%
Process	31%	26%	34%	29%	28%	33%
Organisational	22%	20%	24%	11%	10%	22%
Marketing	19%	17%	18%	29%	21%	16%

Geographic market

Figure 13 suggests that, of those small suppliers that receive help to innovate from customers, innovations related to products (77%), organisation (31%) and marketing (30%) are all more likely outcomes for those operating at a global level (compared to 58%, 22% and 19% population average, respectively). However, process innovation is less likely for this group (19% compared to 31% population average).

More broadly, of those small suppliers that receive help to innovate from customers, the likelihood of product, organisational and marketing innovation being outcomes increases with size of geographic market. Meanwhile, the likelihood of process innovation being an outcome reduces with geographic market.

Figure 13: Areas where smaller suppliers have been helped to innovate (by geographic market)

Source: FSB supply chain survey, 2018

Area of innovation	Proportion of smaller suppliers				
	ALL	Regional	National (UK)	European	Global
Product	58%	46%	66%	68%	77%
Process	31%	37%	30%	24%	19%
Organisational	22%	22%	23%	28%	31%
Marketing	19%	16%	20%	21%	30%

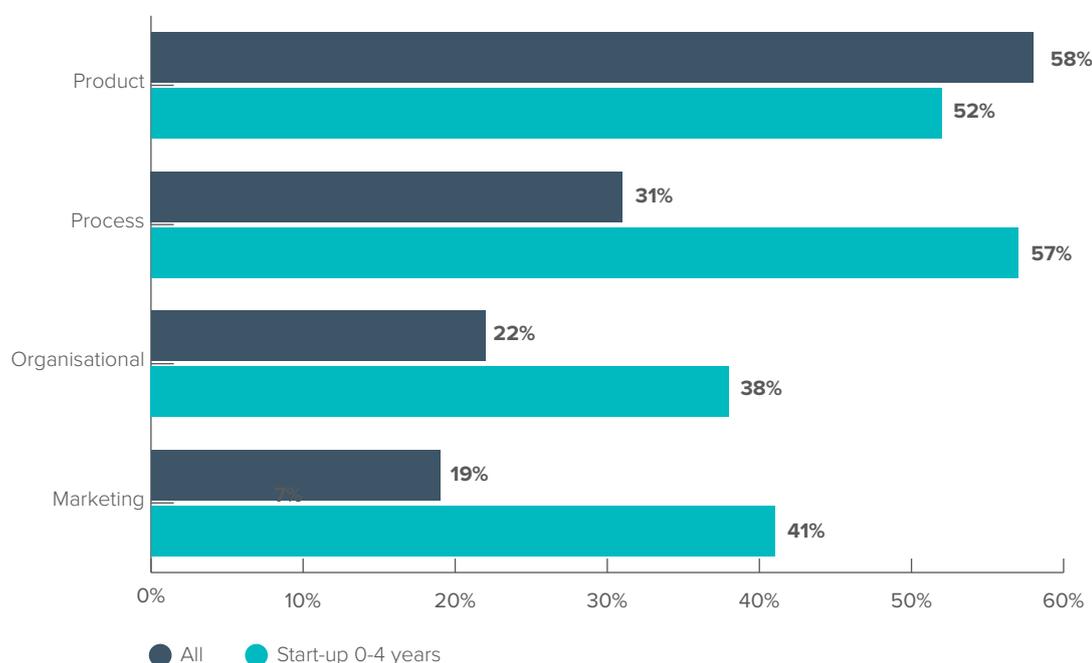
Start-ups

Figure 14 suggests that, in terms of the areas of innovation implemented, the pattern is different for business start-ups (i.e. those operating for less than 4 years) compared to the wider business population.³¹

Of those small business start-ups that receive help to innovate from customers, innovations related to marketing appear to be particularly dominant (41% compared to 19% population average). Innovations related to process (57%) and organisation (38%) are also more likely outcomes for this group (compared to 31% and 22% population average, respectively).

Figure 14: Areas where smaller suppliers have been helped to innovate (start-ups)

Source: FSB supply chain survey, 2018



Linking type of support to innovation outcomes

For those small suppliers that receive help to innovate from customers, Figure 15 shows how different methods of support promote different types of innovation.

Figure 15: How various methods support lead to different types of innovation across smaller suppliers

Source: FSB supply chain survey, 2018

Type of support	Area of innovation				
	All	Product (58%)	Process (31%)	Organisational (22%)	Marketing (19%)
Sharing workforce expertise and time	33%	31%	43%	49%	44%
Collaboration in design	23%	30%	21%	21%	23%
Mentoring and advice	20%	13%	32%	30%	26%
Market research	15%	19%	12%	15%	32%

³¹ Small baseline for population data.

For those that are helped to innovate, the sharing of workforce expertise by their customers is the most commonly reported method (33%). However, this kind of support is particularly important for those who subsequently carrying out process innovation (43%) and organisational innovation (49%). Mentoring and advice is also important for those who subsequently carry out process or organisational innovation (32% and 30% respectively, compared to 20% population average).

Likewise, mentoring and advice from customers is particularly important for those who subsequently carry out product innovation (30% compared to a 23% population average).

Benefits of innovation

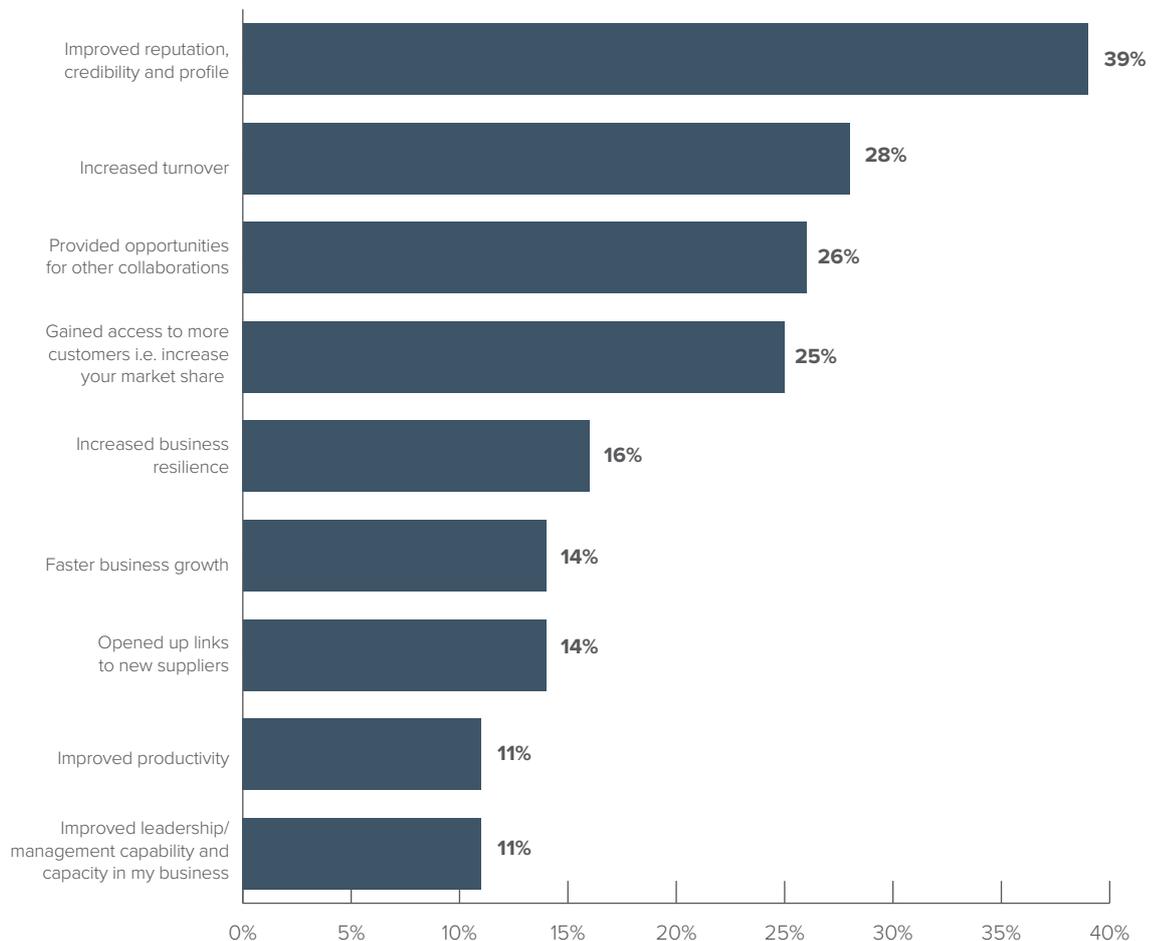
As stated above, the vast majority (83%) of FSB smaller suppliers who receive help to innovate from their customers say it has had a positive impact.

Figure 16 shows that, of those smaller suppliers that received help to innovate from their customers, over a third (39%) say they improved their reputation, credibility and profile thanks to the support they received.

Around a quarter of these smaller suppliers say they have increased turnover through innovation (28%), provided opportunities for other collaborations (26%) or gained access to more customers (25%).

Figure 16: Benefits of innovation for smaller suppliers

Source: FSB supply chain survey, 2018

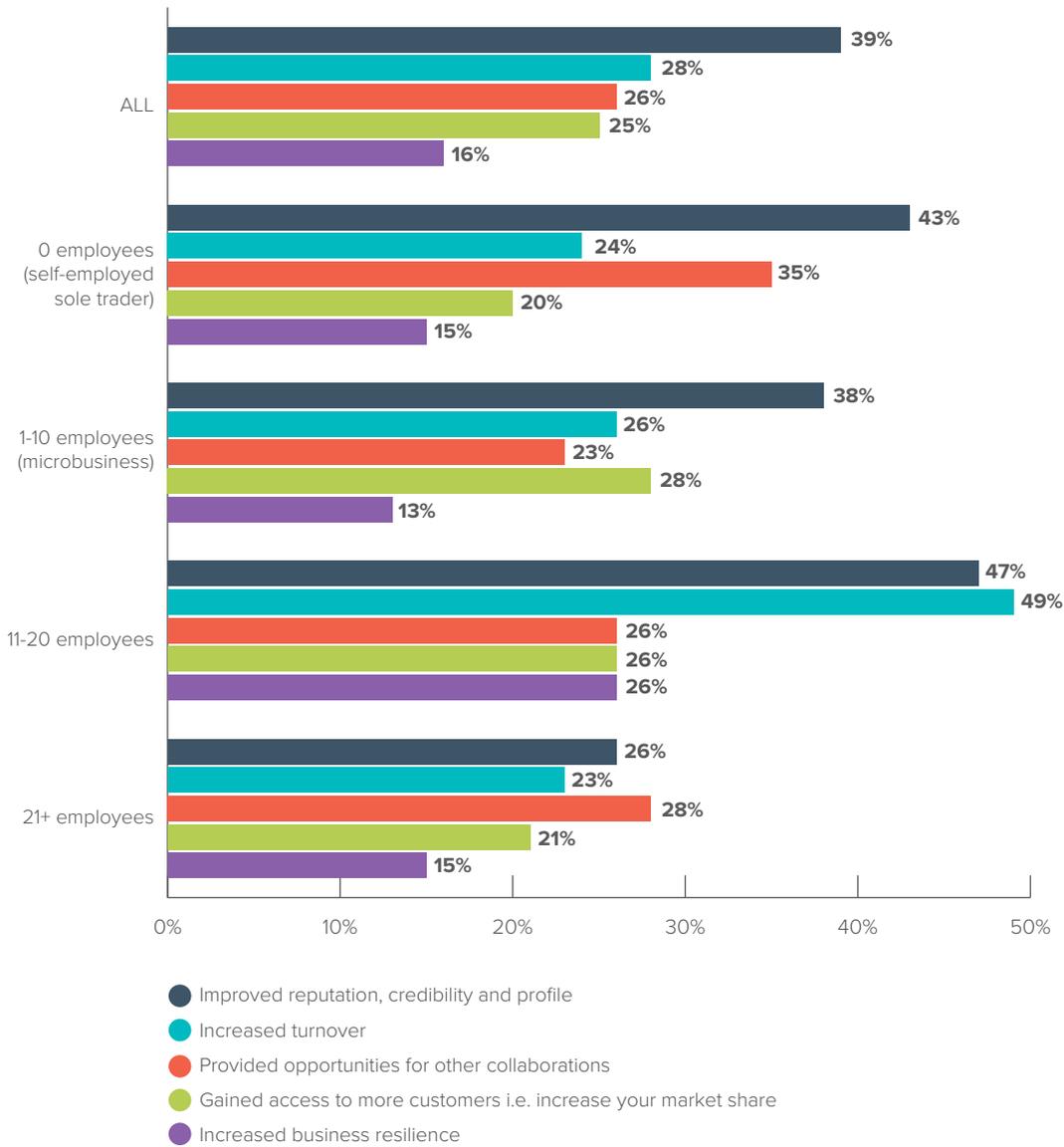


Supplier size

Figure 17 shows that, of those that receive help to innovate from their customers, the resultant benefit of this innovation varies, depending on the size of supplier. For example, suppliers with 11-20 employees are more likely to report a resultant increase in turnover (49%) and increased business resilience (16%), compared to the population averages (28% and 16%, respectively).

Figure 17: Benefits of innovation for smaller suppliers (by supplier size)

Source: FSB supply chain survey, 2018

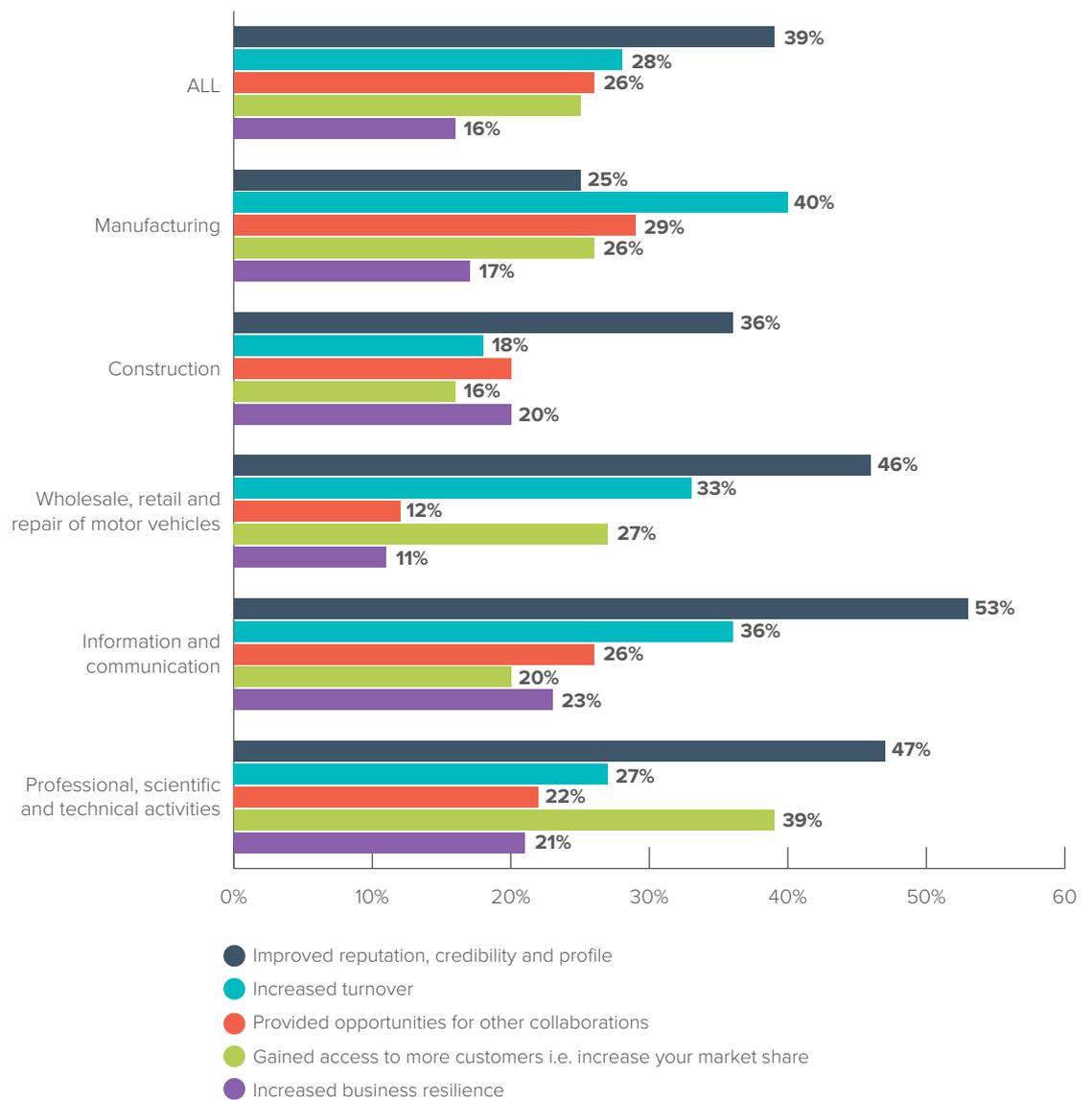


Sector

Figure 18 shows that, of those that receive help to innovate from their customers, the resultant benefit of this innovation varies with sector. For example, suppliers to the manufacturing sector are more likely to report increased turnover (40%), compared to the population average (28%).

Figure 18: Benefits of innovation for smaller suppliers (by sector)

Source: FSB supply chain survey, 2018



Suppliers to the information and communication sector are more likely to report improvements to their reputation, credibility and profile (53%), compared to the population average (39%). Similarly, suppliers to the professional, scientific and technical activities sector are more likely to report an increase to their market share (39%), as well as improved reputation, credibility and profile (47%), compared to the population average (25% and 39%, respectively).

On the other hand, suppliers to the wholesale, retail and motor vehicle repair sector are much less likely to report that their innovation led to opportunities for other collaborations (12%), compared to the population average (26%).

