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UNDERSTANDING THE SME 'DRAG EFFECT' IN THE WEST MIDLANDS ECONOMY

FINDINGS OF PSP GROWTH DIAGNOSTIC (SURVEY)

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CONTENTS

KEY POINTS

This report provides an in-depth analysis of the SME economy in the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) and Black Country Local Enterprise Partnership (BCLEP) with the main objective of enhancing our understanding of the reasons behind the SME drag effect on the West Midlands economy.

This report uses data from our own Promoting Sustainable Performance (PSP) survey (see Appendix A for details of this methodology) conducted between March 2018 and March 2020. We investigated a sample of SMEs operating in GBSLEP and BCLEP economies with respect to their growth and wider business activities. We compared four SME growth classifications, namely high growth firms (HGFs), low growth firms (LGFs), static firms (SFs), and declining firms (DFs).

Our findings show that

- Future growth aspirations are not systematically supported by structured reflection, learning, planning and strategy.
- A general lack of understanding of strategic management by the owner-managers manifests in a strong reliance on managing the business on their own rather than involving other specialised people in business operations, substituting accounting-related measures for strategic measures for performance, and confusing having a business plan with having a business strategy.
- An excessive and short-term focus on sales and marketing strategies is at the core of SME management priorities. However, high growth is more likely when a long-term perspective in developing value-creating relations with customers & suppliers is pursued and when SMEs undertake strategic investments in technology acquisition and human resources.
- While product or service differentiation or finding a niche is a recipe for SME growth, when complemented with cost leadership strategies, it leads to high/rapid growth, as the latter stimulate achieving higher productivity (e.g. through more process innovation and the use of technology).
- Growth is more likely when employees become a source of competitive advantage, which in turn helps overcome productivity problem. However, SMEs are less likely to communicate their strategies with their employees, to invest in hiring qualified skilled employees and in training their existing employees.
- Growth is more likely when information and advice are sought strategically. It is not only about the kinds of information and advice SMEs seek but also about how they operationalise this information and advice through their business strategy (i.e. leveraging their capabilities).

Our analysis of the SME growth classifications detects that DFs purport to utilise similar practices and strategies to HGFs but it does not necessarily deliver growth. This result highlights that in order to successfully implement the strategies of HGFs, the firm needs a proper understanding of business strategy development and structured purposeful planning. Moreover, this understanding needs to be complemented with capability development within the firm. This holds regardless of the sector an SME is operating in.

We recommend that in a business environment shaped by the Covid-19 pandemic, policies need to consider accommodating the needs of a wider variety of SMEs (i.e. not only HGFs) both for survival and growth through improved productivity and efficiency. For this, a new approach to SME development and growth needs to be adopted by SME owner-managers and the local authorities, which will be elaborated on in our third report.

1. INTRODUCTION

This report is the second of our three interlinked reports on SMEs in the West Midlands. In the first report, we analysed key regional economic data and introduced the idea of a SME drag effect on a West Midlands economy that was thriving since 2012 against all the odds of the 2008 Global Financial Crisis (GFC). In the West Midlands, the structural shift in the composition of industries from manufacturing to services during this period has prompted/driven a relative productivity improvement but was not sufficient to fully compensate for the existing low SME productivity. This was not the ideal situation for SMEs to be in when the Covid-19 pandemic hit. Therefore, it is important to understand the contextual characteristics of SME development and growth as enablers or as barriers, particularly just before the Covid-19 pandemic, to guide the policies that target supporting SMEs during and after the Covid-19 pandemic.

In this second report, our main objective is to pinpoint how these characteristics of the SME growth might be impacting fluctuating levels of productivity and hence a 'survival economy' over the last decade – a situation that has potentially got worse in some sectors due to the impact of Covid-19 pandemic. In this report, we aim to gain an understanding not just of high growth firms (HGFs) or declining firms, it is important to identify the characteristics of different growth rates. We examine a wide variety of SME development and growth indicators to identify the major promoting as well as hindering factors that play a part in creating or overcoming the SME drag effect. The barriers are likely to cause the SME economy to be less productive than it could have been and blocks potential improvements to low SME productivity in the West Midlands. This, in turn, subdues the potential impact of the region's changing industrial structure on promoting the overall West Midland's economy to reach its full potential. Only by identifying these barriers can we take a small step towards reducing or eliminating these barriers.

We provide an in-depth analysis of the SME economy in the West Midlands based on our own Promoting Sustainable Performance (PSP) survey data. Our findings indicate that the SMEs that implement a structured performance and planning strategy are more likely to grow. A long-term focus on value chain strategy and human resource management brings high growth, so does the use of technology and harnessing innovative capabilities within the firm. Our findings on the SMEs that are in decline but implement similar strategies to HGFs to stay afloat suggest that having these strategies in place is not the same as their successful implementation.

We recommend that, in a business environment shaped by the Covid-19 pandemic, SME policies need to consider accommodating the needs of a wider variety of SMEs. The target group needs to go beyond a minority of SMEs that show potential for high growth and high productivity. A majority of the SMEs that constitute the backbone of the local economies grow at a lower but steady rate or simply have static growth, and with the Covid-19 pandemic, they need more support and direction for survival and growth through improved productivity and efficiency.

2. THE SURVEY AND THE METHOD

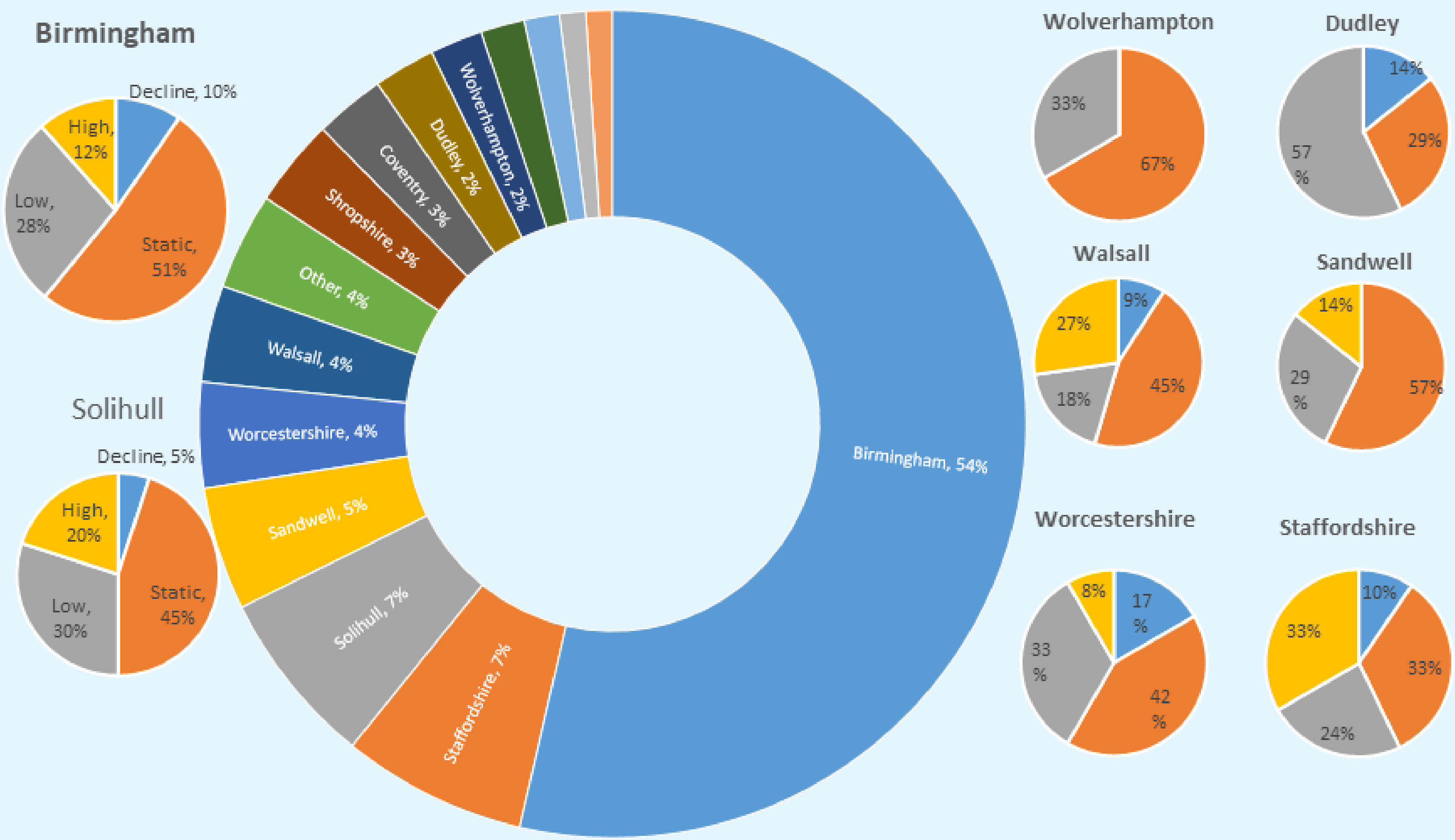
2.1 PROMOTING SUSTAINABLE PERFORMANCE (PSP) GROWTH DIAGNOSTIC

In the Centre for Enterprise, Innovation and Growth (CEIG), we have continued to develop a growth diagnostic, Promoting Sustainable Performance (PSP). PSP is a research tool designed to investigate the key components contributing toward SME development and growth. It takes a multidisciplinary approach to analysing the performance and growth of SMEs. it allows us to conduct an in-depth study of SME growth by covering many perspectives such as growth patterns, organisational change, markets & competition, management & strategy, external relations, innovation, ICT, performance management & measurement, knowledge and human resource management, supply/value chain management, advice and networks, corporate social responsibility, and marketing.

The research process took place in the West Midlands between March 2018 and March 2020, up until the Coronavirus crisis. Data was collected from 291 SMEs operating in a wide variety of sectors and located in the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) and Black Country Local Enterprise Partnership (BCLEP) of the West Midlands.

Figure 1 displays the distribution of surveyed SMEs by the local authorities. Within the GBSLEP, the biggest share belongs to those firms from Birmingham (54%) and Solihull (7%), accounting for 61% together. In addition, other GBSLEP local authorities covered include Staffordshire (7%) and Worcestershire (4%). The representativeness of BCLEP firms in our survey is 13%. (Sandwell (5%), Walsall (4%), Wolverhampton (2%), and Dudley (2%)). The other counties in West Midlands, i.e. Shropshire (3%), Coventry (3%), Warwickshire (2%), Herefordshire (1%), Stoke-on-Trent (1%), and Telford and Wrekin (1%) are represented by 11% of the firms in our survey.

Figure 1. The Distribution of firm growth classifications by GBSLEP and BCLEP



2.2 SME GROWTH CLASSIFICATIONS

Previous literature strongly recommends the use of multiple indicators to examine firm performance and growth (Delmar and Davidsson 2003, Blackburn et al. 2013). In this report, we constructed a composite measure for SME growth (Hamann et al. 2013), the SME growth indicator, which aggregates the three main dimensions, namely growth in employment, sales revenue and in profits (Table 1). We specifically asked West Midlands SMEs about their growth tendencies in each of these dimensions over the last three years.[1] Each of these dimensions was measured via five categories: whether the firm's growth has reduced sharply on average by more than 20% per annum, reduced steadily on average by 5-20% per annum, remained the same varying by +/- 5% per annum, grown steadily on average by 5-20% per annum or grown rapidly on average by more than 20% per annum.

Table 1. Definition and measurement of SME Growth Dimensions

SME Growth Dimension	*Definition*	*Measurement items*
Employment	SME Growth tendency over the last three years in employment	*Reduced sharply* on average by more than 20% per annum, *Reduced steadily* on average by 5-20% per annum, *Remained the same* varying by +/- 5% per annum, *Grown steadily* on average by 5-20% per annum, *Grown rapidly* on average by more than 20% per annum.
Sales Revenue	SME Growth tendency over the last three years in sales revenue	
Profits	SME Growth tendency over the last three years in profits	

Therefore, the SME growth composite indicator measures the overall growth tendency of each SME over the last three years. By ranking the scores, we created four groups of firms: High growth (HGFs)[2], Low growth (LGFs), Static growth (SFs), and Declining firms (DFs) (Table 2). Across our sample of 291 SMEs, 47% of the SMEs were identified as static firms, 29% were low growth firms, 15% were HGFs and 9% were declining firms.

[1] The Cronbach coefficient alpha of these three growth indicators is 0.81, (when compared to Nunally's (1978) cut-off value, which is 0.7), a value high enough to conclude that these three growth indicators will reliably measure the growth construct we would like to create.
[2] The use of composite measure distinguishes our definition of HGFs from the conventional OECD and Eurostat definition. Their HGF definition is based on pre-determined criteria of firms have at least 10 employees at the beginning of the growth period and an annualised growth rate in 'employment' exceeding 20% during a three-year period. Our high growth category is created based on composite measure techniques and therefore takes into account the annualised growth in 'employment', 'sales revenue' and 'profits' rather than focussing on growth in one of these areas.

