

# EMPOWERING ENTREPRENEURS, ACCELERATING GROWTH

Progress Report on the Goldman Sachs  
*10,000 Small Businesses* UK Programme

November 2014



# Foreword

**Lloyd Dorfman CBE**  
Founder and Chairman  
*Travelex*



We are living in the age of the entrepreneur. Now, more than at any time I can remember, entrepreneurship is being celebrated by the media and governments around the world. The barriers to establishing your own business have been lowered by new technologies and changing consumer behaviour. Some of the world's most successful businesses are associated inextricably with their entrepreneurial roots. Perhaps most notably, becoming an entrepreneur is no longer considered something for eccentrics or hopeless optimists – it is aspirational and has become a respectable, even a desirable, option for some of the best and brightest.

Writing as somebody who started my business at the age of 24, I have no doubt that this cultural shift is a positive one. For our economies to continue delivering shared prosperity and create fulfilling opportunities for work, it is essential that innovative ideas and new ways of working are constantly introduced and tested in the marketplace – and entrepreneurs are critical to this process.

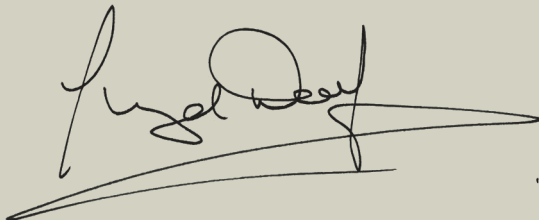
And yet, in all this very welcome celebration of entrepreneurship, sometimes the reality of what it means to be an entrepreneur can get lost. I am sure that many of the participants of the *10,000 Small Businesses UK* programme struggle to recognize their own experience in some of the portrayals of entrepreneurship they see around them!

First and foremost, building a business is one of the hardest things you can do. Not only is it immensely hard work, but almost by definition it is a lonely undertaking – the buck really does stop with the entrepreneur. The undoubted highs (the key milestones reached, the first big customer won, the first investment secured) are intrinsically tied to the huge challenges (the radical uncertainty, the constant battling against the odds with limited resources, the impossibility of ever standing still).

Yet the *10,000 Small Businesses UK* participants who are the focus of this Report are evidence of how strong the desire is to start your own business, and even more so what can be achieved when you do. In their diversity, they show how broadly shared the desire to build your own business is – among people with PhDs and those who left school early, younger and older people, men and women, across every sector and in every part of the country. Overwhelmingly, these individuals have grown their businesses through or founded them during the recent recession, against all the odds.

The tenacity and resilience that these business leaders demonstrate are surely prerequisites for business success. Another is the ability to learn and adapt constantly, and the *10,000 Small Businesses UK* programme provides the opportunity for accelerated learning from world class business schools and universities, practitioners in the wider business community and, critically, from other entrepreneurs. A breakthrough insight and, I am sure, a key reason for the programme's impact as demonstrated in this Report, is how it helps entrepreneurs to tap into one another's accumulated experience. There is no more credible source of advice or encouragement than another entrepreneur who has already been down the path that you are exploring.

Speaking from my own experience, there was no 38 year plan to grow Travelex from a single shop in 1976 to where it is today and I could not possibly have predicted its evolution. Each participant in the *10,000 Small Businesses UK* programme has their own story and is at a different stage of their business's journey, and for each their business's evolution will be different. But all are united by the desire to take their businesses as far as they can go and in this they cannot but benefit from being part of this unique entrepreneurial community.



**Lloyd Dorfman CBE**  
Founder and Chairman  
*Travelex*

# Executive Summary

Following *Stimulating Small Business Growth* published in April 2013, this follow-up Report substantially deepens and strengthens the evidence base for the impact of the *10,000 Small Businesses UK (10KSB UK)* programme on participating businesses and entrepreneurs.

Most significantly, this Report describes the results of control group analysis designed to identify programme impact through rigorously comparing participants' performance with that of similar but non-participating businesses. This analysis suggests that the 10KSB UK programme increases participating businesses' growth by between 10% and 25%, relative to what their growth would have been without the programme. This boost to growth comes on top of the relatively high growth that the participating businesses were already experiencing.

This Report also establishes that:

- On average, participants are growing turnover at between 23% and 42% per year after participating in the programme, and growing employment between 16% and 26%, depending on when they graduated;
- The strong revenue growth and job creation exhibited by participants continues well beyond graduation, with 88% of participants growing turnover three years after starting the programme, and 90% of participants growing net employment;
- Relative to the broader UK small business population, participants are heavily skewed towards the high growth end of the business growth distribution. There are between two and three times more faster-growing businesses among 10KSB UK participants than in the economy as a whole.

Building on related academic research, this Report studies the 10KSB UK population to shed further light on entrepreneur characteristics and business behaviours that are associated with higher growth, including that:

- Key strategic business behaviours associated with higher growth include innovation, exporting, having a mentor and raising external finance;
- High rates of growth among participants are just as likely to be found in any business sector, and not only in those commonly thought to be associated with high growth such as technology and the creative sectors;

- Higher growth ambition, as articulated by participants when they applied to the programme, is positively associated with actual achieved business growth.

To contextualise these findings, research has established clearly that high growth small businesses, while small in number, are critical to economy-wide job creation and productivity growth. While substantial resources are dedicated in the UK to small business support, a matter of ongoing debate is whether and how these important businesses can be identified and supported effectively.

The finding of a significant 10KSB UK programme impact is an important contribution to this debate, and implies that the programme's design could inform other efforts to stimulate economic growth and job creation by supporting high growth potential businesses.

This Report also includes contributions by leading thinkers on the state of play in small business and entrepreneurship in the UK, and case studies illustrating different kinds of strategic change that participants are implementing as a result of the programme.

## **Programme background**

10KSB UK is a comprehensive programme of business development support for small businesses with high growth potential, designed to help them achieve that potential. Piloted in late 2010 and launched in early 2011, the programme has to date enrolled more than 800 entrepreneurs across the country. The programme is a partnership between Goldman Sachs, the Goldman Sachs Foundation and the following leading UK universities:

- **Saïd Business School, University of Oxford** – national partner;
- **Aston Business School** – Midlands programme;
- **Leeds University Business School** – Yorkshire programme;
- **Manchester Metropolitan University Business School** – North West programme; and
- **UCL (University College London)** – London programme.

10KSB UK is one of several programmes developed and supported by Goldman Sachs and the Goldman Sachs Foundation that aim to support the growth of high potential small businesses and thereby create jobs and grow economies. Building on the success of the *10,000 Women* initiative, which provides a business education to women entrepreneurs in emerging economies, *10,000 Small Businesses* launched in the United States in 2009.

## PROGRAMME UPDATE

# Progress Since April 2013

The April 2013 Progress Report, *Stimulating Small Business Growth*,<sup>1</sup> explained the 10KSB UK programme's design, set out early evidence on its impact, and described lessons that the programme partnership was learning over time. This Report, published 18 months on, highlights what we can learn from the 10KSB UK population and sets out strong evidence of programme impact, based on more extensive data and new methodologies.

As described in *Stimulating Small Business Growth*, participants provide information to the programme about themselves and their businesses when they apply, in a baseline survey administered at the beginning of the core programme of modules, and in three post-programme surveys (approximately 6, 18 and 30 months after the modules). This provides a uniquely rich data set covering the characteristics of the participants and their businesses, and the evolution of these entrepreneurs and businesses over time.

At the time of the first Progress Report, 480 participants had enrolled on the programme, 233 of whom had completed a first (6 month) post-programme survey and 55 participants had completed a second (18 month) post-programme survey.

As of November 2014:

- 816 participants have enrolled on the programme (of whom 115 are currently undertaking the programme).
- 438 have completed a first post-programme survey (approximately 6 months after programme completion). This represents an 89% response rate.
- 223 have completed a second post-programme survey (approximately 18 months after programme completion). This represents an 86% response rate.
- 57 have completed a third post-programme survey (approximately 30 months after programme completion). This represents a 77% response rate.

These high response rates mean we can be confident that the data collected and used in this Report are fully representative of the 10KSB UK population.

## THE EXPERT'S VIEW



## Mike Cherry

National Policy Chairman

*Federation of Small Businesses*

### **What are the main challenges facing UK small businesses and entrepreneurs?**

The broad economic outlook, including among the UK's main trading partners, is always critical for small businesses and the present time is no exception.

Looking beyond this to structural factors, the challenge of finding staff with the right skills is a perennial problem for UK small businesses. Addressing this challenge requires a long-term approach that ensures our education system is more responsive to businesses' needs, and that tackles skills shortages in areas such as science, technology, engineering and maths.

Access to finance remains difficult for many Federation of Small Businesses (FSB) members. Although conditions have improved, the FSB believes there remain structural issues in the market that require a long-term solution, including the entry of new challenger banks and growing the non-bank finance sector.

### **What do you think makes for the most effective business support?**

Businesses' needs vary widely, so there is not a 'one size fits all' solution to

business support. However, there are some fundamentals it is important to get right.

For businesses beyond the startup phase, which has its own specific challenges, business owners need to be convinced that their investment in business support will have a positive impact. Key to this is that the support is practical so it leads directly to application in the business, and ideally support should be ongoing as changes are implemented.

There is also a considerable advantage in training taking place in a cohort of business leaders, an approach adopted by 10KSB UK. This immediately creates a sense of community, where the entrepreneur can share ideas and learn from their peers.

### **What role can business support play in helping businesses that are seeking to grow?**

Helping businesses that seek to grow to plan systematically for growth, and to be prepared for the specific challenges associated with growth, is critical.

Enhancing management skills is also crucial, and an area in which the UK has historically lagged behind our competitors. Better management brings both short term and dynamic benefits, such as improving the business's ability to access different types

of finance and support that can enable the business to achieve its potential.

Support can also help raise awareness of the range of opportunities that are available to growing businesses, for example the variety of finance providers in the market, including non-traditional providers.

### **What role can larger businesses play in helping small businesses?**

Where larger businesses have a good collaborative relationship with smaller businesses, particularly in their own supply chain, it can create real benefits for both sides. For instance, there are good examples of apprentices from large firms working in their supply chain. Some large businesses have introduced their supply chains to new export markets. In these and similar areas there are examples of best practice and opportunities for more widespread adoption.

Knowing that their large customers are going to pay on time is invaluable to small businesses, for whom cashflow can be a life or death issue. The best businesses know the importance of the whole business ecosystem, recognising that all businesses, small or large, have a role to play.

### **How can entrepreneurs support each other?**

One of the main reasons our members join the FSB is their belief in the power of networks. Being able to work and speak

with fellow entrepreneurs inevitably leads to valuable insights, and often to business opportunities.

1OKSB UK recognises this – we believe it is a key factor behind the programme's success. Whatever problems a business is experiencing, you can be sure that there are many others in the same boat, and many more who have already worked through the issue. Entrepreneurs' combined experience is a formidable – and barely tapped – resource, and finding ways to open it up to others can be very powerful.

### **Which one piece of advice would you give to an aspiring entrepreneur?**

Perseverance and openness to learning are key attributes for any entrepreneur. Every business leader makes mistakes and suffers setbacks, often for reasons beyond their control. The key differentiator is how you respond to the mistakes and the setbacks.