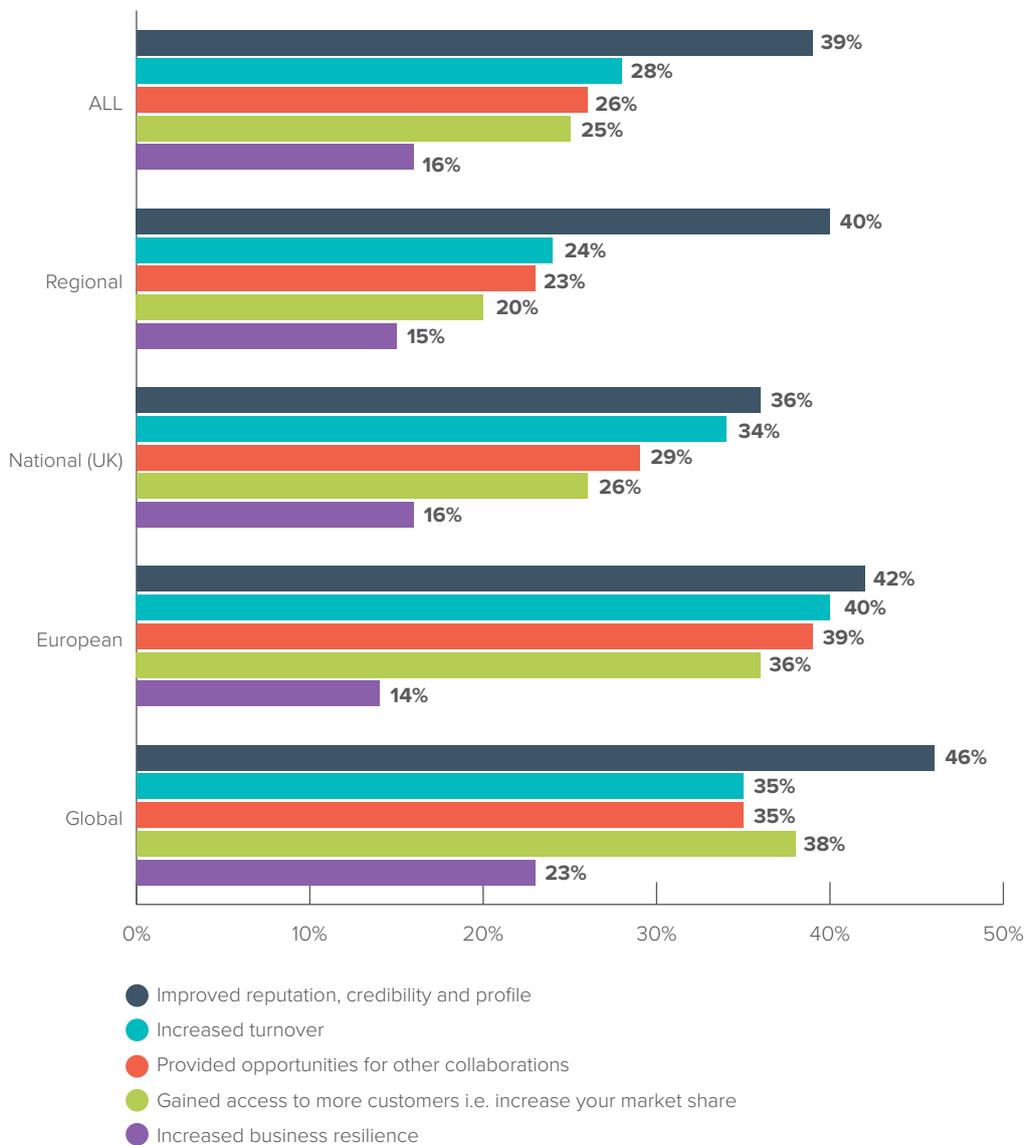
Geographic market

Of those that receive help to innovate from their customers, the resultant benefit of this innovation varies, depending on whether they supply predominantly to a regional, national, European or global level.

Figure 19 shows, in particular, businesses that supply at a European level are more likely to report increased turnover (40%), opportunities for other collaborations (39%) and increased market share (36%), compared to the population averages (28%, 26% and 25%, respectively).

Figure 19: Benefits of innovation for smaller suppliers (by geographic market)

Source: FSB supply chain survey, 2018



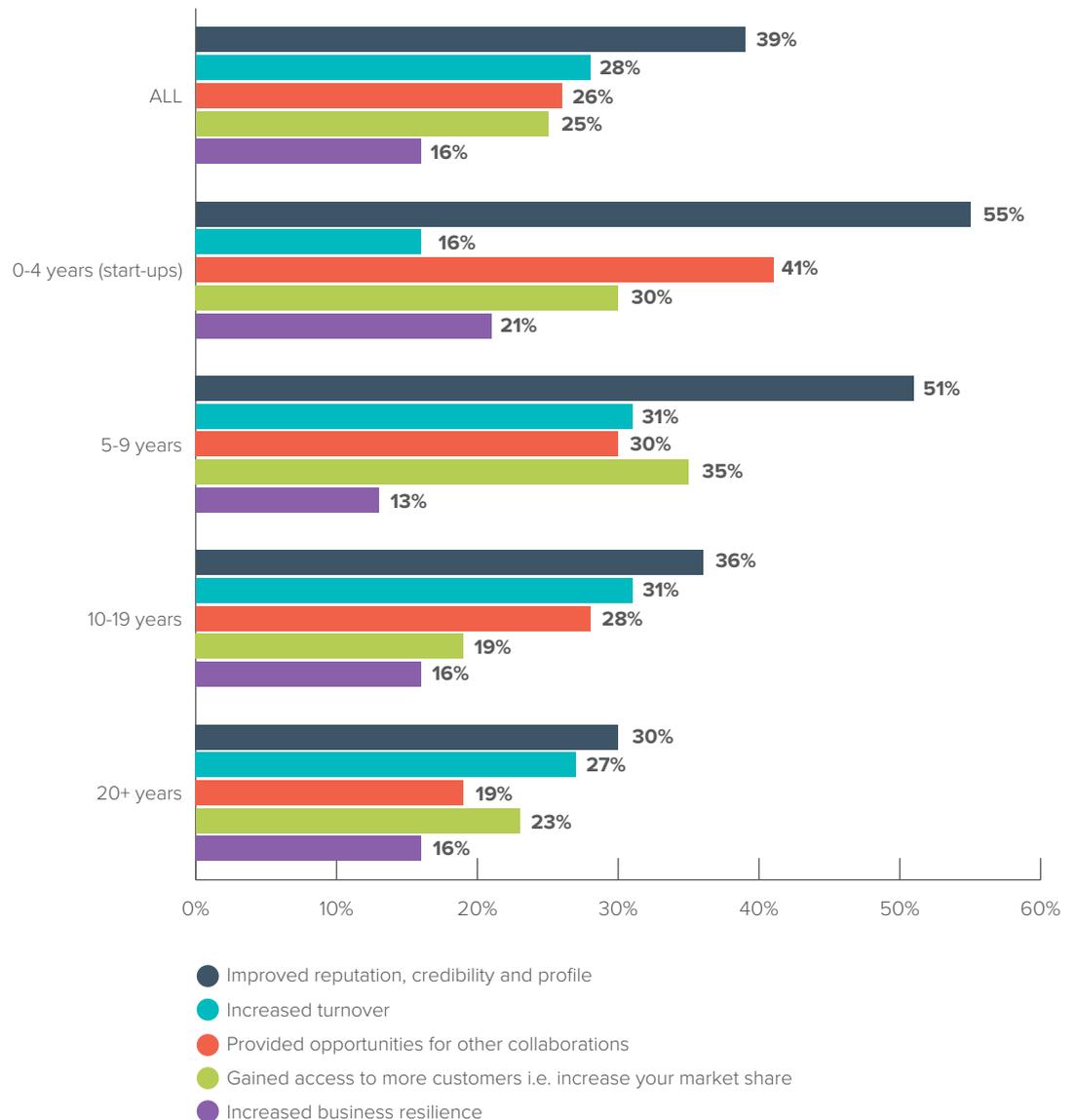
Similarly, those that supply at a global level are more likely to report improvements to reputation, credibility and profile (46%), increased market share (38%) and increased business resilience (23%), compared to the population averages (39%, 25% and 16%, respectively).

Start-ups

Figure 20 suggests that, in terms of the benefits of innovation, again the pattern is different for business start-ups compared to the wider business population.³²

Figure 20: Benefits of innovation for smaller suppliers (start-ups)

Source: FSB supply chain survey, 2018



Of those small business start-ups that receive help to innovate from customers, resultant improvements were more likely to relate to improved reputation, credibility and profile (55%), opportunities for other collaborations (41%), compared to the population averages (39% and 26%, respectively).

Improved reputation, credibility and profile is also the key benefit for most businesses aged 5-9 years (51%), compared to more established businesses (36% for businesses aged 11-20 years and 30% for businesses aged more than 20 years).

³² Small baseline for population data.

Case study: Smaller supplier in the security sector

“We were involved in quite a large supply chain, which can sometimes be rather messy and complicated. However we sat down with the rest of the supply chain and discussed the consequences of slow, silo-based working, and how it could be avoided. Supply chains can be quite linear, but we ended up working on more of a 3D model, where everyone talks and where feedback was encouraged.”

UNTAPPING SKILLS

For some time, policy makers have recognised the potential role that supply chains could play in supporting skills development.

As already mentioned above, supply chains are critical to the success of companies, industries and sectors throughout the UK economy. It is in the interest of customers to have an efficient, tailored and dynamic supply chain which responds quickly to their changing requirements. This principle is particularly important in terms of the development of workforce skills throughout supply chains.

Recent research by the UK Commission for Employment and Skills (UKCES) found that supply chain leads and networked organisations (e.g. sector bodies) can influence workforce development via:³³



UKCES suggested that, by working with smaller suppliers, supply chain lead and networked businesses can play an important role in addressing a variety of workforce skills issues, including:

- making training more affordable through economies of scale
- educating managers about benefits of training
- improving access to training providers
- developing closer social bonds between employers
- raising volumes of generic transferable skills

However, UKCES also acknowledged that the capacity and willingness of organisations to offer this type of support varies significantly, as does the capacity and willingness of their suppliers to accept these offers. Therefore, certain conditions need to be in place for it to occur.

³⁶ UK Commission for Employment and Skills (UKCES), Evaluation of UK Futures Programme: The strategic role and influence of supply chains in workforce development – Thematic Paper, May 2016, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/527889/260516_UKFP_Supply_Chain_Thematic_PaperFINAL.pdf

Level and type of support being offered

FSB research has sought to find out the extent to which smaller suppliers have benefitted from skills or workforce development activities offered by their customers. Figure 21 shows that an overwhelming majority (88 per cent) of FSB smaller suppliers say that they have not received any support of this nature from their customers.

Figure 21: Skills support received by smaller suppliers from customers

Source: FSB supply chain survey, 2018

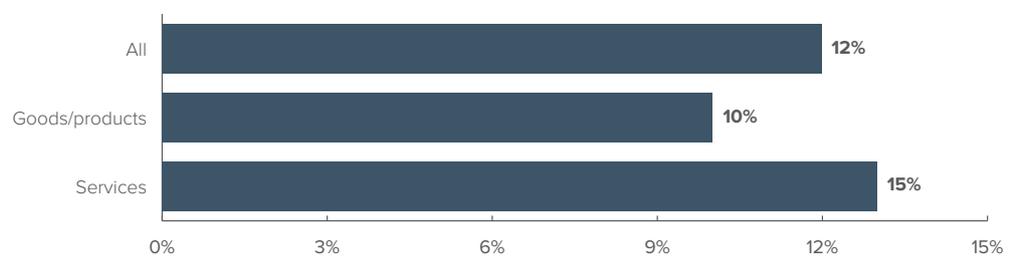
Provision of support	Proportion of smaller suppliers	Type of support	Proportion of smaller suppliers
Skills support provided	12%	Free training, skills development sessions or workshops delivered by their staff	42%
		Discounted training courses and/or qualifications	32%
		Free resources, including e-learning, training plans and toolkits	27%
		Access to buildings, equipment or services to support training	23%
		Support to improve leadership and management capabilities	12%
		Assistance to take on an apprentice	12%
		Advice and support with human resource issues	11%
		Access to occupational health services, healthcare or mental health support	7%
		Access to employee benefits (such as life and critical illness cover, income protection and pensions)	3%
		Other, please specify	6%
No support	88%		

It is, perhaps, unsurprising that free training and skills development workshops is the most commonly reported type of skills support received by suppliers from their customers. According to Rubery et al, many customers seek to influence workforce skills in their supply chain by providing some or all of the training themselves, or by specifying the types of training and qualifications required by subcontractors.³⁴ These arrangements can be encouraged either through contractual conditions or more informal mechanisms.

Figure 22 suggests that those supplying services are more likely to have been offered skills support by their customers than those supply goods and products.

Figure 22: Level of skills support received by smaller suppliers from customers (goods/products versus services)

Source: FSB supply chain survey, 2018

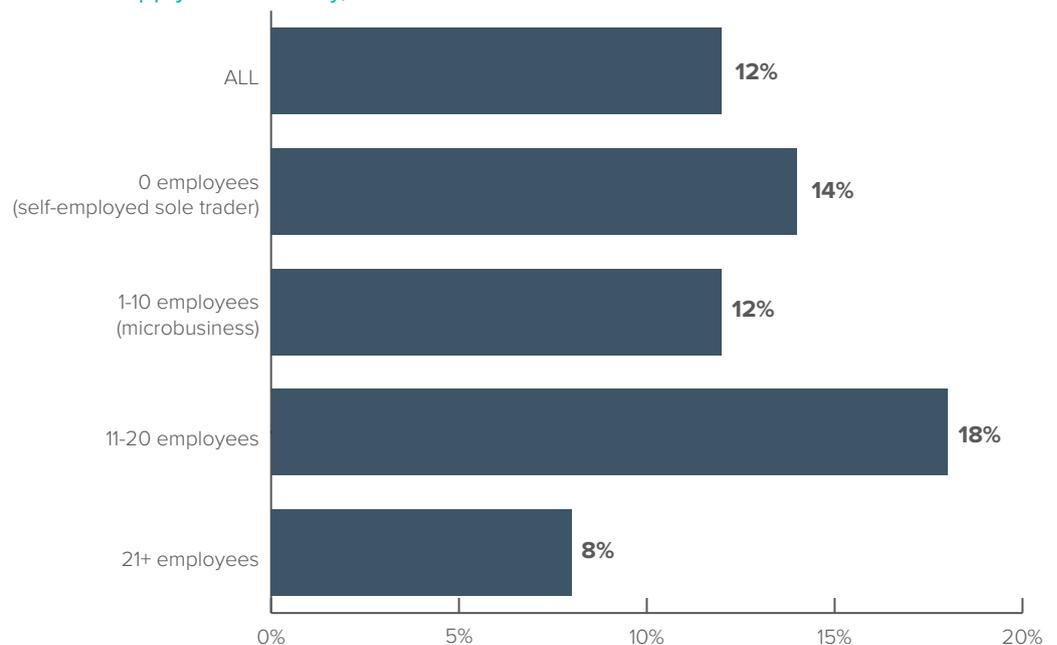


Supplier size

Figure 23a shows that suppliers with 11-20 employees are more likely to have been offered skills support (28%) compared to the population average (12%).

Figure 23a: Level of skills support received by smaller suppliers from customers (by supplier size)

Source: FSB supply chain survey, 2018

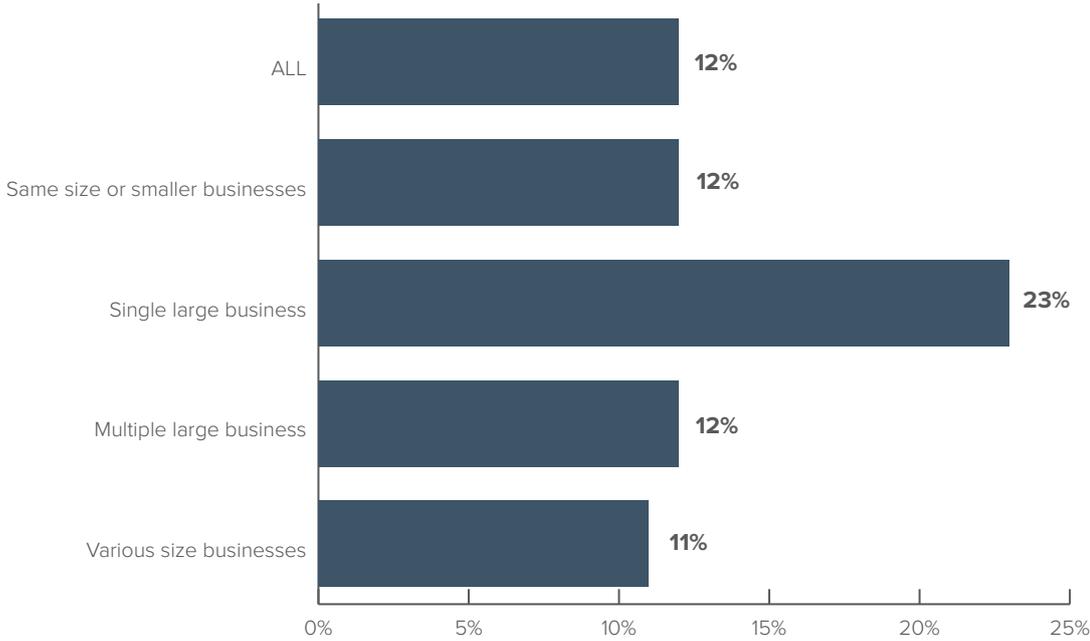


³⁴ Rubery, J., Grimshaw, D. and Marchington, M. (2010) Blurring Boundaries and Disordering Hierarchies: Challenges for employment and skills in networked organisations, Praxis No. 6, UK Commission for Employment and Skills, available at <https://core.ac.uk/download/pdf/4151306.pdf>

Figure 23b shows that those that predominantly supply to a single large business are more likely to have been offered skills support (23%) compared to the population average (12%). This could reflect the longer-term, ongoing relationship between customer and supplier in these instances.

