



DETERMINANTS OF FIRM GROWTH FOR IRISH SMEs

Institute of Certified Public Accountants in Ireland

17 Harcourt Street

Dublin 2

Telephone: +353 1 425 1000

Fax: +353 1 425 1001

© Institute of Certified Public Accountants in Ireland 2015

All rights reserved. No part of this publication may be reproduced or transmitted in any material form or by any means, including photocopying and recording, without the prior written consent of the copyright holder, application for which should be addressed to the Institute of Certified Public Accountants in Ireland.

This guide is published for information only. It provides only an overview of the regulations in force at the date of publication. While every effort has been made to ensure the accuracy of the material in this guide the Institute of Certified Public Accountants in Ireland takes no responsibility for loss occasioned to any person acting or refraining to act as a result of information contained in this publication. The information contained in this publication is to be used as a guide. For further information you should speak to a professional advisor. Neither the Institute of Certified Public Accountants in Ireland nor the Author can be held liable for any error or the consequences of action or lack of action arising from this publication

TABLE OF CONTENTS

RESEARCHER PROFILE	4
INTRODUCTION	5
MAIN FINDINGS	8
CONCLUSION	10

DETERMINANTS OF FIRM GROWTH FOR IRISH SMEs

RESEARCHER PROFILE

Authors: Dr. Breda Kenny, Hincks Centre for Entrepreneurship Excellence, Cork Institute of Technology.

Keywords: Small Firm Growth, Support Needs, Barriers to Growth

Key Findings:

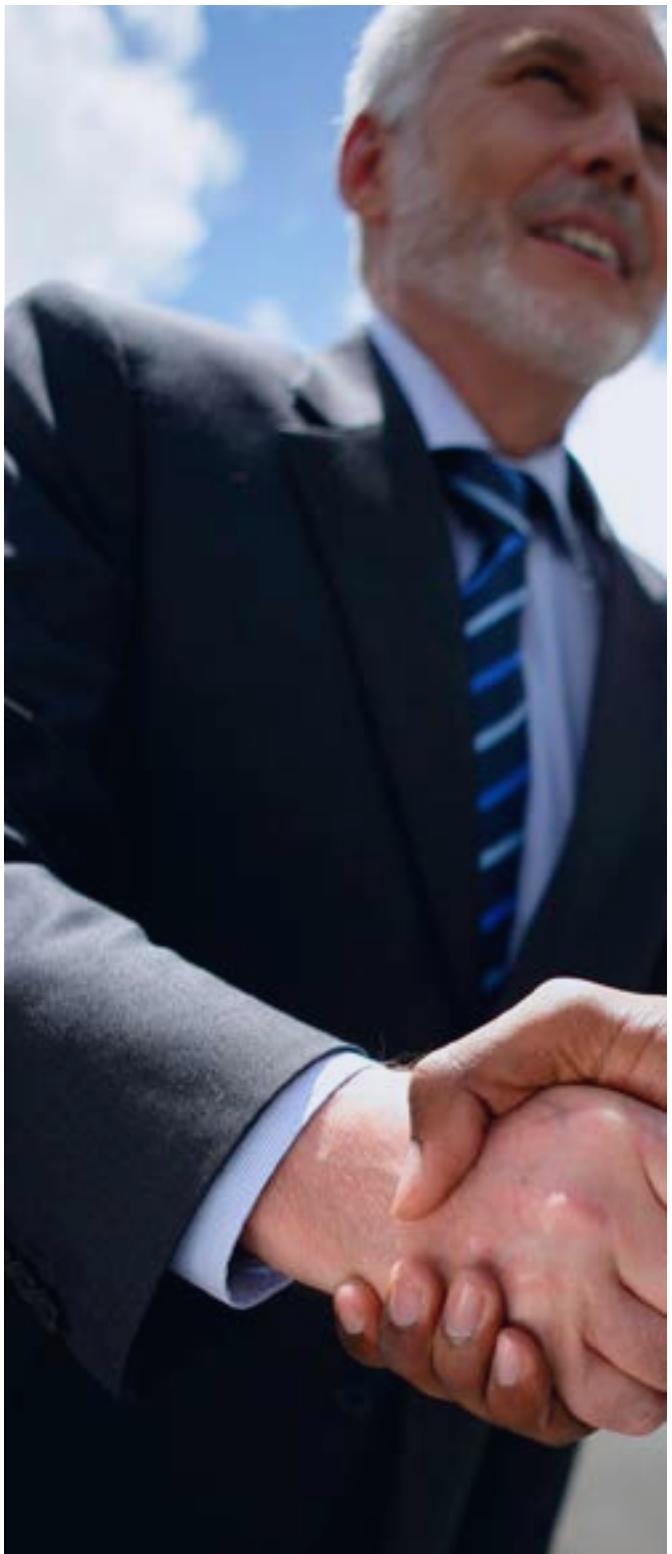
- Over half of firms have plans to grow their employment numbers in the next 6 months.
- Individual determinants are the key driver of growth and this influence is most pronounced in growth in domestic market share.
- In terms of growth barriers – cash flow, access to new and scalable markets, recruiting staff and increasing management workload are the top five obstacles faced.
- A range of support measures are identified to assist firms reach their growth goals and potential. This support ranges from support for the individual entrepreneur to financial and non-financial support for the firm.