People often talk about the culture of enterprise in the US. One area where there does appear to be a striking difference is the acceptance in the US that business failure is a fact of life, and the knowledge that entrepreneurs can come back stronger as a result.



## SECTION 1 – PARTICIPANT PROFILE

# The 10,000 Small Businesses UK Participants

### OVERVIEW

Section 1 explains why the 10KSB UK participants can provide insight into the UK's high growth potential small businesses.

Using a rich data set, it describes who the 10KSB UK businesses are and how they compare with the broader UK small business population.

In recent years research has established convincingly that high growth businesses are small in number but are vitally important, because they are the economy's jobs engine.<sup>2</sup> But little is understood about what, if anything, can in fact be done to identify high growth potential businesses and support them to succeed. Because 10KSB UK is a concerted effort to do just this, it can provide insight into these important questions.

Our starting point is understanding the characteristics of the 10KSB UK participants themselves, and where they sit within the broader UK small business population.

Participant recruitment is a critical element of the 10KSB UK programme. Recruitment and selection is managed regionally by the programme partners and is targeted at the leaders of established small businesses and social enterprises with typically between 5 and 40 employees. Beyond these basic requirements the selection process aims to identify participants whose businesses have the potential to grow significantly and whom the programme can help to achieve this growth. There are no restrictions with respect to other characteristics of the business or the applicant, for example business sector, education experience, business age,<sup>3</sup> family business and so on.

By virtue of this selective recruitment process, the 10KSB UK participant base has some specific characteristics that distinguish it from the broader small business population:

- Eligibility criteria: Participants have to be established businesses with employees. They cannot be sole traders without employees or startups.

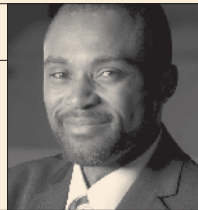
2 See for example: Hart, M., and Anyadike-Danes, M. (2014), "Moving on from the 'Vital 6%", ERC Insights Paper No. 3, ERC; Coad, A., and Hözl, W. (2010), "Firm growth: Empirical analysis", Papers on Economics and Evolution, No. 1002; Henrekson, M., and Johansson, D. (2010), "Gazelles as Job Creators – A Survey and Interpretation of the Evidence," Small Business Economics, 35:227-244.

- Self-selection: Clearly, a prerequisite for participating in the programme is applying in the first place. Though motivations for applying likely vary, all applicants must at least be open to the idea of taking on this form of business support. Some entrepreneurs are surely not, and they may be systematically different from those who are.
- Selection process: A thorough selection process aims to identify the business leaders and businesses from among those who apply who will benefit most from the programme, specifically in terms of helping the business leader to grow their business substantially.

This combination of characteristics clearly means that the 10KSB UK population is not straightforwardly representative of the broader UK small business population. But given the immense diversity of this broader population, which numbers almost 5 million, the notion of the ‘average’ small business is unlikely to be a useful one in most contexts. The small business population can be usefully disaggregated in many different ways, depending on what we want to investigate. So the crucial question is not whether 10KSB UK participants are representative of the wider small business population, but whether they are representative of a subset of that population that is useful to understand better.

#### CASE STUDY: KEVIN DAVIS, THE VINE TRUST GROUP

## Making a bigger difference



A headline announcing, “*Dry pub opens for business*,” 25 years ago, signalled the launch of the Vine Trust in Walsall.

Local philanthropists turned a previously notorious local, the Vine, into a non-alcoholic community pub. Their aim was to create a space for disadvantaged young people, where they could get support with education, jobs and family life.

Current CEO Kevin Davis joined the Vine Trust in 1997 to help it realise its vision to regenerate this industrial town in the Black Country. “*We want the whole*

*community to learn, live, work and play together, almost like a new village for the twenty-first century*,” Kevin says.

However, the Trust has had to think creatively about how to fund its activities. “*Social entrepreneurs can find it difficult to find capital, because banks don’t understand what the social economy is about*,” Kevin explains, “*so revenue has to come from other sources*”.

The Goldman Sachs 10KSB UK programme helped Kevin to write a growth plan that he could share with commercial backers. This included

helping him to work out new ways to measure social value.

As a result, the Trust has grown its four principal revenue streams: Vines, a profit-making restaurant, where young people can train as chefs, now has two new branches; two schools, which prepare students for work, are growing their annual surpluses; partnerships with businesses such as Ikea, who pay the Trust to find apprentices, are growing into a national business; and the Trust is generating revenue from renting managed workspace to small businesses.

Recently, Kevin led a delegation to Bilbao, Spain, to share the Trust’s vision for a Black Country social enterprise zone with Basque politicians and business leaders. The organisation has come a long way from its takeover of “*the worst pub in Walsall*”.

3 Other than that the business must demonstrate that it is established and has a trading history.

# The UK Small Business Population

All UK small businesses, 2013 <sup>4</sup>

**4,900,000**

...Less businesses with no employees <sup>4</sup>

**1,210,000**

...Less startups (businesses founded 2013) <sup>5</sup>

**1,190,000**

...Less businesses with 1 to 3 employees <sup>6</sup>

**510,000**

...Less businesses outside 10KSB UK regions <sup>7</sup>

**440,000**

...Less businesses that did not grow in 2012 <sup>8</sup>

**160,000**

...Less businesses without similar historical growth to 10KSB UK participants <sup>9</sup>

**65,000**

small businesses with similar profile to 10KSB UK population

<sup>4</sup> From Department for Business, Innovation & Skills (BIS) statistics.

<sup>5</sup> Derived by subtracting Business Structure Database (BSD) private sector 2013 births from above figure.

<sup>6</sup> Derived by subtracting 1 to 3 and 50+ employee businesses, from BSD private sector figure.

<sup>7</sup> Derived by subtracting Wales, Scotland and Northern Ireland firms, from BSD, from above figure.

<sup>8</sup> Derived by subtracting declining or unchanged firms, from BSD, from above figure.

<sup>9</sup> Restricting to those with 2008-10 employment growth rate within interquartile range of 10KSB UK participants' growth rate.

We believe that the 10KSB UK participants are representative of a subset of the small business population that is an important one for two key reasons:

- Because high growth small businesses are well established as being critical to job creation, in addition to having other important economic spillovers;
- In most economies, including the UK, significant resources are dedicated to supporting small businesses. Furthermore over time there has been an increasing focus by policymakers on attempting to support small businesses with growth potential.<sup>10</sup>

Apart from the intrinsic interest of the small and unusual group of small businesses that experience high growth, there is therefore a practical importance to understanding more about who they are and whether and how business support can help them.<sup>11</sup>

### 10KSB UK participants and UK small businesses compared

Here we consider the characteristics of the 10KSB UK participants and their businesses as they enter the programme, while in later sections we will consider their trajectories post-programme and evidence of the impact that their participation has had on them and their businesses.

#### CASE STUDY: VICTORIA HOPKINS, HOPKINS CATERING

## Family values

Hopkins Catering has been in the Hopkins family for three generations. Victoria Hopkins, from the third generation, joined the Goldman Sachs programme at a time when her father Chris was in the process of handing over the running of the business to her.

*“The programme helped me to build my confidence and set a vision for the business,”* Victoria says. *“I wanted to take it from being a family business to something*

*a bit more professional. I focused on creating clear strategy, KPIs, product development and getting staff involved.”*

In particular, Victoria wanted to collaborate with suppliers to create more innovative catering equipment, furnishings and services for her business catering clients.

*“I wanted to take our beautifully crafted products and make them contemporary and at the same time*

*benefit the customer by incorporating modern technology,”* she explains. *“The Goldman Sachs programme gave me the confidence to negotiate exclusive agreements with a company in Germany to do this.”*

The business is starting to reap the rewards of Victoria's efforts, having beaten all its targets for turnover and profitability in the last year, including transforming a loss of £200,000 into a profit of £150,000.

As well as helping Victoria, the programme gave her father Chris the confidence to let go. *“The programme stopped me having a constrained view. Seeing that, my Dad was happier to hand the business over,”* she says.

<sup>10</sup> For example in England two major support programmes for established small businesses are the Growth Accelerator and Growth Vouchers schemes.

Figures 1 to 15 set out information about these businesses and their leaders, and compares these, where recent data is available, with the broader small business population (excluding sole traders, start-ups and businesses with 50 or more employees). The data is broken down into three broad categories:

- Characteristics of the business;
- Characteristics of the entrepreneur leading the business; and
- Strategic behaviour of the business.

In some areas the 10KSB UK population is broadly similar to the wider population of small business employers, but in other there are notable divergences. Some key points to highlight from the data are as follows:

- 10KSB UK participants are recruited from a wide range of business sectors. The proportion of manufacturing and information & communication businesses is higher than in the broader population.

#### CASE STUDY: OLIVER BAKER, FOX WIRE

## Not just a young person's game



Oliver Baker bought Fox Wire, a wire manufacturing company, aged 47, after a career in banking, with a view to turning the business around.

*"I wanted to do my own thing," he explains. "I'd seen my kids through education and paid off the mortgage, so I felt I could take the risk."*

Unfortunately, he acquired the business in 2007 and, as the recession kicked in, the gentle self-funded turnaround process Oliver originally envisaged had to be accelerated.

Participating in the Goldman Sachs

10KSB UK programme helped Oliver to get through tough financial times.

*"Because I'm older and had a lot of experience, for me the programme wasn't so much about acquiring specific knowledge, it was more about helping me get perspective and articulate and talk through the issues I was facing," he says.*

The programme helped Oliver to sharpen up his business plan in preparation for approaching funders. In particular, it made him focus on where exactly growth would come from.

*"I decided to focus on developing new*

*products," he says, "and that is working out".*

As a result, in 2013 Fox Wire secured investment of £1 million from Finance Yorkshire's Equity Linked Fund, alongside £3.2 million debt and working capital facilities from HSBC, which will now allow the company to execute its growth plan.

*"I didn't go into it thinking it would be a sprint, but the recession made the turnaround into a marathon," Oliver says. "The experience I'd gained previously, and the experience and stamina you gain with maturity, have definitely been helpful."*

Despite the challenges, Oliver has enjoyed the transition from employee to owner. *"The business is totally absorbing in a way that advising other people wasn't," he says. "It's life lived in technicality."*

11 Whether the 10KSB UK population does in fact represent this group depends on the effectiveness of the recruitment process, in particular whether it succeeds in identifying and recruiting entrepreneurs and businesses with high growth potential. 'High growth potential' is of course not objectively measurable and a possible objection could be that 'picking winners' in this way is not possible. Based on the post-programme performance of programme participants relative to comparable businesses set out in Section 2 of this Report, it seems however that the recruitment process is successful in this respect.

- In terms of **business size**, the 10KSB UK population is skewed towards larger businesses. Approximately half of them are micro-enterprises according to the standard definition (fewer than 10 employees), compared with 89% of the broader population. Within the 10KSB UK population **social enterprises**, which make up 11% of participants, tend to be smaller.
- The **business age profile** of the businesses is similar to the broader population – among both populations there is a roughly equal split between businesses less than and greater than 10 years old.
- **Family businesses** account for 13% of 10KSB UK participants. They tend to be older and somewhat larger than the non-family businesses.
- **Women entrepreneurs** make up approximately a third of 10KSB UK participants, a significantly higher proportion than in the wider population.
- In terms of **participant age**, 74% of participants are between 30 and 49 years old. Perhaps surprisingly, only 7% are younger than 30. The age profile of participants is broadly similar between men and women.
- On average, although there is a wide range, participants have a somewhat higher **education level** than the broader UK population, with 63% of participants having at least undergraduate education.
- 74% of participants are **founders or co-founders** of their businesses. Approximately a third of participants have led previous businesses.
- 70% of participants own a majority **shareholding** in their business, with a quarter owning the business outright (excluding social enterprises).

