

# Strategies for High-growth Enterprises: Implications for Policy Initiatives in East Midland, UK<sup>†</sup>

지역기반의 고성장 기업육성전략 : 영국 중동부 지역의 정책적 시사점

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## 국 문 요 약

본 논문은 영국 중동부지역의 고성장기업 육성을 위한 지원체계 구축과 성장기업 오너들의 리더쉽 함양과 기업경영을 보다 효과적으로 운영할 수 있도록 지속적으로 지원할 수 있는 조직운영체계를 분석하는데 목적을 두었다. 이러한 지원체계는 고성장기업들간의 상호협력 인적 네트워크를 통하여 활발하게 운영될 수 있다. 따라서 본 연구에서는 고성장기업육성 프로그램의 기존문헌조사 연구들과 정책 지원 수요조사를 바탕으로 하여 맞춤형 기업서비스 프로그램을 개발하고 지원하며 이를 실행하는데 있어서 나아갈 정책프레임을 제시하고자 한다.

핵심어 : 고성장 기업, 기업지원정책, 지역개발프로그램

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## ABSTRACT

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This paper presents on the project to design an academy for high-growth businesses which is taking place in the East Midlands of the UK, sponsored by the Regional Development Agency (RDA). The research aims to design and commission a learning organisation which will stimulate and support entrepreneurial leadership and management skills in growing companies. The paper attempts to build a policy framework for a learning organisation which is centred on a community of high-growth firms' owners and managers acting as a support network. This approach is compared with existing high growth development programmes and recommendations are made for the development, funding and implementation of high-growth support programmes.

Key Words : high-growth enterprise, business policy, regional development programme

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## I. Introduction

There has been extensive research on the identification of high-growth businesses and on the strategies for growth, and methods of supporting and sustaining high-growth enterprises. These issues continue to pose challenges in policy and business support both in the UK and in other EU states. This paper aimed to design and commission a learning organisation which would stimulate and support entrepreneurial leadership and management skills in growing companies. Taking the project as a case study, the paper explores the process of establishing the support requirements of high growth firms (HGFs). There are both definitional issues in relation to identifying HGF as well as limitations in data quality which are explored. The study faced key challenges, which are shared by other high-growth support initiatives, which included the following questions explored in the paper:

How to identify and segment potential and actual high growth firms?

What criteria should be used in predicting and assessing business growth?

How can the development priorities and needs of high growth firms be established?

What services should be developed and offered to meet these needs?

What roles should public and private agencies and funding play?

The paper summarises the literature on high-growth businesses and associated development programmes as a foundation for the study. It outlines the research methodology and conceptual framework which were developed. After considering the definitional issues relating to HGFs it demonstrates how these were applied in the study to map the HGF population in East Midlands, UK. It then uses primary and secondary data to establish the priorities and support requirements of HGFs to propose a design for a learning organisation centred on a community of high-growth owners and managers as a learning network. Finally, recommendations are made for the development, funding and implementation of high-growth support programmes.

## II. Theoretical implications of high growth development programmes

### 1. Policy Framework for High Growth Firms

New businesses have been credited with creating new jobs, intensifying competition and improving competitiveness (Kirchhoff, 1994; Storey, 1997; Schreyer, 2000; Buss, 2002; van Stel et al, 2005; Acs, 2006). Taken together, these three components translate directly into increased levels of economic growth. Indeed, government funded support for new businesses has been widely implemented since the 1970's. The 1980's witnessed a prevalence of policy directives targeted at stimulating and increasing new business formation rates (Smallbone et al.; 1995). However, beginning in the early 1990's, initiatives specifically targeted at high growth firms became one of the central and most recognisable features of business support policies. These support programmes are linked, in policy terms, to the UK government's competitiveness agenda (DTI, 1995; 1997; 1998; 1999, 2003). The growth in policy support for high-growth businesses was the result of a burgeoning body of empirical evidence suggesting that the majority of economic growth was the result of the activities of a very small proportion of high-growth businesses. Indeed, estimates suggest that the number of high-growth firms operating within a country's domestic economy rarely exceeds 10% of the total business population (Nicholls-Nixon; 2005; Stam, 2006). Recognition of the relative importance of high-growth firms to economic development has placed them high on the agenda of regional (Fischer and Reuber, 2003) national (Smallbone et al, 2002) and supra-national policy makers (European Commission, 2003).

However, the lack of support services available to high-growth firms is particularly problematic as high-growth firms suffer from more and more varied problems than normally growing business ventures (Stam et al, 2006). Indeed, the frequency and variety of problems faced by high-growth firms makes it particularly difficult for the private sector to cater to their developmental requirements. Furthermore, managers of high-growth firms are usually reluctant to seek external advice as they either do not know where to go for the advice or they are unaware of the specific kinds of advice they require. Support for high-growth firms is recommended on the basis of four key argu-

ments, namely; (a) support for high-growth firms improves the effectiveness and efficiency of public sector intervention, (b) it enables a clearer focus on the specific needs of high-growth firms, (c) few of the large numbers of new start-ups each year achieve high-growth status and picking winners from the initial seedbed is almost impossible and, finally, (d) support for new start-ups distorts markets (Bridge et al, 2003; Baum and Silverman, 2004; Stam et al, 2006). However, as Davidsson et al (2006; 157) caution, 'our current knowledge of high-growth firms...is at present insufficient for the development of optimal policy measures'. Furthermore, definitions of high-growth firms abound with little agreement on which definitions should be adopted.

