Support to High-growth Firms: a Policy Analysis

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ABSTRACT

In the last few years, high-growth firms have attracted more policy interest relative to other types for firms and this has spurred a growing debate and a significant volume of research from academia, public and international organisations. The heterogeneity of high-growth firms and the irregularity of their growth patterns pose unique challenges for policy-making. Drawing on emerging policy and empirical research about support to prospective and high-growth firms, this review seeks to identify, frame and describe existing policy measures and provide an overview of the main policy recommendations gathered so far. This study has found evidence of policies specifically designed to target high-growth ventures, mostly recent and in OECD countries, with the literature privileging the description of business accelerators initiatives. The job creation narrative does not seem to have totally fast-tracked yet into a confined set of robust conclusions for policy.

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1 Introduction

To restrict the attention to those firms that tend to generate most of the jobs, academics, policy-makers and, more recently, practitioners, started focusing on a small subset of firms, the so-called "high-growth firms" (HGFs) (see OECD 2013a; OECD 2013b; Stangler 2010; Mitusch and Schimke 2011). As initially argued by Storey (1994), there is now more of an articulated view that a smaller group of firms is responsible for the majority of job creation in any cohort of new business (for example Stangler 2010; Anyadike-Danes, Bonner, and Mason 2009; Kirchhoff 1994; Birch 1987) and that entrepreneurship polices need to be reoriented to encourage high quality and high-growth firms to be created and to grow (Mason and Brown 2013; Levy, Lee, and Peate 2011). However very few authors have positioned which policies should be abandoned, which should be changed and adapted, which should be created afresh and all in all, how best to provide support to high-growth firms efficiently and in an effective manner so as to minimise market distortions. The current policy debate tends to be centred on factors that can be leveraged to unleash growth and the most suitable policies, if any, required to create more high-growth ventures (OECD 2010).

The aforementioned provides the foundation for an exploration into existing policy support schemes in favour of ambitious ventures and high-growth firms. Drawing on emerging policy and empirical research about high-growth firms, their performance, barriers and drivers, the overall objective of this paper is to identify and describe existing policy measures. We will also be focusing on micro-level support schemes that governments, regional and local development agencies have carried out, which have been geared at supporting the formation, expansion and survival of HGFs, and we will provide an overview of the lessons and policy recommendations that have so far been gathered. Another objective

of this research is to map and categorise policy practices and support initiatives. Finally, we will develop a framework for understanding the anatomy of these HGF policy measures.

This review covers policy and empirical papers published in journals and books, whose authors stated they specifically approached high-growth ventures and addressed policies related to HGFs. This review is based on a multi-method approach, whereby academic business databases were consulted along with policy papers and other material released in the context of technical and policy workshops on the theme of HGF support.

2 *Review Of Policy Approaches For Promoting High-Growth Firms*

The fact that HGF firms do not exhibit a steady and linear growth, but a rapid, erratic, sometimes sporadic, and often transitory and short-lived growth pattern makes it difficult to identify them and the various results provided by different growth measurements. Kolar (2014) describes them as “moving targets” and Coad, Daunfeldt, Hölzl, Johansson, and Nightingale (2014) question their value “as vehicles for public policy", as they are considerably difficult to target with specific policy interventions. However, this issue has attracted considerable attention in the last few years and there have been several attempts at identifying, mapping support measures for HGFs and assessing the efficacy of such measures in facilitating the removal of barriers to growth.

Three main types of HGFs have been analysed in the literature: the broad set of high-growth enterprises (for example Levy, Lee, and Peate 2011; Acs, Parsons, and Tracy 2008) and two sub-sets of the former, i.e. the innovative high-growth ventures (for example Kolar 2014; Sena, Hart, and Bonner 2012; Autio, Kronlund, and Kovalainen 2007) and high-growth SMEs (for example OECD 2010).

Countries have shown different policy options to deal with HGFs (for example OECD 2013a; OECD 2010). In terms of high-growth innovative enterprises, there have been substantial challenges in identifying such firms, thus some countries have opted for more general support measures. However, nine European countries have implemented more targeted measures, *in tandem* with enabling polices (Kolar 2013). Three main options for policy support to high-growth firms have emerged from this review: the first focuses on the improvement of the framework conditions and removal of business, innovation and investment barriers through enabling policies, the second focuses on specific dedicated support policies, and the third is a combination of both.

2.1 Enabling Policies

Lilischkis (2011) argues that instead of picking winners, policy-makers should set their aim on getting framework conditions right. The survey conducted to high-growth innovative enterprises pinpointed taxation and law regulations as some of the most relevant enablers of growth.

Creating a business environment which is conducive to the strengthening of the entrepreneurial fabric of a country has long been a priority for many governments. Undoubtedly, the macroeconomic environment, namely economic events, and also business policies and local and national framework conditions affecting the operation of all businesses are important determinants of firm performance (Europe INNOVA 2011).

