

BIG INNOVATION CENTRE

Britain's Manifesto for Growth!

Ownership, Finance and Innovation:

Are we ready for the new?

Britain is at a crossroads. Unless it becomes a great deal more agile and effective at innovation, both the British economy and British society will suffer.

There is plenty of opportunity and much to build on, but the institutions, connections and culture to drive an innovative revolution are still wanting. The business models behind corporate ownership of too many companies are organised defensively upon value capture rather than innovative value creation. Most high-growth SMEs are those with intangible assets such as strategic networks, markets, business models, knowhow, skills and patents. Unfortunately they do not get backed with finance to accelerate and grow.

Digitalisation offers extraordinary opportunities for growth, but our entrepreneurs are strangled at birth. They are not given the opportunities to scale-up, innovate at low cost or experience fast growth. Our policies control intellectual property and data itself rather than governing its use in a digital sharing revolution.

Britain's manifesto for growth

Britain has two interconnected crises. Our big companies are too prone to takeover. They could innovate more. They under-invest. Meanwhile there are thousands of great start-ups – 3000 in London alone – but almost none grow to become mature companies. The response must be multipronged – reframing the UK's approach to ownership, finance and innovation.

Ownership

The UK has been plagued by exceptionally dispersed corporate ownership, which has undermined long-term investment and innovation. Shares are held on average for less six months: there is an epidemic of share buy-backs rather than investment; takeover is twice as prevalent as in the US; Britain runs an asset deficit with the rest of the world, with it much easier to buy British companies than the British to buy overseas companies; the level of the share price is far too dominant in corporate decision-making. We need to reverse all this with a new company law, takeover code and stock exchange listing rules that recognise the advantages of corporate diversity. We should require companies to state their purpose with clarity, have boards responsible for upholding those purposes and owners that are dedicated to supporting management in achieving them. We should have a new class of public benefit corporation whose charters require them to act in the public interest and have professionally trained trustees responsible for ensuring that they do so.

Finance

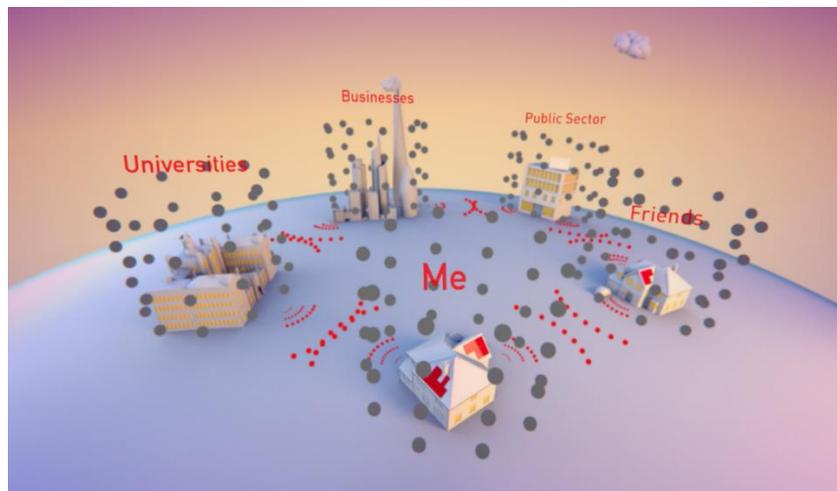
Our banks lend 85 per cent of available funds to real estate, and the balance of non-real estate lending is expensive, short-term and disengaged. This is unique: no other country's banking system so favours real estate in its lending. There needs to be a huge redirection of funds to value creating business, particularly start-ups as they scale up to become medium sized. We propose that the Bank of England aggressively signals it favours such lending through its many tools and instruments; that the Vickers proposals are fully implemented to create focused commercial banks that can exploit the ownership changes we propose to become more engaged long-term lenders; that the Business Bank is given the power to guarantee a proportion of SME lending so creating a new market in securitised bonds whose underlying asset will be the new lending to companies that is partially guaranteed: that the Business for Growth fund is expanded into a twenty first century version of the old ICFC that became 3is, in particular sponsoring entrepreneurial finance hubs that trigger flows of equity and debt through new digitally enabled platforms.

Innovation

There will be many more disruptive, transformative General Purpose Technologies in the decades ahead, of which digitalisation is the most important. We need many

young companies incorporating these ideas to come to fruition and to support our big companies as they change their business models. BIC research shows that high-growth firms have 74% more intangible assets and intellectual property (IP) on their balance sheet than their slower-growing counterparts, but they don't get much financial support. Total capital raised in the UK financial system increased by more than £1.3tn – but investment in innovation over the same period increased by just £26bn. Innovative firms are finding it ever harder to get funding: 57% of innovators had trouble obtaining finance in 2012, up from 38% in 2007. The value of copyrights and patents are poorly understood and poorly valued. Many young companies find that as a result they lose control of their destiny by having to sell all their equity before £2m of turnover. There should be an Innovation Bank whose job it is to create the trading platforms for IP to ensure its better valuation so creating IP backed finance.

The greatest opportunities from ideas and 'big data' require data and insights to be linked across organisational boundaries. The IP rights regime needs to be reframed to foster the open innovation and sharing revolution, encouraging large companies, universities and government to open up to each other and work to co-create new technologies and business models. This means that IP and big data policy must shift from focusing on controlling the rights and data itself to governing the uses of IP and data. We need a 'privacy commons' for business and society and a 'charter' on what can be done with personal and business data.



Conclusion

There is no single magic bullet that will lift Britain's investment and innovation rate. Taken together these measures will go a long way to transform the British economy and equip it for the twenty first century.

*Birgitte Andersen, Will Hutton and Colin Mayer
for the political party conferences, Autumn 2014*

We need to be seeking out the new and underwriting audacious national goals

- 1) A Companies Act for the 21st century
- 2) Create Public Benefit Corporations
- 3) Regulate for corporate diversity
- 4) A digital sharing revolution
- 5) Wholesale banking system reform
- 6) Create an Innovation Bank
- 7) Create a 21st century ICFC
- 8) Stop executive pay “arms race”
- 9) Hard wire co-creation into our innovation institutions
- 10) Adopt audacious national goals

– but is Britain ready?