## 2. Challenges and Difficulties Faced by High Growth Firms

High-growth firms are a particular subset of firm growth and are commonly defined as being any firm that is growing at a rate in excess of competitor and market growth. However, the variety of metrics used to define and identify high-growth firms has led to a broad range of firms being classified as high-growth and a lack of consensus as to which firms really are achieving high-growth status. In other words, the measure of growth tends to determine which firms are identified and labelled as high-growth firms. In this paper, changes-in-amount measures (Penrose, 1959) such as; sales, employment, assets, physical output, market share and profits are the most frequently used measures for identifying high-growth firms. Indeed, a number of studies have adopted sales growth as their key growth indicator arguing that all commercial firms need to have sales to survive and that, as such, sales growth is a reasonable proxy for assessing overall firm growth (Ardishvili et al, 1998; Wiklund, 1998).

High-growth firms face numerous and complex problems relating to the speed and scale of their growth. Owners or managers of high-growth firms often find that 'the rate at which new resources [can be] effectively mobilized [is] insufficient to keep up with the pressures of growth on resources' (Gamsey et al, 2006; 7). Furthermore, firm growth tends to go through uneven phases in which periods of high growth are offset by periods of relative stability or even decline - this means that the effective management of resources throughout periods of growth and during periods of stability or decline is a particularly

challenging task (Greiner, 1972; Vinnell and Hamilton, 1999). These issues can be broadly grouped into internal and external factors in which internal management coupled with the ability to secure external resources plays a significant role in determining future growth potential - both aspects need to be adequately addressed as growth is contingent on optimal performance in both areas; managers of high-growth firms have been found to be 'much more creative and persistent in finding ways to mobilise scarce resources. In particular, their ability to extract value from social networks and contacts [is] a vital element in their struggle to accumulate more capital...successful [managers are] also adept at efficiently managing their enterprises' (Kodithuwakku and Rosa, 2002; 431).

### 3. Providing Support for High Growth Firms

Understanding the critical issues faced by high-growth firms is vital in terms of identifying key problem areas and developing appropriate and relevant support measures; 'the development of a comprehensive classification scheme for the types of problems encountered by new organizations may provide a basis for linking these problem types to problem-solving activities, and ultimately to improvements in organizational performance'. Indeed, the critical task for management in periods of high growth is to learn and to develop and establish a new set of organizational practices that will form the basis for managing the next period high growth.

The implicit suggestion within the literature on high-growth firm development and support requirements is that firm growth is an uneven and periodic process (a feature hidden by a large number of cross-sectional research projects). As such, longitudinal support programmes wherein managers are given assistance in securing external resources whilst simultaneously having their own competencies improved is perceived as being the most appropriate programme design and the most likely means by which growth obstacles will be circumvented or overcome. From theoretical implications of high growth firm development programme, we have identified important factors (1) policy framework for high growth firms, (2) main challenges and difficulties faced by high growth firms, (3) providing support for high growth firms. These are essential for main analytical framework and then it will be used in our main finding section.

### III. Research Methods

#### 1. Data and Sample

Data were obtained from the FAME (Financial Analysis Made Easy), based on UK. This database was selected as it is reasonably comprehensive, reliable and up to date, within the limitations of Companies House-sourced data. However, no data source is perfect and this section must carry a 'health warning' in that the results of our analysis are indicative of the size and composition of the high growth business sector in the region, rather than being definitive. Given the difficulty of identifying high growth firms, one recommendation of this report is that the new High Growth programme includes, as one of its functions, intelligence-gathering on growth opportunities, sectors and firms within the region, providing a database of growth firms.

The research was based on data for businesses which had increased their sales turnover by more than 50% over the previous five years (from 2002 to 2007), accompanied by a similar rate of growth in net profits. This provided a threshold for identifying growing companies within the turnover range £100,000 - £20 million. This excludes start-up firms

〈Table 1〉 Growth firm sectors in the East Midlands

Sector	No. growing firms
Construction	56
Retail, wholesale & motor trades	51
Professional & legal services	37
Education, health & recreation	24
Real estate & machinery rental	21
Non-metallic & basic and fabricated metal	20
Transport, storage & communications	19
Electrical & optical goods	14
Wood, paper & printing	12
Agricultural, food and beverage	11
Others	66
Total	331

Source: FAME Database

and those below £100,000 turnover. HGFs (High Growth Firms) constitute a subset of the population of growing firms. Although growth rates do vary significantly between market sectors, 15% or higher annual increase in turnover can be viewed as a crude indicator of a threshold for high growth in this research. The sample of companies is shown in table 1 below. This shows that there are 331 businesses in the £100k - £20 million turnover range, in which the 10 leading sectors for growing firms are indicated. These 331 firms are drawn from a total population of 1907 East Midlands firms in the FAME database.

