

Growth Challenges for SMEs: A UK-US Comparative Study

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Aims

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

Business Growth: current evidence

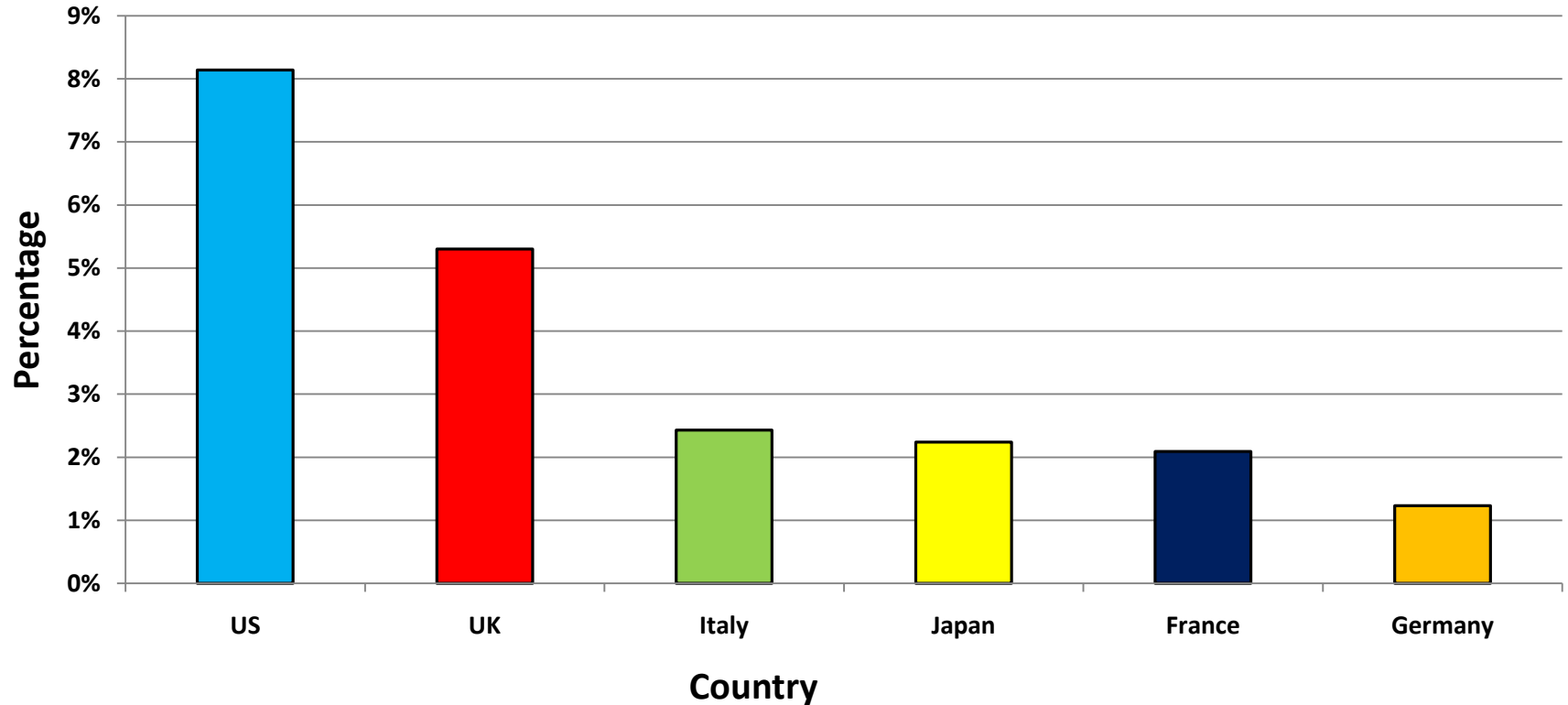
- *Owner-manager characteristics*
- *Enterprise characteristics*
- *Strategic influences*
- *Resource base*
- *External influences: location*

- Bulk of studies quantitative
- Identifying correlations of cross-sectional variables with 'growth'
- Leads to some established relationships
- Though results tend not to cumulate

