

Entrepreneurship in the Netherlands

*High growth enterprises;
Running fast but still keeping control*

Colophon

This publication forms part of a series relating to entrepreneurship and small businesses.

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Preface

The Netherlands needs fast-growing companies. They are vital to our economy. They are more innovative than their competitors and are therefore more likely to introduce new processes, products and services. And they also generate more new jobs. In fact, they are responsible for a third of both net job creation and economic growth.

Fast growers often serve as models of successful entrepreneurship. They inspire others to set up businesses of their own. By competing with established players, they help to keep the whole Dutch economy up to date and on the ball.

In other words, fast growers bring innovation and dynamism to our economy. Their impact can be felt far beyond the confines of their own sector. And so I am concerned that there are fewer fast growers in the Netherlands than in other European countries. Why is that? What obstacles do they face?

Studies show that the main problem is the transition from pioneering to consolidation. Our fast growers are often led by high-powered entrepreneurs who combine vision with daring, frontrunners who feel at home in a dynamic environment.

But growth calls for structure. Without it, a company is heading for trouble. And it can sometimes be difficult to find enough qualified staff or to attract capital and government grants.

I have taken a number of measures to lend a helping hand. I have scrapped conflicting regulations, reduced the administrative burden, and eased licensing requirements. I am also working on measures to train more qualified personnel. These measures will strengthen the business climate in general, and benefit the frontrunners in particular.

But I am also pursuing some policies specifically to help fast growers. They include the Growth Facility, the Mastering Growth Programme, the Enterprise Zones and assistance from Syntens. You can find out more about all these initiatives in this booklet. I hope it will encourage debate on how to shape our future policies in support of fast-growing companies.

Karien van Gennip, State Secretary for Economic Affairs

1 Introduction by the editors

This report is the ninth edition of the series “Entrepreneurship in the Netherlands”. As demonstrated by the name of the series, the reports focus on entrepreneurship but each year a different aspect of entrepreneurship is studied. Previous issues have reviewed; entrepreneurship and competitiveness, ambitious entrepreneurs, nascent entrepreneurs, entrepreneurship in the new economy, innovative entrepreneurship and business transfer.

This ninth edition of Entrepreneurship in the Netherlands deals with high growth and the quality of entrepreneurship.

In the Action Plan Entrepreneurs “Entrepreneurship policy in the Netherlands”, the Ministry of Economic Affairs describes its aim as not just to create more entrepreneurs, but also to improve the quality of entrepreneurship. Creating a successful enterprise requires a careful and well-researched approach combined with a detailed knowledge of the market. Many entrepreneurs in the Netherlands are still not fully exploiting the capacities of their businesses. This is often due to lack of preparation and insufficient knowledge.

In addition, the action plan stipulates that fast-growing companies are an important target group for Dutch entrepreneurship policy. The Netherlands is lagging behind the rest of Europe in terms of the share of such companies as a proportion of the business population. Therefore the Ministry tries to ensure that the Netherlands’ share will match, by 2010, the average in the benchmark countries (i.e. the US, UK, Denmark, Belgium and Germany).

Structure of the report

As in previous editions, the report starts by providing some key data on the development of entrepreneurship and entrepreneurial spirit in the Netherlands. To assess the Dutch situation, these data are benchmarked against other EU Member States and the United States.

Chapter 3, prepared by Petra Gibcus of EIM, provides qualitative information on fast growing enterprises in the Netherlands and the role they play in the Dutch economy. As far as possible, the data are put in an international perspective. In addition, more qualitative information is given, in particular on the factors of success of the Dutch high growth enterprises.

Pieter Waasdorp and Mieke Bakkenes of the Ministry of Economic Affairs have prepared Chapter 4 in which they describe the role public policy can play and focus on recent policy initiatives developed to support the set up and development of fast growing enterprises in the Netherlands.

The last chapter is prepared by Professor Juan Roure and Luis Segurado of the IESE Business School at the University of Navarra, Spain. In their contribution, they focus on the management of growing and fast growing enterprises.

The editors thank all the authors for their participation in this project.

Mieke Bakkenes, Ministry of Economic Affairs
Jacqueline Snijders, EIM Business & Policy Research

2 *Entrepreneurship in an international context*

By Jacqueline Snijders, EIM Business & Policy Research, the Netherlands

In this chapter, some key figures are presented on the development of entrepreneurship and entrepreneurial spirit in the Netherlands, a number of other EU countries and the USA and Japan. This information should be considered as background information for understanding and comparing the other contributions to the report.

2.1 Entrepreneurial climate in an international context

The entrepreneurial climate of a country and its development can be based on three indicators:

- The number of entrepreneurs in the working populations;
- Birth and death rates; the number of entries and number of exits as percentage of the total number of enterprises, and finally
- The Total Entrepreneurial Activity Index (TEA); the number of persons that are active in setting up an enterprise or who own a recently set up enterprise.

Number of entrepreneurs in the working populations

In 2004, 11.4% of the Dutch working population were entrepreneurs and as Table 2.1 shows this percentage is in line with Belgium, Ireland, the United Kingdom and slightly lower than the EU average (11.6%).

The differences in percentages between countries are among others related to the average enterprise size. In the Netherlands for example, the average size of an enterprise is 12 people employed, whereas the size in Italy is 4. At EU-15 level, a firm employs on average 7 persons.

As in Germany, Ireland and Italy, the percentage of entrepreneurs in the Netherlands has increased in 2004, whereas this percentage was quite stable in the period 2002-2003 (see Table 2.1). A similar trend is visible at EU-level.

The percentage of entrepreneurs in the working population can be influenced either by a change on the number of entrepreneurs or by a change in the working population. In the period 1982-1994, the number of entrepreneurs was increasing more than the working population. This is in line with the EU-15 development. Of the benchmark countries only in France and Denmark, was the number of entrepreneurs decreasing compared to the growth of the working population. Also in the period 1992-2004, the growth in the number of entrepreneurs in the Netherlands was higher than the growth of the working population.

Table 2.1 Percentage of entrepreneurs in the working population (private sector excluding agriculture and fisheries), 2002-2004

	2002	2003	2004
Belgium	11.6	11.5	11.1
Denmark	6.7	6.5	6.3
Finland	7.9	8.1	8.2
France	8.1	8.2	8.2
Germany	8.6	8.8	9.3
Ireland	11.2	11.2	11.7
Italy	18.3	18.3	19.3
Netherlands	10.8	10.8	11.4
United Kingdom	10.7	11.3	11.4
EU-15	11.2	11.3	11.6
United States	9.5	10.4	9.9
Japan	9.2	9.1	9.1

Note: Data for 2001 are not available

Source: EIM, Internationale Benchmark Ondernemerschap 2005 (International Benchmark Entrepreneurship 2005), Zoetermeer 2006

2.2 Birth and death rates

Birth rates

The birth rate is defined as the number of entries (start-ups and new affiliates) as percentage of the total number of enterprises. In 2004, the birth rate in the Netherlands was slightly higher than in most other EU-countries. Only Germany, the United Kingdom and Ireland achieve higher birth rates.

In the last 5 years, the birth rate in the Netherlands reduced from 11.1 to 8.8%. This reduction was also visible in Ireland. In the majority of the other countries, this development has been more stable.

However, in 2002 and 2003 birth rates in the Netherlands remained more or less the same, whereas birth rate showed an increase again in 2004. Except for France and the United Kingdom, this increase is in line with the development in the other EU countries.

Table 2.2 Birth rates, 2000-2004

	2000	2001	2002	2003	2004
Belgium	6.7	6.5	6.4	6.4	7.2
Denmark	11.7	10.1	9.2	10.7	-
Germany	9.9	9.2	8.9	10.0	10.6
Finland	8.1	7.9	8.0	8.5	9.0
France	6.9	6.8	6.7	7.8	6.5
Ireland	15.1	12.6	11.9	12.5	13.3
Italy	7.7	7.9	7.7	7.3	7.7
Japan	-	4.1	4.3	5.4	5.4
Netherlands	11.1	9.7	8.1	8.0	8.8
United Kingdom	13.3	12.7	12.6	13.2	12.7
United States	10.1	9.5	9.6	9.2	9.7

Source: EIM, *Internationale Benchmark Ondernemerschap 2005*
(*International Benchmark Entrepreneurship 2005*), Zoetermeer 2006

Death rates

The death rate is defined as the number of exits (bankruptcies and other closures) as percentage of the total number of enterprises. In 2004, the death rate in the Netherlands was 6.5%. Compared to other countries, this rate is still relatively low; only France and Italy experience a lower rate of exits. These countries are however characterised by a lower share of entries and, in general, there is a strong relationship between the number of entries and the number of exits.

In the period 2000-2003, death rates in the Netherlands have increased slightly, but in 2004, the rate remained stable. This is probably related to the low economic development. In these phases, it is hard for young enterprise to survive.

Since 2000, the absolute number of bankruptcies in the Netherlands has increased, but compared to most other countries the percentage of bankruptcies is still relatively low. This means that the majority of enterprises have closed for other reasons.

Table 2.3 Death rates, 2000-2004

	2000	2001	2002	2003	2004
Belgium	6.8	6.6	6.3	6.0	6.2
Denmark	9.5	10.1	9.7	13.2	-
Germany	7.3	7.0	7.0	7.1	7.1
Finland	7.4	7.5	7.6	7.7	8.1
France	5.5	4.3	4.1	4.9	5.3
Ireland	5.7	7.6	7.4	3.8	7.6
Italy	5.4	5.5	5.8	5.9	6.1
Japan	-	4.5	4.6	-	6.4
Netherlands	6.1	6.3	6.1	6.5	6.5
United Kingdom	11.6	10.7	10.4	11.2	11.6
United States	8.9	9.2	8.9	8.7	8.8

Source: EIM, *Internationale Benchmark Ondernemerschap 2005*
(*International Benchmark Entrepreneurship 2005*), Zoetermeer 2006

Net effect birth and death

Due to births and deaths, the number of enterprises in the Netherlands has increased in 2004 by 2.3%. This increase was higher than in 2002 and 2003, but lower than the years before. Compared with the other EU-countries, the net growth in the Netherlands in 2004 is quite high, only in Ireland and Germany is the net growth higher.

Table 2.4 Net growth of the number of enterprises as a percentage of the total number of enterprises, 2000-2004

	2000	2001	2002	2003	2004
Belgium	-0.1	-0.1	0.2	0.4	1.0
Denmark	2.2	-0.2	-0.6	-2.5	-
Germany	2.6	2.2	2.0	2.9	3.5
Finland	0.7	0.4	0.4	0.8	0.9
France	1.4	2.5	2.6	3.1	1.2
Ireland	9.3	5.1	4.6	8.7	5.7
Italy	2.3	2.4	2.0	1.4	1.6
Japan	-	-0.4	0.0	0.0	-1.0
Netherlands	5.0	3.4	2.0	1.5	2.3
United Kingdom	0.2	0.7	0.8	0.5	-0.4
United States	1.1	0.2	0.7	0.4	1.0

Source: EIM, Internationale Benchmark Ondernemerschap 2005 (International Benchmark Entrepreneurship 2005), Zoetermeer 2006

2.3 Total entrepreneurial activity in 2005

The Total early-stage Entrepreneurial Activity (TEA) gives an indication of the entrepreneurial activity of the Netherlands. This index, developed within the Global Entrepreneurship Monitor (GEM), is essentially the sum of nascent entrepreneurs (people that are currently involved in positive activities to start up a new business) and owners of young businesses (people currently owning a business that is less than 42 months old).

In 2005, the level of entrepreneurial activity in the Netherlands was 4.4 and this is lower than in 2004. This dip in 2005 is most probably related to the economic development. The doubts in the beginning of 2005, whether the economic development would improve, have probably had a negative effect on the intentions of people to start an enterprise (nascents). The owners of young business included in the TEA are existing enterprises that started in the period 2002-2004. The rate of nascents dropped from 3.0 in 2004 to 2.5 in 2005. The rate of young business dropped from 2.2 to 1.9.

Fortunately however, registrations of new enterprises at the trade register of the Chambers of Commerce indicate the number of start-ups has increased in 2005 and the first half of 2006¹.

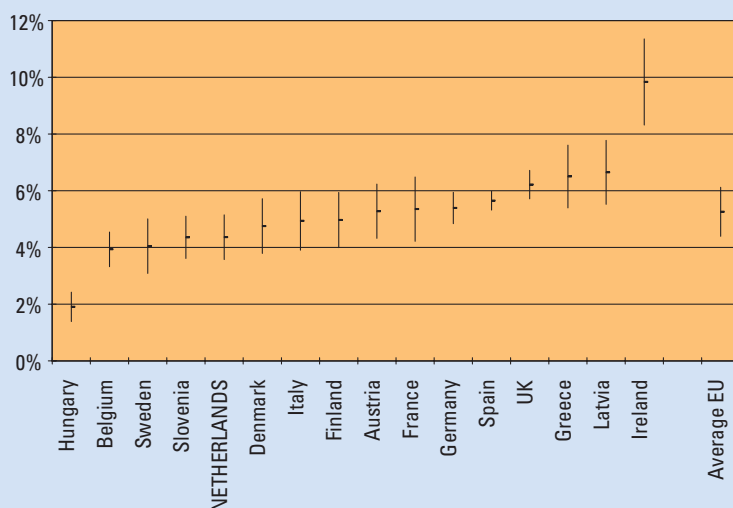
Table 2.5 Development of the Total early-stage Entrepreneurial Activity (TEA) index the Netherlands and the European Union (EU), 2001-2005

Year	Netherlands	EU
2001	6.4	7.9
2002	4.6	5.1
2003	3.6	5.1
2004	5.1	5.1
2005	4.4	5.3

Source: EIM/GEM

The average TEA index for the EU Member States is 5.3 and the Netherlands now takes a position below the EU-average. From the EU-15 Member States included in GEM, only Belgium and Sweden experience a lower entrepreneurial activity.

Figure 1 Total early-stage Entrepreneurial Activity (TEA) indices per country. EU-countries participating in GEM, 2005



Note: TEA is defined as the number of nascent entrepreneurs and owners of young businesses per 100 individuals in the 18-64 adult population.

Source: EIM/GEM. The vertical bars represent the 95 percent confidence interval.

2.4 The entrepreneurial climate in the Netherlands

In the frame of GEM, experts in the field of entrepreneurship – policy makers, researchers and entrepreneurs - were asked to assess the entrepreneurial climate in their country². One of the major sources of financing for new enterprises is private capital. The Dutch experts assess the availability of private capital a bit more positive than the average of the other EU and OECD

countries participating in GEM. An indication of the availability of private capital is the share of informal investors in a country. The number of informal investors (adults privately investing in a new enterprises) has slightly increased in 2004 from 1.3% to 2%. This percentage is in line with the EU average (2.4%), but lower than the average in the OECD countries (3.1%). The average size of an investment in the Netherlands is however higher.

Regarding the regulatory system for start-ups, the Dutch experts are somewhat critical on the lead-time to acquire necessary licenses and the requirements to start an enterprise. The number of licences needed in the Netherlands (7) is in line with the OECD average. However, the lead-time to get one licence is on average 11 days, whereas the OECD average is 20 days. The experts are also critical on the possibility for start-ups to get support at one institution or counter. On the whole issue, the Dutch experts are however less critical than they are regarding the average in the EU and the OECD-countries.

A way to stimulate entrepreneurship is to pay attention in the educational system to the possibility to start an enterprise. Although the Dutch educational system is paying more and more attention to entrepreneurship, the experts are not very enthusiastic about the results. Compared with the EU and the OECD, the Dutch experts are in particularly critical about the little attention paid to entrepreneurship at the primary and secondary level and the preparation for entrepreneurship at the higher educational level.

In general, the move to set up a new enterprise is positively appreciated.

In the next chapters, special attention is paid to high growth enterprises and the quality of entrepreneurship. The experts assess the priority given to enterprises with a high growth potential in the Dutch government policy as slightly above average (score 3.4 on a scale from 1 to 5). This is in line with the assessments of the experts in the other EU and OECD countries. The GEM population survey shows that the share of new entrepreneurs with a high growth expectation (more than 20 employees in 5 year) is rather low (6%). The EU average is 13.2% and the OECD average is 10.7%.

Compared with the EU and OECD experts, the Dutch experts are rather negative on whether new technology, science, and other knowledge are efficiently transferred from universities and public research centres to new and growing firms. They are also critical on the extent to which new and growing firms have just as much access to new research and technology as large, established enterprises. Finally, the experts are unimpressed regarding whether new and growing firms can afford the latest technology.

On the other hand, the experts assess the availability of adequate government subsidies for new and growing firms to acquire new technology, the same as the experts in the other countries. The same holds for whether there is good support available for engineers and scientists to have their ideas commercialized through new and growing firms.

Finally, the Dutch experts are more positive than the other EU countries, on the extent in which world-class new technology based ventures are supported by the science and technology base in at least one area.

2.5 Summary and conclusions

In this chapter, we have focussed on the entrepreneurial activity and entrepreneurial spirit in the Netherlands and in other EU countries.

The Netherlands

In 2004, the share of entrepreneurs in the Dutch working population has increased slightly from 10.8% to 11.4%, after it remained stable in the years before.

During the period 2001-2003, the percentage of new entries (birth rate) in the total business sector has decreased, but in 2004, a positive development is seen. The percentage of exits remained stable in 2003 and 2004. So in total, the number of enterprises has increased by 1.5% in 2003 and by 2.3% in 2004.

These developments are also reflected partly in The early-stage Entrepreneurial Activity index (TEA). The TEA has also decreased in the period 2001-2003 from 6.4 to 3.6, but increased in 2004 to 5.1.

This is most probably related to the economic development. The doubts at the beginning of 2005, about whether the economic development would improve, had a negative effect on the intentions of peoples to start an enterprise.