## 2. Sample Characteristics

The key market segmentation is based on turnover and profit growth bands ranging from £100,000 to £20 million, classified by SIC codes (Standard industrial Classification). Across industries, construction and wholesale retail trade shared a quite significant number of all turnover band range from 100,000 to 20 million. Table 2 illustrates high growth firms in the SIC sectors, categorised by turnover bands.

Construction and wholesale/retail trades are quite significant in all turnover ranges. Medium and larger sized firms in the turnover band £5 - £20 million are predominant in all East Midland industrial sectors. The professional and legal services are also an important growth sector. In the East Midlands, there are top 100 UK law firms continuing to strengthen their activities. The table 2 shows that firms in the turnover band £100,000 - £1 million represent only 6.7% of the firm base in this size band. The medium size firms £5 - £10 million represent almost 25% of the size band. Larger sized firms, of £10 - £20 million, represent almost 30%. This implies that larger firms are proportionally more able to achieve higher rates of growth. On average, across the turnover bands 100,000-20 million, the high growth firms represent approximately 17% of the firm base. This data indicates strongly that whilst the growth firm base in the region is limited, such firms occur more frequently, and in larger numbers, in the larger size bands. The £5 - 10 million band is especially significant. Therefore, it is clear that the new High Growth Business Programme needs to include such medium sized and larger firms as part of its target market.

〈Table 2〉 Sample Characteristics of Growth Firms by SIC sectors

Sectors (UK SIC 2003)	Turnover range from 100,000 to 20,000,000				Total
	100,000 – 999,999 Number of firms	1 million – 4,999,999 Number of firms	5 million – 9,999,999 Number of firms	10 – 20 million Number of firms	
Agriculture, Forestry and Mining	1	2	4	2	9
Food & Beverage	0	0	1	2	3
Textile & Apparel	2	2	2	2	8
Leather and footwear	0	0	2	2	4
Wood, Paper & printing	1	1	8	2	12
Coke & Chemical	0	2	0	1	3
Rubber & plastic	0	0	4	2	6
Non-metallic & basic and fabricated metal	4	3	12	1	20
Machinery	1	0	5	3	9
Electrical & optical goods	1	1	9	3	14
Medical & surgical equipment	0	0	3	0	3
Transport equipment	0	1	2	0	3
Furniture	1	2	3	3	9
Construction	5	15	24	12	56
Wholesale retail trade & Sale motor vehicles	2	12	23	14	51
Hotel & Restaurants	1	3	3	0	7
Transport, Storage & Communication	2	3	7	8	19
Financial services	4	5	0	0	9
Real estate & machinery renting	7	5	9	2	21
Professional services (legal services)	7	5	17	8	37
Education, Health & recreation	5	10	8	1	24
Total High Growth Firm	44	72	146	69	331
Total firms in East Midlands	655	291	723	238	1907
<b>Proportion of HGF</b>	<b>6.7%</b>	<b>24.7%</b>	<b>20.2%</b>	<b>29%</b>	<b>17.4%</b>

Source: FAME Database

## IV. Main Research Findings

This section analyses the results of the primary research undertaken to assess the need for and response to the proposed new High Growth Business Programme and to ensure that the design reflected the views of providers of business support provision, as well as the views of managers of high growth business ventures. The objectives were to identify what support services were being provided for high growth businesses; the key support needs of high growth businesses; gain feedback and customer input into the requirements for a new High Growth programme.

Primary research was conducted to review both the supply and demand aspects of these services through: (1) Telephone interviews with managers responsible for high growth business support in eight stakeholder organisations and 26 business support service providers; (2) Telephone interviews with senior managers in 78 high-growth businesses; (3) Fourteen face-to-face interviews with senior managers in high-growth businesses to gather detailed qualitative insights into their perspectives on business growth and support requirements.

### 1. Supply side provision of high growth programme

Of the firms receiving support from the stakeholder organizations and providers, 27% and 10% respectively were high growth firms. Support agencies had worked with on average seventeen HGFs, which represent a total high growth client base being serviced by these agencies of approximately 500 firms per annum. The majority of these were small and early-stage businesses, suggesting that there are a large number of smaller firms, which are of high-growth aspiration or potential, within the East Midlands that are actively seeking and receiving support. The main requirements of high growth firms identified by support agencies related to assistance with strategic business planning; marketing and sales; management and people development; raising finance; and human resources issues. Most services centred on assisting businesses with general business development advice; management training & development; strategic business planning; and accessing finance. The delivery processes varied, with advice from busi-

nesses advisors, coaching and mentoring being most common.