Figure 23b: Level of skills support received by smaller suppliers from customers (by typical size of customer)

Source: FSB supply chain survey, 2018

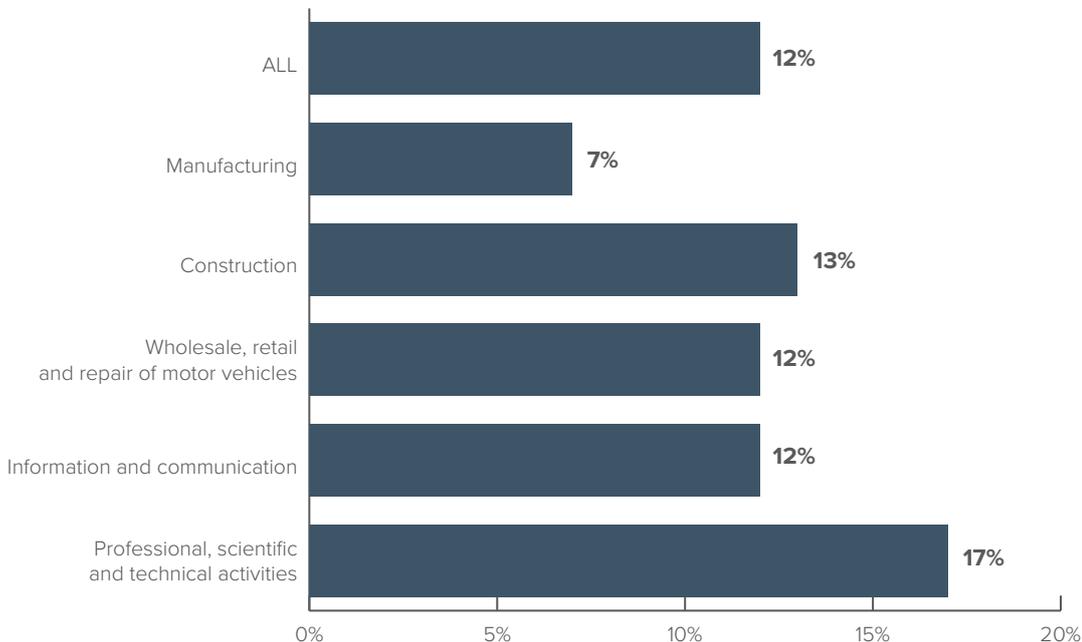


Sector

Figure 24 shows sectoral variations in skills support received by suppliers from their customers. Those supplying to the professional, scientific and technical activities sector are more likely to have been offered skills support (17%) compared to the cross sector average (12%). Conversely, those supplying to the construction sector are less likely to have received support (7% compared to 12% cross sector average).

Figure 24: Level of skills support received by smaller suppliers from customers (by sector)

Source: FSB supply chain survey, 2018

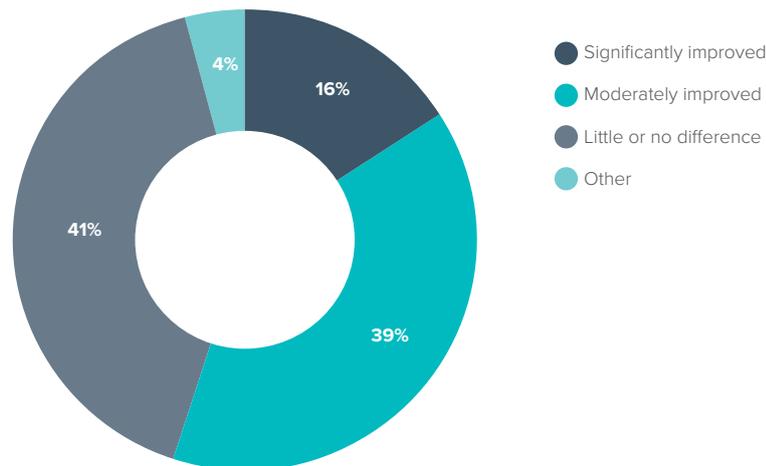


Benefits of supply chain skills support

Of those small suppliers that have been offered, and accepted, skills and workforce development support from customers, more than half (55%) say it has improved the skills, knowledge and expertise in their business (Figure 25).

Figure 25: Benefits of skills support received by smaller suppliers from customers

Source: FSB supply chain survey, 2018



However, Figure 25 also shows that two fifths (41%) of those that have received skills support say it has made little or no difference. This suggests that some skills development activities or interventions provided by customers may require improvement, such as quality and relevance of training.

Case study: A smaller supplier in the construction sector

“We worked with the local college in Skipton (Craven College) and their CITB course to help find apprentices for a project we were working on for them. Having the extra help finding good apprentices saved us a lot of time, and was great for the relationships.”

INCREASING THE RESILIENCE OF UK SUPPLIERS

Efficient supply chains generate significant benefits, to business competitiveness, to the economy as a whole, and to jobs, pay and productivity. However, supply chains are vulnerable to disruption, from factors both external and internal to the supply chain. If a whole supply chain fails, perhaps because the largest business within it fails or fails to pay money owed to suppliers, businesses throughout that supply chain can become vulnerable. Smaller businesses are usually the most vulnerable to these risks because they do not have the resources to identify the most salient risks or, subsequently, invest in resilience and mitigation measures.

This chapter examines the risks to supply chains as a whole, as well as the businesses within them. FSB research found that the most commonly cited risk through supply chains was a lack of prompt payment, or failure to pay. The problem of late payment within supply chains is examined more closely in the latter part of this chapter.

Supply chain vulnerability and resilience

Supply chains are vulnerable to disruption from both external and internal factors.³⁵ Therefore, effective supply chains need to be resilient to the risks they face.³⁶

Supply chain problems can have a substantial negative impact on smaller businesses. Research by the Business Continuity Institute (BCI) found that the cumulative annual cost of supply chain disruption was over £44,000 per business.³⁷ The same research also found that supply chain disruption resulted in:³⁸

- Lower productivity growth (55%)
- A higher cost of working (46%)
- Customer complaints as a result of the disruption (43%)
- Losing revenue (32%)
- Brand / reputational damage (31%)

While smaller suppliers of goods and services bring many benefits, they are more vulnerable to the demands of commercial, societal and environmental forces due to their size. Consequently, many smaller businesses would benefit from support to better prepare for potential disruption to their activities.

³⁵ Stecke, K, & Kumar, S. Sources of Supply Chain Disruptions, Factors That Breed Vulnerability, and Mitigating Strategies in *Journal of Marketing Channels*. Vol 16. No 3. (2009).

³⁶ The focus is effective supply chains not efficient ones. A single focus on efficiency can result in greater vulnerability. 'Effective' supply chains are not just as operationally efficient as possible but have other features such as being resilient in the face of threats to the integrity of the supply chain. Source: Cranfield University. *Supply Chain Vulnerability: Executive report*. (2002).

³⁷ Converted from BCI figure of EUR50,000, published in BCI *Supply Chain Resilience, 2017*, available at <https://www.riskmethods.net/resources/research/BCI-Resilience-Report-2017.pdf>

³⁸

Specific risks to supply chains

Figure 26 highlights the key challenges faced by smaller suppliers.

Figure 26: Top reported risks to small business supply chains³⁹

Source: FSB supply chains survey 2018

Risk	Proportion
Customers failing to pay for services / goods provided	51%
Losing key members of staff	37%
Suppliers unable to supply to my business	30%
IT problem	29%
Unexpected financial shocks	24%
Cyber-crime	17%
Unable to use business property/ building	15%
Interruptions to transport	15%
Weather events	13%
Interruptions to the supply of utilities	12%
Legal action against my business	10%
Fire	9%
Crime (non-cyber)	3%
Terrorism	1%
Civil disturbances	<1%

Figure 27 shows that supply chain risk can be classified into three categories and five sub-types.⁴⁰

Figure 27: Supply chain risks categories and typologies

Source: Christopher, M.

Category		Risk sub-type	Top three small business risks
Internal to the focal firm	Internal to the supply chain	<ul style="list-style-type: none"> • Process risk: <i>business operations</i> • Control risk: <i>rules and systems governing the organisation</i> 	<ul style="list-style-type: none"> • Losing key members of staff are a 'process risk'
External to the focal firm		<ul style="list-style-type: none"> • Supply risk: <i>upstream flow of incoming supplies</i> • Demand risk: <i>downstream disruptions in outgoing product flows or incoming financial flows</i> 	<ul style="list-style-type: none"> • Suppliers failing to supply is a 'supply risk' • Customers failing to pay is a 'demand risk'
External to the supply chain		<ul style="list-style-type: none"> • Environmental risks: <i>regulatory or political changes, natural hazards or other disasters</i> 	

³⁹ Survey respondents were asked to identify their top three business risks.

⁴⁰ Christopher, M. Managing risk in the supply chain. In Logistics and Supply Chain Management. (2005).

Mitigating risks

Whether the risks are internal or external to a smaller supplier, or to the supply chain more broadly, the potential damage they create means that there are considerable benefits to boosting supply chain resilience by:

- Raising supplier awareness of the range of potential risks throughout their supply chains.
- Encouraging suppliers to develop effective mitigation strategies (resilience plans).

Smaller businesses are usually the most vulnerable to supply chain risks because they do not have the resources to identify the most salient risks or, subsequently, invest in resilience and mitigation measures.

Business continuity planning is a vital first step for suppliers, identifying the most significant risks to their commercial operations and subsequently developing a mitigation plan. According to BCI, 65 per cent of businesses around the world experienced at least one supply chain disruption in 2017.

However, Figure 28 shows that only around 35 per cent of smaller suppliers have a business continuity plan. This means nearly two-thirds (65%) have no plan.

Figure 28: Reasons for smaller supplier continuity plans

Source: FSB supply chains survey 2018

Continuity plans	Proportion	Motivation	Proportion
Have a plan	35%	Good business sense	55%
		Mitigate unplanned interruptions	41%
		Experience of an incident	10%
		Regulatory requirement	8%
		Customer contract requirement	8%
		Encouraged by another business in same supply chain	2%
		Other	1%
Do not have a plan	65%		

Of the smaller suppliers that do have a continuity plan, most appear to be making a longer-term, strategic choice, either suggesting it is simply good business practice (55%) or simply required to mitigate unplanned interruptions (41%). Very few smaller suppliers appear to be motivated by experience of a business interruption ‘incident’ (10%).

Disruption to the activities of one supplier can create negative consequences throughout the whole supply chain. Therefore, it is in the interest of larger businesses, with more available resources, to support and encourage their suppliers to plan and prepare. Figure 28 also shows that very few smaller suppliers have been provided with such support or encouragement.

THE SCOURGE OF POOR PAYMENT PRACTICES

Poor payment practices among customers – or failure to pay – is seen as the top business risk for many small suppliers. Small businesses simply cannot survive if they do not get paid promptly for the work they do.

FSB research suggests that poor payment continues to be a problem for a significant minority of businesses, many of which face terms of more than 60 days and frequent late payments.

Supply chain bullying is also an increasing concern. FSB research suggests that payment terms for small suppliers have increased over the last two years. In addition, many small suppliers feel unable to influence the terms of contracts with their (often larger) customers.

The poor payment picture varies across the small business population, depending on whether they supply to the public or private sector, the size of the organisations they supply, and the size and age of their own business.

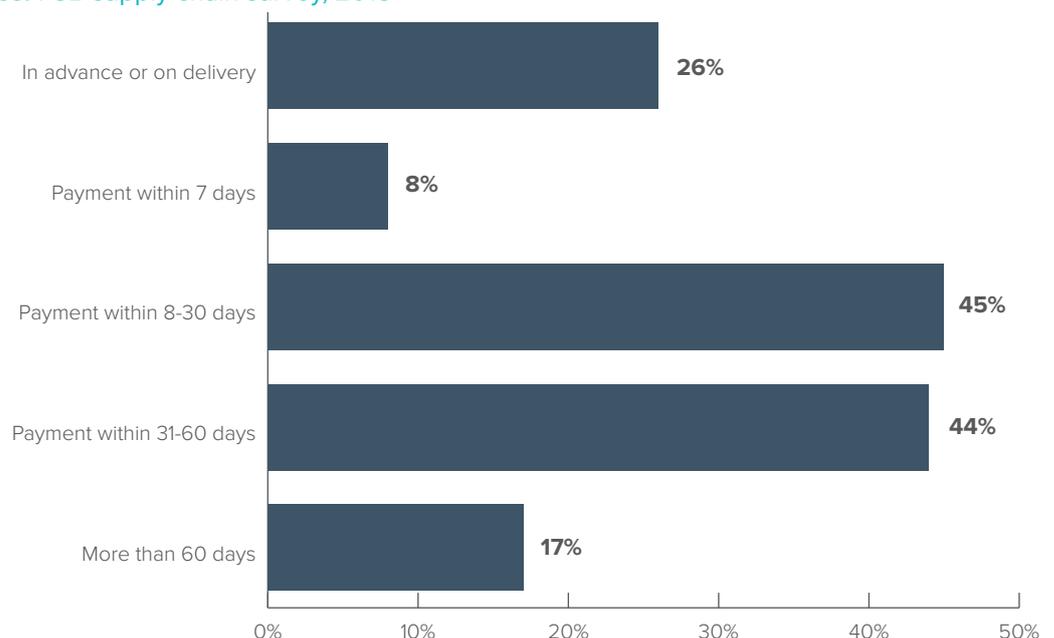
Payment terms

Based on data provided by those companies with a duty to report, most businesses are paid within a time frame which complies with the Prompt Payment Code.⁴¹ According to that data, small businesses are paid within 60 days around 80 per cent of the time.

Businesses are required to report if they exceed two or more of the thresholds for qualifying as a medium-sized company under the Companies Act (2006).⁴² Of the 652 business that had met the requirement to report on payment practices by February 2018, more than half (51%) pay after 30 days. The average wait time for a supplier to receive payment is 44 days.

However, FSB research suggests that the problem of extended payment term is far from eradicated. Figure 29 shows that a significant minority of businesses (17%) frequently face payment terms longer than 60 days. This data is remarkably similar to the 16 per cent figure obtained by Government from firms that are required to report their payment practices.⁴³

Figure 29: Most common payment terms for smaller suppliers⁴⁴
Source: FSB supply chain survey, 2018



41 Reference

42 £36 million annual turnover, £18 million balance sheet total or 250 employees.

43 Source required

44 Not mutually exclusive

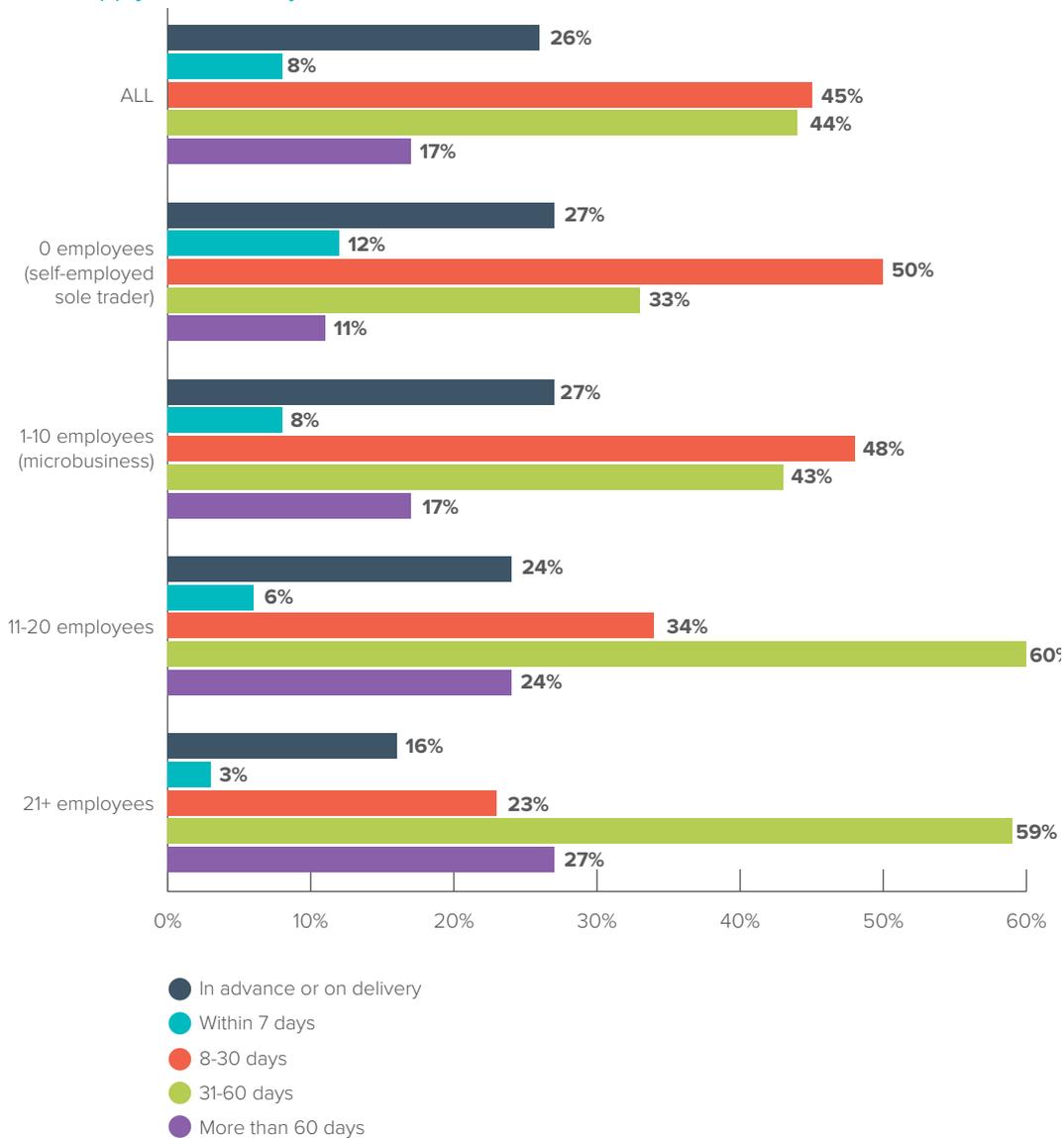
Supplier size

Figure 30 shows that the length of payment terms increase with size of supplier business. The largest suppliers tend to have the longest payment terms in their contracts.

