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# Assessing growth and high growth potential within Welsh SMEs: A pilot study of data availability and quality

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## Executive Summary

### 1. Background

- 1.1 The Internal Research Programme (Knowledge and Analytical Services, Welsh Government) was commissioned in January 2016 by the Entrepreneurship and Delivery team to undertake research with founders and leaders of Welsh-based exporting Small to Medium Enterprises (SMEs), which are or have the potential to be high growth businesses, to understand their pathways and barriers to growth.
- 1.2 The Organisation for Economic Co-operation and Development (OECD) defines high growth businesses as all enterprises with average annualised growth greater than 20 per cent per annum, over a three year period, with ten or more employees.
- 1.3 The purpose of this exploratory research was to develop and assess the utility of an approach to identify high growth firms in Wales and provide some indicative qualitative data on their pathways, enablers and barriers to growth.
- 1.4 This analysis would be used by the Welsh Government in identifying, tailoring and targeting its interventions to ensure further growth for those enterprises that already demonstrate growth and those that have the potential to realise high growth.
- 1.5 The Welsh Government recognises that it plays a key role in creating an environment to foster entrepreneurship and supporting entrepreneurs and business owners to start, develop and grow successful businesses. In 2015, Wales was one of eight European nations selected to participate in the Massachusetts Institute of Technology Regional Entrepreneurship Accelerator Programme (MIT REAP), a global two year programme aimed at accelerating economic growth and job creation through innovation-driven entrepreneurship.
- 1.6 Furthermore, Welsh Government provides a series of Entrepreneur and SME support services to enable Welsh businesses to realise their potential; among these services is the Accelerated Growth Programme (AGP) which offers individual support to start-ups and SMEs that have high growth aspirations and potential.

## **2. Research aims and methodology**

2.1 The Welsh Government was keen to better understand entrepreneurs and business leaders' perspectives on the relationship between innovation, export and high growth, what part these factors may have played in their pathway to growth, with the view to developing a framework with which to identify and support businesses with high growth potential in future.

2.2 In order to inform the development of these assessment metrics, the IRP conducted a pilot study comprising secondary data analysis of existing datasets followed by a small set of qualitative interviews with growth and high growth firms exporting from within Wales. An assessment of the strengths and weaknesses of the relevant data sources accompanies this research.

The aims of the research were to:

- Identify a set of indicators which can be used to assess whether an enterprise is high-growth and compile relevant data sources which hold this information;
- Identify Welsh-owned businesses that are currently exporting and that are either already high-growth, or are growing and have the potential to achieve, high-growth;
- Explore pathways to, and relationships between growth, innovation and export of identified businesses to understand drivers, barriers and ways Welsh Government could support high growth or those enterprises with the potential for high growth;
- Provide colleagues in the Entrepreneurship Policy team with information on sources of information available on growth and high growth firms. This will highlight important data gaps and identify relevant sources of information when monitoring business progress and designing interventions based on the most up-to-date information;
- Advise on how best to conduct analyses of this nature in future and what data would need to be collected to make a robust analysis possible.

2.3 The analysis utilised two principal datasets drawn from the FAME database and supplemented with an ONS microdata release which gave information on all Wales-based SMEs. It must be noted that FAME contains entries for 80,000 of the approximate 140,000 enterprises based in Wales, a shortfall attributed to the due to the voluntary basis upon which enterprises share their company information. We therefore acknowledge that the analysis here does not draw from a comprehensive database and this should be borne in mind when reading the findings.

2.4 Managing Directors or owners of high growth, and those demonstrating the potential to become high growth were selected for interview from a sample of growth and high growth firms drawn from the combined dataset. Analysis of nine completed interviews, comprising two high growth firms and seven firms approaching high growth, provided a more in-depth understanding of the contributory factors to business growth and also helped to identify what support, in the view of the business, would be most beneficial in terms of their future objectives.