74% of the business support and stakeholder organizations interviewed felt HGF needs were met only adequately within the region (mean 2.6). This suggests that there is an unmet need for a support service designed to cater for the specific development needs of high growth firms. The key gaps in provision identified were in the areas of: finance; business development management; innovation processes and market development. There was considered to be a gap between support for start-up and growth provision, a shortage of funding for high-growth business support, and insufficient business advisors and coaches and mentors with the skills and expertise necessary to help high growth firms to overcome their specific problems. The business support and stakeholder organisations considered that the proposed High Growth support should (1) provide increased funding assistance for high growth firms, (2) facilitate knowledge transfer and peer-peer learning between firms, (3) reflect specific needs of high growth firms by offering tailored support, (4) facilitate access to existing support provision, (5) be demand-led, using high quality practitioners as coaches, (6) be staffed by individuals with experience of owning or managing HGFs, (7) have a clear and distinct identity, which appeals to the client group, (8) work by visiting clients as a virtual organisation across the region.

## 2. Survey of East Midlands High Growth Firms Support Needs

Designing an effective support programme depended on understanding the expectations and requirements of the target clients, both in terms of what the organisation should provide and how it should engage with high growth businesses. This survey was undertaken in two parts and aimed to gather the views of high growth businesses to incorporate these in the design. A telephone survey of 78 businesses was conducted to ascertain business priorities for support requirements, using primarily quantitative analysis. A qualitative survey of 14 face to face interviews provided more detailed perspectives on experiences and preferences for business support.

The telephone survey participants were identified through the FAME mapping of established firms in the region, supplemented by firms who had applied for a pilot high growth programme, and by businesses which had previously taken part in business

growth programmes. Most firms were in manufacturing, production and engineering, with smaller numbers in construction and service industries. The majority of the 78 survey respondents (78%) were well-established, growing businesses. These businesses ranged in age between 12 and 28 years, with an average of 26 years, and included no start-ups. They employed between 29 and 90 people, with an average of 63 employees. The majority (71%) had turnover between £1 - 10m, with 11% over £10m turnover, and represent well developed smaller and medium-sized businesses.

The responses are summarised as follows:

Growth aspirations

- 71% of firms had sales growth of up to 15%, whilst 26% of firms had growth of more than 16%
- 67% of firms had an increasing profit trend over three years, with 31% reporting a marginal net profit of 0-5% of turnover; 30% of firms had profit margins of 6-10%; and 25% of firms had profit margins of more than 11%
- 44% aimed to grow their sales turnover by more than 16% each year.

It is therefore clear that these businesses were experiencing steady sales growth, and were aiming for growth in both sales and profits. The large number of firms reporting an aim to grow their sales turnover by more than 16% suggests that within this type of firm there is a healthy level of growth aspiration, and firms with a track record of success tend to believe that trend will continue. However, the actual numbers of firms achieving high growth rates is significantly lower, suggesting that there are substantial barriers to growth. It also indicates that despite their ambitions, most businesses were actually generating relatively low profit margins. This trend is significant, as firms need to generate profitability in order to finance growth and attract investment.

### **3. Main Growth Challenges and Difficulties**

The most frequently cited factors which deterred these businesses from growing more rapidly are shown in table 3. Interestingly, internal business management is the highest

single factor. As the problems and challenges experienced and expected in growth were explored, a clear pattern emerged from the responses. These factors were reflected in the key growth challenges experienced by the 14 firms visited, summarised under four headings of staffing issues; access to funding and other resource constraints; access to quality suppliers; and effective business systems.

〈Table 3〉 Factors which deter higher growth rates

Main Issues	Total
Internal Factors & Business Objectives	12
Market Conditions	11
Workforce availability and skills	9
Competition	8
Finance	6
Premises & Location	6
Legislation & Legal Issues	4
Grand Total	56

#### 1) Current and Anticipated Difficulties

The businesses were asked what challenges they expected to face in growing their businesses. These factors were identified through an analysis of the barriers cited by respondents, and were unprompted. As shown in table 4, the factors of competition and pricing; market conditions (including customer availability and demand); workforce availability & skills; finance and cash flow; and legislation and compliance ('red tape') are the principal challenges. The challenge of competitiveness was raised repeatedly, with many firms being very concerned about their competitiveness with India and China in relation to pricing. Difficult market conditions are a related factor. The availability of employees and the level of skills available to firms were again raised repeatedly as a very clear constraint to growth. Legislation and 'red tape' was also cited strongly. When asked about their development needs going forward, the same five factors again emerged very clearly as the most dominant.