Table 2. Classifying firm groups by their SME growth composite indicator scores

Firm Growth Classifications	Score range	Firm Group size (frequency)	Percent in Total
High Growth Firms (HGFs)	HGF ⩾ 1	43	15%
Low Growth Firms (LGFs)	0 < LGF < 1	84	29%
Static Growth Firms (SFs)	-1 < SF ⩽ 0	137	47%
Declining Firms (DFs)	DF ⩽ - 1	27	9%
Total sample		291	100%

Table 3 presents the distribution of the firm growth classifications in the GBSLEP and BCLEP areas. The predominance of SFs is observed in both GBSLEP (48%) and BCLEP (50%). LGFs account for a quarter to one third of the SMEs in the GBSLEP and BCLEP respectively. Twice as many SMEs are in decline in GBSLEP (10%) than in BCLEP (5%).

Table 3. Distribution of SME responses in GBSLEP and BCLEP by Growth Classifications

Firm Growth Classifications:		HGFs	LGFs	SGFs	DFs	Total sample
GBSLEP	% in Growth Classification	70%	69%	74%	74%	72%
	% in total	14%	28%	48%	10%	100%
BCLEP	% in Growth Classification	12%	14%	14%	7%	13%
	% in total	13%	32%	50%	5%	100%

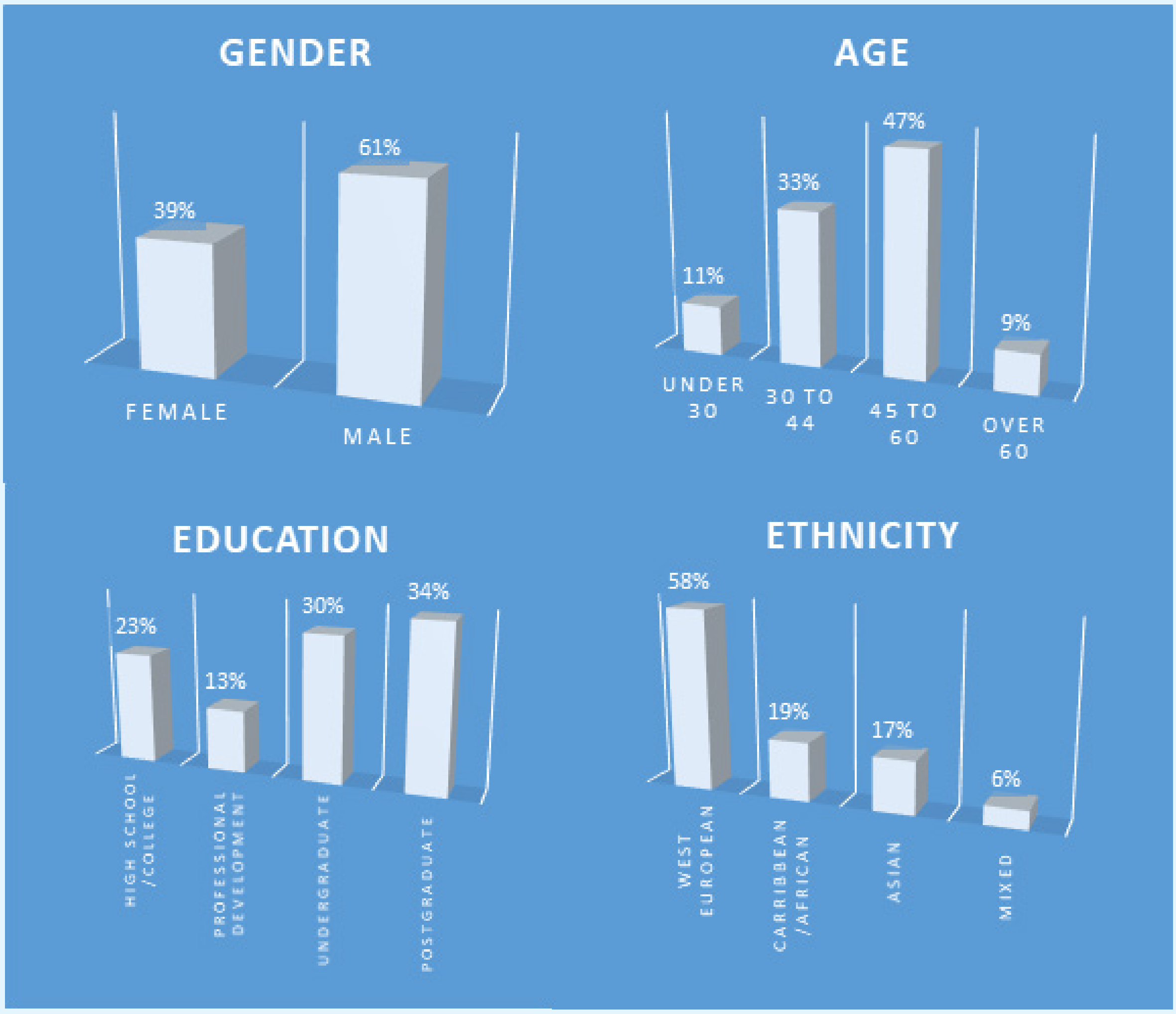
Figure 1 details this distribution by local authorities. The share of HGFs is strikingly high in Staffordshire (33%) and Solihull (20%) in the GBSLEP and Walsall (27%) in the BCLEP. In the BCLEP, Dudley and Wolverhampton have a dearth of HGFs but are dominated by LGFs (57% and 33% respectively) and SFs (29% and 67% respectively) respectively. Wolverhampton and Sandwell are singled out with no SMEs in the decline classification. In the GBSLEP, Solihull has the lowest share of declining SMEs (5%).

3. SAMPLE CHARACTERISTICS

3.1 THE CHARACTERISTICS OF THE OWNER-MANAGERS [3]

Figure 2 provides the distribution of owner-managers by gender, age, education level, and ethnicity in the total sample. The discussion below details these characteristics by firm growth classifications.

Figure 2. The characteristics of owner-managers in the sample



[3] The owner-manager in our survey refers to owner, owner-manager or most senior manager.

While male entrepreneurship continues to dominate, there is a strong association between the gender of the entrepreneur and the sector these entrepreneurs are operating in.

Gender. Around 40% of entrepreneurs are female owner-managers in all SMEs. The discrepancy between male and female owner-managers is the least among SFs. Female entrepreneurs are present in the small retail and services sector where they can make a social contribution such as human health & social work activities, accommodation & food services, and administrative and support services. Male entrepreneurs, on the other hand, specialise in more masculine and profit-oriented sectors such as manufacturing, professional, scientific & technical activities as well as transport & storage sectors.

Growing firms are likely to have young owner-managers.

Age. Middle-aged owner-managers (i.e. 30 to 60) predominate in all SMEs. LGFs are three times more likely to have owner-managers who are under 30 than over 60 while declining firms are twice more likely to have 45 to 60 than 30 to 44. Around one in ten SMEs with over 60s owner-managers has either prospering HGFs or declining businesses.

West European owner-managers are more likely to achieve higher growth despite operating in declining sectors.

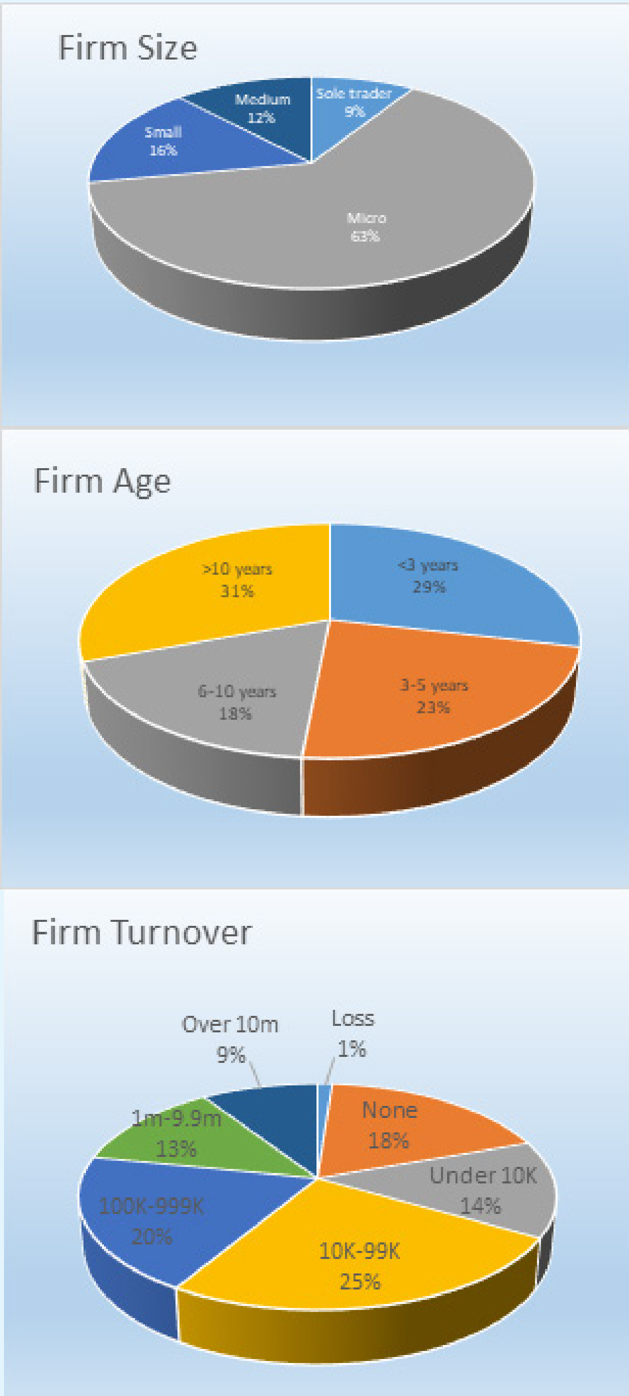
Ethnicity. West Europeans (British, Irish, and other white background) predominate in all SMEs: HGFs (74%), DFs (59%) in LGFs (52%) and SFs (51%). West European owner-managers strongly associate with sectors such as professional, scientific & technical activities, manufacturing, construction, and wholesale & retail activities. LGFs display the highest likelihood among mixed ethnicity businesses, while there is no mixed ethnicity among HGFs.

Ethnic businesses tend to have static or no growth despite operating in growing sectors.

A quarter of the Caribbean and African owner-managers achieved static growth, while around one in ten either achieved high growth or declined. African owner-managers operate in human health & social work activities and administrative & support services, yet there is no association between Caribbean businesses and particular sectors. Variation among Asian owner-managers was low, with more likelihood to stay static or decline than to grow. Asian businesses associate with sectors such as education, financial & insurance services, information & communication.

The higher the education level of owner-manager the more the firm's growth level.

Figure 3. The characteristics of SMEs in the sample



Education. 64% of the owner-managers had a higher education degree including postgraduate qualification. However, this reduced to slightly less than a half in DFs. Around 35% of owner-managers with a postgraduate qualification were likely to achieve high growth, stay static or decline and those with an undergraduate qualification were likely to achieve low growth.

3.2 THE CHARACTERISTICS OF THE SMEs

This section identifies the major business characteristics of the West Midlands SMEs. Figure 3 provides the overall characteristics of SMEs in our sample.

Firm size varies in growing firms more than in static and declining firms.

Our sample consists of 9% sole traders, 63% micro, 16% small, and 12% medium-sized firms. Rather more declining and static SMEs (70%) than HGFs and LGFs (56%) are micro firms. One fifth of LGFs and HGFs are small-sized, and 15% of LGFs and 12% of HGFs are medium-sized. The proportion of sole traders in HGFs is double the other classifications. Twice as many medium-sized firms experience decline than sole traders and small firms.

Table 4 presents the demographic variables of our data; the size (micro, small, and medium), age (number of years since inception), and turnover.

Table 4. Business Characteristics by Firm Growth Classification

Firm Growth Classifications:		HGFs	LGFs	SGFs	DFs
Size	**Sole trader** (no employee)	14%	8%	8%	7%
	Micro (1-9 employees)	56%	56%	68%	70%
	Small (10-49 employees)	19%	20%	15%	7%
	Medium (50-249 employees)	12%	17%	9%	15%
Age	**<3 years**	30%	21%	36%	11%
	3-5 years	28%	31%	17%	22%
	6-10 years	19%	18%	16%	26%
	>10 years	23%	30%	31%	41%
Turnover	**Under 10K**	19%	13%	42%	30%
	10K-99K	30%	30%	17%	19%
	100K-999K	19%	18%	16%	30%
	1m-9.9m	16%	12%	9%	15%
	Over 10m	12%	11%	5%	4%
	No response	5%	17%	12%	4%

Younger firms and growth are positively related.
Over half of the growing and static SMEs are less than and equal to five years old. A quarter of DFs are 6-10 years old and two fifths of DFs over 10 years old; indicating that growth slows down as the firms get older. This result is in line with the HGF literature (Daunfeldt et al. 2014).