The Netherlands in a European context

The share of the entrepreneurs in the working population is higher in Belgium and Italy and lower in Denmark, Finland, France and Germany. In all countries, the development is stable. Birth rates are higher in Germany, Ireland and the UK. Higher birth rates generally lead to higher death rates.

In the period 2000-2003, the birth rate in the Netherlands has decreased, whereas in the majority of other countries this development has been more stable. In 2004, the birth rate however increased, in line with the other EU countries except France and the UK.

In the period 2000-2003, the death rate has increased slightly whereas it has decreased in some other countries. In the 2004, the death rate remained stable, whereas it still increased in the other EU countries. The number of bankruptcies in the Netherlands is relatively low.

In total, the net growth of the total number of enterprises in the Netherlands has decreased in the period 2000-2003, but in 2004, the net growth is increasing again.

Notes Chapter 2

- 1 Data on entries of the trade register are not completely comparable with the TEA, since the TEA also included existing young business. However, in the period 2002-2004, the development of the TEA was in line with the development of the registrations at the Chambers of Commerce. Only in 2005, the trend is different. This has probably to do with the confidence whether the economic development would carry through and/or the figure is influenced by sample fluctuations.
- 2 Hessels, Jolanda and Kashifa Suddle, Global Entrepreneurship Monitor 2005 Nederland (Global Entrepreneurship Monitor 2005 Netherlands), EIM Zoetermeer, 2006

3 *High growth and quality of entrepreneurship in the Netherlands*

By Petra Gibcus, EIM Business & Policy Research, The Netherlands

This chapter describes the state of affairs of high growth enterprises in the Netherlands. As far as possible, the information is put in an international perspective. The Netherlands is benchmarked with Belgium, Germany, Denmark, Finland, France, Ireland, Italy, Japan, United Kingdom and United States. These countries – hereinafter called benchmark countries - were selected by the Dutch Ministry of Economic Affairs.

Enterprises are considered high growth enterprises if 1) the turnover has increased by 60% or more within three years, 2) the number of employees has increased by 60% or more within three years, 3) the turnover and the number of employees have increased by 60% or more within three years. The population considered is enterprises with 50 to 1,000 employees in the sectors manufacturing, trade and services. Besides quantitative information more qualitative information is given, in particular on the growth patterns, the factors of success and the bottlenecks for high growth enterprises in the Netherlands.

3.1 The importance of high growth enterprises

Nowadays, enterprises have to operate in a faster changing environment: more national and international competition, new technological possibilities and increasing individualization. All these factors force enterprises to higher levels of flexibility and innovation. High growth enterprises succeed in dealing with flexibility and manage to operate in the changing market conditions. High growth enterprises are important for achieving economic growth and creating many new jobs. Especially (fast) growing enterprises account for a disproportionate part of employment growth¹. Nearly one in three jobs is created by a high growth enterprise^{2,3}. Besides that high growth enterprises are characterized by a high level of labour productivity⁴. High growth enterprises generate higher levels of turnover and their supplies are a unique combination of new and existing products⁵. These enterprises seek for possible gaps in the market.

High growth enterprises are active in all economic sectors most likely due to the fact that they are experts in finding niches that occur in all market sectors. Nevertheless relatively more high growth enterprises are active in services than in industry and trade⁶.

High growth enterprises are far more innovative than other enterprises. But it has to be stressed that not every innovator is a high-growth enterprise and not every high-growth enterprise is an innovator. On average high growth enterprises invest more time and money in innovation. Their strategy for innovation is far more active. More than 50% of the high-growth enterprises are in the front line when it comes to new developments or belong to the first users. Also the expenditures on research and development of high growth enterprises are significantly higher than those of non-high growth enterprises. 40% of the high growth enterprises spend 10% or more on research and development, compared with 30% of the non-

high growth enterprises that spend 10% or more on research and development. In the competition with other enterprises, the development of new products is an important factor. Moreover high growth enterprises introduce new processes, products and/or services more often. With these new processes, products and services they create eye-openers for new markets. High growth enterprises especially develop new markets by offering a wide range of products. But high growth companies are cautious about technological alliances. They opt to work with other enterprises less often in the exchange of technological know-how. They regard this as an in-house domain and do not want to share their abilities with other companies. The alliances, when they are made, are informal.

A knowledge-intensive production process demands highly qualified employees. High growth enterprises appear to make more use of highly qualified employees than non-high growth enterprises. Besides, because they make higher investments in research and development, high growth enterprises invest substantially in human capital. The number of training days of the staff was examined as a measure of investment in human capital. It shows that high growth enterprises devote more attention to staff training than low growth companies⁷. In fact, high growth enterprises spend 70% more time on the education of their employees than non-high growth enterprises⁸.

High growth enterprises are appealing examples of successful entrepreneurship. Their success might inspire other entrepreneurs to start-up a business. The high growth enterprises become role models. On the other hand high growth enterprises offer competition to already settled enterprises. These settled enterprises feel the competition. They know that alertness is necessary in order to stay ahead.

3.2 Share of high growth enterprises⁹

The number of high growth enterprises is an indicator for the level of adjustment and renewal of the Dutch economy¹⁰. First, the high growth enterprises, according to the turnover definition, are benchmarked. Then figures for high growth enterprises are presented if the growth of the number of employees, is considered. Finally figures on high growth enterprises defined in terms of turnover and employment are presented.

Share of growth enterprises in terms of turnover

In the period 2000-2003 the share of high growth enterprises in the Netherlands was 7.5% (table 1). This means that from the enterprises with 50 to 1000 employees about 750 enterprises are high growth enterprises in terms of turnover. All countries, except for Japan, show higher shares. For many years now the share of high growth enterprises in the Netherlands has lagged behind the other countries. Ireland and the United States have the highest shares of high growth enterprises with 27.3% and 25.3% respectively. Entrepreneurs in the United States are more focussed on exploiting opportunities and have a less risk avoiding attitude than in the Netherlands. In the United States it is, in general, more accepted to go bankrupt and to start all over again with another enterprise. In the Netherlands it is more or less still considered as shameful when an entrepreneur gets bankrupt. It feels like entrepreneurs have a negative track record which makes it much more difficult to get, for example, a start-up loan. Financiers in the Netherlands have a more risk avoiding attitude than in the United States although, entrepreneurs that get a second chance are often more successful in running a business, because they are familiar with the pitfalls.

Table 1 Share of high growth enterprises (in terms of turnover), 1998-2003

	1998-2001	1999-2002	2000-2003
Belgium	18.7%	14.6%	11.0%
Denmark	18.6%	16.4%	11.7%
Finland	21.4%	18.6%	13.8%
France	21.2%	17.2%	12.1%
Germany	14.4%	16.1%	11.0%
Ireland	29.1%	21.4%	27.3%
Italy	23.4%	21.0%	16.2%
Japan	14.8%	2.6%	2.2%
Netherlands	18.1%	14.2%	7.5%
United Kingdom	32.4%	20.8%	19.3%
United States	37.8%	30.6%	23.5%
Total	20.4%	13.8%	10.8%

Source: EIM, *Internationale Benchmark Ondernemerschap 2005* (International Benchmark Entrepreneurship 2005), Zoetermeer 2006.

In the period 1998-2001, the share of high growth enterprises in the Netherlands was 18.1%. The next two periods the share dropped to 14.2% and 7.5%. In all of the other benchmark countries, except for Ireland, the share of high growth enterprises decreased drastically. The worldwide recession (2001 – 2003) had a large impact. For many enterprises it was hard to increase their turnover and as a consequence the number of high growth enterprises decreased in the last couple of years. In most countries the economy is recovering and in this perspective we expect that the percentage of high growth enterprises will increase again.

The annual growth of turnover in each period is reported in Table 2. We make a distinction between non-high growth and high growth enterprises. In the period 2000-2003 the average annual growth of turnover for high growth enterprises in the Netherlands was 26%. Compared to other countries in the benchmark this is below average. Japan and Denmark are the only two countries that have lower growth rates in this period. Ireland scores the highest growth rate. Although the share of high growth enterprises in the Netherlands, based on turnover, decreased it can be noticed that the annual growth increased again. In 1999-2002 the average annual growth of turnover was 23%. One period later the average growth turned out to be 26%. For most countries the average annual growth decreased or remained stable.

Table 2 Average annual growth of turnover of non-high growth and high growth enterprises, 1998-2003

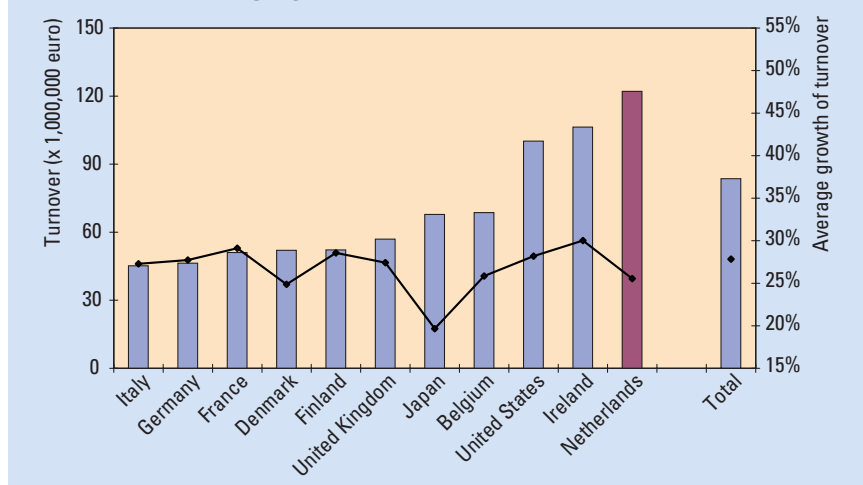
	Non-high growth enterprises			High growth enterprises		
	1998-2001	1999-2002	2000-2003	1998-2001	1999-2002	2000-2003
Belgium	4%	3%	1%	26%	26%	26%
Denmark	3%	2%	2%	30%	28%	25%
Finland	4%	4%	2%	28%	27%	29%
France	4%	3%	1%	30%	29%	29%
Germany	2%	1%	1%	29%	30%	28%
Ireland	7%	1%	-1%	26%	28%	30%
Italy	5%	5%	2%	30%	27%	27%
Japan	3%	-1%	-1%	23%	20%	20%
Netherlands	5%	2%	1%	27%	23%	26%
United Kingdom	4%	1%	0%	30%	28%	27%
United States	-1%	-3%	-8%	39%	37%	28%
Total	3%	1%	-4%	31%	28%	28%

Source: EIM, *Internationale Benchmark Ondernemerschap 2005* (International Benchmark Entrepreneurship 2005), Zoetermeer 2006.

If the high growth enterprises are compared with non-high growth enterprises there are a few differences. The biggest difference is of course the growth rates. But when we take a closer look we see that the growth rates of high growth enterprises are fluctuating in different directions. The growth rates of non-high growth enterprises have declined during the last few periods. These enterprises seem to react more heavily to the economic recession. In some countries the growth rates have become negative in the last period (2000-2003). This means that the turnover has decreased.

As described, the average annual growth of turnover of high growth enterprises in the Netherlands is relatively low compared to other countries. But at the turnover level, the Netherlands is a winner. The average turnover of high growth enterprises in the Netherlands in 2003 was 122 million euro (see figure 1). These high growth enterprises defined in terms of turnover have an average number of employees. This means that Dutch enterprises have a high level of labour productivity and/or they are very eager when it comes to outsourcing. It is reasonable to think that already efficient enterprises have more problems to achieve a higher turnover.

Figure 1 Average turnover of high growth enterprises (2003) and the average growth of turnover (2000-2003)



Source: EIM, Internationale Benchmark Ondernemerschap 2005 (International Benchmark Entrepreneurship 2005), Zoetermeer 2006.

Share of growth enterprises in terms of employment

In Table 3 the share of high growth enterprises defined in terms of employment is presented. In the Netherlands the share of high growth enterprises (employment growth of at least 60% within three years) in the period 2000-2003 was 8.2% of the population of enterprises with 50 to 1,000 employees. The differences with countries such as Belgium and Germany are small, but the Netherlands is again lagging behind. Japan shows an extremely low percentage of high growth enterprises. Especially Italy, but also the United States and Denmark, have a relatively high number of high growth enterprises.

Table 3 Share of high growth enterprises (in terms of employment), 1998-2003

	1998-2001	1999-2002	2000-2003
Belgium	15.0%	11.2%	8.6%
Denmark	13.8%	12.1%	12.3%
Finland	13.2%	11.4%	8.9%
France	14.2%	12.1%	9.3%
Germany	10.6%	10.5%	8.9%
Ireland	11.7%	n/a	n/a
Italy	28.8%	31.5%	26.4%
Japan	1.4%	1.5%	1.1%
Netherlands	9.1%	7.8%	8.2%
United Kingdom	15.0%	13.3%	11.9%
United States	21.0%	18.5%	13.4%
Total	11.2%	10.7%	8.9%

n/a = not available

Source: EIM, Internationale Benchmark Ondernemerschap 2005 (International Benchmark Entrepreneurship 2005), Zoetermeer 2006.

In almost every benchmark country the share of high growth enterprises, in terms of employment, decreased. The share of high growth enterprises was measured during a period of recession. However, there are two exceptions: Denmark and the Netherlands. Although, the increase of the share of high growth enterprises measured in terms of employment growth for these two countries is very small.

In most of the benchmark countries the share of high growth enterprises based on turnover is larger than the share based on employment. Exceptions are Italy and the Netherlands. There must be a reason for this development. A further analysis of the Dutch data shows that this development especially occurs in high growth enterprises in the hotel and catering industry. However, the share of high growth enterprises in hotel and catering based on employment increases. This means that the number of part-time employees increased. For the other stated industries the share of high growth enterprises on turnover and on employment decreased.

In table 4 the average annual growth is presented. The high-growth enterprises in the Netherlands have an average annual growth rate of 28% between 2000 and 2003. Only a few countries, Germany, Italy and the United States, have higher rates. Again high growth enterprises have more fluctuating rates. Non-high growth rates enterprises have decreased.

Table 4 Average annual growth of employment of non-high growth and high growth enterprises, 1998-2003

	Non-high growth enterprises			High growth enterprises		
	1998-2001	1999-2002	2000-2003	1998-2001	1999-2002	2000-2003
Belgium	2%	1%	0%	27%	26%	25%
Denmark	1%	0%	-1%	26%	28%	26%
Finland	1%	1%	0%	27%	26%	25%
France	2%	2%	0%	28%	27%	27%
Germany	0%	0%	-1%	29%	29%	30%
Ireland	2%	0%	0%	22%	n/a	n/a
Italy	2%	2%	0%	28%	28%	30%
Japan	-2%	-2%	-2%	19%	19%	19%
Netherlands	1%	0%	-2%	25%	22%	28%
United Kingdom	-1%	-1%	-2%	27%	27%	25%
United States	-7%	-8%	-9%	31%	30%	29%
Total	0%	-1%	-5%	27%	27%	28%

Source: EIM, *Internationale Benchmark Ondernemerschap 2005* (International Benchmark Entrepreneurship 2005), Zoetermeer 2006.

Share of high growth enterprises based on turnover and employment

A much more limited definition of a high growth enterprise is when turnover have increased by 60% or more within three years and employment also increased by 60% or more within three years. The figures are presented in table 6. When this definition is used the share of high growth enterprises in the period 2000-2003 in the Netherlands is 2.6%. Only a limited number of enterprises perform high growth in turnover and employment. Several matters seem to have an influence. A high growth enterprise might improve its market position through outsourcing.

In this way the enterprise creates efficiency of costs. More growth in turnover is generated, while employment stabilizes or even decreases. Another issue is that increase in turnover and increase in employment do not occur simultaneously. Some enterprises react immediately on the expected growth in turnover by expanding their capacity. Other enterprises are sitting on the fence and increase the capacity. Finally, the exchange rates and inflation play a part in the level of increase in turnover.

**Table 5 Share of high growth enterprises
(in terms of turnover and employment), 1998-2003**

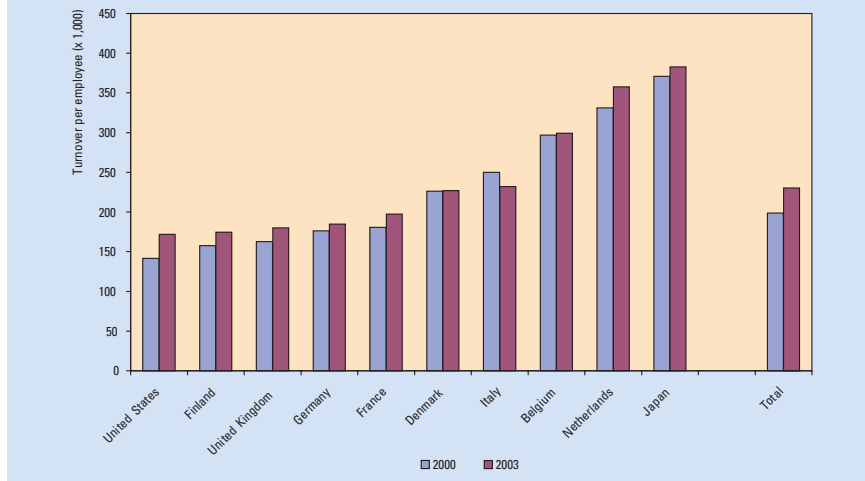
	1998-2001	1999-2002	2000-2003
Belgium	8.2%	6.4%	4.3%
Denmark	8.0%	7.1%	4.1%
Finland	9.2%	7.7%	5.9%
France	10.2%	8.3%	5.5%
Germany	5.0%	5.3%	3.5%
Ireland	8.3%	n/a	n/a
Italy	12.8%	12.4%	9.6%
Japan	0.7%	0.3%	0.2%
Netherlands	5.2%	4.3%	2.6%
United Kingdom	11.4%	8.7%	7.3%
United States	15.3%	13.2%	8.5%
Total	6.7%	5.7%	4.2%

n/a = not available

*Source: EIM, Internationale Benchmark Ondernemerschap 2005
(International Benchmark Entrepreneurship 2005), Zoetermeer 2006.*

For all three definitions the share of high growth enterprises is relatively low compared to the other countries. Although the Netherlands is lagging behind when considering the share of high growth enterprises it turns out that high growth enterprises in the Netherlands have a relatively high average turnover per employee¹¹ independent of the definition is used. This result indicates that Dutch high growth enterprises are more efficient than high growth enterprises in other countries. On the basis of the limited (third) definition of high growth enterprises, the average turnover per employee has been calculated in figure 2.

