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Growth Challenges for Small and Medium-sized Enterprises: A UK-US Comparative Study

Report for HM Treasury and BERR

by

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EXECUTIVE SUMMARY

Introduction

- Research to date suggests that the bulk of SMEs are ‘steady state’ firms whilst only a small proportion are ‘high growth’ making a disproportionate contribution to income and job generation. Past research shows there are many factors affecting growth including owner-manager characteristics and motivations; business characteristics; strategic influences; and external environment. While this research is informative, less is known about the factors influencing or constraining rapid growth and how these compare cross-nationally.

- The study sought to explore the influence of these factors through a series of face-to-face interviews with principals of fast growth businesses in the UK and the USA. Aggregate evidence suggests that small firms in the US grow faster than in the UK and are on average larger. A particular focus of the study was to compare the experiences of owner-managers in the UK with those in the USA, to unearth any differences in the growth patterns and draw out inferences for the literature and public policy development.

Methodology

- Using a qualitative methodology, the study presents data on two samples of owner-managers of fast growth enterprises from the South East of England in the UK (21 businesses) and from Massachusetts in the US (18 businesses). Using change in turnover as the measure of business growth, firms achieving *real* turnover growth of 60per cent over the previous three years were selected for interview.

- Finding and arranging interviews with fast growth firms using the agreed criteria proved challenging. This confirms the view that fast growth firms are rare, constituting less than 10 per cent of the business population. Face-to-face interviews were undertaken with 21 firms in the UK and 18 in the USA.

- Three main data sources were collected for each business: a semi-structured interview topic guide; a short pre-interview profile data form, to collect market, employment and other business information; and a graph to enable respondents to record historical sales performance as a precursor to discussing the causes of sales change. The face-to-face semi-structured interview was recorded where possible and lasted between 30 and 120 minutes. In some cases, follow-up telephone calls were made to request additional information. Summaries were typed for each interview.

Sales Patterns

- Interviews revealed the volatility in financial turnover of SMEs, confirming previous research that sales growth is episodic. The fieldwork suggested that the US business environment was undergoing a slow down with some owner-managers mentioning 'credit-crunch': clearly the macro business environment is a significant influence on fast growth firms. This affected the recent sales patterns of the firms which in some cases had declined since the firms' selection for interview (See Appendix 3).

- In contrast to life-cycle literature, growth trajectories were found to be neither linear, nor uni-directional. The cases showed that growth was episodic and irregular. Respondents often reported downturns in performance between quarters or years. Overall, the study confirms the notion of heterogeneity in relation to business growth and cautions against general prescriptions or adherence to simple growth stage models.

- One of the most distinctive differences between the UK and the US samples was their geographic sales patterns. Firms seeking expansion often do so by entering new geographical markets. For US enterprises, the large domestic market means growth might be possible by seeking more US customers and without having to export. For UK businesses, this possibility may be more restricted in many sectors, particularly those in technologically-advanced activities with few buyers. In eight UK enterprises, exports constituted 50 per cent or more of sales; none of the US firms had achieved this level of export sales.

Owner-Manager Qualifications, Experience and Motivations

- As expected, the educational qualifications of the owner-managers in both the US and the UK were relatively high, with most having at least a degree qualification. These owner-managers were also more likely to have prior business ownership experience than the business population as a whole. US owner-managers were marginally higher qualified than their UK counterparts, more likely to report industry experience and draw upon this experience in their venture.

- The motivations for starting or taking over the current business were mixed, often combining 'pull' and 'push' influences. Some owner-managers started businesses out of frustration or dissatisfaction with previous employers, while others identified a market opportunity and transferred an existing technology to a new market. For others the decision to start a business was taken only after their previous employer had rejected the product or service proposition. There were no major UK-US differences.

- Owner-managers varied in their initial business growth aspirations. Some owner-managers intended to start and run a business for 'lifestyle' or ‘life change’ reasons, while at the other extreme, owner-managers aimed for a growing business with a detailed plan. However, where a business plan existed, the targets were unlikely to be achieved and growth was more often faster or slower than anticipated. This again confirms the notion of volatility in performance. US respondents were more likely to report a plan to grow at start-up, and, although in a minority, to report achieving growth as planned.

- Business owners with post-graduate qualifications were more likely to report high growth as a business objective and this group have also achieved the highest growth in the recent past.

- US growth owner-managers were more likely to achieve their growth plans. 11 out of 18 US business owners achieved growth at or faster than planned compared with 5 out of 21 in the UK.

Competitive Strategy

- For many business owners the key driver of sales growth was the innovative product or service idea. Competitive strategies typically focused on product quality rather than price. Product and service development was, therefore, often crucial to sales growth. For product based firms, competitive strategy focused on custom technologies, while for service based firms the emphasis was more often on a close understanding of clients’ needs and relationship building.

- There were variations between the UK and the US businesses in terms of strategy, in that the focus was more often contingent on business sector than location. US businesses were more likely to have a strategic plan at the outset, which reflected a systematic identification and targeting of customers, with a strong focus on growth objectives.

- Contrary to popular views that SMEs do not engage with the Intellectual Property Rights (IPR) system, this research discovered frequent use of IPRs such as patents and licences. Use of IPRs was strongly-sector-related with high prevalence in technology-based firms. Respondents indicated that use of IPRs was at least as much for reputation building, creating value and attracting external investment as for the protection of existing products and the knowledge embodied therein. There were no major differences in the use of formal IPRs between the UK and the US.

Marketing

- All businesses face the challenges of finding customers, communicating product features, pricing products and services attractively, establishing effective distribution channels, and undertaking continued product development to sustain sales. Business owners pursuing high sales growth need to pay particular attention to these issues because of their need to generate increasing levels of demand from new and existing clients.

- The sample enterprises primarily served majority of the organisational clients. The dominant marketing approach was strong reliance on reputation and word-of-mouth. Whilst this had been a factor contributing to sales growth thus far for many business owners, there was a perception that such methods might hamper future growth. Several owners recognised that their businesses were approaching a watershed in their development when more formal approaches to winning new business might be required.

- For many businesses, particularly in IT, there was currently no existing market for their proposed products. Much of these firms' early efforts, therefore, consisted of interaction with potential clients and industry actors to discuss whether the proposed product(s) would meet an unsatisfied, though latent, market need. In such conditions, there is no market 'out there' whose demands wait to be satisfied. Providers often need to convince clients that they have a requirement, or need, that the proposed product can satisfy. While this is the case, to some extent, with regard to all goods and services, the challenge is particularly acute in relation to novel, innovative products where no market yet exists. In these circumstances, firms are market creators: this appeared to be a familiar characteristic of fast-growth firms. Pioneers have to incur the costs of constructing market demand with no guarantee they will be successful; followers can wait to discover whether such efforts are successful and then attempt to exploit the market opportunities created at lower cost.

Finance

- The majority of respondents stated that they had sufficient finance to achieve their business objectives. However, in some cases raising money was identified as a 'big challenge'. High street banks were regarded as being highly risk averse as they often required personal guarantees. UK owner-managers were more likely to raise this as an issue.

- Venture capital, informal and formal, had been received by a number of firms, 13 in the UK and 6 in the US . In the US there was a broad awareness of informal venture capital but respondents also pointed out that they were less able to access this source. This is somewhat surprising given the relative maturity of the VC market in the US. On the other hand, firms in the UK were more likely to take-up VC and informal equity.

Management

- For both UK and US firms, management capabilities were tested by planning to grow and by the actual process of growth. Additional resources need to be accessed and mobilised effectively if growth is to be achieved and sustained. On occasion, this required recruitment of senior executives with specific skills, such as finance. There was also a concern among respondents that growth had required, or would require in future, the recruitment and development of a more substantial second tier of middle management. Such challenges appeared to be widespread especially amongst businesses that were becoming ‘medium’ sized.

Employing people and managing their work is also one of the major challenges for SME owner-managers. Growing businesses require access to a pool of suitably-skilled and –motivated labour in order to achieve and sustain business growth. While all small employers face labour-related challenges, growing businesses might be expected to encounter such problems more frequently because of their frequent need to recruit, either to grow or to replace staff. Business owners face the problem of matching labour resources to rapidly changing sales. Failure to recruit sufficient numbers to win business and support sales weakens the push for growth; over-recruitment incurs unnecessary costs that may inhibit adjustment. Controlling labour costs involved some firms in locating employment overseas in low-cost environments or in outsourcing to contractors.

Public Policy, Regulation, Business Support

- One difference between the UK and US samples was the level of engagement with public sector contracts. US firms were much more likely to be involved in public procurement and UK firms were more likely to report barriers to obtaining government contracts. This is most probably a reflection of the high profile initiatives in the US to promote SME engagement in contracts, and the industry mix and location of the US sample.

- Businesses in the UK and the US operate within different policy and business support contexts *A priori*, these may affect the growth pattern and size of SMEs. In the UK, 15 of the 21 businesses had taken up government-backed business support; in the US only 4 of 18 had done so. Where take-up of an initiative had occurred, however, owner-managers indicated its significance in the development of their business especially in their early stages.

- The regulatory environment is often reported as one of the barriers to business growth and development. The results from this study provide a more benign picture. Only three UK firms and six in the US reported regulatory constraints on growth. The effects of regulation appeared to be sector bound. In some instances, owner-managers saw regulations as enablers for growth as well as constraints. Given that one of the sectors covered by the study was financial services, the activities of the FSA were the target of particular criticism in the UK.

- Respondents were also asked what policies Governments could introduce, or actions they could cease to undertake, that would facilitate business growth. A number of policy options related to regulatory, taxation and other business support measures were put forward. In view of the prevailing public debate in the UK over proposed changes to capital gains tax, it is not surprising to find that several business owners commented upon this.

- A number of policy implications are presented. It is emphasised, for example, that UK high growth SMEs are particularly export oriented and this may be an area for policy development.

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CHAPTER 1

INTRODUCTION

Introduction and Research Objectives

Growing firms have long attracted the attention of policy makers worldwide and high growth enterprises are seen as important contributors to employment, innovation, and competitiveness (Autio 2007). Supporting growing businesses has been one of the seven objectives of UK small business policy in recent years (SBS 2004) and continues to be a primary goal of the UK Government (BERR 2007a, b, c).

The US is perceived by UK policymakers as one of the most dynamic economies in the world, in terms of business start-up and growth and one from which the UK can learn (World Bank 2007). Results from the Global Entrepreneurship Monitor survey 2007 indicate that nascent and new UK businesses are slightly less likely than those in the US to report future high growth expectations[1] (Harding *et al.,* 2008; Bosma et al. 2007). The purpose of the study is to investigate the drivers of high growth firms. The study is comparative based on the experiences of two samples of high-growth enterprises in the UK and USA. This report summarises data drawn from 21 interviews with owners of UK enterprises and 18 in the US.

In this chapter, we set out the context for this study. This involves an examination of the literature on business growth, defining some key concepts, proposing a framework for explaining business growth, providing details of our methodological approach and outlining the plan of the report.

Defining Business Growth

There are many different definitions of business growth and ways of measuring this growth (Barringer et al., 2005; Delmar et al., 2003; Delmar and Wiklund, 2008). Business growth is typically defined and measured, using absolute or relative changes in sales, assets, employment, productivity, profits and profit margins (Delmar 1997; Davidsson et al. 2005; Allinson et al. 2006). All measures possess particular advantages and disadvantages in understanding the phenomenon of growth (Delmar 1997) but overall these variations render systematic knowledge accumulation and comparisons problematic. Although related, there is no necessary connection between the different growth measures (Delmar et al. 2003). Firm growth varies widely depending on business age, size and industry (Penrose 1959). Therefore, sales growth need not correspond to, or underpin, other dimensions of growth in which policymakers might also be interested; for instance, sales can increase while employment and/or profits fall. This is partly related to contextual or structural issues such as sector or age of business but also to the strategic choices made

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[1] That is, businesses which have created more than 10 jobs and who expect more than 50 per cent growth in jobs in the next five years.

by principal decision-makers within the firm. Firms might, for example, expand sales at the expense of profit margins by reducing prices or, by outsourcing work, with no impact on employment.

Following earlier work that suggests sales and/or employment growth is a better measure of new and small business performance than accounting based measures such as profit, return on investment or market share (Brush and VanderWerf, 1992), this study focuses on sales growth. Sales data are usually readily available and business owners themselves attach high importance to sales as an indicator of business performance (e.g. Barkham et al. 1996). In practice, sales growth is also easier to measure compared with some other indices and is much more likely to be recorded. Sales are a good indicator of size and, therefore, growth. Sales may also be considered a precise indicator of how a firm is competing relative to their market. Business owners themselves often treat sales as a key motivator and indicator of performance rather than for example, job generation.

Having decided on sales growth, the next parameter identified for this study is the scale of change of growth in sales. Firms grow in particular ways, over time, often combining increased sales with periods of stable and/or declining sales (e.g. Delmar et al., 2003; Smallbone et al. 1997; Storey and Deloitte and Touche 1998; Bullock et al. 2004). This is in large part due to the fact that growth is a choice (Delmar and Wiklund, 2008; Ginn and Sexton, 1990). Firms' growth paths are also sensitive to the time periods over which data measurements are taken. The longer the measurement period, the more confident observers can be that growth is sustained but, also, the more likely it is that sales demonstrate volatility rather than linearity during the period. Over shorter periods, conversely, businesses might achieve linear, uninterrupted growth, although such trends might not endure. The diversity of firms' development paths means it is difficult to define firms unambiguously as either 'high growth' or 'non-high growth', other than by reference to specific time periods. Today's 'gazelles' may be tomorrow's declining, or even exiting, firms. Delmar et al. (2008), for example, in their longitudinal study of growth firms in Sweden depict seven types of growth patterns, ranging from 'super absolute' growers through to 'erratic, one shot' growers and 'steady overall' growers. In their study of small business growth in the US, Headd and Kirchhoff (2007) reported that periods of high growth in employment were followed by periods of decline suggesting volatility.

No internationally accepted definition of the 'high growth firm' exists (Delmar et al., 2003; Hoffman and Junge 2006) although the OECD's definition has achieved widespread currency. However, two approaches to identifying and measuring the incidence of high growth enterprises can be discerned in the literature. One defines the fastest growing 10 per cent of businesses in a country as 'high growth. The second specifies particular performance criteria, for example, in relation to turnover, employment or other measures and counts the number of firms meeting the criteria. This is the approach adopted here. *For the purposes of this study, businesses achieving 60 per cent or higher real turnover growth over the previous three years were targeted for inclusion in the* *study.* Operationally, in order to allow for inflation, businesses with sales growth of 75 per cent or higher over the previous three years were included in the sampling frame. This is consistent with the OECD's definition of a high growth firm: 60 per cent or greater real turnover growth in three years.

Routes to Growth

Businesses grow in a variety of ways – through internal organic growth; by acquisition, spin-off, or franchising, where separate legal entities are created or added to an existing business portfolio; and by flotation on a stock exchange in order to access capital in return for making shares available for public trading. It is possible, therefore, that business growth leads to the creation of new legal entities and governance structures; the original entity from which growth has arisen may be larger, or smaller, following the creation of new organisations. Further, growth may also mean multiple locations, subsidiaries or internationalisation. Business owners are likely to pursue different routes to growth contingent upon their wider motivations; owners of acquired firms, for instance, are more likely to pursue high growth than owners of independent firms (Bullock et al. 2004; Delmar et al., 2008). The various routes to growth render measurements of growth problematic and care needs to be exercised to match definitions with research objectives.

The Drivers of Business Growth: What Does the Evidence Base Say?

Researchers have attempted to characterise the process of growth, to explain the causes of growth and to identify the managerial and organisational challenges growth poses. Several business growth model classifications exist (e.g. Barringer et al., 2005; O'Farrell and Hitchens 1988; Gibb and Davies 1990; Dobbs and Hamilton 2007; Delmar et al, 2003). Analysts have characterised business growth as a *process* which involves a number of distinct stages through which firms pass, each associated with particular management challenges which must be addressed if growth is to be sustained (e.g. Greiner 1972; Churchill and Lewis 1983; Phelps et al., 2007; Scott and Bruce 1987). Critics argue that stage models mistakenly assume a linear development path when, in fact, firms experience periods of expansion, stability and decline in no fixed order (St-Jean et al., 2008). It is also argued that these models tend to focus on what firms do, to the neglect of potentially powerful environmental influences on business activity and performance. Empirical tests of the life-cycle model show that it is difficult to discriminate between phases (Hanks et al., 1993). Stage models, moreover, often prescribe how business owners and managers *ought* to behave rather than explaining how they *do* behave. Hence, stage models can be useful in identifying the challenges posed by business growth but offer less in the way of understanding the *specific* growth path of an individual business or the *actual drivers* of growth. Contemporary thinking suggests a move away from a linear sequence of growth stages for firms to more heterogeneous patterns of growth outcomes where primary motivations are mediated by a variety of factors leading to numerous growth trajectories (e.g. Delmar et al., 2003; Schreyer, 2000).

Quantitative studies of business growth typically attempt to identify the human capital factors, resources, strategic and external environmental factors that correlate with growth indices (e.g. Barkham et al., 1996; Baum et al., 2001; Brush and Chaganti, 1998; Bullock et al. 2004; Delmar et al., 2003; Edelman et al., 2005; Smallbone and Wyer 2006; Smallbone *et al.,* 1995, 1997; Storey 1994; Street and Cameron 2007; Wiklund and Shepherd 2003), factors which vary spatially (Acs and Mueller, 2008; Hart and McGuinness, 2003).

- *Owner-manager characteristics* typically include experience, education, gender, ethnicity, competencies and size of the founding team.
- *Enterprise characteristics* typically include size, age, ownership, sector and flexibility.
- *Strategic influences* typically include owners' growth orientation, differentiation, cost focus, innovation, R&D, marketing, internationalisation, and training.
- *Resources* include organisational, social, technical, physical and human
- *External influences,* sometimes referred to as environment, typically include market conditions, regulation, collaborative links with other organisations and public policy support for business.

Growth is often associated with younger, smaller businesses, founded by teams rather than individual owners, pursuing strategies of product differentiation (for reviews see: Barringer et al., 2005; Storey 1994). Growth companies are found to link investment, competitive strategy (product and market development) and production methods (Smallbone et al. 1995). Further, the synchronous growth associated with progression through the life stages of a business portrayed in life cycle models is more often associated with "glamorous" high technology firms (Eggers et al., 1994) and much less characteristic of smaller service and retail establishments. In service based companies growth is more likely associated with strong human and resource capabilities than strategy (Brush and Chaganti, 1998). Sustained orientations to growth are associated with both sales growth (Smallbone et al. 1995) and employment growth (Madsen 2007).