The overwhelming message in this data is the sheer diversity of the types of entrepreneurs and businesses identified to have growth potential. Although there are regularities in the data, which will be further investigated in Section 3 and which suggest certain characteristics and behaviours are associated with business growth, it is clear that there is no single archetype of the high growth potential business or entrepreneur.

## THE EXPERT'S VIEW

**Kevin Daly**

Chief UK Economist

*Goldman Sachs Global Investment Research*

## Credit availability is key for small business growth

The fortunes of the UK economy in the aftermath of the financial crisis have been intrinsically linked to developments in credit availability.

In the five-year period from the start of the recession in early 2008 until early 2013, credit was in short supply: the amount of outstanding loans to UK households and businesses fell and, for those who were lucky enough to be able to obtain a loan, the spread on bank lending rates over official interest rates rose significantly.

### **UK economic growth exceptionally weak until 2013**

Growth in the economy during this period was exceptionally weak. At the start of 2013, five years after output began to fall, it remained 1 per cent below its pre-crisis peak and 7 percentage points below where it was at an equivalent stage of the cycle in the (average of) the three previous recessions (early-1990s, early-1980s and mid-1970s). It was also 6 percentage points below that of the US and broadly comparable with the output profile for the

Euro area, notwithstanding the crisis in the region.

Yet, since early 2013, the UK economy has undergone a remarkable transformation: output has accelerated sharply and has grown faster than in any other major economy in the 18 months since then.

### **Easing in credit availability was key turning point**

The key turning point for the UK economy, in our opinion, occurred six months earlier, in mid-2012, when the Bank of England (BoE) launched its Funding for Lending Scheme (FLS) to encourage banks to lend and ECB President Mario Draghi's "whatever it takes" commitment to save the Euro area resulted in a significant reduction in the funding costs of UK banks.

Within six months of these initiatives being taken, there was a tangible easing in the availability of credit in the UK. The nationwide advertising campaigns launched

by most of the major UK banks at the start of 2013 were the most visible evidence of this. Less conspicuously, the cost of new lending began to ease and the amount of outstanding lending began, slowly, to recover.

### **Easing credit conditions have most benefited households to date**

Most of the easing in credit supply was initially skewed towards the household sector and, in particular, towards mortgage lending: lending to households has picked up more sharply than lending to businesses and the average interest rate on new loans to households has fallen by more than business rates.

In our view, whether the UK economy continues to perform strongly will depend, to a large extent, on whether the easing in the availability of credit experienced by households to date can now be extended to businesses. Such an easing would be particularly beneficial to small businesses, which are more dependent on bank credit than large businesses, and for which interest rates on new borrowing remain relatively high.

Because UK banks' funding costs have continued to decline, banks have a strong incentive to continue to increase lending. Given that secured mortgage lending is administratively simpler and often involves less risk for banks than lending to small and medium enterprises, one might expect this expansion to remain skewed towards a further easing in mortgage availability.

However, earlier this year, as house prices were rising sharply, the BoE sent a reasonably clear signal that it would limit any additional easing in the availability of mortgage credit.

### **Prospects for UK business sector lending are improving**

With banks facing a significant market incentive to increase lending, but with the BoE keen to ensure that there is no additional easing in the availability of mortgage credit, we now think it is more likely that UK banks will ease the availability of credit to businesses over time.

There have been tentative signs in the past 3 to 6 months that the easing in credit availability is beginning to shift from households to businesses: gross bank lending to small and large firms has picked up strongly this year (although net lending remains broadly flat, reflecting continued high levels of debt repayments); the BoE's Credit Conditions survey for Q3 reported a small easing in the availability of corporate credit but a material tightening in the availability of mortgage credit; and fewer small businesses now report a lack of credit availability as a major constraint on expansion.

Whether this easing in credit availability to businesses is maintained, and if so by how much, remains to be seen. Helping to ensure that it does remains a key challenge for UK policymakers.



## SECTION 2 – PERFORMANCE

# How are 10,000 Small Businesses UK Participants Performing?

### OVERVIEW

Section 2 describes the growth performance of 10KSB UK participants following their participation in the programme.

This growth is then compared with the broader population of UK small business employers.

This confirms that the programme participants are indeed, on average, on a high growth trajectory.

It also describes the range of strategic changes that the business leaders describe taking place in their businesses following the programme.

The April 2013 Progress Report set out data about early 10KSB UK participants' post-programme trajectories (in particular business turnover and employment) and strategic changes happening in their businesses, based on participant surveys. 18 months later, we are able to update this analysis based on a significantly larger population of participants and for a longer post-programme period. This is important both to establish whether the trends identified in the April 2013 Report continue over time, and whether the 10KSB UK population does indeed exhibit high growth relative to the broader small business population.

Data collected from participants by (phone-based) survey is particularly useful in that it provides more timely, rich and consistent data than is available through any other means. For example, the information collected on the strategic changes participants are making and changes in attitudes (for example, to financial management) provide an almost real time picture of change during the growth process. Furthermore, while it is not of course possible to verify the accuracy of all the data collected by survey, the design of the survey process means that there is little reason to expect a systematic positive (or negative) bias in the data.

As shown in Figures 16 to 21, 10KSB UK participants are growing revenues and net employment to a significantly greater extent than the broader small business population. Over three quarters of alumni are increasing net employment and approximately the same proportion are growing revenues, versus 29% and 38% of the small business population respectively.

On average, alumni are growing net employment by 16% to 26% per year (depending on when they graduated), against 4% on average among small businesses. Alumni are increasing turnover by between 23% and 42% on average, versus 8% for the small business population. Interestingly, employment and turnover growth rates moderate the longer the time since graduation, perhaps reflecting an initial growth boost during and immediately following the programme.

Figures 20 and 21 compare the distribution of growth rates, and illustrate that a far larger proportion of 10KSB UK participants have high growth rates (20%+) than is the case among the small business population. For example, 44% of 10KSB UK participants are growing net employment at over 20% per annum versus 13% for the wider population.

#### CASE STUDY: JOHN MILLER, BASE GROUP

## Exporting: a winning formula



Base Group started life in 2002 as a single company, Composite Materials, sourcing materials and components for the Formula 1 manufacturing process. Twelve years on, the Group comprises three companies, its clients span the automotive, aerospace, motorsport and white goods sectors, and its turnover has risen to £6.5 million.

In the coming financial year, group managing director John Miller confidently expects the percentage of sales from exports to rise from 22% to 32%. He

recognises the role that the Goldman Sachs 10KSB UK programme played in helping him to identify key export opportunities and different routes to market.

*“As a result of the business plan created during the programme, we are now operating across Europe through a network of distributors and agents supported by our own sales team,”* John says. *“This expansion has seen our sales effort increase across, Germany, Italy, Switzerland, Russia and the UK; and we*

*are now in the final stages of negotiations on agreements that will see our products promoted across the Benelux region, China and the USA.”*

The 10KSB UK programme also put John in touch with contacts in government and banking who could support the expansion of his business. *“In order to secure the overseas opportunities, we had to invest,”* he says. *“The programme put us in touch with contacts from UK Trade & Investment, Santander, and the Technology Strategy Board, who could help us.”*

As a result of building relationships with these contacts, Base Group has secured three Technology Strategy Board grants worth £375,000 to support research and development into innovative new manufacturing processes.

It is notable that the strong performance of 10KSB UK participants persists over time. For example, of the earliest participants in the programme (those who participated in the second half of 2010 and first half of 2011):

- 90% report having increased net employment in the past 12 months, at an average rate of 16% per year
- 88% report having increased revenues over the past 12 months, at an average rate of 23% per year.

Although they represent a small group (44 participants), those early participants who have completed all three of the post-programme surveys to date report a 94% net increase in employment and an 89% increase in turnover between 2010 and 2013.

### What changes happen to participants and in their businesses following the programme?

As shown in Figure 22, the larger data set available for this study confirms the earlier Progress Report's picture of extensive change taking place among participants and in their businesses following their participation in the programme. For example:

#### CASE STUDY: GEZ WALSH, INNERGY GROUP

## Thinking big, acting big



Innergy Group, which started trading in 2008, is the fastest growing independent supplier of LPG and industrial gases in the UK. Since the company was launched, annual turnover has grown from zero to £2.5 million. But managing director Gez Walsh has ambitions to grow the company further – ambitions which the Goldman Sachs 10KSB UK programme is helping him to achieve.

For Gez, many of the changes he made to the business as a result of

participating in the programme were around corporate governance.

*"I realised that if we want to be big, not only do we need to think big, we need to act big," Gez says. "Corporate governance is not only about rules, regulations and structures. For an ambitious SME it is also about sending a message to investors, customers, supply partners and employees that we are serious and credible in our ambitions."*

Since completing the programme, Gez has brought in two new non-executive

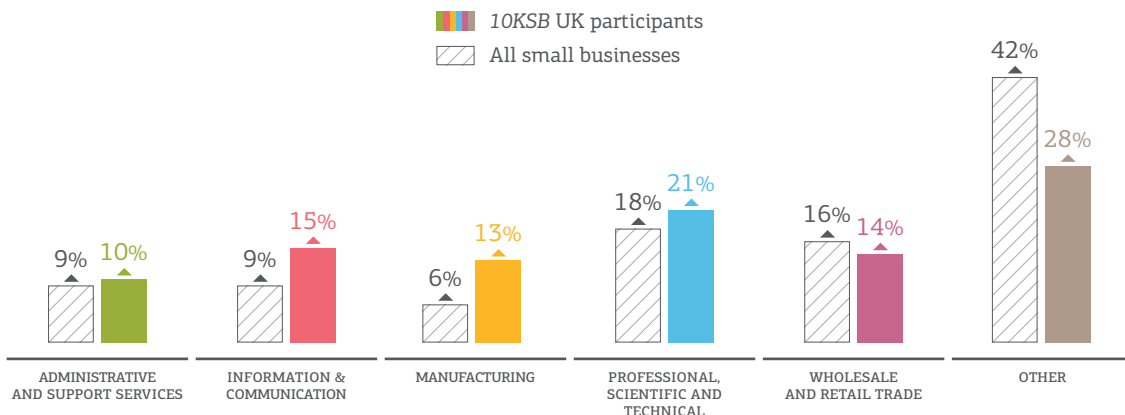
directors who bring expertise in finance, mergers and acquisitions to the board. He has re-structured his management team, promoting three internal candidates to more senior roles. He has introduced a "customer delight philosophy" which is clearly defined and strictly measured. He has improved succession planning, and put in place a comprehensive HR structure, which starts from a commitment to each individual employee.