〈Table 4〉 Challenges expected in future business growth

Issues	Total
Competition & Pricing	22
Workforce availability & skills	22
Market Conditions	20
Finance	15
Legislation & Legal Issues	15
Internal Factors & Business Objectives	9
Premises & Location	4
Supply Chain	3
Infrastructure	1
Grand Total	111

These challenges were reflected in four key areas of anticipated difficulties identified in the in depth interviews; market changes, management structure, staff, and finding appropriate premises. From the table 5, business advice is an essential aspect of business development. There are a number of professional business advisors that most businesses turn to, including Business Link, banks, accountants and lawyers. Informal providers of business advice are also significant, including other business owners, friends, and family members. The businesses interviewed were asked which sources they had sought advice or support on growth:

〈Table 5〉 Sources of advice

Advisor	frequency	satisfaction
Accountant	50%	3.1
Business Link	46%	3.1
Banker	38%	3.2
Other business advisor	35%	3.5
Other business owners	30%	3.9
Lawyer	26%	3.2

Most businesses therefore took some external advice; the higher satisfaction rating of other business owners over professionals is interesting. The selection of external support was based on a number of key criteria including: cost (by far the main factor);

recommendation & word of mouth within the industry; knowledge of the industry or market, and; proven effectiveness & value for money. They evaluated the effectiveness of external support primarily through 'bottom line' financial benefits and through the achievement of business objectives and results.

The reasons for businesses seeking external advice were, overwhelmingly, that the knowledge or experience required did not exist within the company to deal with situations beyond internal skills and expertise. Often this was connected with gaining entry to new markets, or on technology or process issues. The value of objective expert advice was also noted. The decision to seek external help was primarily reactive, in relation to an immediate problem, rather than planned or strategic. There was a general consensus from the businesses interviewed that business support services in the East Midlands were not of the standard required, especially for high growth firms. The major complaint was that businesses simply do not know where to go to get the support that they require to meet their particular business needs. Specific, specialist advice was required, such as assistance with legislation and compliance issues, marketing, human resources (especially recruitment), manufacture and finance issues. On a scale of 1-5, 80% felt that the needs of high growth firms were not met or at best met only adequately within the East Midlands (mean 2.6).

#### 4. Owner-manager interviews

The fourteen business owners who participated in face-to-face interviews were identified through market intelligence, award schemes, and referrals. With the exception of one rural business, all were high growth companies. Several were experiencing sales growth rates in excess of 100%, or 'super-growth'. Turnover ranged between £112,000 and £8 million, with most in the £2-6 million range. Profit margins varied between a business making a small loss and profit margins of 5%, 15% and 20%. Most had been in business for 3-6 years; others were family businesses of longer duration. Business types included speciality printing; civil engineering; food & drug testing; electrical, technical, fire and security services; joinery; telecoms; and school-wear. These businesses were marked, in most cases, by a very strong focus on the market opportunity

and the priority to maximise their sales penetration into the target market. They differentiated themselves from competing businesses in their strategies, customer selling proposition, and management focus. They provided qualitative views on their experiences and orientation towards business support services in the region, and are highly relevant in illustrating the attitudes which the managers of High Growth Firms hold, and which need to be addressed to engage them with the new High Growth programme.

- 'We have not sought advice from the East Midlands as we perceive advice provided by local support services to be lightweight.'
- 'We have deliberately avoided all grant aid schemes and their justifications as they take too long to do, take up too much of our time to draft business plans'
- 'The services are far too scattered - I don't know who I should be talking to. It has to be rationalised.'
- 'We attend dinners or social events so we can interact with other businesses. We do not feel we need training as we all have such a positive attitude to our business.'
- 'There is nothing here to help high growth business.'

#### 1) Business expectations and requirements

The businesses surveyed offered clear ideas of the high growth services and support that they would like to see. These emphasised personal support and advice, specific to the business, provided by experts with growth business experience, as well as specialist support with more specific business problems such as marketing, human resources and financing. Other requirements included sharing best practice and benchmarking through networking with similar businesses; leadership & management development; financial support; and market research & knowledge. Most businesses felt that a demand-led rather than service-led programme was required to align with their needs. As these needs change significantly and often, it is important that the service is highly flexible and responsive; there were adverse comments about the 'bureaucracy', time and paperwork required to gain access to Business Link and other public services. Businesses prefer that high growth support is managed and provided by people who have direct experience of the issues and problems faced by high growth businesses. The interviews

provided a rich and informative range of expected benefits from the new High Growth programme, which are summarised below.

Affinity – belonging to the community of high growth owner-managers

- ‘We would like to network and associate with other high growth businesses and large successful companies.’
- ‘I want to rub shoulders with successful people’
- ‘I want to associate with like minded people and similar businesses with experiences and issues that they have to overcome.’
- ‘Our award for being a Sunday Times Fast Track company was presented at Richard Branson’s house which we found very rewarding; talking to people with similar experiences led us to ask why shared growth issues could not have been raised in local networking?’
- ‘When we were growing we needed “guardian angels” we could call on who we could bounce ideas off, and who would find the best person to solve our problem.’
- ‘High growth businesses want to be introduced to established businesses, so we need a forum to connect high growth and established successful businesses.’

## 5. What service is required?

In general the business owners wanted a network in which they could meet people running successful businesses and exchange advice and information with them. They also expected business advisers with personal experience of having run a growing company, to be able to provide advice specific to the business situation, and to take responsibility for the efficacy of the solution. They did not want a web-based or call-centre based operation.

- ‘The service needs to understand what motivates a high growth business owner and to promote the needs of a high growth business at different stages of development.’
- ‘A facility to provide a platform for high growth businesses to meet each other, and to address common business issues.’
- ‘To turn to get help, advice and support, to work on a problem within the business,

from identifying the need through to project managing in the solution.’