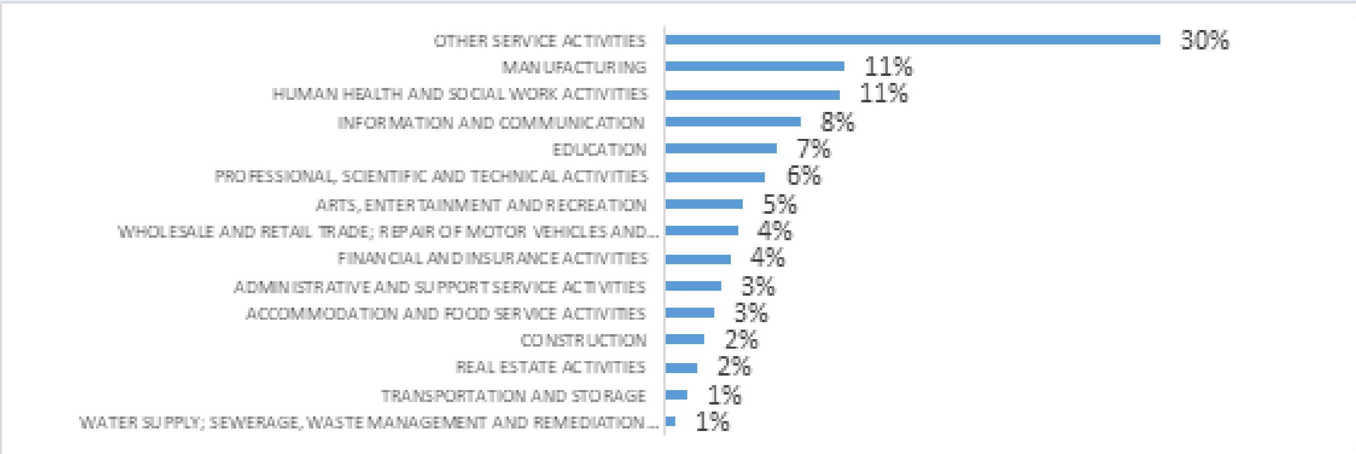
Growing firms achieve a high turnover.
The SMEs were asked what their actual annual sales turnover was. SFs and DFs predominantly fall within the lower end of turnover (under £10K). A third of the growing firms have a moderate turnover of £10K to £99K. A quarter of declining firms manage a turnover of £100K to £999K. Yet, 28% of HGFs and 23% of LGFs have the highest share for having a turnover of over £1million, out of which around one in ten have a turnover over £10m.

Prospering sectors do not necessarily lead to SME growth.[4]
86% of the total sample is in the services sector, 11% in manufacturing, and only 2% is in construction. The highest share is 'other service activities'[5], followed by manufacturing (an industry that is on the path of recovery since the 2008 GFC) and human health and social work activities (Table 5).

[4] We used UK Standard Industrial Classification of Economic Activities - SIC Code 2007 - to compare the SMEs' distribution of sectors in our survey with the ONS data on West Midlands' SMEs presented in CEIG Report No 1/2021.
[5] This sector is composed of the activities of membership organisations such as business and employers organisations, trade unions, political and religious organisations, the activities of computers and personal and household goods and other personal service activities such as washing, dry cleaning, hairdressing, physical well-being and funeral activities (ONS 2009:53).

We detail the sectors the West Midlands SMEs operate in (sixteen sectors in line with ONS data (2009)) and their governance in terms of ownership and management structure.

Table 5. Sectoral distribution of SMEs



HGFs (42%) predominantly operate in other service activities. HGFs (12%) are also strongly present in professional, scientific and technical activities, a sector that requires qualified personnel, possibly with substantial levels of higher education. The human health and social work activities sector predominantly consists of SFs (14%) and LGFs (10%). LGFs differ from other firms by also operating in declining sectors of the West Midlands in the last twenty years such as manufacturing (13%), and no growth sectors such as construction (4%) and transportation & storage (4%). Contrarily, DFs operate in the improving services sectors such as the education sector (15%) and the information and communication sector (11%). They also are strongly present in the real estate sector, which has experienced the sharpest decline after manufacturing between 1998 and 2018.

It is hard to envisage an association between SME growth and prospering sectors. As the opportunities in each sector arise or fade away with the changing economic situation, the level of competition and technological progress, the growth tendencies of the SMEs in these sectors also might expand or shrink. Hence, SME growth is related to a firm's capabilities for taking advantage of the arising opportunities in its sector, whether declining or prospering.

Beginning a business as a new start-up and operating as a corporation are predominant features of the SME sector in the West Midlands.

Our sample is predominantly composed of businesses that began as new start-ups. Being a corporation is the most common operating entity among all SMEs, except SFs that also operate as sole proprietors (31%) and not-for-profit (13%). HGFs differ from other firms by being established as spin-offs from an existing organisation (one in five) and operating as a partnership (one in ten).

High growth strongly associates with being owned and managed by the private shareholder.

On average, 71% of SMEs are owned and managed by private shareholders, and this proportion increases to 91% in HGFs. While family ownership is much less likely in HGFs, in LGFs it is not only strongly present but also tends to run by up to fourth generations.

Growing firms involve others in their management activities alongside the owner.

60% of SFs are managed by the owner alone. DFs almost equally involve the owner and others in their management activity. A small but important 7% of HGFs are also managed by others.

Having successive ventures is likely to bring high growth.

On average around 70% of entrepreneurs whose business is their first venture experience low, static and negative growth and a quarter of entrepreneurs experience decline during their second ventures. HGFs, however, are exposed to varied experiences and learning effects from moving on to second and third ventures (a quarter of HGFs).

4. KEY PSP GROWTH DIAGNOSTIC RESULTS

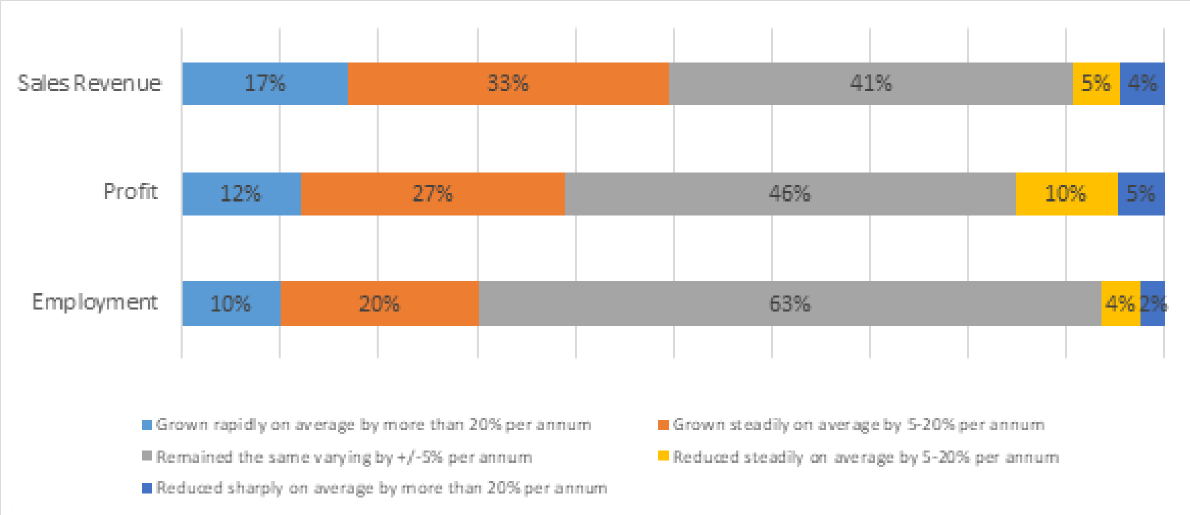
This section examines SME growth from the perspectives of i) how SMEs performed over the last three years, ii) how they perceive future growth factors, iii) the key performance measures they use and iv) the business strategies they pursue.

4.1 GROWTH PERFORMANCE OVER THREE YEARS

SMEs are more likely to experience rapid or steady growth in sales revenues than profits or employment, indicating a conscious focus of growing firms on sales. This over-emphasis on costs and sales can detract from addressing wider growth issues.

Growth Measures. Half of SMEs enjoyed a growth in sales revenue whilst 41% experienced stable sales revenue (Figure 4). A third of the SMEs in our survey contributed to creating new jobs, yet for 63% of the SMEs, the employment levels remained the same over three years. Only 39% reported growth in profits. A decline in profits was reported more than a decline in employment or sales revenue. In all three growth indicators, the experience of rapid growth (on average by more than 20% per annum) is roughly half of the experience of steady growth (on average by 5-20% per annum).

Figure 4. Growth in employment, sales revenue and profit over three years



Firm growth associates strongly with growing markets.

Markets. SMEs were asked which best describes the current market for their main product or service; growing, stable, declining, or inconsistent. Three quarters of HGFs and about 70% of LGFs perform their business in growing markets in comparison to 57% of SFs and 41% of DFs. Around a fifth of firms operate in stable markets. DFs differ with a considerably high presence in inconsistent and declining markets (e.g. no HGFs or LGFs operate in declining markets).

The market competition does not discriminate among firm classifications.

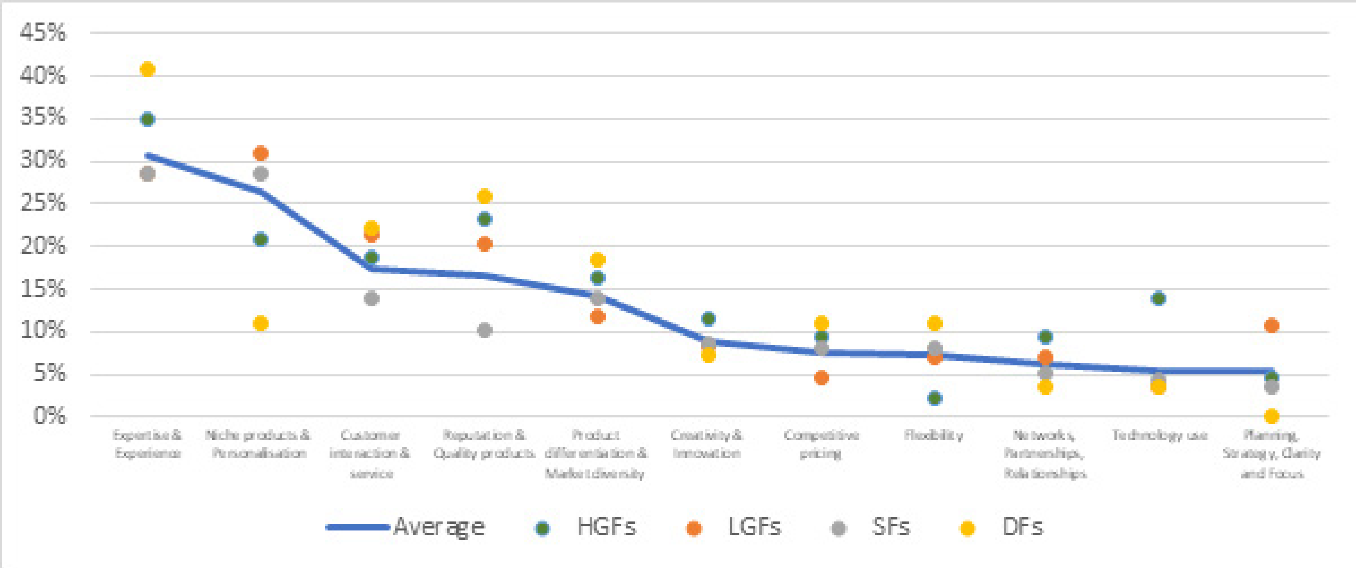
Around three out of five SMEs report 'many' competitors, and for DFs this rate slightly rises to seven out of ten. Only 9% of HGFs report no competitors and 39% of LGFs report few competitors who are likely to enjoy the advantages of niche products in their markets.

Top 5 competitive advantages

However, if markets are growing but highly competitive, firms would do well to focus on their competitive advantages. There were five main areas mentioned by SMEs as forming their competitive advantages:

1. Expertise, the experience of employees and training capability (31%),
2. Niche products and personalisation of products/services (26%),
3. Customer interaction and service (18%),
4. Quality products and reputation (16%),
5. Product differentiation and market diversity (14%).

Figure 5. Competitive advantages



DFs run the risk of overestimating their competitive advantages.

All SMEs rely on their 'expertise and experience'; yet, DFs (41%) and HGFs (35%) put a strong emphasis on it. DFs (26%) are on a par with HGFs (23%) and LGFs (20%) in adopting 'reputation and quality products' as a competitive advantage. 'Niche products and personalisation of services' is the most important competitive advantage for LGFs (31%) and it is as important as the experience and expertise for the SFs (28%). DFs report being as competitively advantaged in 'customer interaction & service' and 'product differentiation & market diversity' as growing firms. DFs (11%) surprisingly report a competitive advantage over HGFs (2%) in being a 'flexible organisation' and over SFs in 'competitive pricing'.