High growth firms: UK international context

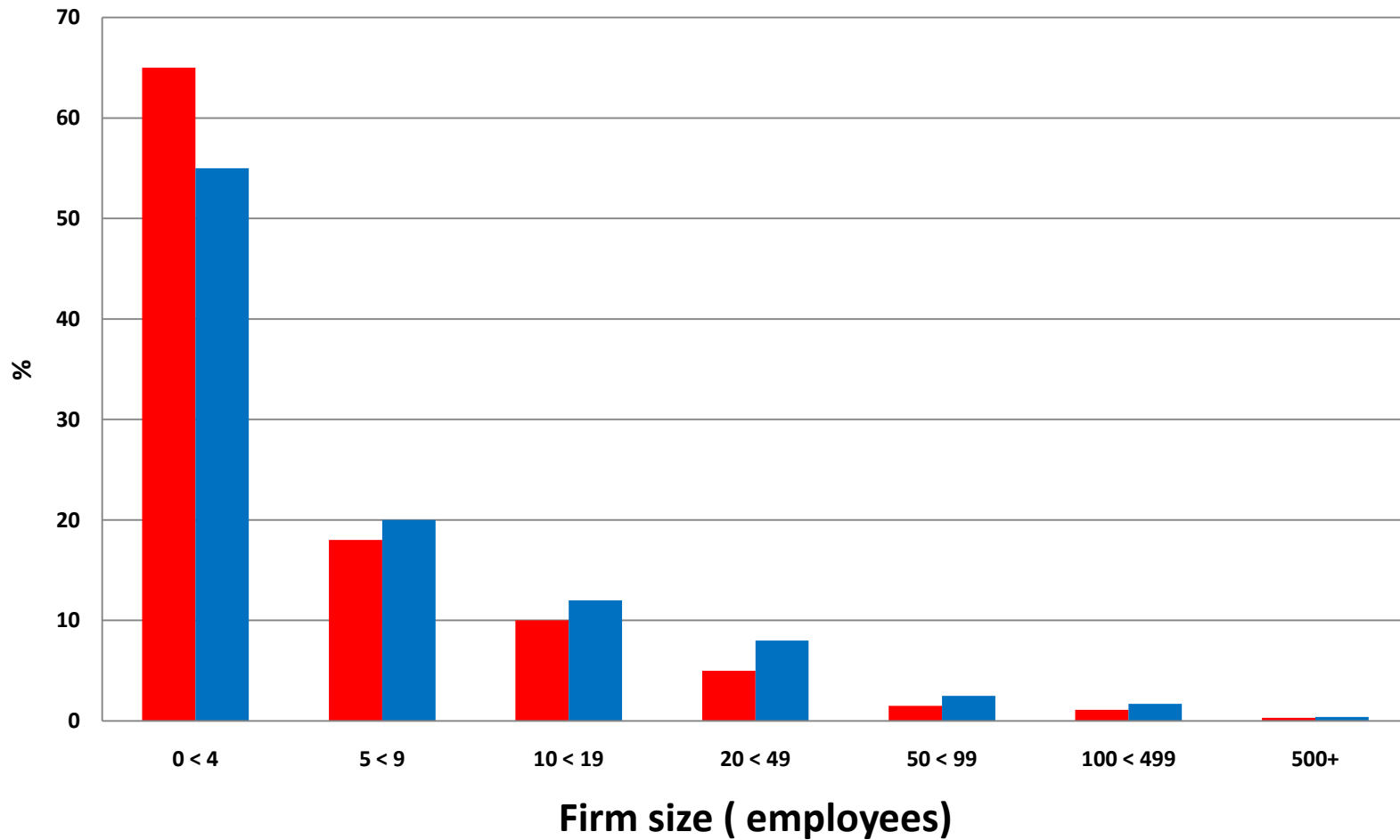
- UK SMEs track record of growth 'good'
- But, below US growth performance in terms of speed of growth and average size

'High Turnover Growth' Enterprises as a Percentage of the Business Stock 2001



Source: Hoffman and Junge, 2006

Size Distribution of Businesses in UK and US

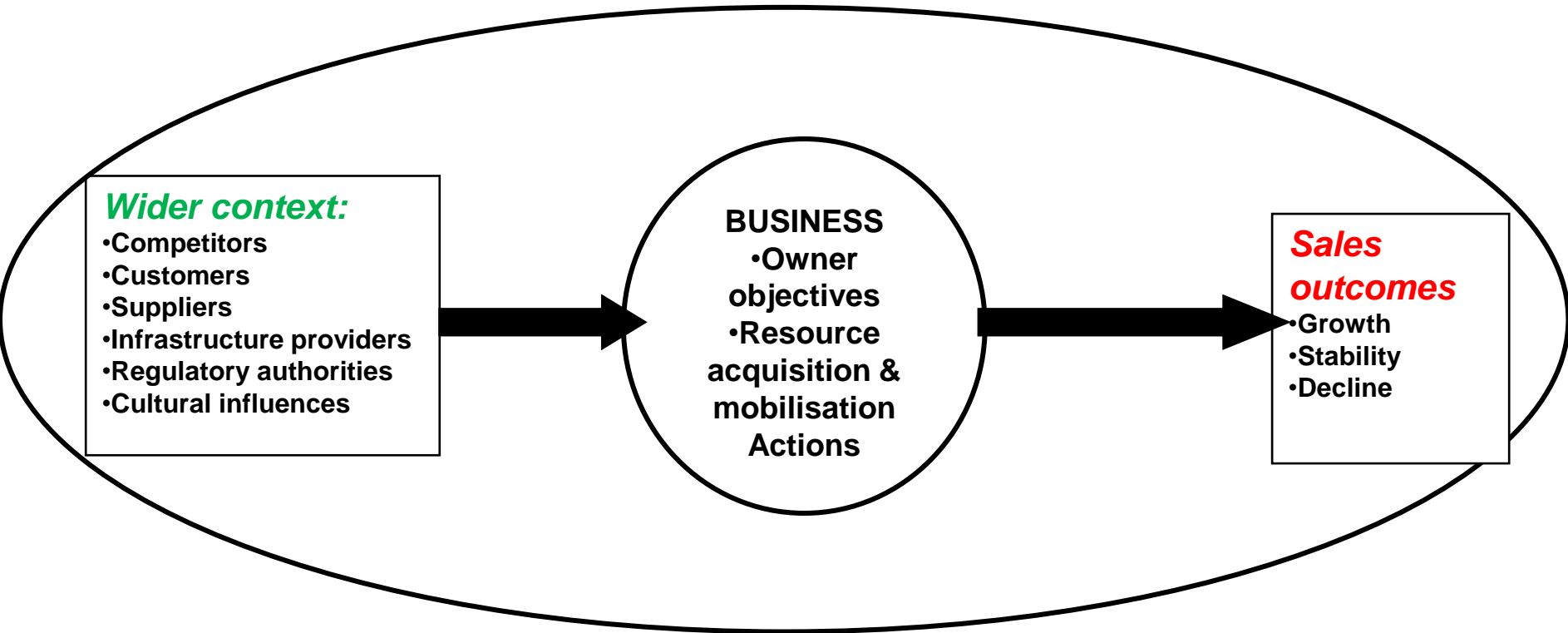


Source: BERR 2007

A New Qualitative Study

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

Understanding Business Growth: Conceptual Framework



Research Design

- Target sample of 20 firms UK and US
 - South East England and Boston Massachusetts
- *'Fast Growth'*
 - Min 75% sales growth over 3 years
- Size (3-249) and Sector parameters (B-T-B)
- Face-to-face audio recorded
 - Semi-structured interviews
 - UK & US team
- Sample: 21 UK / 19 US firms