- ‘One to one support from someone with a background that provides the experience of running a small business which has grown is invaluable.’

Ideas suggested by the businesses included the new High Growth programme being a profit based business and charging a membership fee to be truly business driven and to offer the right services to survive. There is a clear recognition amongst both business support providers as well as businesses that there is a need for a business support programme that is designed specifically for high growth firms. Business needs to be addressed by a new High Growth programme included these factors:

- It should be designed with the clients in mind, being both flexible and adaptive as well as being localised, to be able to provide bespoke and specific support.
- Business-business networking events were required, clearly focused on the needs of high growth firms and attended by like-minded business people.
- The benefits, value to potential clients, both bottom line impact and long-term value, for the time and investment made need to be clearly demonstrated.
- The cost and timeframe of the support need to reflect firm needs; current support tends to be cheaper and less intensive than firms might prefer.
- The identity of the high growth support programme needs to be clearly established to show how it fits in and works with existing stakeholders and providers.

It is essential not simply to focus on assisting those firms currently in growth to optimise and sustain this; but also to establish a ‘pipeline’ of growth-ready businesses to work with, including the groups outlined above, and to offer them an entry-level programme which complements existing provision. For this reason, the target groups for the new High Growth programme were categorised as: (1) Firms with growth potential; (2) Firms with a track record of actual growth.

These groups have quite different characteristics and requirements. Whilst growth potential of firms exists at all stages of the life cycle, the support needed for start-ups is very different from support needed by early stage firms and totally different to that required with an established medium sized firm.

### 1) Growth-potential businesses

These include recent start-ups and small companies with a trajectory of growing sales, who have aspirations but frequently experience constraints of finance, resources, management and workforce capability and capacity, and market access. There is an identified requirement for a programme which follows on from start-up support (Universal Start-up Offer) and which assists growth-potential companies to achieve a turnover level of £1million per annum. There are also a large number of established 'mid-market' mature businesses, generally the small firms at the upper end of the size band, of around 100 employees, and which have relatively low rates of growth. As firms in this group experience changes in ownership or management (family succession, acquisition, management buy-in/buy-out) or external changes such as customer base, some of these firms will develop the ambition and potential for renewed growth.

### 2) Actual Growth Firms

The review of growing companies based on the FAME database showed 116 small companies (turnover £100,000 - £5m) and 215 medium sized companies (turnover £5m - £20m) had increased their sales by over 50% over a 5-year period, a total of 331 for the region. Accepting that this data source is indicative rather than definitive, it shows that the region has a comparatively small population of fast-growing companies with turnover between £1-20m. Table 6 and 7 suggests the recommended potential and actual growth target groups for the new High Growth programme; however, factors such as turnover bands and growth rates should be used flexibly as indicators, rather than as rigid selection criteria, because of the risk of excluding exceptional high-growth businesses and their managers which do not fit these criteria. It has been suggested that a sliding scale might be used to select firms with, for example, higher levels of net profit for smaller companies (e.g. 30% net profit margin for £250,000 turnover), with profit reducing with turnover increase. This could equally apply to growth rates which tend to reduce as turnover increases. Such metrics may be used with flexibility as indicators of growth, not as rigid selection criteria because, by so doing, growth-potential companies will be excluded. Declared profits, especially for smaller firms, are affected by many factors including accounting judgements. A holistic appraisal of firm's

growth track record and potential, not selection by simple metrics, is required.

### 3) Large firms and supply chains

Large and corporate firms, together with their supply chains, are strategically important to the regional economy and together can generate significant business growth opportunities. For this reason it was recommended that the new High Growth Programme should be open to larger firms as well as those in the SME categories. The Large Companies Unit within the Regional Development Agency (RDA) has expertise in relationship-building and development with both foreign-owned businesses and UK based firms, totalling some 400 firms in the region. Close liaison with this unit should occur to identify and engage with selected large firms with significant growth track record or potential.

It is recommended that smaller subsidiaries, and businesses which have recently been acquired by firms or which may be spun out or sold on, should be particular targets, for example those employing around 100 staff often have specific needs for change management which could be met by the programme. The development of management skills to enhance strategic planning, competitiveness, leadership and people management are especially relevant to this group. Therefore a selective approach should be taken to relate the development resources of the High Growth Programme to meet the specific requirements of these firms.

Supply-chain businesses are also a source of growing and growth-potential firms. Major regional firms such as Rolls-Royce and Alliance Boots have networks of first-tier and secondary suppliers within the region. Other industries such as health care, food, construction and logistics also have significant numbers of supply-chain businesses, although they include comparatively small numbers of identified fast-growth firms. The HGBU should address supply-chain development, and selectively for example by collaborating with industry clusters, trade associations, and Innovation Hubs to identify supply chains with growth potential.

