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The performance of Scotland's high growth companies

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Abstract

The process of establishing and growing a strong business base is an important hallmark of any successful economy. The pace of business start-ups and their subsequent growth has challenged policymakers for decades. While there has been a major research focus on entrepreneurship in Scotland, less attention has been focused on how Scotland is doing at the top end of SMEs. This article examines key data on new high-growth companies in Scotland. It first examines the age profile of Scotland's Top 100 companies, especially the extent to which these are new or well-established, and compares this UK and US experience. The article then focuses on Scotland's high growth firms (HGFs), in particular how Scotland performs in producing top high growth firms in relation to the UK. A key question is how many of these firms are amongst the top performing UK high growth companies and whether this has changed over time.

1. Introduction and background

The process of establishing and growing a strong business base is an important hallmark of any successful economy. The pace of business start-ups and their subsequent growth has been something that has challenged policymakers for decades.

Though Scotland ranks 9th in the UK (out of 12 Government Office Regions) in terms of the number of new business registrations each year, there are several examples of Scottish companies growing into major world-players such as Skyscanner, FanDuel and Rockstar.

Though there has been a major research focus on entrepreneurship, regarding new firm formation and SME growth, less attention has been focused on how Scotland is doing at the top end of SMEs. Previous research by Scottish Enterprise, published by the Fraser Economic Commentary, has shown fast-growth firms are important for the economy.¹⁷

This article examines key data on new high-growth companies in Scotland. First, we examine the age profile of Scotland's Top 100 companies, especially the extent to which these are new or well-established. And we compare this UK and US experience.

We then focus on Scotland's high growth firms (HGFs), in particular how Scotland performs in producing top high growth firms in relation to the UK and other similar sized countries. A study of high growth firms in Scotland undertaken by Scottish Enterprise¹⁸ in 2012 showed that Scotland had higher *rate* than the UK of high growth businesses. However, our interest is to know

¹⁷ https://strathprints.strath.ac.uk/56659/1/FEC_40_1_2016_HopkinsPRichmondK.pdf

¹⁸ <https://strathprints.strath.ac.uk/56659/>

how many of these firms are amongst the top performing UK high growth companies and whether this has changed over time.

2. How old are Scotland's top companies?

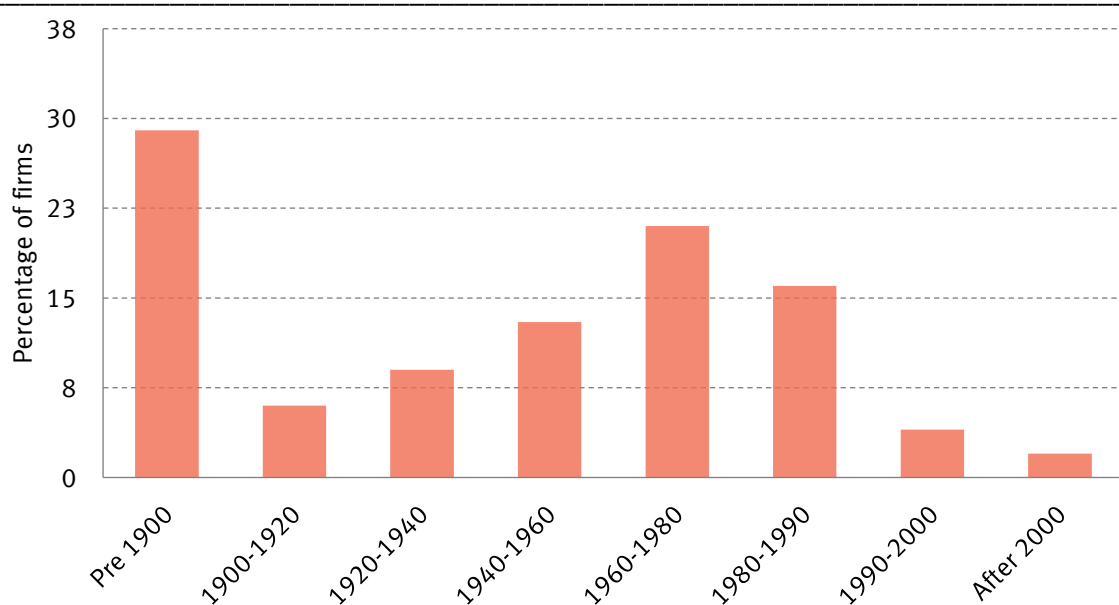
Scotland's Top 100 companies were sourced from the Scottish Business Insider magazine¹⁹, which produces an annual Top 500 list of Scotland's best performing public and private companies.