Technology, innovation, strategy & planning, and networks distinguish growing firms from others.

HGFs (14%) strongly distinguish from other firms in viewing 'technology use' and 'creativity and innovation' as their competitive advantages. Similarly, LGFs (11%) strongly distinguish from other firms with regard to their capability for 'planning, strategy, clarity and focus'.

Export active SMEs engage in direct exporting and run overseas sales offices rather than overseas production.

Exports. A quarter of our sample is export active and consists of 42% of SFs, 29% LGFs, 20% HGFs, and 9% DFs. Around three quarters of these exporting SMEs achieved a quarter to half of their sales revenue from direct exporting and running an overseas sales office during 2018-2019, indicating that they are involved in less sophisticated international activities than production.

High growth is associated with having a presence in wider markets.

Around 30% of the export active SMEs started exporting either in their first five years or in five to nine years. 54% of HGFs export for less than 5 years and their exporting activities strongly associate with global markets, also known as 'born globals' in the SME internationalisation literature. These firms are being exposed to a variety of competition and learn new skills to grasp further growth opportunities.

Growing firms are more risk-takers than SFs and DFs in their ventures to new export markets.

Other than the EU and the US markets, growing firms venture into new geographical markets to export, such as HGFs into Asian markets and LGFs into Middle Eastern markets, while SFs and DFs pursue traditional markets of British heritage (Commonwealth countries) with familiar institutional and market systems (e.g. Australia and New Zealand, Africa and Central and South America).

Many years of experience in export markets does not necessarily translate into SME growth.

37% of SFs have been exporting for more than twenty years and 21% of LGFs between 10-19 years compared with 67% of DFs export for five to nine years and 54% of HGFs exporting less than 5 years. Years of established presence in specific international markets might mean more experience in those markets, yet it might lead to stagnation if inertia sets in.

The low response rate of SMEs to identifying their growth enablers (55% of the SMEs) or barriers (19%) over the past three years indicates a lack of motivation or ability to analyse past performance.

Growth factors and barriers over the past three years. DFs did not report any key growth factors and growing firms did not report any barriers to their growth. Only one LGF reported its growth barriers. It may be that DFs are too engrossed in the negativity to understand what might be positive or HGFs may be too engrossed in growth to notice the barriers.

Table 6. Key Growth Factors and Barriers over three years

	Key Growth Factors
High Growth Firms	Family and network support Character (ambition/drive) and experience Strategy, planning, finance Competitive pricing
Low Growth Firms	Sales and marketing Employees (quality and training of employees) Competitive pricing Acquisition and investment Product diversification / innovation Strategy, planning, finance Quality and reputation
Static Firms	Productivity/Efficiency Market growth and expansion Character (ambition/drive) and experience
	Key Growth Barriers
Low Growth Firms	Capital/ Finance
Static Firms	Capital/ Finance Character (ambition/drive) and experience Investment (inc. in employee recruitment)
Decline Firms	Employees (quality and training of employees) Market/demand change Sales and Marketing Product diversification / Innovation Management, strategy, planning

Note: Table is created based on the proportions within the total number of respondents within a given firm growth classification, rather than the total sample size.
* These responses are from one LGF.

Key growth factors over three years.

Family and network support as a key growth factor strongly distinguishes HGFs from other firms. Sales and marketing also associate with growing firms more than with SFs, though more important for LGFs than HGFs. This corroborates the finding on the growth trajectories relying more on the growth of sales revenue than profits or employment. Increasing productivity and efficiency is a growth factor that associates with SFs.

Key growth barriers over three years. Difficulties in managing sales and marketing strongly distinguish DFs from SFs and LGFs. They also view changing market demand, lack of managerial skills and strategic planning, low levels of investment in employee recruitment and training as growth barriers. SFs, however, consider lack of capital and finance, lack of skilled employees, and lack of drive and ambition in the entrepreneur as growth barriers.

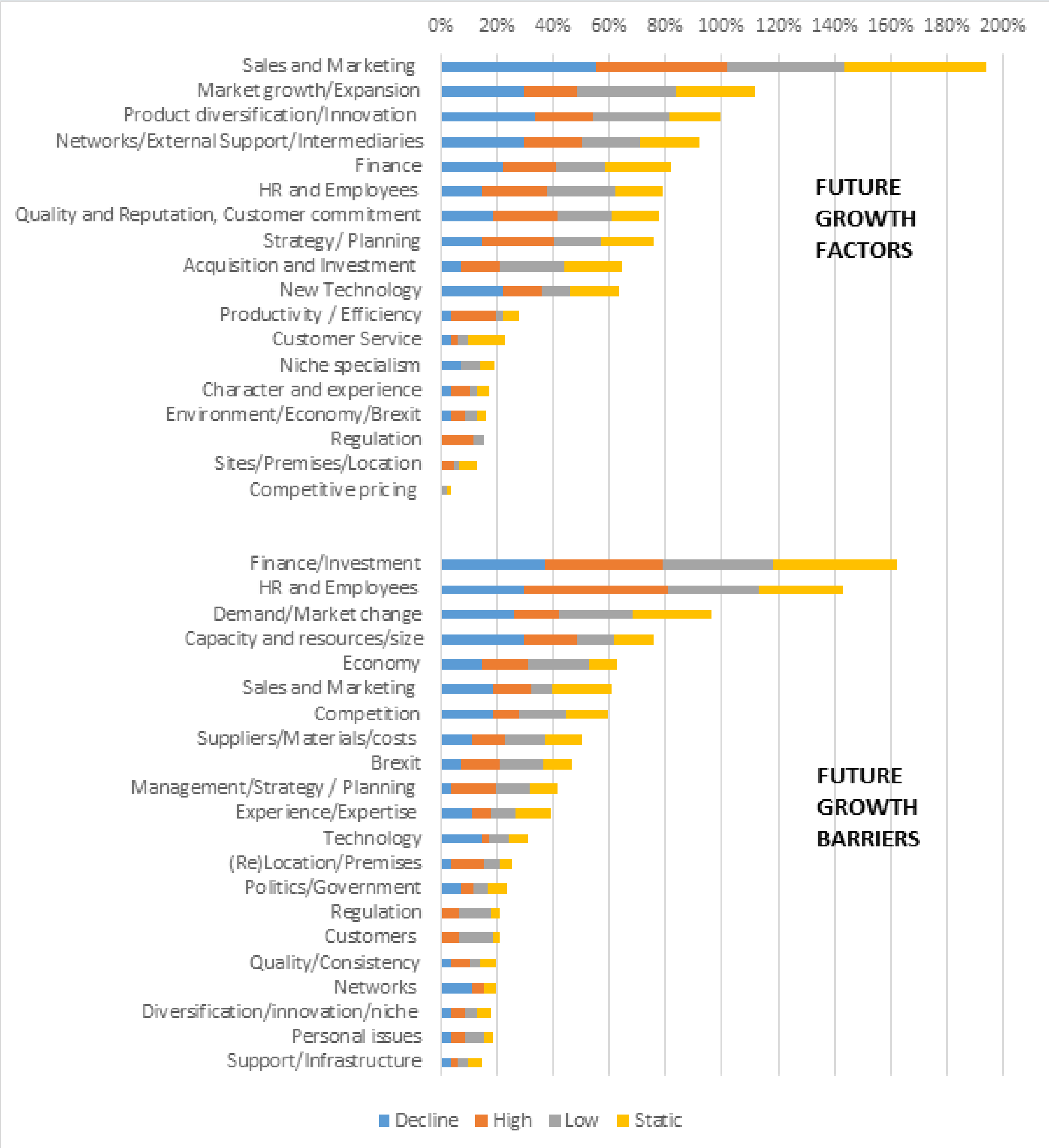
Inconsistencies. Most of the growth factors reported by LGFs appear to be growth barriers for the DFs, such as strategy and planning, the quality and training of employees, product diversification and innovation, and sales and marketing. The character and experience of the owner-manager are observed to be both a growth factor and a barrier for SFs. Both SFs and LGFs consider having access to finance as the most important barrier to growth.

4.2 FUTURE GROWTH PROSPECTS

Growing firms were expecting to grow further through expanding the workforce in the next 12 months just before the Covid-19 pandemic hit the economy.

86% of HGFs and 73% of LGFs forecasted employment growth in the next twelve months (before the Covid-19 pandemic hit) while 44% of DFs and 38% of SFs are expected to remain the same size. This can be taken as an indication of growing firms turning their attention to the benefits of growth in employment to their overall growth. Having identified employee-related growth barriers, SFs and DFs appear to lack the ability to reflect on the past.

Figure 6. Future Growth Factors and Barriers of West Midland's SMEs, by firm growth classifications



Future growth factors.

Sales and market growth being the top factor in future growth aspirations of all SMEs do not take precedence over organisational factors, such as human resources, employees and strategic planning activities that make the major difference to rapid growth.

A high response rate of 98% to what SMEs think about their future growth factors and barriers indicates that SMEs are practising some form of *forward-looking business strategy* approach.

Around half of each firm growth classification considers *sales and marketing* the major factor that guides their future growth ambitions. A third of the firms also consider *market growth and expansion* a significant factor for growth, but less so for HGFs for whom *strategy development and business planning* are the second priority for sustaining their growth. Growing firms are more likely to put emphasis on the role of *human resources and employees* in their future growth. While LGFs consider *product diversification and innovation* as a significant determinant for future growth, so do DFs. The use of *new technology, networks and external support* (previously identified by HGFs as their current growth factors) are features that distinguish DFs from other firms in their quest to grow in the future. *Finance and reputation through quality products and services* are equally important for the future growth ambitions of all firms.

HGFs put emphasis on increasing their productivity and efficiency for further growth.

Other SMEs' attempt to compensate for their lack of focus on improving productivity with an excessive focus on sales and marketing is detrimental to future growth.

Statistical association test results indicate that future growth opportunities lie in the productivity & efficiency improvements and the positive effects of business regulations. While achieving productivity and efficiency is reportedly the current growth factor for SFs (though with no measurable impact on growth), HGFs are eager to improve it for further growth. Concerning future growth aspirations, SFs distinguish their strength in customer services, indicating a sense of stability of service that leads to an increase in sales. HGFs also present future expectations to experience the positive effects of business regulations through either their effective utilisation or the reliability and stability they bring to the business environment.

Future growth barriers.

SMEs display a myopic view of employees as a future growth barrier rather than a competitive advantage.

Around two fifths of SMEs agree that a lack of finance & investment and human resources (including high employee turnover, lack of employee skills) are the top future growth barriers. SMEs essentially view their staff as less competent than desired and due to deficiencies in their human resource management, they miss the opportunity to nurture their future growth through using their employees as a competitive advantage.

Growing firms employ a long-term view to overcome future growth barriers, with LGFs focussing on strategies to win customers rather than general sales and marketing and with HGFs focussing on improving human resources and introducing good management, strategy and planning.

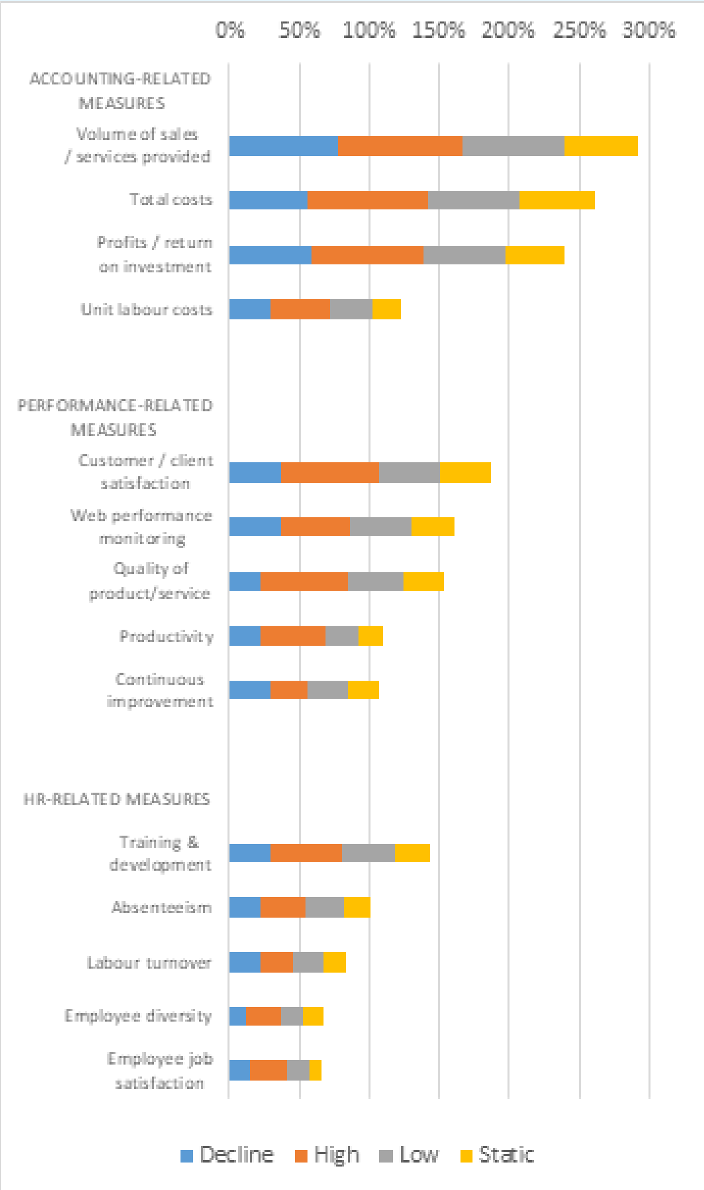
All SMEs (except HGFs) consider market contraction due to lack of demand and competition a significant future growth barrier. In particular, for LGFs, customers present a future growth barrier. The perception and risk-averse attitude of customers towards products and services and their limited disposable income put a strain on market demand and therefore diminish future growth prospects. It is also difficult to keep recruiting new customers or keep the current clients without being lured to other products. Yet, sales and marketing are the least concern for growing firms compared to the emphasis SFs and DFs put on it. Particularly HGFs are concerned about attaining standards in management, strategy and planning, enhancing human resources, and dealing with Brexit and economic instability in the long term.