Payment within 8 to 30 days was the most commonly reported payment term for half of self-employed sole traders (50%) and microbusinesses (47%). However, payment within 31-60 days was the most commonly reported payment term for businesses with 11-20 employees (60%) and those with 21+ employees (59%).

Figure 30: Most common payment terms for smaller suppliers (by supplier size)⁴⁵

Source: FSB supply chain survey, 2018



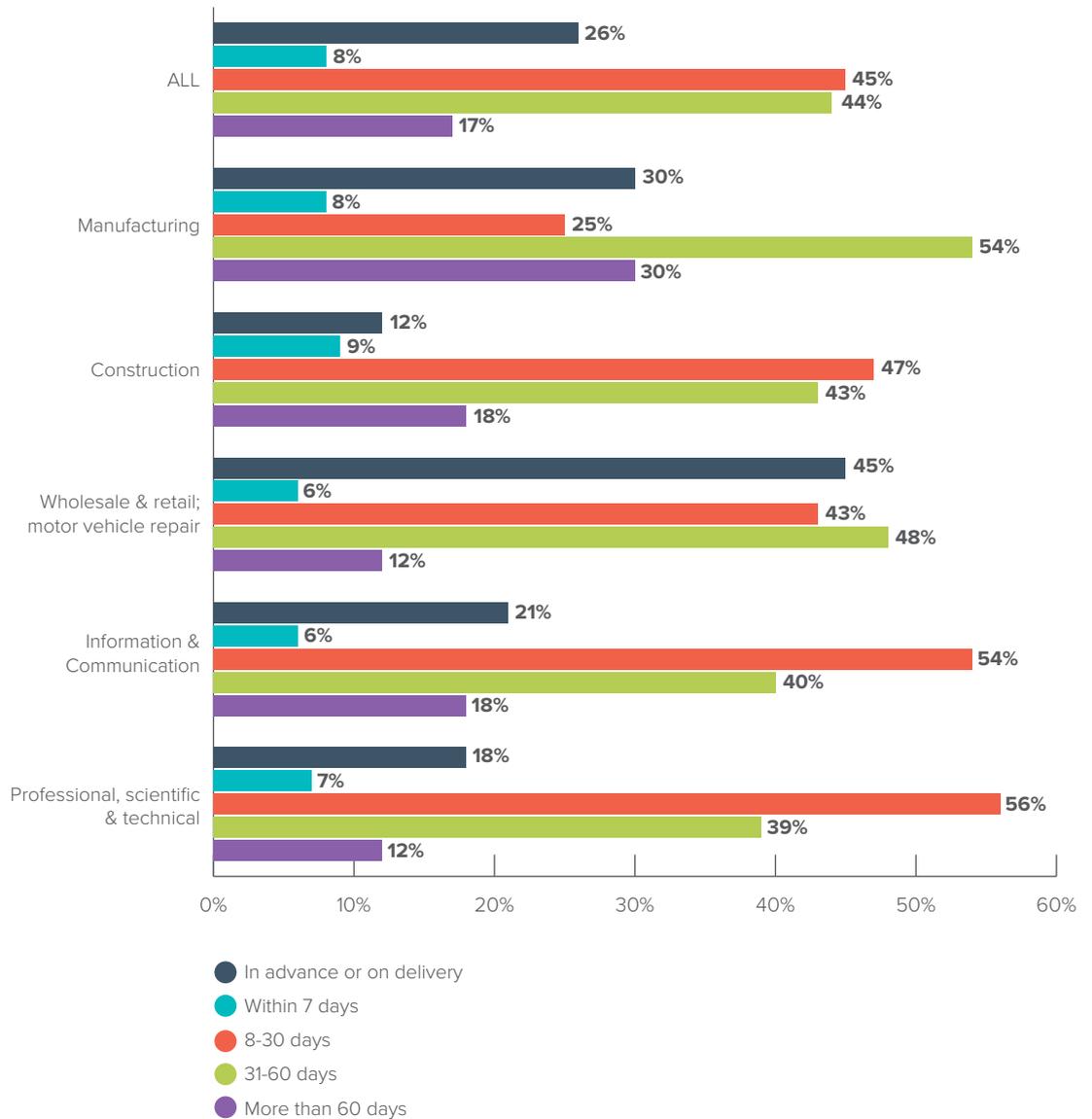
45 Not mutually exclusive

Sector

Figure 31 also shows a sectoral variation in typical payment terms. Payment within 8-30 days was the most common payment term for businesses in professional, scientific and technical activities sectors (56%) and those in the information and communications sector (54%). However, in the manufacturing sector, payment within 31-60 days was most common (54%). In the construction sector, the most commonly reported terms were either payment within 8-30 days (47%) or within 31-60 days (43%). The wholesale, retail and motor vehicle repair sectors is unusual in that it has a very high proportion of businesses (45%) for which payment in advance is the norm.

Figure 31: Most common payment terms for smaller suppliers (by sector)⁴⁶

Source: FSB supply chain survey, 2018



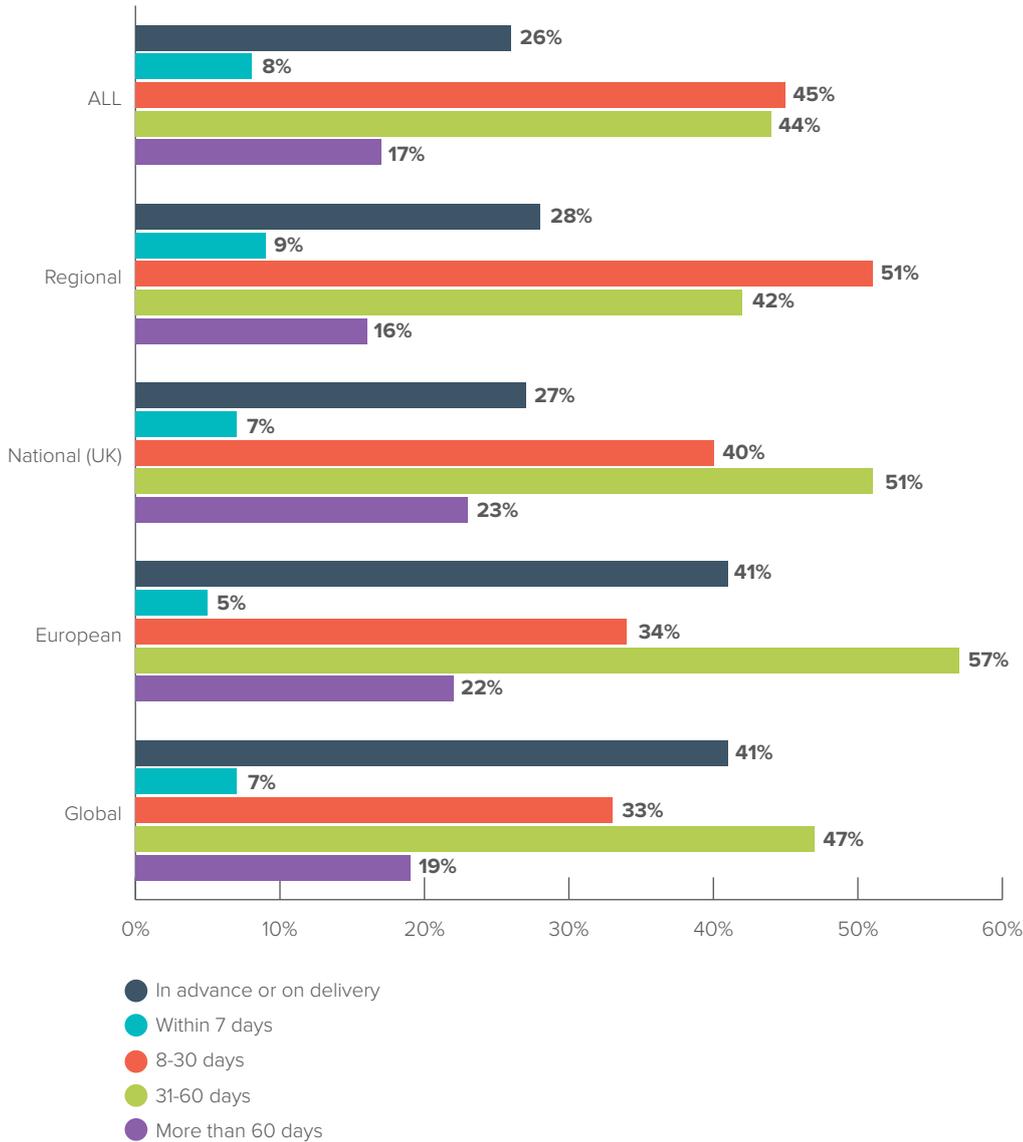
46 Not mutually exclusive

Geographic market

There is clear variation in payment terms depending on geographic market. Figure 32 shows that payment in advance is more often the norm for those supplying to a European or global market (both 41%), compared to those supplying at a regional (28%) and national level (27%). However, payment terms of 8-30 days and 31-60 days remain common across all geographic markets.

Figure 32: Most common payment terms for smaller suppliers (by geographic market)⁴⁷

Source: FSB supply chain survey, 2018



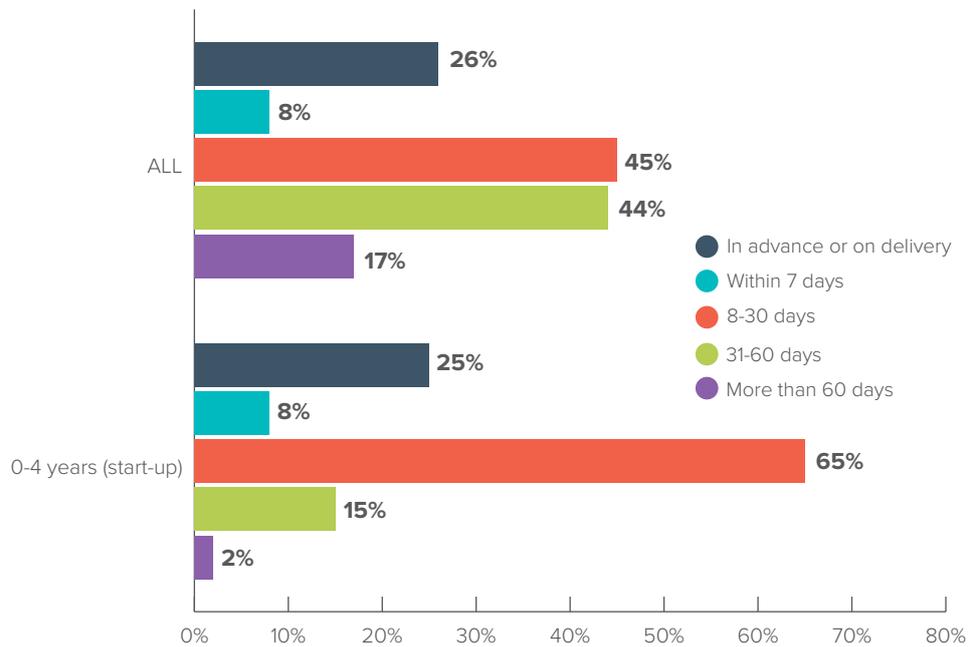
⁴⁷ Not mutually exclusive

Start-ups

Figure 33 shows a distinct difference between start-ups and the wider supplier population. When it comes to payment terms, start-ups are more likely to report payment terms of 8-30 days (65% compared to 45% population average). They are also far less likely to report payment terms of 31-60 days (15% compared to 44% population average) or more than 60 days (just 2% compared to population average).

Figure 33: Most common payment terms for smaller suppliers (start-ups)⁴⁸

Source: FSB supply chain survey, 2018

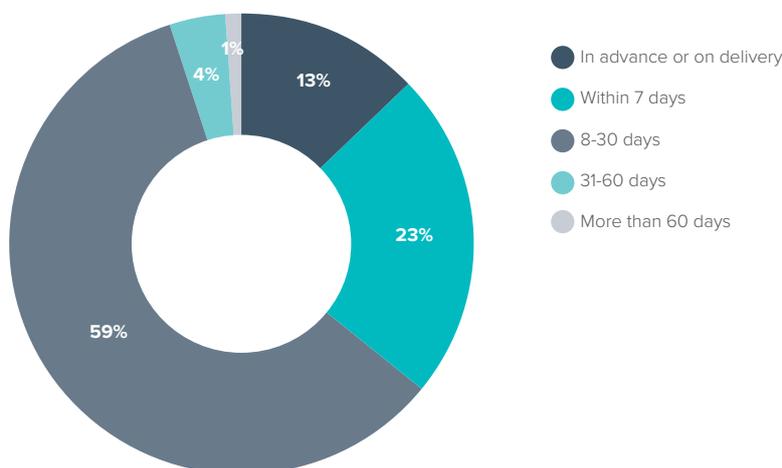


Supply chain bullying

Many small businesses are finding that their payment terms are worsening. Figure 34 shows that more than a third (37%) of FSB smaller suppliers say payment terms have increased over the last two years, while only four per cent have experienced an improvement. This strongly implies that larger business customers have been leveraging their power to influence payment terms in recent years.

Figure 34: Changes in payment terms for smaller suppliers

Source: FSB supply chain survey, 2018



48 Base of just 33

As well as extending payment terms, many customers are increasingly introducing the practice of retrospective discounting. FSB research, conducted in 2014, suggested that almost one in five (17%) small business had faced supply chain bullying in the previous two years.⁴⁹ This research indicated a serious deterioration in payment practice across a number of sectors.

Late payments

Figure 35 shows that most small businesses (83%) have to deal with payments that are made after the agreed date (only 17% say they are always paid on time). Around one in seven (14%) FSB smaller suppliers say they are paid late more than half the time by their business or public sector customers.

Figure 35: Proportion of smaller suppliers affected by late payments

Source: FSB supply chain survey, 2018

Proportion of payments made after agreed terms	Proportion of smaller suppliers affected
0% - all payments on time	17%
Up to 25%	52%
26-50%	18%
Payments late more than half the time	14%

⁴⁹ FSB, 'Supply chain bullying affects almost one in five small businesses', (11 December 2014) <http://www.fsb.org.uk/media-centre/press-releases/supply-chainbullying-affects-almost-one-in-five-small-businesses-says-fsb-pr-2014-41>

Supplier size

One might assume the smallest businesses with least bargaining power would more frequently fall victim to late payment problems. However, Figure 36 shows that the size of supplier makes little difference to late payment patterns. Interestingly, self-employed sole traders are the most likely to report always being paid on time (25% compared to 17% population average).

This could reflect the intermittent and short-term nature of the jobs that self-employed workers often carry out (e.g. plumbers or electricians). The value of their invoices is likely to be relatively small and so there is little incentive or benefit to customers withholding these payments. Self-employed sole traders are also less resilient to late payments and may be more likely to spend time and resources on chasing payments.

Figure 36: Proportion of smaller suppliers affected by late payments (by size of supplier)

Source: FSB supply chain survey, 2018

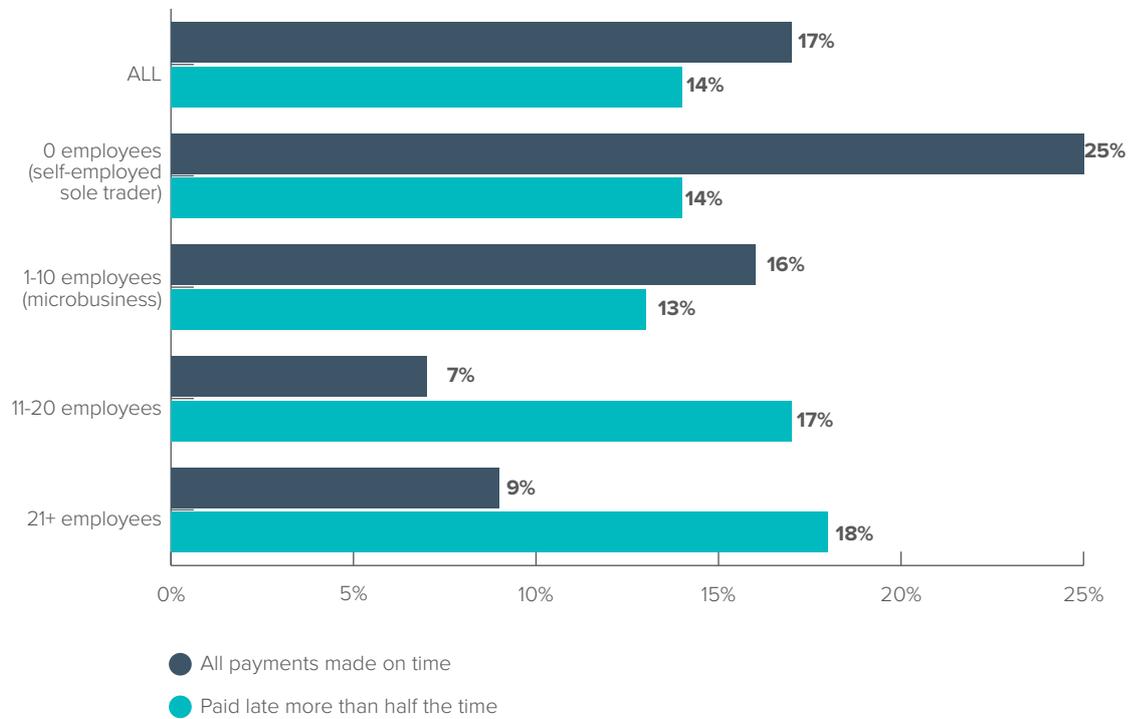
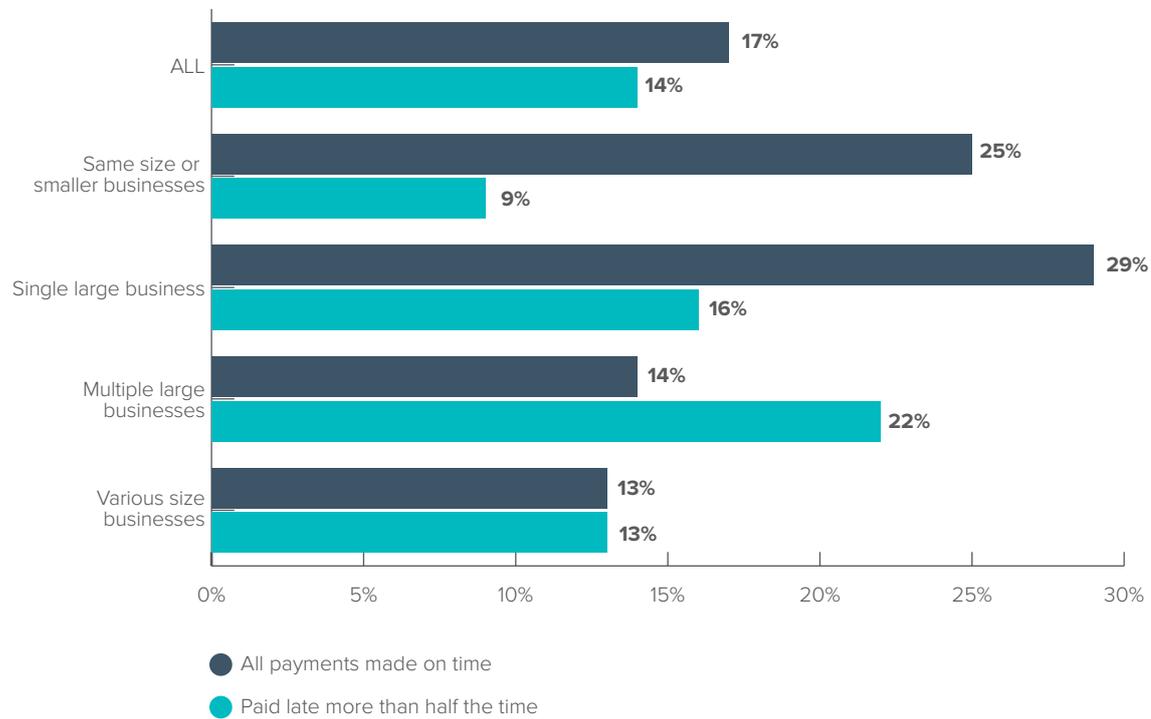


Figure 37 shows variation in late payment patterns related to the relative size of a small supplier's customer. Those supplying to a single large business customer are the most likely to say they are always paid on time (29%), compared to a population average of 17%. This could reflect the longer-term, ongoing relationship between customer and supplier in these instances. On the other hand, those who tend to supply multiple large business customers are more likely to be paid late, with almost a quarter (22%) in this category saying they are paid late more than half the time, compared to a population average of 14%.