This list is ranked using a combination of annualised turnover and pre-tax profit. The business sectors vary with some of the largest turnover coming from Banking and Financial Services, Offshore Services, Services & Utilities and Transport.

Each firm was traced back to identify its year of establishment, in order to avoid misreporting company age due to changes in ownership or mergers. If a firm was the result of a merger, the age of the oldest merging firm was used.

Figure 1 shows the age distribution of Scotland's Top 100 companies, which range in age from 11 to 322 years. Very few companies have been created in the past 20 to 30 years, only eight companies in total are 30 years or younger and only two were created after 2000. In contrast, 34% of companies are over 100 years old, mainly companies in Banking & Financial Services, Food & Drink as well as Offshore / Oil & Gas sectors. The average age of a Scottish company in the Top 100 is approximately 87 years old.

Figure 1: Age distribution of the top 100 Scottish firms



Source: Business Insider Top 500 2017

¹⁹ <http://www.oascotland.org.uk/wp-content/uploads/2016/09/Top-500-Companies-2017.pdf>

It is interesting to speculate why there are so few companies in the Top 100 established in the past two decades. There could be several possible explanations:

- a) there are constraints on new Scottish start-ups experiencing the fast growth required to enter the Top 100, whether **internal** (e.g. management and marketing expertise) or external (e.g. availability of finance);
- b) it takes a long time to build up a Top 100 firm in increasingly competitive markets;
- c) Scotland has not been establishing companies in fast-growing sectors;
- d) fast-growing or successful Scottish companies are taken over given the openness of the UK economy to mergers and acquisitions.

Comparisons can be undertaken with other countries to assess whether Scotland's experience is unique, or not. It should be noted that there are always challenges in comparing countries across different databases as each can be compiled in a slightly different way (e.g. revenue and profit or just revenue).

The analysis conducted here therefore is designed to only be illustrative.

For the US, a comparative assessment was undertaken by drawing on company age data from the Fortune 500²⁰ - an annual list of the top public and private companies in the US by revenue produced by Fortune magazine.

A comparison with the UK was more difficult as there does not appear to be a list which ranks the top UK public and private firms in a single data set.

Therefore, the Forbes Global 2000²¹ (a list produced by Forbes magazine which ranks the world's top 2000 public companies by a combination of revenue, profits, assets and market value) and the Sunday Times HSBC Top Track 100²² (an annual list produced by Sunday Times which ranks the UK's top 100 private firms by revenue) were merged and then ranked by revenue to create a top 100 UK sample.

Figure 2 provides an interesting perspective on the discussion of the age profile of Scottish companies in a comparison to UK and US experience.

For top UK companies, nearly 50% were founded before 1900. The average age of a UK company in the combined Forbes and HSBC Top Track list is 124 years old.

For the US, the situation is slightly different, with the majority of companies being slightly younger, with approximately 73% have been founded before 1950 with the average age being 101 years.

In comparison, top Scottish companies are younger, with nearly 50% having been established since 1950.

²⁰ <http://fortune.com/fortune500/list/>

²¹ <https://www.forbes.com/global2000/list/#tab:overall>

²² <http://www.fasttrack.co.uk/league-tables/top-track-100/league-table/>

Figure 2: Age distribution of the top 100 Scottish, US and UK firms



3. Scotland's performance in producing high growth firms (HGFs)

Here we report on Scotland's top performing high growth firms, using the OECD's definition of high growth firms as '*enterprises with average annualised growth in employees or turnover greater than 20 percent per annum, over a three year period, and with more than 10 employees in the beginning of the observation period*'.