Figure 2 Average turnover per employees of high growth enterprises (based on turnover and employment), 2000 and 2003*



* Not available: Ireland.

Source: EIM, 2006.

3.3 Explanation of growth patterns of high growth enterprises

Growth is the subject of many studies. There is an exhaustive overview of literature on (high) growth enterprises. Several theoretical models are distinguished. All these models show different ways to approach (high) growth and describe the growth patterns of enterprises. One of the most important schools of thought is the lifecycle theory (lifecycle model and stage model). A second school of thought is the resource-based view of the firm¹². The lifecycle model, stage model and resource-based view are briefly discussed.

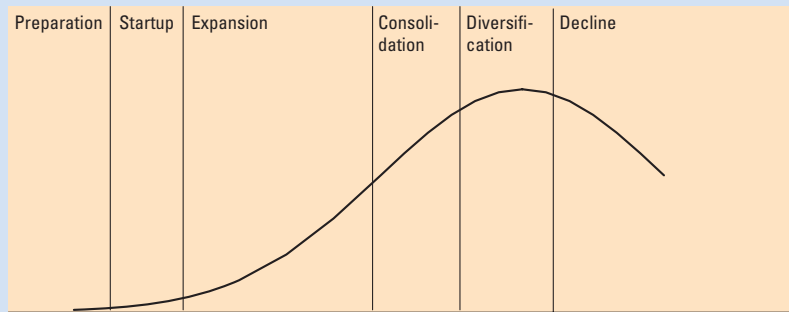
Life cycle models

According to the lifecycle theory enterprises pass through distinctive stages (each with its own characteristics) as they develop. Life cycle models look at the entire period of existence of the enterprise. A number of phases are distinguished (figure 3). The most important phases are:

- Preparation: there is only an innovative idea to set-up an enterprise
- Start-up: the enterprise is established
- Expansion: breakthrough resulting in growth and development
- Consolidation: there is still growth, but the growth is more mature
- Diversification: the size of the enterprise stabilizes
- Decline: obsolescence of the enterprise, sometimes shrinkage

High growth enterprises can often be found in the expansion phase.

Figure 3 Lifecycle model

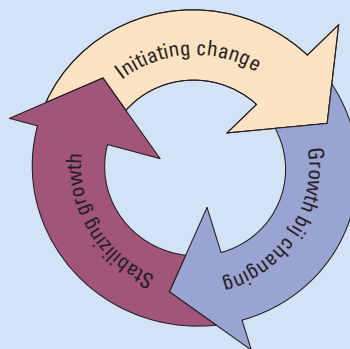


Source: EIM, 2006.

Stage models

Stage models presume that growth is achieved by initiating change. Not all changes consequently lead to growth, but it is possible. The main elements of the stage model are presented in figure 3. Examples of changes are innovation, repositioning of current markets, explore new markets, buy-up other companies, joint ventures or mergers. After the stabilization period of growth, a new initiative for change is necessary. Some changes are successful, whereas other changes are failures.

Figure 4 Stage model



Source: EIM, 2006.

Resource based view

In 1984 Wernerfelt¹³ picked up Penrose's (1959)¹⁴ theory of the corporate growth in which the expansion of the firm is primarily determined by the availability of firm-specific management resources¹⁵. Companies have to combine different resources in order to compete successfully in the market. The basic logic of the resource based view starts with the assumption that a company has a unique resource or a bundle of resources (distinctive competencies). Management has an important role in creating a sustainable competitive advantage (e.g. low costs/prices, better service, innovativeness) based on these distinctive competencies. A firm is said to have sustained competitive advantage when it is implementing a value creating strategy

not simultaneously being implemented by any current or potential competitors and when these other enterprises are unable to duplicate the benefits of this strategy. This will result in a set of unique product market combinations based on the resources and specific strategic decisions concerning the business¹⁶.

Differences between the theoretical models

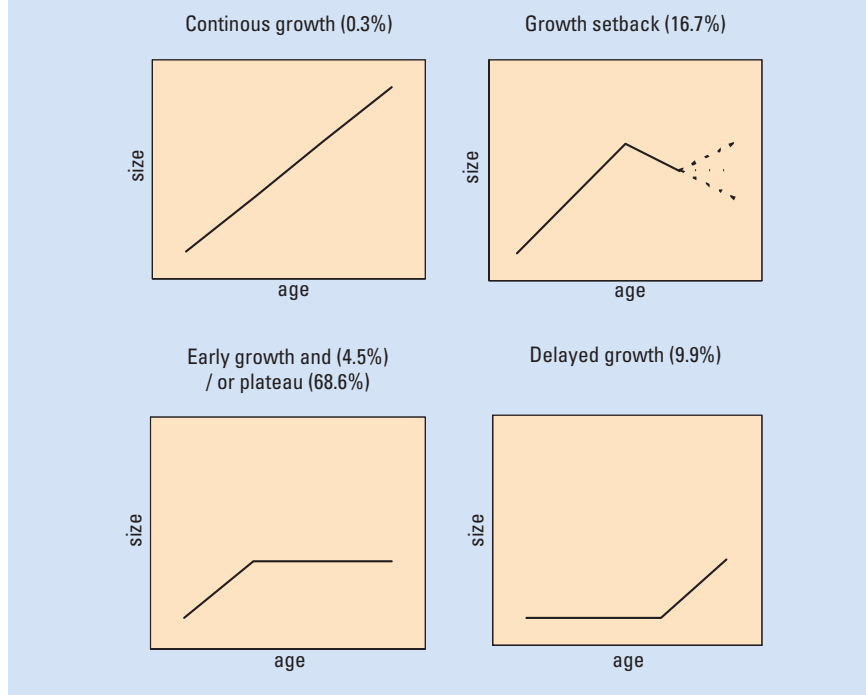
The stage models only look at a part of the firm's life cycle. Within the process of change some stages are distinguished. Changes can happen at the beginning or the end of a life cycle. It appears that there are no major differences between high growth enterprises that initiate change for the first time (from start-up to expansion) and high growth enterprises for which the change means a development to a new 'stage'¹⁷.

The resource based view tries to explain business growth and focuses on the variables that cause firm growth. Resources are the starting point of the argument. On the contrary, the life-cycle perspective takes growth as a starting point and looks upon the changes that growth brings upon the business. The effects of growth to the organization and consequently the business owner are the main concern of the life cycle perspective¹⁸. In the lifecycle theory different resources are needed in the different phases.

Growth patterns in the real world

In the real world not all enterprises follow a similar growth pattern when they grow. Start-ups are most likely to initiate growth. Previous research has shown that especially new and young enterprises have a large contribution in the increase of the number of high growth enterprises¹⁹. By using the EIM 'Start-up panel: cohort 1994' it is possible to take a closer look at the growth patterns of new enterprises over a period of ten years. All of the enterprises in this panel were registered as independent start-ups in 1994. Four types of growth paths are explored; continuous growth, growth setbacks, early growth and/or plateau and delayed growth²⁰. It was possible to derive these growth paths for 354 enterprises. The growth paths of these start-ups are displayed in figure 5.

Figure 5 Growth patterns of start-ups in 1994 over a period of ten years (1994-2004)



Source: EIM, Start-up panel 1994, 2006.

Growth patterns of high growth enterprises

A 'standard' growth pattern for high growth enterprises does not exist²¹. High growth enterprises also have their ups and downs. However there are some similarities in the description of the growth patterns of high growth enterprises. In a recent study by EIM with case studies on high growth (successful) enterprises in the Netherlands²², all enterprises kept the time to market as short as possible. At the time of initial growth most entrepreneurs delegate a part of the operation management, so that "span of control" is not restricted to their own skills. Most entrepreneurs hired an experienced 'chief operations officer'. Often also experienced turnover- and marketing professionals were hired. Most high growth enterprises diversify very quickly, often already in the phase of the initial success. Anticipating potential capacity is already present in the start-up phase and in the phase of initial growth. The entrepreneurs are already planning ready for the later phases. Often enterprises hire staff to cope with the expected growth. It appears that most of the questioned high growth enterprises are of the opinion that the phase of the "highest growth" is not reached yet.

Bangma and Verhoeven²³ explored the growth patterns of high growth enterprises in particular. They conclude that only a small group of enterprises keep up high growth over a period of five years or more. The high growth will not last forever. Of the high growth enterprises in the period 1990-1994, only 40% are still high growth enterprises in the period 1993-1997. There is a considerable exchange with normal growing enterprises (44%). This means that most high growth enterprises (1990-1994) cannot hold their growth rate. They found out that even under

high growth, enterprise shrinkage is a common phenomenon. This occurs in approximately one in three enterprises.

3.4 The determinants of success of high growth enterprises

High growth enterprises created their way to success. But what are the determinants of their success? Unfortunately, for other entrepreneurs that want to be successful, there is not one secret key to success. Instead, it is a combination of factors. Every high growth firm has its own competences and qualities. High growth enterprises simply differ too much. But high growth enterprises have one thing in common: they all face challenges in a changing environment and reacted to these changes ingeniously and effectively.

The original founder often still plays a crucial role in the performance of high growth enterprises. The entrepreneur is crucial for success²⁴. They are the discoverers and the innovators par excellence. Their qualities and ambitions determine the success of the enterprise they adopt opportunities. Kemp and Verhoeven²⁵ have questioned 208 high growth enterprises in the Netherlands and their results show that market attractiveness is a very likely variable for growth. It is the result of managerial action that the enterprise is in such a market. They selected the good market opportunities and became active in these markets. A major factor explaining the success is the "feeling for the space between the wishes of the client and the product/service offered". As a consequence they apply new concepts, exceptional and unique products to their customers. They keep up with the technological developments as the latest challenge²⁶.

"The strength of the enterprise is because of the three founders. They complement each other well. Their agreement is the confidence in their own abilities."

Above all it is the entrepreneur that has an ambition to grow and the entrepreneur has a clear vision of how to make this ambition come true. High growth enterprises take their time to describe precisely their future in terms of milestones. Often the entrepreneurs of high growth enterprises do not proclaim from the rooftops that they pursue high growth. They invent a smart strategy and chose a clear method to realize high growth. It turns out that growth is an important part of their strategy²⁷ on marketing and turnover. High growth enterprises have elaborated their ideas in a "business plan", most of the times already in the start-ups phase.

"We want to become the best in Europe, not the largest enterprise."

Characteristics that fit the entrepreneur of high growth enterprises are self-confidence, perseverance, energy, devotion, inventiveness, creativity, vision, initiative, versatility, acuteness and openness to personnel²⁸.

High growth enterprises are willing to invest in the organization. They pay a lot attention to the quality of their human resources. The entrepreneur is closely associated with the selection procedure for hiring new employees. High growth enterprises especially hire young employees. These young employees can be moulded in response to the rapidly changing environment. The management wishes for an open organization and tries to develop the pleasure for work²⁹.

“In the beginning I gathered the right people around me. I hired three employees at the start-up. I was convinced that it would work and that hiring new employees was soon necessary. Without these people it would not have such a great success.”

Brummelkamp and Te Peele performed seven cases studies of high growth enterprises of different sizes in the Netherlands. Considering the entrepreneurial climate they note that entrepreneurship policy has hardly played a role and regulation and legislation was not considered a barrier for growth. In none of the cases have the enterprises made use of a large amount of loans. In most cases, they allowed informal investors to participate in the enterprise. High growth enterprises have to be creative in their search for financial resources. If possible they avoid external financiers³⁰.

“My former employer has participated in the enterprise. We really needed him. A bank would not have lent me such an amount of money.”

3.5 Bottlenecks for high growth enterprises

High growth enterprises have become very successful and many factors of success can be mentioned. However, this does not mean that there is only success. High growth enterprises might encounter problems on their way to success. Some bottlenecks arise more often in high growth enterprises than in normal enterprises. The biggest problem is how to manage high growth. This can be divided into several sub-problems.

Hiring qualified employees

High growth enterprises encounter difficulties in hiring qualified employees. The employees must be able to work in a rapidly changing environment and deal with a variable workload. Besides that a substantial amount of new employees are necessary to realize the ambitions for growth. Human resource management takes a considerable amount of time, time that is already valuable for the board of managers. High growth enterprises cannot afford mistakes when hiring personnel. Once an employee is hired it is hard and very expensive to fire them and most of the times high growth enterprises do not have the money to cover these costs.

Management and organization

High growth enterprises are rapidly changing enterprises. This not only makes demands on employees, but also on management. The management has to guide the changes as well as all the other tasks. Quite often there is a lack of transparency about the division of roles. There are not enough possibilities for assigning tasks to others within the organization. Other factors include the lack of a clear strategy, the lack of adaptability and the atmosphere within the enterprise getting worse.

Processes and systems

Because of all the changes taking place, systems used are swiftly old-fashioned and inadequate. Implementations of new systems result in many problems. Systems for knowledge management and customer relationship management (CRM) can be poor. Knowledge is often only present in one or a few experts. Information on customers is often unstructured. Processes and systems need to be adjusted to the new circumstances.

Capital and subsidies

High growth enterprises experience problems in the acquisition of financing. Banks are rather reserved when it comes to providing loans. If high growth enterprises wish for further expansion they also have to facilitate future growth. With the current turnover it is hard to facilitate future expansion. High growth enterprises experience problems in making themselves clear towards the bank. The problem is that banks only look at the current performance based on standard financial indicators. For high growth enterprises the financial situation is rather complex and uncertain. According to the financial indicators the investment is often full of risks.

Although these problems arise high growth enterprises have certain strengths. High growth enterprises manage to effectively break through the 'growth barriers' that they encounter³¹. High growth enterprises in the Netherlands have relatively more problems to break through these ceilings than in other countries. It turns out that Dutch high growth enterprises need 50% more time to deal with these problems than high growth enterprises in the United States³². In the end the growth barriers become milestones and turning-points in the development of the high growth enterprise. Similar to the factors of success there is no fixed blueprint for solving the problems or break through the growth barriers. For every high growth enterprise the blueprint is unique. The enterprise picks the blueprint that fits the enterprise in the most appropriate way. What the high growth enterprises have in common is that sooner or later, they run up against a growth ceiling and find a solution that enables the enterprise to continue growing.

3.6 Summary and conclusions

High growth enterprises are important for achieving economic growth. They create many new jobs and are characterized by a high level of labour productivity. These high growth enterprises are able to deal with flexibility and manage to operate in the changing market conditions. In this chapter, we have presented several items concerning high growth and the quality of entrepreneurship in the Netherlands. If possible a comparison with other countries was made.

On the one hand, the Netherlands is lagging behind when it comes to the share of high growth enterprises. Three different definitions were used to measure these shares based on turnover and/or employment. Against all three definitions the Netherlands showed a relatively low share of high growth enterprises compared to other countries. Besides that the share of high growth enterprises in the Netherlands decreased between 1998 and 2003. On the other hand, if the average turnover per employee is considerably high. Now, the Netherlands belongs to the winners. The average turnover per employee is a measure of labour productivity. These high levels of labour productivity indicate that high growth enterprises in the Netherlands are very efficient.

An exhaustive overview of literature on (high) growth of enterprises exists. One of the most important schools of thought is the lifecycle theory (lifecycle model and stage model). A second school of thought is the resource-based view of the firm and these schools of thought were briefly discussed. In practice, not all enterprises follow a similar growth pattern when they grow. Unfortunately a standard growth pattern for high growth enterprises does not exist. Only a small group of enterprises will keep up high growth over a long period. High growth does not last forever.

High growth enterprises created their way to success. Unfortunately there is not one secret key to this success. Instead, it is a combination of all kinds of factors. Every high growth enterprise has its own competences and qualities. The entrepreneur is crucial for the success. They are the discoverers and the innovators par excellence. It is the entrepreneur that has an ambition to grow and he is the one that knows how to make this ambition come true. This does not mean that there is only success. Most high growth enterprises experience growth barriers. The biggest issue is how to manage high growth. High growth enterprises often experience difficulties in hiring qualified employees, lack of transparency for the management and the organization, keeping up with and applying new processes and systems and gaining capital or subsidies. There is no blueprint for coping with these problems. However, the strength of high growth enterprises is that they effectively break through these growth barriers.

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4 High-growth companies: a policy perspective

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4.1. The importance of high-growth companies

4.1.1 Introduction

High-growth companies are the stars of today's economy. As such they have enjoyed the attention of policymakers in the Netherlands since the late 1990s.¹ The recognition of the importance of this type of companies reflects the transition from a so-called managerial economy to an entrepreneurial one, in which entrepreneurs play a decisive role. The entrepreneurs behind high-growth companies are important creators of employment and vectors of economic dynamism. In this section we describe why high-growth companies have become an important factor in economic policy, the main current measures to encourage them and what lessons have been learned from the past. Finally, we discuss a number of policy options for the future.