SFs and DFs focus on short-term market-related growth barriers such as sales and marketing, lack of market demand, and high market competition.

Different from other firms, DFs also consider their production capacity, lack of resources, technology and networks (including establishing long-lasting supply and distribution channels) as barriers to their future growth.

4.3 PERFORMANCE MEASURES AND FINANCE SOURCES

Figure 7. Performance measures by firm growth classifications



SMEs that measure performance through a variety of business development measures such as customer satisfaction, product quality, specialist training, web performance, and productivity rather than accounting measures are more likely to achieve better performance and grow.

Performance Measures.

SMEs predominantly collect accounting-related measures, such as volume of sales and services provided (66% of the SMEs), total costs (63%), and profits and return on investment (54%). SFs perform below the overall SME average in all the measures. Other than accounting-related measures, DFs collect data on continuous improvement as much as LGFs.

Growing firms collect a wider variety of performance measures.

HGFs strongly distinguish from other firms by collecting a wider variety of measures. LGFs, to a great extent, follow HGF's pattern in performance-related measures but not so much in HR-related measures.

High growth associates strongly with accounting-related measures of total costs, profits, return on investment, and unit labour cost, with performance-related measures of quality of product and web performance or monitoring, and HR-related measures of training development and employees' job satisfaction.

Rapid growth is also strongly associated with collecting data on productivity for enhanced performance and customer satisfaction that target increasing sales and marketing.

Finance Sources.

Reinvestment of internal capital is associated with high growth, while bank loans and overdrafts do so with low growth. Overall, HGFs are likely to use a mixture of several finance sources, strengthening their options for financing arising business opportunities.

Predominant forms of SME finance are reinvesting internal capital for organic growth (49%) and debt-based growth financing through bank loans and overdrafts (23%) or loans from business partners and relatives (23%). HGFs are effectively sourcing finance from a wider variety of finance sources to fund their growth, and DFs are to a great extent following HGFs. HGFs and DFs also use credit card finance (19%), equity investments (7%), and factoring or discount financing (9% and 7%) more than LGFs and SFs. LGFs stringently focus on risky debt-based growth financing through bank loans and overdrafts, loans from business partners and relatives, and mortgages. SFs are again lagging behind the overall average in all of the finance sources.

Growing firms are leveraging their finances better.

Being content with the debt to equity ratio is strongly associated with growth. This is observable in the discernible difference between growing firms, which are happy with their leveraging, and SFs and DFs, which are not.

4.4 BUSINESS STRATEGIES

High growth associates with the presence of a written and verbal business.

Strategic Plan. A comprehensive business strategy is key to driving organisational growth. Yet only 39% of SMEs have a written business strategy, 36% say they have an unwritten strategy and 25% have no strategy at all. HGFs (5% only) are least likely to be within the group that does not have a written strategy. Over 50% of HGFs have a written and over 40% have a verbal business strategy. This rate is around 35% for both verbal and written business strategies in LGFs and SFs. 40% of DFs also have a written strategy, though previous research has found that when asked to produce their written strategy, at best they have a specific business plan which may have been targeted for obtaining a bank overdraft or loan, and at worst they could not produce or explain what the wider strategy was.

SMEs that prepare the strategic plan by including their staff in the process are more likely to grow.

Inclusive Strategy Formation. Predominantly in SFs (52%) and DFs (50%), the owner-manager effectively develops the strategic plan on his or her own. A third of HGFs and LGFs include 'only managers' in the process of strategy development, and 15% of LGFs include some staff, while 17% of HGFs include all staff in this process.

HGFs cover a wider range of issues in their strategic plan. Their coverage of the management of HR development and CSR distinguishes them from other SMEs.

Issues covered in the strategic plan. HGFs are more likely to cover product/service development and innovation (77%), finance (70%), managing and developing human resources (65%), process improvement and innovation (63%), and quality of product or service (63%). HGFs are particularly distinguished from other firms by their coverage of managing the development of human resources and CSR issues in the strategic plan. They also cover issues such as recovery (19%) and succession (33%) planning, which are rarely covered by any SME. Against expectation, LGFs have few issues covered in their strategic plans, similar to the DFs.

Emphasis on market-related strategies to the exclusion of other issues in the strategic plan leads to static growth.

Having a market strategy and new market development in their strategic plan is the most important issue for all firm classifications (86% of HGFs, and slightly over half of LGFs and DFs), but is the only issue SFs attribute a high percentage to (85%).

As the number of staff the strategy is communicated with within the firm increases, so does the likelihood for growth.

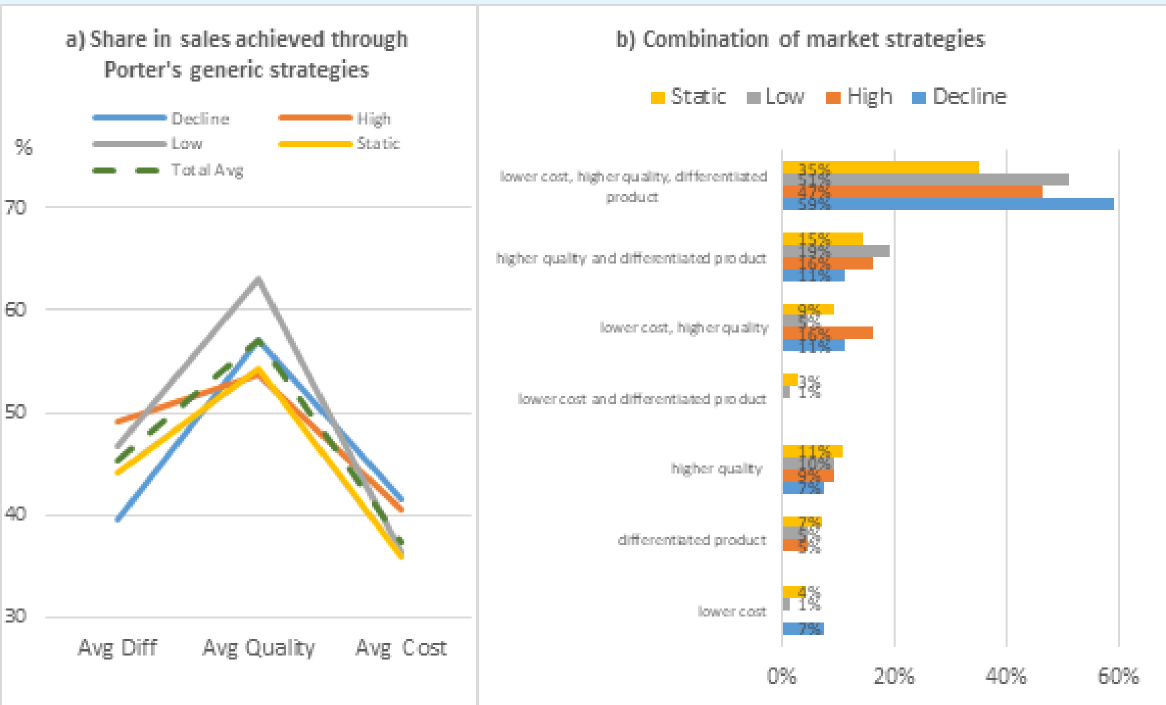
Communicating the strategy within the firm. Communication of the strategy with staff is not common. The owner-managers of around 40% SFs and DFs keep the strategy to themselves, and 30% HGFs and LGFs do the same. 22% of all SMEs, except SFs (12%), share the strategy only with their managers. HGFs effectively communicate it with all staff in 39% of the cases, while SFs (32%) and DFs (28%) communicate with all staff better than LGFs (23%).

While growing firms achieve the highest share of their sales through differentiation (HGFs) or higher quality/niche strategy (LGFs) to appeal to their customers, HGFs do not ignore cost leadership strategy possibly by achieving higher efficiency through the use of technology.

Market Strategy. We asked the SMEs what their market strategy is to see whether they achieved it through one of Porter's generic strategies or not. We measured it with the proportion of their sales achieved through a particular strategy. For all SMEs, higher quality than their competitors deliver is the most prevalent market strategy (Figure 7a).

While HGFs (and to some extent LGFs) focus on the differentiation strategy of creating a broad range of products or services, LGFs strikingly achieve higher sales through delivering higher quality/niche products or services to fend off competition (Figure 7a). Via differentiated or higher quality product strategies, growing firms capture the control of the higher price segment of the market (Figure 7b).

Figure 7. Market Strategies, based on Porter's Generic Strategies



SMEs that combine strategy on higher quality/ niche with differentiated product strategy are more likely to grow, though rapid growth is likely in SMEs that pursue higher product quality with lower-cost strategy.

Cost leadership strategy is a priority for DFs and HGFs. DFs prioritise lowering costs to gain a foothold in their competitive market by pursuing economies of scale and rely on their long-run experience in their sector. For HGFs, however, lowering costs is never a strategy on its own, it is rather a means through the use of technology.

In all three strategies, the SFs performed slightly less than the average, clearly suffering from a lack of focussed market strategy.

Moreover, SMEs use combinations of these market strategies (Figure 7b). The utilisation of all three of them at the same time is unusually at high proportions in DFs (59%). Growing firms distinguish with their clear focus on the use of higher product/service quality and with their better performance when combining it with a second strategy (either lower cost -HGFs or differentiated product-LGFs strategy).

HGFs develop networking strategies without making concessions, such as having a holistic approach to cooperation along the value chain with customers <u>and</u> suppliers (i.e. not customers <u>or</u> suppliers).

Networking Strategy. On average 42% of SMEs had entered into a collaboration or partnership over the past three years before the Covid-19 pandemic started, in DFs this increases to a half. However, what matters is the quality of these networks.

Supply chain. What distinguishes HGFs from the other firms is the high share of value chain cooperation with both their suppliers (38%) and customers (28%). DFs have similar efforts with their customers (27%) and LGFs with their suppliers (36%).

SMEs, except SFs, adopt a long-term approach to their relationships with customers

SMEs were asked their perception of what a key customer and supplier is in their business and the proportion of these key customers and suppliers in their value chains. 40% to 50% of the SMEs view their key customers in financial terms (i.e. provides us with above-average profit margins; provides us with essential cash flow to sustain the business; contributes a significant proportion of our sales revenue). However, HGFs and DFs put high confidence in their customers when deciding to invest in the long-term development of their business. LGFs believe their customers offer them the potential for sales growth in the long term.

Key suppliers play a significant role in the business development of SMEs. There are some similarities to growing firms in DFs' perception of their customers and suppliers.

Despite SMEs putting most of the emphasis on their sales and marketing where strategies are concerned, 91% of SMEs consider key suppliers as providing them with critical goods and services, which associates particularly with growing firms and DFs. 80% of SMEs work with their key suppliers to improve their product quality, and yet, when it comes to key suppliers helping them to develop new products, DFs represent below average (72%). LGFs (83%) particularly trust their suppliers to go the extra mile to meet their needs when required. Around 70% of SMEs work with their key suppliers to reduce costs and these suppliers invest considerable resources into supporting SMEs' business.

SMEs that develop dependent or symbiotic relations with a significantly high proportion of key suppliers and customers are less likely to grow.

Around half of the firms reported that their key customers are composed of under 25% of their total customers. Around a third of the growing firms consider under 25% of their suppliers are their key suppliers. Static firms are more likely to have built their business largely depending upon on few key customers and suppliers (i.e. more than 75% of their total customers and suppliers) than growing firms, indicating the inflexibility of SFs in developing their business via a variety of relationships even in their value chains.

Growing firms are less likely to get interested in the collaborations with other organisations that static and declining firms widely get involved in

Although only just over 15%, growing firms are more likely to collaborate with higher education institutes than DFs. The major focus of DFs (41%) and SFs (33%) is in collaborating with other organisations such as horizontal relations in the industry, other local businesses, local associations, charities, and consultants.