Quantitative approaches seeking to identify the key determinants of business growth are constrained, however, in a number of ways. First, as is well-known, such approaches rely on empirical regularities to support causal explanations. For example, survey correlations between innovation and growth might indicate the influence of innovation on growth but, equally, growing firms might be more likely to innovate (Freel and Robson 2004). Moreover, such approaches, whatever their declared intentions, tend to produce *mechanistic explanations* of growth. These link various 'inputs' – for example, owner, business, resources, strategic and environmental characteristics - to business 'outputs', such as employment, sales or profit growth. Yet, it is not the presence of such characteristics but, rather, *how* they shape the activities of business owners, and other stakeholders with whom they interact, that produce particular business outcomes. Second, quantitative studies do not cumulate particularly well. Although technically sophisticated, studies disagree on the relative weight, and sometimes direction, of influence of particular 'variables' (Brush and VanderWerf, 1992; Dobbs and Hamilton 2007). This is perhaps not surprising given the diversity of samples, datasets, definitions of growth and statistical techniques used (Delmar et al., 2003). In particular, studies frequently use cross-sectional data, and a variety of dependent variables, Importantly, the vast majority of this work uses 'strategy' or 'resources' in a moderated regression model suggesting conditions influencing performance. But, more recent work suggests that a mediated model more fully explains why and how strategy or resources influence performance (Edelman et al., 2005). The upshot is, that no matter how extensive or sophisticated the techniques used in modelling growth are, the current body of empirical knowledge on the drivers of growth is inconclusive.

Qualitative studies can offer deeper insights into the *processes* and *consequences* of growth, by providing causal analyses and connecting business owners' activities, motives, and the wider context. Business owners differ in their growth aspirations (Ginn and Sexton, 1990; Delmar and Wiklund, 2008; Perren 2000), perception of salience of resources and are often personally influenced by the anticipated consequences of growth (Wiklund et al. 2003; Lichtenstein and Brush, 2001). Growth aspirations change over time as owners learn and experience changes in personal and business circumstances. Indeed, some analysts have found that past growth affects subsequent growth motivations (Delmar and Wiklund, 2008). St-Jean et al., (2008) demonstrate the changes in growth over time and explore the events that lead to a change in the pace of growth of gazelles. Their findings suggest that sudden changes in growth rates are often caused by a combination of factors rather than a single event.

Empirically, the UK's Small Business Service Annual Small Business Survey (ABS) 2006/7 found that two-thirds of businesses can be categorised as 'no growth'. Fewer than one in 10 were seeking 'sustained growth', that is, those firms reporting both employment growth in the year prior to the survey *and* anticipating further employment growth in the following year (IFF Research 2008). Similar conclusions can be drawn from other sources (e.g. FSB 2006). A recent US study found that fast growth 'high impact firms' are relatively rare, are 25 years old and represent 2-3per cent of all firms (Acs et al., 2008). These were referred to as 'High Impact Firms' which the authors defined as firms with high employment and revenue growth. The tighter definition meant that there was an estimated 299,973 'high impact' firms in 1998-2002 compared with 345,330 'gazelles' (Acs et al, 2008: 20). Similarly, the 2007 Global Entrepreneurship Monitor shows that the relative prevalence of early stage ventures aspiring to high growth was 11per cent for the UK and 13per cent for the US, as compared to 15per cent for Canada, on the high end and about 5per cent for France on the low end (Bosma et al, 2007).

For most businesses, the absence of any owner-manager motivation to expand is most probably the primary constraint on growth (eg. Barringer et al., 2005; Stanworth and Curran, 1976; St-Jean et al., 2008). For many owners, operating at small scale is a positive 'lifestyle' choice, that is, they wish to 'own their own job', and control the growth of the business: therefore, growth is a choice (Ginn and Sexton, 1990). Others may wish to grow but perceive this as a course of action too risky to take or may have difficulty in accessing appropriate financial capital resources, especially if they are in retail or service industries that have low entry barriers. A variety of growth 'myths' have been argued to curtail growth ambitions (Allinson et al. 2006). Alleged myths include the beliefs that: pursuing growth increases the chances of failure; that external investors would want too much control; and that growth is restricted by market conditions about which business owners can do nothing.

Business growth also generates challenges and risks to which firms must adapt in order to sustain expansion (Smallbone and Wyer 2006). These include accessing additional resources (finance, labour, raw materials), especially managerial capacity (Penrose 1959), including HRM (eg. Terpstra and Olson, 1993) and recognising the importance of assimilating, using and acting on new information (i.e. absorptive capacity) in order to develop new products and markets. Constraints on managerial capacity include poor recruitment, unwillingness of owner-managers to promote internally and/or delegate, lack of employee skills and inability to provide adequate training (Packham, et al. 2005). Owner-managers of growing firms may often mitigate the managerial capacity problem by forming alliances with partner organisations, to access a wider range of resources and to improve monitoring capacity, (see Barringer et al. 1998), in order to achieve improved performance, with regard to innovation, sales and profitability (Street and Cameron 2007). For example, in the US, a study found that approximately 45per cent of small firms with fewer than 500 employees were likely to hire contingent workers in order to decrease health care costs and accommodate specialty needs in technology areas (Popkin, 2000).

Analytical Framework: Explaining Growth

Explaining growth requires linking business owners' motives, actions and the wider market, regulatory and cultural context. Business growth is affected by a complex array of factors (e.g. Baum et al., 2001), and for the purposes of this study, is depicted in a simplified model in Figure 1.1. Business owners pursue a variety of business objectives (sales, profit, personal wealth creation, and intrinsic satisfaction such as developing product ideas and undertaking challenging work) with varying levels of resources. Owners' motivations and resources vary over time; as, of course, do the circumstances within which they operate (Lichtenstein and Brush, 2001). There is a two-way relationship between business owners' personal objectives and their courses of action. Actions are shaped by owners' perceptions of the competitive environment, perceptions of the likelihood of obtaining key resources, and mobilising them successfully to achieve the desired ends (Penrose, 1959). Perceptions might, therefore, constrain business start-up and growth, by deterring certain activities, for example, seeking external finance (Wyer et al. 2007).

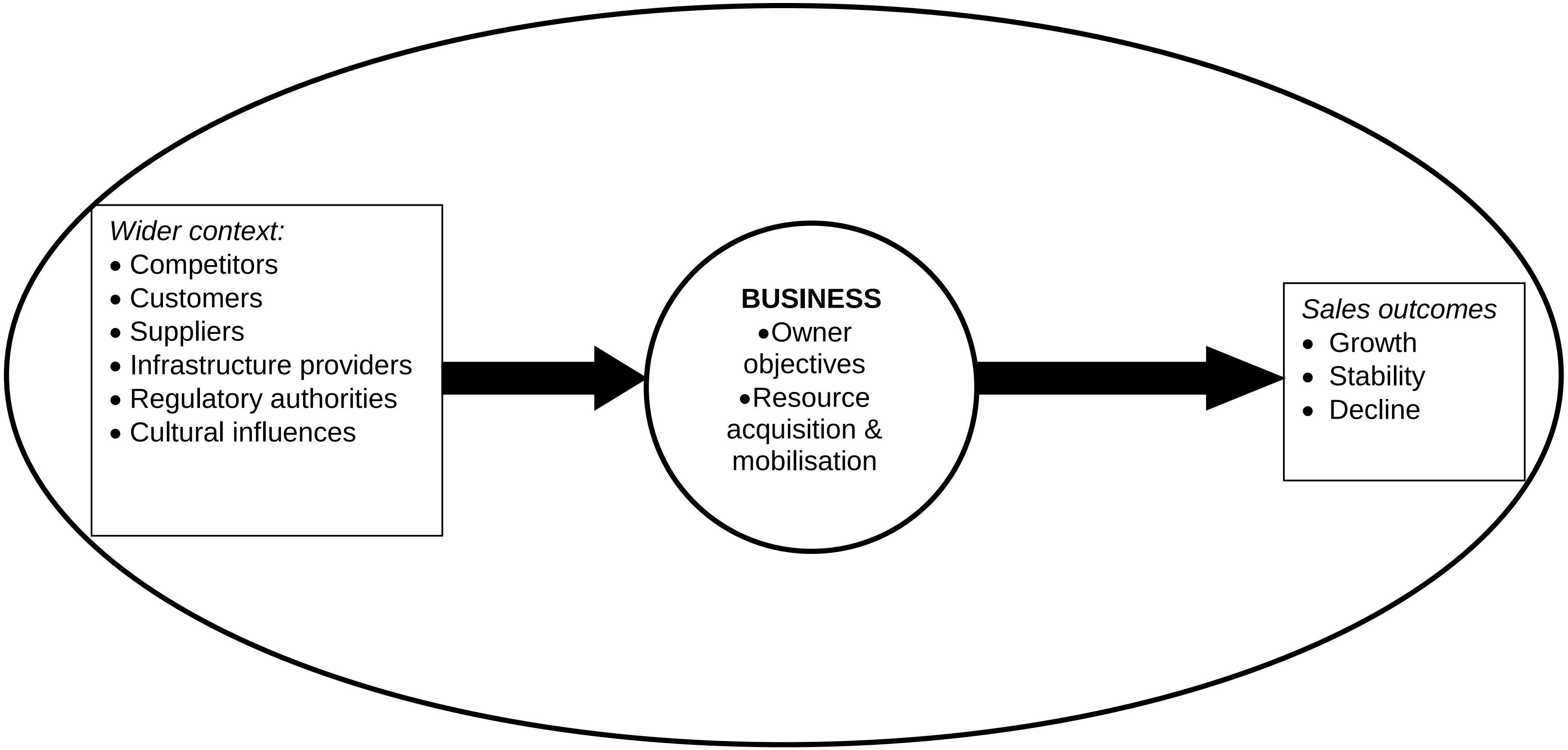

Figure 1.1: Causal Influences on Sales Growth

When pursuing their specific objectives, business owners must acquire and mobilise resources to produce goods/services for sale. Firms' activities take place within a wider context, one in which actual and prospective competitors for resources and markets are pursuing their own goals. Firms adopt specific strategies to compete with rival producers. Some businesses compete by providing innovative or high-quality products, while others provide products similar to those available elsewhere but at lower cost (Brush and Chaganti, 1998). Clearly, price and quality are important in all product purchases but, for certain goods and services, clients will be prepared to pay a premium. Business owners might seek to achieve sales by implementing any or all of the following actions, including:

- launch of new products/services
- implementing efficiency-enhancing measures to reduce unit costs
- opening new distribution channels
- conducting advertising and promotional campaigns
- business acquisition/merger
- internationalisation

Planning may have a role to play here, particularly through encouraging resource allocation and use, product development and reducing uncertainty (Delmar and Shane, 2003; Honig and Karlsson, 2004). Allinson *et al.* (2006) distinguish 'strategic growth', where owners pursue, and realise, a specific growth plan from 'organic growth', where sales increase without any deliberate plan.[2] Arguably, sales growth in all businesses comprises both planned and unplanned elements.

Implementing a growth strategy or plan cannot, of course, guarantee that a particular level of sales will be achieved - because of competition for resources and markets. The level and nature of competition is, therefore, a crucial determinant of business growth (Feeser and Willard, 1989). An expanding product market offers greater opportunities for growth but even in declining markets some businesses out-perform others and grow. Conversely, if competitors adapt more effectively or more quickly to changing conditions, businesses may experience declining sales. The growth of any individual small business depends, therefore, on the actions of others *as well as* of business owners themselves – customers, suppliers, competitors, infrastructure providers and regulatory authorities.

The timing of major investments, product launches and marketing campaigns is likely to influence their consequences. First mover advantage in bringing new products to market is well-recognised but doing so depends on certain conditions being in place, for example, accessing sufficient resources, making investments in technologies and people, and developing relationships with suppliers and, especially, clients. Sales performance in one period inevitably contributes to the conditions that enable or constrain future growth by making available financial resources for further investment and business development.

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[2] This use of the term 'organic growth' contrasts with that on p2. We use it here to retain fidelity to the authors cited.

This implies that business growth may be episodic rather than linear as investment generates effects on productivity and sales.

This research investigates the drivers of, and constraints upon, business growth using the framework outlined in Figure 1.1. The framework is designed to be holistic enough to embrace a range of contingencies whilst at the same time provide sufficient focus for the development of a general argument.

Limitations of the Research Approach

This is a qualitative piece of research, possessing particular strengths and limitations. First, the analysis and argument presented are influenced by the particularities of the sample and cannot be assumed to be typical of all fast growth businesses in the South-East of England and Massachusetts contexts, much less of the UK and US more broadly. Businesses in less prosperous regions, for instance, might need to behave quite differently to achieve growth. Second, as this is a study of high growth businesses, this might lead to a neglect of the deeper constraining effects of particular environments on business performance. For instance, fast growth might be more prevalent and/or easier to achieve in London than in other UK regions. One way forward might be identify research issues that have not been tackled here but which subsequent studies might address. It might, for instance, be useful to undertake a study of firms that are on the cusp of fast growth as defined here and the barriers restricting their growth. Third, a large-scale quantitative study might seek to identify the correlates of fast growth with the aim of generalising findings to the broader UK business population. This would help policy makers develop appropriate interventions to enable firms to realise their growth potential.

Plan of the Report

This Report seeks to contribute to an understanding of the factors affecting business growth within two differing locations: the South East of England and Massachusetts, USA. Chapter 2 discusses the methodology of the study, with a particular focus on the comparative international element. Chapters 3 and 4 discuss the study findings, drawing on a detailed analysis of the 39 businesses, using the analytical framework set out in Figure 1.1. Chapter 5 presents the conclusions and policy implications. Appendices 1 and 2 provide details of sample businesses taking part; their sales and employment performance; and a summary of the primary drivers of sales growth.

The report presents an original and significant contribution to the growing evidence base on the factors influencing the growth of small firms. While qualitative research strategies possess advantages, they also have limitations in terms of representativeness. The study reported here, therefore, provides a basis for subsequent research on the important topic of fast growth firms.

CHAPTER 2

A UK/US COMPARATIVE STUDY OF BUSINESS GROWTH: AIMS, METHODS, DATA AND SAMPLING

Introduction

The purpose of the study is to explore the factors producing business growth outcomes: what drivers generate growth? Ideally, longitudinal research designs might provide the deepest insights by facilitating study of growth processes in real time (Davidsson and Wiklund 2000; Johnsen et al., 2005) and of the relationship between owner-manager motivations and growth (Delmar and Wiklund, 2008). In this research, we attempt to simulate a longitudinal approach by asking business owners to consider, retrospectively, the drivers of business growth.

A comparative study can illuminate the drivers of business growth by examining firms in two geographical/national contexts. Different institutional frameworks inevitably enable and constrain business activity, performance and growth in particular ways. Important institutions include market structures, regulatory regimes and business support systems. The US provides UK policymakers with key benchmarks against which the performance of UK enterprises and the national economy can be assessed (HMT/BERR 2008). The World Bank report, 'Doing Business in 2008', for example, ranks the USA 3rd out of 178 economies on the ease of doing business and the UK 6th (World Bank, 2007: Table 1.2). Understanding the behaviour of US businesses provides interesting comparative insights and offers lessons of potential relevance to UK policymakers.

The UK and US Contexts

The US has a population of approximately 300 million people, is home to more than 26 million businesses and, according to the IMF, had a Gross Domestic Product for 2007 of over $13,000,000 million, (in purchasing power parity terms). Its Gross National Income (GNI) per capita is estimated to be $44,970 (World Bank, 2007). The UK is the sixth largest national economy with a population of approximately 60 million people and is home to approximately 4.7 million businesses (BERR 2008). The UK has a GDP approximately a fifth of the size of the US. Its Gross National Income (GNI) per capita is estimated to be $40,180 (World Bank, 2007). The business systems and cultures in the two countries – and the specific regions - differ. A comparative analysis can identify key institutional differences that influence business activity, some of which operate unrecognised by business owners themselves, which might provide opportunities for policymakers to intervene. Further, the Global Entrepreneurship Monitor (2007) shows that the perceptions of fear of failure and opportunity for entrepreneurship are quite similar in both the US and the UK.

Reliable comparative data on business activity is scarce although OECD cross-national data suggests that the US possesses a higher proportion of high growth enterprises than the UK. The UK has a much higher proportion of the business stock in the very smallest size band than the US (Hoffman and Junge 2006). Approximately 5.8 per cent of UK businesses are defined as high growth, that is, achieving 60 per cent turnover growth over a three year period; in the US, the proportion is 8.1 per cent (Table 2.1). Figures should be interpreted with caution owing to reservations concerning reliability. First, Hoffman and Junge (2006) attempt to construct a cross-national database derived from national data sources in 17 countries, using different classification practices and adopting different thresholds for inclusion in the database. The authors discuss problems of national sample size and representativeness but admit considerable work needs to be done to achieve adequate standardisation. Data for Korea, for instance, indicates that more than 16 per cent of businesses would be defined as high growth using available data, a figure the authors describe as 'biased'. Similar points could be made in relation to the proportion of young high-growth firms in Japan, given the data for all firms. Second, in order to standardise the data, certain categories of business are excluded: firms with fewer than 15 employees or more than 200; and sole proprietorships. These decisions are likely to exclude a variable but unknown, number of enterprises that would otherwise meet the growth criteria specified in each of the countries covered.

Table 2.1
High Growth Enterprises as a Percentage of the Business Stock

Country	*High Turnover Growth, 2001, All Firms (% of business stock)*	*High Turnover Growth, 2001, young firms only (% of business stock)*
US	8.14	30.34
UK	5.80	13.06
Italy	2.43	7.25
Japan	2.24	21.78
France	2.09	6.78
Germany	1.23	3.33

Notes: (a) sales data measured over the period t to t+2; (b) 'All Firms' column includes all businesses meeting the criteria; (c) 'Young Firms' column includes only businesses younger than five years old meeting the criteria. National sample sizes are very small for some countries.

Source: adapted from Hoffman and Junge (2006: p13, Figure 2 and p15 Figure 4)

Looking at the size distribution of the UK and US business stocks, it is clear that the UK has a higher proportion of very small businesses, defined as 0-4 employees, than in the US, (Table 2.2). This may be a result of a number of possible factors. UK business owners might prefer to operate their businesses at a small scale and/or be more likely to experience barriers to growing despite an intention to do so. UK business owners may also be choosing to expand through the establishment of a number of independent units rather than through organic growth. Business owners anticipating growth to be difficult to initiate and manage effectively might adapt their original objectives and pursue more modest aims.

Table 2.2 **Size Distribution of UK and US Businesses**		
Firm Size (employees)	*UK % of Firms*	*US % of Firms*
0-4	65	55
5-9	18	20
10-19	10	12
20-49	5	8
50-99	1.5	2.5
100-499	1.1	1.7
500+	0.3	0.4
Note: percentages do not sum to 100 due to rounding.		
Source: BERR (2007b)		

How might these differences between the UK and US be explained? Potential contextual influences include access to resources and markets, the provision of infrastructure and other public goods, the regulatory framework and direct policy support.