4.1.2 High-growth companies in the entrepreneurial economy

Many OECD-economies are undergoing the transition from a so called managerial economy to an entrepreneurial economy.² In the past, economic growth and innovation was brought about in large companies which could realise economies to scale. Nowadays young entrepreneurial companies are the drivers of change. For example in the early 1990s in the Netherlands 60% of all companies did not exist ten years before. At the turn of the 21st century this had already risen to 64%. This transition can be explained from trends such as globalisation, an ageing population and rapid technological development. The key word in the competitive struggle entered into by entrepreneurs is "excellence". A turbulent economic environment creates more market opportunities, but it also increases uncertainty about returns – and hence the risks involved. That forces entrepreneurs to act more quickly in order to exploit the best opportunities as soon as they arise.³ So speed and excellence are the keys to success.⁴ And they are the two elements which high-growth companies combine.

Box 1 Characteristics of the 100 fastest-growing companies

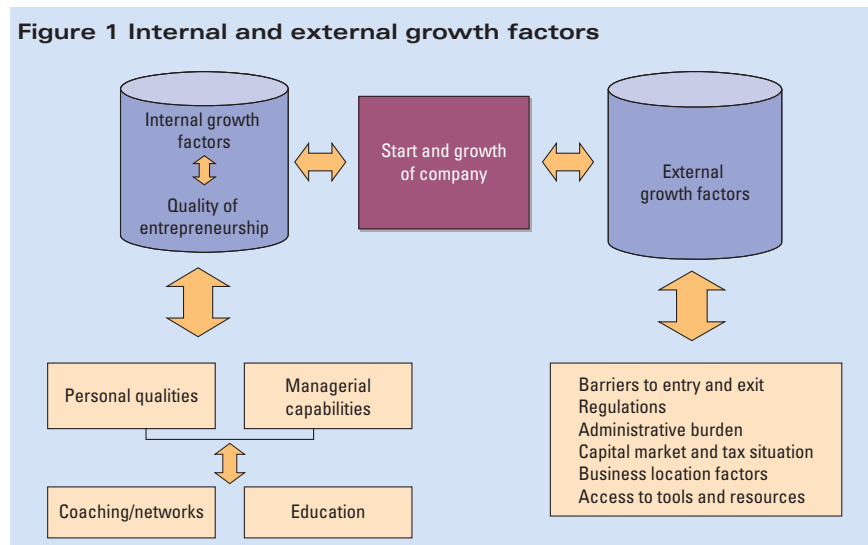
- 58 per cent are in the financial and business services sector.
- The 100 fastest-growing companies in the Netherlands account for 11 per cent of all employment creation in the country.
- The top 100 make a significant contribution to productivity, increasing it by 14 per cent a year.
- The average age of the top 100 companies is approximately 20 years.

Source: EIM (2002)

Almost by definition, high-growth companies are excellent companies. Their numbers thus serve as an indicator of the Dutch economy's ability to adapt and modernise.⁵ They make a significant contribution to innovation, employment and productivity in the Netherlands. Moreover, they often act as an example to other entrepreneurs.

4.2. The government's role

The number of high-growth companies in the Netherlands remains below that in other countries (see chapter 3). Why is that? In answering this question, we need to differentiate between internal and external growth factors (see figure 1). Business expansion is to a large extent determined by external factors such as properly functioning labour and capital markets, good legislation and regulations and the overall administrative burden. For high-growth companies, though, internal factors can also be critical. One impediment, for example, may be the inability of the underlying organisation to grow in step with the business.⁶

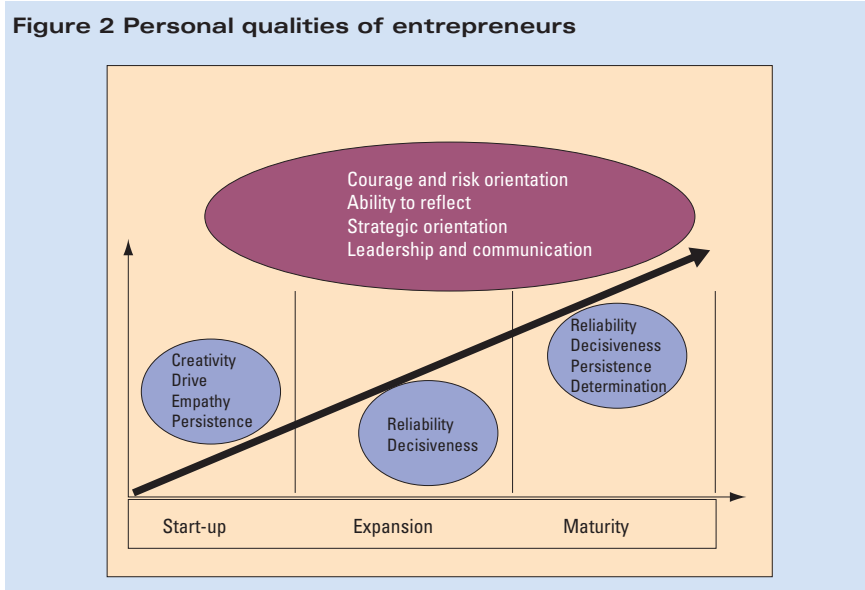


As already mentioned in chapter 3 high-growth companies are significantly more likely than ordinary businesses to encounter the following obstacles.

- Hiring qualified employees. High-growth companies may have difficulty finding enough staff with the right qualifications. The employees must work in a rapidly changing environment and deal with a variable workload. High-growth companies also have problems laying off excess staff.
- Management and organisation problems. Rapid growth results in unclear internal responsibilities, insufficient ability to delegate tasks, the lack of a clear strategy, an inability to adapt and a changing company culture.
- Processes and systems. Processes and systems (knowledge management, customer relationship management (CRM) need to be adjusted to new circumstances.
- Problems obtaining financing on reasonable terms: banks are conservative. In the case of potential subsidies, too, it is not always clear which schemes might be applicable.

One of the most important internal growth factors is the entrepreneur's own abilities. The personal qualities of the original founder are a key determinant of the company's subsequent success. Research by Nijenrode and others has shown that different personality traits are needed at different phases in the company lifecycle.

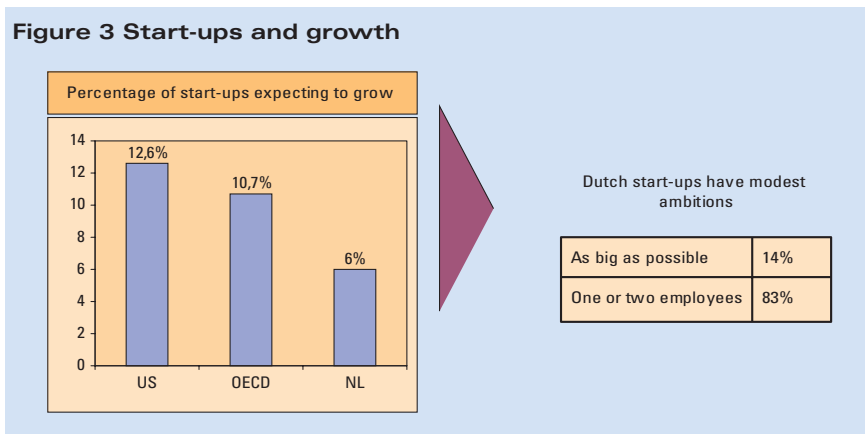
Figure 2 Personal qualities of entrepreneurs



Source: Ministry of Economic Affairs/Netherlands Association of Venture Capitalists, *De succesvolle ondernemer* ["The Successful Entrepreneur"], The Hague 2001.

The fact that personal qualities are an important determinant in growth appears to be confirmed by the fact that the number of Dutch start-ups which grow into larger businesses is low by international standards. And that seems to be linked to the modest ambitions of new Dutch entrepreneurs. As figure 3 shows an overwhelming majority of Dutch start-ups state as their ambition to have a few years after their start to have only one or two employees.

Figure 3 Start-ups and growth



Source: Global Entrepreneurship Monitor.

4.3. Entrepreneurship policy

4.3.1 General government policy

The government's role lies principally in influencing external factors by creating the right conditions for entrepreneurship. It has a more obvious part to play in solving problems associated with the workings of the capital market, say, than in addressing companies' own internal growth issues. Entrepreneurship is important to the Netherlands. It improves the nation's competitiveness and it is a source of employment. Government policy is therefore designed to overcome obstacles to entrepreneurship. Starting point for this is realising an entrepreneurial culture as expressed through a positive attitude towards entrepreneurship. On this point, however, the Netherlands continues to lag behind by international standards. Only 33 per cent of Dutch people regard running their own business as a good way to earn a living. Compared with the proportion of Americans favourably disposed towards entrepreneurship, 61 per cent, that is a low score. For this reason, the Ministry of Economic Affairs and the Ministry of Education, Science and Culture have jointly founded the Partnership for Entrepreneurship and Education⁷ to stimulate education in entrepreneurship. Activities include "roadshows" at which entrepreneurs visit schools. And a number of Entrepreneurship Centres modelled after the Kauffman Entrepreneurship Centers in the US are to be set up in 2007 to encourage more teaching of the subject in higher education. The TechnoPartner programme, meanwhile, is designed to improve the business climate for high-tech start-ups by providing them with access to money, knowledge, experience and equipment, by giving them a forum for their questions, ideas and comments and by encouraging academic institutions and commercial investors to back them.

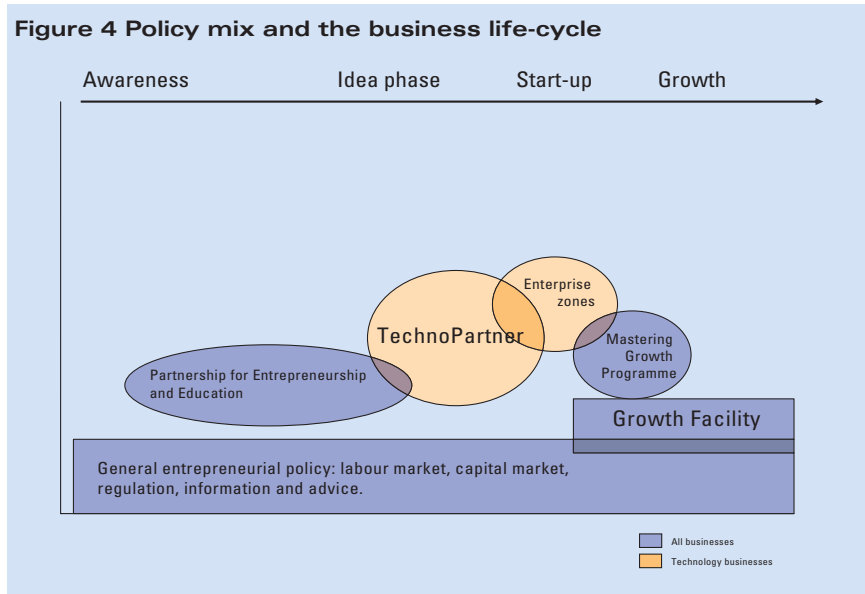
Another thrust of government entrepreneurship policy is improving the workings of the markets for labour, education and capital. The capital-market package, for example, makes it easier for start-up and high-growth companies to obtain finances. The efforts in education are designed to make vocational training more relevant to the business community, so that there are enough workers available with the right qualifications. That is being done through the Vocational Education in Action programme, to enhance the practical orientation of that training. Meanwhile, the Science and Technology Platform⁸ aims to increase the number of science students by 15 per cent by 2010.

One important part of government entrepreneurship policy is removing unnecessary obstacles so that entrepreneurs can concentrate upon entrepreneurship. That is being achieved by cutting the number of superfluous and obstructive regulations and by reducing the administrative burden on business. The government has set itself the target of reducing that burden by 25 per cent by the end of 2007, to be achieved by examining how licensing regimes can be relaxed and simplified.

4.3.2 Government policy on high-growth companies

The general policies described above are designed to help all businesses in the Netherlands, including the high-growth companies. But these activities are often particularly important to those firms, since they encounter the obstacles described sooner and tend to find them even more insurmountable than do "ordinary" businesses. Take the obstacles in labour market, for example. High-growth companies need a lot of staff, and so are likely to feel shortages of well-

qualified personnel particularly acutely. At the same time, though, there are a number of problems quite peculiar to this kind of business. In response to them, the Ministry of Economic Affairs has supplemented its general entrepreneurship policy by developing a number of activities specifically for high-growth companies. These encompass four areas: awareness, supporting managerial capabilities, improved public services through Enterprise Zones and financing as shown in figure 4.



4.3.2.1. Awareness

More free rein is needed for people with the will and the courage to become entrepreneurs and to excel in business. In other words, a culture in which excelling is the norm and there is no stigma attached to failure. High-growth companies are led by strong entrepreneurs who combine vision and daring. Their role very much determines how the business develops, so they need the right attitude and abilities to facilitate its growth.

Box 1 Qualities required by the CEO of a successful high-growth technology business⁹

- Entrepreneurial spirit (88%).
- Perseverance (61%).
- Personal contacts/networks (30%).
- Technical knowledge (27%).
- Luck – being in the right place at the right (27%).
- Managerial abilities (18%).
- Upbringing (9%).
- Education (9%).

Activities to raise awareness of entrepreneurship may come from the government, but they can be also be developed by the market itself. And that is certainly the case when it comes to activities targeting high-growth companies. A number of parties have taken initiatives to present fast growers in a positive light. To help draw attention to this type of business, the Ministry of Economic Affairs has supported several of these activities – albeit not financially. They include the annual High-Growth Forum organised by Port4Growth and the FD Gazelles event.

There exist several rankings of high-growth companies: the FD Gazelles award, the Deloitte Fast 50, Europe's 500 and so on. All shine a spotlight on the entrepreneurs behind such businesses, even when they themselves have perhaps not realised that they are particularly special because their firms are growing much faster than others in their sector. Each ranking scheme uses its own criteria to select its winners.

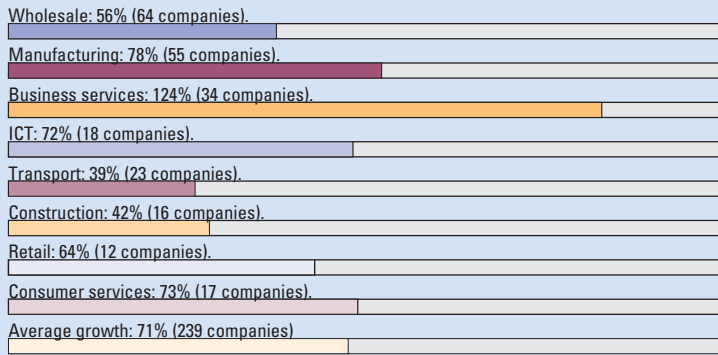
Box 2			
Criteria	FD Gazelles	Deloitte Fast 50	Europe's 500
Type of company	Any	Technology	Any
Selection basis	Turnover	Turnover (at least € 50,000)	Birch index (employment and turnover)
Size	Three categories (small/medium/large)	-	At least 50 employees
Entry	Figures submitted to Chamber of Commerce	Nomination	Nomination
Reference period	Three years with growth of at least 20 per cent	5 years	4 years

*FD Gazelles*¹⁰

The Ministry of Economic Affairs has worked with financial newspaper Het Financieel Dagblad (FD) on a multimedia event to reward the fastest-growing companies across the Netherlands. Presented for the third time in November 2006, FD Gazelles are awarded in three size categories and seven regions. Entrepreneurs are welcome to attend the awards ceremony in their region. As well as the presentation itself, this features a debate which provides an unique opportunity to explore the factors behind success development and to share experiences with high-growth companies in the same geographical area.

The winning companies are identified based upon the figures they submit to the Chamber of Commerce. Selection is by growth in turnover. In 2005, the Gazelles survey identified 172 companies which had increased their turnover by at least a fifth. In 2006 the researchers from Het Financieel Dagblad and Graydon found 239 such firms. And that may be an underestimate, since the search criteria were tighter this time. But even after corrections for the revised research method, the researchers still arrive at a 25 per cent increase in the number of rapid growers in 2006, compared with 2005. In other words, the burgeoning economic recovery of the past two years means that more companies are growing fast. Trading businesses are in the vanguard of this development as shown in figure 5.

Figure 5 Average growth by sector

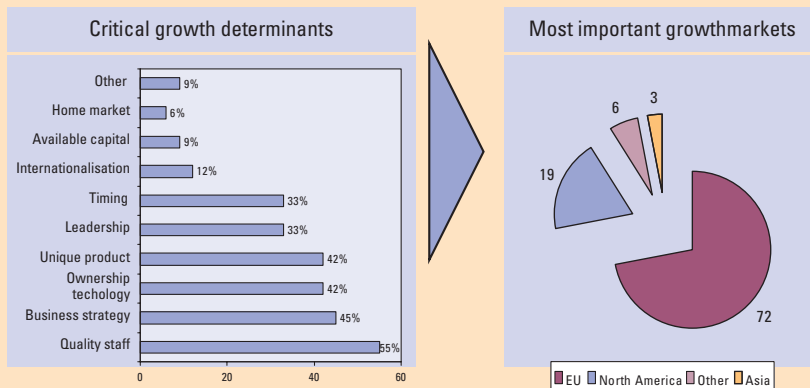


Box 3

Deloitte Technology Fast 50[™]

The Deloitte Fast 50 is confined to technology businesses active in the following markets: software, communication and networking, computers and peripherals, the internet and life sciences. To qualify for inclusion, the company must develop its own technology and that has to account for a substantial proportion of its turnover. The average growth rate of the companies listed in the Fast 50 was 1028 per cent in 2005, compared with 526 per cent in 2004. When questioned, their CEOs said that that increase is primarily attributable to the people they employ: they make the difference by displaying true entrepreneurial spirit and by not just seeing opportunities but converting them into actual results. For 70 per cent of these high-growth technology companies, internet applications are extremely important.

