

ERC *Insight*

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Spatial Incidence of High Growth Firms

High-Growth Firms (HGFs) are a very small proportion of the UK business population yet they have a disproportionate impact on job creation. We present data at local economic area level over time to show that there is a very distinct geography emerging for the incidence rate of HGFs since the recession.

High Growth Firms

High-Growth Firms (HGFs) are a very small proportion of the UK business population but historically they have had a disproportionate impact on job creation amongst all established firms which grow and, as a consequence, on the economy as a whole (see for example Anyadike-Danes and Hart 2015)¹. ERC has been tracking the incidence of High-Growth Firms in different geographies within the economy since 2013 and this Insight paper provides an update of earlier analysis² based on ONS business population data from two three-year periods; the immediate aftermath of the financial crisis, 2009-12 and the three years post recovery from the 'Great Recession' 2012 -15.

For the purposes of this analysis, we have continued to use the OECD High-Growth Firm (HGF) metric which has a very precise definition. It includes 'continuing firms' (firms which are born before the beginning of a designated three year period and are alive at its end) with at least 10 employees at the beginning of the period, and which record average growth of 20% in employment per annum over the three year period. This is not a perfect definition³ but it continues to serve as a 'robust enough' measure of the population of solid high growth firms in the

¹ Anyadike-Danes, M and Hart, M (2015) 'Contribution to Job Creation by High Growth SMEs' ERC Insight Paper, July 2015. See Annex A for an update of the analysis to include 2015 data.

² Anyadike-Danes, M and Hart, M (2015) *Ibid* ; ERC and Business Growth Service (2015) 'UK Growth Dashboard 2015' - <http://www.enterpriseresearch.ac.uk>

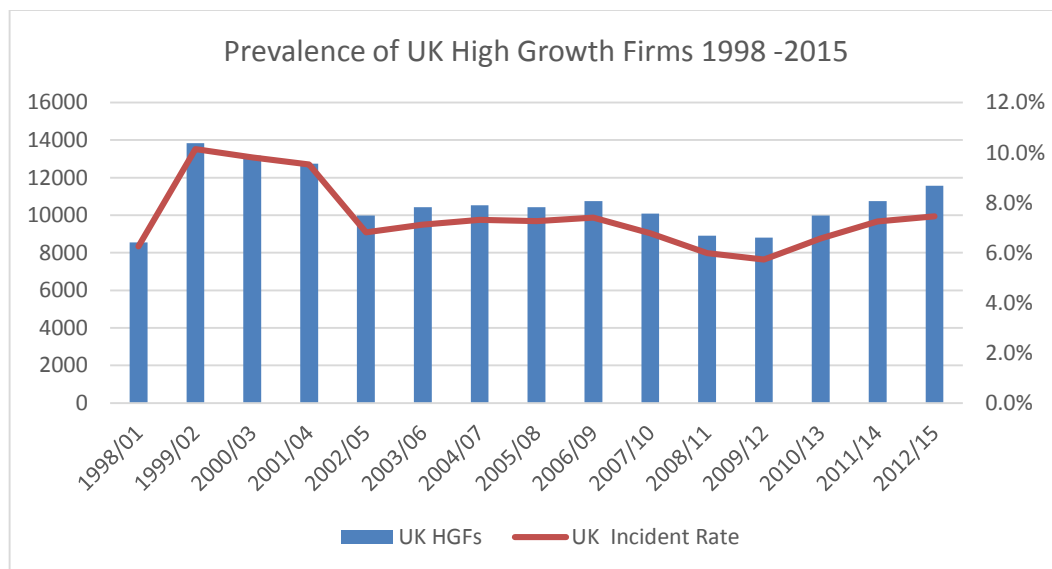
³ For a discussion of the OECD definition, its background and its application to UK data see Anyadike-Danes, M; Bonner, K and Hart, M (2013) 'Getting the lie of the land: exploring the incidence of High Growth Firms in the UK', NESTA Working Paper.