One suggestion that requires investigation might be that financial markets are better developed in the US than the UK, enabling new entrants and small firms to access the capital they require to support business development. Further, there are a large number of trade, chamber of commerce and other associations that provide forums for growth oriented businesses and angel capital groups are rapidly growing. The US Angel Capital Association notes that there are more than 144 groups in the US having a portfolio of more than 7,000 companies. Angel groups typically provide funding in amounts from $50,000 up to $2 million (http://www.angelcapitalassociation.org/).[3] The growth of angel groups and rise of angel investment over the past 5 years creates an expanded source of growth capital. But in the UK, there has been a steady growth in the venture capital (VC) industry and it is not clear if the ‘gap’ between UK and US investors persists. Precise comparative data on US/UK venture capital markets is not readily available and the UK data includes private equity deals, which are excluded from US statistics. However, the results show that the VC industry in the UK has grown rapidly in terms of the number and particularly the value of investments. In 2007, members of the British Private Equity and Venture Capital Association (BVCA) invested £11,972m in 1,330 companies in the UK (BVCA, 2008).

[3] Other data from the US also shows a growth to $30,529m in 3,912 deals at an average deal of $7.8m (National Venture Capital Association, 2008) (http://www.nvca.org/ffax.html)

Within the US and UK, the businesses were selected from Massachusetts and South-East England. Both of these locations are relatively prosperous on economic indices (see Appendix 1). London displayed the highest average Gross Value Added per capita of all UK regions (GVA per head= £26,192; index 141, UK = 100); and business start-ups.

Massachusetts is the fourth most prosperous US State, with an estimated (GDP per head= $47,351; index=125 where USA=100) (Bureau of Economic Analysis, 2008). Massachusetts has historically been a centre for innovation and growth in the USA, beginning with the settlement of the UK Colonies, on through the Industrial Revolution, followed by the High Tech boom of the 1970's-1990's and re-emerging yet again with renewed Hi Tech, Bio-Pharma, Military-Aero R&D and Finance. The state ranks #2 in high tech (second to San Francisco) ahead of Seattle, LA, Washington DC, Dallas, and others (Florida, 2003), while a qualitative comparison of the Boston 128 loop and Silicon Valley showed many similarities with regard to development and transfer of technology from educational institutions, as well as clustering of high technology ventures (Saxenian, 1994).

Thus, the locations from which sample businesses were drawn are relatively prosperous. Care should be taken when generalising the results to a wider population and geographical location. Whilst these results highlight the variations in process, practice and outcomes of businesses in Massachusetts and the South-East of England, they should not be interpreted as statistically valid representations of the US and UK.

UK Policy Context

Government seeks to facilitate business growth in a variety of ways: by adapting the regulatory framework that governs business activities and market relations; through macroeconomic policy that influences levels of aggregate demand for goods and services; and by providing specific support to individual businesses. Here we focus on the last of these: the business support system. Policy initiatives vary in their nature, scope, conditions of eligibility, and their resources.

In the UK, the principal point for business owners' access to support is through the Business Link Operator (BLO) network, organised on a geographical basis. [4] BLOs act as a 'one stop shop' signposting business clients to a wide range of support providers. Several national initiatives exist to provide access to finance and to skills. With regard to finance, the Small Firms Loan Guarantee (SFLG) scheme provides lenders with a Government guarantee in the event of default in order to encourage the supply of loan finance to small businesses with viable projects but who lack assets to offer as security. Currently, the guarantee covers 75 per cent of loans up to £250,000, for 2 to 10-year terms, made to businesses up to five years old, with a turnover of up to £5.6m.

[4] Separate business support systems operate in Scotland, Wales and Northern Ireland.

Regional Venture Capital Funds (RVCFs) are an England-wide programme to provide risk capital finance of up to £500,000 to small and medium sized enterprises demonstrating growth potential. Each fund operates exclusively within one of the nine specific regions of England. The funds, managed by experienced venture capital professionals, are operated on a commercial basis, with the purpose of making a return. RVCFs match-fund investment in recipient companies obtained from other sources.

Other initiatives include the Enterprise Investment Scheme (EIS) and the Enterprise Management Incentive (EMI) scheme. The EIS is designed to help smaller higher-risk companies to raise finance by offering a range of tax reliefs to external investors who purchase new shares in those companies. Investors were limited annually to £400,000. EMIs are tax-advantaged share options intended to enable small, high-risk companies to recruit, reward and retain employees. Both of these initiatives are of particular importance to young growing companies where the value of shares may increase markedly, constituting a substantial capital asset. EIS has helped raise over £6.1bn, invested in more than 14,000 high-risk, unquoted trading companies. Approximately 70,000 employees in 7,000 companies currently benefit from EMI (HM Treasury 2008: ch3).

R&D tax credits aim to encourage greater R&D spending in order to promote investment in innovation. The credits provide tax relief which can either reduce a company tax bill or, for some small and medium-sized companies, provide a cash sum. The tax credits might be particularly helpful for very young firms that generate little revenue.

US / Massachusetts Policy Context

In the US, business support is provided at both federal and state level. The US Small Business Administration (SBA) was created in 1953 as an independent agency of the federal government to provide support to small businesses. Federal policies include financial support through various loan programmes (Certified Lenders Program, Preferred Lenders Program and Specialty Loan Programs). Small Business Investment Companies (SBIC) provide venture capital and start-up financing to small businesses. The US SBA oversees a network of programmes and services that support the training and counseling needs of small businesses. The Small Business Innovation Research (SBIR) and Business Technology Transfer programs set aside a small fraction of their funding for competitions among small businesses only.

The SBA provides support to businesses seeking to export. The SBA Export Express Program provides a streamlined method to obtain loans and credit financing up to $250,000. The SBA also provides lenders with up to a 90per cent guaranty on export loans. The SBA International Trade Loan programme provides loans to businesses planning to start/continue exporting or those adversely affected by competition from imports; it offers borrowers an increased maximum outstanding SBA guaranteed portion of $1.75m instead of the $1.5m for regular SBA borrowers.

An example of state-level public business support is the *Massachusetts Small Business Development Center (MSBDC) Network*, comprising eight centres, 42 outreach sites and two state-wide specialty resources, the Procurement Technical Assistance Center and the Massachusetts Export Center.[5] The Network provides free training and support services, including finance, marketing, international trade and Government procurement, to 8,000 clients annually. The *Massachusetts Technology Development Corporation* provides venture capital (and some loans) for start-up and expansion for early-stage technology companies.[6] Between 1980-2006, the Corporation invested more than $72m in 122 companies. The *Massachusetts Community Development Finance Corporation* provides finance to small business lacking access to private capital, including low interest loans up to $500,000 and lines of credit.[7] The *Massachusetts Banking Partners Small Business Loan Program* provides loan finance to businesses receiving assistance or training from business support providers with 20 or fewer employees located in low- or moderate-income census tracts and/or requiring small loan sizes.[8] The *Massachusetts Development Finance Agency* provides loan finance for real estate, equipment, guarantees and term working capital.

The *Massachusetts Export Centre* offers a one-stop resource for export assistance. Services include export counselling and technical assistance, international market research, trade shows, identification and qualification of overseas customers.[9] The *Innovation Institute Fund* supports regional technology-based economic development initiatives across the state.[10] Grants are provided to public and not-for-profit organisations to enable them to undertake initiatives that are intended to create and maintain a favorable environment for the establishment, attraction, retention and expansion of technology-intensive businesses.

Clearly the business support contexts of the two study settings are complex and vary. The study will seek to examine engagement with the support infrastructure from the perspective of the interviewed businesses. Hence in the two study locations, owner-managers were asked to provide information on their experiences of seeking support and their take-up of initiatives as well as views on the regulatory environment.

The Business Samples

The sample comprises 39 businesses, 21 from the South East of England and 18 from Massachusetts, US. UK and US businesses were identified using Dun and Bradstreet and FAME databases. Letters were sent to named potential respondents believed to be owners, partners or directors. Selected firms were screened in a telephone call to ensure the selection criteria were met (Table 2.3). Sample businesses each satisfied the following criteria:

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[5] Details of support services can be found at http://www.msbdc.org/
[6] http://www.mtdc.com/index.html
[7] http://www.mcdfc.com/
[8] http://www.masscommunityandbanking.org/bankingPartners.html
[9] http://www.mass.gov/export/
[10] http://www.masstech.org/institute/grant/regional.htm

- Independence – businesses were not part of, or owned by, large companies;

- Growth performance – businesses had achieved 60 per cent or higher real turnover growth over the previous three years. In practice, businesses with nominal sales growth of 75 per cent over the previous three years were included; this avoided asking respondents to make *real* sales growth calculations, taking inflation into account. It is acknowledged that a relative measure of sales growth is easier for smaller, rather than larger, firms to achieve given their lower starting points (Delmar 1997). Steps were, therefore, taken to include small, and medium-sized businesses, as well as micro firms, within the sample.

- Employment size - Owner-only businesses were excluded. The study businesses employed 3-250 people, with a spread of business sizes to avoid focusing only on very small firms.

- Business Sector – businesses operated in the following sectors (information technology; financial services; business and professional services; electronics, engineering and architecture). This allowed the exploration of a variety of experiences but within a small range of sectors;

- Location – businesses were located in South-East England, especially London, and within the I-128 highway around Boston, Massachusetts.

- Business age – businesses were at least three years old to meet the sales growth criterion.

Data were obtained from face-to-face interviews with business owners using three research instruments:

- a semi-structured interview topic guide;
- a short pre-interview profile data form; and
- a graphic to enable respondents' to record historical sales performance as a precursor to discussing the causes of sales changes.

The face-to-face semi-structured interview was recorded where possible and lasted between 30 and 120 minutes.

Table 2.3 **Sample Businesses: UK and US**		
	UK Sample	*US Sample*
Micro (< 10 employees)	5	2
Small (10-49 employees)	8	7
Medium (50+ employees)	8	9
Financial services	8	3
Information Technology (IT)	9	7
Business and professional services	3	6
Electronics	1	1
Personal Services	0	1
ALL	**21**	**18**

The samples achieved are shaped by the data sources used to create the sampling frames. Two data sources were used in the study: a Dun & Bradstreet (D&B) commercial database; and the FAME (Financial Analysis Made Easy) database. The D&B database includes data on businesses of all sizes, including one-person firms. The FAME database includes only limited companies, thereby excluding sole proprietorships and partnerships that tend to be smaller. D&B claim to provide data on 141 million companies worldwide; FAME claims to provide data on 3.6 million UK and Irish companies. Both provide contact details (names of principals and businesses, addresses, telephone numbers) and other business data (business activities, employment and sales). Like other databases, these sources are only as good as the data entered. D&B claim to undertake periodic checks of their records but it is clear this is far from a perfect process. Inevitably, there is a timelag between real world changes and changes to data records but the research team identified a number of cases where business owners report that changes took place some time, even years, previously or, alternatively, the data has never been correct. The business databases should, therefore, be used with care.

In practice, the business databases used to identify the samples were found to be a poor base for identifying fast growth firms and hundreds of businesses were contacted in order to find a comparative sample meeting the growth, sector and size criteria. This confirms the view that fast growth businesses are rare and that business growth is episodic and non-linear.

The methodological approach adopted offers several advantages over variable-centred approaches, albeit at the cost of a smaller sample size. The method of data collection permits deeper probing into business owners’ actions, motives and perceptions of influences on sales growth beyond that possible using more structured research instruments. This enables causal accounts of growth, grounded in the actual experiences of respondents. Where possible the interviews were audio recorded to enable transcriptions.

Summary

The US provides an appropriate comparator country against which to compare the performance of growing UK businesses. Growing businesses are more prevalent in the US and the US should provide an interesting setting against which to judge the performance of UK enterprises. Businesses were drawn from Massachusetts and the South East of England for comparison.

CHAPTER 3

EXPLORING THE DRIVERS OF BUSINESS GROWTH

Introduction

In this chapter the main arguments and findings of the study are presented. We examine the primary drivers of growth in the sample enterprises and the constraints upon growth. Specifically, we attempt to identify the similarities and differences between the two samples in the forces that generate and constrain growth. Details of the sample businesses and the main drivers of sales growth are provided for the UK (Appendix 2) and for the US (Appendix 3).

Backgrounds and Motivations for Start-Up

In the UK, 19 of the 21 businesses were registered limited liability companies. In two cases, both in financial services, the business was a limited liability partnership. Seventeen of the 21 UK respondents were original founders; and four joined the business subsequent to start-up. Of those respondents among the original founders, seven were sole founders and the remainder were founded by management teams (defined as two or more founding owners).[11]

In the US sample, three were limited liability companies, 13 were registered as C corporations and two were registered as S corporations. Type C corporations are the most common form of corporation in the US. Both C and S corporations possess limited liability, but are taxed differently. Type C are taxed on both corporate profits as well as dividends to shareholders, while Type S income and losses are divided among shareholders who must then report the income or loss on their own tax returns.
Business owners found (or join) enterprises for a variety of financial and non-financial reasons (e.g. Barringer et al., 2005; Birley and Westhead 1994; Cassar 2007; Kuratko et al. 1997), including those founding high-technology enterprises (Amit et al. 2001). Financial motives are clearly important to those forming and managing businesses but so are other ‘pull’ factors such as identifying a market opportunity, exerting greater independence or taking greater control of one’s destiny, undertaking interesting or challenging work, or providing a better product than is currently available. Research also identifies a number of ‘push’ factors that influence the start-up decision, such as dissatisfaction with employment and redundancy (or the threat of redundancy). These influences often operate in combination. Individuals are often attracted to self-employment or business ownership for a range of financial and non-financial reasons, and harbour an intention to make the transition from employment at some future date, but the immediate trigger to firm formation is often the ‘push’ of unemployment or employment dissatisfaction (Bird, 1989).

[11] In one of these 14 cases (UK10), the founders were husband and wife, with the latter not employed by the business and engaged in paid employment elsewhere.

In discussing starting a new venture, UK and US respondents emphasised the attraction of identifying specific market opportunities, securing greater control/independence, and the intrinsic satisfactions of undertaking interesting work as motivations to found (or join) a business. While, inevitably, respondent accounts may be vulnerable to recall bias, replies are not out of kilter with previous research findings. In the UK, redundancy or the perceived threat of it was the immediate stimulus to business start-up in four cases and employment dissatisfaction in a further four cases. It is particularly interesting that the four respondents joining their respective companies after founding all emphasised the market opportunities available to the business and the possibility for significant sales growth.

At least nine UK and four US respondents reported prior or current business ownership. This suggests that a number of business owners have developed a preference for business ownership as the means of earning a livelihood over a number of years. Several of the US owners indicated that the motivation was seeing an opportunity in an industry, a chance to serve the customer better, to expand technology or deliver a product with social benefit. As one US entrepreneur said:

> "I saw a need in the advertising industry to target customers more closely so as to gain greater returns." (US1: Design and architecture, 157 employees)

Another owner was more specific:

> "this was my second venture, so I did a systematic search to find a new venture" (US6: IT, 6 employees)

There appeared to be little difference in the *motivations* for becoming a business owner in the UK and the US. However, it is interesting to note that US respondents were more likely to be in single entrepreneur start-ups. It was also particularly evident in the UK sample that prior business ownership was a distinctive feature of the sample.

Business Owners' Educational Qualifications

Business activities and performance are partly shaped by the human capital of the founders/owners. One measure of human capital is educational qualifications. There is some evidence to suggest growing businesses are more likely to be owned and managed by people with high education/qualification levels (e.g. Autio 2007; Barkham et al. 1996; Watson et al., 2003; Bird, 1989). This was borne out in the results. All business owners held post-compulsory schooling qualifications (Table 3.1): 17 reported degree (or equivalent) qualifications, with seven reporting postgraduate qualifications, including three with doctorates. US owners reported a higher level of education - 10 had Master's degrees (usually MBAs) and one had a PhD.

Table 3.1

Business Owners' Educational Qualifications		
	UK	US
PhD/doctorate	3	1
Masters degree	4	10
Degree	10	7
Vocational qualifications (City and Guilds, NVQ3)	1	0
A levels	3	0
No qualifications	0	0
ALL	21	18
Notes: Different categories of qualifications are used reflecting the different systems in the UK and US.		
Source: pre-interview data profiles.		

There appears to be some connection between level of education and both growth aspiration and growth performance. Within the UK sample, business owners with postgraduate qualifications were more likely to express high growth as a business objective and, also, to have achieved high growth in the recent past. This does not necessarily mean that the most highly-educated business owners managed the enterprises with either the highest turnover or employment; this partly depended upon date of founding and the point at which sales and employment began to take off.

For the US owners, a majority had prior experience in the industry. They had either run a previous venture or worked for a competing company. In a couple of instances, they developed the technology while working in a large company (US15) and then spun it out and became the licensee. Others had worked in the industry (i.e. tutoring US16) or personally developed the technology (US6, 9) prior to starting the venture. This is most probably linked to the industrial structure along the I-128 Route which is where the bulk of these firms were based and which is dominated by dynamic, technology oriented firms providing opportunities.

Explaining Sales Trends

Despite restricting the sample to those reporting a 75 per cent turnover increase in the past three years, both UK and US respondents reported a variety of sales trends. Respondents were asked to draw a line graph indicating sales trends over time. This proved to be a useful method and point for discussion. Although the specific focus was on the three-year period immediately prior to interview, some were able to provide a longer historical perspective. Four broad categories of trend line can be identified in the UK and US samples – the 'hockey stick', 'incremental', 'plateau' and 'erratic' patterns. The erratic pattern permits further subdivision (see Appendix 4). Some firms experienced gradual growth over a number of years, while others experienced explosive growth over a shorter period, following a period of low and/or stable sales. Others have experienced high growth followed by a degree of decline, yet have still achieved sales growth of 75 per cent over the three year study period. Summary sales and employment data are provided for the UK and US business samples in Table 3.2. US businesses were larger than the UK firms in both sales and employment terms but their growth rates appeared slower in the period studies. This, in part, reflects their longer existence.

In the remainder of this chapter, we discuss the key drivers of business growth and provide examples of particular business cases that exemplify particular influences and processes. Focusing on the line graphs enabled further questions about the drivers of sales trends. What were the particular activities undertaken by business owners, and other key actors with whom they engage, that contributed to the development paths identified? Initiating and managing business growth successfully is not simply about undertaking one particular activity well while paying little attention to others. Creating business ideas, accessing key resources and mobilising them effectively are all essential tasks that enterprises must perform consistently if they are to achieve sustained growth. We begin by focussing on business owners' growth aspirations.

Growth Aspirations

Business owners vary in their business objectives and, specifically, in their growth aspirations. Generally, the vast majority of business owners prefer to remain small and, of those that seek growth, most seek moderate rather than rapid growth (FSB 2006; IFF 2008; Acs et al., 2008; Ginn and Sexton, 1990). Growth aspirations, like growth performance, are subject to adaptation over time as owners' experiences of ownership, the market, competition and other business life-cycle considerations, shape their business goals. Indeed, some authors have suggested that growth affects the motivations of owner-managers to seek subsequent growth (Delmar and Wiklund, 2008).

Respondents were asked their intentions when they started/joined the business: whether achievements thus far were as planned at start-up, ahead of plan, or behind plan. It is worth noting that whether businesses performed in line with owners' expectations, depends very much on the nature and scale of those expectations. Highly ambitious owners, for instance, might be more likely to fall short of expectations precisely because they aimed so high. Conversely, owners seeking modest growth might be better able to achieve their goals.