As discussed in a 2016 article in the Fraser Economic Commentary²³, although only a small proportion of companies achieve rapid growth, they are key drivers for economic growth and job creation as they generate a disproportionate level of turnover and employment.

The latest available ONS data²⁴ show that in 2015, Scotland had 1,865 high growth firms, around 1% of total of Scottish firms.

This ONS database records every company in Scotland with 10+ employees and calculates their growth based on both turnover and number of employees over the previous three years. Using growth based on turnover, Scotland had 7.31% of the UK's total high growth firms and 6.81% when using growth based on employees.

Therefore, considering Scotland appears to be near its 'fair share' of high growth firms (which would equate to around 8%), the remainder of this paper explores how many of these Scottish high growth firms are top performing within the UK's top high growth firms. We focus on four key questions:

²³ https://strathprints.strath.ac.uk/56659/1/FEC_40_1_2016_HopkinsPRichmondK.pdf

²⁴ <https://www.ons.gov.uk/businessindustryandtrade/changestobusiness/businessbirthsdeathsandsurvivalrates/ahocs/007659highgrowthenterprises>

- Does Scotland have its ‘fair share’ (i.e. a per capita share) of the UK’s top performing high growth firms?
- Has Scotland’s performance improved or deteriorated over time?
- Are previously top high growth firms from earlier years still successful?
- How does Scotland’s performance in producing HGFs compare to other UK regions?

To assess Scotland’s current performance in relation to the UK in producing fast growing companies, two main data sources were used (See Table 1):

Sunday Times Virgin Fast Track 100²⁵ – this is an annual list which ranks Britain’s 100 private companies with the fastest growing sales over their latest three years. It covers growth companies from all sectors apart from technology. It has been produced since 1997.

Sunday Times Hiscox Tech Track 100²⁶ – an annual list produced which ranks Britain’s 100 private tech companies with the fastest growing sales over their past three years. It has been produced since 2001.

Again there are weaknesses in using just these datasets. In particular, the focus is only on private sector companies. However, they do provide a useful illustration of key trends and performance.

The Fast Track 2016 and Tech Track 2016 lists were analysed separately and then combined. This combined list of the fastest growing 100 Fast Track and Tech Track firms comprises 53 Fast Track Tech firms and 47 Fast Track firms.

Scotland’s ‘fair share’ of the top 100 high growing firms in the UK would equate to around 8% of the UK total.

As Table 1 shows, Scotland’s share of such form is lower-than-expected, were the ratio to be in line with a per capita or economy-wide share.

Scotland performed better in the tech sector with seven Scottish companies featured in the UK’s top 100 fastest growing technology firms, though it still fell short of a per capita share.

Table 1: Percentage of Scottish firms in top 100 UK lists

	% of Scottish HGFs	Average Growth	UK Average Growth
Fast Track 100 2016	3	58.7%	82.4%
Tech Track 100 2016	7	66.9%	87.9%
Fast & Tech Track 100 Combined 2016	2	107.2%	114.9%

²⁵ <http://www.fasttrack.co.uk/league-tables/fast-track-100/>

²⁶ <http://www.fasttrack.co.uk/league-tables/tech-track-100/>

Using the combined top 100 UK, only two Scottish companies appear.

Within the UK regions, Scotland has amongst the lowest representation, with Wales (2 companies) and Northern Ireland (no companies). In stark contrast, Greater London has the highest proportion with 41 companies, followed by the South East (14 companies).

The two Scottish companies featured are both tech companies:

- FanDuel, a fantasy sports game developer which has been a very successful company since its foundation in Edinburgh in 2009. However, since this list was compiled, FanDuel has moved its HQ to New York due to its success in the US. It still has many offices in Edinburgh.
- ECS Security, an IT infrastructure consultancy founded in Glasgow in 2008, whose customers include three of the UK's five biggest banks.

Companies which are featured in the individual Fast Track and Tech Track lists include BrewDog (craft brewer), Skyscanner (travel search engine) and RHA (headphone designers).