Critical factors which have most contributed to company growth, and most important growthmarkets according to the CEOs of the Deloitte Technology Fast 50.



Meanwhile, 30 per cent of the Technology Fast 50 CEOs say that dealing with legislation and regulations is the biggest challenge they face in managing their rapid growth. The best growth market is Europe (including the Netherlands).

High Growth Forum

Port4Growth held its third annual High Growth Forum in 2006. Each year, this one-day event by and for growing companies focuses upon current themes in growth. The spotlight is upon entrepreneurs from businesses in various phases of their development, who share their experiences with it. The Ministry of Economic Affairs has contributed by providing speakers for the forum.

Box 4

The Port4Growth Foundation (P4G) is a platform for high-growth companies in the Netherlands. It brings together the entrepreneurs behind those businesses and puts them in touch with service providers with whom they can develop mutually beneficial working relationships. P4G highlights growth, innovation and success, and it helps entrepreneurs find the new contacts, the new business and the professional support they need to continue building their success.

4.3.2.2. Supporting managerial capabilities

Syntens assistance for growing high-tech start-ups

Syntens is the innovation network for SMEs in the Netherlands. It was commissioned by the Ministry of Economic Affairs in 2004 to develop a programme of assistance for growing high-tech start-ups. In pursuit of that aim, the organisation has conducted interviews with representatives from high-growth companies and has set up two so-called "Mutual Learning Circles" for such businesses to test its approach. Based on the outcome of the experiment a programme for high-growth start-ups has been set up in which companies will be coached and guided. In addition 120 companies will participate yearly in so called "Mutual Learning Circles". These Circles are part of the Mastering Growth Programme (see below).

Box 5

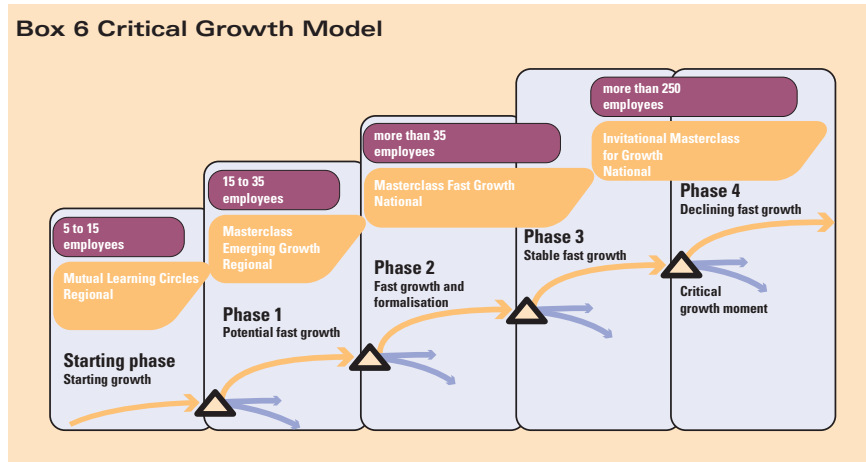
The research conducted by Syntens has revealed that what growing high-tech start-ups most need are...

- Experienced independent coaches to act as a "sounding board"
- A network of similar high-growth companies.
- Knowledge of personnel issues.
- Knowledge of marketing issues.
- Better access to sources of finance; more venture capital.
- Simplified regulations.
- A more flexible labour market.
- Training in entrepreneurial skills.

Mastering Growth Programme

In partnership with De Baak Management Centre, Port4Growth and Syntens, in 2006 the Ministry of Economic Affairs launched the Mastering Growth Programme. Addressing the preconditions for successful growth, this consists of four unique masterclasses tailored to companies in various stages of their development.

- Regional Mutual Learning Circles for companies with 5-15 employees.
- Regional Emerging Growth Masterclasses for companies with 15-35 employees.
- National Fast Growth Masterclasses for companies with more than 35 employees.
- Invitational Masterclasses for Growth for companies with more than 250 employees.



These masterclasses pay particular attention to the entrepreneur's role and influence in the growth of their company. As well as topics like finance, they address vision, strategy, culture and leadership roles. The masterclasses provide an informal – but not casual – meeting place for entrepreneurs at which they can learn from one another. The interactive nature of the programme means that the classes are led by as well as being attended by entrepreneurs. The theme of each session is introduced by a Dutch or international guest speaker with practical experience, and there is also a tutor on hand to provide the context, theory and supervision needed to stimulate the learning process. Attracting participants has been made a priority, since that proved a stumbling block with previous initiatives of this kind.

4.3.2.3 Improving public services

Enterprise zones for start-ups and high-growth companies

In 2006, the Ministry of Economic Affairs signed covenants with the three Dutch universities of technology and their local authorities to establish so-called Enterprise zones in which start-ups and high-growth companies are offered special assistance. This is provided through so-called "formula managers" at the participating universities and municipalities. Their task is to help break through walls of rules and bureaucracy which can so often delay and frustrate such businesses. That improves public services and provides entrepreneurs with specific assistance so that they are less troubled by regulations. For example, the three formula managers have reached agreement with the Immigration and Naturalisation Service that it will accelerate the processing of residence permit applications from overseas students seeking to set up a business in one of the Enterprise zones. And there are also specific arrangements in each of the

zones. Eindhoven, for instance, has made agreements with the tax authorities to address problems associated with VAT returns by start-up companies. The Delft zone, meanwhile, has extended its horizons by establishing an alliance with Shanghai to make it easier for entrepreneurs from either University to link up with business partners and academic institutions in the other.

4.3.2.4 Financing

Growth Facility

High-growth companies often come up against problems with financing. To address that, the so-called Growth Facility was published in November 2006 as part of the Ministry of Economic Affairs' capital-market package. This offers the financiers of small and medium-sized companies a government guarantee covering 50 per cent of newly invested risk capital up to a maximum of €5 million. In exchange, the financiers pay the Ministry of Economic Affairs a premium of 2.5 per cent in the case of a subordinated non-convertible loan or 3 per cent per annum in the case of other risk capital financing arrangements. The government guarantee makes the investment less risky for the financier, and so means that it is more likely to accept the application.

The annual budget available for the Growth Facility will rise from €85 million in 2006 to a structural €170 million in 2009. The capital-market package of which it is a part is designed to enhance the overall financial climate for start-ups and high-growth companies and also includes a government guarantee scheme for bank loans and the so-called TechnoPartner SEED Facility, which improves the financing opportunities available to new high-tech businesses.

4.3.3 What have we learned from the past?

Past Ministry of Economic Affairs activities have provided a number of lessons for the present and the future. When developing policy, it is important to listen to what the intended beneficiaries want and to build upon existing activities as much as possible.

Before designing the national Mastering Growth Programme, a brainstorming session was held with representatives from the business community and education sector to discuss possible approaches to the masterclasses for high-growth companies with 15-50 employees. This category was regarded as uncharted territory compared with others, since Syntens was already developing the Mutual Learning Circles for growing high-tech start-ups with up to 15 employees and the established Fast Growth Programme was catering for those with more than 50. One conclusion to emerge from this session was that the best approach would be to build upon existing initiatives from such bodies as De Baak Management Centre, Syntens and Port4Growth. That recommendation was accepted and taken up jointly by those organisations and the Ministry of Economic Affairs and resulted in the Mastering Growth Programme. Another thing we learned from previous initiatives was that a lot of time and effort needed to be put into attracting companies to participate in activities like masterclasses.

Networks

The Ministry of Economic Affairs identified coaching and networking as a policy option as long ago as 2001. In that year, with financial support from the Ministry, GrowthPlus Netherlands was established as a network of entrepreneurs from high-growth companies. The aim was to

organise networking meetings and to provide a platform for the dissemination of knowledge and information about such businesses. GrowthPlus Netherlands has played a major role in highlighting the importance of high-growth companies and in developing the concept of masterclasses for them. On the other hand, it proved difficult to interest enough firms in attending the networking meetings; the prevailing economic situation may have played a part in that reluctance. In 2004 Growth Plus Netherlands ended its activities.

Masterclasses for high-growth companies

Some years ago, TIAS Business School at Tilburg University was commissioned by the Ministry of Economic Affairs to develop a European masterclass programme entitled Champions of Growth. However, the economic downturn and uncertainty following 11 September 2001 meant there was never enough interest in that from potential participants. Subsequently, in 2002, the Ministry developed the Dutch Fast Growth Masterclasses in partnership with employers' organisation VNO-NCW, GrowthPlus Netherlands, TIAS Business School and De Baak Management Centre. Aimed at ambitious entrepreneurs from high-growth companies, these combined knowledge transfer with coaching and networking. The European programme from TIAS provided input for their development. Organised by De Baak, the first of these Dutch masterclasses was held in spring 2003. The Ministry of Economic Affairs subsidised the development of the modules. Fast Growth is now operating on a commercial basis and has become part of the national Mastering Growth Programme established in 2006.

Get to Know...

The Get to Know... programme operated by Syntens, the innovation network for SMEs in the Netherlands, began helping smaller (high-growth) companies since 2000. It gave entrepreneurs the opportunity to look at what their peers were doing by encouraging them to share experiences during a visit to one of the participating companies. Although the programme started well, a lack of participants resulted in its cancellation after a few years. However, the importance entrepreneurs attach to sharing experiences and the trust they place in their peers was recognised and has now been made a key part of the current Mutual Learning Circles for growing high-tech start-ups. These differ from the Get to Know... sessions in that they are held at a neutral venue rather than involving a visit to one of the participants, since that was apparently regarded as too inconvenient and time-consuming.

Box 7 Lessons learned

What are the principal lessons learned from the above initiatives?

- Be demand driven. Respond to the needs of the intended beneficiaries by talking to high-growth companies.
- As far as possible, work with partners and build upon existing initiatives. Pay attention to market conformity.
- Make sure that activities do not interfere with the business and are not too time-consuming.
- Attracting participation by high-growth companies is difficult and often required one-to-one contact.
- Make a long-term commitment.

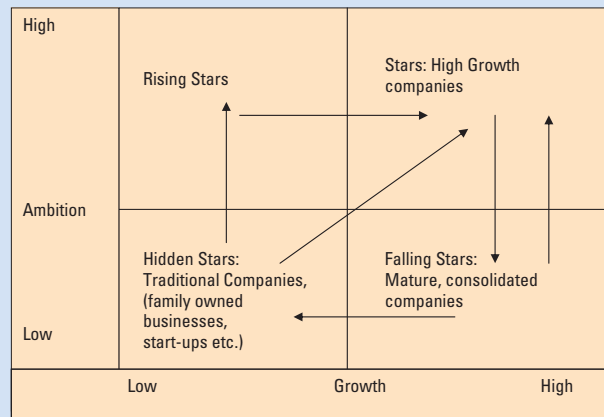
4.4. Policy Conclusions

The entrepreneurship policy of the Ministry of Economic Affairs aims at removing the barriers for entrepreneurs. The last few years high growth companies have gained more attention and a number of policy measures has been implemented. Moreover recently high-growth companies are the subject of a number of initiatives from the private sector. Nevertheless there appears to be a number of opportunities for further improvement of our policy mix on high-growth companies. These lie in the field of entrepreneurial ambitions, the interaction with the knowledge infrastructure, the internationalisation of activities, improving the quality of public services to high growth companies and increasing synergy between a number of growth initiatives. Of course this is only an tentative list of possibilities which should be further investigated.

4.4.1 Entrepreneurial ambitions

A remarkable low percentage of Dutch start-ups expects to grow its business: only 6% compared to 12.6 % in the US and 10.7% for the OECD-average. This seems to be linked to the modest ambitions of Dutch start-ups. The entrepreneurs in the high-growth companies are apparently an exception to the rule. Moreover, research shows that growth companies can be found in high-tech sectors as well as in low-tech sectors. Personal capabilities combined with entrepreneurial ambition are among the key drivers of growth. Figure... shows the relationship between entrepreneurial ambitions and growth. We distinguish four categories: the high growth companies who combine high entrepreneurial ambition with high growth, the so called rising stars who are very ambitious but have not achieved high growth yet, the mature consolidated companies who manage to continue growing in line with their competitors but are not driven by entrepreneurial ambition and the more traditional companies who do not have either entrepreneurial ambition nor realize high growth. As follows from our analysis and chapter 3 only a very small minority of Dutch companies end up in the upper right hand quadrant.

Figure 6 Relationship between entrepreneurial ambitions and growth



However, this is not a given as companies can experience different growth patterns in time. Only a small group of companies maintain their high growth rates over a period of five years or more. As companies get older, the chance that they are still high-growth companies becomes smaller. Even more so, the number of low or no-growth companies becomes higher. The turning point can be found after 25 or 50 years. This seems to be connected to the period of business transfers/ business succession. This type of companies can be found in the lower left hand quadrant. The policy challenge is to increase the number of companies in the upper right hand quadrant. The key for this is stimulating entrepreneurial ambitions and remove barriers to growth for a wide range of companies. For example, making Dutch start-ups more enthusiastic about growth by making more use of role models. Another source of high growth companies can be found among family owned businesses where new ambitious owners with entrepreneurial drive can turn old businesses into top performers.

4.4.2 Interaction with the knowledge infrastructure

A strong interaction between research institutes and the private sector is key in structurally improving the valorisation of public knowledge. New technology-based firms for example commercialise knowledge developed in the publicly-funded research sector and are a source of new know-how and opportunities. That is the reason why policy has focussed on special programs for high-tech startups through the so called TechnoPartner programme. In addition a special programme was set up to encourage entrepreneurship in the education systems. There are at least two reasons why these initiatives and the high-growth initiatives could learn from each other. The first reason is that it is important to increase the growth potential of high-tech startups. The challenge is not only to have more high-tech startups but to have more growing high-tech startups. Therefore the networks from high-growth initiatives could be linked to this policy field. The second reason is that entrepreneurship and knowledge institutes in the Netherlands are too often poles apart. Especially the entrepreneurs in the high-growth companies might form an impetus to make the knowledge system more entrepreneurial. Already high-growth companies are more innovative than other companies. Encouraging stronger interaction between these companies and knowledge institutes may very well be mutually beneficial. Both further increasing the innovative capacity of these companies and opening up the knowledge infrastructure to successful entrepreneurs.

4.4.3 Internationalisation

A relatively new phenomenon is the rise of so called 'born globals': young mostly innovative companies who almost from the beginning deploy activities abroad. For example over 40% of Dutch high-tech startups are engaged in export activities compared to only 7% of ordinary startups. Obviously internationalisation involves much more than exporting goods and services. It also includes setting up alliances with foreign universities, direct investments in production facilities, joint-ventures etc. Internationalisation is an important growth enabler. Already 12% of CEO's of the Deloitte Fast Fifty companies mention internationalisation as a critical factor which contributed most to company growth. This means that the necessary skills and competences for a successful internationalisation strategy should be further embedded in high growth initiatives such as the Mastering Growth programme. Moreover, both public and private initiatives might learn from for example EU-programmes for high-growth companies. In addition high-growth companies might be an interesting target group for government programs stimulating the internationalisation of Dutch companies.

4.4.4 Quality of public services

The recently started Enterprise Zones around the three Technical Universities serve as an experiment in improving the quality of public services from local, provincial and national governments for start-ups and growth companies. The lessons learned from this experiment may be implemented in other cities as well. For example whether account managers for growth companies at municipalities might be an effective way of removing growth barriers at local levels. These account managers could deal with unnecessary rules and regulations impeding company growth. Networks of high growth companies such as Port4Growth may play a role in acting as a liaison between public authorities and high growth companies.

4.4.5 Increasing synergy

As mentioned above the last few years witnessed a number of growth initiatives both from public and private partners. It might be worthwhile to look into ways to further enhance the cooperation and knowledge sharing between initiatives. This might enable a more coherent and effective growth policy so that more companies might be reached.

Finally, high-growth companies are at the forefront in the transition from a managerial to an entrepreneurial economy. These companies derive their strength from the entrepreneurial spirit of their founders. To stay competitive the Dutch economy needs more of these high-growth entrepreneurs. Therefore, a truly entrepreneurial entrepreneurship policy makes encouraging entrepreneurial ambitions and removing barriers to growth one of its top priorities.

Notes Chapter 4

- 1 Netherlands Ministry of Economic Affairs, De Ondernemende Samenleving ["The Entrepreneurial Society"], The Hague 1999.
- 2 See e.g. Schramm, C.J. (2006), "The Entrepreneurial Imperative", New York.
- 3 McGrath, R. G. (1999), "Falling Forward: real options reasoning and entrepreneurial failure", *Academy of Management Review*, pp. 13-30.
- 4 Wind, J. Y., and J. Main (1998), *Driving Change. How the best companies are preparing for the 21st century*, London.
- 5 Baljé, S. H., and P.M. Waasdorp (1998), "Ontdekkers en vernieuwers" ["Discoverers and Modernisers"], *Economisch Statistische Berichten*, pp. 924-926.
- 6 Ministry of Economic Affairs, *Snelgroeiende ondernemingen in Nederland* ["High-Growth Companies in the Netherlands"], The Hague, 1999.
- 7 See www.lerenondernemen.nl
- 8 Platform Bètatechniek
- 9 Results of the Technology Fast 50 CEO Survey 2005 – the Netherlands. Deloitte/Technology, Media & Telecommunications, 2006.
- 10 www.fd.nl/gazellen and "Surfen op de golven van het herstel" ["Surfing the waves of the economic recovery"] by Hein Haenen and Pim Kakebeeke, *Het Financieel Dagblad*, 30 November 2006.
- 11 Results of the Technology Fast 50 CEO Survey 2005 – the Netherlands.