New Research: specific questions

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

Evidence UK - US: similarities

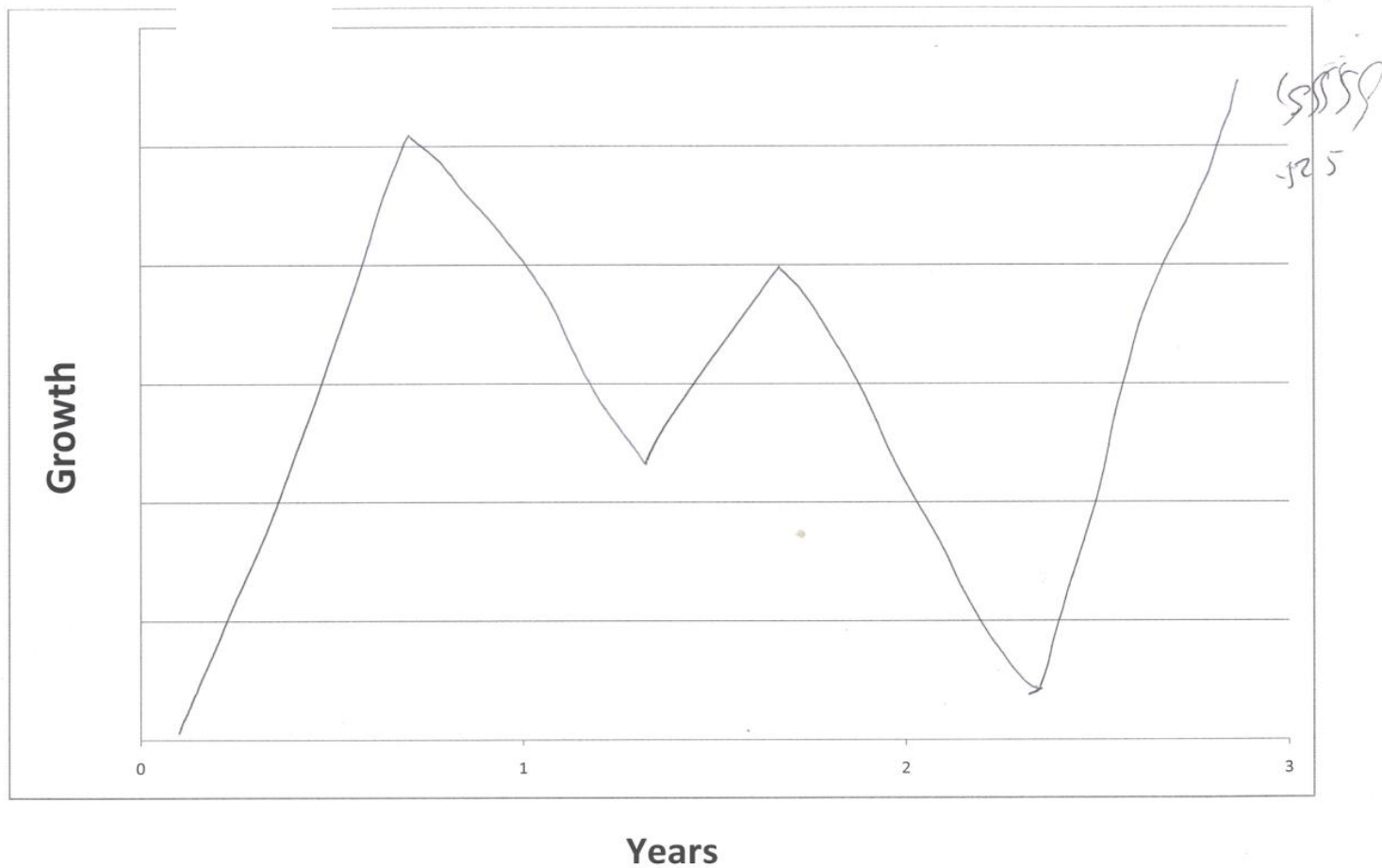
- Owner-managers all relatively well educated
- Mixed motivations and aspirations
 - modest objectives -> high growth from start
- Product development/ innovation incremental
 - Engaged in adaptations of technology
 - Use of IPR high across samples
- Emphasis on quality and service
 - Client 'focused'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