*"Before, we were quite good at growing, but not very good at supporting that growth," Gez says. "We now not only have an infrastructure that gives us a competitive advantage, we also have the support structure in place to be able to achieve significant growth."*

- **Confidence:** 93% of participants report that they are more confident in their ability to successfully grow their business. It is reasonable to assume that confidence in one's ability is an important contributing factor for successful business growth. This finding is particularly notable given that the selection process is already likely to have filtered out some less confident applicants, so that the baseline confidence of participants is already likely to be high.
- **Changed processes:** Almost all participants (92%) report having changed internal processes or systems following the programme, perhaps reflecting the impact of the core programme module on "Growth Through Operations".
- **Innovation:** Among various indicators of innovative behaviour, 85% of participants report having improved product or service quality.
- **Financial understanding:** 82% report having better integrated financial information into their business decision making. The programme partners' experience is that financial capability varies widely among participants, and is often lacking even in small firms that have enjoyed success to date. The 10KSB UK programme therefore addresses significant resources to tackling this, including modules dedicated to "Money & Metrics" and "Finance for Growth". This statistic suggests that 4 in 5 participants are implementing changes to their financial management as a result.
- **Human capital:** 68% of participants increase training opportunities for employees post-programme. The programme seems to convince participating entrepreneurs of the business benefits of investing in their employees, perhaps reflecting the impact of the "It's The People" module in the core programme.

# Business characteristics

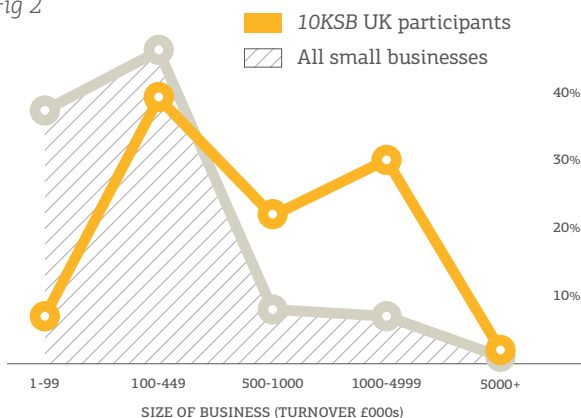
Fig 1



## Business sectors

Participants are recruited from a broad range of business sectors. Manufacturing and Information & Communication are strongly represented among participants relative to the broader small business population.<sup>12</sup>

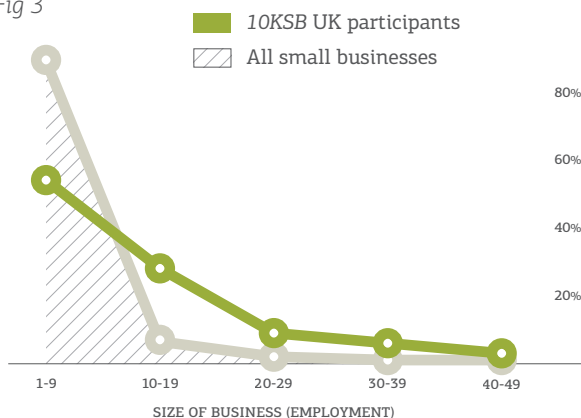
Fig 2



## Business size - turnover

The median turnover of businesses joining the programme is £690,000, with an interquartile range of £340,000 to £1,520,000.<sup>12</sup>

Fig 3



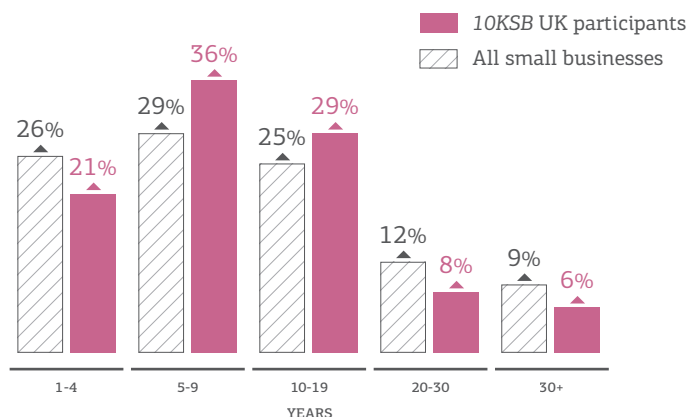
## Business size - employees

The median number of full time employees of businesses joining the programme is 8, with an interquartile range of 5 to 16.<sup>12</sup>

12 Figs 1-3: Source: M&E survey and BSD (2012-13).

## Business characteristics (continued)

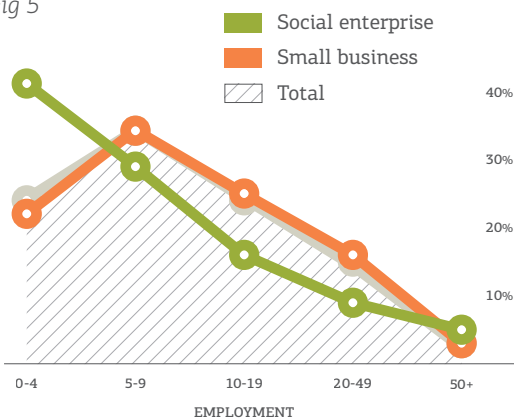
Fig 4



### Business age

The majority of the participating business are less than 10 years old when they join the programme, and the median age is 8.<sup>15</sup>

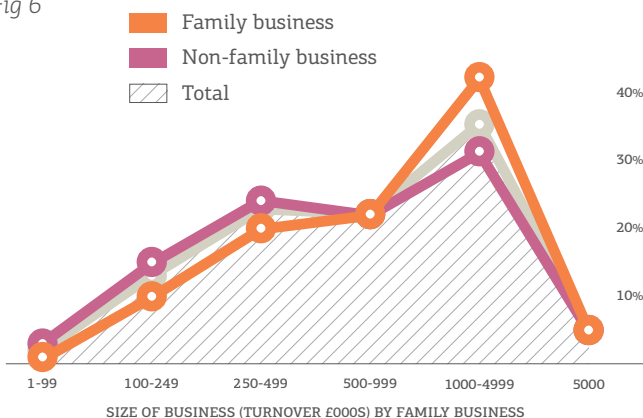
Fig 5



### Business size - social enterprises/small businesses

Social enterprise participants tend to be smaller than other businesses.<sup>15</sup>

Fig 6



### Business size - family/non-family businesses

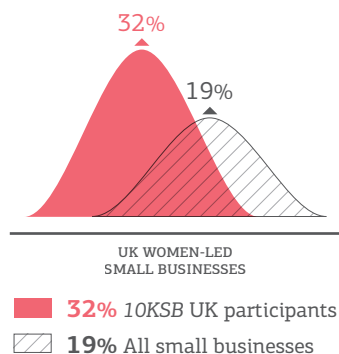
Family businesses, which account for 13% of 10KSB UK participants, are somewhat larger than non-family business participants.<sup>14</sup>

<sup>15</sup> Figs 4.5: Source: M&E survey and BSD (2012-15).

<sup>14</sup> Fig 6: Source: M&E survey.

# Entrepreneur characteristics

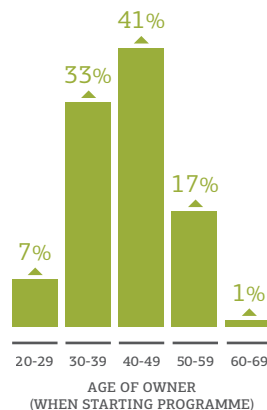
Fig 7



## Women entrepreneurs

Approximately a third of 10KSB UK participants are female, whereas 19% of the small businesses population are led by women (SBS, 2012).<sup>15</sup>

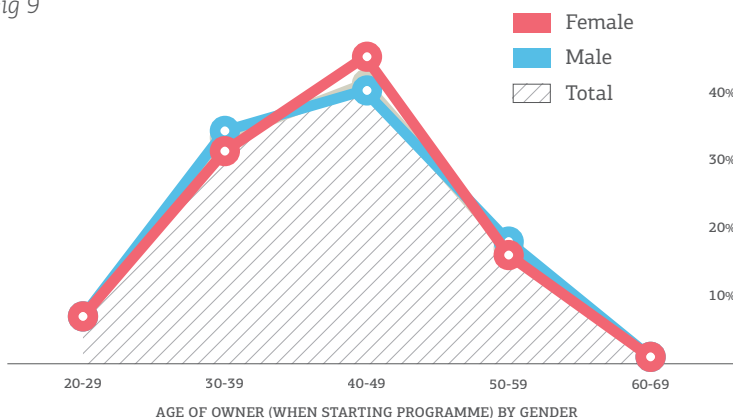
Fig 8



## Participant age

Almost three quarters of participants are aged between 30 and 50, and the median participant age is 42.<sup>16</sup>

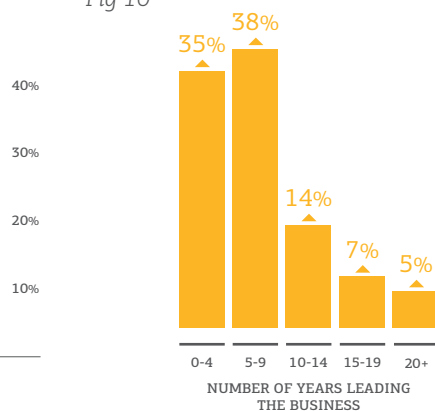
Fig 9



## Age by gender

The age profile of men and women business leaders participating in the programme is very similar.<sup>16</sup>

Fig 10



## Tenure as leader

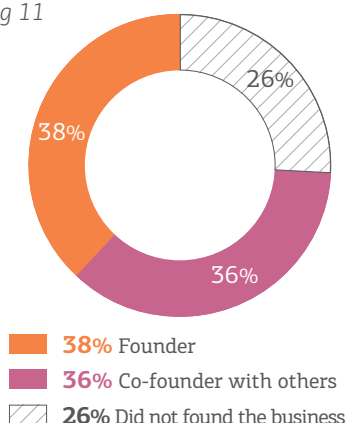
More than a third of participants have been leading their businesses for less than five years, and almost three quarters have been leading the business for less than 10 years.<sup>16</sup>

<sup>15</sup> Fig 7: Source: M&E survey and Small Business Survey (SBS) 2013.

<sup>16</sup> Figs 8-10: Source: M&E survey.