Acknowledgements: The research underpinning this body of work is supported by CPA Ireland.



**Dr. Breda Kenny,
Cork Institute of Technology**

Breda has over 17 years lecturing and research experience in the areas of entrepreneurship, international business and management and has been published in a variety of journals. Breda obtained her PhD from the University of Limerick. The area of her doctoral work focused on networking capability and the international performance of High Tech SMEs. At a European level, Breda is a member of the board of directors of the European Council for Small Business and Entrepreneurship (ECSB) with responsibility for research and industry engagement. Nationally, Breda is a member of the Accelerating Campus Entrepreneurship (ACE) Initiative, which, in collaboration with other Higher Education Institutions, aims to create entrepreneurial graduates. Breda has extensive industry experience and is also co-founder and director of Surecom NS Ltd.



INTRODUCTION

The ability of firms to innovate and grow is widely recognised as a fundamental driving force behind economic growth and job creation. Small innovative firms are a major part of this process as they speed structural change and create new jobs to replace those destroyed by the decline of older industries or the downsizing of large firms. High Growth Firms (HGFs), defined as achieving 20 per cent annualised growth over three years, have gained attention in many countries due to their disproportionate contribution to job and wealth creation (Forfás, 2014). This has led to a shift in the policy debate in countries across Europe from supporting SMEs more widely to focusing support on the small proportion of firms that are considered as HGFs. As country level knowledge of the performance and characteristics of HGFs has advanced, focus is now shifting towards identifying and implementing appropriate measures for supporting HGFs. However, to date, there is limited research on the performance of HGFs in Ireland specifically. Forfás (2014) found that among agency-supported firms, across all sectors, age and firm nationality, over the period 2002-2011, HGFs accounted for only between 4.5 per cent and 6.3 per cent of agency firms, yet they generated between 33 per cent and 45 per cent of new jobs. The positive effects of these high growth enterprises are not limited to employment alone. They account for a large share of job creation, exhibit above levels of productivity, export-orientation and internationalisation and contribute to the growth of other enterprises in the region.

-
- ¹ Forfás, (2014), Innovation in agency supported high growth firms in Ireland, Dublin, Ireland.
² Du, J., Gong, Y., Temouri, Y. (2013) High Growth Firms and Productivity: Evidence from the UK, NESTA, London. http://www.nesta.org.uk/publications/working_papers/assets/features/high_growth_firms_and_productivity.

AIMS AND OBJECTIVES

The focus of this study is on firm growth and the key objectives are to: identify the main determinants of growth in early stage SMEs in Ireland; measure the impact of these determinants on job creation and firm performance; identify the barriers to growth and, to identify the support needs of SMEs in order to achieve their growth goals.



RESEARCH METHODOLOGY

This study focuses on a cross sectoral group of incubated and non-incubated early stage SMEs in Ireland. An online questionnaire was administered to the firms through the Incubation Centre Managers and the Local Enterprise Offices. Eight out of the twenty four incubation centers and eight out of thirty one Local Enterprise Offices took part in the survey and a total of 85 usable responses (45 from incubator based firms and 40 from non-incubator firms) were received. Follow up telephone interviews were conducted with ten of the respondent firms.

In this study, we use growth in employment as an indicator of firm growth. This measure is based on whether the firm expects to increase their staff numbers within the next 6 months. Other performance indicators were also used. Respondents were asked to rate their satisfaction with their domestic and international sales, marketing share and turnover performance relative to their main competitor. In order to gain a better understanding of what determines growth, we also included individual measures representing individual, organisational and environmental determinants, as well as growth barriers. Individual determinants include entrepreneurial self-efficacy, need for achievement, risk taking propensity and sociability/extraversion.



