

Barriers to growth

The views of high-growth and
potential high-growth businesses



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A new research paper published by NESTA provides new evidence on the obstacles that fast-growing UK businesses say that they face. These businesses are particularly important to economic recovery: NESTA's past research has shown that they generate over half of new job growth in the UK and are disproportionately likely to be innovative.¹

Making it easier for fast-growing businesses to sustain their growth is an important goal for policymakers. An equally important aim is to create an environment where firms with the ambition and potential to grow can realise it. This research contributes to this aim by exploring the obstacles reported by a group of firms that have the potential to become high-growth, but which have not yet managed to do so.

About the research

This brief summarises the results of *Free to grow? Assessing the obstacles faced by actual and potential high-growth firms*, a research paper funded by NESTA and written by Dr Neil Lee from the Work Foundation. The paper is available to download from NESTA's website.

The research used data for around 5,000 firms from two business surveys undertaken by the Department for Business, Innovation and Skills between 2007 and 2010.² The surveys ask UK businesses about the obstacles they believe are hampering their success.

The research distinguished between three groups of firms, (1) actual high-growth firms (6 per cent of the firms surveyed), (2) potential high-growth firms (13 per cent of

firms surveyed) and (3) firms with low growth potential (81 per cent of firms surveyed). High-growth firms were defined as firms with ten or more employees at the beginning of the period expecting average annual growth of over 20 per cent over a two-year period.³

Potential high-growth firms are firms which report having an ambition to grow and share similar characteristics with actual high-growth firms, in terms of innovation performance, ownership structure, size and sector, but which have not achieved rapid growth.⁴

The research focused on a list of potential obstacles that firms were asked about. Figure 1 presents *the most important obstacle to their success* reported by firms in each group, while Figure 2 considers instead the share of firms that report each of these factors to be *an obstacle to their success*. In addition, the research team used econometric analysis to explore the differences in the obstacles reported by each group of firms after controlling for other firm characteristics, such as the size, sector, age or its ownership. The research produced several findings:

The state of the economy is the main obstacle facing UK firms, but high-growth firms are better at overcoming it

Fifteen per cent of high-growth firms consider the economy to be the most important obstacle they face, compared to 20 per cent in the other groups of firms. But 70 per cent of all firms (and 64 per cent of high-growth firms) report the economy to be an obstacle to their success, the most common cited factor across all groups of firms.

1. NESTA (2009) 'The vital 6 per cent.' London: NESTA.

2. The Small Business Survey 2010 and the Annual Small Business Survey 2007/8.

3. Due to data availability this definition of high-growth firms is different from the Eurostat/OECD definition used in NESTA's work on high-growth firms, which looks at realised growth over a three-year period. The authors undertook some robust analysis looking at one-year realised growth to check the validity of their results.