Table 3.2						
UK and US Samples: Summary Sales and Employment Data						
	UK (n=21)			**US (n=18)**		
	1st Quartile	Median	3rd Quartile	1st Quartile	Median	3nd Quartile
Sales						
Current sales	£800,000	£2,000,000	£8,700,000	$4,000,000	$5,000,000	$9,900,000
Sales 3 years ago	£155,000	£500,000	£3,350,000	$1,675,000	$2,500,000	$5,000,000
Growth rate over period (%)	516	400	160	139	100	98
Employment						
Current employment	10	12	43	40	25	84
Employment 3 years ago	6	9	23	21	16	56
Employment growth over period (%)	66	33	87	90	56	50

Source: Calculated from survey data shown in Appendices 2 and 3

Note: Firms were ranked according to their current sales, from lowest sales turnover to highest, to form the basis for data presented. Thus, all the following data categories are determined by this sales ranking. For example, the UK median firm has a turnover of £2m and three years ago had sales of £500,000 and employed nine people.

Despite these caveats, it is interesting to note that only one of the 21 UK business owners reported that sales growth at the time of interview was as planned (UK8) (Table 3.3). Of the remaining firms, seven owners reported being behind the business plan (UK3,6-7,9,12,18-19) and three reported growing faster than originally planned (UK15-17). Interestingly, nine owners reported no specific growth plan when they founded/joined the business (UK1-2, 4-5,10,13-14, 20), although one reported adopting a particular model (UK11). Over time, it is clear that several owners not reporting a specific growth plan at the time the business was founded have subsequently created one (UK11, 20).

Table 3.3
Growth Aspirations and Growth Performance

	UK	US
Growth performance as planned	1	4
Growth performance slower than planned	7	6
Growth performance faster than planned	4	7
No specific growth plan at start-up	9	1
ALL	**21**	**18**

Notes: Refers to respondents' aspirations for growth at the time they founded (or joined) the business.
Source: business owner interviews

US data suggests a different profile. Four achieved growth as they planned, while seven achieved growth faster than planned. The vast majority of US firms had a plan (only one did not). Respondents' reasons for achieving growth as planned related to quality of human resources (US13), consciously managing the rate of growth (US7) and carefully managing customer relationships (US12). For those companies that exceeded their growth expectations, several indicated that acquisition of a customer (US 11), repeat customers and referrals (US 9), and overall commitment to client satisfaction and service (US 13) were important. For those US firms that grew slower than expectations, customer cut-backs (US4, 6) and the decline in the US economy (US1) were the major factors cited.

Those firms that reported managing or controlling their rate of growth provided clear reasons for doing so. These may not necessarily be regarded as a lack of ambition but the opposite: some owner-managers wanted to grow their business at a rate deemed appropriate, for example, on the grounds of sustainability. This may be regarded in a positive way as managing risk with the aim of securing long-term growth rather than risk aversion.

For the UK sample, it appears that those owners seeking faster growth are most likely to report that sales growth is less than that initially anticipated. Of those reporting sales were running behind plan, most were trying to implement ambitious growth plans. Some were attempting to double sales every year. One software business owner claimed that there is a tendency in development businesses to be over-optimistic with regard to growth ambitions. With technology firms, the degree of volatility in performance is much greater than with other firms.

> "…The thing about development stage businesses, particularly if you're dealing with anything which involves technology, is that the plan that you start out with, unless you're just simply lucky, is never the plan you actually proceed with because you never get it quite right." (UK9: IT, 38 employees)

But, sales growth does not *necessarily* depend on high growth being a company objective from the outset. Business owners might only develop a plan for growth having survived the difficult initial trading period. Business owners might operate according to a well-defined business model and achieve high sales without having specific sales targets in mind - Allinson et al.'s (2006) organic growth. The following financial services business had expanded sales from £5m to more than £15m (and from 63 to 142 employees) in the three years prior to interview without a specific growth objective at founding.

> "In all honesty, I have to say we did not have a clear strategic plan. It wasn't that we actually envisaged a company of this kind of scale. Having said that, we had certain kinds of values and a business model that we really believed in; and we haven't changed and we've never wavered. So, in many ways, what we do is *absolutely* exactly the same as we did then and is the logical conclusion of what we did then. But I can't say that we actually sat down and we said "Right, this is how we will grow and this will be the number of people". We didn't have a kind of immaculately formed business plan." (UK11: financial services, 142 employees, italics denote respondent emphasis)

By contrast, for the US sample, more than half achieved sales as planned or greater than planned. In comparing the US and UK business performance over the period, it appears that US businesses were more likely to achieve or exceed planned growth. Companies exceeding growth expectations often did so because of customer relationships. For example, a materials and systems engineering company noted:

> "Our first customer is and remains a large customer, therefore providing strong revenues and a solid foundation of sales.—Additionally, this customer was the strategic partner providing 27per cent of initial funding. The partnership involved [the company] acquiring a division of this partner company, consisting of 28 employees plus the existing customers and revenues- thus providing immediate expansion and a strong base from which to grow- sales went from $1 million to $5million immediately" (US1: Design and architect, 157 employees)

In another case, the CEO of an environmental consulting firm explained:

> “We now have sales that are, you know, maybe five times what I could have anticipated….Two things (explain this)… a lot of repeat and referral business… (US9: Environmental Consultancy, 18 employees)

A financial planning company noted:

> “Client satisfaction for this service has been tremendous and referrals have spurred the rapid growth of the company.” (US13: Financial Services, 90 employees))

Those companies that achieved their goals did so for various reasons. An accounting firm (US12) noted they had planned for a downturn and picked up other businesses which allowed growth to continue at the rate anticipated, while a medical billing company decided to “control” growth in a way that could be managed with qualified staff and superior customer service rather than opting for a rapid growth rate (US7).

For companies growing at a slower rate than planned, in several cases, unmet goals were due to customer cutbacks (US1, 6). One software company noted:

> “We had aggressive expectations but the technology had too many kinks. It was not market ready.” (US15: Environmental Services, 24 employees)

Another hazardous waste clean-up company suffered slower than planned growth due to an incapacity to serve customer needs (US 9). In other cases, the slow growth was attributed to an inefficient business model that was rationalised during the economic downturn (US5, 10, 16).

Overall, in comparing the US and UK business performance over the period, it appears that US businesses were more likely to achieve or exceed planned growth even though the US economy was in an economic downturn. The reasons for this may in part be explained by their approach to marketing and sales which is elaborated in the next section.

Competitive Strategies

Businesses follow particular competitive strategies to achieve the objectives of principal decision-makers (Andrews, 1978) Decision-makers must choose which products or services to offer, which client groups to target, how to attract and retain them, how to resource operations with regard to skills and IT/equipment and how to set prices. Firms’ decisions are influenced by the industry competitive arena, resources available to them and by perceptions of the wider context, a context they partly shape through those very same activities (McDougall, et al, 1994; Brush and Chaganti, 1998). This is perhaps most obvious in the case of firms producing innovative products and services, where demand for them has to be created, but it is also true of firms trading more established products (e.g. Edelman et al., 2005).

Most companies in both the UK and US reported competing on the basis of product[12] quality rather than price. IT companies, in particular, claimed to offer goods and services that were either new to the market place or superior in quality compared with the products of close competitors (UK 21). Software, advertising, architecture and engineering companies offered services that were typically customised to meet customer needs (US1, 4-6, 15). Financial services companies tended to serve a particular market niche (UK6; US3, 11) or provided a high-quality service tailored to the needs of each client (UK5). Only in one financial services firm, focusing on mortgage products, was price perhaps an equally important determinant of consumers' decisions to purchase; although, even here, new financial products, albeit minor variations on existing services, were being introduced on an almost daily basis. Similarly, one company provided bill paying services for the medical community and even though the company serves a specialised niche, their products were somewhat standardised by the software employed (US11).

UK business owners often claimed that, although their firm operated in a competitive environment, it did not always have direct competitors. Either providers offered products with different features, or they targeted different market niches. Providing novel products to the market enabled firms to charge a price premium but, even where the products were highly innovative, prices could not be too far out of line with the next-best alternatives (UK2). The electronics company respondent reported that the firm aimed to make a 60 per cent margin on new products for the first two years after launch, after which time lower-priced rival products, mainly from China, would enter the market and force a drop in prices (UK14). Competitive processes stimulated repeated cycles of innovation and price-skimming followed by price-cutting and falling revenues.

Nearly all US respondents indicated that their companies had competitors although the nature of the competition varied. Several companies indicated that they had very large Fortune 500 companies as competitors (US13, 18), while others noted competitors were largely regional. For instance, in architecture and accounting (US1, 3, 12, 18) companies reported serving a middle market or regional segment - bigger than most small local companies, but not national. In some cases, there is an element of cooperation among companies as in architecture and design. Others indicated that maintaining a geographic focus was key to success (US9).

For the majority of US companies, the basis of competition was in customisation and customer service. Many companies indicated their competitive advantage was for example through the provision of a "fully integrated customer service" (US17- bio-pharma testing software), "a unique integrated full service model" (US6 online marketing software), custom design (US1, 4, 10, 11) and systems integration (US 2).

One software company noted:

[12] To avoid confusion, the term 'product' refers to *all* goods and services businesses sell; it is not confined to tangible goods.

> "We changed our company focus from innovator to integrator" (US11: IT, 154 employees)

In other cases, the importance of repeat business and maintaining relationships were mentioned as key competitive strategies (US13, 14).

Overall, businesses in the UK and US were operating in competitive environments. However, rather than competing directly on price they were following strategies to mark themselves off from potential competitors through customer relationship building, service provision and niche products and services. There were indications that UK and US firms differentiate themselves from competitors in slightly different ways, with US firms focusing more on services surrounding the product and UK firms concentrating on the product itself.

Product and Service Development

Product innovation is a key strategy to drive growth (Eisenhardt and Tabrizi, 1995). In our study, this was supported in that for many businesses, the key driver of sales growth was the *innovative product or service idea*. The idea often emerged from intimate prior knowledge of the industry and the marketplace to be entered and, in particular, the perception of specific market opportunities, or, the belief that such opportunities could be created. Several business owners reported this as their primary motivation for founding (or joining) businesses.

In IT companies, respondents reported that *substantial investment in product development* is needed, particularly in the early stages of the business. Such investments are both substantial and risky, as considerable losses are incurred before any sales are made and it is often uncertain whether the new product will generate sales at all. This might be the case even where business owners consult potential clients regarding their product plans. One UK internet software company reported discussions with 30 fund managers and ten major brokers prior to commencing development, many of whom expressed a keen interest. Once the product had been developed, market reception was initially lukewarm – an outcome the respondent attributed to client CEOs being either unable or unwilling to impose the product on powerful fund managers (UK3). If companies are able to weather the storms of the development period and secure sufficient orders to survive early on, the potential rewards are very high. Several owners were optimistic that product innovations would generate higher revenues, and profits, in the mid- to long-term. Once established, business owners expected sales to rise sharply while costs - development, advertising/marketing/sales, employment, and other overheads - increase less than proportionately.

In the case of bio-science companies, the risk and time to develop products can even be longer. In a hazardous waste company (US15) finding appropriate equipment and developing techniques was costly in the start-up phase.

A number of owners reported adopting low-cost development models, whereby product development work was located overseas in order to access lower-paid but highly-skilled employees (UK8,9,18,19). The same practice was adopted by US companies in architectural design (US1), accounting and tax (US16) and software (US15). While such an approach offers economic benefits, prior access to resources to internationalise is required. Nor are the benefits of offshoring permanent. One owner reported that the labour cost advantages of locating in India were diminishing and might force a rethink in the near future.

The timing of investments in product development was very important. Being first to market with a new, innovative product was often essential to survival and growth, particularly in the IT sector. A particularly important example of this comes from the advertising industry (UK12). The company had introduced a new digital service to advertise content in outdoor locations. No competitors were known to have introduced a similar kind of facility. The company aimed to build up a network of sites throughout the UK in order to attract the attentions of the national advertising agencies, opening up possibilities to access the budgets of their large clients seeking widespread national coverage for their advertising campaigns.

In at least one business, the owner abandoned its initial product idea after 18 months believing it would never generate sufficient sales to make the effort worthwhile (UK9).[13] A number of others maintained that, with hindsight, it might have been better to introduce a less sophisticated product to the market than was actually attempted (e.g. UK3,7). This, perhaps, would have taken less time to develop, incurred lower development costs, and would have probably been easier to sell to unconvinced clients.

For US businesses, the vast majority relied on customer input to their product/service design. This process was described as interactive, where the customers participate in the development of the product or project, in the case of engineering consulting and architecture specifically. Some had joint ventures with customers, while others partnered with the government (Department of Defense, Energy and Life Sciences) (US 8, US15). For example, one US business reported taking

> "an approach where we actively listen to the client and attempt to create a design that is in harmony with the client's business as well as business goals and business environment." (US18: Architect, 23 employees)

At the extreme, one advertising company (US4) specialised in solving marketing and brand design problems for large multi-national companies through consumer research and a proprietary user-oriented focus group design process.

Another challenge for US companies was motivating customer adoption of the technology especially in non-traditional sectors. For instance, one company

[13] Business owners were not systematically asked this question, so it is unknown how many others made similar decisions to abandon product ideas.

refers to itself as the “eBay of Charities” (US5) whereby they set up a charity auction on line. Because most charities are less technologically oriented, there is a learning curve to encourage these organisations to participate. Alternatively, another educational services company reported expanding into a web environment (US14). Given that tutoring is primarily a face-to-face activity, customer adoption of web-based tools is slower than planned.

In *businesses not relying on the development of novel* technologies and products, sales could be achieved at an earlier point in the business life-cycle. In such cases, business owners do not have to invest substantial sums in product development without being able to adapt cost bases if sales fail to materialise as anticipated. Companies did not have to invest resources in market creation. Here product or service quality was important. In financial services companies, this often meant being able to develop personal relationships with clients with whom the firm was working for lengthy periods.

The reported *importance of R&D* and associated expenditure varied between companies. Several respondents, particularly in IT companies, were able to provide figures of the number of staff engaged in development work; in some cases, expenditure figures (either in absolute terms or as a percentage of sales) were also available. IT respondents often found it difficult to give precise figures for R&D expenditure because it was fundamental to business activities and did not constitute a separate budget heading. Indeed, companies employed dedicated full-time research staff whose salaries might legitimately be treated as ‘R&D expenditure’. Several US companies estimated it was about 5-10per cent of sales. For R&D and - based companies (software and engineering), the percentages of sales were around 25%. In financial services, business owners were less likely to report dedicated ‘research and development’ expenditure.

The Lambert Review suggested that Government should do more to encourage/facilitate R&D links between SMEs and universities. One firm (JK14) reported discussions with universities to establish such links.

The Role and Significance of Intellectual Property Rights (IPRs)

Intellectual property rights are often important to firms’ competitive advantage (Porter, 1985). For smaller growing companies, IPR can be a means to gain market share and establish a customer base. In our study, there were differences between companies with regard to IPR. Although intangible, the knowledge embodied in IT companies’ products was perceived by UK business owners as the primary business asset and also an influence on owners’ business development and exit strategies. IPR had attracted external institutional investment (UK7,9,12,18,19) and several UK respondents suggested that this would be the major source of value in any possible future trade sale. One IT business owner reported 38 patents, including in countries the company did not operate in at the time of interview. In financial services, in contrast, although the know-how required was often very complex, most was not protectable using formal IPRs.

US data suggested a similar pattern, although a slightly higher proportion indicated some intellectual property protection. For the technology-based companies (engineering products, software, bio-science), patent, copyright and trademark protections were in place (US3, , 5-7, 9, 11, 14, 15, 17). Other companies indicated that they had proprietary processes in how they carried out their services.

But, despite constituting major business assets, there was a pragmatic recognition among UK business owners of the limitations of IPR, as distinct from the know-how, or intellectual capital, embodied in products. First, business owners recognised that IPR might only be used defensively, to resist others' accusations of theft/imitation, rather than aggressively to restrict actual and prospective competitors. Second, there was acknowledgment that IPR might not be defensible against infringements by large companies due to the costs of enforcement; litigation against large companies was simply not a viable option for most firms. For US businesses, the copyright, patent or trademark was perceived as a means to build reputation rather than necessarily being defensible in the competitive environment. In other words, it was a legitimating factor that helped with branding and in working with partners. Third, in the light of these two considerations, business owners reported that the best protection for the firm was to invest in continued product development with the aim of maintaining a technological lead over competitors.

On balance, the evidence suggested similarities rather than differences between the US and UK firms. In both samples, respondents displayed awareness of the relevant IPR issues for their business. They were also quite pragmatic regarding the use of IPRs, recognising their primary use as a means of raising the value and credibility of the business rather than to protect IP from infringement.

Market Development: Finding Clients and Creating Demand

All businesses face the challenges of finding customers, communicating product features, pricing products and services attractively, establishing effective distribution channels, implementing sales and marketing efforts to win and retain clients, and, linking back to previous sections, undertaking continued product development to sustain sales (Hisrich and Peters,1997). Business owners pursuing high sales growth need to pay particular attention to these issues because of their need to generate increasing levels of demand from new and existing clients.

Most UK business owners reported client referral and word-of-mouth recommendation as the primary means of finding new clients. Such methods are known to be important to small business owners (e.g. Stokes 2000), but might have been anticipated to be less important to growing businesses that need to reach a wider customer base. Nevertheless, business reputation is identified as a critical factor for growing enterprises and this presents particular challenges. In one case, the reputation of the business attracted a major blue-chip corporate client which has been a major driver of sales growth (UK21).

Whilst this helped the business consolidate its market position, it now poses an additional problem of over-reliance on this client. The owners' response was to reduce this dependency by seeking new clients through acquisition activity.

Few UK respondents reported formal methods of marketing and advertising such as websites, marketing brochures/directories or trade shows as important. Indeed, several owners confessed their lack of marketing skills. Perhaps the best example of the importance of formal methods comes from the designer/manufacturer of electronic products (UK14), who relied strongly on attendance at trade shows in the UK and overseas to inform potential clients of new products. Several reported cold-calling prospective clients. This method is particularly appropriate when the target clients are limited in number and easily identifiable (UK7,18), or, alternatively, where the company can devote substantial resources to marketing and sales activity to reach a large and diffuse potential client base (UK16).

There was recognition on the part of some UK business owners that a continued reliance on client referral/word-of-mouth was untenable if sales growth was to be sustained. One finance business owner, employing 10 people, indicated that growth plans necessitated a more systematic approach to marketing and winning new business, linked to the launch of a subsidiary company (UK13).

US businesses approached marketing and advertising in a slightly different fashion. In the majority of cases, companies segmented and targeted their markets very carefully, then employed direct selling combined with a secondary web-based strategy as the means to identify, sell and maintain customers. One other US company identified customers from the Fortune 500 that had responsibility for hazardous waste sites (US15), while two financial service firms identified their clients based on size of business and geographic location, allowing targeted personal selling and relationship building (US7, 8).