## Entrepreneur characteristics (continued)

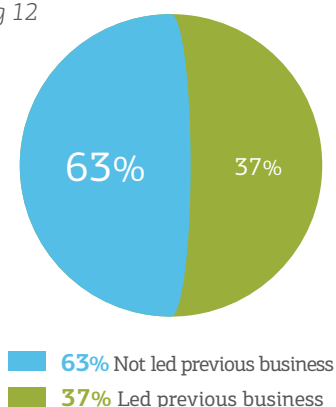
Fig 11



### Founder status

Three quarters of participants are either founders or co-founders of the businesses they lead.<sup>17</sup>

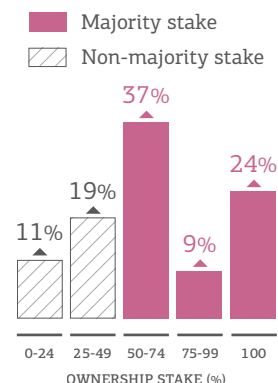
Fig 12



### Previous business experience

Approximately a third of participants have led previous businesses.<sup>17</sup>

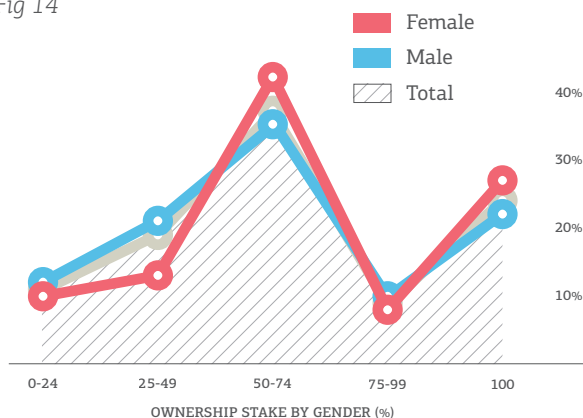
Fig 13



### Ownership stake

70% of participants have a majority stake in the business they lead, with a quarter owning the business outright.<sup>17</sup>

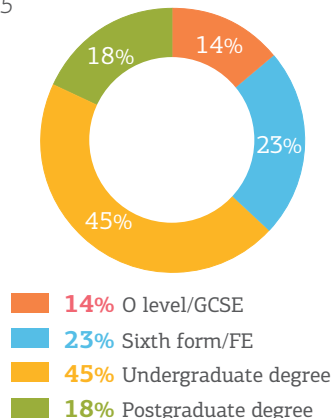
Fig 14



### Ownership stake by gender

The ownership stakes of men and women business leaders are broadly similar, with women somewhat more likely to own a majority stake in their business.<sup>17</sup>

Fig 15



### Highest education level

63% of participants have undergraduate or postgraduate education. This compares with 38% of the UK population aged between 21 and 59 (64 for men).<sup>18</sup>

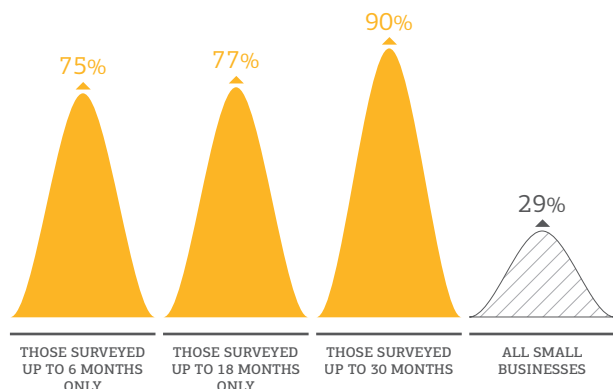
<sup>17</sup> Figs 11-14: Source: M&E survey.

<sup>18</sup> Fig 15: Source: M&E survey and Small Business Survey (SBS) 2013.



# Participant performance and strategic change

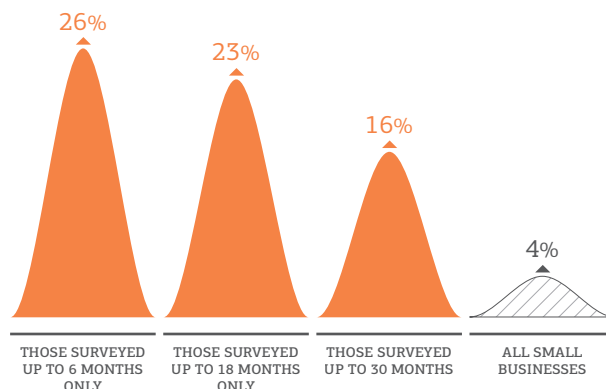
Fig 16



## Percentage of participants growing net employment (6/18/30 months)

A large majority of participants report growing net employment over the previous 12 months, with almost all participants (90%) from the first three cohorts reporting growth.<sup>19</sup>

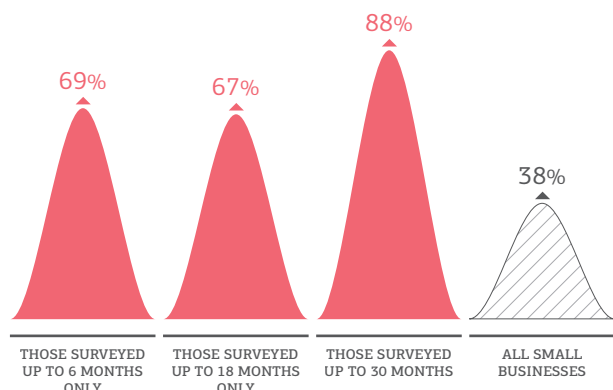
Fig 17



## Employment growth rate, previous 12 months (6/18/30 months)

Participants' reported net employment growth in the previous 12 months ranges between 16% and 26%, depending on the length of time since the participants graduated.<sup>20</sup>

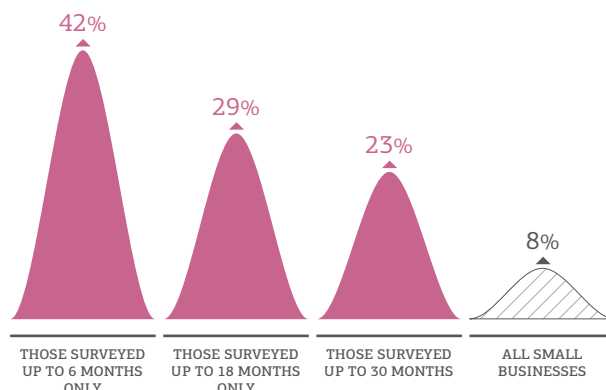
Fig 18



## Percentage of participants growing turnover (6/18/30 months)

As for net employment, a large majority of participants report growing turnover over the previous 12 months.<sup>19</sup>

Fig 19



## Turnover growth rate, previous 12 months (6/18/30 months)

Participants' reported turnover growth in the previous 12 months ranges between 23% and 42%, depending on the length of time since the participants graduated.<sup>20</sup>

<sup>19</sup> Figs 16, 18: Source: M&E survey and SME Business Barometer Feb 2014.

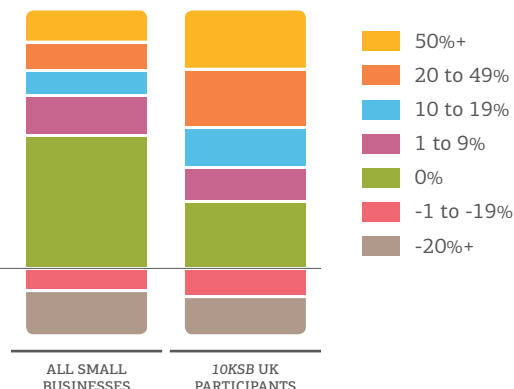
<sup>20</sup> Figs 17, 19: Source: M&E survey and BSD.

## Participant performance and strategic change (continued)

Fig 20



Fig 21



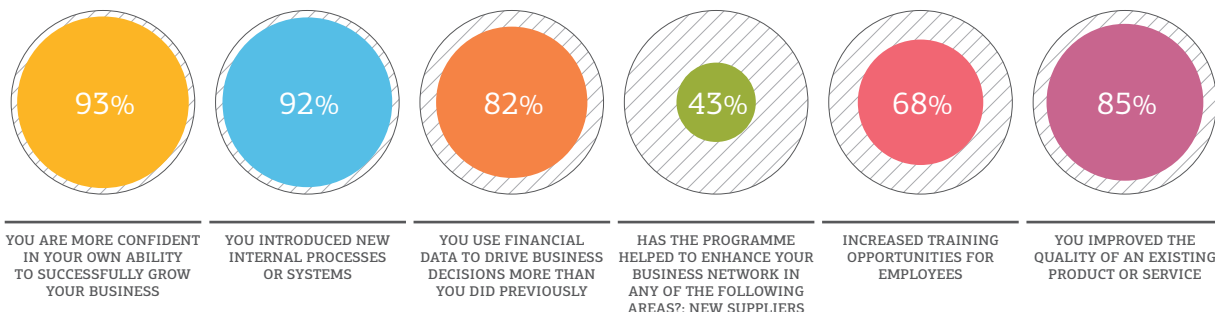
### Employment growth rate distribution comparison

A much higher proportion of 10KSB UK participants (44%) grew net employment by over 20% in the previous year than among the broader small business population (13%).<sup>21</sup>

### Turnover growth rate distribution comparison

Twice the proportion of 10KSB UK participants (37%) grew turnover by over 20% in the previous year than among the broader small business population (18%).<sup>21</sup>

Fig 22



### Strategic change (based on 6 month responses for all respondents)

Participants report significant change taking place in their businesses in the six months following programme participation, including process and product innovation, improved financial management, enhanced networks and new approaches to people management.<sup>22</sup>

21 Figs 20, 21: Source: M&E survey and BSD.

22 Fig 22: Source: M&E survey.

## SECTION 3 – DRIVERS OF GROWTH

# Understanding Growth

### OVERVIEW

Section 3 investigates whether, among programme participants, specific characteristics or strategic behaviours are associated with high growth. The

results from this analysis are compared with those from other research on the drivers of small business growth.

Taken as a group, the 10KSB UK participants are clearly exceptional in terms of how their growth compares with that of the wider private sector business population. We can see this clearly by comparing the growth rate distribution of participants with that of the wider small business population (see Figures 20 and 21). First, there are between two and three times more faster-growing businesses among 10KSB UK participants than in the economy as a whole. Second, fewer participants record no growth in 2012-13 than in the small business population, where we find the majority of small businesses do so.

But even within the 10KSB UK population there is considerable variation in growth performance and there are a number of participants whose businesses perform well above average. Given the well-established importance of high growth businesses to the economy, investigating which factors drive this variation could yield useful insights.

For example:

- If specific characteristics or strategic behaviours are associated with high growth, this may help guide the allocation of business support resources and investment.
- If specific characteristics or strategic behaviours are associated with low growth, this could indicate an underlying issue that requires attention.
- The data may provide a counterview to prevailing assumptions about what kinds of entrepreneur or business exhibit high growth.

Of course, it is possible that observable characteristics or behaviours have no systematic predictive power for business growth. It could be, for example, that growth is the outcome of a random process, is overwhelmingly determined by factors external to the business (e.g. the local economic environment or wider macroeconomic influences) or that those factors that do influence growth are not readily observable or measurable (e.g. “entrepreneurial talent”). Because of the importance of the topic, unsurprisingly there is a large research literature that investigates whether and to what extent business attributes and behaviours – that is, characteristics internal to the firm as opposed to the external environment – can help to explain or predict business growth.

Based on the extensive data set built from participants’ application forms and post-programme surveys, we can investigate the same relationships – between business attributes and behaviours and growth – among 10KSB UK participants. This is an interesting population to study because the participants have diverse characteristics, they have been selected to participate in 10KSB UK on the basis of their growth potential and we know that, on average, they fit within what is widely known as a ‘high growth’ category of businesses.

## The analysis

Data from participants’ application forms and from post-programme surveys was categorized into:

- Basic characteristics of the firm – for example, firm size, business sector;
- Individual attributes of the business owner – for example, age, gender, previous business ownership; and
- The strategies adopted by the business – for example, whether the firm exports, innovates or has accessed external finance.

Using regression analysis<sup>23</sup> we investigated the relative importance of these factors in terms of driving both turnover and employment growth, with growth measured from participants’ baseline survey (when they begin the programme) to their six month post-programme survey, representing approximately one year of growth.

The results of this analysis are broadly consistent with what previous studies have shown, and are summarized in the graphic shown on pages 30 to 31.