5 High growth and quality of entrepreneurship in the Netherlands: The “growth dream”: Challenges and managerial pitfalls to avoid

By Juan Roure and Luis Segurado - IESE Business School – University of Navarra – Spain

5.1 The “Dream Battle”: ¿Grow or Go?

5.1.1 Why is growth important?

Growth is probably the most important and stimulating challenge that a company may undertake regardless of its stage of development. Growth means exploring and exploiting opportunities from inside of the organization as well as developing new business through internal and external approaches to grow. For the owners and decisions makers it means a key objective that in one way or another sooner or later has to be addressed.

In the business world, success is frequently associated with the level of quality and effectiveness of execution in strategy and operations, and this is what is often conventionally termed as “good management”. However, the ability to generate sustainable and profitable growth in the long run requires the exploration, definition and prioritization of expansion opportunities as well as design effective strategies to implement and exploit them. In the times we are living, the probability of bringing all growth dreams to reality are highly promising as the potential of the business opportunities are of a dimension that, to date, has had no precedent. This is due to the convergence of:

- New ways of consumption linked to...
 - the integration into the global markets of a vast population of new consumers from emerging economies like China, India, Russia, Eastern Europe, Brazil, Central Asia, etc. (3 billion people with a purchasing power that is estimated to reach more than 4,5 billion euros over the next ten years, a figure equivalent to that of Western Europe today); or
 - new, increasingly sophisticated consumer segments emerging in the developed economies as a result of profound demographic changes such as population aging or immigration among others...
- New ways of work linked to...
 - the rapid generation and dissemination of information technology innovations that set up the foundations of a “knowledge network” more and more omnipresent in the social, economic and technological arenas (access to voice or video communication in real time everywhere, access to networked computing systems and/or entertainment, etc.);
 - new formats of shared knowledge and work in real time at a global scale;
 - the development of virtual or networked organizational models for business based on a mix of decentralization, participation and coordination that is taking place in an environment subject to a changing composition of the labor force (due to the incorporation of women in the working environment or the impact of immigration, etc.), and also to strong competition for talent in the labor market as the main relatively scarce resource...
- New ways of doing businesses linked to ...
 - new business models and business practices as well as new processes and habits. Here, flexible strategies and innovation as well as cooperation with customers, suppliers and

even competitors prevail, versus the usual contradiction between cooperate and compete, giving course to true “ecosystems” of highly dependant interconnected enterprises with increasingly ambiguous organizational boundaries.

In all likelihood a majority of owners and decision makers of a SME has asked themselves at least once “do we really need to grow?” However asking oneself “what if we do not?” is not so frequent. Decisions and solutions in the face of the growth challenge can be tremendously heterogenous as each entrepreneur has his or her own goals and ambitions, which at the same time change as the company evolves and develops. Some will opt to stay how they currently are by keeping the size of the business to protect their investment. Others will opt to expand the business by seeking ways to maintain control to protect their revenue and investment. Others will decide to grow, protect their investment and successfully transfer the business to the next family generation whereas other companies will opt to stay as they are and later carry out succession on this basis.

Most of the companies that fail are small and young businesses. It then makes sense to think that the ability to gain size is not only a source of higher external credibility but also and more importantly a way to increase the likelihood of the business sustainability in the long run. On one hand growth is relevant as it makes survival possible, helps also to sustain the business competitive capability in relative terms, and contributes to the personal and professional realization of the entrepreneurs and their families. In addition growth facilitates the alignment of interests among all the internal and external stakeholders of the company. Employees, customers, capital providers, all are interested in the continuity of the business in the long run, which depends to a great extent on how capable the business is in attaining adequate levels of growth and profitability.

Neither all the businesses nor all the entrepreneurs want to grow or are capable of doing so. However, in a flat and “small” world like the one we live in, in a progressively more extensive global community, where the central differential factor in comparison with other precedent times of profound paradigmatic change are the challenges that arise from the speed of change and the level of interconnectivity, two main issues come into view as possible consequences, one is the most likely increase of the relative vulnerability of the business vis-à-vis its current and potential competitors as well as in the eyes of its customers; and other is the higher probability of a progressive decline of the firm’s ability to respond to market signals and innovate, thus establishing a negative dynamic that may well lead to its exit from the market.

There are no identical companies. Nevertheless all businesses face the same type of problems in a great deal of situations beyond their size or the stage of growth they may be, and all are subject to big transformations and changes as they evolve. Companies may grow or not, get into a high growth period, and experience transitory crisis and stop growing, and then grow again and experience decline, and all over again more than once during their life cycle. Also many companies spend long periods of their lives not growing at all in a stagnant or static situation. They neither progress much nor move back much and remain in such a state for a long time. A stagnant situation is not generating any value, employment and wealth whatsoever, but it might well be the state for many companies to seek and find a possible path to future growth. The fact that a company makes signs of low growth or no growth during a long period of time does not necessarily mean that it is not capable of growing again in the future. Whatever happens the reasons for not growing may be multiple, ranging from the lack

of ambition of their owners or decision makers, to unfavorable conditions in the market or segment where the firm operates, or a limited management team or the pressure of competition, etc.

There are also many companies that have enjoyed a successful market positioning in the past, but for various reasons have experienced no changes in their size for long periods. From a future perspective of their possible scenarios, one could think that they may be undergoing a “positive” transition in the sense that they may probably be gaining ground to set up the fundamentals for a new round of growth or for a turnaround to neutralize their most likely decline. On the contrary one could think that they may be just at that starting point of the business’s actual decline leading to its liquidation. Managing this type of transition requires a great determination and stamina in which the founders/owners’ motivation becomes a key factor of success.

Stagnancy cycles can be present in any of the stages of development of a company. But the question is that “not moving” during a lengthy period of time may ultimately mean putting the whole project on the edge of collapse (as may be the case for a young company) or to enter a stage of progressive decline while others take advantage of the opportunities in the market (as may be the case for more established companies). Moreover some firms are able to make suitable strategic and operating adjustments to changing environmental forces, and consequently drive important internal transformation processes, but all the same they do not grow or do so insignificantly.

The real problem with no-growth or low-growth is that it is not a good strategy in the long run. For most companies the growth challenge is there to stay. There is no a “supernatural” force that allows a firm to grow and survive over time. In practice firms have to be able to make progress and grow if they intend to stay in the market. Frequently this challenge may develop into a reality check between “grow or exit” or even “grow for not exiting” depending on the firm’s context and peculiarities. Still for many young and established firms indistinctly the “grow-or-go” tradeoff, far from being a dilemma, can be —under determined circumstances— an opportunity to study an exit option through a sale process well before being forced to “go” with low or no value at all. While there are many unambiguous reasons to grow, there may also be many reasons to sell (often not sufficiently distinguished or explicitly assumed by the decision makers involved). Possible reasons may include not having a defensible competitive positioning, not having the minimum size to operate in an increasingly concentrated industry, experiencing technological competitive disadvantages, undergoing a complicated family succession or family problems, facing the impact of a diversification ownership strategy or other partners’ exit, or also having a real opportunity to realize value. In the end there is no such tradeoff as grow or go (or sell): if firms mean to grow, they should be able to grow well, and if they mean to sell, they should be able to sell well, but what they should never do is both not growing and not selling.

5.1.2 An expected path for most firms: from increasing complexity to the risk of “stagnant normality”

Grow! Easier said than done. Developing a company demands resources, needs money and increasing delegation and coordination, and also the implantation of management and control systems. Clearly it is also necessary to generate growing sales that will generally be a direct

indication of a profitable exploitation of the business opportunities via the present products/services and/or via new products/services offered in current or new markets.

It is also well known that the factors that can have an impact on the firm's life can be internal, such as the role played by the entrepreneur or the owner typically associated with attributes of their personality, attitudes and capabilities, including those firm specific factors such as a company's strategic objectives, its organizational structure or the performance of its human resources; or external such as environmental aspects like the industry dynamics, the location, the regulatory framework, the level of domestic and foreign competition and other strategic elements —both may either facilitate or hinder the firm's growth. Distinguishing between what it is necessary and sufficient for developing a company continues to be an unattained goal. Although several explanatory approaches have been used, there is no theory that gives a complete explanation of what type of companies grow, how they grow and what type does not grow¹.

What drives a company to increase its size, seek high growth, enter new markets and develop new products? Again there may be multiple reasons. Some firms are able to build a strong growth-oriented culture that serve them to free all their potential and take advantage of their innovating competencies that may eventually take the form of new products or technological progress. Others grow to protect themselves from competition or just because they are afraid of losing good business opportunities or even the chance to lead the way in their markets or segments. By doing so they show a developed "sense of urgency" that make them remain proactive and competitive to deal with the environmental demands effectively. Also other companies, far from assuming that growth is a "natural outcome" of the business's evolution, make their choices and opt to decisively address new growth challenges long before falling into a state of "survival growth" and undoubtedly long before beginning to lose their best employees, their major customers or their key strategic partners. A good example is the case of most of the companies that operate in technology and knowledge-intensive industries where this kind of tradeoff may well turn out to be a "grow or die" option. For these companies the real challenge is to constantly keep the ability to produce and innovate since if they do not, they are likely to be penalized by their markets and their customers' indifference. In these industries there are plenty of cases of late market entry or even of too early entries because of an inadequate response to the particular industry's changes or innovation dynamics. In spite of this, other companies can make it as their owners possess the nerve and ambition for growth.

Whatever the case may be, an entrepreneurial firm can not only be built with the ambition of the main entrepreneur, the ability of their key decision makers to build teams and be open to ownership structures is also required. Besides, momentum is a key driving factor that is at the heart of the multiple motivations that may have an influence on the decision of whether to grow or not. The major decisions makers of a firm must make sure that they gather up the right resources and systems to reach their strategic objectives, and that performance is benchmarked and measured against defined goals. This is one possible reason why losing one's way for a long period of time can be highly counterproductive and hinder the access to the resources needed for continued and profitable growth. A consistent measuring of what is done against established objectives and goals, and a leadership focused on employees' satisfaction and motivation, which in turn leads to higher customer satisfaction, allow the firm to keep the "positive tension" that growth entails.

When growth occurs it signifies a great deal of transformation in the firm's structure, needs and objectives, and the more rapid it takes place, the higher the complexity and the associated impact of such transformation. When the speed of growth is accelerated, the decision makers begin to cope with forces that may pose a limit on their creativity, create confusion and often concern regarding the role and the responsibility each plays either in the organization or with reference to new required skills that may be derived from increased specialization. At the same time they have to deal with forces that expose them to operating controls and mechanisms that may erode the dominant culture in the firm. Hence structures, processes and patterns actually flow, and all the members of the organization, without exception, must respond with great entrepreneurial and managerial capability and vision. This is why stages of fast growth often overlap stages of consolidation in order to address new challenges with a more solid basis.

Developing an established company entails many challenges. To begin with it gives rise to specific needs and problems. One thing is to create and launch a new venture, and other is to manage and pilot it over a long period of development. The managerial and entrepreneurial capabilities are different. A new venture is usually developed by an ever-present founding team who directly communicate the firm's vision and values, and they are the ones who personally take charge of the supervision and implementation functions day by day. In contrast when an established company is under way to, or is at the heart of, a stage of more rapid growth, the challenges that the decision makers have to cope with are to re-organize the firm in order to prevent employees and teams from getting overwhelmed because of the organizational change; decentralize decision making by delegating levels of hierarchy and responsibility; reduce potential red tape, and make the maximum number of members of the organization live the business vision and values as much as possible ².

The stumbling blocks that companies have to avoid in order to overcome such managerial challenges accompanying faster growth are well known, as it is the high proportion of firms that are not capable of succeeding. Companies fail because of strategic, organizational and operating reasons. Some can not make it as they are victims of their own success as they are not able to organize themselves to operate at a higher scale. Other lack the required discipline, processes and management control systems to manage growth which frequently lead them to operating and financial collapse. Others hit the wall as their founders and decision makers fail to build a shared and attractive business project for the organization's people through leadership and motivation. All in all, the lack of decisive entrepreneurial leadership is most likely to make a company end up wasting all its growth potential as the entire business project may be confined to what the main entrepreneur/decision maker "has to say about it" or to his or her abilities or motivations, thus dilapidating all the potential talent of dedicated people.

5.2 Some internal challenges vis à vis the growth dream

If we turn our attention to the managerial challenges specifically connected to high growth, we see that it is not only tough to achieve but extremely difficult to maintain. Leaving aside the environmental conditions, as we have seen, growth success is greatly influenced by internal factors such as strategy, access to resources, leadership style and management approaches and performance. While there are many good examples of high growth companies that have been able to generate and sustain rapid growth, and even to do so in a profitable manner, the real story is they are the exception not the rule. Beyond the extensive inventories of high growth-

related difficulties, the fact is that there does not seem to be much apparent consensus in the corresponding research literature on why high growth is so complex to maintain³.

While there is no unique managerial approach to address this type of problems it is clear that high growth calls for the need to accomplish substantial transformations in structures, systems and competences to deal with the high complexity that is triggered in the organization as a result of this. It is a tough task. Some proposals suggest that the best option is to decelerate growth while others argue for promoting effective and frequent changes in order to shrink the transitional period in which the firm is exposed to the considerable impact that comes with high growth. Several studies conclude that the complexity of faster growth is best managed through anticipation by means of formulating and implementing a deliberate change plan focused on structural, systemic and organizational aspects⁴. It is however suggested that it is necessary to develop an “infrastructure” that allows the organization to self-generate change regardless of whether a change plan has been set up or not, and thus respond in real time to the transformations and escalating uncertainty caused by the increase in the level and diversity of the activities –for example by defining a clear business vision, developing a leadership style and effective people management, building internal and external relationships, managing the information flow and exchange within the organization, establishing an organizational policy, etc.⁵

The literature on high growth firms’ attributes and performance, particularly focused on the internal factors directly affecting their capability to generate and sustain fast growth, reveals that these companies are especially effective in addressing many of these difficulties⁶. This capability is generally linked to factors primarily associated with the profile of their founders or management teams⁷, with particular business practices⁸, with specific organizational and culture attributes of the firm⁹, and with people management¹⁰. A first insight is that leading a firm to rapid growth can be seen as a management challenge equivalent to other managerial challenges that decision makers may face along a specific development path. Different growth rates of different firms suggest the entrepreneurs make, as described above, specific strategic choices that impact how firms actually grow¹¹.

Among the set of attributes that make high growth firms “different” or “special” with regard to those of low growth, it is possible to figure out some entrepreneurial capabilities that are at the very heart of how they manage and execute their businesses to operate and compete successfully in the so called “new competitive landscape”. The evidence from these companies comes to reflect clearly that creating value (entrepreneurship) and establishing advantages and sustaining them from what has been shaped (strategic management) while at the same time exploring new sources of value (through new sources of growth) and advantages (through the improvement of the firm’s resources quality) can be objectively attainable¹². This view of entrepreneurial strategies that create growth as an “entrepreneurial action with a strategic perspective” depicts the integration of entrepreneurship and strategic management fields into what is termed as strategic entrepreneurship. Entrepreneurial management is seen as being equivalent to that of the corporate entrepreneurship construct although with a focus on the process of scanning and “discovering today tomorrow’s business” rather than the outcome of innovation itself as an indicator of intra-entrepreneurial performance¹³. Far from implying that “management” does not matter –both entrepreneurial management and administrative focus on creating value for the organization– the evidence from entrepreneurial firms indicates that “what is good management in an administrative context may not be good management in an

entrepreneurial context"¹⁴. It is in this light and based on the observation and input from programs, forums and networks of entrepreneurial dynamic enterprises such as the European Growth Plus Association or the Entrepreneur of the Year Award, and the contributions of some specific research works and surveys based on different populations of high growth firms that this article attempts to reflect on the some selected managerial pitfalls that seem to have an impact on the ability of firms in finding the way that leads to growth generation and sustainability under the current realities. They are:

- The lack of entrepreneurial ambition
- The lack of focus
- The lack of an internalized opportunity screening process
- The lack of a proactive growth-driven approach to funding
- The lack of a superior management team
- The lack of an active governance system
- The lack of a flexible approach for implementing new growth options and ownership structure.

5.2.1 Releasing the entrepreneurial ambition into the organization

Not only setting ambitious annual objectives, but also crafting an ambitious vision and sharing it.

Many entrepreneurial high growth firms have reached a point where few have been able to. To accomplish it they have gone down a long, hard road where the desire for growth seems to play a key part all along. Simultaneously they have been able to run the company successfully day by day because they want to win and they know how to do it. Obviously a company does not progress along a straight line guided by an "automatic pilot" since there are plenty of barriers and contingencies that must be dealt with; in the end by placing growth as their primary objective, what these firm's decisions makers do is to build organizations that are very effective in overcoming all these obstacles on their route to success.

Various studies have been carried out on the factors that may influence the ambition to grow¹⁵ in SMEs, and more interestingly on the relationship between growth intentions and actual growth of the firm. In particular, the ambition to develop a firm appears to be moderated by factors such as available opportunities and resources/ability¹⁶. For example, the entrepreneur's levels of education and previous experience and the presence of dynamic environmental conditions contribute to amplify the effect that his/her ambition to grow may have on the realized growth of the firm. However, there can be abundant opportunities and resources, but if there is no ambition to grow, the firm may not grow. In any case, whether they are abundant or not, it is the founder/management team's ambition to grow that is the key determinant of the effects these factors ultimately have on actual growth¹⁷.

A further element of the impact of the entrepreneur's ambition as a growth driver has to do with the ability of the entrepreneur and his/her /management team's ability to develop an innovative culture for growth within the organization. Successful firms know very well the effects of an empowering and supportive culture on their organizations, and assume it is a bottom-line issue. They are able to build collaborative and people oriented environments that both reflect and reinforce the core values of the company. This, in turn, enables the firm to stimulate creative ideas and high performance, and particularly to retain the "best in class" needed to grow.