Sample businesses served a variety of client types. Respondents were asked to provide data on the proportion of sales attributed to four types of client – businesses, public sector organisations (including Government), voluntary sector organisations and personal consumers – at two points in time, today and three years ago (Table 3.4). Whether the client base was primarily organisations or personal consumers largely depended upon the nature of the product or service provided. Both US and UK businesses served primarily other businesses (B2B). Two UK businesses served predominantly personal consumers, a solicitor and a financial services firm, while two US financial services businesses served both as well. Six US businesses had government agencies, institutions, and non-profit organisations as major clients.

Table 3.4
Nature of Client Base

	UK	*US*
Organisational clients comprise 75% of sales	18	14

Mix of organisational clients and personal consumers (i.e. 26-74% of both)	1	2
Personal consumers comprise 75% of sales	2	2
ALL	**21**	**18**
Notes: 'Organisational clients' defined as businesses, public sector organisations (including Government) and voluntary sector organisations.		
Source: pre-interview data profiles.		

For most US and UK businesses, the overall nature of the client base had changed little during the three years prior to interview; many respondents provided identical profiles for three years ago and today and in others the changes were marginal.[14] In only one UK case had there been a substantial change - a shift from personal consumers to business clients (UK15). In this case, the nature of the product, a subscription market information service, had not changed. Rather, the owner recognised the greater sales opportunities offered by targeting businesses rather than personal consumers; the owner had also experienced payment problems with a number of personal subscribers.

For many IT companies, there was currently no existing market for their proposed products. Much of these firms' early efforts, therefore, consisted of interaction with potential clients and industry actors to discuss whether the proposed product(s) would meet an unsatisfied, though latent, market need. In such conditions, there is no market 'out there' whose demands wait to be satisfied (Sarasvathy and Dew, 2005). Providers often need to convince clients that they have a requirement, or need, that the proposed product can satisfy. While this is the case, to some extent, with regard to all goods and services, the challenge is particularly acute in relation to novel, innovative products where no market yet exists. In these circumstances, firms are market creators: this appeared to be a familiar characteristic of fast-growth firms. Pioneers have to incur the costs of constructing market demand with no guarantee they will be successful; followers can wait to discover whether such efforts are successful and then attempt to exploit the market opportunities created at lower cost. In addition, if there is a regulatory aspect, there are additional costs incurred in achieving governmental approvals and in developing and implementing technology (US17). Another company providing internet content delivery services reported that having a major media organisation recognised as one of the most innovative in the sector as a client was also a means by which new business could be won. In the US, one clinical testing company had invested in a new software system but, despite interest in their product, had yet to realise any specific benefit (US 17). Relatedly, another company noted "our target audience is not as sophisticated as what we are capable of doing, so there is some education that has to go on." (US6)

In short, it appears that the challenges of fast growth firms transcend the UK and US contexts. The strategies of niche market development and building

[14] This is at the level of market type and does not mean there were no changes in *individual* clients. Businesses might, for example, retain a client base that is 100 per cent organisational clients, yet all current clients might be different to those served three years ago.

customer relationships, rather than competing on price, appear to go hand in hand with being a fast growth firm. This often involves the risk of upfront investment. The relative maturity of the US firms meant that they had undergone renewed vintages of product development and were much more likely to have a developed sales network. Some firms in the UK were, however, still reliant on word-of-mouth and recognised that changes were necessary if growth was to be sustained.

Market Development: Geographical Diversification

Firms seeking expansion often aim to achieve this by *entering new geographical markets*, particularly beyond the local area (Barringer and Greening, 1998; Iacobucci and Rosa 2005). In some sectors, expansion might only be possible by securing export clients because the national client base has been exhausted or is too difficult to enter. Export activity was reported in 17 of the UK businesses and five US businesses (Table 3.5). Export sales were important contributors to total sales in a significant number of UK firms; and in eight businesses exports comprised the majority of sales. Evidence from the US businesses contrasted. This is consistent with other data showing that the majority of US small firms tend to serve local or national markets. Given that the internal domestic US market is substantially larger than the UK, this is not surprising. Of those companies doing business internationally, most of their customers were in global industries (bio-pharma, engineering design, software, advertising). In some cases, international customers were served in the US (US1).

Table 3.5
Export Activity

	UK	*US*
Exports constitute >50% of sales	8	0
Exports constitute 10-49% of sales	6	2
Exports constitute <10% of sales	3	3
No exports	4	13
ALL	**21**	**18**

Source: pre-interview data profiles.

On the challenge of entering new markets, one company noted:

> " There are always brand names that are present wherever we are, but then, in addition to that, every market seems to have three to four what we call, mom and pops, that are locally based organisations, never really expanding beyond that city, but have been there for decades and have a great reputation. So that's generally what we are up against on sort of a high level" (US18: Architect, 23 employees)

Export activity might be argued to be more likely as firms increase in size. Indeed, disaggregating the data by business size would appear to support such a contention. Three of the five UK micro businesses (fewer than 10 employees), reported zero export sales while four of the eight larger firms (50+ employees) reported that more than 50 per cent of sales came from exports.

But, it is not simply a matter of firms diversifying sales geographically in order to secure higher sales. First, the geographical distribution of the client base was often an artefact of the date of interview; respondents reported that in previous years the distribution of the client base had been quite different. Taking on new clients, particularly where the value of the business was high relative to total sales, could influence the geographical sales distribution markedly. Sometimes, such changes were deliberately sought by business owners as they consciously attempted to enter new markets; but, on other occasions, such changes occurred as the consequence of clients seeking out the business unsolicited rather than because the business had targeted clients in particular locations.

For US companies, nearly all planned to grow in the future, and at least five were planning to make an acquisition of another company, or considering a merger. In two cases, the plan was to sell and exit the business (US 17, 18). Several planned to move into new states (geographically) while others planned to update and create new generations of services and products. In the UK, three businesses had made acquisitions in the recent past (UK17, 18, 21).

The data on the geographical sales of the businesses revealed one of the strongest differences between the US and UK samples. The finding that UK firms were more likely to be involved in exporting and for some businesses this constituted a large proportion of sales, was not surprising. The US has a much larger internal market. This may lead to differences in the growth pattern of the businesses as well as variations in their support needs.

Barriers to Growth

Firms seeking high growth cannot increase sales just as their principal decision-makers please (Penrose, 1959).Business owners experience constraints on their activities as the intended and unintended consequences of other stakeholders' actions; they may or may not be aware of the sources of these constraints (Phillips and Wade, 2008) Identifying acknowledged and unacknowledged barriers to growth is a first step enabling policymakers to intervene in order to support growing businesses. Policymakers are more interested in macro-level phenomena, with helping growing firms in aggregate, not with necessarily helping particular individual firms (Hart, 2003). It follows that interventions should seek to provide the conditions in which more firms choose to grow, and of those that do, more are able to grow, without undermining the competitive market processes that produce benefits for producers and consumers.

Respondents were asked whether they had encountered any managerial, financial, IT-related, regulatory or other constraints on sales performance.[15] Whether respondents defined particular constraints as 'managerial', 'financial' or whatever is less important than whether they experienced them at all. In a sense, all could be treated as managerial constraints in so far as they constitute restrictions on managers' capacity to adapt the behaviour of the firm and its employees with the purpose of increasing sales revenues.

Financial Resources and Constraints

All businesses require financial resources in order to start trading and to fund growth. Lack of access or availability can be a constraint on business growth (Brophy, 1997). Whether business owners can access adequate and appropriate finance to grow is a particular concern for policymakers. Start-up can be financed from founders' own wealth and/or by accessing external sources of finance, whether from 'informal' sources such as family and friends, or from 'formal', market-based sources such as banks, venture capitalists and private equity firms. Once businesses are trading, further development can be financed using retained profits.

Respondents were asked whether they had any external investors (Table 3.6). 13 of the UK sample owners reported external investors, including ex-employees, high net worth individuals such as business angels, and venture capitalists. A smaller number of US companies had outside equity at the time of interview, and in most cases, it was angel or founder financing. Angels tend to be more patient and in many cases were on the board of directors and directly involved in coaching the firms to growth (US5, 10). External equity was generally sought where the owner(s) sought high growth, or where there were high product development costs incurred prior to generating substantial sales revenue, due to long lead-times prior to revenue generation, as is the case with many IT companies. One UK company originated as a University spin-out and remained 50 per cent-owned by a VC firm and 20 per cent-owned by the university (UK19). In another case external investment was viewed as crucial in a three-legged growth strategy of organic growth, internal investment and acquisitions (UK21). The rapid growth of 2004-5 was based on the strategic acquisition of a UK firm financed entirely by a VC investment of just over £1million.

Table 3.6
Use of External Equity

	UK	*US*
External equity	13	6
No external equity	8	12

[15] Regulatory barriers are discussed in Chapter 4.

ALL	**21**	**18**
Source: business owner interviews		

Other business owners did not seek external investors either because they did not wish to cede any control over the business (e.g. UK2) and/or because they were able to meet their financial requirements from business revenues or from informal sources (UK10). US companies not seeking outside equity were either self financed or financed from cash flow (US4, 10, 9, 11) or relied on bank financing and short term credit. Several had lines of credit (US1, 7, 11, 16) to manage short term cash flow variations.

Larger companies with 50 or more employees were more likely to have equity held by external parties, whether in the form of venture capital or more informal investments. External investors comprised majority shareholdings in (at least) three UK companies (UK7, 12, 19). External investment does not always result in a minority shareholding for the owners of the business yet its very existence can pose constraints on future growth as the VC investor looks for a return on the initial investment. In one UK case, the future growth strategy may have to be put on hold in 2009 as the owners are under an obligation to re-finance the firm in order to re-pay the VC investment (UK12).
However, there was also a general finding that the majority of respondents in both countries reported *sufficient finance* to enable them to do what they wanted to do. Yet detailed discussions suggested that, in many cases, most owners indicated that finance had *constrained* their activities at particular times and, as a consequence, important business decisions had been changed or delayed. Many UK firms were at an early stage in their development with expansion a relatively recent process. For these companies, then, managing growth was a new experience and several were operating at a loss, or only just starting to break even. Longer established firms were able to fund investment and operations from trading revenues; one financial services firm, operating since 1990, financed investment internally with no requirement for external finance.

Owner-managers stated that bank loan finance was very difficult to obtain for most firms in the UK (e.g. UK9,18). It is not clear, however, that business owners either sought or needed such finance or whether this was based on a more general perception of bank/business relations. Most, if not all, owners were extremely resistant to providing personal guarantees to banks to support loan applications. Banks were perceived as highly risk-averse organisations, willing to provide finance only on the basis of proven revenue flows or collateral guarantees, which most business owners were either unable or unwilling to provide at the time they approached the banks. Such views are not uncommon amongst business owners generally.

Business owners took *different views regarding venture capital (VC) finance*. Most seemed satisfied with their access to equity providers (institutions and high net worth individuals), particularly in technology businesses where VC has a track-record of investment and where sales take a long time to materialise due to product development cycles. Technology company owners tended to view VC finance as crucial to growth. Without their financial support and management expertise, several respondents reported that the necessary investment in R&D and market development could not have taken place (UK7, UK8). Other owners, conversely, were resistant to approaching VCs because of the dilution of ownership and control this would entail (UK3), or because they had wasted a lot of management time attempting unsuccessfully to obtain VC support in the UK and were now looking overseas (UK4). Even among owners considering accessing VC finance, there was some ambivalence toward VCs because of the high rates of return required and the need to relinquish some control.

Three US companies (US 14, 16, 17) indicated that lack of capital was a constraint on growth and in all cases, they were pursuing angel financing. One company noted:

> "...our biggest challenge is raising money… it so sort of, very—raising money with angel investors in particular what I'm doing right now is a frustrating process like herding cats (US14: Educational Services, 830 employees).

Overall, therefore, financing was an important though not significant constraint on business growth. In some cases, securing bank or VC funding was regarded as a challenge. Yet, in the UK VC funding, formal and informal, was taken up more than in the US. This contradicts much of the popular evidence of the relatively high presence and take-up of VC in the USA. The UK VC market has developed in the past decade, and especially so in the South-East of England, where these firms were based.

Managerial Constraints

Growing businesses need to manage resources effectively if they are to achieve sustain growth (see Macpherson and Holt, 2007). Respondents were asked two related questions concerning managerial constraints: first, what were the major managerial challenges of planning to grow a business, and actually growing? Second, whether the managerial skills available to the business had constrained business growth?

In both the UK and US growth required certain skills that some respondents felt they did not possess. A lack of managerial skills and experience to deal with growth, at least during the early stages of business development, was reported by a number of respondents (UK10, 12, 13). This was not merely a result of the demands on management's existing skills and knowledge. The very nature of the demands on the management team changed as the businesses grew. Growth inevitably requires the expansion of the labour force, or certainly labour input, and some businesses reported that this triggered the need for an enhanced managerial capacity especially in relation to HRM.

In the UK sample, better planning and being more proactive was reported by a number of smaller companies in the sample. Planning was perceived as key to achieving higher levels of performance (eg. UK10). A number of functions/issues were discussed: human resources; marketing and sales; finance and intellectual property issues. Most reported learning by experience as circumstances developed. One example, from an IT firm, referred to weak sales and marketing skills – the owner confessed that the firm was not very good at explaining/selling what the firm does (UK4). In another case the recent appointment of a Financial Director was a recognition that as they sought to re-finance the business to re-pay the venture capitalist and continue acquisition activity, the original Directors lacked the financial skills to successfully deliver these outcomes (UK21).

A major challenge facing growing enterprises is the need to service existing clients while winning new ones (UK11). On the one hand, businesses must allocate sufficient resources to ensuring high and consistent product and service quality especially given that this was one of the key competitive advantages of fast growth small firms (UK13, 17). On the other, businesses need to extend their reach to access new clients. As the client base increases in size, business owners experienced pressures to achieve scale economies in service delivery; one example was the use of online videos to impart information to clients (UK11).

Winning new clients and customers was regarded as difficult. Novel products often require a substantial investment in marketing and sales activity. For some businesses, this additional effort and investment might be prohibitive. With the benefit of hindsight, a number of owners acknowledged that products had perhaps been too sophisticated for clients' tastes at the time they were launched (UK7, 14) and that a less complex (and, therefore, cheaper) product would have sufficed. Some owners reported that their product was 'way ahead of the market' and that, as a consequence, sales had remained at a low level longer than initially anticipated (UK4). Less innovative products might be easier to sell to a sceptical client base, with the consequences of generating sales earlier while, at the same time, providing funds for further product development. Achieved sales, even with less complex products, might also be attractive to external investors.

A related challenge, arising from the need to find new markets, concerns client selection. There was acknowledgement by some owners that the business had formed relationships with 'inappropriate clients' or taken on 'riskier' deals because of pressures on senior managers to expand sales, while being subject to time constraints that prevented serious reflection on particular sources of new business (UK5, 17).

Among some of the larger companies in the sample, there was a recognition that the second tier of management below the senior management team required strengthening. Although no respondents reported this had become an intolerable problem at the time of interview, the weakness of the second tier had been identified as a major challenge that would only become more difficult as expansion continued. This theme was similarly observed in US companies. The need to identify, train and retain middle level managers was a continuing challenge. Steps needed to be taken, therefore, to improve the quality of the second tier in both countries (UK13, 17, 18; US 1, 3, 18,) . But, as one owner put it, to be effective, recruitment of the second tier also required that senior managers be able to devote sufficient time to mentoring those recruited in order to enable them to become effective managers (UK17).

Market research might not suffice to create/identify a market for the new product. In one case (UK3), the firm had consulted over 40 potential clients with respect to its product development plans. Many had expressed a strong interest in the proposed product. But, once developed, these potential buyers had been reluctant to buy. This respondent attributed this reluctance to political difficulties within client organisations – CEO agreement that the product would serve a need was not sufficient to overcome the resistance of subordinates and would therefore not be used by them.

In short, the discernable differences between the UK and US samples are most probably a result of the relative size of the firms rather than any direct US or UK effect: firms in the US being slightly larger. Achieving fast growth was particularly challenging for owners of smaller firms. These owner-managers had to deal with new and existing clients, develop appropriate products and services as well as develop a managerial structure and finding staff that met their needs. The managerial challenges of growth did not stop there. In order to sustain growth beyond a certain size, a secondary tier of management would have to be found. These processes appear irrespective of the location of the firm.

Investment in IT and IT Constraints

Investment in technology and keeping up with information technology is increasingly important to all firms (Phillips and Wade, 2008). Overall, in both the UK and US investment in IT was perceived as essential to achieve sales but only a minor to medium cost in relation to investment in people and property. All firms reported IT as essential to their activities, both in terms of their own products but also in relation to their own internal processes. Several US companies indicated that upgrades to software, changing and updating systems, web presence and other IT aspects were a significant strategic and operational priority and in constant process (US2,5, 10,13). One UK law practice reported operating a 'state-of-the-art' electronic case management system that enabled the storage, retrieval and analysis of documents (UK1). Several reported subcontracting IT services to other providers, including product development activities (UK3). IT skills were not perceived as constraints, although many recognised that, being located in London near the big investment banks, meant that employee salaries were noticeably higher than they would be outside the capital (UK7).

Overall, the results suggested that IT was regarded as an enabler of business growth. For both UK and US businesses, there was little evidence to suggest that access to IT or its cost was a major constraint on business performance.

Labour Constraints

Growing businesses require access to a pool of suitably-skilled and suitably-motivated labour in order to sustain growth (Covin and Slevin, 1997). While all small employers face labour-related challenges, growing businesses might be expected to encounter such problems more frequently because of their frequent need to recruit, either to grow or to replace staff. Suitability refers not only to the technical knowledge and skills required but also to the social skills required to operate within a particular workplace culture. Recruiting the 'wrong person' can cause major problems in smaller businesses (UK9,11, 12, 14, 18). US companies talked about the "fit" of people to the company in terms of culture and priorities. One company noted the challenge in finding qualified talent;

> "So there is a very interesting thing happening right now about how do we take care of young architects, and do we pay them enough and why wouldn't they go work for Disney if they are so great with the computer? Why work for an architecture firm? So this is a creative business. So why would you want to be an architect today? So it's an interesting thing for the dinosaurs like me to try to figure out how to keep them in business sustaining with additional talent. But it's limited by the number of people and we have an immigration policy in the country that makes it very, very difficult to even get global talent to be able to join our firms. It just doesn't work very well. So we have firms in this company setting up offices in Dubai not do to work in Dubai but to have access to the Dubai talent…." (US1: Design/architecture, 157 employees)

Problems had arisen on a number of occasions in sample firms. Several business owners reported labour constraints deriving from the firm's inability to recruit and retain suitably-skilled and motivated employees (UK4, 6, 17,18; US1,18,), or recruiting the 'wrong person' (UK7, 14). Respondents claimed that, on occasion, even basic numeracy and literacy skills were not to be found (UK18). One employer perceived a decline in the quality of university science graduates, a major source of labour for the company, over the past ten years and attributed this to a failure of Government to invest sufficiently in the country's science base (UK18). Recruitment/retention problems meant that principal decision-makers allocated too much time either to managing employment issues (UK8), or to doing the job themselves (UK4), instead of focusing on business development issues.