## Firm characteristics

The key finding is that growth is faster for smaller firms and those with lower previous growth. The size variable suggests that a 10% increase in size reduces turnover growth by

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23 See the Technical Annex of this Report for further details of this analysis.

around 0.7%, other things being equal, whilst a 10% increase in past growth reduces current turnover growth by 1%. Interestingly, the impact of business age although negative was not significant, suggesting in this instance – and contrary to findings in the broader literature on business growth – no negative relationship between firm growth and age.

### **Business owner characteristics**

The characteristics that are associated with growth among 10KSB UK entrepreneurs include younger owners (as opposed to those aged 50 or older), those with a higher education level and those with high growth ambition. Owners aged 18 to 29 had 54% faster turnover growth than owners aged 50 or older. Those owners with a high growth ambition<sup>24</sup> had 17% faster turnover growth than the less ambitious owners, and 13% faster employment growth. Amongst programme participants gender was not significant suggesting no difference in growth between male and female owners.

### **Strategic choices**

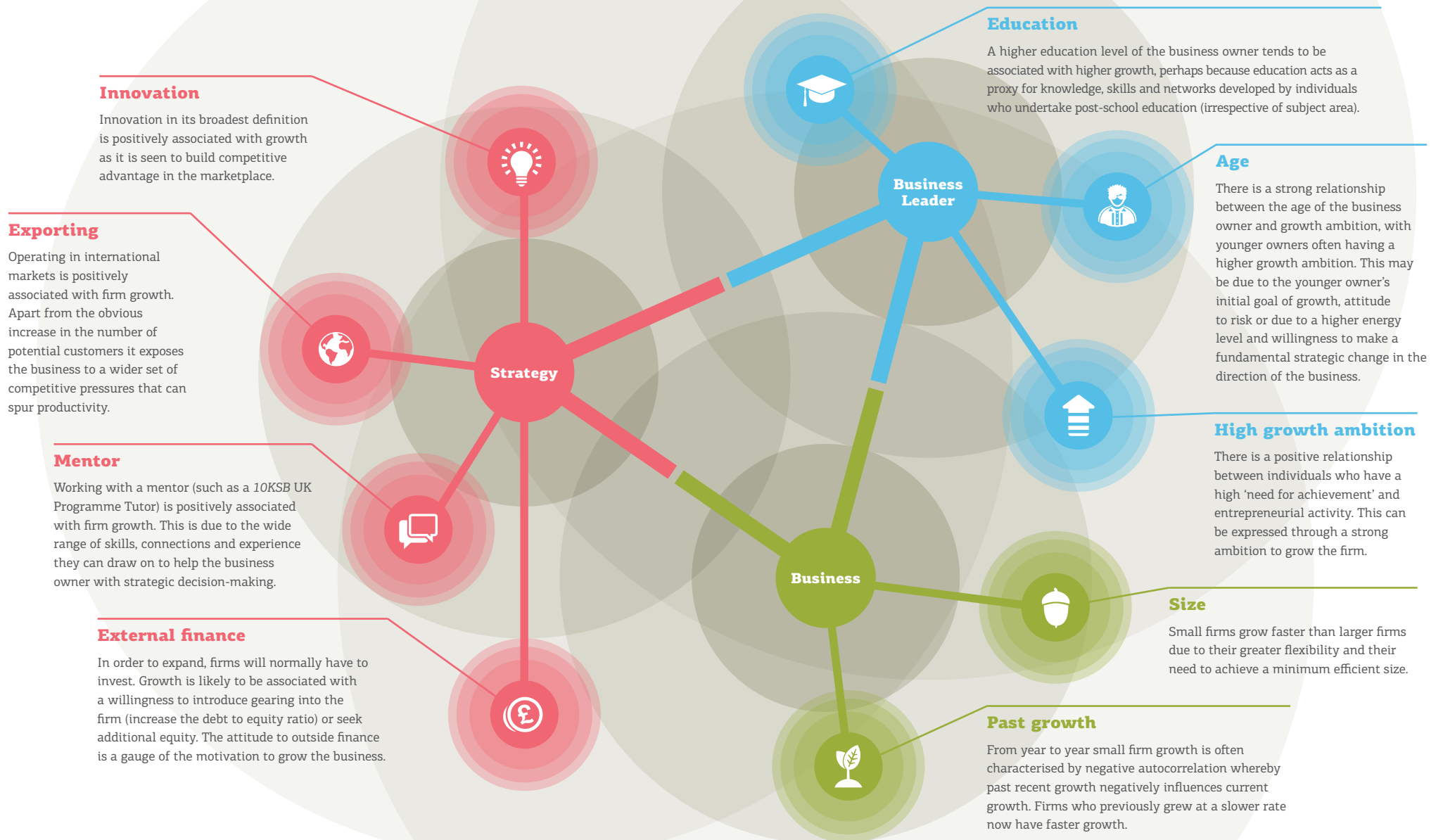
Those firms working with a mentor and those who have external finance tend to experience faster growth. Exporting and innovation activities also have a positive influence, although only when both activities are undertaken together. Business owners working with a mentor had 14% faster growth than those without. Similarly, those who had secured external finance had 16% faster growth than those who received none. It is notable however that being in receipt of external finance prior to programme participation had no impact on subsequent growth, suggesting the effects were limited or short-term in nature. Combining exporting and innovating led to 61% faster turnover growth and 63% faster employment growth than those firms that did neither activity, with the activities undertaken on their own having either no or negative impacts.

Overall, these results paint a prototypical picture of a high growth business on the 10KSB UK programme being a smaller business led by a younger owner who is ambitious for their business, with the business engaged in business improvement practices and trading outside the UK. Those are the businesses which record the highest growth rates on the programme. But it is important to stress that this describes a tendency rather than destiny – for example, within the 10KSB UK population there are certainly older business owners who did not undertake higher education whose businesses are enjoying high growth. This is underlined by the divergences between the growth drivers found among the 10KSB UK population and research findings based on different populations.

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24 "Growth ambition" is measured by participants' five year turnover growth projection as provided in application forms.

# Drivers of Growth Among 10,000 Small Businesses UK



## THE EXPERT'S VIEW



## Andrew Devenport

Chief Executive

*Youth Business International*

### **What are the main challenges facing UK small businesses and entrepreneurs?**

In the UK and other developed countries, the first major barrier that entrepreneurs face is an internal one: that of confidence. Everyone has had their own “what-if” moment, when they dream of creating a business that would address a particular problem or make something easier; however, for most people, these moments remain as dreams, because of a lack of confidence to make their idea happen.

### **What are the particular challenges that young entrepreneurs face? And what are the advantages they have?**

Young entrepreneurs need to feel confident enough to take a chance, embrace the risk of failure and do something which many of their friends would not want to do. This can be done through networking with peers, and learning that other similar people have taken the plunge and lived to tell the tale. And once an entrepreneur has started up, a mentor can play a key role in providing moral support and guidance.

But young people do of course have an advantage here over the rest of the population,

because many young people do have much more confidence. Taking a chance in your twenties could be much less stressful than doing so in your forties, when you may have a family and a mortgage to contend with.

### **How can entrepreneurship be best nurtured in young people?**

There needs to be a more positive view of entrepreneurship as something that can be attained by anyone, given the right kind of support.

In many countries, entrepreneurship is presented as a poor career choice – something you do if you can’t get a “proper job”. In the UK, on the other hand, we have found that entrepreneurship can be overly glamourised, and presented as a high-risk activity rather than a normal career option. So we believe that presenting a more accurate, balanced picture of what it means to run your own business is vital for developing entrepreneurship, and this is in part what activities like Global Entrepreneurship Week aim to achieve.

### **How does the UK compare with other economies as an environment for young entrepreneurs? What lessons**

## **can the UK learn from other countries, and what can it share with them?**

Research that we conducted in 2013, in partnership with the Global Entrepreneurship Monitor, showed that one in five young people consider themselves to be potential entrepreneurs, but only one in 27 actually starts a business. This conversion ratio of potential to actual is far behind countries such as Singapore and China – so it's clear to us that, whilst awareness of entrepreneurship is high in the UK, more practical support needs to be provided.

We also found that in the UK young people lag behind on high growth business and that fear of failure stands in the way of many young entrepreneurs. On the positive side, however, young business owners were much more positive about how innovative their businesses were, compared to young entrepreneurs in Germany, Singapore and the Netherlands.

## **Are there any gaps in the support for young entrepreneurs?**

We believe that a major challenge in the UK, as well as in many other countries such as Italy, where we recently launched Youth Business Italy, is developing coordinated support. There is a lot of assistance available for young people, but it can be quite fragmented. More joined-up support would mean more effective support, in our view.

## **There appears to be resurgence in entrepreneurship amongst young people. What factors are driving that?**

In the UK and in many parts of the world, this resurgence has in part been driven by need over the past few years. With close to a million young people in the UK out of education, employment or training, young people have needed to be creative and devise their own means for bringing in cash. In Spain and Italy, youth unemployment has been around the 50% mark for several years, forcing young people to consider starting their own business.

Awareness about entrepreneurship is also definitely increasing, and this is leading to more young people deciding to become self-employed. Not just in the UK, but all over the world, entrepreneurship is being championed by governments, businesses, NGOs and the media as an amazing opportunity for young people. We need to harness this increased awareness, to ensure that the next generation makes full use of their entrepreneurial potential.

## **Which one piece of advice would you give to a young person considering becoming an entrepreneur?**

My advice is simply to go for it. It is not going to be easy – there will be ups and downs, but you will learn a lot, gain freedom and take control of your life.



# External Finance

A particularly important form of strategic behaviour for a growing business is accessing external finance:<sup>25</sup>

- External finance can help accelerate growth by providing investment funds that would otherwise have to be built up slowly through retained profits.
- The pool of investment funds available from outsiders is clearly much larger and more varied than that available from insiders.
- The process of seeking validation of and buy-in to a business plan by outsiders can in itself support growth – outsiders may bring specialist knowledge, information and networks to the business that help it to grow.

As shown earlier in this Report, among 10KSB UK participants, securing external finance is associated with higher growth.

While the potential benefits of external finance for growing small businesses are clear, in practice there are problems on both the supply and demand side of the market for small business growth finance. On the supply side, a ‘growth finance gap’ has long been recognized.<sup>26</sup> On the demand side, meanwhile, the potential benefits of external finance and how to secure it are not always well understood, and even ambitious, growing businesses with good capabilities often exhibit a strong reluctance to take on

external finance that may reflect a limited assessment of both the risks and rewards associated with different types of finance.

## Participants’ attitudes to external finance

Participants are surveyed on their attitudes towards and knowledge about external finance when they begin the programme and in the post-programme surveys. Comparing their responses at these two different times shows that the programme improves participants’ understanding of external finance, but does not change their appetite to take on external finance or their perception that finance is available (see Figure 23). This suggests that participants have deeply rooted perceptions about the desirability of external finance that do not change even with improved understanding.