General finding

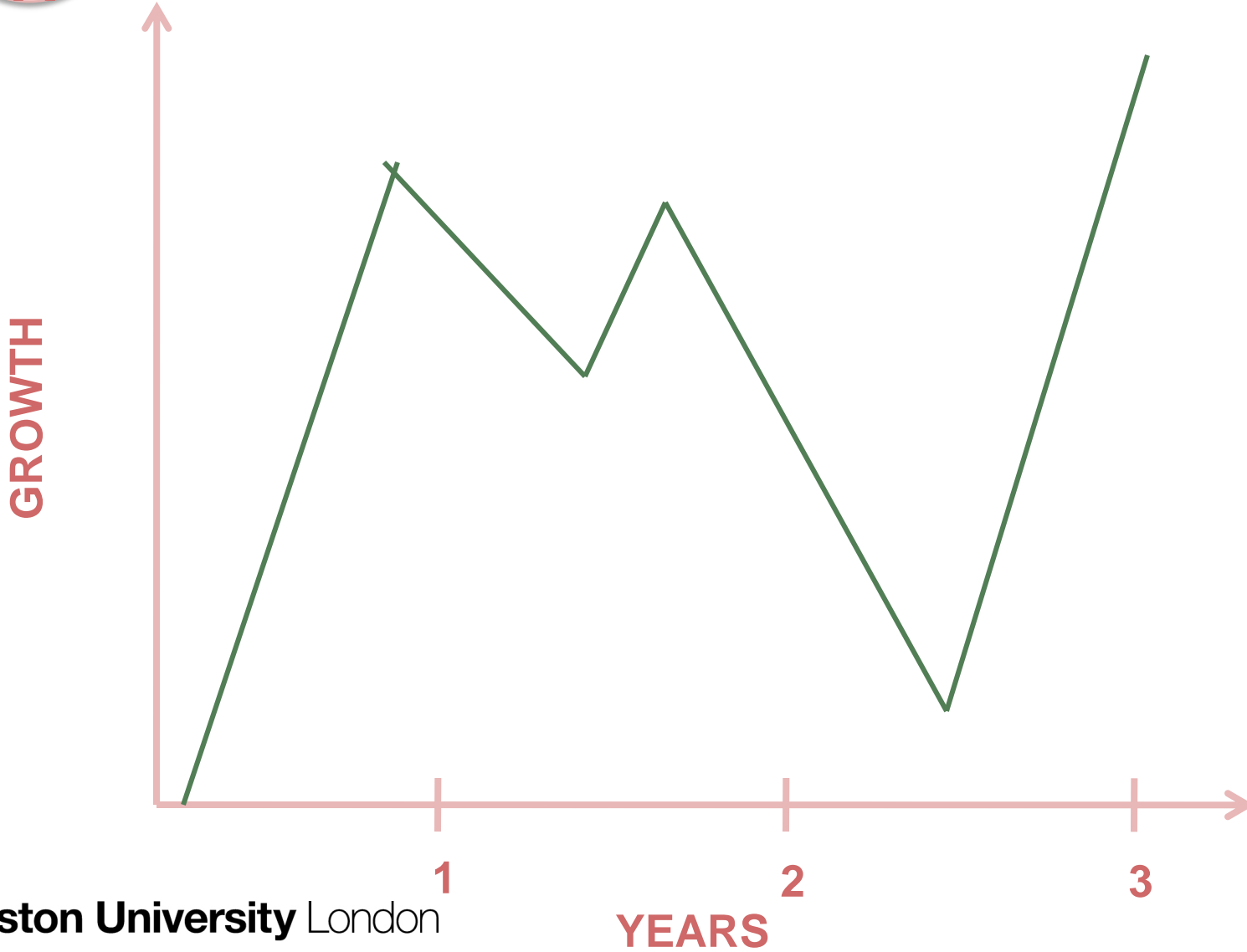
- Growth trajectories are *non-linear*
 - Growth is episodic
 - bursts of growth/ vascillations
- A 'fast growth firm' is often *time –bound*
- Examples