Figure 37: Proportion of smaller suppliers affected by late payments (by typical size of customer)

Source: FSB supply chain survey, 2018

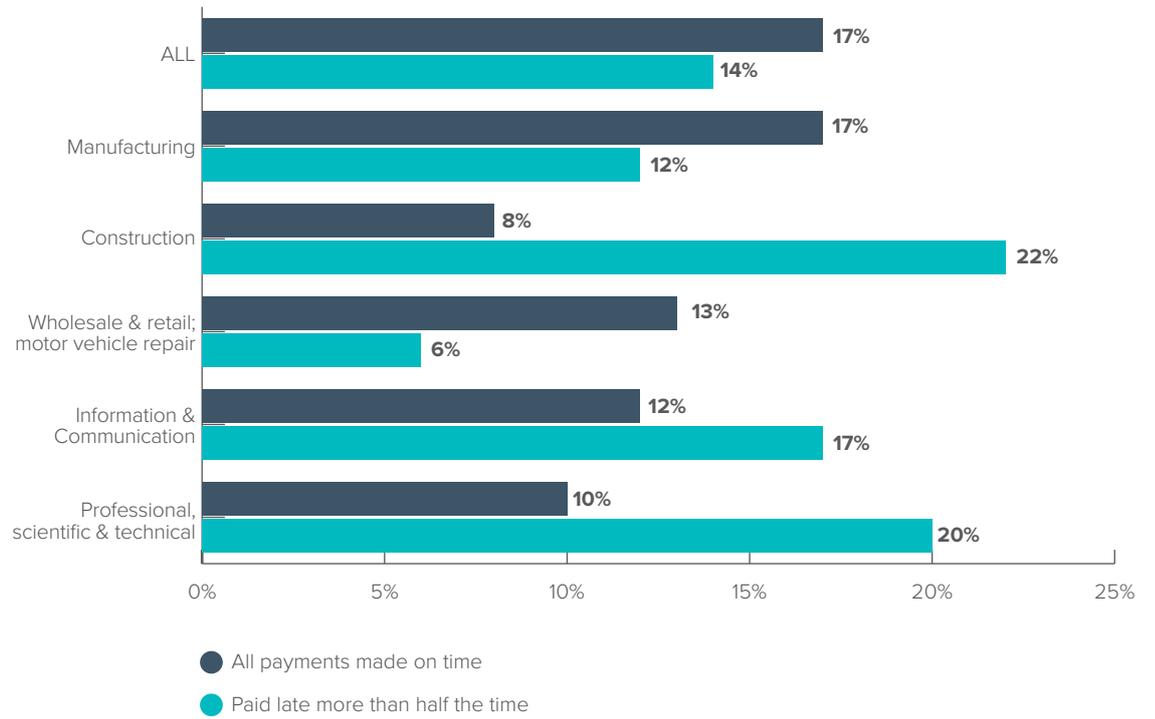


Sector

Late payment practice varies significantly across sectors. Figure 38 shows that suppliers to the construction sector are the least likely to say they are always paid on time (8% compared to a cross sector average of 17%). Those supplying to the manufacturing sector, on the other hand, are far more likely to say they are always paid on time (17%). Those in the wholesale, retail and motor vehicle repair sectors are the least likely to report being paid late more than half the time (6% compared to the 14% cross-sector average).

Figure 38: Proportion of smaller suppliers affected by late payments (by sector)

Source: FSB supply chain survey, 2018

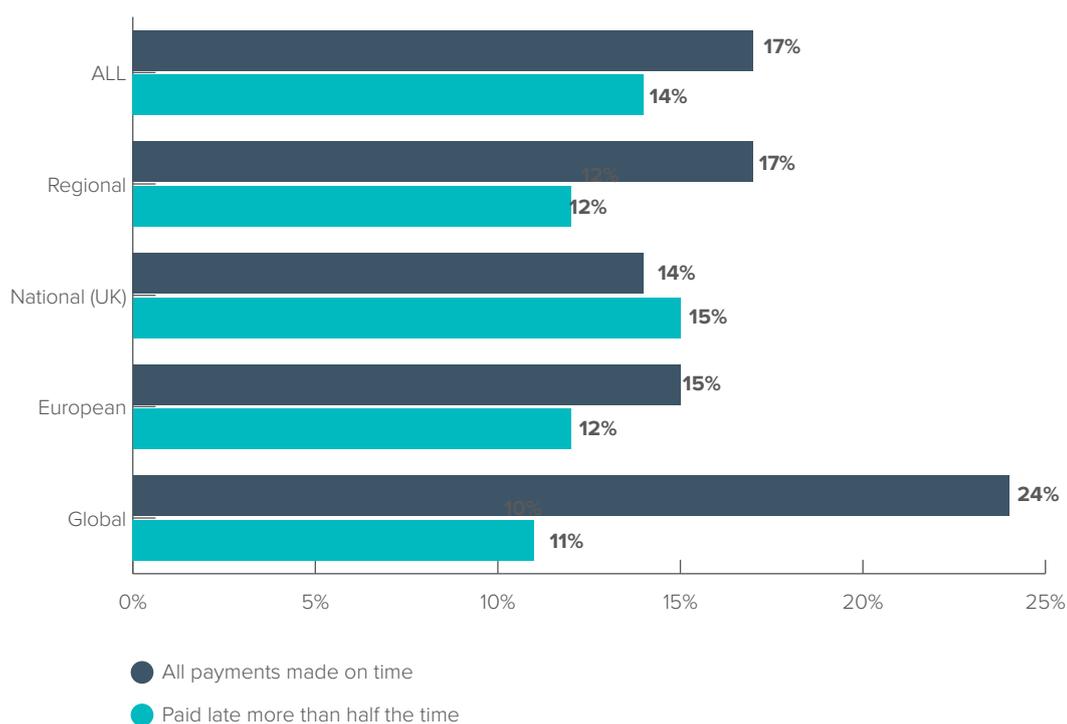


Geographic area

Figure 39 shows little variation in late payment practice across different geographic markets. However those supplying to a global market are more likely to say they are always paid on time (24%) compared a population average of 17%.

Figure 39: Proportion of smaller suppliers affected by late payments (by geographic area)

Source: FSB supply chain survey, 2018



Relationships with clients

Figure 34 (above) shows that many smaller suppliers report worsening payment terms. In addition, FSB research suggests that further pressure is being placed on smaller suppliers, after their payment terms have been agreed, particularly in relation to retrospective discounting (Table 40).

Figure 40: Proportion of smaller suppliers facing supply chain bullying

Source: FSB supply chain survey, 2018

Contract Changes	Proportion of smaller suppliers
Customers have asked for a discount in return for prompt payment	12%
Customers have asked for retrospective discounting	7%
Customers have asked for a fee to remain on their supply list	6%
Customers have unilaterally decided to apply a discount after goods / services have been supplied	3%

Unfortunately, there is a clear power imbalance between many smaller suppliers and their (often larger) customers, which allows some customers to take advantage of using unfair practices. Some are leveraging their power to make unreasonable demands. Almost one in five (18%) of those supplying to multiple large businesses have been asked for a fee to remain on the customer's supplier list, three times the small supplier average (6%).

The situation appears to be particularly acute for smaller suppliers operating in the construction sector. Of these, more than one in five (22%) report customer requests for discounts in return for prompt payment, almost double the cross-sector average (12%).

Figure 41 shows that just over a third (39%) of FSB smaller suppliers feel they can influence the terms of their contracts with customers, but a significant proportion (24%) say the opposite. And around a third (32%) feel they can challenge their customers. However, again, a significant proportion (18%) say the opposite.

Figure 41: Proportion of smaller suppliers able to influence / challenge customers

Source: FSB supply chain survey, 2018

Relationships with customers	Yes	No
I can influence the terms of contracts with customers	39%	24%
I feel able to challenge my customers	32%	18%

Perhaps unsurprisingly, smaller businesses that supply to large businesses – particularly those supplying to a single large customer – appear to feel disempowered in terms of their contract negotiations. Almost half (44%) of those supplying to a single large business felt they were unable to challenge their customer, almost double the 24% population average.

And again, small suppliers operating in the construction sector appear to be particularly disempowered. Less than a third (31%) in this sector feel they can influence their contracts with customers, while only one in five (20%) feel able to challenge their customers (compared to 39% and 32% cross sector averages, respectively).

Poor payment causes harm to small businesses and the economy

Late payments leads to the closure of around 50,000 companies every year. Previous research by FSB in 2016 showed the cost of late payments to smaller businesses, revealing that 60 per cent of late payments were worth more than £1,000, with an average value of £6,142.⁵⁰ Around a third (37%) reported cash flow difficulties as a result of late payments and third (35%) also said they spent a lot of time chasing payments. A small but significant proportion reported a delay on investments (16%) and hiring new staff (8%) as a result of late payments.

Without late payment issues, business profits would be 2.6 per cent higher. This would translate into a £4.8bn uplift in small business profits.⁵¹

There are many different schools of thought on the causes of poor payment practice by larger suppliers. Whether through deliberate design as part of cash flow management strategy or as a result of process failings – focused attention from the company's board would likely lead to improvements.

However more can be done through better coordination of existing initiatives and levers that exist to tackle the issue of poor payment practice and late payments.

⁵⁰ FSB, Time to Act, 2016, available at [https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-report---late-payments-2016-\(final\).pdf](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-report---late-payments-2016-(final).pdf)

⁵¹ IBID

INCREASING EFFICIENCY WITHIN SUPPLY CHAINS

In an increasingly competitive global economy, it is more important than ever that the UK acts to drive down unnecessary costs for smaller businesses. Smaller suppliers, and supply chains in general, must be efficient and able to meet the standards demanded by customers. Together, low-cost and high-quality business operations will help enhance UK competitiveness, improve productivity and employment, and lower prices for consumers.

Costs for smaller suppliers come from many sources. One such source is verified standards, which permeate large areas of modern commerce, particularly supply chains.

This chapter focusses on the role and effect of verified standards in supply chains.

It is clear that verified standards can bring benefits to some smaller businesses, and previous FSB research has showed that the majority of small businesses recognise areas where some regulation, including certified standards, can have a positive impact.⁵² However, standards currently do not fulfil their potential and often create net costs to smaller businesses due to their complex and burdensome nature.

This chapter identifies what action can be taken to reduce unnecessary burden associated with standards to ensure that small businesses are empowered to play their full role in increasing productivity, jobs and consumer return.

Supply chains and standards

Verified and certified standards validate the fact that a business's activities, products or services meet a certain level of competency, quality, transparency or performance. This is often done through the awarding of a certification. There are four broad types of standards that are relevant to smaller businesses:⁵³

- Information and reference (or measurement) standards
- Variety reducing (interchangeability) standards
- Compatibility and interface standards
- Minimum quality and safety standards

These standards can be voluntary or legal requirements. However, even voluntary standards are often seen as de facto compulsory because they are required by customers and, without them, smaller suppliers are unable to engage in certain commercial activities.

A variety of verified standards have become common in commercial life, particularly among smaller suppliers of goods and services.⁵⁴ Standards are developed and established by a wide variety of cross-sectoral national and international bodies, such as BSI and ISO, industry bodies, governmental authorities (e.g. local authorities and regulators). They also emerge informally through industry practice. They can be narrow and specific, or generic and therefore broadly applicable. The British Standards Institute (BSI) and the International Standards Organisation (ISO) are two of the most prominent and well recognised bodies, each developing around 35,000⁵⁵ and 20,000⁵⁶ standards respectively. A study for the EU Commission identified 440 voluntary certifications schemes across the EU in the agricultural and foodstuffs sectors alone.⁵⁷

52 FSB, Regulation Returned, 2017, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-regulation-returned-report.pdf?sfvrsn=0>

53 Luis Guasch, J., Racine, J-L., Sánchez, I and Diop M. Quality Systems and Standards for a Competitive Edge. (2007).

54 Supply chain in this chapter encapsulates businesses supplying goods and/ or services to other businesses and/ or the public sector (including public infrastructure projects).

55 BSI. The small business guide to standards. (No date given). Accessible here: <https://www.bsigroup.com/Documents/standards/smes/bsi-small-business-guide-to-standards-en-gb.pdf>

56 Leaney, O. How many ISO Standards are there ?. (2016)

57 EU Commission. EU agricultural product quality policy. (2017). Accessible at: https://ec.europa.eu/agriculture/quality_en cited in EU Commission. Commission Communication — EU best practice guidelines for voluntary certification schemes for agricultural products and foodstuffs. (2010). Accessible at: https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A52010XC1216%2802%29:ntr1-C_2010341EN.01000501-E0001

FSB research suggests that, on average, smaller firms hold four verified standards, costing around £2,800 a year to implement and maintain.⁵⁸ As a result of this complicated landscape, standards are a significant business in their own right.

Further, verified standards are likely to become increasingly important in the context of the anticipated policy shift towards greater reliance on ‘regulated self-assurance’, i.e. more use of co-regulatory and self-regulatory schemes within and across supply chains. This approach was envisaged in the Government’s Regulatory Futures Review as an important way of ‘modernising’ the regulatory environment in the context of constrained resources for regulators.⁵⁹

Certified standards can bring a number of benefits to some smaller suppliers by helping ‘level the playing field’ with other businesses and as builders of trust with customers. There are frequently wider gains that can also result, e.g. the effectiveness of supply chains. Gains to an individual business frequently feed through into gains for their customers. However, as this chapter also demonstrates, standards are a double-edged sword:

- **Many standards do not fulfil their potential**

Standards could deliver more benefits if they were less costly for smaller firms. They need to be simpler, better designed, more appropriate for smaller suppliers, interchangeable to avoid duplication, and clearly signposted in terms of their relative benefits and appropriateness.

- **Standards can create net costs to smaller businesses**

For some small suppliers, owning a standard creates an additional cost without providing any measurable financial benefit in return.⁶⁰ This is particularly the case where a standard is compulsory (either *de facto* or *de jure*) because it is required by third parties such as a customer or a regulator. Smaller businesses face unnecessary disadvantage when they are required to hold a specific standard by customers. In such cases, similar standards are not accepted as equivalent. Previous research by FSB showed that poorly designed and costly standards can have a negative impact on small business, including profits, customer orders, capacity to expand workforce, scope for investing in employees and prices.⁶¹

Prevalence and cost of standards

Around 66 per cent of FSB small businesses in B2B supply chains currently hold at least one kind of verified standard, with four being the average number held. This represents around 2.8 million smaller businesses across the UK, holding approximately 11 million standards.⁶²

The average cost of verified standards to a small business in a supply-chain, is more than £2,800 a year. This is more than a quarter of the median profit rate of a small and medium-sized business in the UK in 2016. In addition, this figure does not include the wider, indirect business costs associated with obtaining and maintaining standards. These include the opportunity costs associated with allocating time and resource to the adoption of these standards. This time and resource is therefore being diverted away from business operations and development, or alternative investments that might be more useful to the long-term competitiveness of the business.

58 See Table 8, below.

59 Cabinet Office/ BEIS. Regulatory Futures Review. (2017)

60 Certified standards are frequently cited as a component part of what is colloquially referred to as ‘blue tape’. ‘Blue tape’ is generally considered to have three elements:

- Certified standards that are not necessary for the existence of a well-functioning market/ the value-for-money delivery of a good or a service, but rather are ways of raising the costs of doing business, excluding potential providers or creating new revenue streams for those devising and operating them.
- Advice from consultants and others, that results in over-compliance compared with the minimum legal requirements.
- The requirements of insurance companies that also result in compliance levels above the statutory requirements often driven by concerns over future litigation.