These companies do not make the top 100 combined UK list but still meet the OECD's definition of a high growth firm with annual growth rates over the last three years well above 20%. Skyscanner appeared in the Tech Track 100 lists for a record seven consecutive years in 2016 but does not feature in the 2017 list as it has been acquired by Chinese company Ctrip, although it is still headquartered in Edinburgh.

Of the 10 Scottish companies featured in the top 200 UK Fast and Tech Track lists, eight of them are located in Scotland's biggest cities Glasgow and Edinburgh. The remaining two are located in areas surrounding Glasgow and Aberdeen. Moreover, at the time of listing in 2016, 8 of them had been founded within the past 10 years.

The average annual growth for the Scottish companies listed is 20% less than the UK average in both the Fast Track and Tech Track 2016 individual lists. The average annual growth for Scottish companies in the combined list is 7.7% less than the UK average, likely due to the fact there are only two companies and one of them (FanDuel) has a very high annual growth over three years of 128.2%. In summary, Scotland has arguably underperformed in both the quantity of HGFs it is producing compared to the UK and also in their average growth rate.

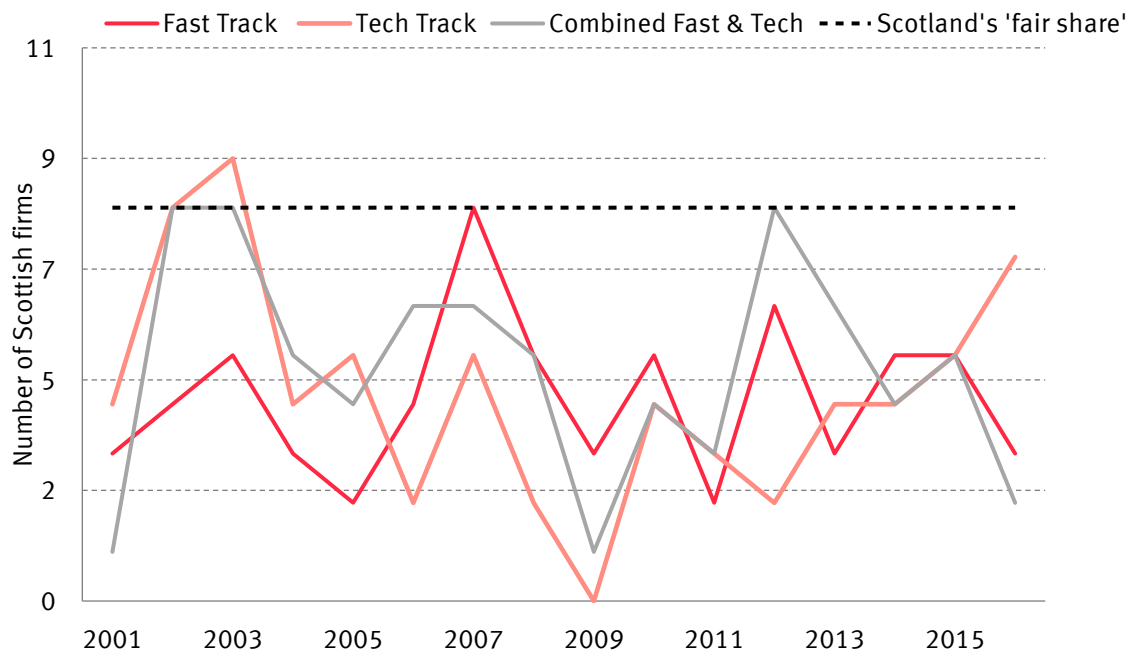
4. Has Scotland's performance improved over time?

The Fast Track 100 league tables have been produced since 1997 and the Tech Track since 2001.

Scotland's performance has fluctuated since 2001. The overall trend in each list appears to be that Scotland has had a below per capita share for most years.

Scotland's performance declined generally after highs in 2002 and 2003, reaching lows around 2009. After 2009, Scotland's performance picked up and companies in each list experienced an increase over the following few years, particularly in 2012.