Ideal

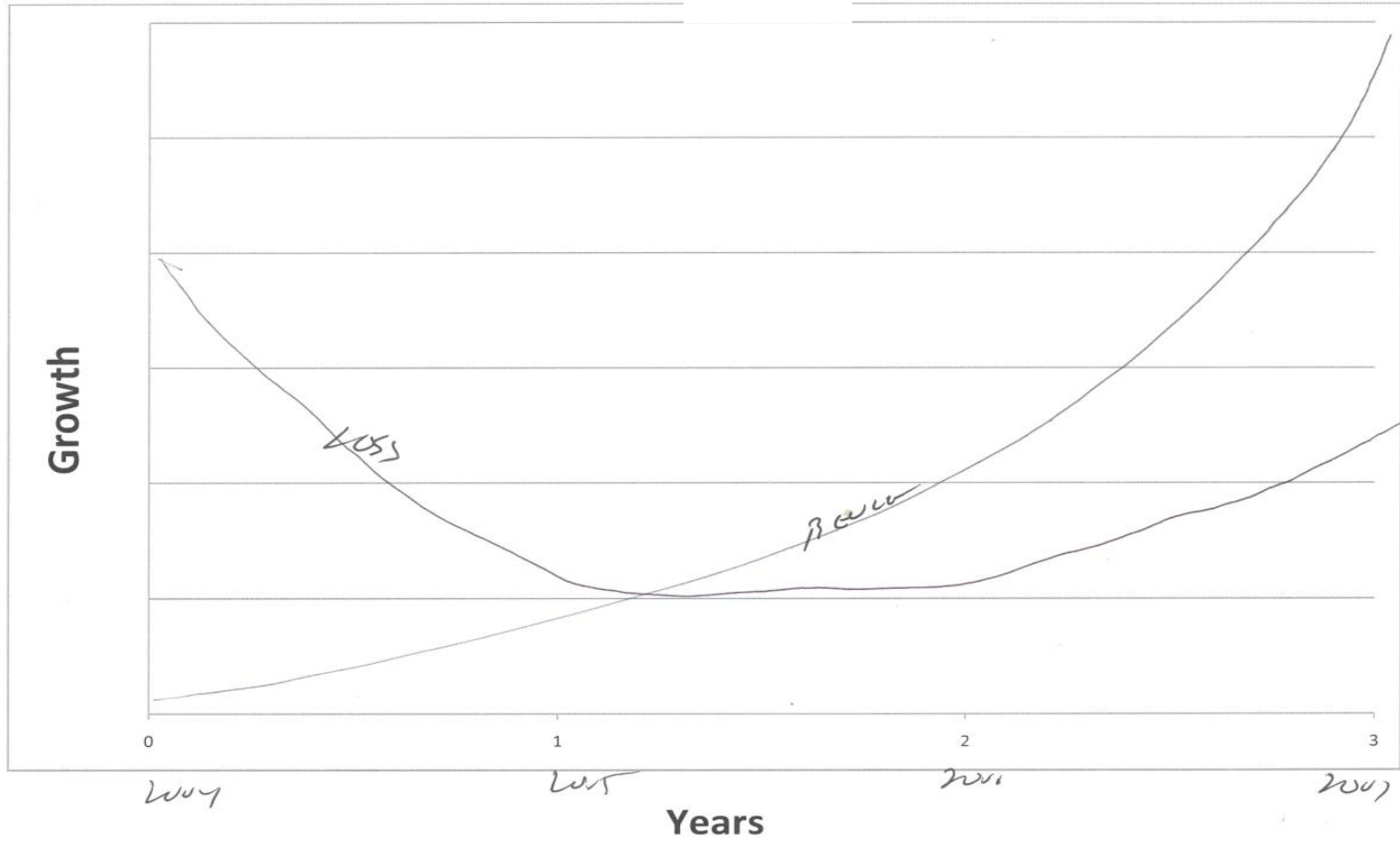




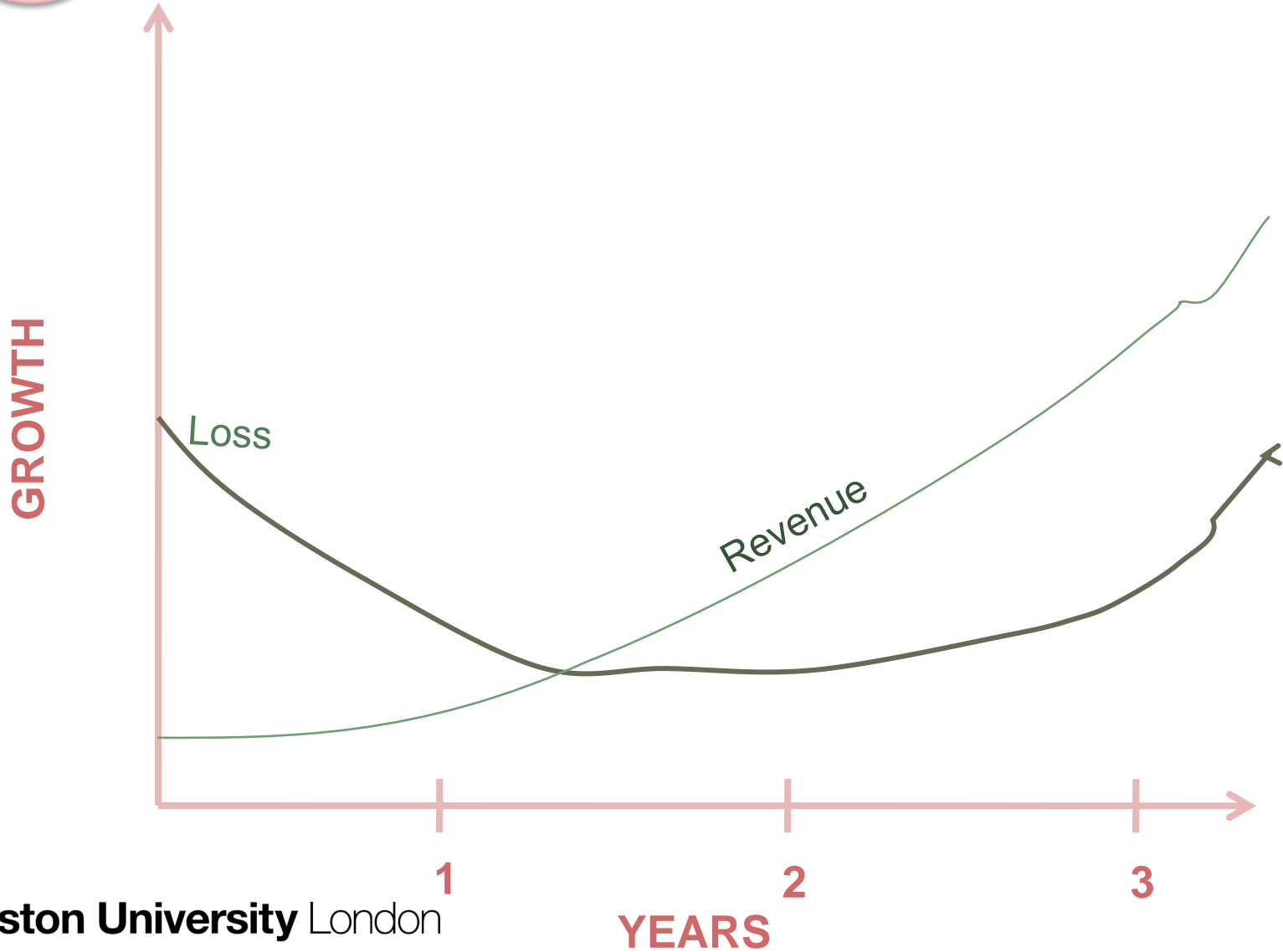
US
17



US 7



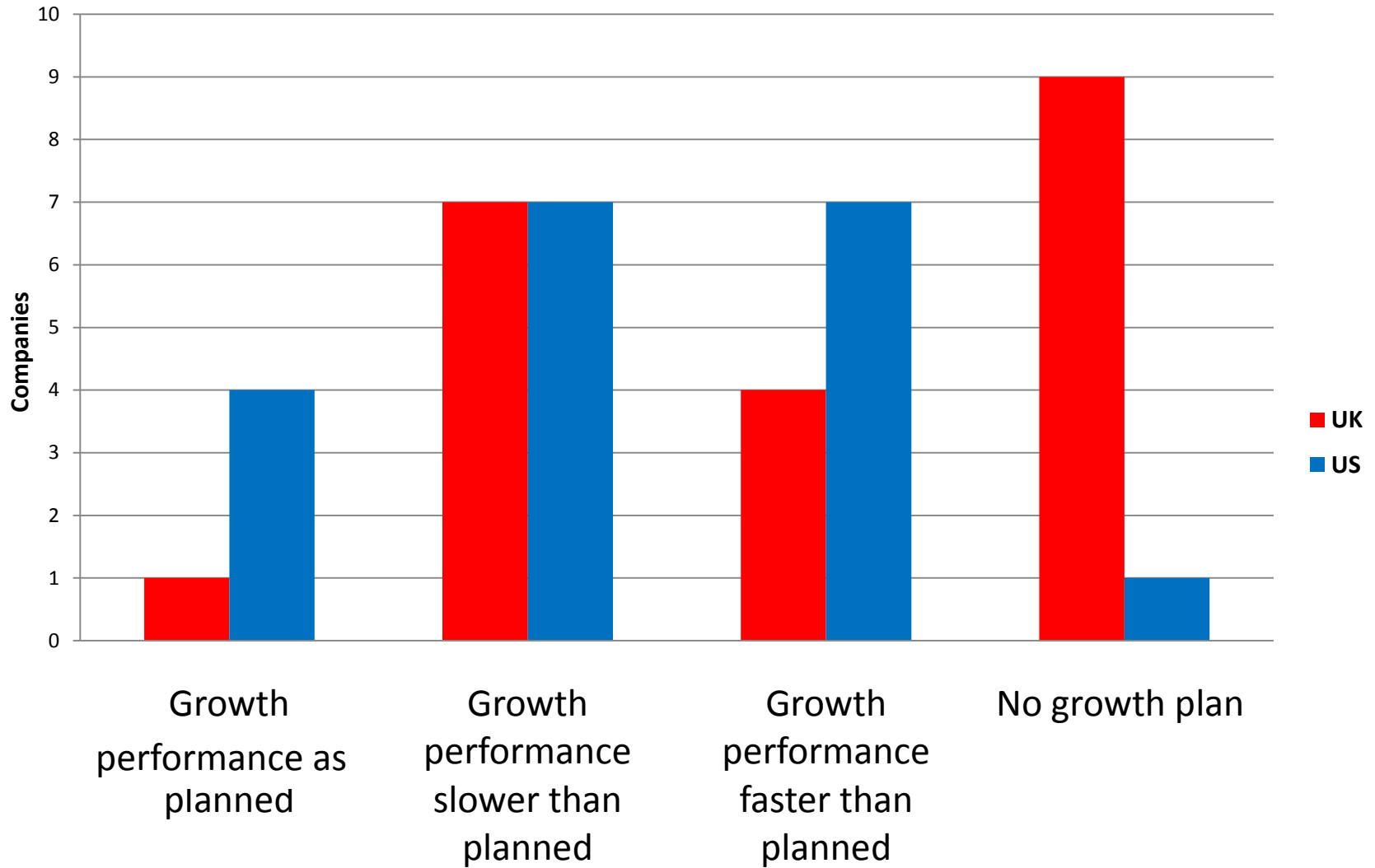
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UK-US