61 FSB. Regulation Returned: what small firms want from Brexit. (2017).

62 66 per cent of 5,700,000 smaller firms in the UK hold on average four standards.

Supplier size

Figure 42 shows that two thirds (66%) of smaller B2B suppliers hold at least one verified standard. Many of these businesses hold multiple standards. The average number of verified standards held by small suppliers in the UK is four, with the number increasing with size. Consequently, larger businesses are more likely to hold standards, reflecting their increasing complexity and breadth of operation, and the role that standards can play in facilitating their commercial relationships.

As size of firm increases, there is a small, incremental rise in the quantity of standards they are likely to hold. However, the cost of obtaining and holding these standards increases steeply. For example, for those suppliers with 11-20 employees, the average cost of these standards is three times as that paid by self-employed sole traders (£4457 compared to £1310). Yet, between these two groups, the proportion of businesses holding standards only increases from 54 per cent to 82 per cent.

Figure 42: Prevalence and cost of verified standards (by size)

Source: FSB supply-chains survey, 2018

Size of business (No. of employees)	Proportion holding at least one standard	No. of certified standards (mean)	Average cost of standards
ALL	66%	4	£2,881
None (self-employed sole trader)	54%	3	£1,310
1-10 (microbusiness)	63%	4	£2,299
11-20 employees	82%	5	£4,457
21+ employees	91%	5	£7,873

Sector

Figure 43 shows that verified standards are particularly prevalent in the construction sector, professional, scientific and technical sector, and administrative and support services sector, where three-quarters of smaller firms hold at least one standard. Businesses operating in the construction sector hold more verified standards, on average, than those in other major sectors like manufacturing.

Figure 43: Prevalence and cost of verified standards (by sector)

Source: FSB supply-chains survey, 2018

Sector	Proportion holding at least one standard	No. of certified standards (mean)	Average cost of standards
ALL	66%	4	£2,881
Construction	76%	5	£3,593
Professional, scientific and technical activities	73%	3	£2,608
Administrative and support service activities	73%	3	£3,091
Manufacturing	59%	3	£4,186
Wholesale and retail trade; repair of motor vehicles	58%	4	£1,850
Information and communication	48%	3	£2,514

Figure 43 also shows that the average cost of standards in selected industries can vary substantially. The cost of standards in the manufacturing sector, for example, is considerably greater than the cross sector average, despite the average number of standards in that sector being below the average.

Geographic market

Figure 44 shows that those predominantly supplying to regional markets are more likely to hold a verified standard (69%), compared to more distant markets.

Figure 44: Prevalence and cost of verified standards (by geographic market)

Source: FSB supply-chains survey, 2018

Geographic market	Proportion holding at least one standard	No. of certified standards (mean)	Average cost of standards
ALL	66%	4	£2881
Regional	69%	4	£2,464
National (UK)	63%	4	£3,429
European	63%	3	£3,646
Global	61%	4	£3,614

There is notable consistency in the average number of standards held by smaller businesses across the full range of geographically spread supply chains. In other words, the geographic nature of the supply chain appears to have little obvious determinative effect on the average number of standards a business holds.

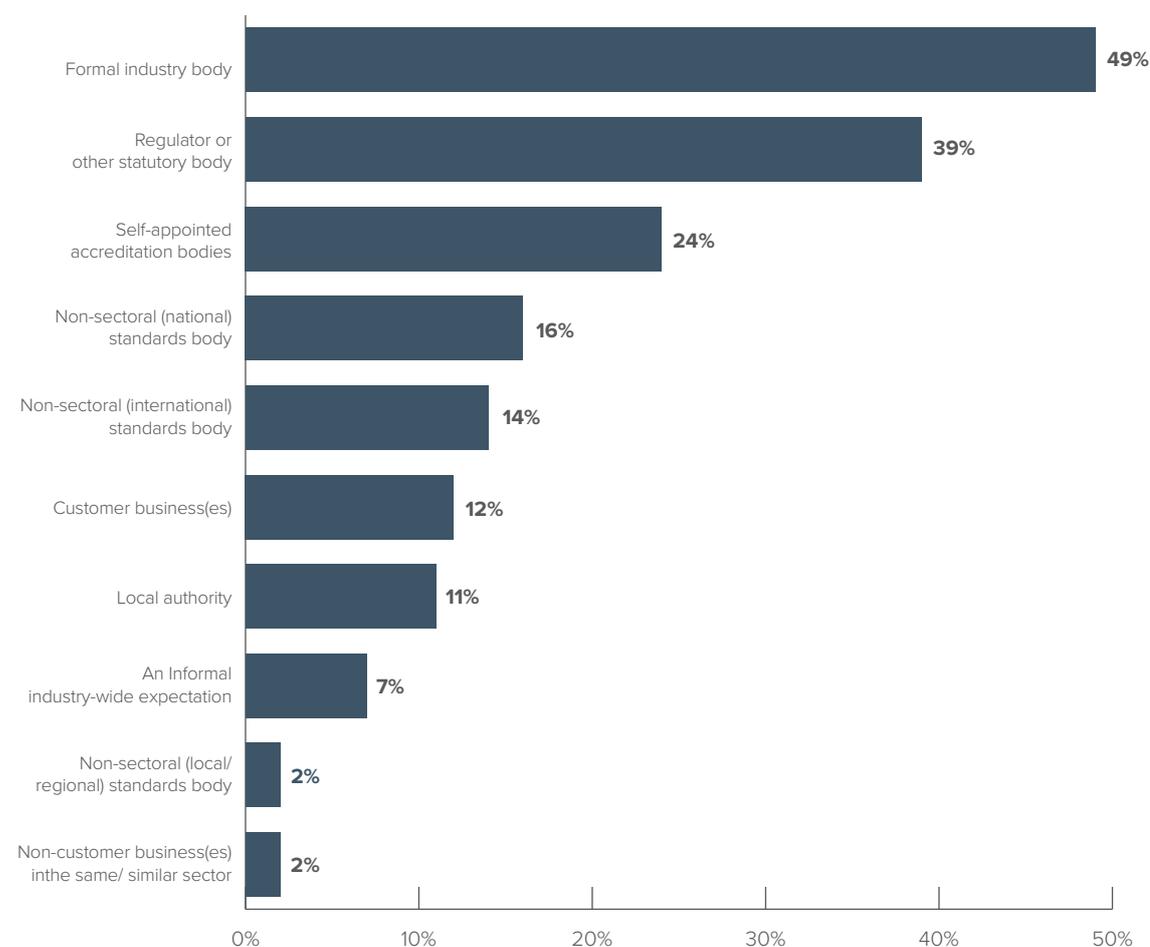
In contrast, there is a noticeable difference in the average cost of these standards between regional suppliers (£2464) and those supplying to more distant markets. As Figure 44 highlights, the average cost to smaller firms supplying national, European and global businesses is relatively similar.

Sources of standards

Verified standards come from a wide range of different sources. Figure 45 shows that the most common sources of standards are formal industry bodies⁶³ (49%), followed by regulators and statutory bodies (39%). Self-appointed accreditation bodies (24%) are the third most common source, despite having no statutory or formal industry-wide backing.

Figure 45: Small supplier sources of verified standards

Source: FSB supply chains survey, 2018



There are important sectoral differences in the most common sources of standards. For example, Figure 46a shows that those operating in the construction sector are much more likely to source their standards from a formal industry body (61% compared to 49% cross-sector average) or from a regulator or other statutory body (44% compared to 39% cross-sector average). Similarly, Figure 46b shows that those operating in the manufacturing sector are much more likely to source their standards from a non-sectoral or international standards body (25% compared to 14% cross-sector average) and less likely to source them from a regulator or other statutory body (31% compared to 39% cross-sector average). This could reflect the importance of exporting goods for this sector and the international standards landscape that underpins much of international trade.

⁶³ This may include trade groups and association as well as industry skills and training councils.

Figure 46a: Smaller supplier sources of verified standards (construction)

Source: FSB supply chains survey, 2018

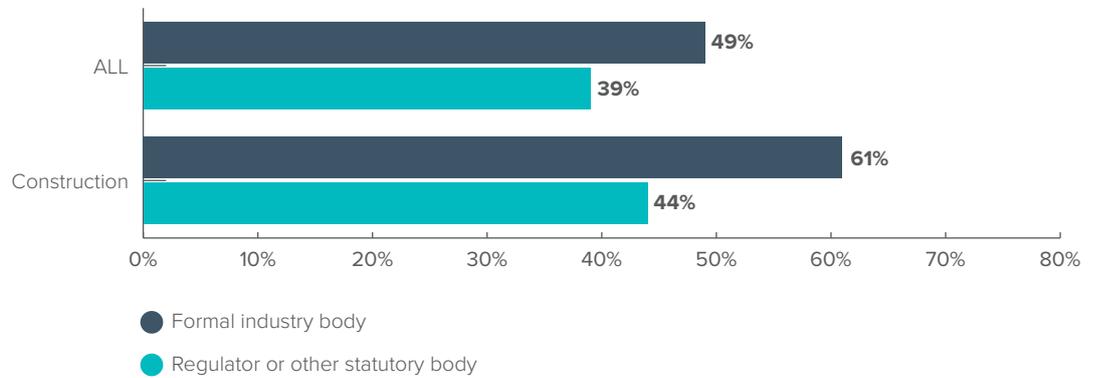
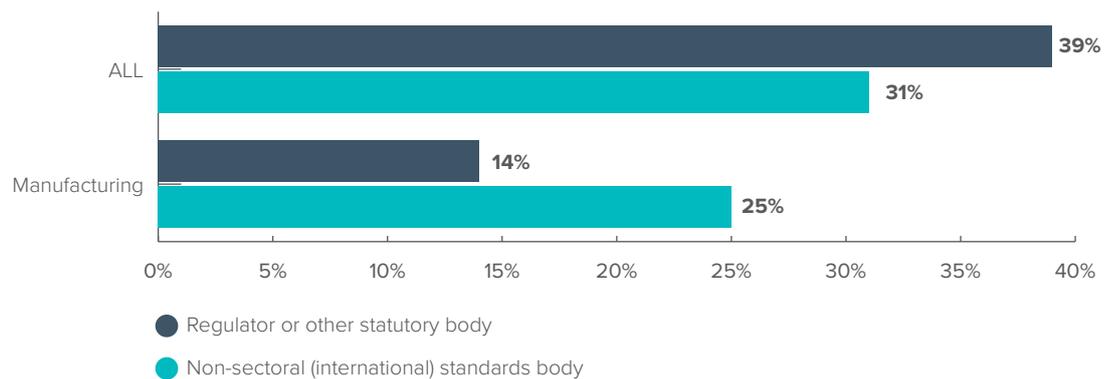


Figure 46b: Small supplier sources of verified standards (manufacturing)

Source: FSB supply chains survey, 2018



The multiple sources of standards within and across different sectors contribute to the complexity of the overall standards landscape for smaller suppliers. Many of these standards duplicate one another, or cover very similar competences, practices, qualities or experiences. This complexity means that, for example, there are considerable search costs for smaller businesses (i.e. obtaining sufficient useable information to identify and compare available standards). The duplicative nature of many of these standards (i.e. they cover very similar competences, practices, qualities or experiences) brings a further layer of complexity and cost.

Reasons for holding verified standards

Of those smaller suppliers that hold verified standards, the most common reason given by three quarters (75%) is simply that they are required by customers or insurance, either always, often or occasionally.

However, Figure 47 (below) shows that, despite their significant cost, those that hold verified standards do, to a degree, recognise their useful benefits. Of those smaller suppliers that hold standards, two-fifths (43%) say standards help to differentiate themselves in the marketplace. Many smaller suppliers also report that verified standards help to improve the quality of their services or products (39%) and increase their efficiency (18%).

This data compares well with previous FSB research from 2017. In FSB's Regulation Returned report, many small businesses recognised the role of verified standards in:⁶⁴

- Building trust among customers and potential future customers
- Helping to create a 'level playing field' between businesses
- Enabling innovation
- Increasing business efficiency

So, standards in business-to-business markets clearly have a role in helping to overcome information gaps between customers and suppliers, facilitating trust and demonstrating competence. In turn, they help customers make better informed choices in the market, increasing market efficiency and benefiting the wider economy. Research conducted by the Centre for Business and Economic Research (CEBR) in 2013 estimated that standards, such as those developed by BSI and ISO, contributed about £8.2 billion (28%) to the UK's annual economic growth.⁶⁵

Supplier size

Of those smaller suppliers that hold standards, around half (51%) of self-employed sole traders say they are required by their customers, rising to over nine in ten (93%) for businesses with 21+ employees.

However, the benefit of verified standards also appears to increase with business size. Around a third (37%) of self-employed sole traders say standards help to differentiate themselves from competitors, rising to over half (51%) of businesses with more 21+ employees. Similarly, just over a third (34%) of self-employed sole traders say standards help to improve the quality of their services or products, rising to over half (53%) for those with 21+ employees.

The increasing benefit of standards with supplier size may explain why larger business are more likely to hold such standards and more likely to hold more of them. For larger businesses, standards clearly play an increasingly important role in commercial life, regardless of whether or not they perceive a net benefit.

Figure 47: Reasons for acquiring verified standards (by size)

Source: FSB supply chains survey, 2018

Size of business (no. of employees)	They are required by potential customers (or for insurance)	Help differentiate from competitors	Help improve the quality of service(s) or product(s)	Help to increase the efficiency of my business
ALL	67% (75%)	43%	39%	18%
None (self-employed sole trader)	51% (63%)	37%	34%	9%
1-10 (microbusiness)	68% (76%)	41%	38%	18%
11-20 employees	79% (82%)	57%	45%	28%
21+ employees	93% (94%)	51%	53%	37%

64 FSB, Regulation Returned, 2017, available at <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-regulation-returned-report.pdf?sfvrsn=0>

65 CEPR. The Economic Contribution of Standards to the UK Economy. (2015).

Sector

Figure 48 suggests that small businesses operating in the construction sector are particularly likely to view standards as simply being required by their customers or insurance (90% compared to 75% cross sector average).

Small businesses operating in the administrative and support services sector are most likely to view standards as helping to differentiate themselves from their competitors (55% compared to 43% cross sector average).

Figure 48: Reasons for acquiring verified standards (by sector)

Source: FSB supply chains survey, 2018

Sector	They are required by potential customers (or for insurance)	Help differentiate from competitors	Help improve the quality of service(s) or product(s)	Help to increase the efficiency of my business
ALL	67% (75%)	43%	39%	18%
Construction	81% (90%)	41%	38%	17%
Manufacturing	80% (81%)	37%	41%	21%
Administrative and support service activities	64% (71%)	55%	44%	16%
Transportation and storage	72% (79%)	31%	28%	12%
Professional, scientific and technical activities	63% (73%)	49%	39%	21%
Wholesale and retail trade; repair of motor vehicles	56% (63%)	41%	43%	16%
Information and communication	80% (80%)	34%	32%	16%

Geographic market

Figure 49 suggests that smaller suppliers to regional markets are less likely to be required to hold verified standards than those supplying to national, European and global markets.

Figure 49: Reasons for acquiring verified standards (by geographic market)

Source: FSB supply chains survey, 2018

Geographic market	They are required by potential customers (or for insurance)	Help differentiate from competitors	Help improve the quality of service(s) or product(s)	Help to increase the efficiency of my business
ALL	67% (75%)	43%	39%	18%
Regional	65 (74)	43	40	18
National (UK)	73 (79)	43	39	21
European	75 (77)	42	45	19
Global	75 (79)	47	40	25

Relative size of customer

Figure 50 suggests that smaller suppliers to multiple larger business customers are more likely to hold verified standards (89% compared to 75% population average).

Figure 50: Reasons for acquiring verified standards (by geographic market)

Source: FSB supply chains survey, 2018

Size of customer	They are required by potential customers (or for insurance)	Help differentiate from competitors	Help improve the quality of service(s) or product(s)	Help to increase the efficiency of my business
ALL	67% (75%)	43%	39%	18%
Same size or smaller	59 (67)	47	42	22
Single large	76 (78)	42	40	7
Multiple large	88 (89)	47	45	26
Various sizes	75 (78)	47	40	21

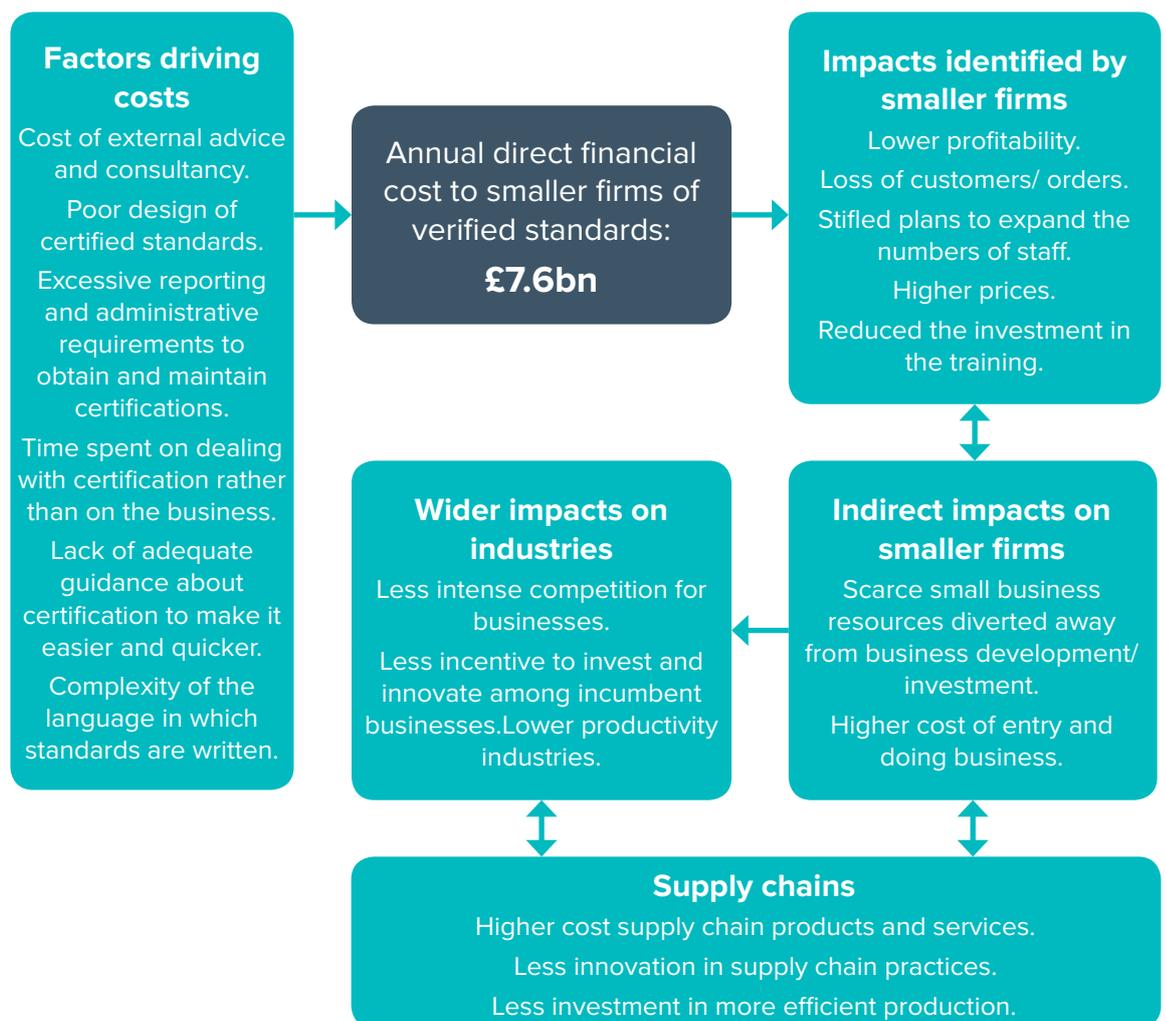
The problems with verified standards

Usually, obtaining and maintaining a verified standard raises the cost of doing business. For some businesses, those increased costs are outweighed by the benefits. For some, the cost-benefit may be difficult to justify because they deliver little positive effect relative to the cost, or in some cases result in outright negative effects on the business. Some smaller firms may feel pushed into holding a verified standard because they are seen as the norm in their market (*de facto* compulsory), despite not being the most efficient and targeted use of their resource and capital.

