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Lessons learnt from programmes aimed at promoting fast growth in SMEs

David.J.Storey
University of Warwick

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Structure

- What do we know about fast growth smaller firms?
- Some examples of public programmes seeking to promote these growth firms?
- How might we assess the impact of these programmes?

What do we know about fast growth firms?

We know:

- Defining them is tricky
- They are unusual: up to 4% of enterprises
- They can be massively important
- They are found in a wide variety of sectors
- Their growth patterns are highly uneven over time

What we don’t know is

- Why they grow
- What makes them grow
- How to successfully identify the fast growers…in advance

Public Programmes to promote fast growth SMEs

- Financial assistance
- Attitudinal change
- Advice and assistance
- Access to technology
- Management training

Examples of public programmes to promote fast growth SMEs

- UK Enterprise Initiative – 1988-1994, evaluated in 2004
- New Zealand Growth Services Range 2001-5, evaluated 2008
- Denmark Growth Houses 2006- evaluation on-going

Subsidised Advice for SMEs UK Marketing Initiative

- A 50% grant was given to small firms using the services of an external marketing consultant
- The firm could buy either 5 or 15 days consultancy
- 114,000 projects approved out of 145,800 applications
- How do we test if the advice enhanced the performance of the firm?

Example : Subsidised Advice to small firms: Six Steps

- Step I: Monitor the payments
- Step II: Ask the firms
- Step III: Ask the firms to estimate impact
- Step IV: Compare the performance of the subsidised firms with all firms
- Step V: Compare the performance of the subsidised firms with other firms in the same sectors and regions
- Step VI: ?

Subsidised Advice : The Step VI approach

Compare firms that :

- Enquire but don’t proceed
- Proceed but drop out after one free day
- Buy less than 5 days but less than 15 days
- Buy the full 15 days

Then , controlling for different firm types we assess the impact on firm survival and growth of the various steps

And the answer?

- Overall those who buy more are no more likely to survive than those that buy less. So no survival impact
- However there is a survival effect for firms in mid employment range SMEs
- There is a sales growth effect which is smaller for the larger SMEs

Growth Services Range: New Zealand

Combines:

- Client Management Services (Advice)
- Growth Services Fund (Finance)
- Market Development Services (Overseas markets)

Eligibility

- Potential to generate 20% per annum sales growth over 5 years or $5m NZ in 5 years

Evaluation Findings

- Upper estimates of 4% enhancement to sales and value added and 6% enhancement to productivity, *for surviving firms*
- Recent recipients, where selection criteria are less challenging, perform less well

Growth houses in Denmark

- Ready made offices that provide advice, legal services and conference rooms to high potential businesses
- One in each of the five Danish regions
- By 2008 about 2000 businesses received counselling

Evaluation of Growth Houses

- On going
- Comparison between firms in Growth Houses and other “comparable” firms

Conclusion I

- Fast growth firms are an understandable target for policy makers wishing to enhance job creation and productivity
- Problem is forecasting growth is very tricky

Conclusion II

Key policy choice is

1. Targeted programmes focussing on SMEs with the potential to grow fast or
2. “Macro” policies such as taxation, cross border migration, business regulation, interest rates, competition in financial markets from which fast growth firms will emerge

Thank you

Defining them is tricky

- Is it fast growth in terms of sales, employment or profitability?
- What % growth is fast? Does this vary by firm size?
- Should it be organic or by acquisition?
- Over what period of time should the growth occur?

Broadly we would be looking for 30% per annum sales growth over four years for established firms…and 50 employees within five years for start ups

They are unusual: up to 4% of enterprises

- The chances of a new business having 100 employees 10 years after start up is less than 0.5%

Out of a random sample of 100 start ups:

- 40 will survive a decade
- Of the jobs in the survivors the largest 4 will provide 50% of the jobs
- 4% generate 50% of the jobs

They can be massively important

- 4% create 50% of the jobs
- They can be influential role models
- Four of the largest US companies in terms of market capitalisation in August 1999 were less than 20 years old. These four companies were Microsoft, Cisco Systems, MCI and Dell. Their total company valuation was equivalent to 13% of US GDP.
- Today we'd add Google
- Nokia, virtually single- handedly pulled the Finland economy out of recession in the 1990s

They are found in a wide variety of sectors

- Fast growth firms are not restricted to the high tech sectors
- Even in the US most fast growth firms are not in the high tech sectors

Their growth patterns are highly uneven over time

- Most small but fast growing firms have “bursts” of growth
- Most fall back to the industry average after their “bursts”
- These “bursts” correspond with short time horizon opportunities that are seized, but subsequently competed away

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Recession and New Firm Creation

D.J. Storey
Warwick Business School

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Some Same and Some Different

- Same six
- Different five

Same Six: Impact on New firm formation

1. Unemployment (+)
2. Interest Rates (-)
3. House Prices (+)
4. Welfare payments ratio to either wages or state benefits (-)
5. Tax (very mixed)
6. Aggregate demand (+)

Different five

1. Recession world wide
2. Recession occurring **simultaneously** in many countries
3. Cross border migration muddies the water
4. Recession may be more evenly distributed across space and sector
5. Information more widely available