Social networks. We sought to assess whether SMEs get support and advice through membership of key representative organisations. 46% of SMEs did not hold any form of membership. SMEs most likely to hold membership were the HGFs and least likely the DFs. While HGFs hold up to four memberships, 40% concentrate on one

High growth is likely with the membership of key organisations, networks, clubs, forums especially when they create value.

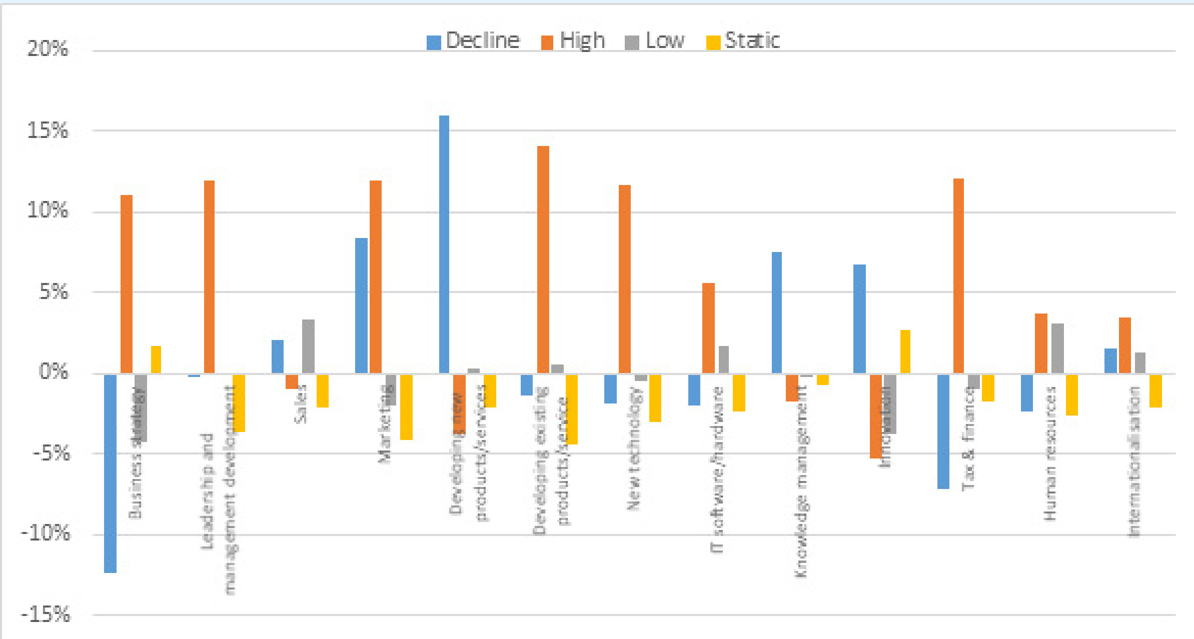
membership. Growing firms were more likely to be members of the Chambers of Commerce, Industry or Trade Association and Federation of Small Businesses. 12% of HGFs significantly differ from other firms by being a member of the Institute of Directors as compared to an average of 4%, indicating the importance attained by HGFs to management.
Slightly more than half of SMEs reported that they are part of networks, clubs, or forums; predominantly HGFs (65%). Out of these network memberships, HGFs believe that they get some value for their firms.

While different collaboration partners might result in growth as well as decline, it is clear that the content of these collaborations is likely to bring about high growth, provided SMEs are endowed with a proper business strategy.

External organisations for information and advice.

Firms can access information and advice through a variety of external organisations. HGFs and DFs tend to seek assistance through a bigger variety of connections than LGFs and SFs (i.e. kind of network partners), such as trade/employers' association (30% of HGFs and 26% of DFs respectively), bank managers (21% and 26%), other business owners (56% and 48%), management consultancies (30% and 26%) and recruitment agencies (16% and 15%). The information and advice received from management and marketing consultants significantly impacts the growth of HGFs and DFs.

Figure 8. Subjects on which information and advice sought from external organisations over three years, by firm growth classification, deviation from SMEs average, %



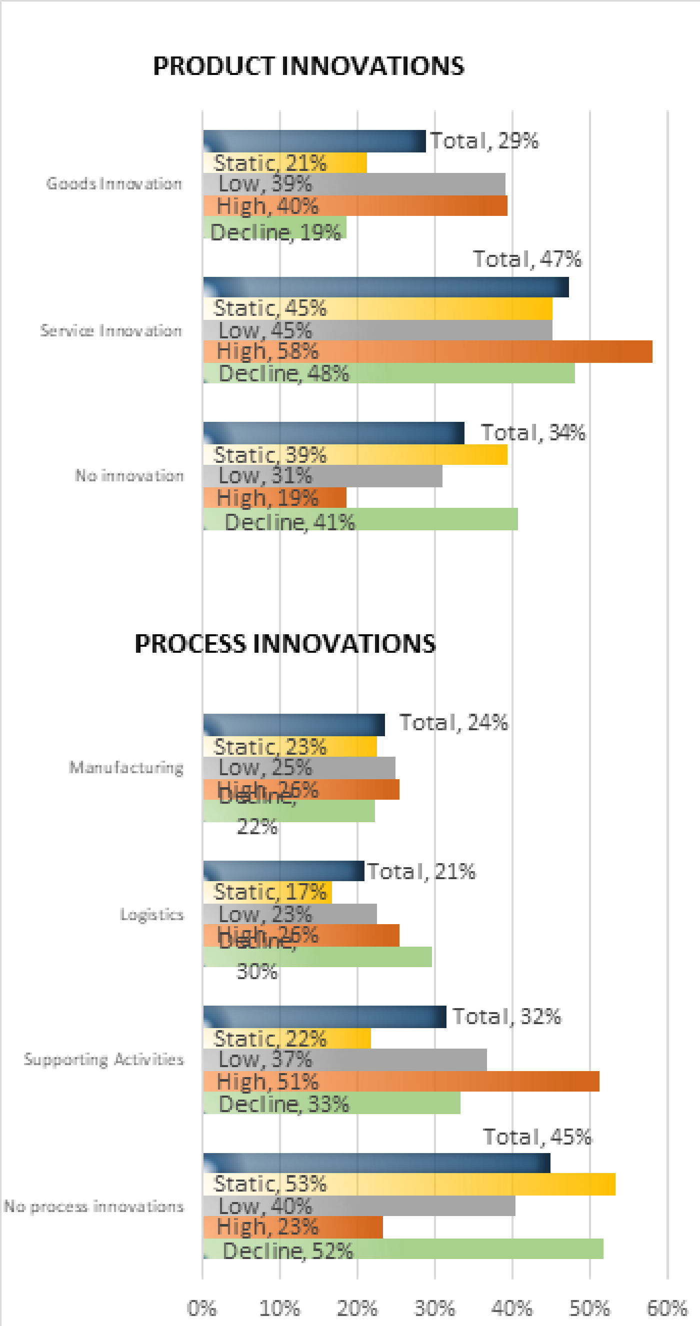
Similarly, the information and advice provided by external lawyers and accountants distinguish growing firms (44% and 47% for HGFs respectively, and 32% and 48% for LGFs in comparison to 26% average) from other firms. LGFs significantly differ from other firms with their access to universities (31%) and central government (25%) for information and advice.

85% of firms had sought specific support or advice over the past three years. HGFs seek information or advice at higher proportions in many subject areas. They significantly differ from the other firms in business strategy, tax and finance, leadership and management development, new technology, and developing existing products/services. Surprisingly, LGFs and SFs display a lower than average performance in accessing support in general. DFs, however, are interested in information and advice in subject areas on a par with HGFs such as marketing, developing new products /services, knowledge management, and innovation. Although DFs invest in getting information and advice on critical subject areas for business development, they forget to attach importance to the glue that holds all these operations together, namely the business strategy.

Innovation Strategy.

Product vs process innovation. SMEs are more likely to innovate in terms of products and services (two thirds) than they are in processes (55%). It is of little surprise that growing firms are associated with product and process innovation. Yet, it is very surprising that SFs rather than DFs are associated with no innovation.

Figure 9. Distribution of product and process innovations by firm growth classifications



Growing SMEs are more likely to innovate in products/services and processes.

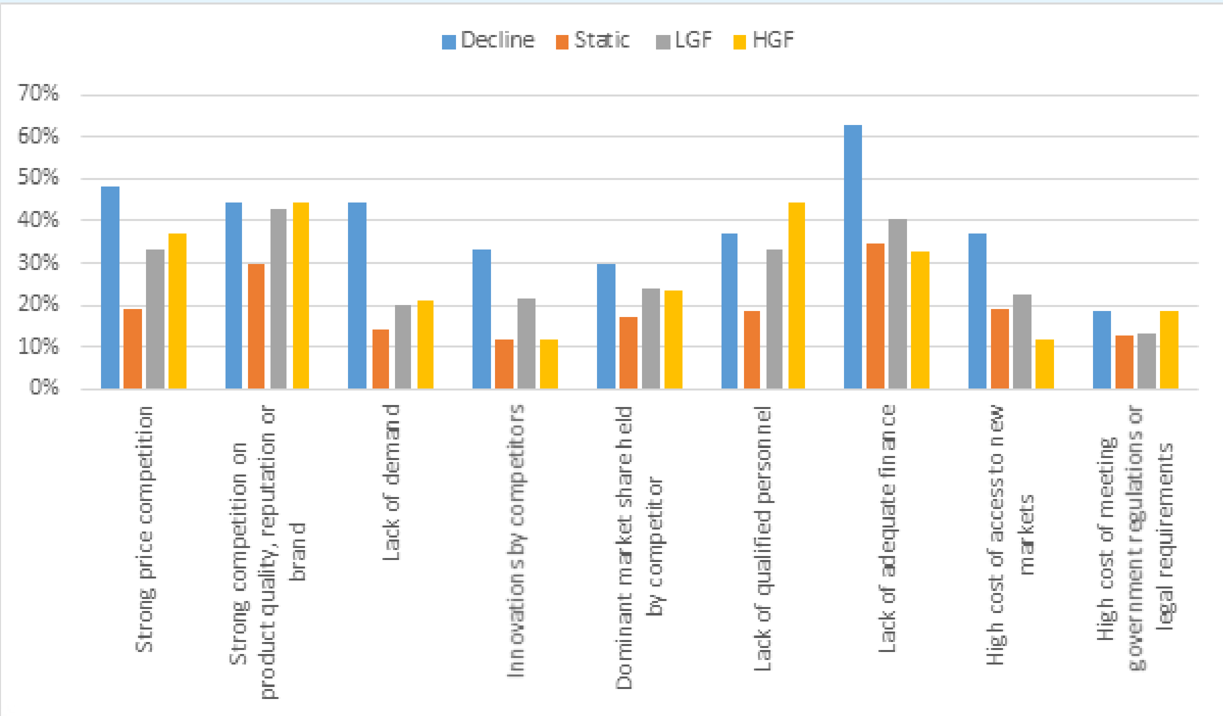
High growth is more prominent in process innovation while low growth is more associated with goods innovation.

Static firms lack innovation in both product/service and process and they are aware of their obstacles, but cannot reverse them.

Also, LGFs are strongly associated with goods (rather than services) innovation, while HGFs with process innovation in supporting activities (rather than in manufacturing and logistics). It may be because firms in our data are predominantly in the service sectors or an indication of declining manufacturing industries

Obstacles to Innovation. The major common obstacles in achieving successful innovation by SMEs are competition in product quality and lack of adequate finance. Perhaps not so surprisingly, DFs are more concerned about the lack of demand and innovation by competitors than growing firms and they attribute high importance to strong price competition (so do SFs). LGFs' growth prospects are hindered by strong competition on product quality, lack of qualified personnel, and high cost of meeting government regulations to which they attribute medium-level importance.

Figure 10. Obstacles to innovation that are attributed a high degree of importance, by firm growth classifications



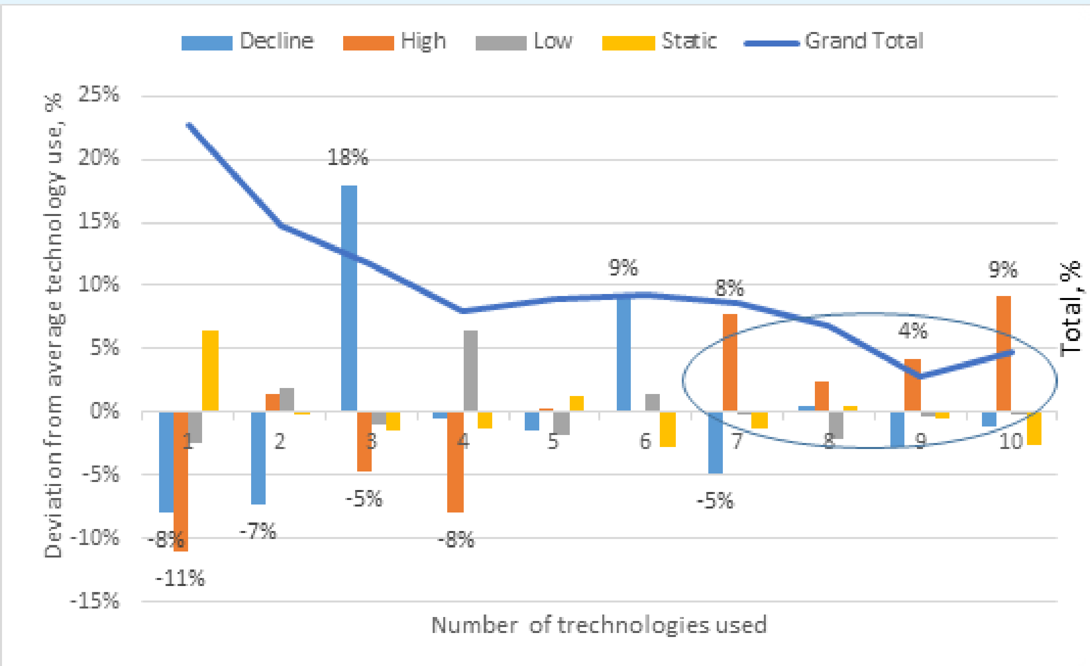
The main obstacle to innovation for growing firms is qualified personnel which is directly related to improving the competitive position of firms in terms of quality of products.