Differences: firm characteristics

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

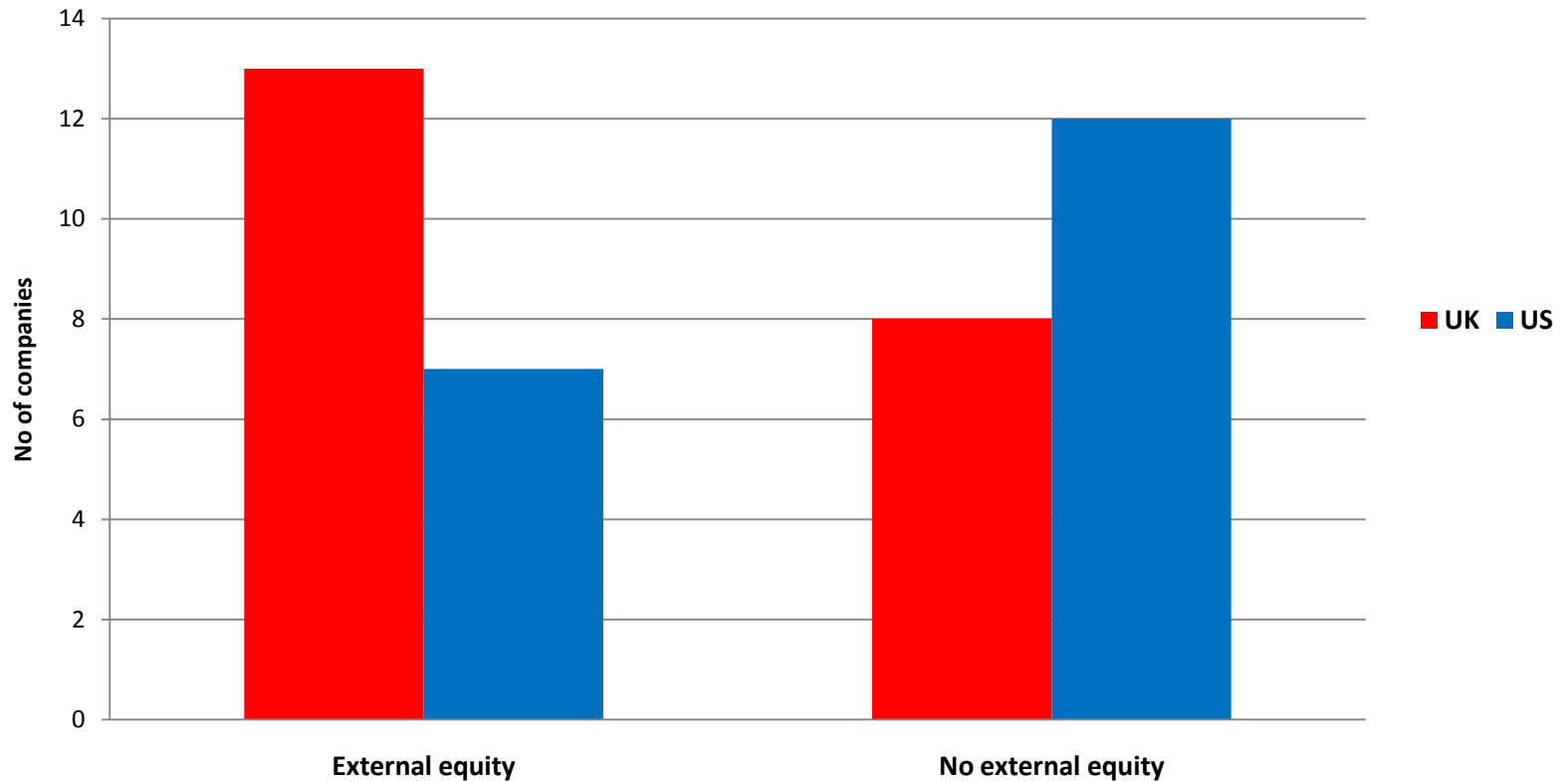
UK-US: Growth Aspirations and Growth Performance