Figure 3: Number of Scottish firms in each list since 2001



Sources: Sunday Times Fast and Sunday Times Tech Track 2001 - 2016

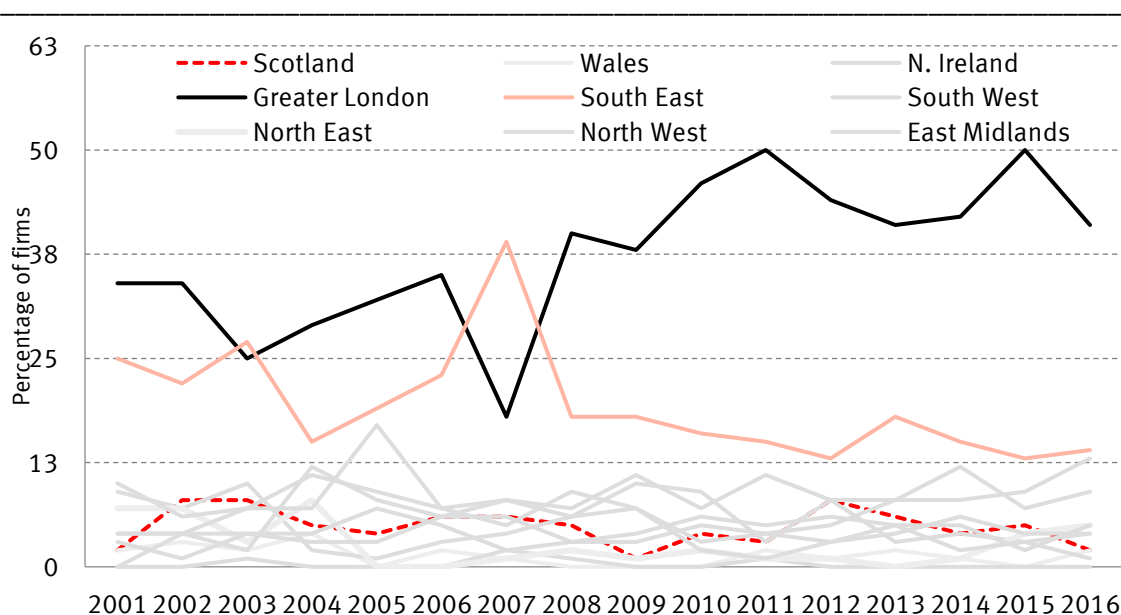
A closer look at the combined top 100 Fast Track and Tech Track list shows Scotland has only had its fair share three times; in 2002, 2003 and 2012. It experienced lows in 2001 and 2009, with only one company featured in each year. 2016 is amongst the lowest represented year with two companies. On average, Scotland has 4-5 companies featured in the UK's top 100.

Comparing Scotland's performance to other parts of the UK shows a mixed picture (See Figure 4). Greater London and the South East of England dominate the UK's high growth lists. Scotland performs averagely in comparison with the remaining UK regions. Since 2011 it has produced similar numbers of top high growth firms as the West Midlands, the South West and Yorkshire and the Humber. Scotland performs better than Wales, Northern Ireland and the North East which have all had no listed companies in several years since 2001.

Since 2001, 50 different Scottish companies have featured in the combined top 100 lists, with some of them appearing in consecutive years. There is a fairly even split of 24 tech and 26 non tech companies. And the geographical location of these companies are fairly similar.