For US companies, finding qualified 'talent' was a recurring theme especially for architecture, engineering and software firms (US 1,3,17). These companies were seeking technical specialties for the most part, and looking for middle level rather than entry level personnel. In addition, other companies noted that labour costs were high which made it a challenge to bring new people aboard for growth. Several US companies indicated that it was very expensive to hire new employees because of the increased costs of healthcare, costs perceived as doubling every few years. This makes it extremely expensive for businesses to grow unless they figure out ways to do this using technology, or with subcontracted employees.

But even if quality issues could be solved, business owners faced other labour issues as a consequence of growth. Growing firms often need to increase workforce size to manage the increase in sales, although not proportionately, thereby achieving economies (UK15). The use of contractors as a conscious HR strategy to handle growth is one possible option. In one UK business just under a third of the total workforce were contractors (UK21). This approach provided flexibility that facilitated adjustment to changing sales activity. US companies used outside contractors too, although perhaps less so than in the UK. Examples include a financial services company that outsourced tax preparation to India (US12) and an architect that outsourced design to Dubai (US1).

This labour matching issue has a number of separate dimensions, all of which need to be attended to by business owners. First, failure to create the business infrastructure necessary to support marketing/sales efforts might lead to sales *decline* as insufficient resources are devoted to finding new customers or retaining old ones (e.g. after sales service), who then become dissatisfied (UK16). The size of the marketing/sales team needs to be sufficient to generate the planned volume of sales, while at the same time not being too large and thereby incurring an unnecessary cost (UK7, 17). At the time of interview, several UK owners reported approaching a watershed in their business development: either the volume of sales would stall, or the quality of service would diminish as additional sales are achieved. Additional attention to marketing/sales was now required if the firm was to continue expansion; this meant not only additional staff to undertake these functions but also, perhaps, a new approach, going beyond the reliance on client referral and word-of-mouth recommendation (UK13, 15), in order to develop a recognisable brand (UK6).

Second, respondents reported an inability to maintain/increase current sales because they were too busy focusing on servicing existing clients. One respondent referred to this as the ‘appalling dichotomy between innovating and generating new business’ (UK8).

Third, failure to sustain growth can *cause* labour problems. One employer reported that a number of staff had quit the business because the company had not expanded as rapidly as had been hoped, and with it their expectations of promotion and increased rewards had not materialised (UK4).

Other Constraints

Two UK firms reported premises issues as constraints on growth. One company, experiencing an employment increase from 23 to 43 staff in the previous three years, reported that space was rapidly becoming an issue and that consideration would soon need to be given to relocating (UK7). Another business had recently relocated, space having become a capacity constraint (UK14). Business owners in financial services were more likely to report market constraints on growth. For example, where stock market conditions are buoyant, investors will seek to invest and will not where the market is falling (UK6).

Summary

The basic results of the study, shown in Table 3.2 show the relative performance of the UK and US sample firms in the South-East and Massachusetts. US firms are on average larger but the growth rates are more consistent in the UK.

Drivers of business growth are, in many respects, similar in the UK and the US. Generating innovative product ideas, targeting specific market niches with particular product offerings, and implementing effective practices for acquiring and mobilising resources were essential to business owners achieving sales growth in both countries. This is not surprising as businesses compete successfully in the US and UK and experience sales growth through product and process innovation and by keeping costs down. Undertaking these activities effectively was a necessary condition for achieving growth among both UK and US enterprises.

How firms perform these activities depends on their wider context – including product, labour and capital markets, the regulatory framework and the business support system. These wider circumstances condition the activities of particular business owners, enabling them and constraining them to act in particular ways, sometimes facilitating business owners' objectives, other times frustrating them. Such enabling and constraining conditions clearly vary with the type of business and the institutional context within which it is embedded. The national context is clearly important, for instance, with regard to the regulatory framework, but so are other contexts. It may be tempting to attribute differences in activities and performance simply to the national context (however defined) but this might be naïve. The 'national context' is a shorthand term intended to refer to some unique set of characteristics capable of influencing firms' behaviour but, in practice, it incorporates multiple causal mechanisms, some of which enable firms to grow while others constrain growth. In all countries, some firms achieve growth while others shrink or exit the market; the same context permits a wide variety of business activities and levels of sales performance.

The international context is important, particularly for those firms operating in global markets, because decisions made by UK and US business owners are affected by decisions made by buyers and sellers all over the world. The sector context is important because firms in different industries face specific market conditions for resources and because norms of business conduct vary across sectors. The local/regional context may also be important, particularly with regard to accessing resources that are relatively immobile such as labour. Access to suitable labour at an affordable costs is necessary if firms are to achieve high growth.

One important difference between the UK and US samples is the size of the domestic market. US businesses can achieve high sales growth by reaching a wider range of clients *within* the US, by opening outlets in other regions of the US and/or acquiring other US firms. US business owners could achieve growth without exporting to other countries. The UK businesses were much more likely to expand sales by exporting. While this is inevitably influenced by the geography of particular product markets, the sheer size of the US as a market for goods and services means there are considerable domestic opportunities for business growth. Conversely, some UK businesses might need to consider exporting earlier in their development than their US counterparts if they are to generate high sales growth. Indeed, some consider non-UK clients explicitly at founding. UK policymakers might consider extending exporting-related support to encourage firms to achieve growth through exporting.

CHAPTER 4

BUSINESS SUPPORT, REGULATION AND PUBLIC POLICY ISSUES

Introduction

In this chapter, we investigate respondents' experiences of seeking, and using, Government business support, perceptions of regulation and attitudes towards Government policy. Respondents were also invited to suggest policy options that would facilitate business growth. The discussion provides insights into what business owners believe Government can, and should, do to improve business prospects and, in particular, the opportunities for continued growth.

Use of Government Business Support

Government can support growing enterprises in a variety of ways: by providing, or enabling, access to valuable resources (finance, knowledge and skills, equipment, intellectual property rights) and markets, and by establishing and maintaining a framework of regulations that enables business to compete on a 'level playing field', including public procurement. The Government business support system differs between the two countries, and between the two specific regions, in terms of the nature of support offered. In the US, traditional public policy programmes and support conventionally focused primarily on financial support, including loan guarantees, for start-ups. Yet there are some programs that target specific populations of entrepreneurs to assist in growth needs (e.g. the Center for Women in Enterprise, the Mass High Tech Council). Growing businesses are in some cases less likely to access Government business support than non-growth businesses. Growing businesses are more likely to seek support in relation to certain kinds of activities such as financing growth, exporting and other expansion strategies.

Other sources of support for start-up businesses in the USA include the national and local Small Business Association, professional and trade organisations that offer free and/or for-fee support programs and services targeted at industry specific sectors. Local and regional banks often offer attractive lending packages to early stage companies (1-3 years in business) with proven revenues and/or assets. The private sector offers support through Angel Investor networks where growing companies can find mentoring/advisory and board level advice as a value add to the funds provided.

The US Federal Government provides grants and other sources of funding, usually targeted at growing vs. start up companies, geared towards research and development as well as innovation. The most significant of these is the SBIR (Small Business Innovation Research) Grants. Other grants may come from government sources such as the NIH (National Institute of Health) and the NIMH ((National Institute of Mental Health) as well as other industry segments and minority or demographic segments such as Hispanic, Individuals of Color, Women, Rural, and Regional.

Business owners were asked questions about their experiences of seeking, and taking, business support from Government bodies. Support includes financial support in the form of grants, loans and tax credits, and softer forms of support, including information, advice and guidance on business issues. One UK company director reported winning an Enterprise Award. Government support had played a role in a number of respondent firms (Table 4.1). Firms are treated as users of Government support even if their experience was limited and/or several years ago. Most striking is the difference between the small number of US businesses securing Government support compared to the large number of UK businesses.

Table 4.1		
Use of Government Business Support		
	UK sample	*US sample*
Reported use of business support	15	4
Non-users of business support	6	14
ALL	**21**	**18**
Notes: One firm also reported accessing EU support (UK19).		
Source: business owner interviews		

UK business owners' experiences of Government business support varied substantially from attendance at a 1-day event through to Government funding to universities to create spin-out companies. Examples were reported of business support that were crucial to business survival and/or to current growth. The most influential sources of support reported by business owners were:

- research grants to universities to develop spin-out companies;
- the loan guarantee (SFLG or SBA initiatives;
- Regional Venture Capital Funds (RVCFs)/Enterprise Capital Funds.
- R&D tax credits
- SBIR loans
- Enterprise Investment Scheme (EIS)
- Enterprise Management Incentive (EMI) scheme
- Education and training programs for employees

In two UK companies, Government funding had played a major role in bringing companies into being, by supporting the development of the technologies upon which enterprises had been founded. One software company (UK19) had emerged from funded research activities at a London university and now employed 120 employees with an annual turnover of more than £4m. Another of the UK sample (UK18) had acquired an Oxford University-funded software house during the early-2000s that had developed an innovative technology. In the former case, the company would likely never have been born without Government support; in the latter, the company would probably have continued to operate as a supplier of labour services and might never have made the transition to becoming a supplier of contract research services. In the US, three companies had secured Small Business Administration (SBA) loan guarantees which helped them in the early phases of company development (US5, 7, 17). However, the extent and impact of loan guarantees was less significant.

One UK company, an electronics designer/manufacturer (UK14), reported accessing loan finance under the Small Firms Loan Guarantee (SFLG) initiative 4-5 years prior to interview, when the company had been earning much lower sales. Although the declared purpose of the loan was to invest in product development activities, in practice, much of the loan was used to tackle cash flow difficulties. Without the loan, the respondent reported ‘the firm would not have survived, full stop!’ Timely access to loan finance, therefore, enabled the company to survive and, in time, to achieve marked sales growth.

In one financial services company (UK6), access to finance from Regional Venture Capital Funds (RCVFs) in several UK regions had been critical to the level of sales growth achieved. The company operated a fund investing in new unquoted companies with the aim of realising capital growth in firms through trade sales up to 5 years after the initial investment. In this case, the R&D tax credits (and other earlier initiatives such as Smart) were indirectly important because they provided an additional source of finance for those companies in which the business decided to invest, thereby alleviating the cost of research and investment for the firm. The tax credit enables companies to claim tax relief on up to 175 per cent of qualifying R&D expenditure. Having said this, the owner reported widely differing experiences of accessing RVCF support contingent upon region. Dealing with Scotland, and to a lesser extent, London was considered substantially more rewarding than dealing with Wales. This suggests policymakers might consider action to ensure consistent treatment of applicant businesses across all UK regions. Similarly, one US business received an investment from the Mass. Technology Development Council (US18) which supports Massachusetts businesses in their early phases.

There were several other examples of business support that had contributed, albeit in a minor way, to the performance of businesses in the UK sample. These include the use of R&D tax credits, the Enterprise Investment Scheme (EIS), the Enterprise Management Incentive (EMI) scheme, attendance at trade shows providing access to prospective clients (UK14). Another reported the use of a DTI-guaranteed start-up loan (respondent could not be sure if it was SFLG) but claimed that finance would have been forthcoming from alternative sources had the loan been inaccessible (UK15).

Several UK owners, particularly in IT businesses reported using R&D tax credits. All of the technology companies interviewed reported current or prior use of the tax credits. Opinions varied as to the impact of the tax credits. One business owner remarked that the tax credits were “absolutely wonderful” (UK2) and another that they made ‘a big difference’ (UK7) while others were critical for making eligibility conditions unclear or too stringent (i.e. requiring development that would not be produced by anyone without the credit) (UK9) or for excluding development work subcontracted to third parties (UK3). In the US, only one firm reported using a tax credit for R&D (US18).

Several UK respondents reported using the Enterprise Investment Scheme (EIS) and the Enterprise Management Incentive (EMI) scheme. The EIS is designed to help smaller higher-risk companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies. EMIs are tax-advantaged share options intended to enable small, high-risk companies to recruit, reward and retain employees. Both of these initiatives are of particular importance to young, growing companies where the value of shares may increase markedly, constituting a substantial capital asset.

No UK based fast growth firms said that they had received support for management or employee development. In the US, two companies (both architecture companies) benefitted from employee training grants (US 1, 18).

Finally, businesses can also benefit indirectly from Government support given to those actors with whom they deal. For instance, the owner of a financial services business funding investment in young unquoted companies reported that the business benefited indirectly from Government measures to improve the performance of the companies in whom the fund invests. Policies such as R&D tax credits, Smart awards and other initiatives enable higher levels of business performance and, indirectly, by facilitating the success of investments in those companies, also thereby higher levels of performance by the financial services firm undertaking the investment. Such observations may suggest that the reach and impact of government intervention may be understated. For example, the SFLGS is administered by the high street banks and much depends on their use and interpretation of the scheme when considering it for their clients. The fact that this involves government guaranteeing loans which would not otherwise take place, may not be immediately transparent.

Two general points emerge from the analysis of data on the use of government initiatives. First, firms in the UK were much more likely to have received public policy support. R&D tax credits, for example, were commonly used by IT firms. Second, where support had been received it had sometimes proved significant in terms of business development or even survival.

Unsuccessful Attempts to Obtain Government Support

In the UK, Government interventions for business are predominantly made on the basis of market failure or where private providers exist, it seeks to broker support. Growing businesses appear to be more likely to seek and secure support. However, business growth might also be impeded by unsuccessful attempts to access Government business support. The resources consumed in identifying, comprehending and seeking access to business support inevitably entail a cost, whether in the form of money, time or effort. This is the case whether or not business owners succeed in obtaining support. Failure to access support not only entails costs which cannot be recovered but also might lead to frustration and a reluctance to seek support again.

A number of attempts to obtain government support were reported (Table 4.2). Behind these top line figures lie a number of events: some were not supported because they were ineligible. Others suggested that government should consider clarifying, or extending, the rules of eligibility, and communicating these rules and the initiatives more effectively. One software firm reported frustration, and eventual failure, attempting to access a bank loan of £150k under the Small Firms Loan Guarantee (SFLG) initiative (UK2). The company directors approached four high street banks with the aim of obtaining a SFLG loan but, in all cases, were unsuccessful. Another firm claimed to want to obtain R&D tax credits but claimed that subcontracted R&D was not covered by the policy (UK3). Another pursued financial support to export to the US unsuccessfully (UK3).

Table 4.2

Unsuccessful Attempts to Access Government Business Support

	UK sample	*US sample*
Yes, unsuccessful attempts made to access business support	6	1
No unsuccessful attempts to access business support	15	17
ALL	**21**	**18**

Notes: One company (UK11) reported an unsuccessful attempt to access an EU grant to support IT-related activities abandoned on grounds of ineligibility. The respondent did not want to adapt the aims of the project in order to become eligible.

Source: business owner interviews

Related to this was the ability to engage with government contracts. Some respondents were critical of Government policy on procurement. A number argued that Government treated small suppliers unfairly by excluding them from opportunities to supply public sector bodies in favour of larger companies (UK3, 4).

In contrast to the UK sample, US firms were much less likely to approach the government for support. Only one company indicated they had asked for support from the government in the form of SBA loan guarantee although the respondent did not say that this had adversely affected start-up or growth. US firms were more likely, however, to report involvement in public contracts.

Business Owners' Experiences of Regulation

Survey evidence suggests that small business owners find regulation to be an obstacle to success. The recent Annual Survey of Small Business Owners' Opinions 2006/7 found that 14 per cent of owners reported regulations as the most important obstacle to business success; only 'competition in the market' ranked higher (15 per cent of owners reported this) (IFF Research 2008). Other studies highlight the enabling and motivating tendencies of regulation in addition to the constraints imposed (e.g. Kitching 2006, 2007). Both enabling and constraining tendencies are evident in business owners' comments.

Business owners were asked two separate questions regarding regulation: whether regulation had constrained business growth; and, second, whether regulation had facilitated business growth (Table 4.3). Respondents were invited to give specific examples of regulatory constraints and enablements.

Table 4.3

Perceived Impacts of Regulation on Business Growth

	UK sample	*US sample*
Regulation constrains business growth	3	6
Regulation facilitates business growth	3	3
Regulation *both* constrains *and* facilitates growth	11	1
Regulation *neither* constrains *nor* facilitates growth	4	8
ALL	**21**	**18**

Source: business owner interviews

UK business owners' attitudes towards, and experiences of, the regulatory regime were ambivalent. Overall, UK respondents were just as likely to report regulation facilitated business growth as reported regulation constrained growth. Indeed, the largest group responded that regulation *both* constrained *and* facilitated growth. This is interesting in that it suggests that business owners recognise that regulation not only limits their scope for action in the sense of restricting what they can do, or in terms of incurring compliance costs, but that it can also enable higher levels of business performance. Four UK business owners reported neither constraining nor facilitating consequences of regulation. Some also gave contradictory replies – for instance, that regulation was stifling business activity and creativity, *and* that regulation had little effect because it was not enforced sufficiently!

Critical views of regulation as a potential/actual constraint on managerial action centred on UK employment law (e.g. unfair dismissal, maternity/paternity leave, disability discrimination laws, employers' National Insurance contributions) and health and safety regulations. One respondent specifically contrasted UK and US employment law, claiming that changes in UK employment law seemed more frequent and as a result warranted more management attention (UK18).

Financial services firms were generally, though not universally, critical of the FSA and its methods of operation (e.g. UK6, 20). FSA regulation was often perceived as complex, time-consuming, written with large firms in mind rather than smaller operators, and subject to frequent change, all of which impeded business growth. As one finance sector respondent argued, frequent change is irritating and can undermine regulation because those to whom it applies do not accord legitimacy to the new rules and, in some cases, might choose not to comply.

One particularly topical issue during the fieldwork period was the public debate regarding proposed changes to Capital Gains Tax (CGT) trailed in the 2007 Pre-Budget Report (HM Treasury 2007). The reforms entailed plans to introduce a flat CGT rate of 18 per cent and an end to taper relief; currently, business owners and investors pay 10 per cent on assets held for at least two years. This 80 per cent increase in tax liability clearly exercised a number of business owners. The proposed changes were widely criticised by business owners, particularly those in technology companies, for punishing those who had formed businesses under a different tax regime. While some described their critical comments as a 'hobby horse whinge' (UK17) and that the proposals were an irritant rather than a major impediment to growth, others suggested potentially critical consequences. First, that any tax advantages arising from founding a business in the UK would disappear and that entrepreneurs considering start-up today might be deterred. Second, that investors might switch their investments to property or shares instead of investing directly in wealth-generating businesses. One respondent contrasted the gains to be made from investing in building a business employing 300 people over a ten-year period with those achieved by city traders 'making a killing' in an afternoon (UK18). Third, in certain conditions, businesses might decide to relocate some or all operations outside the UK with a consequent loss of revenue to the exchequer. The Chancellor's recent proposals to create a £1m lifetime capital gain allowance attracting a 10 per cent CGT rate for those with a 5 per cent stake in a business were little more likely to elicit a welcome from business owners on the grounds that in companies attracting VC investment, individual shareholders might be unable to retain a 5 per cent stake and thus be unable to take advantage of the £1m lifetime allowance.[16]

Some owners reported regulation often facilitated business growth. First, in financial services, regulation effectively produces a 'closed shop' by requiring operators to become licensed to trade lawfully; in recent years, this had led to a reduction in the number of businesses, thereby increasing opportunities for remaining operators. Second, by offering improved consumer protection, regulation can increase confidence in the supply of financial services which should facilitate increased business sales (UK5, 20).