4. Propensity score matching, an econometric method, was used to identify this group of firms.

Figure 1: The most important obstacle reported by firms

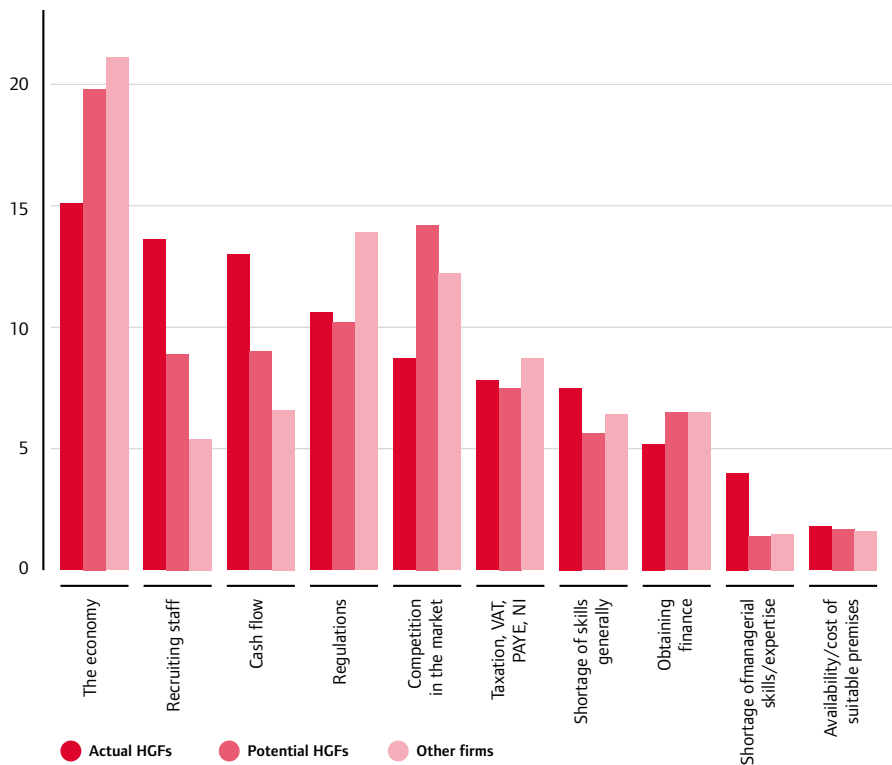
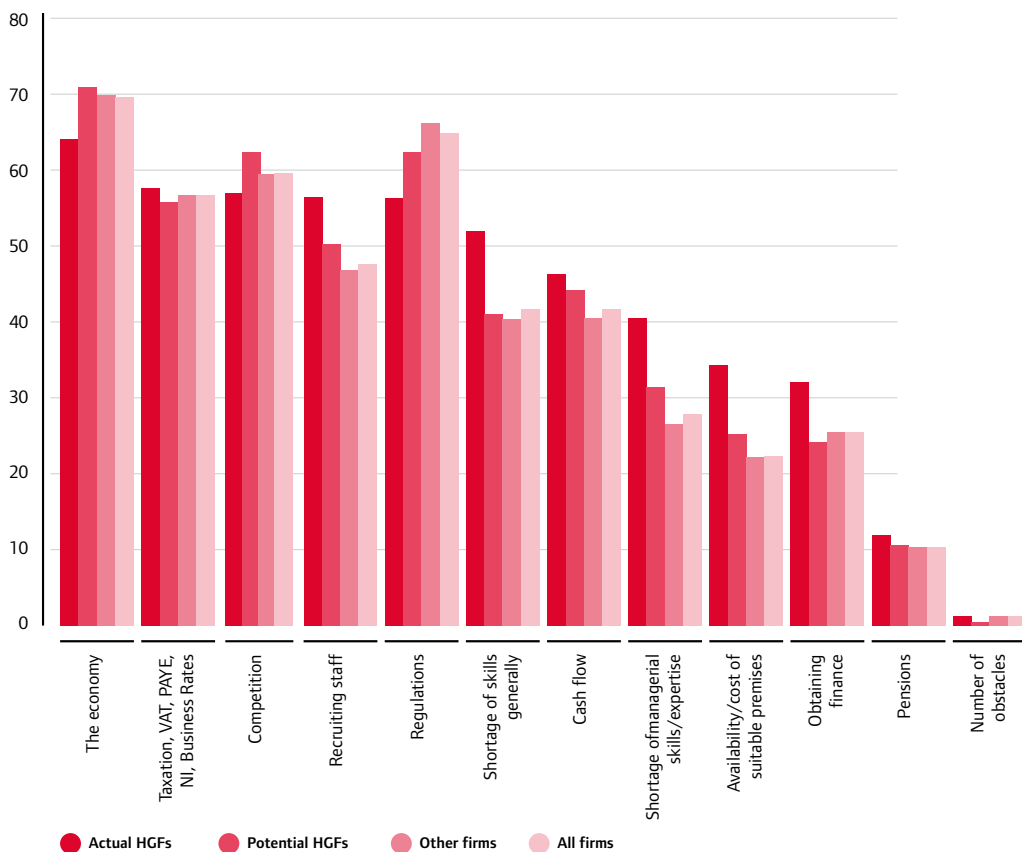


Figure 2: Obstacles reported by firms



Finance is a disproportionately important obstacle for high-growth firms

Eighteen per cent of high-growth firms consider funding, whether short-term cash flow (13 per cent) or longer-term finance (5 per cent), to be the most important barrier to growth that they face. Sixteen per cent of potential high-growth firms highlight similar issues, compared to just 13 per cent of other firms. The same conclusions emerge when looking at cash flow and access to finance as one of the obstacles they face. In both cases, high-growth firms are significantly more likely to mention them than firms with the lowest growth potential, which is not surprising given the difficulties of funding the rapid expansion of a firm with only internal resources.

Finding the right staff is holding back high-growth firms

Fast-growing firms need to expand their workforce as they grow. However, one in five high-growth firms report that getting the right staff is the most important barrier to success that they face, whether due to difficulties in recruitment (14 per cent) or shortage of skills (8 per cent). Fifteen per cent of potential high-growth firms report similar issues, while only 12 per cent of firms with low growth potential identify them as an obstacle.

But management skills are also a problem

Less than 5 per cent of high-growth firms report management skills to be the main obstacle they face, but over 40 per cent of them identify it as an important barrier to

success. This compares to 32 per cent for potential high-growth firms and 27 per cent for the rest of firms. Managing the expansion of a firm is a difficult challenge, but managers in high-growth firms may also be more self-aware of their own expertise gaps than those in other firms.

Regulation and competition are issues – but less so than for low-growth firms

Both regulation and competition are identified as significant obstacles to all types of businesses. But those with low growth potential are more likely to identify regulation as the main obstacle to their success than actual and potential high-growth firms. When it comes to competition, potential high-growth firms and those with low growth potential are more likely to cite this as their main obstacle than actual high-growth firms. Taxes are considered to be an important obstacle by all groups of firms, but there are no significant differences between them.

Implications for policy

These results highlight a series of areas in which actual and potential high-growth firms face particular problems. Current policy initiatives, such as those targeting the financial sector, the supply of skilled labour, management skills and the planning system, are focusing on some of these important challenges. Making sure that they deliver on their promise will be important, and cannot be taken for granted. Over the coming months NESTA will continue to work on some of these challenges to identify the most promising approaches to address them.

NESTA is the UK's foremost independent expert on how innovation can solve some of the country's major economic and social challenges. Its work is enabled by an endowment, funded by the National Lottery, and it operates at no cost to the government or taxpayer.

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