Public initiatives to foster the emergence of new and innovative firms have taken on an increased importance in OECD countries. More recently, the Action Plan for Jobs 2015 sets out objectives in relation to the support structures for SMEs in Ireland and specifically aims to:

“ensure an adequate supply of finance for growth, improve competitiveness, reduce red tape, increase sales and exports and stimulate the domestic economy through local employment in sectors such as construction and retail, tourism, hospitality and agriculture and food.” (APJ, 2015, pp 16)

In this context, two key players – business and campus incubators and the Local Enterprise Offices (LEOs) have emerged as important tools of regional economic strategies and, more recently, technology and innovation/entrepreneurship policy. At a general level, the concept of business incubation refers to the practice of providing low-cost, property-based facilities and shared services to nurture the development of new firms. Incubator based firms in particular, have been highlighted as an important source of innovation, technology commercialisation and economic growth at the local, regional and national level by both academics and policymakers. Evaluations of the effects of incubators on firm survival rates tend to be positive, but evidence regarding their impact on job growth and net firm creation is mixed. LEOs, with the support of Enterprise Ireland and the Local Authorities, are seen as seen as the local first-stop shop for new entrepreneurs and existing small business owners.

Over the last two decades, determinants of firm growth have been studied to explain the variation of growth rate in a broad array of disciplines. In general, the aim of such studies is to provide evidence

which could help in identifying potential high growth firms. Prior research has found that growth does not seem to increase with profits and only marginally with productivity. While innovation has a limited impact on the sales growth rates of average firms, it is much more important for the fastest growing firms. Growth is also positively correlated with size, exports, education of the entrepreneur and legal form. Despite a number of determinants, which may contribute to high growth, the quality of the correlations are low and do not allow for reliable prediction about the future high growth. Brown, Mason and Mawson¹ also doubt that a strong predictive capacity exists to precisely spot firms that are about to undertake a period of high growth, but believe that some firms seem to display some early signs which give them a higher proclivity to experience a subsequent period of high growth. They suggest that the policy makers/advisors look for a short-term period of above average growth (e.g. between 10-30%), or firms which have seen steady, if not very rapid, growth in the past few years, or have undergone a recent major organisational change, adopted a new business model or are seeking growth capital or support for international expansion (not just exporting).

Criteria used in identifying potential high growth enterprises by Enterprise Ireland includes revenue base, growth and profitability, efficiency of business model and scalability of sales (majority is

¹ Brown, R., Mason, C, Mawson, S. (2014). Increasing the vital 6 per cent, NESTA, <http://www.nesta.org.uk/publications/increasing-0-0E2%80%98-vital-6-percent%E2%80%99-designing-effective-public-policy-support-high-growth>,

business to business, not business to client) – although employment is a key priority in Ireland, experience has shown that jobs follow growth based on increased sales and revenue. Productivity is much more difficult to measure.

This research adopts the approach of Baum et al. (2001)⁴ and De Wit and Haibo (2013)⁵ and categorises many known determinants into three dimensions: individual, organisational and environmental determinants. We also include the ‘negative’ determinants: growth barriers and the supports needed for realising growth goals.

Previous studies indicate that an entrepreneur’s personality traits (including need for achievement, internal locus of control, risk taking propensity, self-efficacy and extraversion), growth motivation, individual competencies and personal background such as age and gender are key determinants of firm growth. Self-efficacy is defined as an individual’s ability to gather and implement the necessary personal resources, skills and competencies in order to achieve a given task (Bandura, 1997)⁶.

At the organisational level, firm growth is an increase in certain attributes, such as sales, employment, and/or profit of a firm between two points in time. Firm growth can be determined by the effectiveness and capability with which firm-specific resources such as labour, capital and knowledge are acquired, organised, and transformed into sellable products and services through organisational routines, practices, and structure. Relevant determinants such as market orientation

can be considered an important determinant of growth. Firms with market orientation are able to track and respond to customer’s needs and preferences. Similarly, growth orientation is one of eight dimensions of Stevenson’s entrepreneurial management. Stevenson’s entrepreneurial management is defined as a set of opportunity-based management practices by which entrepreneurs can achieve their aims, irrespective of their personal intentions, regardless to the resource they currently control and uncertainty about environment incentives and future outcomes (Stevenson, 1983)⁷.