An important feature of this process in entrepreneurial firms is that culture building is not a task delegated to the human resources area's agenda but a direct and ongoing responsibility of the organization's key people. According to vision¹⁸ a key mission of a strategic leader is to create the conditions within his/her organization that are conducive to the exhibition of an entrepreneurial mindset and behavior by and among individuals. To create such a context, entrepreneurial leaders and their management teams convince themselves of the importance of having a well-defined and strategic vision for the organization that reflects entrepreneurial intention and action towards growth. They in turn act accordingly and establish organizational systems and routines that ease the materialization of entrepreneurial action throughout the organization, and in addition they are scrupulous in communicating the strategic vision well to all the organizational members and creating a culture of recognition of every member's contribution to reach such a growth-oriented vision.

5.2.2 Keeping the focus on the core without losing an "opportunistic" approach to search for and undertake new businesses

Not only focusing on the target market with value products/services, but also exploring selective new customers or markets or offering selective products/services

When approaching the focus issue, it is recognized that young and even more established firms can experience different degrees of pressure to grow over time. Transformations in the competitive and economic environment, the impact of emerging technologies or other changes on the current key business areas, the fact that their current main business activities or business model may not be growing sufficiently, posing the company's long term survival at risk, or even the inability to find the right business focus to generate growth after the early stages, make some companies overreact in an entrepreneurial fashion and lose focus. One impact of this type of pressure is that many firms tend to compel themselves to actively search and invest in ("very attractive") new business or business areas (for which they do not possess the required skills and competitive advantages) as a way to offset such an impact and generate new growth. As a result a move that is conceived as an entrepreneurial push ends up increasing the business complexity in excess and thus becoming a decision inherently risky for the organization. The same as other companies at an initial stage of their development cycle that fail to find the right focus on the real revenue creator areas necessary to generate value in their targeted growth markets, thus wasting to a great extent all the high growth potential that otherwise could have been realized..

The real cost of a lack of focus may be the distraction effect that is generated with respect to the core, and this cost may be higher than any of the costs associated with failed new initiatives undertaken as a substitute. The above suggests that many companies either because of declining growth in their key business areas or because of a lack of an adequate strategic focus are not able to synchronize their high entrepreneurial ambition with their expected likely performance, and that they try to play a game with (many) new initiatives to fill in the gap. What is more, many also do so without any objective opportunity analysis tools so they establish their growth strategic goals without a clear understanding of what their "significant" opportunities actually are (see next section).

However being extremely proactive towards new business opportunity seeking can be at least as ineffective and precarious as being extremely passive. Sooner or later no matter how

focused a company may be it will need at certain point to keep exploring opportunities which are not part of the core business in order to maintain and/or regenerate growth and create value over the long run. A central issue might well be whether to remain focused on the declining core/business areas in the hope of a turnaround, or objectively look for alternate ways towards new options to develop aligned with the core business and the needs of the firm's life cycle. There are indications that holding low-growth or maturing business areas for too long can be counterproductive, the option being to create within the organization a recurring process to seek opportunities to introduce new growth business along with the existing ones. High growth firms show evidence of an effective approach in this regard since they tend to focus on business areas within expanding markets and market niches, and they shift in a timely way from slow-growing and contracting markets¹⁹. In other words, high growth companies tend to focus their attention on opportunities in large, growing and profitable markets.

The balance point seems to lie somewhere between keeping focus, and at the same time exploring new growth business in the form of selective new customers or markets or offering selective products/services. It is then suggested that an appropriate balance is one that allows aligning current performance with growth potential. Companies must direct a process of continuous balance between keeping the firm's focus to reduce unnecessary levels of complexity and building new options for growth. The systematic strategy review should not only focus on the existing current product-market combinations and segments but also on neighboring business models and new disruptive competitors²⁰. The dynamics of this whole process should start with a thorough analysis of the existing businesses of the company by the key decision makers. Having an unambiguous understanding of the firm's core business is the best platform for the firm's decision makers to approach the seeking and identification function of new growth options. Ideally, the goal should be driving attention and resources to the core (building growth by leveraging on the real organization's competitive advantages in the market), and successfully investing in those selective new businesses that can also be built on significant current advantages of the firm, in particular markets or products, and that fit with the firm's strategy and the existing management capabilities that are specifically needed to run the selected projects. However, what if the company does not gather the competence and knowledge required? What about an eventual highly attractive opportunity that involves entering a new industry that the firm has not considered strategically? It is not suggested that this type of opportunity falls out of the possible range the firm might actually consider and eventually decide to pursue. Yet the decision will depend to a greater extent on the quality of the opportunity screening function in place, complemented with the exploration of likely approaches for implementation other than the organic one²¹.

5.2.3 Internalizing a powerful opportunity screening process

Not only evaluating opportunities that the entrepreneur/top management identifies, but also involving the organization's key members in a systematic screening for smart opportunities.

In comparison with to low-growth or no growth companies, a distinctive feature of entrepreneurial dynamic companies that is worth comment is that they show a strong strategic orientation on the exploring and exploitation of opportunities. They assume the opportunity seeking function both as an imperative and as a key foundation to generate transformational change and growth, and to make long-term sustainability a possible goal. They are also very consistent in selecting business opportunities clearly aligned with their existing competencies

thus turning organizational growth into a key strategic objective for the organization²². The decision makers of entrepreneurial companies then appear to manage the ongoing process of exploration and capture of opportunities better than competitors. They are focused both implicitly and explicitly on growth, and they accordingly recognize that they have to constantly go ahead by exploiting and exploiting new opportunities as a reflection of both a “sense of urgency” and “sense of anticipation” before the old ones end up maturing²³. Even when no real growth may turn out to be the case, there is a continual transformation within the organization through an active search of either new opportunities or even alternate scenarios to replace those that are close to the end of their life-cycle.

When an organization displays such a systematic capacity to recognize and exploit opportunity it is said it has nourished an entrepreneurial capability²⁴ in the sense that an integrated set of resources has the capacity to work together in the performance of a task²⁵. These resources can be diverse and will affect the two functional aspects of the opportunity seeking processes, the recognition function (related to the processes and capacities to anticipate, identify and select market and technology prospects and scenarios); and as well the exploitation function (associated with the processes and capacities to generate/regenerate the organization’s structure and decision-making flexibility in order to take advantage of the detected opportunities). Both bundles of resources are needed for an effective entrepreneurial capability in this regard. Beyond the existing debate over what exactly constitutes an entrepreneurial capability, what we learn from the most dynamic firms is that they are able to develop certain qualities at the organizational level that lead them to implant mechanisms and processes that facilitate a strong opportunity focus, and that they complement this with a strong focus on people development, strategies for allocating/re-allocating funding and knowledge, and a guided and participative decision making process. This involves empowering people to pursue opportunities within their “radar screen” at their individual and responsibility levels, including the recognition of the need for transformation on an ongoing basis.

What this suggests that is needed is a clear understanding of the mechanisms and processes that make this radar screen work for opportunities to be identified and selected by both the management team in particular and the organization’s members in general. The lessons from the entrepreneurial companies also reveal that their leaders emphasize the need for a well defined vision of the business which also includes a clear and broad definition of what their business actually is, and that they communicate it accordingly. In addition, they encourage the organization’s members to look beyond the natural scope of the company’s dominant opportunity base, and have a broader perspective of the company’s “periphery” in terms of other possible innovation models in markets, products or technologies. A third component of this approach to “manipulate” the organization toward a stronger opportunity focus is that they systematically explore possible and plausible scenarios for the firm with a view not only to having adequate opportunistic responses to environmental factors and trends but also activating entrepreneurial opportunities at a more endogenous and organizational level. Therefore, it is not only a question of crafting a supportive internal environment for an effective opportunity screening, which should encompass top-bottom as well as bottom-up processes²⁶, but also of using screening tools for the key corporate levels to select those growth opportunities/scenarios that best fit the organization.

In a broader sense opportunities can be found within the organization itself as well as in the sectors and markets in which the company offers its products and services, and in the external

environment. Internal sources of opportunities can be found in every area of a business. Examples include the possibility of improvements in any of the critical processes of the basic business functions (R+D, logistics, marketing & sales, sales, production, distribution, customer service & relationship, etc.), and even in any of the basic management support activities (such as financial management, information resources and systems, IPR management, procurement, technology management, etc.). Naturally the identification of organization's special competencies in any of the key business functions can turn into a new growth opportunity through the creation a new business or the enhancement of the firm's competitive position in its target markets. With regard to the firm's current industry and markets, a major source of good opportunities can be derived from the transformations that take place in the industry or market involved. Examples of new growth business developed on this basis are multiple. While the needs of the current market of a firm may be a relevant source of good opportunities in the short run, the ability to explore and identify future needs and wants can become a key factor for long run success. Finally excellent sources of new growth options can be found in the threats and opportunities generated by the external environment. Changes in demographics, lifestyle, perceptions and values, government regulations, tax policy, social problems, etc. are all sources of problems and subsequently of the solutions to solve them.

Nevertheless most of the companies generally face a relative shortage of significant new growth opportunities that match the company's resources and competencies. Under these circumstances the lack of an effective opportunity recognition function may become for many high potential firms a fundamental drawback for their growth aspirations. Firstly the process of opportunities identification can be systematized on the basis of a clear recognition of the different kinds of sources, and opportunities can then be identified by monitoring such sources (internal sources, industry or market structure and changes and environmental changes). Secondly decision makers need to screen business opportunities on the basis of a well-defined set of criteria that shape a strategic business screen over which alternate options can be assessed and conveniently filtered.

The design of a specific tool like this falls out the scope of this document yet the components of a set of screening criteria should at least integrate four basic assessment dimensions to select significant opportunities. Beginning with an adequate understanding of the dynamics of the core business the firm's key decision makers should analyze different new growth/business options whether related or not with the main business activity against firstly the company's existing real advantages/disadvantages to pursue each opportunity relative to possible competing players; secondly the specific profit potential of each opportunity; thirdly the availability of organizational support as well as the right and balanced leadership to go ahead with the projects; and finally the likely impact of the new business options on the company's existing business areas. It is this type of approach together with a supporting internal environment rooted in an entrepreneurial culture that in the end can serve to help owners and managers efficiently select and invest in those (new) growth initiatives that pass "successfully" through such a systematic business screen.

5.2.4 Managing finance for growth proactively

Not only searching for financing but also proactively planning needs in the mid run, evaluating the options and presenting the business plan and negotiating at the adequate level periodically.

Financing is a key function for growing companies to operate and develop. Indeed it has been widely shown the implications of capital decisions and the use of equity and debt not only for the operations of the business but also for its performance, the risk of failure and importantly for the realization of the firm's growth potential. Firms are thought to have a financial growth cycle from origin in which financial needs and options change as the firms grows, gains experience and builds a track record that makes them informationally less opaque from the financier's perspective. The type of financing alternatives available to the firm may vary throughout the life of the business as a result of information asymmetries, size, demand for finance and asset structure. Thus, young small companies with no track record history must rely on initial insider finance, trade credit or angel finance. As the firm grows, it can then gain access to intermediated finance on equity via venture capital, or on debt via banks or other financial entities. Eventually, if the firm survives and continues to grow, it may access public equity or debt markets. Naturally, the implied financial growth cycle is not meant to fit all companies, and again size, age and information availability are explanatory dimensions (although not perfectly correlated) of the different possible paths to funding.

The finance can then take many forms, for some it is private equity for others it is debt financing. Growing firms require capital to fund investments to restructure, innovate or increase production, and the diversity of goals determines different financial needs over the growth cycle. In general terms a condition of growth is the ability of the firm's key decision makers to plan and implement growth in strategic and operational terms. Leaving aside for a moment the well known environmental constraints to access to finance, the difficulty in raising finance can also be attributed to managerial deficits (as of course can almost all managerial factors that affect the performance of SMEs) to operate in these complex contexts appropriately. Basically these deficits take the form of deficiencies in searching, screening and evaluating alternate financing sources, developing networks, preparing adequate business plans and communication pieces, and sharing ownership and control²⁷.

One singular aspect of these deficits that is worth mentioning has to do with the lack in many companies of a proactive financial attitude at their highest levels of decision making. There is an inertial tendency to delegate the funding decisions to the financial functional area, and one of problems of this is that this area frequently works with an approach that greatly mirrors what it was conceived for, that is to say, it acts basically as a management control system of revenues, expenditures, cash flow, etc. In its place, what high potential firms need, is that their top decisions makers, including their boards of directors, engage directly and proactively in the financial decisions that concern the firm's overall approach to funding growth. And this must include firstly assessing the financial needs in accordance with different scenarios for the firm in the light of its growth vision and the screened growth options emerging from an effective opportunity recognition function; secondly, the CEO and the board alike must assess different funding options between capital and debt; and finally, the CEO, with the board's support, must communicate effectively his/her project to potential financial backers or partners.

The evidence of high growth firms reveals they are also effective in establishing “processes” for raising growth capital as they require more money than they are able to generate or provide themselves (founders/owners) to develop the business. An entrepreneurial interpretation of this ability can be seen as the capability to “assemble funding”²⁸ at the service of the firms’ growth vision. And the ability seems to be based more on entrepreneurial (rather than functional administrative) resources like information and social capital among others, thus distinguishing between (functional) finance and funding at the entrepreneurial level.

Access to finance is not just a capital supply issue, it is also a demand side issue, in which growing companies seeking funding need to become more proactive and “financier ready” in the sense of increasing their understanding of the nature and advantages of the alternate sources of financing, addressing the capital providers’ concerns and requirements adequately, and improving their skills to communicate their business proposals to different potential backers. For example debt financing remains the leading source for SMEs. However, it has its limitations since banks do not always provide the capital needed to develop high potential firms when they most need it. When firms need to find additional growth capital from other sources other than debt, many often fail to raise money merely because of a lack of a proactive approach to search for strategic partners, angel investors, venture capitalists or other sources who can add value to the company apart from capital, or to evaluate potential financial backers once they have identified them by conducting their own “due diligence” of potential backers.

In this sense, the owners/managers of high potential firms should lever the value of their existing personal and professional networks more (bankers, lawyers, industry/enterprise associations, business schools, government agencies, investors, university systems, high growth entrepreneurs, vendors, customers, etc.) to aid their chance to access to funding. In particular high potential firms should make a step forward in the management of their existing relationships with their banks either to obtain any additional capital resources or get valuable advice and information on how to approach possible alternate money raising options. However many firms often tend to restrain themselves from using these relationships developed over time when they should be talking with them on a regular basis to exchange information, ask for advice, share the plans for the companies and eventually talk about the type of capital the company needs for growth. The potential for learning from the experience of other growth entrepreneurs that are in search of funding or have received capital is also huge, as it is from the vendors or customers of the firm who in addition might have a strategic interest in the firm’s success and/or synergies. Companies should do the same with all the components of their networks to contribute to reduce their financial literacy about the functioning of the private financial markets and be better prepared to be more effective when operating in or with them. Optimizing the interaction with potential backers also entails the need for improvement in the way companies elaborate their business plans and present them depending on which funding sources they approach. Hence high potential firms should always be prepared to handle the different questions and return perspectives of potential backers in order to respond to and negotiate each of them at the right moment with the right information and approach and to create the level of confidence that is always necessary to develop fruitful relationships and/or partnerships.

5.2.5 Building an over-dimensioned and balanced management team for growth

Not only having the most competent and loyal management team but also complementing and/or adjusting the team as the company evolves to meet the growth challenges

The fundamental issue regarding this challenge is the ability of firms to build a team for growth regardless of the stage of growth in which the firm may be. According to the evidence of entrepreneurial dynamic companies, to tackle this challenge successfully, there is a need to build an effective executive team with talented and committed people in the process of implementing new businesses as soon as possible. Effective recruitment is essential, including building and having a “good bench of substitutes” at any time. In addition, a clear understanding that the team configuration may change over time as the company evolves and seeks new opportunities for further growth (new skills, new uncertainties...) is also needed.

A well-functioning and balanced top management is a key resource for a high potential firm to develop the business, establish the goals and plans, disseminate the organizational values and culture, and attract and retain the required talent in each functional area. Each member has to have a clear understanding of the company’s core business as well as the bigger picture, and the role of and the interconnections between all the functional areas. However in many growth-oriented firms, the investment in people often appears as a second or third priority.

There are different ways to build a management team ranging from a team of peers to purposefully “overhiring” people who have more skills and experience than is required at the current stage of growth with the hope that these “top” people will contribute to an acceleration of the firm’s growth. Beyond the different ways of assembling a management team, it is unlikely that they will gather the necessary skills to manage the company completely but it is a good start to have the best team on board from the very beginning. Naturally, the company needs change as it goes through the different stages of growth. The real challenge is that often growing companies lack of the required approach to analyze what the needs are in terms of a management team needed to take the company to the next round of growth, and then try to assemble and/or make adjustments to the team whenever possible. The question is to attract and retain the best talent today to support not only current growth but also that growth can be attained in the future. It is unlikely that firms are able to have a winning team if they restrain the needed investment in people because they assume that the assembling a superior team is a natural and progressive effect and not a key driver of growth.

Typical examples of a pitfall like this are found in those companies which are involved at the early stage of a process to open new geographic markets for their products or services. No matter how big the available resources pool to implement the internationalization strategy, namely to establish production or sales facilities in foreign markets or even acquire a company to reach the penetration goals, failing to assemble a contrasted management team to lead and implement the project side by side with the parent activities but not affecting them can be the shortest route to failure. A similar example can be seen when a new business project is launched with the help of selected management team members, and probably supported by external resources as consultants, and it is assumed that the operating management team can be recruited later. The proximity to the company business activity here may play a key role. If the business project is familiar to the core and the company has the management capabilities

to tackle the challenge, it seems to be a reasonable approach; however, if the business opportunity is less familiar, it will be difficult to find the required talent within the existing management capabilities.