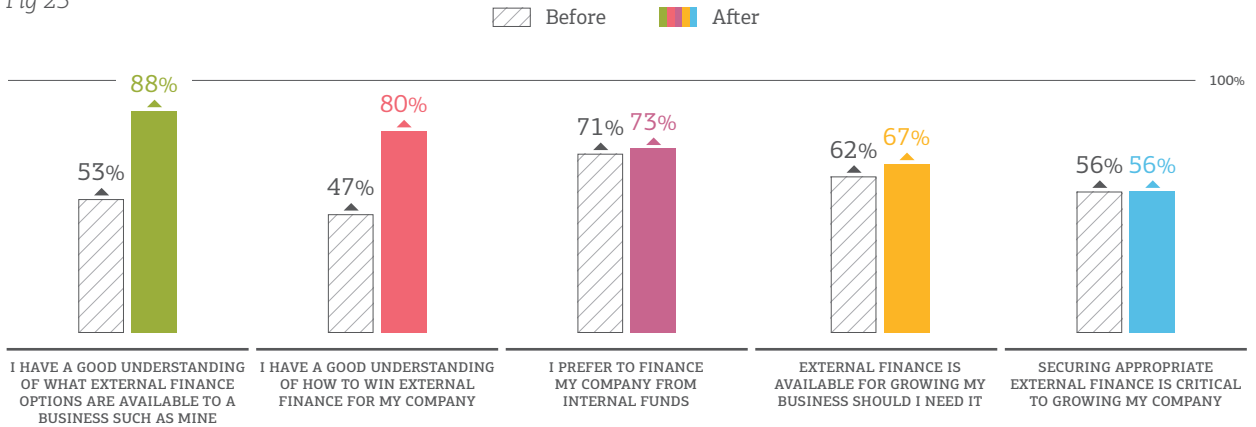
## Which participants seek and secure external finance?

From survey data, in the previous 12 months 10% of participants reported having sought external equity, 18% a bank loan, 6% a mortgage, and 25% leasing or hire purchase finance. 72% of those that said (at baseline)

25 “External finance” is defined here as finance provided to the business by outside investors, as opposed to insiders (including the business’s current owners, directors, friends and family, and the business’s own cash flow).

26 Since at least the Macmillan Report of 1931, and more recently in the Rowlands Report (2009).

Fig 23



### Participant understanding of, and attitudes towards, external finance

A significant proportion of participants report improvements in their understanding of external finance as a result of the programme, but there is less evidence of change in their attitudes to external finance.<sup>27</sup>

they intended to seek finance within the following 12 months did so, and 92% of those who sought finance actually received it.

Given that external finance is one of the drivers of faster growth a model was developed to understand the types of firm and business owner that engaged with external finance. The analysis was undertaken separately for each of three groups of participants:

- Those that sought finance;
- Those that secured finance; and
- Those that planned to seek finance.

Key findings from this analysis are as follows:

- Larger firms, those firms that were not family businesses and those owners with a higher ownership stake were all more likely to both seek and secure external finance.
- Gender was also a key factor in seeking external finance, with men more likely to do so, but there was no difference between men and women in their likelihood of being successful.
- Age was also important for successfully obtaining finance, with younger business owners more likely to secure finance than their older (50 or older) counterparts.

<sup>27</sup> Fig 23: Source: M&E survey.

- Participants who own other businesses and those owners who were not the founder had a higher probability of receiving external finance.
- Amongst larger firms (£250,000+ turnover) those with high growth ambition were less likely to secure finance.

These results are consistent with previous studies, with more established businesses with owners who had invested quite heavily in terms of an ownership stake being more likely to both seek and obtain external

finance. The roles of gender and age are interesting, with being male and young associated with seeking external finance but having no impact on likelihood of securing it.

The finding that larger firms with high growth ambition were less likely to receive external finance is also noteworthy. Possible interpretations are that these firms were either over-ambitious with their plans or that finance providers consider these businesses too high risk to finance in the current economic climate.

#### CASE STUDY: GREG McDONALD, GOODFISH

## From asset finance to alternative finance



*"Manufacturing's coming home,"* says Greg McDonald, managing director of Goodfish, a plastics manufacturer based in Cannock, Staffordshire.

Since 2010, Greg has turned what was once a loss-making business into a thriving enterprise with an annual gross profit of over £700,000. In the process, he has won manufacturing business away from competitors in Southeast Asia, and believes other UK companies can do the same. *"We can be more flexible and more responsive,"* he says.

Ironically, the former corporate professional has succeeded despite, rather than with, the support of mainstream

small business lenders. In common with many entrepreneurs, he used debt capital to buy his business. After high street lenders turned him down, he secured asset funding from an unregulated lender with excessive and opaque fees.

It was only later, through participating in the Goldman Sachs 10KSB UK programme, that Greg discovered the plethora of other finance options available to SMEs.

*"It sounds strange that an experienced professional should learn about finance on a Goldman Sachs programme,"* he says, *"but initially I knew little about SME finance. On the course, I was exposed to*

*people who have found alternative ways of financing their businesses. I found out that there are people you can borrow from, if you've been turned down by the banks, that don't have punitive exit penalties."*

Since completing the Goldman Sachs programme, Greg has taken advantage of some of these alternative sources of funding. He recently crowd funded £15,000 through Kickstarter for a sister business to Goodfish called Stique. And he is now looking to raise £120,000 to support further product development for Stique through Seedrs, an equity crowdfunding platform for European start-ups.

*"I now advise other small business owners to be wary of unregulated loans,"* Greg says. *"I have even been back to the 10KSB UK programme to speak about small business finance."*

## SECTION 4 – PROGRAMME IMPACT

# Measuring the 10,000 Small Businesses UK Programme Impact on Participant Growth – Early Evidence

### OVERVIEW

Section 4 describes control group analysis undertaken to identify and quantify the impact of the 10KSB UK programme on participants' growth, over and above what they would have achieved without the programme.

Based on early programme data, this analysis finds that 10KSB UK increases participants' growth by between 10% and 25%.

Drawing together the lines of enquiry considered earlier in this Report, this Section considers the question: What impact does participation in the 10KSB UK programme have on these businesses' growth?

As stated in the April 2013 Progress Report, "the aim of the 10KSB UK programme is ultimately to help generate business growth and employment creation that may not have otherwise happened." So answering this question is important from a narrow perspective to know whether the programme is meeting its core aim. More broadly, if it is successful in stimulating business growth there may be opportunities for other business support interventions to learn from the experience of delivering this programme.

A significant challenge is that, before the 10KSB UK programme's impact on the growth of the participating businesses can be assessed, we need to find ways to control for selection bias which affects:

- Which firms apply to the programme; and
- Which firms are eventually accepted onto the programme.

To clarify this point, while Section 2 demonstrated that 10KSB UK participants exhibit high growth relative to the population from which they are drawn, this could in principle simply reflect the nature of the businesses selected to participate in the programme, which might have grown anyway. Indeed, given that the recruitment process specifically aims to select participants who have the potential to generate significant growth in the future with the programme's support this selection bias is a design feature of the programme. The key question is whether the programme is helping them to grow above and beyond what they would have achieved without participating in it.<sup>28</sup>

This selection bias can be abstracted from by comparing the performance of participants with that of "control groups" of similar small businesses that did not participate. The aim in selecting these control groups is to choose businesses that, in so far as possible, differ from 10KSB UK participants only in whether they participated in the programme or not.

The ideal approach would be to perform a randomized control trial of sufficient size, in which at the very final stage of the programme recruitment process applicants were randomly assigned to participate or not participate in the programme. For a number of reasons – ethical, practical and economic – a randomized control trial was not undertaken in this case.

The following control groups were instead identified and constructed for this analysis:

- Businesses that applied to the programme and were selected for interview, but were not ultimately selected to participate ('near-misses'). While obviously not directly comparable with successful applicants, this control group has the strength of having self-selected to apply to the programme and reaching the interview stage.
- Businesses drawn randomly from the wider business population (from the ONS longitudinal firm-level dataset – the Business Structure Database) whose prior turnover growth distribution (2008-10), business age, size and sector were similar to that of the programme participants. Two control groups were created using this method.

These four groups (10KSB UK participants plus three control groups) were tracked over the period 2008 to 2013 using official ONS data.<sup>29</sup> The use of ONS data ensures that the data for employment and turnover is consistent and authoritative across the four groups, though it means that the latest data available for analysis was for 2012-13. This limits the analysis to 10KSB UK cohorts that began in 2010, 2011 and early 2012 (165 participants in total<sup>30</sup>).

Figure 24 shows the performance of these four groups of small businesses relative to one another in terms of turnover and employment growth.

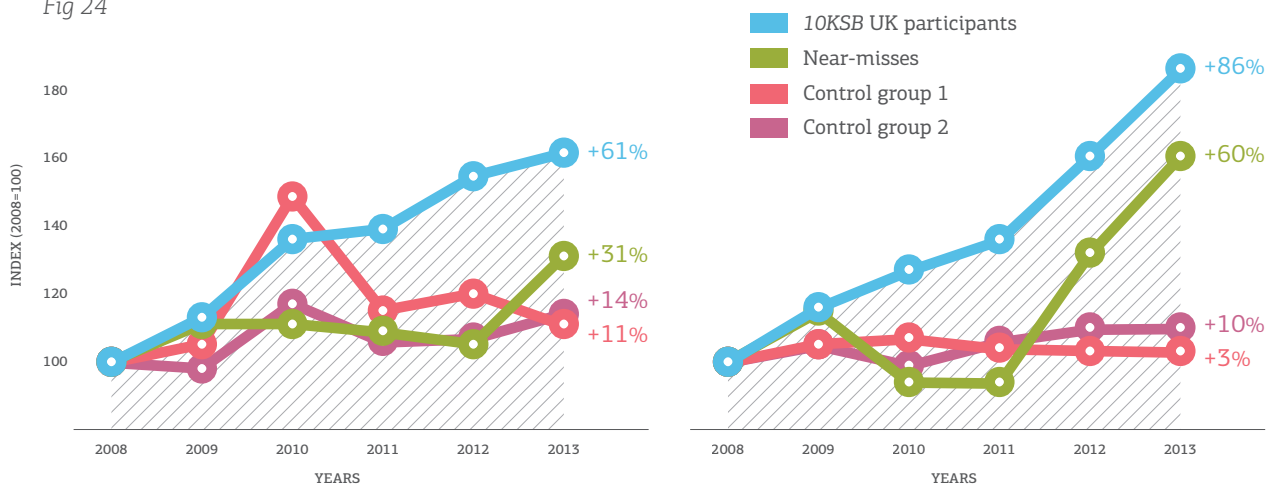
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28 It is worth noting that it would in itself be an interesting result if the programme were successful in recruiting businesses that subsequently exhibited high growth, even if the programme itself had no effect. It would imply that the 10KSB UK selection process was successful in 'picking winners' among small businesses, which is commonly assumed to be difficult or impossible. The ability to systematically 'pick winners' from among small businesses could have interesting implications in various fields, including economic policy and small business finance.

It shows that all four groups exhibited cumulative turnover growth between 2008 and 2010 (i.e. before programme participation), with programme participants falling between the two random control groups. By 2013 it is clear that a large cumulative growth gap has opened up between 10KSB UK programme participants and all three control groups. It is notable that programme participants overall exhibit consistent year-on-year growth over the period, while the control groups' growth varies substantially from year to year after 2010. Figure 24 also shows employment growth for the same businesses, and it is notable that while programme participants overall grow employment consistently over the period, for the other control groups the relationship between turnover growth and employment growth is weak.