〈Table 6〉 Potential growth firms

Target group	Definition	Characteristics for growth	Growth issues & needs
Post start-up, early-stage ventures with high growth potential & ability to generate sales	New firms, 1-3 years old. Business plan shows potential for rapid growth, e.g. of £200k t/o year 1 Entry to new prog. after Universal Start-up Offer & trading for at least 1 year with evidence of growth trajectory	Ambition, intention & capability to grow Strong competitor differentiation High value & profit proposition Owner profile -e.g. serial entrepreneur, corporate spin-out	Growth profile visible in retrospect Access to finance & resources Investor/lender attraction Planning & implementation Marketing & selling Entrepreneurial leadership & team management skills
Growth trajectory - existing ventures	Turnover growth 15%+ p.a. £250k - £1m or higher Profit growth Entry to new programme after 2 years track record of sales growth	Sales track record Established customer base; Market position & product base offer high growth potential Identified strategic growth opportunities Strong entrepreneur with potential to develop management team Attractive to or seeking external investment	Growth strategy & implementation Entrepreneurial leadership & team management skills Market development Financial planning & resources Channel development
Rejuvenation - existing firms	Turnover growth Profit growth 10-15% p.a. £1m - £10m	Critical event causes business change Market position & product base offer higher growth potential	Strategy & implementation Financial planning & resources Marketing & selling Channel development Innovation Entrepreneurial leadership & team management skills

〈Table 7〉 Actual Growth Firms : Growth ready and strategic growth

High growth small firms	Turnover growth Profit growth 15+% p.a. Turnover size band £1m - £5m	Sales & profit track record Management team Identified strategic growth opportunities Resources & capability for growth Need to sustain growth	Strategy; Innovation Market development Financial planning & resources Entrepreneurial leadership & team management skills Channel development
High growth medium sized firms	Turnover growth Profit growth 15+% p.a. Turnover size bands	Sales & profit track record Market leadership Management team Identified strategic growth	Strategy; Innovation Market development Financial planning & resources; Entrepreneur

	£5m - £10m £10m - £20m	opportunities Resources & capability for growth Need to sustain growth	leadership & team management skills Channel development Acquisition
Business units within large or corporate firms - e.g.: Profit centre, spin-out, inward investment, acquisition	Turnover growth Profit growth 15+% per annum Turnover size bands C, £1m	Sales track record Market position & product base offer high growth potential	Strategy, Innovation, Market development, Financial planning & resources Entrepreneurial leadership & team management skills Channel development

## V. Conclusions and Recommendation

### 1. Recommendations

There is a requirement for a high growth business support programme in the East Midlands to address the specific needs of growing businesses which are not addressed fully by existing business support from public or private sector organisations. However as the number of companies with a track record of actual growth in the region is limited, this should be aimed at both existing growing businesses, and those with the potential to achieve rapid growth. The first 'actual growth' category will include high growth small, medium sized firms, business units within corporate and internationally owned organisations, and their supply chains.

The second 'potential growth' category will include: (1) Early stage ventures with significant growth potential; (2) Existing ventures with a growth trajectory; (3) Rejuvenation of existing, 'steady state' businesses. By including both categories, the potential market for the programme and the prospective benefits to regional economic development will be greater.

The RDA should commission, by competitive tender, an organisation to run the East Midlands High Growth Business Unit with responsibility for market-making, attracting and building relationships with high-growth entrepreneurs and managers, and managing the delivery of services to this group. An alternative title for consideration is the East

Midlands Centre for Business Growth. The High Growth Business Unit should be responsible for managing the development and delivery of services which meet the requirements of high-growth businesses, but the actual delivery of services should be undertaken by a network of organisations and individuals who are best able to meet these requirements, operating under contract with the High Growth Business Unit, and meeting defined quality requirements. These services are termed the High Growth Business Programme. These should include the following:

- Growth network: a peer-peer community to stimulate and support the growth ambitions of businesses owners and managers
- Growth ready: to enable growth-potential businesses to achieve a growth trajectory through goal-oriented action planning
- Strategic growth: a bespoke programme to enable high-growth businesses to sustain growth and achieve performance improvement through leadership
- Growth enabler: capability-building for professionals aiming to develop skills and expertise in supporting growing businesses.

## 2. Proposed framework for support high growth firms

Sustained high growth requires a comprehensive range of business management support to meet a diverse range of firm requirements. Generally these would be provided by a mix of public and private sector organisations but with an overall business-driven approach. **This does not currently exist in the East Midlands, where there is a market failure in that the non-availability of there quired dedicated services for high growth businesses limits the growth potential for the sefirms.** Sustainable high growth involves an iterative process of generating ideas, developing them into innovative business opportunities and exploiting them through new business activity or behaviour. This takes place continuously at the level of the firm, and within a small company it is an iterative 'accumulative learning' process, with firms learning best from each other.