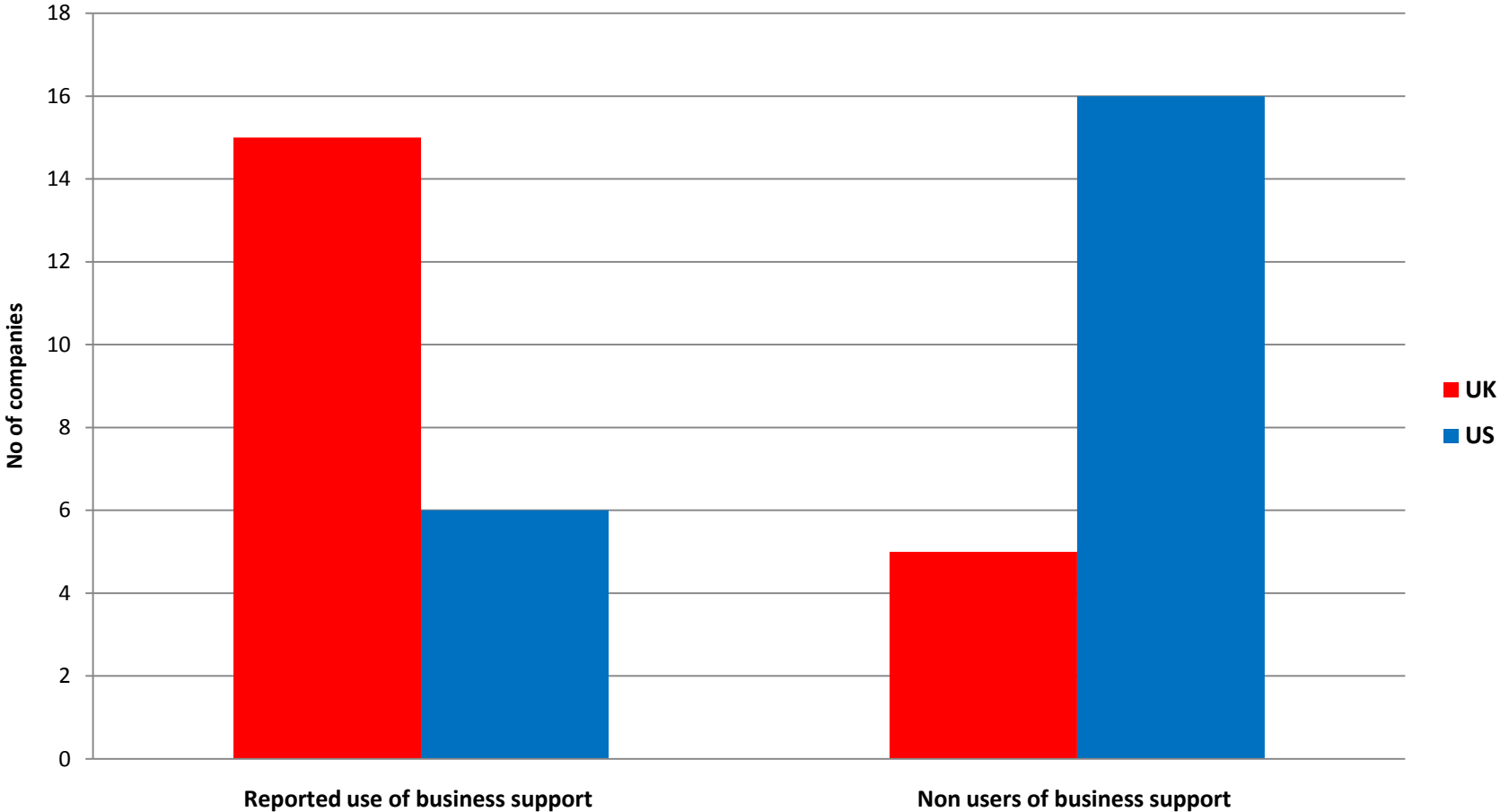
UK-US Differences: Wider context

- **Finance:** UK firms *more likely* to use external equity
 - Perhaps a result of firm size, age growth in VC?
- **Govt:**
- UK firms *less* involvement with public contracts
 - Reflection of US public procurement policies?
 - Weakness in UK opportunities?
- UK firms *more* likely seek + secure govt aid
 - Higher take up of financial and training support