### 3. Key Findings

- 3.1 **Applying the OECD definition of high growth to SMEs in Wales has shown that most firms experiencing growth fall short of the 20 per cent average annualised growth over three years measure.** Given the relevance of this measure and the distribution of growth and high-growth firms, it is suggested that support strategies for these businesses be tailored on the basis of their current status.
- 3.2 **Phases of growth and high-growth are often cyclical and sporadic and can happen in business of any age.** Growth and high growth businesses articulated the importance of external support, including that from Welsh Government and Local Authorities, at various phases in their development. Respondents did however call for grant funding to be more flexible to align with the life-cycle and priorities of the firm. Other businesses highlighted the need for grant funding to have a wider remit, allowing funding for more types of business improvement or support to address problems of sustainability that could affect growth.
- 3.3 **Data were not available to determine any causal relationship between innovation, exporting and growth.** However, it was clear for most managing directors of interviewed firms that the two activities were highly complementary in terms of stimulating and maintaining growth. Most striking was the importance of building knowledge through collaboration in all aspects of business life, whether that was working with Higher Education Institutions (HEIs) in development of innovative products, or in terms of building good relationships with those who provided grant support.
- 3.4 **This research has helped identification of a range of relevant data sources and the information they hold.** The strengths of the FAME and ONS datasets were used to provide an enhanced analysis when compared with using either dataset on its own. This meant that an improved analysis could be carried out using a wider variety of indicators. However, there were some inconsistencies and duplicate entries in the data supplied, making it difficult to ascertain correct turnover figures for firms. A full analysis of relevant data sources and an assessment of its strengths and weaknesses was provided to the policy team in a document separate to this report.
- 3.5 **Improved data on start-ups is required to understand their pathways to growth -** and further research could focus on understanding what is already captured, and in which datasets, and whether further data collection is needed to fill the gaps on understanding the growth of start-ups.

## 4. Recommendations

- 4.1 **These findings should inform future data/information gathering in relation to Welsh SMEs.** The approach taken here highlights that data are available to determine the growth status of firms in Wales and that this can provide valuable insight into the activities of SMEs. This forms the basis for further analysis of the types of businesses not covered here, such as the wider set of SMEs who trade only domestically, in order to broaden our understanding of business growth. This will provide a full gap analysis of data sources and quality which will allow us to move forward in understanding how to address these gaps.
- 4.2 **Design a data collection instrument to capture evidence on business growth more systematically.** Once further analysis of other types of businesses has been completed, researchers and policymakers may be better informed about the strengths and weaknesses of datasets currently available. We advise the design of a dataset to synthesise existing data and collecting missing data to produce a tool that is fit for purpose for long term monitoring of business performance.
- 4.3 **Policy teams may also want to consider incorporating qualitative evidence into future monitoring.** Interview data have been particularly informative in understanding the detail with regard to innovation, export and growth and the complex relationships between these activities. These issues change over time and are invaluable in understanding how tailored support might impact on a business. It is clear that data alone do not provide sufficient insight. It is recommended, therefore, that any future monitoring include periodic qualitative data collection to ensure that policy teams remain informed as to the situations facing individual businesses.
- 4.4 **Consider tailored business support which focuses on maintaining success for high growth firms, but also assists firms not quite reaching the 20 per cent threshold to become high growth.** This research has highlighted that, in Wales, a small proportion of exporting firms can be considered high growth, but that there are a far larger group who are growing, but not quite above the 20 per cent threshold. Policy teams should consider both quantitative and qualitative research in order to inform the design of tailored support to individual businesses. For high growth firms, it will comprise maintaining growth, or steering them through difficult periods whilst attempting to maintain growth. For growth firms, it may be devising appropriate support or strategies to enable them to become high growth.
- 4.5 **Take account of issues raised through qualitative analysis when developing tailored business support.** Qualitative data highlighted some of the issues around receipt of intervention, such as the cyclical nature of growth and the opportunistic nature of entry into export markets should be considered. A consideration of the specific context in which businesses are placed and their short and long term goals should guide the selection of interventions to best facilitate growth.

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Available at: <http://gov.wales/statistics-and-research/assessing-growth-high-growth-potential-within-small-medium-enterprises/?lang=en>

Views expressed in this report are those of the researchers and not necessarily those of the Welsh Government

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Mae'r ddogfen yma hefyd ar gael yn Gymraeg.

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