US respondents were more likely to report that regulation was a constraint to growth. The feeling among US company respondents was that they did better when they did not have to interact with the government. Most US owners did not seek assistance and for the most part, they had limited interactions. Several businesses were subject to regulation from various federal and state agencies. For instance, a medical billing company was subject to HIPPA regulations and

[16] On 24th January 2008, the UK Chancellor announced changes to the earlier CGT reforms proposed in the Pre-Budget Report. The 10 per cent relief is available to company directors, officers and employees holding a minimum 5 per cent stake in the business. Gains in excess of £1m attract the 18 per cent rate.
http://www.hm-treasury.gov.uk/newsroom_and_speeches/press/2008/press_05_08.cfm

standards (US7), while bio-science companies were subject to Food and Drug Administration approval (US17). Others were contractors for the government and thereby had to comply with Department of Defense, National Institute of Health, and other regulations in the course of doing business. Several specific examples were given as to the constraints, and more often than not, these were state regulations and bureaucracy rather than federal. For instance, two companies mentioned the "stifling bureaucracy" related to visas (US 16, 17) while others noted that state and local government approvals for signage, registration and other was "messy". Accounting firms felt that conflicting state and federal tax regulations constrained growth. In the words of one business owner,

> "As long as the government leaves us alone, we're fine!" (US4: consultancy services, 22 employees).

However, some US businesses also perceived benefits from legislation. For instance, accounting and tax companies received a boost in business when the Sarbanes Oxley regulations were put forward a few years ago. Another company indicated that public health codes create "fear in the minds of customers" which facilitates our growth (US 13), while a tutoring company gained new customers from the "no child left behind" act (US14), and a real estate investment company benefited from Freddie Mac and Fannie Mae financing (US3). A further company mentioned that the Patriot Act helped stimulate business in security software (US 16).

Business Owners' Policy Proposals

Respondents were also asked what policies Governments could introduce, or actions they could cease to undertake, that would facilitate business growth. A number of policy options related to regulatory, taxation and other business support measures were put forward. In view of the prevailing public debate in the UK over proposed changes to capital gains tax, it is not surprising to find that several business owners commented upon this.

In more detail, both UK and US respondents made a number of suggestions as to how policy might be improved New policies suggested by the UK sample include:

- SFLG working as intended (UK2)
- Assist cash flow at start up - e.g. moratorium on NI or PAYE payments (UK3)
- Enabling SMEs to bid effectively for public contracts (UK4)
- Cut red tape for small/mid-cap companies, this affects their growth; reduce frequency of regulatory change (UK5)
- Sort out the FSA (UK6)
- Regional VCFs should operate consistently in all regions of the UK (UK6)
- HMRC need to adopt a softer approach (UK8)
- HR advisers to support small firms dealing with employees (UK8)
- Compel councils to do deals in 1 year instead of 3 when contracting with private sector (UK12)

- Mortgage holiday for start-ups (UK12) – not specifically for the respondent
- corporation tax capped at 20 per cent for 5 years after start-up, even prohibiting dividend distribution, to facilitate growth (UK13)
- Abolish the congestion charge (UK16)
- Reduce interest rates to stimulate the housing market (UK16)
- Support for the pharmaceutical industry (e.g. by increasing NHS expenditure on drugs) indirectly facilitates the growth of businesses supplying services to the industry (UK18)
- Incentives to software companies to facilitate growth (e.g. graduate training schemes) (UK19)
- Initiatives to translate innovative ideas into commercial products/services, not just to create the ideas (UK19)
- Being more precise regarding regulations and making it appropriate to need rather than blanket across the financial services industry (UK20)

New policies suggested by the US sample include:

- Change the immigration policies for H1B visas to allow qualified architects and engineers to immigrate (US 1, 17)
- The cost of housing is an inhibitor to hiring employees from out of state fix this (US3, 4, 6)
- Lower tax rates for corporations (US3)
- Fix health care costs (US 4)
- Stop regulating charitable auctions and raffles (US6)
- Align federal and state tax laws (US 12)
- Fix Route 138 (US11)
- Speed up bureaucracy in the government (US 11)
- Facilitate angel financing (US 14)
- Fix state and local government bureaucracy when it comes to approvals on doing business (ie. Signs, fire safety) (US 16)
- Ease up on compliance (US 13)

Summary

All businesses have to operate in a regulated environment. However, the UK and US, and the South-East and Massachusetts within this broader context, provide different policy and regulatory environments within which businesses may develop and grow. Both are rich environments in terms of public policies to support entrepreneurship. Financial support measures were commonly reported in both the UK and US. However, attitudes to government intervention appeared to be no different from business owners generally: that is they were ambivalent to government. Owner-managers who had received support, that is in the minority of cases, were enthusiastic about the impact it had made on their enterprise.

In the UK, business support had been a crucial driver of performance and growth in one or two companies where access to support had been essential to the birth of the business or to ensuring survival at a particularly vulnerable moment in its history. But, for the most part, business support had been a variable, though quite minor, influence on business growth. Only in rare cases, perhaps, is access to government business support a crucial driver of growth, for example, in creating university spin-out companies or in enabling companies to avoid succumbing to financial ruin. This laissez-faire view was most probably stronger in Massachusetts: most owner-managers did not regard the federal or state to be a port of call for supporting growth.

CHAPTER 5

CONCLUSIONS AND POLICY IMPLICATIONS

Introduction

In this final chapter, we summarise the key findings of the study, and tentatively identify some possible lessons for UK policymakers and suggestions for future research. The aim of the study is to investigate the drivers of high growth firms. The study is a comparative one, based on the experiences of a sample of high-growth enterprises in the UK and USA. Such firms are rare: in the UK it is estimated that they constitute 5.8 per cent of the business stock and in the US 8.14 per cent.

The literature on high growth enterprises is mature but there remains insufficient attention to the processes underlying growth and the relative influence of owner managers; business strategy and structures; market and environment conditions and public policy contexts. This study aimed to explore the similarities and differences between UK and US SMEs. The study followed a broad conceptual model (Figure 1.1) and used a semi-structured schedule in face-to-face interviews. Where possible, all the interviews were audio recorded and summarised. These were then read by members of the research team and main themes pulled out for the Report.

Summary of Main Findings

Fast growth businesses typically do not grow in a linear, uninterrupted fashion. Rather, business growth is episodic with periods of increased sales intertwined with periods of stable and/or declining sales. That this is the case for businesses achieving a difficult-to-meet sales growth criterion of 75 per cent over three years further blurs the line between fast and non-fast growth businesses. Even fast growth businesses may find it difficult to sustain substantial sales growth year on year, without the need for periodic consolidation. This was confirmed especially in the US where some firms that had recorded fast growth in Dun and Bradstreet records had slowed down prior to interviews for this research.

Four broad sales patterns were identified among sample firms in the UK and US, which we have labelled the 'hockey stick', 'incremental', 'erratic' and 'plateau' patterns; erratic patterns can be further separated into different sub-types. Explaining how and why particular businesses achieve particular sales patterns is not easy and needs to relate to owners' business objectives and activities as well as the wider market and regulatory context. To this end, owner-manager and business characteristics, strategic priorities and contextual influences on business activity and performance are considered.

Owner-manager characteristics of high growth enterprises were found to be similar in the UK and US. These were highly educated, and displayed a variety of motivations ranging from wanting to work for ones self through to developing a growing business. In the US, respondents were more likely to have a plan at the outset although identifying the precise reason for this variation from those in the UK is difficult to establish with precision. Possible reasons include a strong consultancy industry in Massachusetts related to the industrial mix and the fact that there are many educational institutions in the Boston area that spawn technologies as a basis for venture creation (Saxenian, 1994).

The competitive strategies of the businesses in both the US and UK emphasised quality and client service rather than price. This meant products or services were subject to permanent development and honed to satisfy clients' needs. Indeed, it was the customer relationship that was emphasised as the key to success. Hence for some businesses although they were abreast of the latest IT, they were striving to bring this in line with customer requirements and / or educate their clients into its use.

In both the UK and US owner-managers expressed awareness of IPRs. These were regarded as not only a means of protection, but more importantly as indicators of reputation and value of the business. The marketing tactics of the businesses tended to rely on word-of–mouth and reputation. Whether or not this enabled them to break into new markets was questionable. These high growth businesses emphasised repeat business as well as finding new customers. The latter incurred an investment, a lead time and hence risk for which many owner-managers were reluctant to prioritise.

A strong difference between the firms in the UK and US was their export orientation. Whilst firms in the US were able to achieve growth by supplying the US market, in the UK the niche nature of the business activities meant that they had to export if growth was to be achieved. Hence, US firms were more inclined to develop strategic partnerships and extend their footprint through branches and subsidiaries within the USA. UK businesses, on the other hand, were more likely to be involved in exporting. This was confirmed by the finding that the UK firms relied on exports for a greater proportion of their sales. This involved targeting overseas partners and opening offices abroad. From this it could be argued that the barriers to expansion are higher for UK firms than those in the US. On the other hand, UK exporters are most likely to be less vulnerable to a domestic downturn in the economy than those in the US.

The UK and US financial environments could be regarded as different, and the landscape at the State (US) and regional levels more so. In the UK there appeared a higher level of take-up of equity investment and government backed initiatives. US owner-managers were less likely to want to be involved with government, although in the UK owner-managers were ambivalent about the role of government in their growth.

If we are to return to our model of the causal influences of business turnover growth shown in Figure 1.1, the study contributes to the literature that considers the relative strengths of the influence of the wider context and business owner characteristics. The size of the domestic market and the macro-economic conditions were shown to exert influence on the growth potential and performance of firms in the US *vis a vis* the UK. However, the study also found differences in the attitudes of owner-managers to the state: in the UK respondents were more likely to seek and be involved in government support. On the other hand, owner-managers of US firms appeared to be more involved in planning and consultancy.

The more recent slow down in the economy and its effect on the rate of growth of some of the US small firms interviewed in this study, illustrates that even when firms possess the internal conditions for growth, these aspirations are subject to the constraints of the size of the market and its condition. Thus, strong internal conditions for growth (owner-manager characteristics and aspirations for growth; product or service strength; access to resources) do not necessarily mean that growth will be realised. However, the findings do show that these internal conditions are on the whole necessary if growth is to be achieved. In sum, a firm located in an expanding market will experience fast-growth when this is matched with a desire and capacity to grow.

Policy Implications

The above findings may have implications for public policy in a number of ways. Here we focus on what has already been achieved; raising resources; motivational issues; and support for exporting. The above are suggestions for discussion rather than any definitive answers in relation to raising SME high growth capacity.

First, it appears that a number of UK high growth firms have already been engaged in government initiatives - even though they tend to downplay the effects in relation to their growth. Certainly, a number of UK firms appear to take for granted the support, directly targeted or otherwise, for SMEs. Examples include tax credits and loan guarantees.

Second, growth is episodic. At best high growth will continue for a number of years but all firms reach a plateau and may decline. At worst, today's 'gazelle' may be tomorrow's business closure. Fast growth firms require support at key points in their development in order to drive and sustain increased sales, for example, in accessing finance to make major investments in people, products and technologies. Timely and substantial business support can enable business owners' to realise the potential of their enterprises to grow. Support providers need to communicate their services to fast growth businesses and, perhaps more importantly, persuade them that such services will enable them to grow their enterprises more quickly and more effectively. Despite a relatively high utilisation of certain types of business support, for example, R&D tax credits, enthusiasm for additional support was not especially prominent.

Third, there were some interesting differences and similarities in the comparative element of the study. There were major differences in relation to engagement with government. US firms were more likely to be involved in public procurement and less involved in government business support initiatives. Of course, this may be a result of the vibrant procurement environment in Massachusetts which is set within a broader US government strategy and targets and in contrast, the relative level of sophistication of the support infrastructure in the South-East. On the other hand, as discussed, we must not ignore the role of owner-manager agency. The similarities between the samples may suggest that high growth is much more linked to motivations and the managerial capacity of firms than the immediate environment. If this is the case, support programmes may want to focus more on the management or management teams of SMEs to raise their capacity and expertise

Fourth, the study found a higher level of planning in the US businesses than in the UK. This may be a result of the relative maturity of the US firms: they have had to implement processes and structures that are commensurate with larger SMEs. Alternatively, it may be that US business schools emphasise business planning, resources such as the SBA offer free planning advice and it is a norm for any investor-private or family to ask for a business plan. In contrast, the nature of some of the growth of the UK SMEs studied here suggests that they have been driven by the market rather than by a plan. A public policy intervention with a longer term impact may be to support initiatives designed to encourage strategic planning within particular niches. This may require the engagement with sector specialist organisations and professional bodies.

Finally, the development of the UK high growth firms necessitates exporting. Not only is the UK a relatively open economy it appears that high growth firms are at the forefront of this openness. This is the strongest ‘outcome’ difference to emerge from this comparison with the US. Although the additional complications of exporting were not identified by owner managers as a major constraint on these businesses, it is highly likely that many niche SMEs are deterred from expansion because of the relative high costs and expertise required for exporting. Hence, UK small businesses may not be realising their full potential. The businesses studied are success stories in terms of growth: there may be many on the cusp of exporting and thus fast growth and these deserve attention.

APPENDICES

APPENDIX 1

Key Economic Indicators: London and Massachusetts

	London	**Massachusetts**
Population	7,560,900 (mid-2007)	6,449,755 (2007)
GVA Per head	£26,192 (index 141, UK = 100 (2006)*	$47,351 (125; USA =100) (2007)
No of businesses	757,685	651,100***
Business starts	34,800**	17,800
Business closures	27,600**	22,400

*GVA per head
** VAT data
*** Small businesses

Sources:
US data: Small Business Administration: Advocacy: the voice of small business in government;
http://www.sba.gov/advo/research/profiles/07ma.pdf
Bureau of Economic Analysis (2008)
www.bea.gov/newsreleases/regional/gdp_state/gsp_newsrelease.htm
UK data (GLA 2008; National Statistics 2007; BERR 2008, 2007d)

APPENDIX 2

UK SAMPLE DETAILS

UK Sample Businesses: Business Activities, Sales, Employment and Primary Drivers of Sales Growth				
	Business Activity/ Founding date	*Current Annual Sales (3 years ago)*	*Current Employment (3 years ago)*	*Primary Drivers of Sales Growth*
1	Legal services, 1997	£1.5m (£330k) *D&B £667k (£269k)*	8 (6)	• Increasing specialisation in fraud cases and development of expertise • Member of Government panel, effectively making the business an 'approved supplier' of legal services on certain kinds of high-cost publicly-funded cases • Client referrals have generated new business • Shift to taking larger cases, where higher fees can be charged • Operate 'state of the art' IT systems to enable storage and retrieval of documents
2	IT, 2004	£850k (£200k) *D&B £212(£0)*	14 (7)	• Business owners now pursue growth explicitly, although no specific plan at founding • Product innovation - development of new software-based product and continuous R&D to maintain competitive edge (industry award winner) • Creation of wholly-owned subsidiary company to develop proprietary products rather than provide services under contract • Big player in a global niche market – importance of high-profile projects for company reputation

				• Aim to capture top-end of the market for higher-profile projects and industry reputation • Export sales have always been important, although not sought specifically – 80 per cent of sales are exports • Investment in IT infrastructure essential
3	Financial services, 2001	£250k (£125k) *D&B £128k(£30k)*	10 (9)	• Owners strongly motivated to grow, although currently behind plan • Product innovation - introduced service that is new to the market • Increasing shift to export markets (now 60 per cent of sales) • Continuing access to private equity investors to continue product development and survive loss-making period
4	IT, 1998	£600-700k, (£235k) *D&B £232k (£235k)*	10 (10)	• Product innovation – offered a new internet product which is upgraded several times per year • Clients are now more willing to purchase as becoming increasingly familiar with developing online business concepts • Recruitment of high-quality developers, to relieve owner of complete responsibility
5	Financial services, 1990	£4m (£1.7m) *D&B £4.8m (£2.7m)*	16 (13)	• Provides a high quality of service, though not a novel service • Range of services, enables switch to different activities depending on client demand • Regulatory changes have prohibited market entry of unlicensed competitors • Market diversification into exporting – 60 per cent of sales are exports • Emphasises choosing the right clients, because fees are success-related so plans that do not come off cost the company • A proportion of revenue is covenanted, i.e. some clients pay a retainer

6	Financial services, 2004	£950k (£300k) *D&B* *£373k (£139k)*	9 (8)	• Owners strongly motivated to grow, although currently behind plan • Identified a specific market opportunity – to create a fund investing in unquoted companies through non-approved EIS rules • Niche strategy - targets particular sectors (e.g. healthcare) • Management team very experienced in finance sector • Use of Regional Venture Capital Funds to match fund major investments • Well-connected to City organisations, and high net worth individuals, which raises profile, reputation and client referrals
7	IT, 1999	£1.5m (£750k) *D&B* *£1.3m (£723k)*	43 (23)	• Owners strongly motivated to grow, although currently behind plan • Product innovation – introduced a pioneer product to the market; continuous R&D/product development • IPR – adds value to the business and encourages VCs to invest; holds 38 patents, offering protection in markets in which the company does not yet operate • Global niche – targets major players as clients as this enhances reputation and facilitates referral • Market diversification into exporting to access the kinds of sophisticated clients needed to expand – now 40 per cent of sales are exports • Access to VC investment to finance move to US and Asian markets – 2/3 of equity held • Employ a wide range of skills that enables a unique service to be provided
8	IT, 2003	£4.6m (£560k)	50 (13)	• Owners strongly motivated to grow and currently on plan

		D&B *£1.7m (£568k)*		• Product innovation – developed a unique technology, continuously upgraded under encouragement from clients especially in US, targeted at a particular global market segment (banks); crucial to performance • IPR critical to protecting innovations through patents and to building value realisable through a future trade sale • Maintaining relations with blue-chip clients, builds reputation and increases referrals • Highly incentivised sales team • Guaranteed annual service fees from clients protect income • Market diversification into exporting to increase sales – needed to increase sales rapidly; exports now 95 per cent of sales • Established sales offices in US and NZ, and a branch in Taiwan to access cheap skilled labour to undertake development work.
9	IT, 2001	Approx £1m, (£150k) *D&B* *£110k (£43k)*	38 (19)	• Owners strongly motivated to grow, although currently behind plan • Identified a specific market opportunity – to meet a specific need of telecoms providers • Product innovation – introduced a novel product and continuous R&D to improve it • Established branch in India to access cheap, skilled labour to undertake product development work • Market diversification into exporting to increase sales – now 50 per cent of sales are exports • Relocated out of London to reduce premises costs
10	IT, 1996	£150k (£75k)	3 (2)	• Addition of new services • Recruitment of an employee with particular skills enabled access to clients