Organisational learning is an important organisational consideration and serves a similar aim of knowledge creation as does R&D. Organisational learning organised the tacit knowledge embedded into individuals and specific groups to organisational knowledge. Managers see organisational learning as a powerful tool to exploit their knowledge resources and in turn to improve the performance of their organizations.

Environmental factors also determine the growth potential of firms. A hostile environment can create threats to the firm through increased intensity of competition, which can reduce the growth opportunities for small firms. Heterogeneity indicates the complexity of environment regarding the concentration or dispersion of organisations in the environment. It is argued that small firms which serve niche markets can find growth opportunity with relatively more ease in a heterogeneous market than in a homogeneous one.

- 4 Baum, J. R., Locke, E. A., & Smith, K. G. 2001. A multidimensional model of venture growth. *Academy of Management Journal*, 44(2): 292–303.
- 5 De wit and Haibo, 2013. An exhaustive analysis on determinants and dimensions of small firm growth, RENT XXVII Entrepreneurship, Institutions and Competitiveness, ISM University of Management and Economics, Vilnius, Lithuania, November 20–22.
- 6 Bandura, A (1977). Self-Efficacy: Towards a Unifying Theory of Behavioral Change, *Psychological Review*, Vol. 84. No. 2, pp 191–215.
- 7 Stevenson, H. H. (1983) ‘A perspective on entrepreneurship’, Harvard Business School Working Paper, 9-384-131.



MAIN FINDINGS

SAMPLE PROFILE

The majority of respondents are aged between 23 and 54 and the gender breakdown is 67% male 33% female. Two thirds of respondents (67%) are educated to undergraduate and/or postgraduate level. Companies are predominantly involved in the high tech sectors such as medical devices, software as a service, digital media and app development, but there are also companies operating in the food, services and entertainment sectors. The 85 respondents employ 360 people (including themselves). Over half (54%) of these companies expect to take on more employees in the next six months. Four companies expect to employ fewer employees in the same time period. The number of additional employees ranges from 1 to 10, with one company indicating they will hire 15 additional staff on a part-time basis. 70% of respondents are operating in international markets. The international markets served by these companies are UK, France, Germany, Spain, other European markets, USA, Australia, Canada, UAE, Saudi Arabia, Korea and Japan.



TABLE I: BARRIERS TO GROWTH

BARRIER TO GROWTH	RANKING
Maintaining appropriate level of cash flow	1
Access to new markets	2
Scalable market opportunities	3
Attracting and keeping qualified staff	4
Increasing management workload	5
Access to key contacts and relevant networks	6
Finding the right advice	7
Lack of support from banks and financial institutions	8
Access to the right knowledge/suitable technology	9
Regulation and legal environment	10
Difficulty obtaining capital	11
Keeping up to date with technological development	12
Finding the right (production/sales) location	13
Difficulties with inventory and suppliers	14
Lack of support from government	15

WHAT DETERMINES GROWTH?

In analysing the factors that drive growth, the individual entrepreneur is a key driver and it is the various dimensions of self-efficacy that accounts for variation in growth in domestic market share, international market share and international sales growth and also total turnover.

At the firm level, market orientation emerges as a key driver, two dimensions in particular are highlighted here – “All our internal procedures and rules are focused on fulfilling the needs in the market”, accounts for variation in employment growth and “we often share information about client wishes internally” accounts for variation in international sales growth. On organisational growth orientation - only one dimension – “We are prepared for a strong growth of our business” accounts for variation in total turnover satisfaction.



WHAT HAMPERS GROWTH?

In terms of the obstacles facing firms, Table 1 provides a ranking from 1- 15 (where 1 poses the largest problem) of the various barriers faced by respondents in growing their businesses.

In terms of how these barriers impact on the growth or performance of the firm, further analysis highlights that, for example, regulation and legal barriers account for variation in employment growth. Whereas, keeping up with technological developments accounts for variation in growth in domestic market share. Difficulty obtaining capital and lack of government support accounts for variation in growth in international market share. Domestic sales growth is impacted by increasing management workload and accessing key contacts and relevant networks. Increasing management workloads also impacts on international sales growth. Difficulties with inventory and suppliers and access to key contacts and networks account for variation in total turnover satisfaction.

WHAT SUPPORT IS NEEDED?