To identify whether there is a statistically robust 10KSB UK programme effect, Ordinary Least Squares (OLS) regressions were run with employment and turnover growth as the dependent variables, using the three separate control groups. Each model includes a range of control variables for firm characteristics and business owner characteristics, with fewer such variables available for the randomly selected control groups.<sup>32</sup> The models include a variable to identify programme impact, and the regression identifies the size of this impact and its statistical significance.

Fig 24



**Index of turnover growth for 2011 and 2012**

Cohort participants (n=165); near-misses (n=69); control group 1 (n=151) and control group 2 (n=289).<sup>31</sup>

**Index of employment growth for 2011 and 2012**

Cohort participants (n=165); near-misses (n=69); control group 1 (n=151) and control group 2 (n=289).<sup>31</sup>

29 For this research permission was granted by the Inter-Departmental Business Register team in the ONS to link the programme participants and 'near-misses' to the official datasets held by the secure UK Data Service. See the Technical Annex of this Report for further details.

30 There were 238 participants in total in these cohorts but this reduced to 165 when restricted to those having employment and turnover data back to 2008.

31 Fig 24: Source: M&E survey and BSD.

The results from this analysis are summarized in Figure 25.

The results for employment growth are compelling, with analysis using each of the three control groups showing a positive and significant effect of programme participation on employment growth in 2012-13. The results from the random control groups suggest that employment growth is approximately 25% higher as a result of programme participation.

For turnover growth, the two random control groups find a positive and significant effect, while the ‘near-misses’ control group was inconclusive, not finding a statistically significant effect.

- The lack of a significant programme effect on turnover with the ‘near-misses’ control group could reflect a timing effect, with jobs created in the first instance in the expectation of future revenue growth. This finding is not unique to the 10KSB UK programme and is a common result in almost all evaluations of business support which are undertaken shortly after the intervention.
- However, it is significant in the other models using randomly selected controls suggesting an average turnover growth impact of between 12% and 24%.<sup>35</sup>

Fig 25

	Using ‘near-miss’ control group	Using random control group 1	Using random control group 2
Employment growth	+10%	+23%	+26%
Turnover growth	Model inconclusive	+24%	+12%

### Participant growth

Average effect of participation in 10KSB UK programme on participants’ growth.<sup>34</sup>

32 For the ‘near-misses’ control group, firm characteristics controlled for are previous growth, size, sector, family business and business age; and the business owner characteristics controlled for are age, education, gender, founder and growth ambition. For the ‘randomly selected’ control groups, firm characteristics controlled for are previous growth, size, age, previous growth and sector.

33 These models have a reduced number of control variables which will tend to give higher estimates of programme impact.

34 Fig 25: Source: M&E survey and BSD.

These results offer strong evidence of a programme impact on the growth of participants' businesses. It should be stressed that the percentage numbers in Figure 25 represent additional growth associated with programme participation, over and above any growth that would have happened without programme participation, and we know that participants have already been selected because of their growth potential. So the results suggest that the programme helps businesses that are already growing (or have growth potential) to grow even faster than they otherwise would have. In other words, the programme does appear to be accelerating growth.

This analysis is certainly not the final word on programme impact. In particular, it will be important to continue similar analysis using a longer time series of data and including more programme participants. If the programme does increase participants' growth, as this preliminary analysis suggests, it is reasonable to expect that impact to become increasingly evident over time and increasingly identifiable in the data.

Further, although this analysis provides evidence that the 10KSB UK programme overall has an impact on participant business growth, it does not explain how the programme has that impact, or whether there are specific elements of the programme that are responsible for the impact.

## CASE STUDY: AMANDA BALL, AD SPRINKLERS

### Picturing success



Amanda Ball decided to set up her own business in 2006 after a successful career in the sprinkler industry.

By 2013, when she started the 10KSB UK programme, AD Sprinklers was doing well. Turnover was £1.5 million, but growth had flat lined, and Amanda felt she had "fallen out of love with the business a bit".

The process of applying for the Goldman Sachs programme and meeting other entrepreneurs reminded Amanda just what a great business she had.

*"When I talked to other people about their businesses, I realised how good my own business was," she says. "The biggest thing the programme gave me from day one was confidence."*

As Amanda worked on her growth plan, she started to see a bigger picture of her industry. *"When I created a competitor map and looked at the half a per cent market share I had, I realised we could do more," she says.*

She also started to imagine what her business needed to look like in order for turnover to double.

*"I drew an organogram on the train after one of the modules," she says, "and it became the focus for doubling our turnover to £3 million in three years. I need pictures to focus on!"*

A significant element in Amanda's re-structuring was handing over the day-to-day running of the business to a general manager, which freed her up to focus on the future.

It was a decision that has paid off. Amanda's initial plan to double turnover to £3 million in three years was achieved in one year. She now has a new organogram on the wall, which envisions how she will increase turnover to £5 million in the next two years.

*"We're on track to do it," she says.*



A possibility is that the programme has its impact on different participants through different channels including, for example, the various channels discussed in Section 2 of this Report. For some, the impact on confidence may be critical; for others, learning specific new skills may be the underlying driver; and for others still, the deepening and expansion of their business networks. The 10KSB UK programme is deliberately broad, holistic and integrated in its approach to providing support, and a hypothesis would be that it is not possible to identify in a robust way the impact of individual components of the programme.

Which elements of the programme design, or combination of elements, do we anticipate are particularly critical to its effectiveness?

- The **selection process** which, perhaps most critically, is effective at recruiting entrepreneurs who are both committed to growing their businesses and open to learning.
- **Facilitated peer-to-peer learning**, which provides an effective structure within which experienced entrepreneurs can learn from one another.
- The **holistic curriculum** around growth issues for small businesses, which enables each participant to work on their business in its entirety, rather than on individual functions in isolation.

## CASE STUDY: RAJEEB DEY, ENTERNSHIPS

### A flying start

Rajeeb Dey set up his first organisation aged 17, an association to give secondary school students a voice. He has since founded Enternships, a service connecting students and graduates to work placements, and Start-up Britain, a campaign to promote entrepreneurship in Britain, launched by David Cameron in 2011.

So even though Rajeeb was the youngest participant on his cohort of the 10KSB UK programme, he wasn't lacking

experience. For him, the benefit of the programme was that it gave him the time and space to reflect on Enternships, which is currently his main focus.

*"I've always just done stuff. I've never had the opportunity to take a step back and assess different aspects of the business,"* he says. *"It was good to work on the business rather than in the business."*

In particular, Rajeeb was able to focus on people issues, such as assessing the

skillsets of his core team, understanding the gaps and identifying how to re-structure to prepare for growth.

Rajeeb enjoyed working with other entrepreneurs of different ages with different levels of experience from diverse industries. *"Having people who are further down the line with you is really helpful,"* he says. *"They give you different perspectives."*

*"I've never considered age to be a barrier to success,"* he adds. *"You are less likely to have capital to invest. But with internet-based ventures you don't need much capital. People are often more willing to support you and help you. Also, there's less fear of failure and less pressure!"*



- **Flexible programme management** that ensures responsiveness to the needs each new group of participants and enables the programme to evolve over time.
- The **university/business school setting**, which places the programme in credible learning environments that are deeply networked into the local and regional economies.

Anecdotally, participants' descriptions of how the programme has affected them, including in the case studies laid out in this Report, would seem to support these hypotheses. The implication is that the holistic approach to supporting entrepreneurs and businesses with high growth potential, as exemplified by the 10KSB UK programme, can be particularly effective.

### **Estimating potential economic impact**

The analysis in this Report has shown a clear impact of the 10KSB UK programme on the subsequent performance of the participants, over and above what would have happened anyway. This is substantial and adds significant additional Gross Value Added (GVA) to the local economies from which the participants come.

The 10KSB UK participants are drawn from a relatively small group of perhaps 65,000 businesses from the wider business population who resemble them in many respects. It is possible to estimate the additional added value to the UK economy on the assumption that this group all had the opportunity to access a similar programme.

Using the most conservative estimate, the control group analysis established a boost to employment growth of 10% after one year and this would lead to an additional 60,000 employees in these businesses; using an average GVA per filled job figure of £45,000 this would correspond to an additional GVA of £2.7billion in the UK economy after only one year.

# Technical Annex

## MODELLING BUSINESS GROWTH AND PROGRAMME IMPACT<sup>35</sup>

### Drivers of growth (Section 3)

The modelling approach used to estimate the determinants of business growth was an Ordinary Least Squares (OLS) regression. The dependent variable was 'growth' measured as the log difference in employment (and separately turnover) between programme start (baseline) and six months after completion. The explanatory independent variables included a range of business owner characteristics, firm-level characteristics, prior growth, and business strategy characteristics. The model identified those factors associated with higher growth rates.

### Seeking external finance (Section 3)

To estimate the likelihood of a participant business seeking, securing or planning to seek external finance probit models were used. Probits are used where the dependent variable can only take two values – in this case sought or did not seek external finance (and similarly for securing and planning to seek external finance). The probit model estimates the probability that businesses/owners with particular characteristics would seek (secure or plan to seek) external finance six months after programme completion. The explanatory variables used included owner characteristics and general business characteristics.

### Programme impact (Section 4)

To identify the 10KSB UK impact on turnover and employment growth a series of OLS models were used to estimate the impact between 2012 and 2013 for a group of participants who had already completed the programme. Growth was measured as the log difference in employment and turnover. The programme impact variable was measured as a dummy variable taking the value of 1 for a participant and 0 for a non-participant. There were three groups of non-participants (i.e. control groups): those firms who applied and were interviewed for the programme but were unsuccessful in gaining a place ('near-misses'); two randomly

selected control groups of non-participants from the wider small business population who had a similar turnover growth distribution (between 2008-10) as the 10KSB UK participants. In all models the growth data on employment and turnover was taken from an official ONS longitudinal dataset – the Business Structure Database (BSD) which is based on annual snapshots from the Inter-Departmental Business Register (IDBR) – as well as data on firm characteristics (size, sector, age) and prior growth. Additional variables in the OLS estimation using the 'near-miss' control group included personal characteristics of the owner (such as age, gender, education level, and ownership stake amongst others) and firm characteristics (such as size, age, type of business and sector). In discussions with the ONS IDBR team it has emerged that there may be lags in some of the turnover data for individual businesses due to the timing of the upload from sources used to provide data for the IDBR. This may mean that for some of the businesses in the analysis turnover performance in 2012-13 is underestimated.

Econometric treatment models, which are widely used in evaluation studies, were also run as an alternative means of estimating programme impact. These models follow a two-step procedure to correct for any selection bias in the pre-existing differences between participants and non-participants. Due to the nature of these models there is a heavy requirement for a wide range of variables so it was only possible to run the model for the participant and 'near-miss' control group. The results indicated no selection effect in operation and therefore the OLS regression was used as the preferred way of estimating programme impact.

For monitoring and evaluation purposes standardised interviews are conducted with participants by BMG Ltd when they begin the programme (the 'baseline' survey) and then approximately 6, 18 and 30 months after core programme completion. Interviews are conducted by CATI (telephone), which has proven to deliver the highest response rates and best data quality.

<sup>35</sup> The analysis of M&E survey data and econometric modelling described here was led by Karen Bonner (Senior Research Fellow, Enterprise Research Centre, Aston University).

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For more information about the *10,000 Small Businesses UK* programme, visit [www.gs.com/10ksb-uk](http://www.gs.com/10ksb-uk)