Macroeconomic and regulatory issues, along with the business and investment environment are known to affect the formation, growth and survival of firms (World Bank 2014; Bravo-Biosca 2010; Henrekson and Johansson 2009). The presence of enabling policies affecting the business environment is widely supported, as added competiveness may foster faster growth through the easing of the costs of doing business (Hallberg 2001) and a

"higher concentration of rapidly growing smaller firms is more likely to be found in certain functional and enabling environments" (Keen and Etemad 2012, p. 574). There is overall support for enabling policies that not only favour firms in general, but also benefits high-growth firms.

Much research has suggested that access to finance is one of the major constraints for the development of start-ups (for example European Commission, 2003), high-technology firms (Murray, Hyytinen, and Maula 2009; Renko, Carsrud, and Brännback 2009) and innovative HGFs (Kolar 2014). The OECD (2010) has found that a great deal of support policies targeting HGF focus on removing barriers to access finance.

In addition, the general legal environment and, in particular, bankruptcy laws and administrative burden imposed on new enterprises may hinder high growth opportunities.

2.2 Targeted Policies

Targeting high-growth firms for policy support is distinct from simply supporting entrepreneurship, SMEs or new venture creation. The dynamic character of these high-growth firms seems to suggest that the traditional policy-mix of "static" policies, aimed indiscriminately at all firms or SMEs, might not necessarily work well to facilitate the growth of enterprises which have already laid the foundations for growth, who are starting to grow at a faster rate, or even for those registering a sustained high growth rate for several years. For greater effectiveness with respect to HGFs' support, the specific needs of this type of enterprises have to be accounted for. High-growth firms require novel forms of more customized support along with design sophistication and the adoption of nuances to particular cases and lastly but not the least, a complementary and productive interplay between policies (Kolar 2014). So far, limited consideration has been given to taking advantage of synergies

among existing policies in favour of high-growth firms, namely in what regards the interactions between entrepreneurship/SME, innovation, and internationalization policies.

In most countries, existing policies and programmes from which high-growth can benefit are generic, conceived for SMEs or firms at large. Cases of specific targeted policies or dedicated programmes aimed at potential fast-growing firms or HGFs are uncommon (OECD 2010; Autio, Kronlund, and Kovalainen 2007). There are a few support schemes which are more conducive to high-growth firms, such as financing schemes, access to venture capital, business angels and incubators. These initiatives are often supported and developed by regional bodies and more localised institutions, who happen to be closer to businesses and can thus understand better their needs (Bosma and Stam 2012; Gertler 2010).

The most common rationale in the literature for more customised intervention action is mainly connected to three areas: firstly, research and development (R&D) needs related to the highly innovate character of these firms, in particular technology intensive start-ups (Lerner 2010); secondly, difficulties in access to finance (OECD 2010), often addressed within existing SME access to finance support schemes, and thirdly, to a lesser extent, the high degree of export orientation and dependency on external markets (Keen and Etemad 2012).

Existing programmes are often tweaked to integrate and accommodate HGFs' specific needs. The creation of entirely new forms of policy measures and programmes is unusual. Policy research on targeted programmes has tended to focus in greater detail on business accelerator programs (for example Kolar 2014; OECD 2013a).

The literature indicates that policies conceived to engender and support high-growth firms should not exclusively be a subset of policies designed to support firm growth in general. In fact, they should be tailored to this set of enterprises which displays specific needs. According to Kolar (2014), from a survey of high-growth innovative enterprises, the most needed public policies identified were: support to employees' skills, in-house R&D, public-

private R&D, internationalisation support and equity and debt finance. A more customised approach to the design of stimulus policies in favour of high growth is expected to be more effective in achieving policymakers' goals, i.e. to strengthen local economic development based on high-impact entrepreneurial activity. Mason and Brown (2013) argue that the limited knowledge of the characteristics of high-growth firms (backed up by empirical data) has led to inappropriate forms of targeted policy intervention. These findings compel practitioners and policy analysts to come together to convey robust policy designs which will enable more effective targeting.

The review provides a specific focus on entrepreneurship policy, SME policy, innovation and R&D, internationalisation, and regional policies.

2.3. Combination Of Policies

This review finds that limited consideration has been given to the potential synergies among existing policies for high-growth firms´ support, namely with respect to innovation, internationalization and entrepreneurship/SMEs cross-roads.

3 Conclusions

This literature review has shown that some consensus is gradually building up around the validity of market failure arguments in support of high-growth ventures. The difficulties in identifying market failures are related to the diversity of definitions and respective methodologies employed relating to HGFs. The literature clearly refutes the one-size fits all policies, as policies need to be contextualised for regions and firms, and assessed holistically. So far, there has been a stronger emphasis on supply side policies, which is due to bear positive results if the market engenders the right type of firms. This review found some

evidence of policies which have been specifically designed to target high-growth firms, mostly in OECD countries, with the literature privileging the description of business accelerators initiatives.

The job creation narrative does not seem to have been fast-tracked into a confined set of robust conclusions for policy. Whether the formation of typical start-ups should be discouraged and the focus put on encouraging the formation of high quality entrepreneurs and the subset of business with growth potential still remains to be fully validated by robust evidence.

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