Apart from identification of potential or existing high growth firms it is important to consider what kind of targeted supports are needed and how best to deliver support. For firms wishing to grow internationally, Table 2 provides a ranking of the specific measures needed.

TABLE 2: SUPPORTS NEEDS OF GROWING FIRMS INTERNATIONALLY

AREA OF SUPPORT	RANKING
International selling skills programmes	1
Assisted trade missions	2
Mentoring by mentors based in target international market	3
Partner searches	4
Lead-generation	5

The telephone interviews with the firms provided additional insight into the specific and general supports that firms feel they need in order to achieve their business growth goals and aspirations. The areas of support are categorised in Table 3 under the various areas of support identified, such as support for individuals, financial, business, facilities and networking support. There is some overlap between some of the specific areas e.g. firms feel they need finance combined with experience in some instances.

HOW BEST TO SUPPORT HIGH GROWTH FIRMS?

A review of initiatives supporting high growth entrepreneurship in Australia, Brazil, Finland, Hong Kong, Hungary, Italy, Netherlands, Spain, and UK concluded that pro-high growth support should:

- Be highly selective, particularly when addressing later stages of venture development;
- Require strong growth motivation from participants;
- Be proactive in inviting prospective growth firms;
- Consistently address managerial motivation, skills and workload;
- Involve close collaboration with private-sector service providers and advisors;

- Nurture an image of professionalism, competence, and a certain degree of exclusivity;
- Implement sustained and focused development efforts;
- Involve highly customised and tailored management development activities that involve experience sharing and apply an interactive approach;
- Link grants and participation to growth aspiration and achievement of milestones;
- Be prepared to accept casualties;
- Involve seasoned managers who have experience in rapid growth.