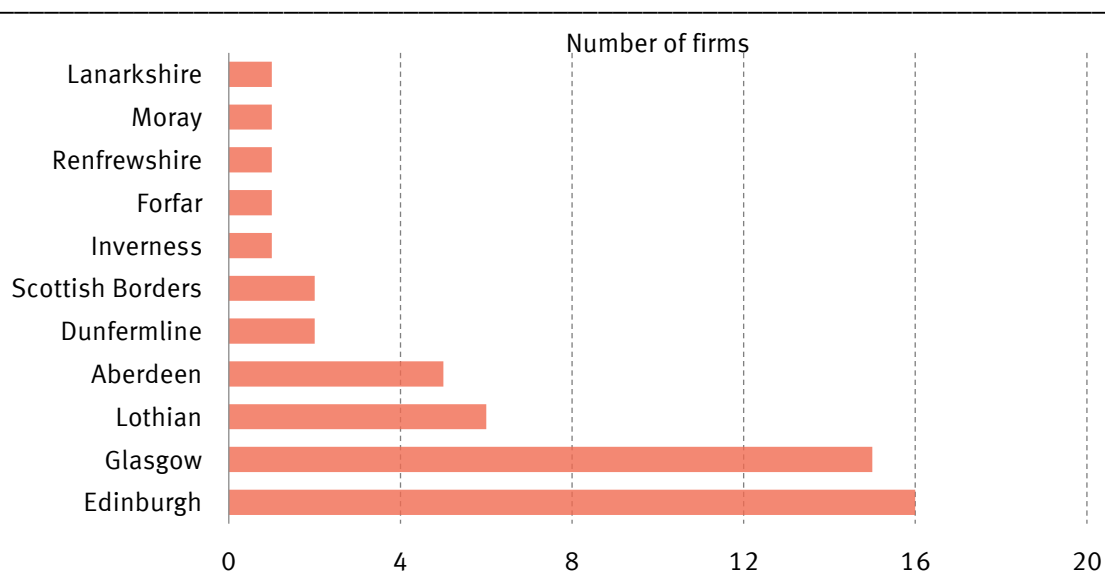
Since 2001, approximately 72% of the Scottish companies on this list have been located in Edinburgh, Glasgow and Aberdeen (see Figure 5), with many of the remaining companies located close to the cities, especially to Edinburgh.

Figure 4: Percentage of high growth firms by region in combined Fast & Tech track lists since 2001



Sources: Sunday Times Fast and Sunday Times Tech Track 2001 - 2016

Figure 5: Locations of the Scottish HGFs listed 2001 - 2016

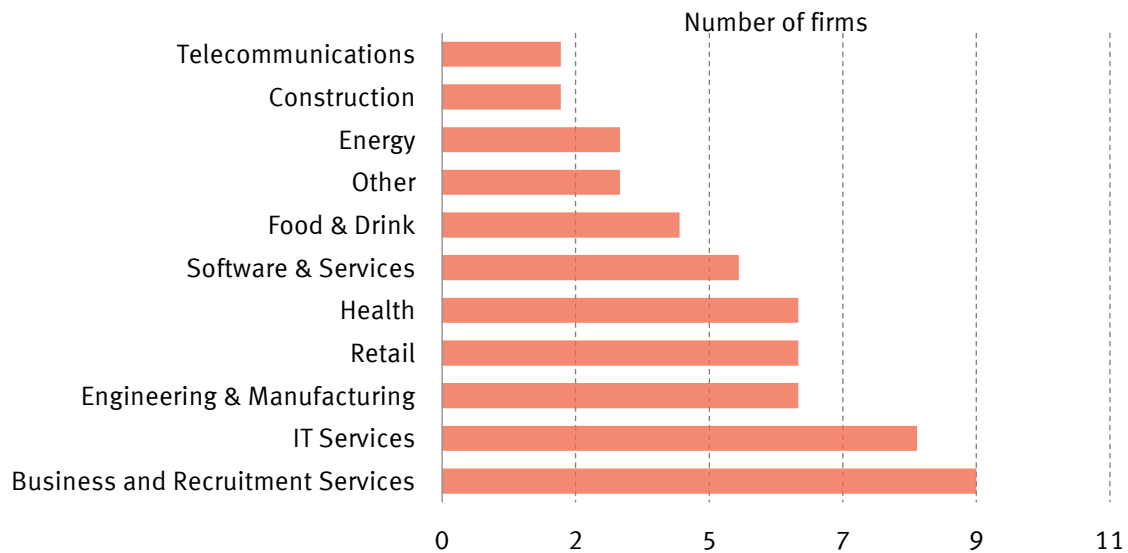


Sources: Sunday Times Fast and Sunday Times Tech Track 2001 - 2016

The Scottish companies featured in this list operate in a variety of sectors and industries. Of the 50 Scottish companies listed since 2001, 24 of them have been from the Tech Track

technology list (see Figure 6). These companies are most heavily concentrated in Business & Recruitment Services, Engineering & Manufacturing, Retail and IT Services.