Successful high growth firms adopt strategies which have continuous improvement as an integral part of their business planning process. Many growth programmes have

focussed on assisting companies to achieve improvements in their manufacturing processes based on the fundamentals of quality, cost and delivery (QCD). Whilst QCD improvement will continue to be an important driver, to sustain high growth firms need to manage more strategically, holistically, becoming increasingly customer focussed, to be more creative and innovative in their approach, by adding value to all aspects of the business process, using new technology and developing long term plans. The following support requirements for high-growth businesses need to be addressed by the proposed support framework:

- Sustaining the quality and nature of all interactions between the programme and the client, as the 'conversation with the client' is a key factor in their decision to participate, in forming their expectations, and in gaining value from the relationship.
- Enabling each business to identify strategic options and to craft and implement the optimal strategy for their business, as growth businesses succeed partly because they have superior strategies to those which do not.
- Developing an entrepreneurial management team, not only the leader, to enable the whole organisation to grow more rapidly, and learning to be translated into action and assimilated by the business.
- Being able to recognise, assess, and act on business opportunities. The skills of an opportunity-centred approach are at the heart of entrepreneurial management.
- Optimal use of knowledge to make better decisions and reduce risk: bespoke research (e.g. market, competitor or product research) undertaken for the business accelerates decision making, planning and implementation.
- Connecting with resources and partners including sources of investment and loan finance; human capital (expertise, know-who and know-how), technology, information and supply-chain partnerships.

#### 1) Core Functions of the high growth support framework

The proposal was for a lead organisation to be commissioned as the East Midlands High Growth Business Unit, to be responsible for managing the development and delivery of the overall programme and the core functions in each of these strands of activity:

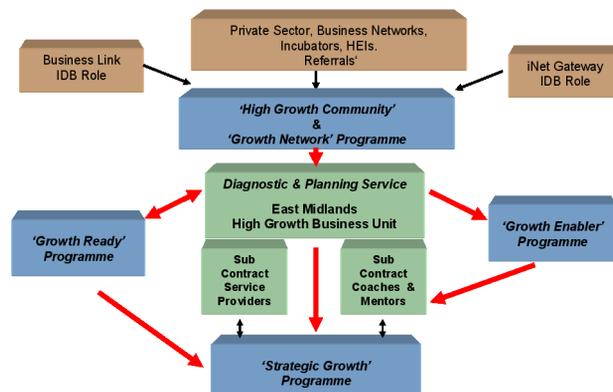
- Intelligence-gathering on growth opportunities, sectors and firms within the region including maintaining a growth-firm database;
- Stimulating and attracting a network of high quality experts, coaches and professional service organisations, including investors, to meet needs;
- Managing the client experience throughout the interaction;
- Strategic review & action planning for clients;
- Managing the delivery of core services to be provided by subcontractors;
- Referral to externally provided 'partner and feeder' services;
- Developing programmes for coaches, advisors and other specialists;
- Selection and quality assurance of suppliers and associates.

The development and management of the client relationship will be a core activity, with each business selected being assigned a client manager responsible for initial diagnosis and continuous liaison by developing a relationship, and identifying agreed needs and ensuring they are met through a specified project. Entry and participation in the programme will be on a rolling continuous basis, with bespoke support project plans being agreed with each participating business through the engagement and contracting process which will include diagnosis and planning. The ability to identify and respond quickly to client business needs is paramount, and flexibility is essential. It was clear that no one organisation could meet all the requirements of participating businesses. The High Growth Business Unit (HGUB) will not be a delivery organisation, but will manage the client relationship and ensure that services are provided to meet client needs through subcontracted and quality assured service providers, including coaches and mentors.

### 3. Proposed services of pilot high growth programme

It is suggested that the new programme will offer four primary services, supported through a core strategic review and action-planning process. This is based on an analysis of current 'best practice'; the pilot High Growth Programme, and findings from market research. The high growth business unit (HGBU) will contract with a selected network of organisations which will deliver these services. The delivery framework is shown in figure 1 below.

- A high prestige regional promotion and awards programme of high-profile Growth network events, aimed to bring together CEOs/MDs of growth businesses with professional advisers, investors and experts, with speakers sharing their experience from exceptional businesses, promoting business growth and new programme affiliation.
- A *Growth-ready* programme, aimed at enabling growth-potential businesses to achieve a growth trajectory through a 1-year programme based on goal-oriented action-planning; actual high-growth businesses with urgent 'growing pains' would also use this programme to achieve 'quick wins' before joining the Strategic Programme.
- A *Strategic growth* programme, aimed at enabling high-growth businesses to sustain growth and achieve performance improvement and leadership through an intensive 1-year programme
- A *Growth enabler* programme, aimed at professional business advisers, coaches and other intermediaries such as incubation managers, aimed at developing their skills and expertise in working with growing businesses.



(Figure 1) High growth programme delivery framework

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*김준엽*

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영국 런던대학에서 개발계획학 박사학위를 받은 후 영국 링컨대학교 경영대학 기업가정신 연구교수로 근무하였고 현재 경희대학교 국제대학원 교수로 재직 중이며 관심분야는 국제개발협력 프로젝트 매니지먼트, 산업클러스터, 기업가정신, 기술경영, 지역개발 및 지역혁신체계 등이다.