HGFs, however, attribute high importance to the lack of qualified personnel to meet their innovation targets. Similar to growing firms, SFs attribute high importance to the lack of qualified personnel and strong competition on product quality. Qualified personnel plays a key role not only in innovation but also in improving the quality of products and increasing productivity within the firm. Nevertheless, SFs' awareness of the obstacles to innovation does not translate into overcoming them.

As much as it is a contribution to the SMEs' operations and innovative activities, the increased use of technology tools happens in a very limited proportion of SMEs, significantly more so in HGFs and surprisingly in some declining firms

Technology use. The effective use of technology undeniably impacts firm performance and growth. There is a negative relationship between the number of technology adopted and the percentage of firms using technology (Figure 11, total line), except HGFs whose technology adoption within their organisation is significantly more than average (the oval shape). DFs are the only firms that approach the level of technology adoption by HGFs with just under a fifth of them (18% or 9% more than average) using at most six technologies in their operations. LGFs are stable at using on average four technologies and static firms are content with one technology.

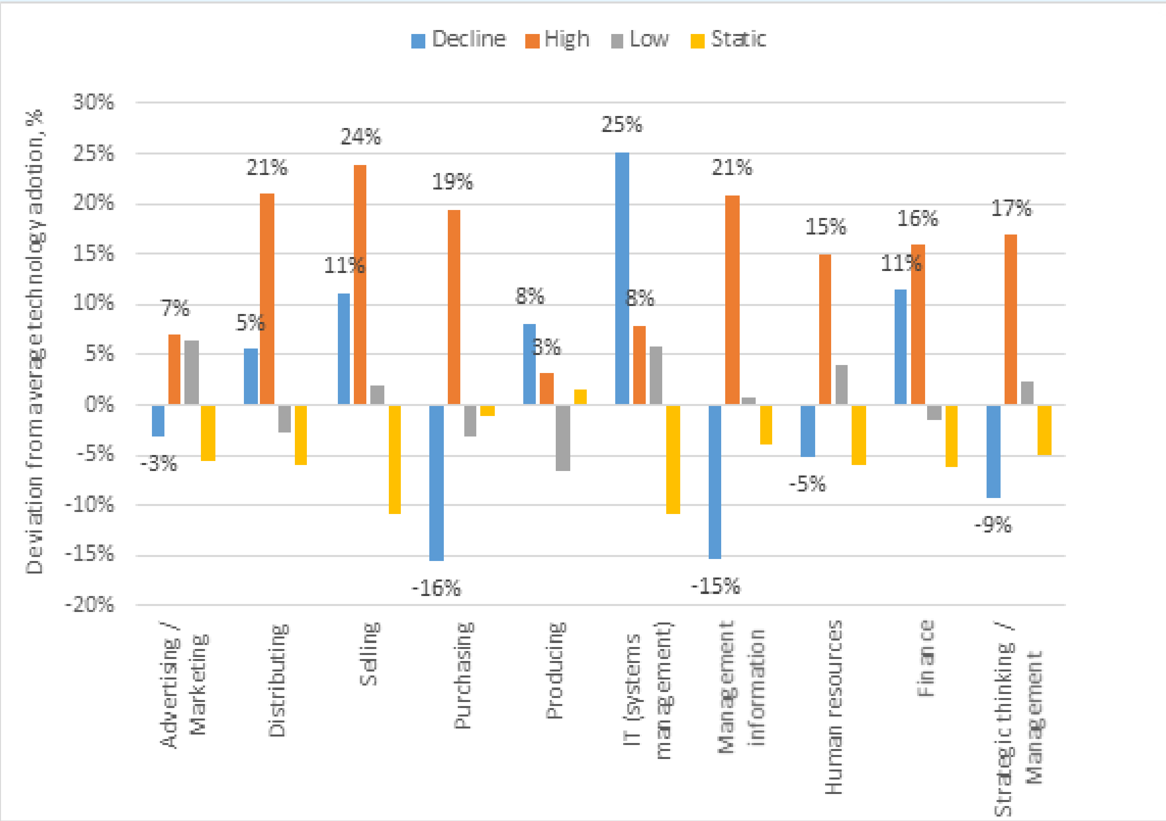
Figure 11. Number of technology utilised by firm growth classification, deviation from average and share in total, %



__Purposeful technology utilisation and strategic investment in technology strongly associate with SME growth.__

Growing firms are associated with taking a longer-term perspective to technology acquisition, while static and declining firms are on the 'as and when needed' end of the spectrum. DFs follow the path of HGFs in attempting to integrate operations through the use of technology. A fifth of SFs reported being unsure about their approach to investment in technology.

Figure 12. Technology adoption in business operations by firm growth classification, deviation from average, %



__SMEs that target technology adoption in other strategic operations than firm infrastructure also invest in technology to integrate technology into wider firm operations to influence firm growth in the long term.__

SME growth is strongly associated with the variety of business areas technology tools are adopted for. SMEs use technology commonly in the infrastructural development of the firm such as advertising and marketing (70%), IT and finance (approx. 50%). HGFs, however, concentrate on the adoption of technology tools in value chain operations such as in selling, distributing and purchasing as well as in specific areas such as management information, strategic thinking, and human resources. In IT systems and management, DFs outperform growing firms and in finance, they are on a par with HGFs. LGFs are surprisingly doing poorly in integrating technology into their business compared to HGFs and even

DFs. SFs show a less likelihood of adopting technology tools in all areas within the organisation than other firms.

Just believing the effect of a change on firm growth is different from the effect of instigating that change.

Corporate Social Responsibility Strategy. 55% of the firms believe there is a positive effect from pursuing an environmentally friendly approach to business on their growth and this perception is proportionately higher in SFs (3 in 5) than in HGFs and DFs (2 in 5). A rather high share of the SMEs (44%) believes in no effect of such an approach in their business.

Implementing influential CSR initiatives strongly associates with firm growth.

However, when it comes to the implementation of CSR initiatives in particular contexts, it is either mostly 'considered' or 'not implemented' at all (61%). HGFs (14% implement CSR initiatives in four contexts) and LGFs (11% in three contexts) appear to be relatively responsive to CSR implementation in their workforce, in the community, in the environment, in the marketplace, and from a human rights perspective. Around a fifth of DFs implemented CSR initiatives in one or two contexts, while SFs fall short of CSR implementations.

The implementation of CSR strategies by static firms is either at a minimum or below firms' average. There is a targeted effort by declining firms only in recycling/producing less waste.

Growing firms are also strongly associated with good staff recruitment for CSR purposes, ensuring future business profitability within CSR strategies, supporting their local community, and to some extent with using resources more efficiently. Recycling and producing less waste are implemented as vigorously by LGFs and DFs as HGFs. While SFs implement these initiatives at proportionately low levels than the sample average, DFs significantly under-implement matters such as good staff recruitment and ensuring future business profitability, indicating a lack of planning CSR strategies for the future.

Having an individual with sole and part responsibility associated with HGFs and LGFs respectively.

Human Resources and Training Strategy. In 53% of SMEs, HR management and strategy was not the responsibility of anyone in particular and the lack of a dedicated manager for HR is a defining characteristic of SFs. HGFs, on the other hand, are strongly associated with having an individual with sole responsibility for HR and LGFs with part responsibility.

Growing firms show the strongest association for the application of a variety of HR practices that focus on the quality employee selection and value welfare of the employees.

HR practices that are strongly associated with growing firms are staff induction, internal promotion, performance appraisal, grievance and disciplinary procedures, employee share options, teamwork, and job security. High growth is particularly associated with performance- and profit-related pay, recruitment and selection, harmonised T&C, problem-solving groups, selecting testing. DFs are only associated with performance-related pay. SFs show in general the lowest level of implementation of HR practices, falling significantly below the average implementation in all practices, so indeed, are strongly associated with the lack of HR practices.

SME growth is strongly associated with human resource investments.

Similar to investments in technology, growing firms are associated with taking a longer-term perspective to HR practices, while DFs are on the 'as and when needed' end of the spectrum. A long-term view towards HR within the growing firms indicates a focus on making employee skills a skill of the firms (i.e. organisational competence), averting the risk of losing embodied skills when highly qualified employees leave the firm. HGFs also single out complementing their strategic approach to investment in HR with the integration of HR practices into important areas in their business. More than a third of SFs reported being unsure about what strategic intent drives them to make investments in HR.

The formal pay system leads to higher growth, and this is more associated with small to medium sized firms than micro firms.

Salary management. There is an association between the formality of the pay system used by the firms and firm growth, possibly a formal pay system leading to a better HR focus that enhances the productivity focus of the firm. While growing firms pay employees through a formal grading / pay system, SFs and DFs prefer informal pay on a personal basis. The high proportion of informal pay practice is also strongly associated with the firm size, where micro firms pay informally, while small to medium sized firms prefer formal pay.

Growing SMEs consider communication with their employees as an important part of their resource management, and rely on a combination of formal and informal forms of communication.

Employee communication. A concern appears regarding employee communication within the firms with 41% reporting the lack of it. Almost 80% of growing firms use a combination of formal and informal communication methods with their employees and they are strongly associated with the use of team briefings and suggestions schemes. Email (60%) and newsletter (25%) are statistically associated with HGFs as preferred employee communication methods. SFs are least likely to use formal employee communication and are associated with a lack of employee communication within the firm.

There is no clear link between growth and average working hours per week, yet excessive overtime is a recipe for failure.

Working hours. Average working hours per week stand at 31.9 hours and 36.7 when overtime is included. The standard working week was higher in HGFs at 35.2 hours and lower in SFs at 30 hours. Less than expected average working week hours (i.e. 37.5 hours) might be related to the recruitment of part-time (36%), seasonal/casual (23%) employees, and associates/subcontractors (34%). The proportions of such employees are below these averages in HGFs and SFs (except part-time employees). The gap between standard hours and overtime hours stands at an average of 4.8 hours, except for DFs with a gap of 6.1 hours.

There is a positive effect of training on high growth when a dedicated budget is allocated for targeted training in improving internally-oriented business management skills alongside customer-oriented sales and marketing skills.

Training. 49% of SMEs have no spend when it comes to training and development. Even though 39% of the firms committed expenditure to staff training and development on an ad hoc basis, only 12% of firms have a dedicated budget. DFs have the highest ad hoc training expenditure (52%) and the lowest dedicated budget (4%). As expected, HGFs have the highest dedicated budget (19%).

The commitment of LGFs and SFs on training and development per employee is between 1 to 5 days per annum. HGFs committed to more than 5 days of training per year with an emphasis on 10 days or more, with which surprisingly DFs are equally committed.

Two thirds of HGFs and DFs predominantly provide training to their employees through a mixture of internal and external providers. Slightly less than a third of SFs rely on internal training providers.

Across the sample, only 22% of firms did not provide any specific forms of training. The skills the firms target their employees to gain through training strongly identifies growth possibilities. HGFs associate with training skills such as customer service/liaison, problem-solving, and communication skills. DFs mimic HGFs but in lower proportions. Both LGFs and DFs put more emphasis on training skills in Health & Safety than other firms. LGFs assign as much importance to training in customer service/liaison as HGFs. HGFs significantly differ from other firms with training their employees in leadership and management, mentoring and coaching, and team-working. SFs show a lower than average take-up in each training subject and are negatively associated with them.

5. CONCLUSION

In this report, we conducted a deeper and targeted investigation into the West Midlands SMEs to enhance our knowledge of the enablers and barriers to their growth and performance. We aimed to understand the factors identified with their past growth performance and future expectations to be better positioned to make informed decisions about the best ways to support the SME sector in the West Midlands region, especially in the post-Covid-19 environment.