Figure 6: Sectoral breakdown of the Scottish listed HGFs 2001 - 2016



Sources: Sunday Times Fast and Sunday Times Tech Track 2001 - 2016

Figure 7: UK and Scottish Average annual growth 2001 - 2016



Sources: Sunday Times Fast and Sunday Times Tech Track 2001 - 2016

Both Scotland and the UK as a whole appear to have experienced a steady decline in average annual sales growth in the top 100 companies, although their growth is still well above the 20% growth rate which the OECD definition requires (see Figure 7). Scotland performs similarly to the UK average. However, this is due to there being a smaller number of Scottish companies listed, some of whom have higher growth rates than the UK average.

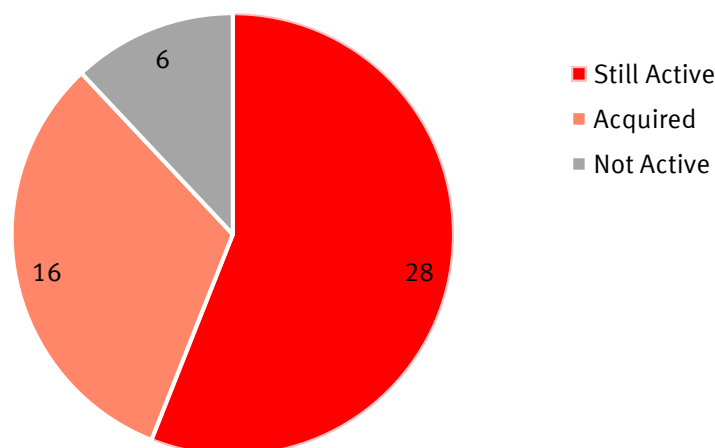
Scotland had its highest average annual growth rate of 164% in 2004, compared to 165% in the UK. Since 2001, its lowest average annual growth rates were in 2008, 2009 and 2012. This again may be linked to the financial crisis in 2008.

The average age of Scottish companies at the time of inclusion on the listing is 10.5 years old. Excluding Hunter Boot, the Wellington boot retailer founded in 1856, and Barrhead Travel agency founded in 1975, all of the companies were founded after 1989. With these exceptions, the average age is just over 8 years old.

5. Where are the high growth firms now?

Many of the Scottish companies featured in the combined top 100 UK lists are still thriving successful companies today - see Figure 8. But of the 50 Scottish companies which have made it onto these lists since 2001, it would appear that over 40% of them have either been acquired by UK or foreign companies or no longer exist.

Figure 8: Current status of the 50 Scottish HGFS listed 2001 – 2016



Sources: Sunday Times Fast and Sunday Times Tech Track 2001 - 2016

The majority of the companies which no longer exist or have been taken over come from the earlier listings. Of the 23 companies listed between 2001 and 2006, approximately 65% of them no longer exist or have been acquired.

6. Conclusions

This article has examined Scotland's performance in producing successful and high-growth companies. Based on the research undertaken, the following conclusions may be drawn.

- Scotland's top high growth companies are relatively long-standing with most having been founded before 1960, and many before 1900.
- Compared to the UK and the US, Scotland has a higher proportion of younger, high growth companies (perhaps as a result of consistent acquisition of Scottish HGFs).
- Scotland tends to have slightly fewer top UK performing high growth firms than its economy-share would suggest.
- The majority of Scotland's top high growth firms are located in Glasgow and Edinburgh (62%).
- The majority (65%) of Scotland's high growth companies are found in Business and Recruitment Services, IT Services, Engineering & Manufacturing, Retail and Health sectors.
- Over a third of Scotland's top high growth companies have been acquired by UK and foreign companies over the past two decades.

Further research on the performance of Scotland's high growth firms (HGFs) could usefully focus on assessing Scotland's performance in a European context, specifically comparing Scotland to similarly sized countries such as Finland, Denmark and Norway.