Growth Challenges for SMEs: A UK-US Comparative Study

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Aims

• Business growth eludes most SMEs
  – or owner-managers seek steady state existence
• Yet, a minority of firms do grow
• Present a comparative, qualitative study exploring growth experiences and challenges of SMEs in UK and US region
• New evidence, new questions, implications for discussion and policy
Business Growth: current evidence

- Owner-manager characteristics
- Enterprise characteristics
- Strategic influences
- Resource base
- External influences: location

- Bulk of studies quantitative
- Identifying correlations of cross-sectional variables with ‘growth’
- Leads to some established relationships
- Though results tend not to cumulate
High growth firms: UK international context

• UK SMEs track record of growth ‘good’

• But, below US growth performance in terms of speed of growth and average size
‘High Turnover Growth’ Enterprises as a Percentage of the Business Stock 2001

Source: Hoffman and Junge, 2006

Percentage

Country

US
UK
Italy
Japan
France
Germany

Source: Hoffman and Junge, 2006
Size Distribution of Businesses in **UK and US**

Source: BERR 2007
A New Qualitative Study

• Comparison of small sample of UK-US SMEs
• Focus on characteristics of firms and processes of growth
  – Links motives-actions-outcomes in specific contexts
  – Varying product and market conditions
  – Infrastructure conditions
  – Government frameworks: support and regulatory
• How do these processes play out in different national/ regional contexts?
Understanding Business Growth: Conceptual Framework

Wider context:
- Competitors
- Customers
- Suppliers
- Infrastructure providers
- Regulatory authorities
- Cultural influences

BUSINESS
- Owner objectives
- Resource acquisition & mobilisation
- Actions

Sales outcomes
- Growth
- Stability
- Decline
Research Design

• Target sample of 20 firms UK and US
  – South East England and Boston Massachusetts

• ‘Fast Growth’
  – Min 75% sales growth over 3 years

• Size (3-249) and Sector parameters (B-T-B)

• Face-to-face audio recorded
  – Semi-structured interviews
  – UK & US team

• Sample: 21 UK / 19 US firms
New Research: specific questions

• What are the characteristics of high growth firms in UK *viz a viz* US?
• What has been their growth path?
• How have they achieved growth
  – Motivations / strategy
  – Resource acquisition / finance?
  – Markets/ Product / Service development?
  – Role of innovation?
• What are their similarities; and differences?
Evidence UK - US: similarities

- Owner-managers all relatively well educated
- Mixed motivations and aspirations
  - modest objectives -> high growth from start
- Product development/ innovation incremental
  - Engaged in adaptations of technology
  - Use of IPR high across samples
- Emphasis on quality and service
  - Client ‘focused’ & alliances
  - Investment in new servs/products a challenge
  - Esp smaller firms (UK firms)
General finding

• Growth trajectories are *non-linear*
  – Growth is episodic
  – bursts of growth/ vascillations

• A ‘fast growth firm’ is often *time –bound*

• Examples
UK-US Differences: firm characteristics

- US firms older and larger
  - role of branch plants and regional offices
  - Evidence of acquisitions
  - Need to meet a minimum efficient scale?
- UK: firms
  - Different stage of life cycle
  - UK firms more likely to be founded by ‘teams’
  - UK less likely to plan for observed growth:
- But US plans not necessarily achieved
UK-US: Growth Aspirations and Growth Performance

- **Growth performance as planned**
- **Growth performance slower than planned**
- **Growth performance faster than planned**
- **No growth plan**

Companies

- **UK**
- **US**

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UK-US Differences: Wider context

• **Finance**: UK firms *more likely* to use external equity
  – Perhaps a result of firm size, age growth in VC?

• **Govt**:  

• UK firms *less* involvement with public contracts
  • Reflection of US public procurement policies?  
  • Weakness in UK opportunities?

• UK firms *more* likely seek + secure govt aid
  • Higher take up of financial and training support
UK-US Use of External Equity

- External equity: 14 companies (UK: 13, US: 1)
- No external equity: 8 companies (UK: 7, US: 1)

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Use of Government Business Support

Reported use of business support
Non users of business support

No of companies

UK
US

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UK-US Differences: Market Activities

• UK firms *much more likely* to export
  – US larger domestic market
  – Underlined given relatively smaller size and youth

• Some UK firms emphasised they *had to / wanted to* export
  – Growth necessitates exporting
  – Exporting is the ‘norm’ for product / service type
  – Implications for export information and knowledge
  – Implications for support and learning base
Exports constitute > 50% of sales
Exports constitute 10-49% of sales
Exports constitute < 10% of sales
No exports

No of companies
0
2
4
6
8
10
12
14

UK
US

Export Activity

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Further research: different methods

• Larger scale, quantitative may facilitate controls and validate tendencies
  – eg isolate impact of relative strength of a factor such as sector vs location

• Are processes related to firm size / age / specific sub-sector differences?
  – Or national contexts / regulatory structures / history of interventions?
  – eg do US firms need higher minimum efficient scale to operate?
Further thinking: some questions

• What can slower growth UK firms learn from fast growth firms?
  – eg. heighten possibility of need to be export ready?

• What can UK learn from US experiences?
  – Care needed in seeking to transfer practice
  – eg. US: culture of planning for growth?

• Here focus on ‘fast growth’ firms
  – How about those on the brink or cusp of growth?
  – What of the barriers to their growth?
  – And challenges of adjustments to ‘ups’ and ‘downs’
Summary

• Growth is not a linear process
• Sample shows similarities and differences between UK and US samples
• Motivations, educational qualifications similar
• UK SMEs smaller, but ‘more open’ to wider contexts
• Growth path of UK SMEs different to US firms
• But, care over simple US / UK dichotomy