We analysed the business activities and strategies of a sample of West Midlands SMEs operating in a variety of sectors with a fair distribution in terms of size, age, and turnover. We identified the promoting factors for high growth, the factors hindering DFs' transition into a stable and/or growing business, and also what slows down LGFs' further growth, and the fact that SFs are passive towards growth.[6]

An astonishing 98% of the West Midlands SMEs responded to the question on the potential promoting and hindering factors for their future growth. A considerable majority of the SMEs are highly motivated and/or ambitious to grow in the future. Yet, there is also a surprisingly low response rate among the SMEs in identifying the current promoters (55%) and barriers (19%) that led to their growth over three years before the Covid-19 pandemic started. This rather indicates an inability to learn from past strengths and weaknesses and to reflect them on their future performance. In other words, future growth aspirations are not systematically supported by structured reflection, learning, planning and strategy.

Our findings above indicate that SMEs, in general, suffer from a general lack of understanding of strategic management. Managing the business on their own rather than involving specialised people in business operations, substituting accounting-related

[6] However, without a deeper qualitative analysis we are not able to explain the reasons for this lack of motivation in SFs.

measures for strategic measures for performance, and confusing having a business plan with having a business strategy are only some examples. Our findings suggest that the more variety of performance measures collected the more likely SMEs are to grow. Our previous research has found that when asked to produce their written strategy, at best SMEs have a specific business plan which may have been targeted for obtaining a bank overdraft or loan, and at worst they could not produce or explain what the wider strategy was.

An excessive and short-term focus on sales and marketing strategies is at the core of SME management priorities, and in the absence of supplementary growth factors, it alone does not bring forward firm growth. SMEs that are stuck in day-to-day concerns of regulations, economy, competition and market demand are less likely to grow. A long-term perspective in developing value-creating relations with customers and suppliers and strategic investments in technology acquisition and human resources lead to high growth.

SMEs also suffer from a lack of understanding of the importance of qualified skilled employees and training in human resource strategies. It manifests itself mostly in the lack of communication particularly of the strategies with employees. SMEs are missing the opportunities from using employees as a source of competitive advantage that would largely contribute to solving SME productivity problem. Focusing on customer-oriented sales and marketing skills with an ad hoc approach to training, DFs fail to benefit from their investment in skill training. It is rather puzzling that LGFs experience a very limited effect of training on their growth prospect. Static firms are seriously underperforming in terms of training.

Moreover, the lack of such a strategic approach does not allow efficient sourcing of information and advice from external relations and leveraging SME capabilities in line with the recent trends and developments in their business environment. Growth is less likely when information and advice are not sought strategically. It is not only about the kinds of information and advice SMEs sought but also about how they operationalise this information and advice through their business strategy. To do so, HGFs regularly update themselves with regard to business strategies.

Overall, HGFs are more strategic than other SMEs. Even LGFs lag behind HGFs in some key aspects such as technology use. We identified the main reason for this as their complacency with operating in their niche market and not aspiring for more. HGFs, however, are not satisfied with differentiating their product or service in the market but are also motivated by cost leadership that pushed their boundaries to achieve higher productivity through more process innovation and the use of technology. To do so, they are aware that they have to have recourse to qualified people either by employing them or by training them. However, there is so far little evidence of HGFs' positive contribution in reversing the overall productivity slowdown. Moreover, there is evidence that the share of HGFs in the overall UK SMEs in the last years has been falling (ERC, 2018, p.46) and our first report shows that it is at 1% by 2019. It is worth investigating why HGFs cannot sustain high growth for longer periods despite dedicated policies around HGFs. Yet, it is clear that a policy approach that favours this small minority of high performers to the detriment of the majority of modest average performers is the least needed at Covid times. Efforts instead can focus on appropriately allocating the available resources to instigate SME revival and growth at a larger scale than HGFs.

Although HGFs appear to present most of the key growth factors, LGFs still grow through adopting different approaches to HGFs, indicating that there is no single pattern for SME growth. SFs stand out as a separate group of firms in their own right. They are largely non-strategic and display a passive presence, with a lack of active engagement in many areas, and hence, justifying their static growth. Surprisingly, we identified unprecedented resemblances in the characteristics and practices of DFs to HGFs; particularly in the business activities of HR, innovation, collaboration and networking, and seeking information and advice in critical areas to firm growth. So, why do the drivers of growth that work for HGFs not create the magic for the DFs as well? As opposed to HGFs, DFs lack a proper understanding and development of business strategy and structured purposeful planning; hence, they are only capable of addressing the surface level issues in strategic areas. Additionally, a majority of the DFs operate in declining or inconsistent markets, indicating that their product or service offers are at the end of their life cycle with high competition, and therefore, without innovative capabilities DFs strategy of replicating HGFs does not yield similar results for the DFs.

While DFs' strategy implementation requires further research, this finding highlights the significant role of firm operations, capabilities and strategies in growth and development. The growth barriers reported by DFs are all related to firm capabilities and they seem to be conscious about the lack of capabilities that hinders their growth. However, internal capability development is a significant part of a sound strategy, which DFs lack most of the time. When SFs and DFs are able to develop these internal capabilities, they will get closer to overcome most of their externally sourced growth barriers, such as economic instability, Brexit, and coronavirus. Moreover, this is not an issue related to which sector the SMEs are operating in. We found no relation between SME growth and growing or declining sectors. As the opportunities in each industry arise or fade away with the changing economic situation, the level of competition, and technological progress, the growth tendencies of the firms in these industries also might expand or shrink. Hence, firm growth is related to a firm's capabilities for taking advantage of the arising opportunities in its industry.

The Covid-19 pandemic has been structurally changing the business environment so abruptly that SME growth (and survival) has become a concern for regions to sustain healthy economies by promoting not only HGFs but also a wider group of SMEs that include LGFs and SFs. More than half of the surveyed UK SMEs are expected to be out of business in the next 12 months (McKinsey 2021). The loans provided by the UK government may target to ease the financial challenges the SME sector has been facing throughout the pandemic, yet a more systematic and strategic approach to the use of the loans will assure SMEs not only to survive but also to grow. Our third report responds to this quest on how to achieve such an outcome for SME growth.

The findings of this report also provide an opportunity for SME owner-managers and local policymakers to start thinking differently about the growth of SMEs. This is essential for two reasons. Firstly, to lift the productivity and efficiency of the surviving SMEs, and secondly, to help more SMEs to survive, especially following Covid-19.

It is crucial to help as many SMEs to survive as possible, as the local authorities did during the 2008 GFC. Without cherry picking (i.e. backing only the HGFs whose growth in the next three year period is not guaranteed), the local authorities in the West Midlands assume the responsibility to endorse all kinds of SMEs with schemes, grants and training programmes for healthy growth to improve their productivity. Having said that it does not mean going back to previous ways of policy making that provided general business support policies for all SMEs. What we mean is that the SME economy needs more inclusive and bespoke policies for SMEs with different characteristics. This indicates that we need the ability to be able to diagnose their situation. Our PSP Diagnostic is developed in order to be able to do so. The current SME policies might look like already achieving/serving this purpose with their focus on HGFs and their scaling up. However, they represent an exclusive policy that requires a change in the approach towards SME growth, as will be detailed in our third report. A new approach to SME development and growth we argue is the only way to provide the right support to SMEs that will eventually pave the way to solving the productivity puzzle at the local level.

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Appendices
APPENDIX A: Methodology

Beyond the orthodox way of researching SMEs and performance

Promoting Sustainable Performance (PSP) is a University funded programme that takes a multidisciplinary approach to analysing the growth and performance of SMEs. PSP is run by the Centre for Enterprise, Innovation and Growth (CEIG) at the Birmingham City Business School. PSP is advancing our understanding of the performance of Small-to Medium-Sized Enterprises (SMEs) through a biannual research programme that collects and makes sense of a rich range of quantitative and qualitative performance data.

Why should we be investing in this type of research?

Knowledge of SME growth: The importance of this research programme should not be underestimated as the central government is increasingly calling for more in-depth research on SME performance. In response, this research programme has developed a multidisciplinary, multi-method, and longitudinal approach to SME growth and performance:

- Multi-method: Data is collected over a five-stage research process including surveys and personal interviews with owner-managers, detailed case studies, and workshops with businesses and policymakers.
- Multidisciplinary: A multidisciplinary team of academics takes an ongoing role in the design and updating of the research instruments, reflecting on developments in their specific fields.
- Longitudinal: The programme repeats its five-stage research process every two years. To date, research iterations have been collected between 2006-2020 in a number of different countries. This allows for the creation of a panel dataset that is capable of tracking firm change and evolution.
- SME competitiveness: By improving our knowledge of what drives the growth and performance of SMEs we will be better positioned to make informed choices about the best ways to support the SME sector. Policy and business support interventions become ‘fit for purpose’ and are informed and continuously updated by the latest research on the development needs of SMEs and the views and opinions of business leaders.
- Research impact: The UK’s knowledge base has a wider impact on academic, policy and business communities. Academics benefit by developing their multidisciplinary understanding and are given an opportunity to apply their knowledge in practice.

Policymakers better understand the needs of SMEs and how they might create more appropriate policies to support the SME sector. SMEs benefit from their involvement in the research process and research-led outputs such as reports, information sessions/workshops, executive education programmes, networks, coaching and mentoring.

- Student learning experience and employability: The next generation of business leaders improve their chances of employment following higher education through increased opportunities for work-based learning and opportunities to develop their softer skills.

What are our aspirations?

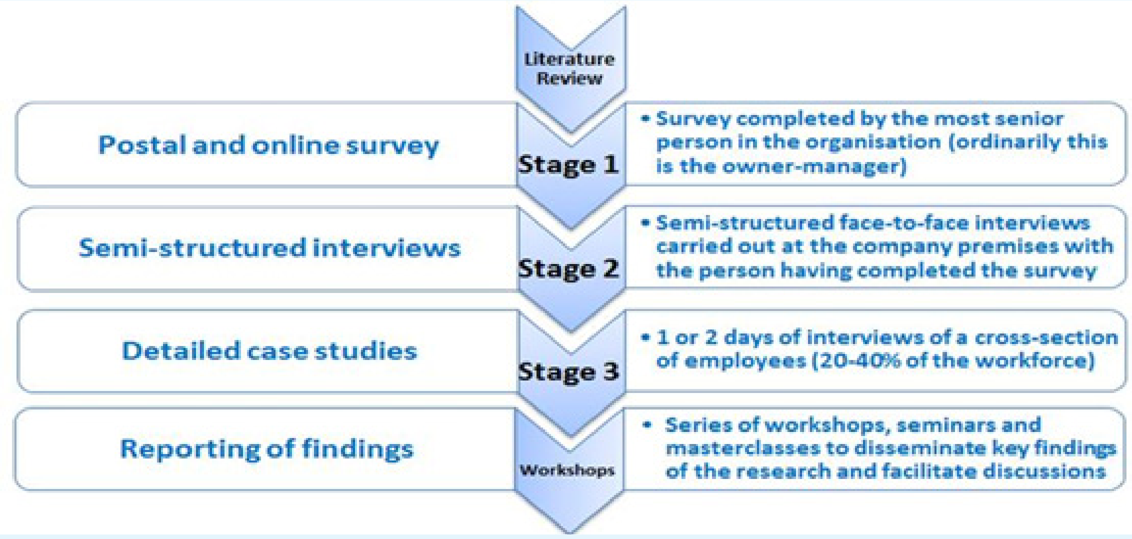
Our ambition is that this research programme expands across other like-minded leading research-led institutions and that a larger comparative model for SME growth and performance is developed in the UK and other countries. This programme has worked with thousands of SMEs since 2006. Just imagine the potential of a comparative research programme that worked with over 300 SMEs in each UK region, providing a dataset of over 3,000 firms!

This dream is closer than some may realise! As a result of this research, we have now developed a range of institutional SME products and services that are funding this ongoing research programme. The fact that this research model has proven to be self-sustaining should encourage others to take on board similar models. Should you wish to find out how your institution can get involved, whether in the UK, Europe or further afield, please contact our research team.

About the study

PSP integrates a wealth of quantitative and qualitative information collated through a suite of surveys, personal interviews, detailed case studies, and workshops with SMEs. This refreshing research model is informed by a multidisciplinary team of researchers from a variety of Business Schools around the world who hold expertise in strategic management, financial management, operations management, leadership and wider human resource management, supply/value chain management, and marketing. These researchers ensure that these research instruments are kept up-to-date and reflect the latest developments in the SME management and performance field. A steering committee composed of national and regional policymakers, business associations, and business support and advisory bodies also provides welcome counsel to the project.

Each research iteration of PSP adopts a comprehensive five-step research process, see Figure 1 for a pictorial representation. Every research iteration begins with extensive mining of the latest research in the SME management and performance field. Adjustments are then made to the research instruments to reflect any key developments in the field, whilst respecting the need for comparative longitudinal datasets. A suite of quantitative surveys and semi-structured personal interviews are then progressed with owner-managers, and detailed case studies are used to delve further into the workplace and cover the thoughts of other managers and employees in SMEs. Finally, research findings are further corroborated through sets of facilitated workshops with SME owner-managers.



APPENDIX B: Tables and Figures

Table B1. The education level of owner-managers