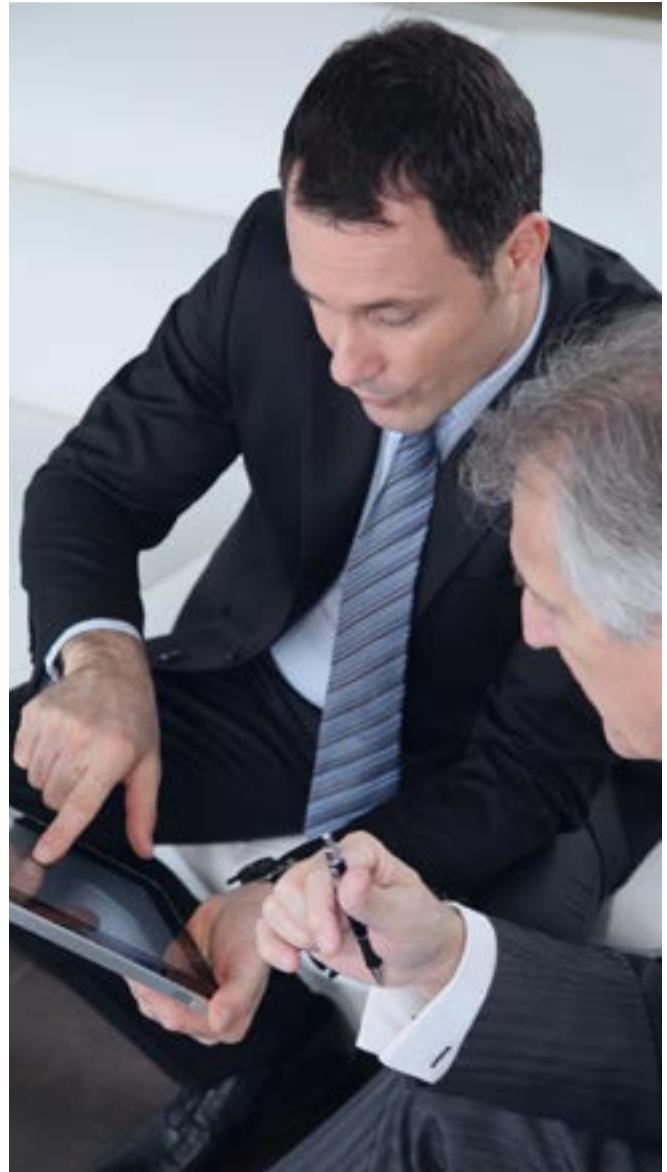
TABLE 3: SUPPORT NEEDS OF GROWING FIRMS

AREA OF SUPPORT	SPECIFIC REQUIREMENTS
Support for Individual	<ul style="list-style-type: none"> • Positive thinking • External - emotional support - a mentor or advisor to be totally honest • Impartial - sounding board with experience needed
Financial Support	<ul style="list-style-type: none"> • Grants, more staff and time • Grant support for marketing • Funding, mentoring, and I hope to utilise Enterprise Ireland in the future
Business Support	<ul style="list-style-type: none"> • Shorten the sales cycle through connections and lead generations and sales • More business mentoring • Continued support from the Incubation Centre. Financial support towards staffing costs and expanding. I think adding a bit more advice on filling out grant applications from people that are experienced in this area would be beneficial. When completing forms such as priming grant and feasibility grant I think a bit of hand holding is needed • I need money but from the right place. I need the experience and interest from the company, not just their money • Employee training so I can delegate more work. More financial support
Facilities Support	<ul style="list-style-type: none"> • Availability of low cost production facilities • There is limited capital available to spend on space, fixtures and fittings
Networking Support	<ul style="list-style-type: none"> • We could continue to connect via a specific linkedIn group for all the participants, staff, trainers and local entrepreneurs or consultants that want to support start-ups • When we have a specific question, access to a pool of consultants at a discounted rate could be available for a period of time as an incubation programme alumni. Also services such as chamber of commerce membership and certain networks • Accelerator - with multi-disciplinary teams • I need a new route to the UK market and an Irish production facility. For this I also need further funding • Guarded in the Incubation Centre - everybody after the same pool of funding nationally

CONCLUSION

This study confirms the findings of prior research on firm growth and found that self-efficacy has a strong positive relationship with realised growth. Growth is an important indicator of individual performance, specifically if the individual is an owner of a small business. One can argue that an individual with high self-efficacy for a given task will put more effort and time into it, make better plans and strategies, self-evaluate and modify goals if necessary to successfully accomplish the task. However, it is this key dependency on the individual entrepreneur that is instrumental in driving growth within the startup; it is also evident that this also becomes a barrier to growth as their management workload increases.

This research contributes to the body of knowledge by empirically identifying the most important determinants of firm growth for early stage SMEs in Ireland. Furthermore, this study explores the barriers to growth and the support needs of SMEs in realising their growth strategies and potential. For incubator and enterprise support staff, this study provides empirical evidence of what determines growth in SMEs in Ireland. More importantly, for those firms that have not grown to their potential, this study provides insight into the specific issues that are constraining growth and the specific supports that are required to overcome these barriers. As such, the research will provide accountancy practitioners with a deeper understanding of the key characteristics of growing SMEs. Armed with this insight, policies and supports can be tailored to fit SME needs and in turn help stimulate the Irish economy.



Institute of Certified Public Accountants in Ireland (CPA Ireland)

The Institute of Certified Public Accountants in Ireland (CPA Ireland) is one of the main Irish accountancy bodies representing 5,000 members and students. The CPA designation is the most commonly used designation worldwide for professional accountants and the Institute's qualification enjoys wide international recognition. Its current membership operates in public practice, Industry, financial services and the public sector and CPAs work in over 40 countries around the world.

The Institute is active in the profession at national and international level participating in the Consultative Committee of Accountancy Bodies – Ireland – CCAB (I) and together with other leading accountancy bodies the Institute was a founding member of the International Federation of Accountants (IFAC) – the worldwide body. The Institute is also a member of the Federation des Experts Comptables Europeens (FEE), the representative body for the main accountancy bodies in 36 European countries.

The Institute fulfils its statutory role as a recognised body by overseeing the professional activities of its members in practice, and insuring that education and training standards are maintained. As the first accountancy body to introduce a mandatory regime of Continuing Professional Education, the Institute ensures that all CPAs remain at the leading edge throughout their careers. The Institute provides a quality service to its Members and Students, which has been recognised through the award and maintenance of ISO 9001:2008. For further information visit www.cpaireland.ie

**The Institute of Certified
Public Accountants in Ireland**
17 Harcourt Street,
Dublin 2, Ireland

Phone: 01 425 1000
Fax: 01 425 1001
Email: cpa@cpaireland.ie
Web: www.cpaireland.ie

**The Institute of Certified
Public Accountants in Ireland**
Unit 3, The Old Gasworks,
Kilmorey Street, Newry, Co. Down,
Northern Ireland, BT34 2DH

Phone: +44 (0)28 305 50000
Web: www.cpaireland.ie