This is the second in a series of thought leadership reports produced by ExplainTheMarket and finnCap, tracking the ambitions, perceptions and aspirations of the UK’s small and medium sized businesses.

The story of our last report was one of huge confidence in the face of some major challenges ahead. Since August, UK entrepreneurs have been part of a shift in attitude. Confidence remains, but has become qualified by an urgent focus on very detailed actions.

The market commentary of two months ago has been replaced by an urgent orientation into specific actions aimed at mitigating the key risks and opportunities ahead – the action needed to navigate 2018 and turn ideas into growth amidst predicted economic turbulence.

Our research highlights the key issues and actions that UK Businesses are dealing with as we approach 2018. Many important macro market developments are simply the latest developments of on-going and well-understood trends. The rise of social media, the continuous shifting of marketing budgets towards digital platforms and the way IT infrastructure costs are being reduced by cloud based architectures, are all trajectories that continue to feature.

In fact, the shift towards cloud based IT is also helping firms to change financial models from CapEx to OpEx and swallow new costs like cyber crime prevention in the process. However, this report focuses primarily on key and emerging issues leaders are dealing with in December 2017 and the actions they themselves have cited as the best possible response.

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Thank you

"We are grateful to everyone who participated for giving their time and sharing their expertise."

Research methodology

This report builds on our initial investigation with 1500 leaders of UK companies by conducting a further 550 interviews with leaders of medium sized companies (companies with annual revenue of between £20 million and £500 million).

All research was conducted by Explain the Market Ltd (www.explainthemarket.com), in accordance with the Market Research Code of Conduct. We are grateful to everyone who participated for giving their time and sharing their expertise.

The study runs continuously throughout 2017 and 2018, but the evidence summarised in this paper is focused on our second set of results. Interviews with over 550 leaders of UK companies have been carried out between November and December 2017 on a wide range of topics ranging from confidence in the economy to investment strategies and what UK entrepreneurs themselves consider are the key concerns of the moment.

The differences and shifts in trends between these findings and the initial sample of 1500 companies has also been considered to help draw meaningful conclusions about the challenges, trends and approaches likely to dominate 2018.

The sample has been selected to represent the natural spread of companies across the UK in terms of geographic location, industry and size - representing over 90% of all UK companies.
Attitudes towards a formula for sustainable growth

A key objective of our ongoing research has always been to combine qualitative and quantitative insight in order to reveal a true picture of how UK entrepreneurs are dealing with critical challenges. Not just the plans for growth, but also the practical realities of making it happen.

Our research has analysed the key actions entrepreneurs attribute as the most likely to delivering the highest growth over the next three years. In this section of the research, leaders were specifically asked about management behaviours and business activity rather than the performance of specific financial instruments.

A wide selection of possible actions and behaviours were considered and the results outline the key actions with the strongest relationship to achieving the best growth in the market conditions currently anticipated.

"Engage finance partners and funding advisors early"

North West England

Which Actions are Most Likely to Lead Your Business to Growth Between Now and the End of 2020?

We have studied this region by region and different local trends emerge.

1. 'Hire and retain the right skills'
2. 'Understand wider market conditions more thoroughly'
3. 'Engage with government and regulation landscape more closely'
4. 'Engage finance partners and funding advisors early'
5. 'Understand wider market conditions more thoroughly'
6. 'Hire and retain the right skills'
7. 'Increase social media and digital marketing activity'
8. 'Increase social media and digital marketing activity'
9. 'Engage finance partners and funding advisors early'
10. 'Engage finance partners and funding advisors early'
The story of how the macro environment has helped create a subtle shift in priorities since our last leaders report is revealed in our qualitative interviews.

"Most of our risks and opportunities next year are digital: Cyber crime could kill our business overnight while Capex to Opex efficiencies of shifting data to the Cloud could give us better financial agility than ever before. Digital technology is now at the core of our business holding most of the risk and opportunity for 2018."

Interview with leader of company with turnover £150 million < > £500 million

"Navigating 2018 will be complex. We are looking for rapid growth during a climate of uncertainty. So getting the right help and bringing that help in early becomes all the more critical. It isn’t just the scale of the challenges – it’s the diversity of them. Our top team needs the benefit of greater diversity, our cyber security is not where it needs to be, meanwhile we need to grow faster and drive down harder on operational efficiency. These challenges are all important, but they all require very different skills. They also need us to take some risks. All of this puts the pressure onto our advisors. We expect a great deal from partners we pay to help us."

Interview with leader of company with turnover £50 million < > £150 million

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**Actions most likely to cause growth spread**

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**2018**

**When hiring gets harder**

Most leaders feel that 2018 will be a tougher environment to hire talented people.

Brexit negotiations have had clear influence on these results, but entrepreneurs also worry about many other economic and political factors impacting their ability to hire and develop the right skills.

Since the last report, optimism about the conditions to create new jobs in 2018 has waned. The perspectives are mixed, the influencing factors are multifarious, but it is clear that overall confidence in job creation has dropped since the previous report.

One area providing a significant barrier to confidence in job creation is complexity of the technology landscape. A gap of confidence and understanding about blockchain, cryptocurrencies and cyber security is prevalent across boardrooms of all sizes in our research. These areas are on the agenda but they are proving hard to quantify and leaders are looking for better support.

"Hiring is getting harder. Our demand for skills are more complex and we are a little unsure about the market."

Interview with leader of company with turnover £150 million < £500 million

"Creating jobs remains our objective but we need to balance this against the uncertainty that 2018 has in store."

Interview with leader of company with turnover £150 million < £500 million

**IN 2018, DO YOU EXPECT IT TO BE EASIER OR HARDER TO HIRE TALENTED PEOPLE?**

- **65%** HARDER
- **30%** EASIER
- **5%** NO DIFFERENT
The importance of diversity in 2018

The importance of diversity in the boardroom is likely to become increasingly important in 2018.