It is crucial for high potential companies to look for the right people and assemble the team for growth by hiring whenever possible experienced, talented and diverse people who are smart in their areas of expertise and to whom the founders or the owners can delegate significant decision making room in their functional areas. They also need to accomplish this as the company grows given that the nature and the levels of expertise in all the functional areas change as a result. Promotion from within significantly contributes to keep culture in the organization and also sends signals of recognition to the team. Still, new skill and experience not available in the company are likely to be needed sometimes. This in turn creates the need to bring in new members from outside the team, and consequently to assume the task of integrating them in a continuous team building process to reach the growth vision. High potential firms should then ask themselves on an ongoing basis and particularly in the face of new growth intentions to what extent their management team has the commitment, the implementation skills, the entrepreneurial flexibility and the composition necessary to address and overcome the growth challenge. Not having an adequate "overdimensioned" team is likely to become at the least a major obstacle to pursue of good business opportunities and at the most a major cause of failure in implementing them.

5.2.6 Developing an effective corporate governance system

Not only having formal bodies of corporate (and family) governance, but also building active and effective governance bodies with objectives, processes and structures in line with the company's stage of growth

The importance of a functioning board of directors as the organization evolves within an environment characterized by higher competition, higher sophistication of the customer demands and higher profitability demands by stakeholders, shareholders and investors has been widely demonstrated. It has also been argued by researchers the important role played by an effective and well functioning board on the performance of growing small and medium-sized firms²⁹. However, it is also recognized that some boards, particularly in SMEs, do not always perform well, and the board's contribution to the company's outcome may not always come to its full potential.

In reality different contexts and stages of development (public versus private, family versus non-family businesses, emerging versus established, USA versus Europe...) require different board missions, structures and member profiles depending on the firm and ownership requirements over time. In other words different degrees of professional skills at the organization level as well as different degrees of formalization of governance bodies at the company (or family) level are most likely to determine different board challenges and working styles. In addition to these basic challenges corporate governance systems are also undergoing increased pressure because of the increasing number of duties and requirements associated with the recent changes on regulation in the field, particularly affecting the scope of the board's duties and functions. Boards are then subject to an extended list of commitments and interventions which subsequently end up affecting the board agenda while they are bodies with intrinsic limitations (time available, adequate profile of the board directors, integration of the

board team, etc.) that make it almost impossible fulfill all what in theory and officially expected from them. As a result many companies experiment a considerable amount of uncertainty when they come to deal with the issues that they are supposed to tackle if they want to make their “sleeping” boards more active in the interest of the organization stakeholders.

For every board then there seem to be more to do than there is time to do it. To this is added the need for an improved functioning of the board as the company grows and increases in complexity, and the fact that developing a company will involve at one point or another making decisions that concern the ownership structure, and these decisions are a board’s task. Currently the search for mechanisms and processes that allow companies to develop improvements for the board execution and performance is unmistakably clear since the impact of an effective corporate governance in place may play a fundamental role for firms in taking advantage of growth potential and correspondingly to remain in operation in the long run.

Establishing a well functioning board may however require something more than just having capable directors available or making changes in the demography of the board (namely size, insider/outsider ratio, CEO-Chairman duality, etc.). Even considering the actual role boards formally have at the top of organizational hierarchy, they should be taken by growing firms as any other unit of the business organization. In this sense a board can be seen as a system in which structure, composition and processes involve the explicit design-type choices that itself must make³⁰. An important point is that these design decisions have to be aligned to the expected role of the board and to the company’s stage of growth. By beginning with the board function the basic questions to be addressed at this level will be on whose behalf it is governing, what the parties involved hope to obtain from their investments, what activities should be engaged by the board, what main barriers are likely to be found to do the job appropriately, and what resources are needed.

A further key aspect of these design decisions frequently disregarded is how to equip the board with specific management processes to optimize its own decision making. For example, every board needs to incorporate in its own management system mechanisms that allow their members review and prioritize in a systematic and structured fashion the key governance challenges in line with the circumstances of the company and the ownership (and of the owning family if applicable). By acting as a true high performance team boards should further explore ways to increase the effectiveness of the internal mechanism through which they are able to:

- proactively identify the key governance challenges at the firm and ownership (and family) level;
- establish the priorities and specific objectives in these two (three) dimensions within the framework of their respective functions;
- give shape to its own composition as well as the functions, activities and resources necessary to attain such governance objectives; and
- direct the evaluation of its own performance according to the established governance objectives.

Such an approach is most likely to have (like in any other system) a direct effect on the board’s working style³¹. It can also have an effect on the board members’ behavior both at the individual and collective level; and be particularly valuable to get through the usual problems of low activity or low profile contribution that are often found in many boards of growing

SMEs. In general terms regardless of the corporate model the board of directors is thought of as a formal body for stakeholders to monitor managerial behavior regarding the strategic decisions by the firm management and also to ensure legal and ethical conduct by the company and its employees (control role). But boards can also assist and support the management and the firm, and thus act as strategic resource for the firm by giving advice, legitimizing the firm and providing it with important strategic networks (service role). This service role is considered to be of critical importance in SMEs where the owner and the manager is often the same person, and some internal competences can be scarce in the organization, and it is observed in owner-managed SMEs that boards tend to be less involved in the control role and more in the service role³². Examples of the key role that boards can play with implications in the firm's ability to grow include keeping pace with the market or environmental changes and validating the need for strategic alignment, managing changes in ownership structure, ratifying business consolidation processes at a global scale, conducting and monitoring management team turnovers, acting as a "value creator" in the growth process, or managing the need for an increased professionalization of board members. Given that the real challenge for every growing firm is to optimize this role of the board in their organization, it may also have interesting implications with regard to the way to disseminate knowledge and best practices regarding this to either would-be directors or existing corporate directors of growth firms on, for example, ownership transitions, the role of board as a factor for growth, the integration in the board of effective tools and mechanisms to optimize its functioning or such like.

5.2.7 *Creating and investing in new growth businesses with a flexible approach to implementation and ownership structuring*

Not only growing organically in the main business, but also growing through different approaches and ownership structures depending on the new business profile

It has been mentioned earlier that an "ideal" opportunity would be one that satisfactorily fits with the existing mix of special competencies in the company to implement it successfully and that fits with the firm's strategy. Again the problem is that in the real world this type of opportunity is relatively scarce and the need for diversification from a certain point onwards (enter new markets, access to new competencies, penetrate new industries, etc.) may turn into a strategic imperative for success and sustainability. When selecting new business opportunities under these circumstances the implied strategic fit for any new business evaluated through a screening process is not strictly perfect. We have seen that opportunities can be found in internal sources as well as in the industry or markets operated by the firm or in the external environment. In other words, if firms looked for a perfect strategic fit as the central criteria over which to decide whether to implement new growth business opportunities or not, they would certainly be leaving aside a great deal of good options, and most likely they would be doomed to a progressive decline as a result.

Indeed there is a room for companies to seek different ways to approach the development of new growth initiatives other than the organic one depending on the nature of the new business. And this may include the various models of corporate venturing that in a broad sense a company may bring into being with different levels of proximity to the core business and company commitment. Examples are the funding of independent business units (spin offs), joint ventures, strategic alliances, acquisitions and so forth to invest in business projects that

are complementary to the core business, or that are a way to stimulate and improve innovation or acquire competences or knowledge related to an existing business area of the firm or as may be the case, are a way to exploit attractive opportunities to enter new markets or industries where the company is not currently operating.

A first implication of using different “external” approaches for growth is that each form of venturing requires different entrepreneurial and managerial competences to be implemented and structured. Basically the knowledge and the competencies needed will depend on the industry or markets on which the new business is focused and the nature of the relationship between the new business and the firm’s current businesses. The same as for any new business project the initiatives must go through a strategic consistency test where an analysis of the different dimensions of the business concept and the potential value to the parent organization is needed. This means that the chance of success of the new business initiative before it starts should be evaluated just as any business opportunity is by means of what we have seen before with an effective screening process in place.

Hence companies need to make a choice which approach they want to develop and also evaluate the organizational competencies needed to embark on the project, including alternative ways for structuring ownership on a flexible basis depending on the capabilities and resources of the existing business and the nature of the opportunities pursued. In this regard some examples of observed deficits that can have an influence both in the screening and the implementation phase include the lack of:

- An effective organizational competencies and/or governance bodies that enable the parent firm to evaluate, decide and monitor the initiatives,
- A clear definition of the new business areas on which to focus
- A trustworthy and talented management team for taking over the control when necessary
- An adaptable approach to structuring ownership when implementing the new businesses
- A detailed business plan once the exploratory phase of a new business idea has been completed
- A flexible approach to use debt as a founding option along with capital
- A detailed “day-after” plan for the first 100 days after the project starts
- A plan for integrating and/or cooperating with the new business project
- An effective governance process explicitly structured in the new business
- Etc.

A further relevant implication for SMEs owners and decision makers using different “external” approaches for growth has to do with the ownership structure. As the list of observed deficits points out, an open approach to explore ways of cooperation and/or shared ownership to implement certain new growth options whether related or not with the main business is needed. For example, in practice there are many business opportunities close to the core or within its “periphery” that in nature have a short-lived window (often due to the pace of change) that require a flexible strategy to implementation. Being willing to share ownership may play a key role for success in such situations. The real challenge for true entrepreneurial companies is to break such a dynamic and be able to structure ownership according to a certain level of desired involvement and what the firm seeks to achieve from the new growth business. The ability then involves being prepared at any time to identify and negotiate adequate partnership designs as well as smart associated agreements that allow the parties involved to have possible revision or exit options in case of “lose-lose” outcomes.

Finally implementing different “external” approaches for growth also calls for a clear involvement of the parent company’s top management all along. Key decisions makers in collaboration with their board (including possible specific supporting structures as a business development unit, family office, etc.) need to be as close as possible to the new projects. Naturally the intensity of this “hands-on” approach (as if they were venture capital investors managing their investment portfolio) will largely depend on the proximity of the project to the core business, the firm’s strategic objectives and its actual commitment to the projects in question. Yet they are the ones who ultimately take the decision to go ahead and allocate the resources for them. So that they must all have an unambiguous understanding of the project’s issues as to when it is necessary to make good allocation decisions in the process. In addition, new business projects ventured from an established company whether new ventures, joint ventures or acquisitions all need different levels of support, guidance and advice from the parent organization. The right balance probably lies somewhere in between not too much and not too little. But some kind of support is required so it is decisive to evaluate explicitly what type of internal support is needed for developing but also for co-operating with the new business projects.

5.3 Conclusions

Sustainable and profitable growth has little to do with management fads and trends at certain points in time. The observation of the experience of many entrepreneurial firms in the light of high growers forums and networks all over Europe and much of the existing research in the field point out the importance of keeping focus on the creation of value for shareholders, employees and clients if companies want to meet their growth dreams and sustain it over long periods of time. High growers know well how to decipher the signals they receive from their employees and their customers and respond to their needs and wants, which in turn lead to the creation of higher value in the long run. They are masters in combining a focused strategic business approach with the ability to move fast enough to take advantages of business growth opportunities and address those problems that may be a threat to the firm’s sustainability in the long run. To achieve it they pragmatically assess what the existing businesses can deliver and what level of management attention they need, and simultaneously they are able to perform a clear-headed assessment of the opportunities that exist to enter new businesses and to evaluate whether these opportunities fit the firm’s existing resources and capabilities.

The growth challenge then takes place on a continuum and companies move along it at different speeds as a result of their strategic choices, the impact of the industry structure or the combination of both. Some companies may undergo shorter transition periods from initial or stable growth to stages of more rapid growth while others can experiment for some time a sort of overlapping between the two. But in any case from an entrepreneurial management perspective it is as important to recognize appropriately where the company actually is along this development continuum as to identify the kind of transformations that are required at the personal and the organizational level to deal with the stage of growth in question.

While it can be said that many of the existing businesses can not keep growing for ever, the perception is that a great number of companies (often more than would be desirable) are not able to achieve their full growth potential. The observed deficits described in this article are an illustration of some key, highly interconnected managerial factors that may inhibit high

potential firms from reaching this goal. The chances for success of new growth initiatives in any company are very complex even when they are based on the best business ideas. To accomplish this successfully, high potential companies should move on a more conscious self-assessment of managerial growth-related fronts starting by asking themselves how powerful their ambition is to make that dream real, how focused their business is while selectively exploring new growth options, how effective the tool in place to systematically screen these opportunities on a regular basis is; how completed and balanced the current management team for growth is, how active the governance process that adds value to the strategic choices is; and finally how flexible they are to approach new growth options other than organic growth as well as different ownership structures to implement them.

Most of the growth-related managerial pitfalls that have been depicted here pay tribute to the observation, knowledge and information exchange between high growth firms in different contexts. For that very reason some implications for policy action may be interesting to remark. In the light of the current integrated entrepreneurship policy in the Netherlands addressed to increase the development and performance of high growth companies, it should be emphasized once more the importance for the quality of entrepreneurship in carrying on with the work in the cultural shift arena. Some general policy areas specifically related to the role of the dynamic entrepreneurial firms that can be worth addressing to carry on working in this direction are increasing the current alignment of policy makers and key social agents/stakeholders to lead the cultural change needed; increasing the social recognition of high growth entrepreneurial role models and their contributions by reinforcing the integration of the growth entrepreneurship field in the existing education curricula and communication channels; or alternatively by creating new channels at selected focal points (for instance at a regional or local community levels, or public and private institutional levels); increasing the direct support of entrepreneurial high growth networks and associations and the collaboration between public intervention agencies or other public institutions and these networks and associations in order to increase both the value of the networks themselves and the value and advice their members receive at all levels (examples include training in high growth practices, formal and informal forums of “high growers” to facilitate peer interaction and information exchange, mentoring and funding sources, business transition and transfers, local support services, corporate (and family) governance, corporate entrepreneurship, etc.); empowering the dissemination of high growth best practices, information and knowledge by deploying specific resources or programs for high potential entrepreneurial audiences (such as some initiatives already put in place namely the master classes for entrepreneurs of high growth firms or the Port4Growth resource already put in place); or establishing mechanisms to assess the impact of policy interventions to promote high growth entrepreneurship from the cultural change perspective; etc.

High growth firms may become not only an eventual public policy target in themselves but particularly a highly effective tool to spread a more conducive culture toward entrepreneurship in all layers in society. In this regard there always seems to be a lot of ground for further public intervention to continue with the building of the necessary “intangible” infrastructure to bring cultural change to fruition along with the more “tangible” infrastructure already in place in the policy agenda.

Notes Chapter 5

- 1 Philipsen (2003) et al.
- 2 For example, Arbaugh, J et al. (2000); Baije, S. et.al. (1999); Brudge, S. et. al. (2003); Chan, Y. et.al.(2006); Churchill et.al.(1983); Covin, J. et.al.(1997); Fisher, E. et.al. (2003); Garnsey, E. et.al. (2006); Greiner, L.E. (1998); Hambrick, D.C. et.al.(1985); Slevin, D. et.al.(1997), etc.
- 3 Barringer, B.R. et.al.(2005); Bridge, S. et.al.(2003)M
- 4 Covin, J. et.al. (1997); Arbaug, J. et.al. (2000); Frombun, C.J. et al. (1989); Hambrick, D.C. et. al. (1985)
- 5 Nicholls-Nixon, C. (2005)
- 6 For example Barringer et. al.(2005); Bridge, S. et. al.(2003); Cox, L. et. al.(2001); Delmar, F. et. al. (1997; 2003); Harrison J. et. al. (1997); Roure. J. (1997); Sexton, D.L. et. al. (1996);; Sexton, D.L. et. al.(1997); Stevenson, H. (1997); Storey, D.J. (1997;1997; 2003), etc.
- 7 For example entrepreneurial previous experience, education, ambition, social capital, leadership style, specific business practices, team building, etc.
- 8 For example customer service, focus on quality and innovation, leadership in fast growing market niches, focus on business areas with competitive advantages, operating and financial management, new product/service development and launching, development of export markets , etc.)
- 9 For example the growth vision, strategic partnerships, location and access to knowledge and advance external resources, knowledge accumulation through organizational learning, etc....);
- 10 For example, recruitment and hiring, reward and incentive systems, locations and access to qualified resources ...).
- 11 Kemp & Verhoeven (2002)
- 12 Hitt & Ireland (2000)
- 13 Hitt et. al.(2002)
- 14 Michael, S. et. al.(2002); Covin & Slevin (2002)
- 15 For a comprehensive framework concerning the determinants of the ambition to growth based on the various contributions on the topic, see Hakkert, R. (2006)
- 16 Wiklund & Sheperd (2003)
- 17 Covin & Slevin (1997); Kolvereig et.al (1996); Wiklund & Sheperd (2003)
- 18 Covin & Slevin (2002)
- 19 Hitt, 50 (Storey quoting)
- 20 Campbel & Park (2005)
- 21 See section 1.2.8 for this argument
- 22 Churchill & Musyka, D. (1998); Roure, J. et al. (1997); EFER (1998); Roure, J (1999); Cox & Camp (2001) Muzyka, Breuninger & Rossell (1997)
- 23 Churchill & Muzyka (1998)
- 24 Covin & Slevin (2002)
- 25 Hitt, Ireland & Hoskisson (2001)
- 26 Burgelman & Sayles (1986); Burgelman (2002)
- 27 Storey (1997)
- 28 Michael, Storey & Thomas (2002)
- 29 Zahra (1989); Black (1998); Zahra et al (2000); Forbes. & Milliken. (1989)
- 30 Colin & & Lorsch (2004)
- 31 The board's working style that comprises among other things the involvement of the board members and as above mentioned the processes and structures the board put in place to perform its fundamental tasks has been shown as a significant determinant the quality of the board's contribution (Demb & Neubauer (1992);

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