The negative impact of regulation (including verified standards) is felt disproportionately by smaller firms, for whom the associated gross costs can be between 17 and 40 per cent per employee greater than for larger businesses.⁶⁶ FSB research, in 2017, identified a number of specific aspects of the certified standards that have negative impacts on smaller business success.⁶⁷ These costs and their impacts (in the first instance on businesses and then on sectors) are briefly set out in Figure 51.

Figure 51: Impacts of and factors behind the cost of certified standards

Source: FSB regulation survey, 2017 and supply chains survey, 2018



66 ENSR. (1995), cited in Baldwin, R. 'Better Regulation: is it better for business?' (2004); Small Business Research Trust. (2000), cited in Baldwin, R. 'Better Regulation: is it better for business?' (2004); OECD. (2001); OECD. (1997); Hopkins, T.D. (1995) and Beale, H and Kin, H. (1988) cited in Baldwin, R. 'Better Regulation: is it better for business?' (2004); Crain, N. V and Crain, W. M. 'The Impact of Regulatory Costs on Small Firms'. (2010); Crain, W. W. 'The Impact of Regulatory Costs on Small Firms'. (2005); Crain, W. M and Crain N. V. 'The Cost of Federal Regulation to the US Economy, Manufacturing and Small Business' (2014)

67 FSB, Regulation Returned: what small firms want from Brexit. (2017)

So, verified standards have the potential to hinder the commercial ambitions of smaller businesses, the competitiveness of markets, and the efficiency of supply chains.

The aggregate direct cost of verified standards to smaller suppliers is around £7.6 billion a year.⁶⁸ This estimate does not include indirect costs, which would further increase the total cost figure.⁶⁹ With the macroeconomic benefits of standards estimated to be around £8.2 billion in 2013, the current standards landscape appears to provide only a marginal overall benefit.⁷⁰ Case study 1 (ANNEX 2) helps further illustrate why the costs-benefit of standards is not clear cut, with specific reference to one of the most widely held standards (ISO9001). Subsequently, in many cases they can fail to deliver unambiguous gains for businesses and supply chains.

⁶⁸ This calculation is of the direct costs only to smaller businesses who hold standards i.e. the administrative and compliance costs. See FSB's report Regulation Returned: what small firms want from Brexit (2017), for more on the distinctions between these two types of costs which make-up the direct costs to smaller businesses.

⁶⁹ In-direct costs, if it were possible to calculate them, would not only capture the opportunity costs to the individual businesses but the wider knock-on costs to the supply-chain.

⁷⁰ CEBR. The Economic Contribution of Standards to the UK Economy. (2015).

BRINGING FAIRNESS TO PUBLIC PROCUREMENT

In regard to its own supply chains, Government has two key responsibilities in order to maximise the benefit to public services, the taxpayer, and the economy as a whole:

- To give adequate regard to, and make appropriate use of, the UK's small business suppliers when procuring goods and services.
- To be an exemplar of best practice in maintaining healthy supply chains, taking action to boost productivity, ensure prompt payment and increase efficiency.

FSB has welcomed the UK Government commitments to supply chains in recent years, including the 2015 Lord Young reforms, the productive SME procurement advisory panel and the target to achieve 33 per cent of public procurement from smaller businesses. Although FSB was disappointed that the date to reach this target was extended to 2022, we have also welcomed recent announcements by Government which, if complimented by further action, will help to reach this target.

Welcome interventions at a UK level include the recent announcement made by the Cabinet Office Minister, Oliver Dowden, to consult on proposals to disqualify large companies from central government contracts if they have a history of poor payment, and the Prime Minister's personal intervention in directing each Department to nominate a Small Business Champion Minister.

It will, of course, take time for some of these initiatives to take effect. However, there is clearly much work to do, given that the public sector still procures far less than the private sector from small businesses.

FSB recognises that improving public sector procurement is not a simple matter for central Government. Much of this procurement is controlled by separate structures, requiring their own, bespoke remedies, e.g. primary contractors like Carillion, local councils, housing associations, or other arms-length agencies. However, unhealthy or imbalanced public supply chains place an unnecessary burden on taxpayers and small firms alike, and negatively impact our public services.

The recent collapse of Carillion highlighted a number of risks to smaller suppliers. FSB recognises the measures that Government has proposed to better protect smaller suppliers in future. However, these must be implemented quickly and effectively, following consultation. These measures should also be complimented by increased use of project bank accounts, retention deposit schemes, and a stronger Prompt Payment Code.

There is also scope for local government to make much needed reforms. FSB set out a number of steps in our recent report, *Unstacking the Deck*, which focused on how to ensure that some of the welcome measures taken by central Government could be adopted by councils, including increasing use of contracts finder.

Within central government departments, FSB has been particularly pleased with recent moves towards DPS (dynamic purchasing system), in particular the recent and ongoing exercises in DWP and Department of Health. This will have hugely positive effects for Government if adopted widely through its departments and agencies.

Government must act as an exemplar in its treatment of its own supply chains. In this regard, it performs better in some areas than others. However, there is a great deal of work to do. FSB believes there is huge scope for the public sector to become a powerful example of good practice.

Innovation & Skills

Around a third (30%) of smaller suppliers say they have received help to innovate from their customers. In this regard, Figure 52 shows that those that supply to the public sector are more likely to report collaboration in design (28%) and mentoring and advice (25%) than the population average (23% and 20% respectively).

Figure 52: Type of innovation support received by smaller suppliers from customers (public sector)

Source: FSB supply chain survey, 2018

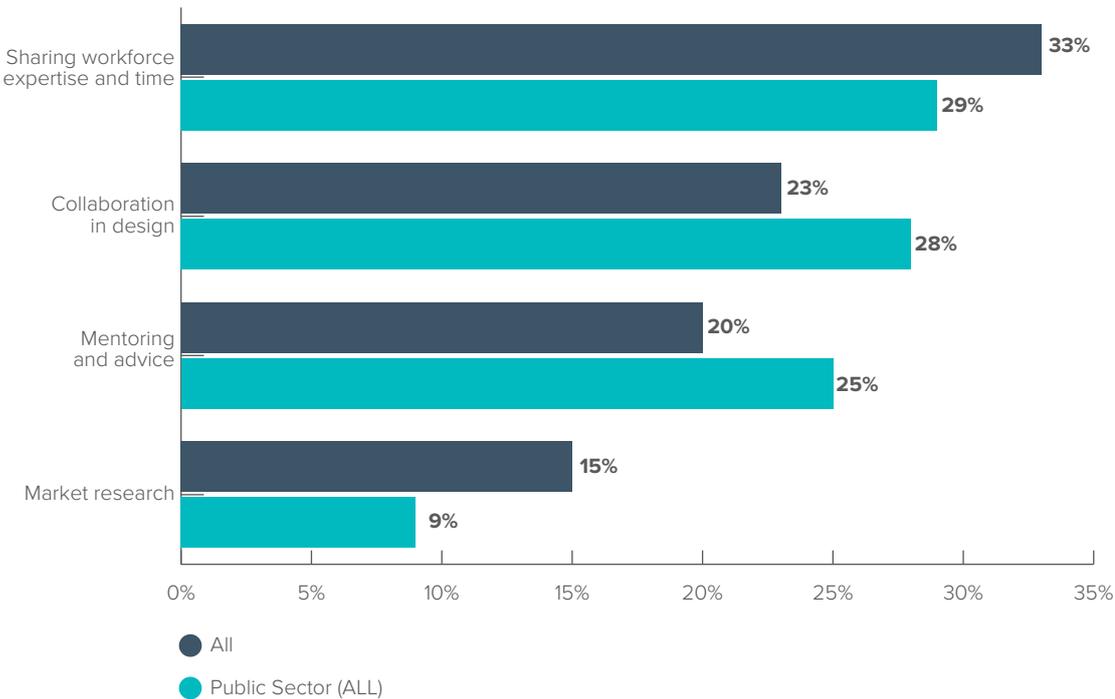
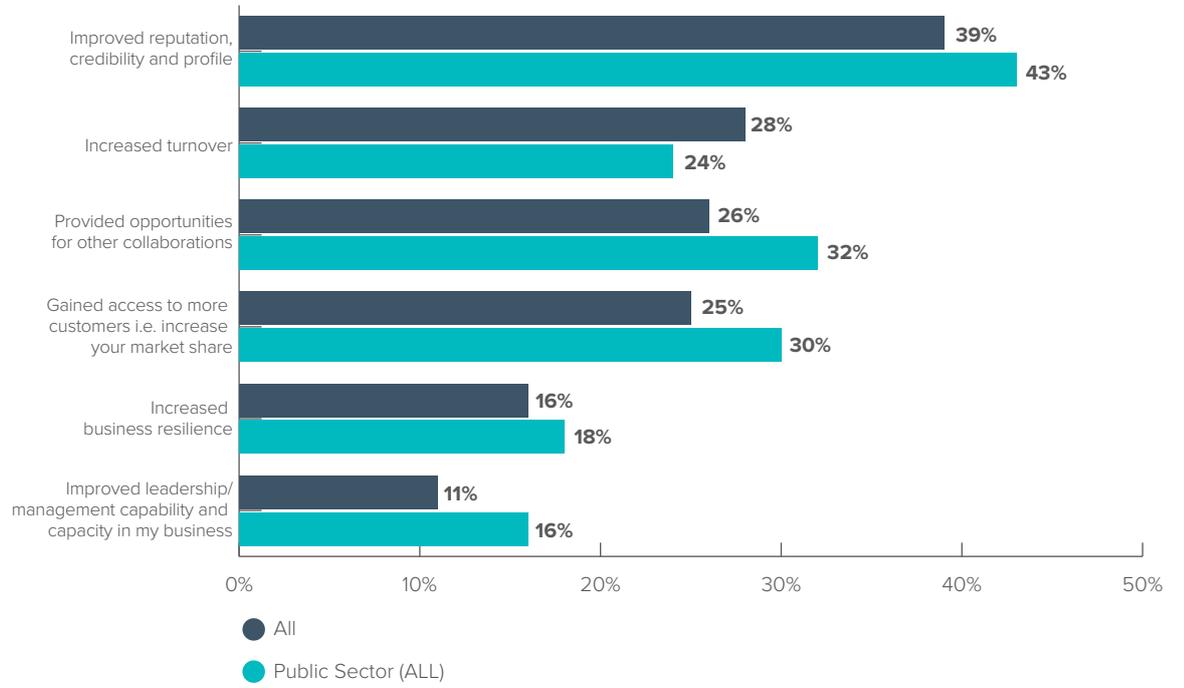


Figure 53 shows that, of the smaller suppliers that receive innovation support from their customers, those supplying to the public sector are more likely to report opportunities for other collaborations (32%) and gaining access to more customers (30%), compared to the population average (26% and 25%, respectively).

There is no variation in the level of skills support between those that supply to the public sector and the wider supplier population. Only 12 per cent of smaller suppliers say they have been provided with skills support by their customers.

Figure 53: Benefits of innovation for smaller suppliers (public sector)

Source: FSB supply chain survey, 2018



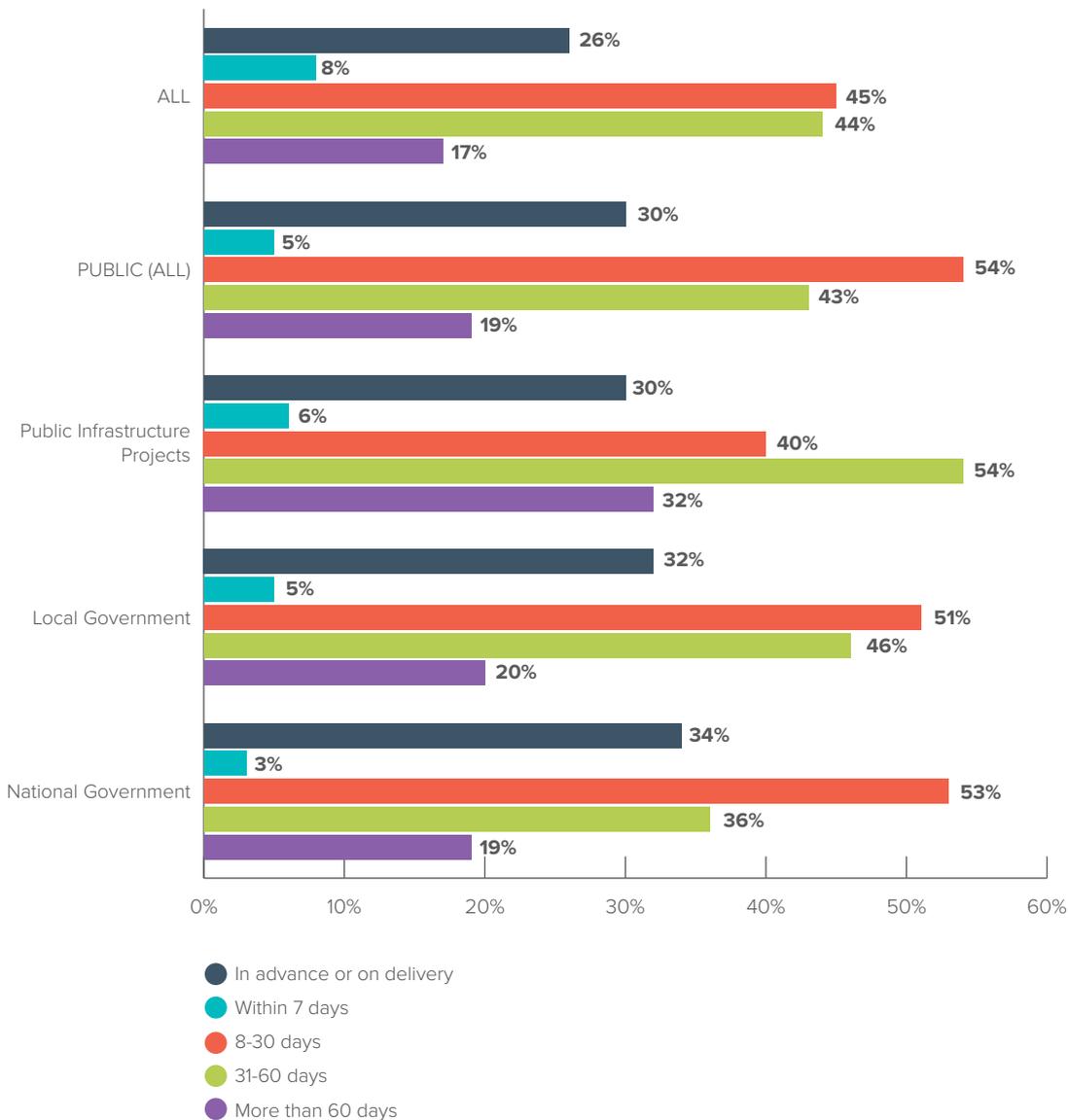
Payment practice

Public infrastructure projects are one area where, clearly, there needs to be an improvement in payment terms. Many smaller suppliers are twice as likely to face terms of more than 60 days (32% compared to 17% population average).

However, more broadly, the public sector should be acknowledged for its attempt to drive down payment terms. Figure 54 shows that those supplying to the public sector (including national government, local government and public infrastructure projects) are more likely to agree payment in advance or on delivery (30% compared to 26% population average), or within 8-30 days (54% compared to 45% population average), or within 8-30 days (54% compared to 45% population average).