UK-US Use of External Equity



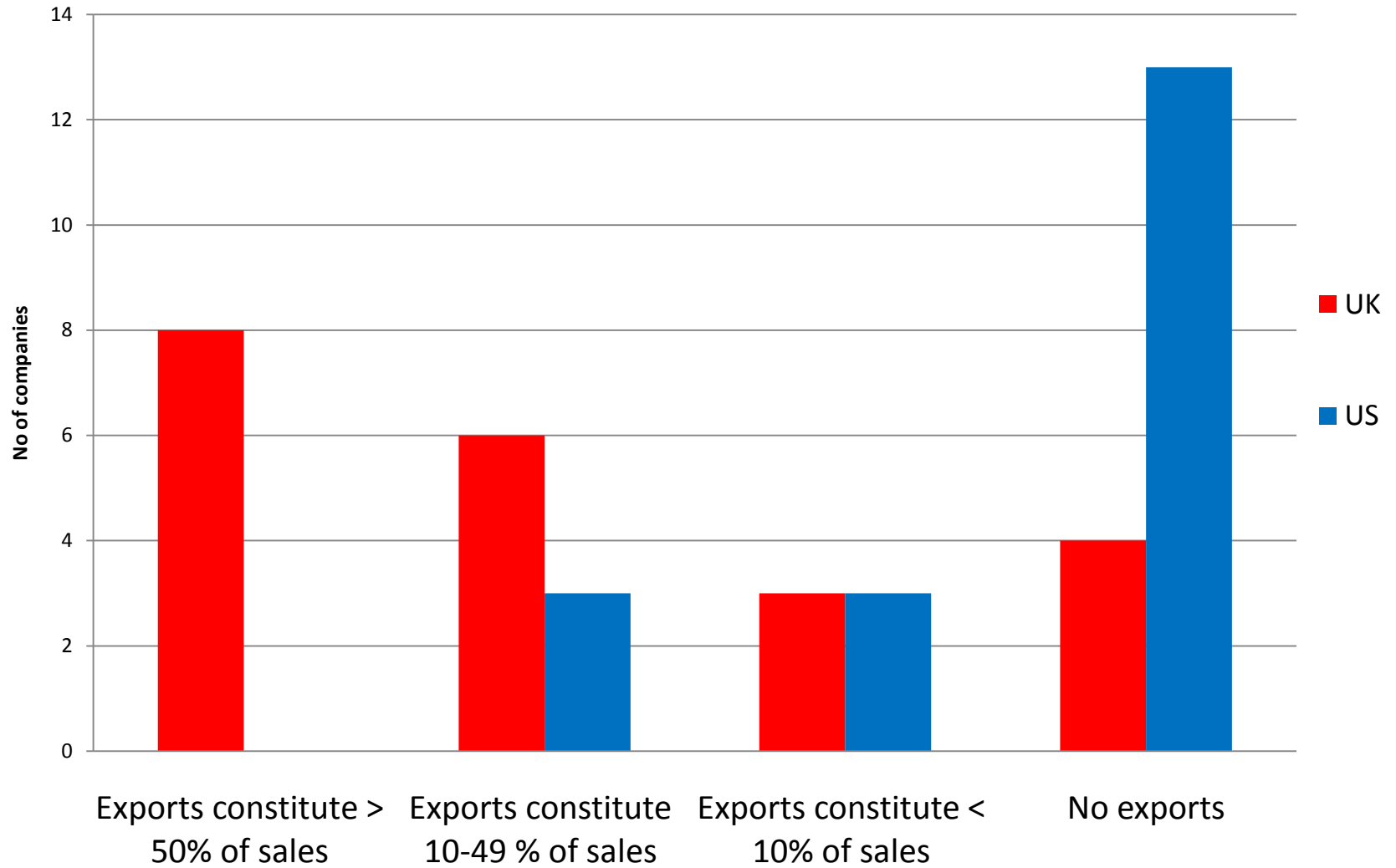
Use of Government Business Support



UK-US Differences: Market Activities

- UK firms *much more likely* to **export**
 - US larger domestic market
 - Underlined given relatively smaller size and youth
- Some UK firms emphasised they *had to / wanted to* export
 - Growth necessitates exporting
 - Exporting is the ‘norm’ for product / service type
 - Implications for export information and knowledge
 - Implications for support and learning base

Export Activity



Further research: different methods

- Larger scale, quantitative may facilitate controls and validate tendencies
 - eg isolate impact of relative strength of a factor such as sector vs location
- Are processes related to firm size / age / specific sub-sector differences?
 - Or national contexts / regulatory structures / history of interventions?
 - eg do US firms need higher minimum efficient scale to operate?

Further thinking: some questions

- What can slower growth UK firms learn from fast growth firms?
 - eg. heighten possibility of need to be export ready?
- What can UK learn from US experiences?
 - Care needed in seeking to transfer practice
 - eg. US: culture of planning for growth?
- Here focus on ‘fast growth’ firms
 - How about those on the brink or *cusp of growth*?
 - What of the barriers to their growth?
 - And challenges of adjustments to ‘ups’ and ‘downs’

Summary

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