Creating a diverse management team is considered by the majority of respondents to provide a critical advantage in terms of securing long term investment and creating profitable relationships with customers. There is a growing perception across UK entrepreneurs that hiring, retailing and developing management teams diverse in terms of gender, ethnicity and ideas, will be crucial to maximising growth opportunities between 2018 and 2020.

“We see the big dinosaurs struggle. As well as a genuine appetite for more diversity, more regulation is probably on its way. We want to get the diversity strategy right now to make our growth path smoother and our numbers better. Diversity is going to be a factor that holds back our growth if we get it wrong.”

Interview with leader of company with turnover £50 million < £150 million

One great positive emerging from the qualitative research is the clear link that entrepreneurs draw between gender diversity in the boardroom and bottom line business benefits.

Our survey results highlight the consensus of this correlation, while our in depth interviews reveal how leaders see this link playing out in 2018.

IN 2018, DO YOU PLAN TO TAKE ACTION TO INCREASE DIVERSITY IN THE LEADERSHIP OF YOUR COMPANY?

75% YES

10% NO

Diversity

Leadership

IN 2018, IS THERE A RELATIONSHIP BETWEEN INCREASED GENDER DIVERSITY IN THE BOARDROOM AND IMPROVED LONGER-TERM GROWTH?

61% YES

38% NO

Gender

Growth

75% YES

10% NO

Interview with leader of company with turnover £150 million < £500 million

“We know we are not where we want to be on gender balance in the boardroom, but it is very hard to know how to practically make changes. No one would disagree with the principle (well not many would), but what do we actually implement on Monday morning? That is so much harder to agree on. The pressure to come up with practical solutions at an individual company level will increase next year. We need to be ready. To be frank, more ready than we are now.”

Interview with leader of company with turnover £50 million < £150 million

“Our leadership team is 60% female, we have a good mix of LGBT leaders and we are a pretty ethnically diverse top team. This gives us an inherent edge when it comes to that kind of ‘strategic empathy’ brands need to stay ahead of customer demand. It helps us develop how we tell stories to the world that truly engage people with our products.”

Interview with leader of company with turnover £50 million < £150 million

The importance of diversity in the boardroom is likely to become increasingly important in 2018.
Dealing with the threat of cyber crime

In the first report of this series our findings highlighted how cyber security is a dominating concern for millions of business leaders across the UK.

This phase of our study reveals more about the details of those concerns and also how entrepreneurs are mitigating the threat. UK entrepreneurs have a very detailed level of understanding when it comes to cyber security and similarly specific concerns. As we move into 2018, they are taking robust action to guard against what they see as a year with greater cyber threats than ever before.

"Cyber crime has become our obsession. Next year the focus must be on specific strategies for each form of cyber crime. Detailed action. Not concepts or frameworks"

Interview with leader of company with turnover £150 million < £500 million

WHAT ASPECTS OF CYBER SECURITY ARE OF MOST CONCERN TO YOUR BUSINESS IN 2018?

01. Phishing email campaigns
02. Cyber espionage
03. DDoS (Distributed Denial of Service)
04. Reverse Deception Tactics (tools like anti-analysis code used to hide stolen data)

WHAT ARE YOUR TOP STRATEGIES TO MITIGATE THESE RISKS?

01. Take expert advice
02. Have a solid continuity and resilience
03. Increase email security and authentication
04. Enhance infrastructure security including use of firewalls
Action for 2018

Our research has analysed the key actions entrepreneurs attribute as the most likely to delivering the highest growth over the next three years.

2018 is looking like the year of action for entrepreneurs but it is really diverse actions in concert. The year ahead will be characterised by an increased appetite for market understanding and better advice comes together with the concerns about cyber security.

Which actions are most likely lead your business to growth between now and the end of 2020?

BUSINESSES WITH TURNOVER £150<>£500 MILLION

01. Understand wider market conditions more thoroughly
02. Hire and retain the right skills
03. Engage with government and regulation landscape more closely
04. Increase social media and digital marketing activity
05. Optimise technology infrastructure (including Cloud & Big Data)

2018 Business Growth

UK BUSINESSES REVEAL TOP ACTIONS FOR 2018

2018 is set to be a turbulent year with the new year bringing uncertainty. Looking across the research results for business of all sizes and sectors a pattern of the most popular actions for growth emerge. The UK’s growing businesses are set to line up energy and resources behind the following activities in order to optimise growth.

• Take expert advice to deal with cyber security - particularly phishing email campaigns.
• Understand wider market conditions more thoroughly.
• Engage finance partners and funding advisors early.
• Increase social media communications and digital marketing activity.
• Broaden partnerships and distribution.

"2018 is going to bring uncertainty. But there are things we do know. Things we can control. Finding growth next year is going to require hard work and smarter partnering"

Interview with leader of company with turnover £150 million <> £500 million
ExplainTheMarket is proud to be one of the most trusted and reliable economic research agencies.

Our analytical expertise is based on over 20 years leading market analysis for some of the world’s biggest companies. Research expertise is based leading some of the largest and most complex projects ever done in both qualitative and quantitative research.

Our CEO is a Market Research Society Awards Finalist. The Explain the Market team is headquartered in London and also operates from our global hub in New York.

finnCap is the No. 1 Nomad and Broker to AIM companies and the largest advisor on the LSE.

The team has a strong track record in advising and raising capital, providing research and dedicated aftermarket care for ambitious growth companies. As specialists in the growth area of the market, finnCap has raised over £2bn of capital for its clients since inception and advised on c.£1bn of M&A.