		D&B *£124k (£168k)*		• Value-for-money quality of service
11	Financial services, 1994	£15.9m (£5m) *Fame* *£10m(£3,2m)*	142 (63)	• Business owners now pursue growth explicitly, although no specific plan at founding • First mover advantage, targeting a particular market niche, well ahead of competitors, using a particular business model • Expansion into export markets and set up overseas operations to access and support new clients • Copyright protection in software code essential • Transparent, fixed-fee pricing to build client confidence • Reliance on client referrals ensures smooth growth • Smart ‘clutch control’ – balancing investment in assets, employees and services while servicing existing clients • Highly selective recruitment, to avoid turnover/dismissal • Managing employee expectations to engender loyalty (e.g. ‘splintering equity’) • Use of IT to reach/inform a larger client base online and achieve scale economies • Take-over of company supplied the core of IT staff still with the firm • Changes to MiFID regulation has released £700k for investment elsewhere, particularly in new services
12	Advertising, 2001	£6m (£1m) *D&B* *£1m (£652k)*	63 (28)	• Owners strongly motivated to grow, although currently behind plan • Identified a specific market niche in the UK • Invested in developing a national network of sites in UK cities to support advertising media, in order to attract large agencies • Developed a digital dimension to the service which accounts for a rapidly increasing proportion of sales

				• Access to venture capital from three separate sources • High R&D expenditure on digital service development • IPR prevents suppliers copying product designs
13	Financial services, 2003	£6.8m (approx £2m) *Fame* *£3.9m (£582k)*	10 (6)	• High-quality range of corporate finance and investment management services provided • Previously owned and sold a prior financial services business – used to fund start-up and has re-engaged some previous clients • Recruit very good staff and able to squeeze more out of existing capacity to raise profitability • Large, lavish premises that 'look very different to the trading floor of Merrill Lynch or Morgan Stanley' creates good relations with clients
14	Electronics, 1999	£2m (£500k) *(D&B not available)*	12 (9)	• Innovative, though not leading-edge, product range • Continuous innovation – products upgraded annually • Capacity to exploit product price premium before competitor imitations reach the market • High-quality in-house R&D and design capability • Attendance at overseas trade shows to generate growing export sales, now 25 per cent of turnover • Access to DTI SFLG loan 4-5 years ago crucial to ensure survival and subsequent growth
15	Financial services, 2003	Approx £540k (approx £250k) *D&B* *£142k (£13k)*	3 (2)	• Owner strongly motivated to grow and currently ahead of plan Identified a specific market opportunity to supply timely information to clients • Refocusing of the business away from individual amateur traders to those working in institutions

				• Capacity to access well-placed sources of information whose knowledge is then transferred to clients • Subscription service provided to clients at low marginal cost, each additional client contributes almost 100 per cent to profit • Client referrals have generated faster-than-expected growth thus far
16	Financial services, 2001	£36m (£12m) *Fame* *£34m (£13m)*	Approx 200 (approx 100)	• Owners strongly motivated to grow and currently ahead of plan • Identified a particular market opportunity – existing operators perceived as not providing a very quick service • Regulation has driven growth by motivating competitors to leave the industry or to merge with others • Aggressive sales and marketing activity, and large sales force, to win business from IFAs, including action to enhance brand awareness and identity • Highly competitive product, so essential to achieve high volumes and bring out exclusive products • Location enables recruitment by providing access to a wide pool of labour
17	IT, 1994/2001	£10.6m (£4.7m) *Fame* *£10.6m (£5.4m)*	75 (40)	• Owners strongly motivated to grow and currently ahead of plan • Identified a particular market opportunity in supply of services rather than software alone • Innovative services, wrapped around the software – compelled to because large competitors can win on price • Embrace new technologies early in product development • Target particular market segment, to avoid competition • Sales approach – send sales and technical staff to pitch to new clients • Achieving scale economies through two acquisitions

				• Established 3 locations, including one in E Europe, to facilitate access to cheaper labour
18	Pharmaceuticals	$24m (approx $6m)* *Fame* *£9.8m (£3.6m)* **interview data given in dollars*	218 (91)	• Owners strongly motivated to grow, although currently behind plan • Switched from supply of skilled labour to supply of services and soon to supply software under license to clients • Service sales have funded development of new software product, enables provision of superior service unavailable from competitors • Acquisition of software company to provide in-house development capability, itself a university spin-out company • Paper-based services are price-competitive because do not have same overheads as larger providers • Export sales necessary to support growth as most major industry players are non-UK • Target a particular market segment, to avoid attention of larger competitors • US outlet opened to be close to clients; new E European outlet just about to open to enable access to cheap, skilled labour and to transfer less technologically-demanding work
19	IT	£4.4m (£1.7m) *Fame* *£3.5m (£557k)*	120 (60)	• Owners strongly motivated to grow, although currently behind plan • Identified a particular market opportunity for the software product – to process information in particular ways • university spin-out – so essential that initial development work funded by Government research grant to university • Continuous innovation to upgrade product • Copyright in software code – important for accessing external finance • Emphasises importance of market conditions, which can be volatile and unpredictable

				• Needed to enter export markets to grow, as this is where many pharma clients are located • Established branches in US to win and support clients, and China, mainly for development work • VC funding of £10m to fund growth – equity more suited to growth companies
20	Financial services	£750,000 (£109,000) *(D&B not available)*	6 (4)	• Owners strongly motivated to grow and currently ahead of plan • FSA regulation has radically reduced number of firms operating in the sector and thereby created market opportunities • Business acquired portfolios of clients from firms that were closing or pulling out of the market • Continuous investment in technologies • Directors prior knowledge of the market place • Exploitation of staff expertise • Clear division of labour between Directors in relation to human capital strengths and expertise
21	IT	£25 million (£10 million) *(D&B not available)*	Approx 250 (100)	• Diversification out of core business (off the shelf IT platforms) to bespoke IT systems and business intelligence services • Formal VC and Business Angel finance at start-up in 2001 – secured by the three founders due to their industry experience with Oracle and experience in a previous IT start-up (sold in 1999/2000) – this has created financial security for the company – but will create its own uncertainties (see below) • Acquisition of another company – part of the growth strategy – major injection of VC for this acquisition • Securing key contract with blue-chip clients – e.g., BUPA – core £5million turnover per year – illustration of organic growth in the

				company being built on a well connected and experienced team of Directors • Focus on experienced IT employees – average 12 years experience by a large proportion of the staff • Seeking to increase margins – through the business intelligence side of the business and use of contractors (70/250 employees) Financial Director appointed in 2007 to assist with future growth to 2010 • VC looking for RoIe in 2009/2010 – how to re-finance is actively being considered – potential sale of company by the three founders

APPENDIX 3

US SAMPLE DETAILS

The US Sample

It is recognised that high growth is difficult to sustain over a long period of time and for smaller firms growth is especially sporadic and vulnerable to sudden market changes (St-Jean et al., 2008). The US sample illustrates this point. Firms were originally selected from the records of Dun and Bradstreet on the criteria of sector and recording a turnover growth of 75% or more over the previous three years, thus meeting the OECD criteria as a high growth firms (see Table below). However, although high growth was reported by all firms, this had slowed down in the period running up to the interview. As discussed in the main report (Ch 3) this was a result of a range of factors but included a sudden downturn in the economy and cutbacks in orders by the corporate and public sectors. Clearly there are some discrepancies between the financial turnover collected by Dun and Bradstreet and that in the interview. This is explained by the differences in the timing of data collection and rounding by respondents. The Dun and Bradstreet data is also at least a year old at the time of interview and was used as the basis for interview selection. Where available, the summary Table in this Appendix shows both sets of turnover growth data: from the interviews and, in italics, from Dun and Bradstreet: all these firms, with the exception of US3, satisfied the growth criteria on at least one of the data sources. US 3 reported growth but this was below the threshold for fast growth in the criteria for selection. However, this firm was kept in the sample because it had demonstrated fast growth in the period just prior to the 3 year timeframe. Moreover, this firm was already very large (turnover $900m in 2007) thus illustrating the challenges of achieving continuous fast growth over a long period of time.

US Sample Businesses: Business Activities, Sales, Employment and Primary Drivers of Sales Growth				
	Business Activity/ Founding date	***Current Annual Sales (3 years ago)***	***Current Employment (3 years ago)***	***Primary Drivers of Sales Growth***
1	Design and architecture 1971 (ESOP 1980s)	$4.5 ($2m) *D&B* *$22.5m ($11m)*	157 (130) *D&B* *160 (130)*	• Owners pursuing steady growth • Took over from original owners using employee share ownership program • Subject to market fluctuations eg recent downturn closed San Francisco • Markets competitive but emphasis on relationship management • Customer Service Orientation • Emphasises lack of talent in labor force as a constraint
2	IT Data Security / 2000	$4M ($2) *D&B* *$10m($800,000)*	90 (4) *(D&B not available)*	• Started by individual brought in two partners • Rapid growth company • Developed and Managed to a 5 yr plan • Strategic Acquisitions • Relies on word of mouth and referrals for clients
3	Finance and Private Equity in Property / 1974	$900M ($750M) *D&B* *$2.3m ($1.8m)*	200(112) *225 (200)*	• Two founders with industry experience • Spotted opportunity for service • Timing of Financial Markets important; Quality of Product/Service and relationships emphasised • Passive UK investor • Recent downturn in market

4	Bus/Prof Consultancy / 1998	$5.0M ($5.0M) *D&B* *$5.5m($2.0m)*	22 (24) *D&B* *22 (17)*	• Saw opportunity with work colleague to start–up in same industry (if failed could always go back) • Brings together various aspects of consultancy • Customer experience led innovation • Emphasises customer Loyalty and experience • Repeat clients; limited competition • Sales vacillated: lost 2 big clients but returned • No engagement with govt support
5	IT Web Trading/ 2003	$7.0M / 0 *(D&B not available)*	58 (38) *(D&B not available)*	• Founded by 2 people: an ebay for charities • Serial entrepreneur: driven by social as well as economic motives • Sales Management Techniques • Delivering Results to Customers • Long runway before sales 'take-off' and market acceptance • No govt support
6	IT web advertising/ 1999	$1.5M ($1.0M) *D&B* *$2.0m($775,000)*	6 (10) *(D&B not available)*	• Owner sold previous company • Saw opportunity for a web advertising service • Emphases product and Service Mix • Some investment in R&D for software development • Sales turnover rose to 2.2m but recent decline – large clients cutting back • No engagement with govt initiatives
7	Bus/Prof / 1979	$4.6M ($4.0M) *D&B* *$4.6m ($1.0m)*	90(70) *(D&B not available)*	• Had an idea and started out with two others following employer rejection • Aimed to grow steady: owner had children • Medical record mgt and client mgt system

				• Emphasis on relationship management • Service Orientation and medical billing second • Keeping technology up to date / compatible with major software developments • No IPRS but has proprietary products • Most clients small • Have secured a SBA loan • Has to meet HIPPA standards: considered a cost
8	Eng / 2000	$15M ($1.0M) *D&B* *$5.3m (1.169m)*	65 (16) *D&B* *70 (10)*	• Founded by three people • Dissatisfied with previous employer culture and operations • Large first customer • Quality of Product/Service • Acquisitions Company growth better than expected • Sells to govt and private orgs. • Repeat Business: rents R&D facilities to govt as well as develops products for clients • Added staff but some issues in finding right staff • Relys on govt as a customer (85%)
9	Eng / 1998	$2.2M ($2.0M) *D&B* *$2.8m($1.1m)*	18 / (17) *D&B* *18 (15)*	• Started out as environmental consultant • Unplanned growth • Driven by market demand and reputation • Repeat Business, word of mouth • Added staff • Has some IPRs: two patents • No govt support • Regulations regarded as enabler and constraint

				• .
10	Arch / 1985	$5.0M ($2.8M) *D&B* *$1.6m ($700,000)*	28 (15) *D&B* *20 (20)*	• Started by 2 people • Wanted to run own architect firm but triggered by request from client • No plan or growth aims at outset • Significant growth triggered by big clients • Client base moved to institutions • Surges/Declines in Local R.E. • Reliant on word of mouth • Emphasis on service quality • No IPRs • Challenge is finding the right technical people • Succession an issue • No engagement with govt initiatives
11	IT / 1997	$118M ($81M) *D&B* *$118m($17m)*	154 (97) *D&B* *152 (57)*	• Three founders • Growth achieved through acquisitions • Technological emphasis of products • Role of IPRs: 3 patents • Ambivalence to govt: infrastructure weak; has secured support for training
12	Bus/Prof / 1960	$6.0M ($40K) *D&B* *$1.7m($39,000)*	33 (24) *D&B* *28 (1)*	• Origins of business go back to 1960s • Undertakes audits • Relationship Management: repeat business • Technology as competitive strategy • Some sub-contracting of work to India • Sabines Oxley beneficial for acgs. But challenges to meet filing requirements

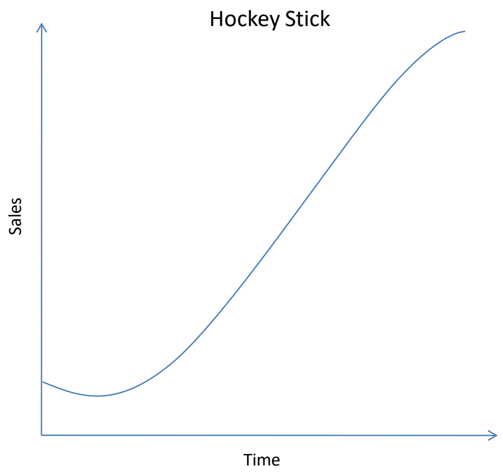
				• Constant changes in tax regime cause some problems • No engagement with govt support
13	Finance Wealth Mgt / 1991	$8.2M ($200K) *(D&B not available)*	90 (70) *D&B 70 (2)*	• Buy-out of a company: growth needed to pay off loans • Links with networks: New England Financial group • Emphasis on quality of advice and client referrals • Investment via coaching of staff • Investment in IT significant • No engagement with public policy
14	Bus/Prof / 1999	$1m (91k) *D&B $3m($917,000)*	830 (360) (nb bulk part-time) *(D&B not available)*	• Two founders: idea rejected by former employer • Provides student learning programs • Growth achieved but not as fast as planned • Relies on Direct Mail Marketing and word of mouth IT system important for customer relationship (CRM system in place) • Competition well known market leaders • Has received a SBA loan
15	Eng / Hazard waste mgt 2000	$7M ($5M) *(D&B not available)*	24 (23) *(D&B not available)*	• Two founders came out of same multinat (MNE) • Motivated by a market opportunity based on technology developed by MNE • Originally strong growth but plans but not achieved • Poor intervening years in 04/05 • Clients mainly Fortune 500 and defence • Needed to refine technologies in early stages

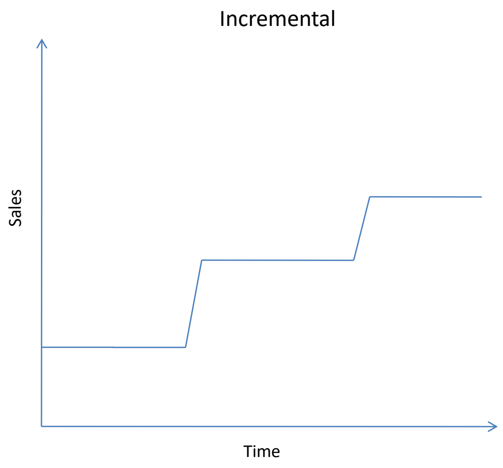
				• Quality of Service/Results important • Have MassTech Dev Corp (MTDC) investment • Has secured a Dept of Defence grant for R&D • US Air force is a major client
16	IT / 1997	$4.9M ($400K) *D&B* *$4.9m($414,675)*	29 (10) *D&B* *42 (37)*	• Founded by sole proprietor • Previous business experience • Offers professional services to businesses: software including vehicle tracking • Heavy investment in IT: holds patents • Faces competition • Outsourced Labour Overseas • Has struggled to find VC funding ‘too small to fund’ • Govt. Is customer for transport tracking • No other engagement with govt
17	IT software for clinical trials (1989)	$27M ($12M) *D&B* *$26.8m($12.4m)*	35 (41) *D&B* *50 (50)*	• Originally founded as a lifestyle business • Growth ambitions modest • Actual growth faster than envisaged • Strong competition • Emphasis on customer Service, • functionality and price • Has licenses and partners with IBM and Microsoft • A constraint is the lack of suitable labour ‘talent’ and investors • Problems over securing visas for labour • No engagement with govt
18	Arch / 1987	$4.0 ($700K)	23 (26)	• Started by college students

		D&B *$3.2m($700,000)*	*D&B* *24 (14)*	• No real plan: emphasis on being designers not business people’ • Emphasis on differentiation from competitors: • Active client involvement • Relationship Management • Reputation and Word of Mouth • Investment in new modelling program • Has received minor support from govt: redevelopment loan and support for training staff. Latter not helpful.
Notes: (1) ‘employment’ measures are simple headcounts, treating full-time and part-time as equivalents;				
Source: business owner interviews and pre-interview data profiles.				

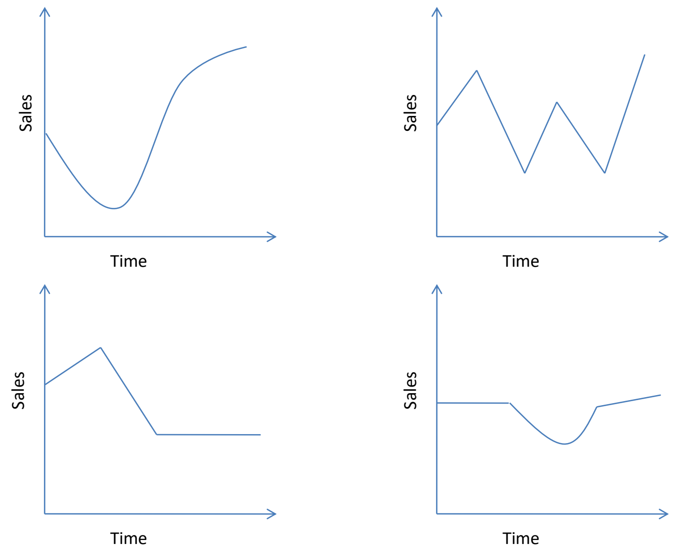
APPENDIX 4

SALES TREND PATTERNS

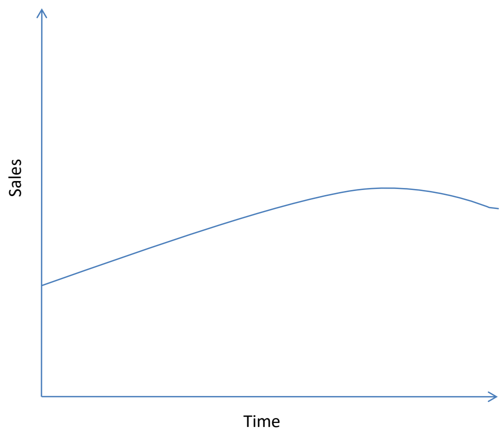

Hockey Stick
Sales
Time


Incremental
Sales
Time

Erratic



Plateau



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