Figure 54: Most common payment terms for smaller suppliers (by public sector)

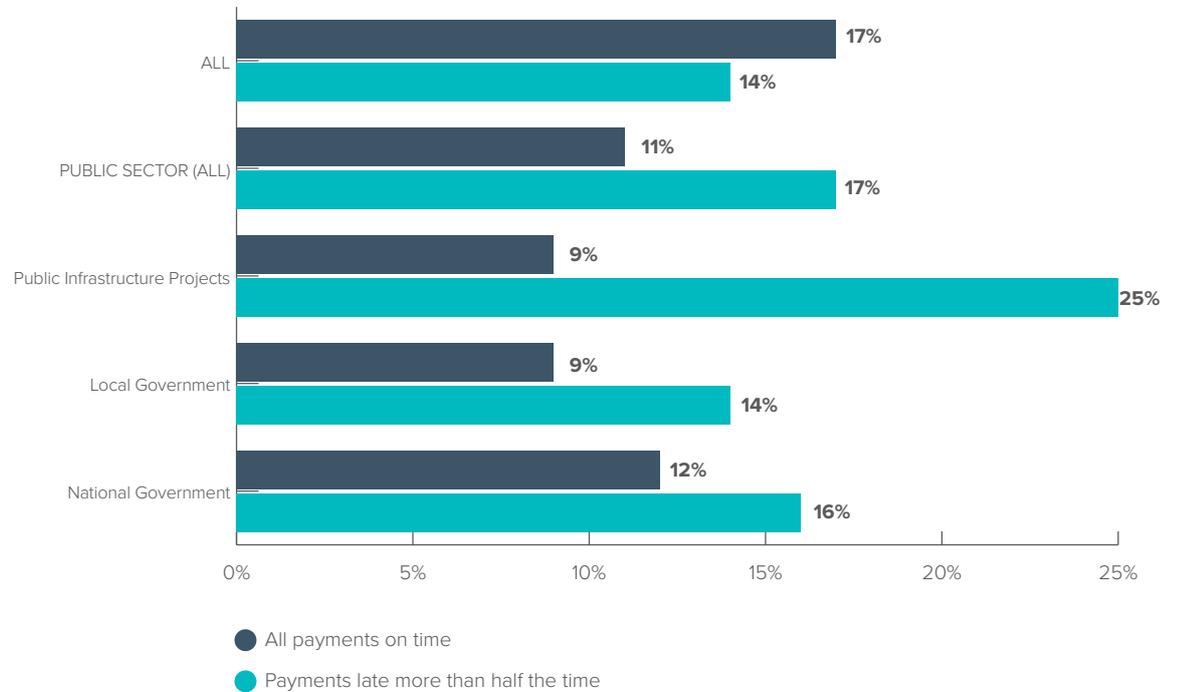
Source: FSB supply chain survey, 2018



However, FSB data on late payments suggests that the public sector subsequently struggles to honour these terms (Figure 55). Almost one in five (17%) smaller suppliers to the public sector say they are paid late more than half the time (compared to 14% population average). Nine out of ten (89%) public sector suppliers have experienced late payment, including suppliers to central government (88%), local government (91%) and those supplying to public infrastructure projects (91%).

Figure 55: Proportion of smaller suppliers affected by late payments

Source: FSB supply chain survey, 2018



Verified standards

There is a noticeable difference in the prevalence of verified standards among those businesses that supply to the public sector (including public sector infrastructure projects) and those that operate in private sector supply chains. Figure 56 shows that three-quarters (75%) of smaller suppliers to the public sector hold at least one verified standard. This is nine per cent higher than the proportion across all businesses in supply-chains (66%).

In the public sector, the annual average cost of verified standards appears to be higher than the average cost to the whole small business population, with a reported difference of almost £400 a year on average.

Figure 56: Prevalence and cost of verified standards (public versus private sector)

Source: FSB supply-chains survey, 2018

Sector	Proportion holding at least one standard	No. of certified standards (mean)	Average cost of standards
ALL	66%	4	£2881
Public Sector	75%	4	£3,263

Verified standards play a ‘shortcut’ role for public sector procurers. For example, by specifying individual certifications, procuring public sector bodies can reduce time and search costs. The public sector also uses certified standards in its procurement processes to influence private sector practices for governmental goals, e.g. the Government’s Cyber Essentials scheme.

Future steps

Government has an opportunity to lead by example on supply chain best practice, in relation to both the proportion of smaller suppliers used and in the way those businesses are treated. However, the public sector is yet to set itself apart in this regard, and must do more to widen its use of smaller suppliers if it is to achieve its target of 33 per cent of public procurement from smaller businesses by 2022.

ANNEX 1

Supply chain experiences

Fig A1: Supply chain experience (by size of supplier)

Source: FSB supply chain survey, 2018

	0 employees (self-employed sole trader)	1-10 employees (microbusiness)	11-20 employees	21+ employees
Level of skills support provided by customers	8-14%		18%	8-14%
Level of innovation support provided by customers	28-34%			
Most common types of innovation support from customers	Sharing workforce expertise and time		Collaboration in design	Sharing workforce expertise and time
Most common areas of innovation support from customers	Product			
Most common benefits of innovation	Improved reputation, credibility and profile		Increased turnover	Provided opportunities for other collaborations
Payment terms: In advance or on delivery	24-27%			16%
Payment terms: More than 60 days	11 - 17%		24-27%	
Late payments: All payments on time	16-25%		7-9%	
Late payments: Paid late more than half the time	13-18%			
Standards: Proportion holding at least one	54-63%		82-91%	
Standards: No. (mean)	3-4		5	
Standards: Average cost	£1310 - £2299		£4457 - £7873	
Standards: Most common reasons for acquiring	Required by potential customers (or for insurance)			

Fig A2: Supply chain experience (by sector of supplier)

Source: FSB supply chain survey, 2018

	Manufacturing	Construction	Wholesale, retail and repair of motor vehicles	Information and communication	Professional, scientific and technical activities
Level of skills support provided by customers	7-13%				17%
Level of innovation support provided by customers	37-38%	23-27%		37-38%	23-27%
Most common type of innovation support from customers	Collaboration in design	Sharing workforce expertise and time		Collaboration in design	Sharing workforce expertise and time
Most common area of innovation support from customers	Product	Product and process	Product		Product and process
Most common benefits of innovation	Increased turnover	Improved reputation, credibility and profile			Improved reputation, credibility and profile and gained access to more customers
Payment terms: In advance or on delivery	30%	12-21%	45%	12-21%	
Payment terms: More than 60 days	30%	12-18%			
Late payments: All payments on time	17%	8-13%			
Late payments: Paid late more than half the time	6-12%	17-22%	6-12%	17-22%	
Standards: Proportion holding at least one	48-59%	73-76%	48-59%		73-76%
Standards: No. (mean)	3-4	5	3-4		
Standards: Average cost	£3593 - £4186		£1850 - £3091		
Standards: Most common reasons for acquiring	Required by potential customers (or for insurance)				

Fig A3: Supply chain experience (by geographic market of supplier)**Source:** FSB supply chain survey, 2018

	Regional	National (UK)	European	Global
Level of skills support provided by customers	9-13%			
Level of innovation support provided by customers	25-33%			36%
Most common type of innovation support from customers	Sharing workforce expertise and time / Mentoring and advice	Sharing workforce expertise and time	Sharing workforce expertise and time / Collaboration in design	
Most common area of innovation support from customers	Product / process	Product		
Most common benefits of innovation	Improved reputation, credibility and profile	Improved reputation, credibility and profile / Increased turnover	Improved reputation, credibility and profile / increased turnover / provided opportunities for further collaboration / gained access to more customers	
Payment terms: In advance or on delivery	14-17%			24%
Payment terms: More than 60 days	11-15%			
Late payments: All payments on time	14-17%			23%
Late payments: Paid late more than half the time	11-15%			
Standards: Proportion holding at least one	69%	61-63%		
Standards: No. (mean)	3-4			
Standards: Average cost	£2464	£3429 - £3646		
Standards: Most common reasons for acquiring	Required by potential customers (or for insurance)			

Fig A4: Supply chain experience (by length of time in business of supplier)

Source: FSB supply chain survey, 2018

	0-4 years (start-up)	5-9 years	10-19 years	20+ years
Level of skills support provided by customers	22%	9-16%		
Level of innovation support provided by customers	38-39%		27-30%	
Most common type of innovation support from customers	Sharing workforce expertise and time / Mentoring and advice	Sharing workforce expertise and time		Collaboration in design / Mentoring and advice / Sharing workforce expertise and time
Most common area of innovation support from customers	Processes / Products	Products		
Most common benefits of innovation	Improved reputation, credibility and profile / Opportunities for other collaboration	Improved reputation, credibility and profile / Access to more customers	Improved reputation, credibility and profile / Increased turnover	
Payment terms: In advance or on delivery	36%	24-27%		
Payment terms: More than 60 days	7-12%		18-20%	
Late payments: All payments on time	28%	14-16%		
Late payments: Paid late more than half the time	13-17%			
Standards: Proportion holding at least one	66-71%			
Standards: No. (mean)	3		4	
Standards: Average cost	£1364	£2379-£2469		£3028
Standards: Most common reasons for acquiring	Required by potential customers (or for insurance)			

Fig A5: Supply chain experience (by relative customer size of supplier)**Source:** FSB supply chain survey, 2018

	Same size or smaller business	Single large business	Multiple large business	Various size businesses
Level of skills support provided by customers	11-13%	23%	11-13%	
Level of innovation support provided by customers	27-36%	51%	27-36%	
Most common types of innovation support from customers	Products			
Most common areas of innovation support from customers	Sharing workforce expertise and time / Collaboration in design	Sharing workforce expertise and time	Sharing workforce expertise and time / Collaboration in design	
Most common benefits of innovation	Improved reputation, credibility and profile	Increased turnover / Improved reputation, credibility and profile	Improved reputation, credibility and profile / Increased turnover / Access to more customers	Improved reputation, credibility and profile
Payment terms: In advance or on delivery	48%	25-26%		
Payment terms: More than 60 days	13-19%		32%	13-19%
Late payments: All payments on time	25-29%		13-14%	
Late payments: Paid late more than half the time	9-16%		22%	9-16%
Standards: Proportion holding at least one	65-69%	73-78%		65-69%
Standards: No. (mean)	4			
Standards: Average cost	£2272-£2989		£4524	£2272-£2989
Standards: Most common reasons for acquiring	Required by potential customers (or for insurance)			

ANNEX 2

Case study: ISO9001 - An illustration of the benefits and costs of a verified standard

ISO9001, the quality management standard, is a certified standard that is particularly prevalent in supply chains (not least because customers frequently require it of their potential suppliers). In 2016, in the UK alone, there were 37,901 holders of the ISO9001 standard.⁷¹ ISO 9001 requires a business to put in place internal processes that help ensure effective project execution through the establishment of practices and policies that enables the business to identify, measure, control and improve core business activities.⁷² For some firms it can be:⁷³

'...successful in building conformance capability and that by using ISO 9001 practices companies can also benefit in relation to production economics through improved process efficiency and to other competitive capabilities.'

A survey of business customers, carried out by BSI, found numerous reported benefits from up to two-thirds of those businesses that had obtained ISO9001.⁷⁴ Other research has found a clear link between ISO9001 and the operational performance of businesses.⁷⁵ Some studies have identified noticeable positive effect on SMEs.⁷⁶ One literature review of the impact of ISO9001 found it led to:⁷⁷

'...improved efficiency, improved customer satisfaction and improvements in relations with employees.'

However, for some businesses, the benefits of ISO9001 are limited.⁷⁸ ISO9001 is a good example of how the potential benefits of a certified standard can be contingent on circumstances. Research suggests that, in many cases, there is little or no link between the adoption of ISO9001 and a positive business outcome.⁷⁹ In some cases, ISO9001 worsens business performance.⁸⁰ A review of the literature on ISO9001 found that the impact on a business's financial performance was often unclear.⁸¹ Reasons for these more ambiguous effects of ISO9001 are numerous:⁸²

- The cost of obtaining and maintaining ISO9001 can be higher than the benefits it produces.
- The benefits of ISO9001 are not as effectively and fully realised in businesses that only get it in response to external pressure (such as procurement rules).
- Firms applying the standard for narrow commercial motivations sometimes fail to fully embrace the deep business process changes that ISO9001 often requires to be fully effective.

71 ISO. Survey of certifications to management system standards - Full results: ISO9001 Data per country and sector 1993 – 2016. (2016).

72 Pearson, M. The Small Business Owner's Simplified Guide to ISO 9001 and Business Improvement. (2016). Accessible at: <https://www.bsigroup.com/LocalFiles/en-GB/small-business/UK-SB-BSI-ISO-9001-Whitepaper-UK-EN.pdf>

73 Rusjan, B and Castka, P. Understanding ISO's 9001 Benefits and Research through an Operations Strategy Framework in Managing Global Transitions, Vol 8, No 1. (2010).

74 BSI research found that for 51% of businesses obtaining ISO9001 between 2012 and 2015 had resulted in 'the attraction of new customers, 51% reported improvements to products and services while 61% said that it increased trust in their business. Source: BSI. The benefits of adopting the Quality Management Standard, ISO 9001:2015 as a small or micro business owner. (2015).

75 Jang, W.Y. & Lin, C.I. An integrated framework for ISO 9000 motivation, depth of ISO implementation and firm performance in the Journal of Manufacturing Technology Management, Vol 19, No 2. (2008). Lee, P.K.C., To, W.M. & Yu, T.W. The implementation and performance outcomes of ISO 9000 in service organisations in the International Journal of Quality & Reliability Management, Vol 26, No 7. (2009). Both cited in Basir, S A B and Davies, J. (2016).

76 Levine, D I. and Toffel, M W. Quality Management and Job Quality: How the ISO 9001 Standard for Quality Management Systems Affects Employees and Employers. (2010).

77 Tari, J J., José Francisco Molina-Azorín, J F and Heras, I. Benefits of the ISO 9001 and ISO 14001 standards: A literature review. (2012) cited in Basir, S A B and Davies, J. (2016).

78 Ng, S.T. Performance of engineering consultants in ISO 9000-based quality management systems implementation in Engineering, Construction and Architectural Management, Vol 12, No 6. (2005) cited in Basir, S A B and Davies, J. (2016).

79 Ilkay, M.S. and Aslan, E. The effect of the ISO 9001 quality management system on the performance of SMEs in the International Journal of Quality & Reliability Management, Vol 29, No 7. (2012) cited in Basir, S A B and Davies, J. (2016). Feng, M., Terziowski, M. and Samson, D. Relationship of ISO 9000 quality system certification with operational and business performance in the Journal of Manufacturing Technology Management, Vol 19, No 1. (2008) cited in Basir, S A B and Davies, J. (2016). Both cited in Basir, S A B and Davies, J. (2016).

80 Martínez-Costa, M. and Martínez-Lorente, A.R. A triple analysis of ISO 9000 effects on company performance in the International Journal of Productivity and Performance Management, Vol 56, No's 5/6 (2007) cited in Basir, S A B and Davies, J. (2016).

81 Tari, J J., José Francisco Molina-Azorín, J F and Heras, I. Benefits of the ISO 9001 and ISO 14001 standards: A literature review. (2012).

82 Martínez-Costa, M. and Martínez-Lorente, A.R. A triple analysis of ISO 9000 effects on company performance in the International Journal of Productivity and Performance Management, Vol 56, No's 5/6 (2007) cited in Basir, S A B and Davies, J. (2016).

The latest incarnation of ISO9001 (2015) was designed to be more appropriate for smaller businesses. It has introduced more flexibility and clearer terminology.⁸³ Currently, the effectiveness of these changes remains unclear.

Simpler, more flexible standards, which are easier to understand and quicker to implement, should reduce costs of adoption and maintenance. Therefore, if the latest incarnation of ISO9001 can demonstrate that it works better for smaller businesses, it could provide a template for reforms to other standards which, from the small business perspective, still suffer from costly problems.

83 ISO. ISO 9001:2015(en) Quality management systems — Requirements. (2015). Accessible at: <https://www.iso.org/obp/ui/#iso:std:iso:9001:ed-5:v1:en>

ANNEX 3

Case study – City of York Council & Dooleys of Easingwold

“City of York Council welcomes all types and sizes of suppliers to consider bidding for our tenders and quotation opportunities. Where a small local business is successful and is awarded a contract, the payment terms are changed from 30 days to 10 days. This is to ensure we are supporting small businesses as much as possible and allowing them to receive payments in a suitable timescale.

As an example, City of York Council undertook a Procurement process for a supplier to provide Fresh Fruit and Vegetables and Bread & Morning Goods to City of York Council Older People’s Homes and Energise Leisure Centre. Suppliers were invited to bid for this work, including a number of small, local businesses.

We tailored the Procurement to suit small businesses and included as much information as possible so the suppliers knew what the Council’s requirements were. The way the Procurement was tailored meant the Council splitting the contract into two separate lots. This allowed suppliers to bid for just one lot, if they only had the capacity to do one instead of two. To give as much detail as possible on the food requirements, we also provided a list of products. This information came from Managers at the Homes so we could ensure the products would be received and used.

Once the Procurement process had come to a close, a contract was awarded to Dooleys of Easingwold. The Contract Manager and Procurement ensured they spoke with the successful supplier and met with them face to face to explain the Contract and the payment terms.

The 10 day payment terms ensures the successful supplier can continue delivering throughout the life of the contract. This also helps the successful supplier gain further information on other opportunities the Council may have available and will encourage healthy competition in bidding for tenders, as they will have knowledge on how the payment system would work. This also provides confidence in the Council and provides a wider market for the successful supplier.

Because of this, City of York Council have an excellent relationship with Dooleys of Easingwold and are receiving fresh, quality products for the residents at each Care Home in York.”

© Federation of Small Businesses

fsb.org.uk

 [federationofsmallbusinesses](https://www.facebook.com/federationofsmallbusinesses)

 [@fsb_policy](https://twitter.com/fsb_policy)

 [@fsb_uk](https://www.instagram.com/fsb_uk)

If you require this document in an alternative format please email:

accessability@fsb.org.uk

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission of FSB. While every effort has been made to ensure the accuracy of the facts and data contained in this publication, no responsibility can be accepted by FSB for errors or omissions or their consequences. Articles that appear in the report are written in general terms only. They are not intended to be a comprehensive statement of the issues raised and should not be relied upon for any specific purposes. Readers should seek appropriate professional advice regarding the application to their specific circumstances of the issues raised in any article.

This report can be downloaded from FSB website at www.fsb.org.uk


Experts in Business