UK. We define the HGF incidence rate as the number of HGFs divided by the number of continuing firms with 10+ employees.

How many HGFs are there?

Figure 1 below shows the numbers and incidence rate of HGFs in the UK business population over the period 1998 to 2015. After a clear dip in the period 2009-12, the incidence of HGFs is now at its highest level since the ‘dotcom’ boom in the late 90s and early 2000’s when there were more than 13,000 recorded HGFs, around 10% of all 10+ employee firms. There has been a clear resurgence from the 2009-2012 period when the HGF incidence rate was at 5.7%, the lowest level for any 3 year period since our data series began in 1998. Between 2012 and 2015, HGFs account for some 11,500 firms or 7.5% of 10+ employee firms.

Figure 1: Prevalence of UK High Growth Firms 1998 – 2015

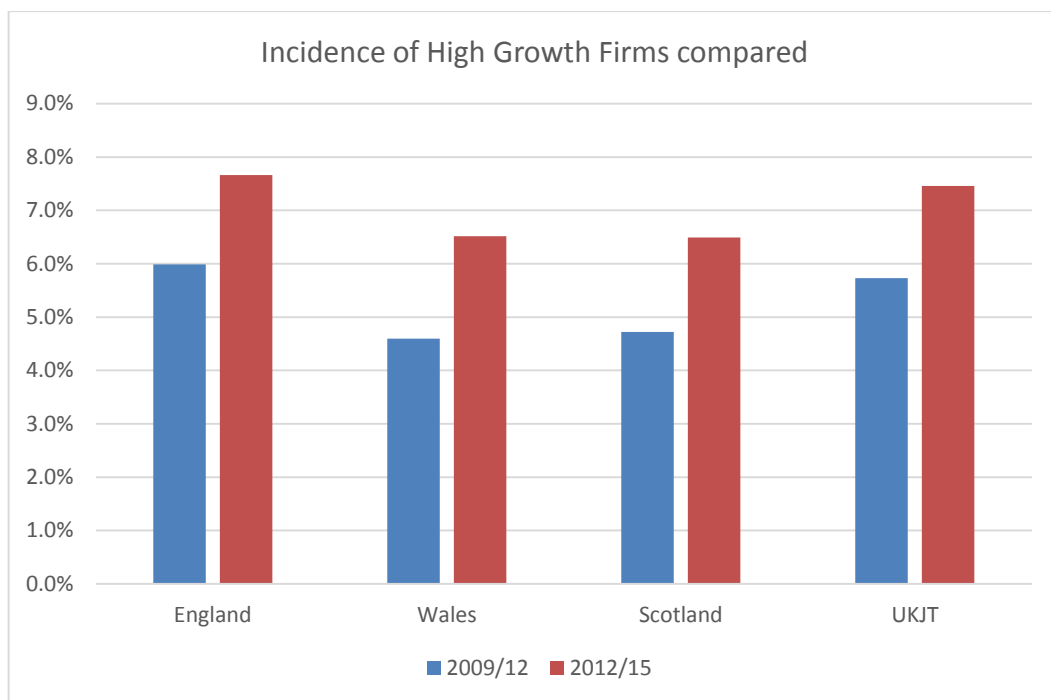


Source: ONS BSD (1998-2015)

HGFs in the Home Nations

The majority of all UK high growth firms are found in England, around 89% of the total – marginally higher than the proportion of all firms with 10+ employees, 86% of which are in England. This has been a consistent trend over the period 1998-2015. However, comparing the 2009/12 and 2012/15 periods, there has been a significant recovery in the numbers of HGFs in all parts of Great Britain, with Scotland increasing its number by 35% from 534 to 722, and Wales’ figure increasing by 38%, from 265 to 365. The incidence of HGFs in the 10+ employee business population has risen from 4.6% and 4.7% in Wales and Scotland respectively to 6.5% in each nation and the incidence in England has risen from 6% to 7.7% (see Figure 2).

Figure 2: Incidence of High Growth Firms 2009-12 and 2012-15 compared



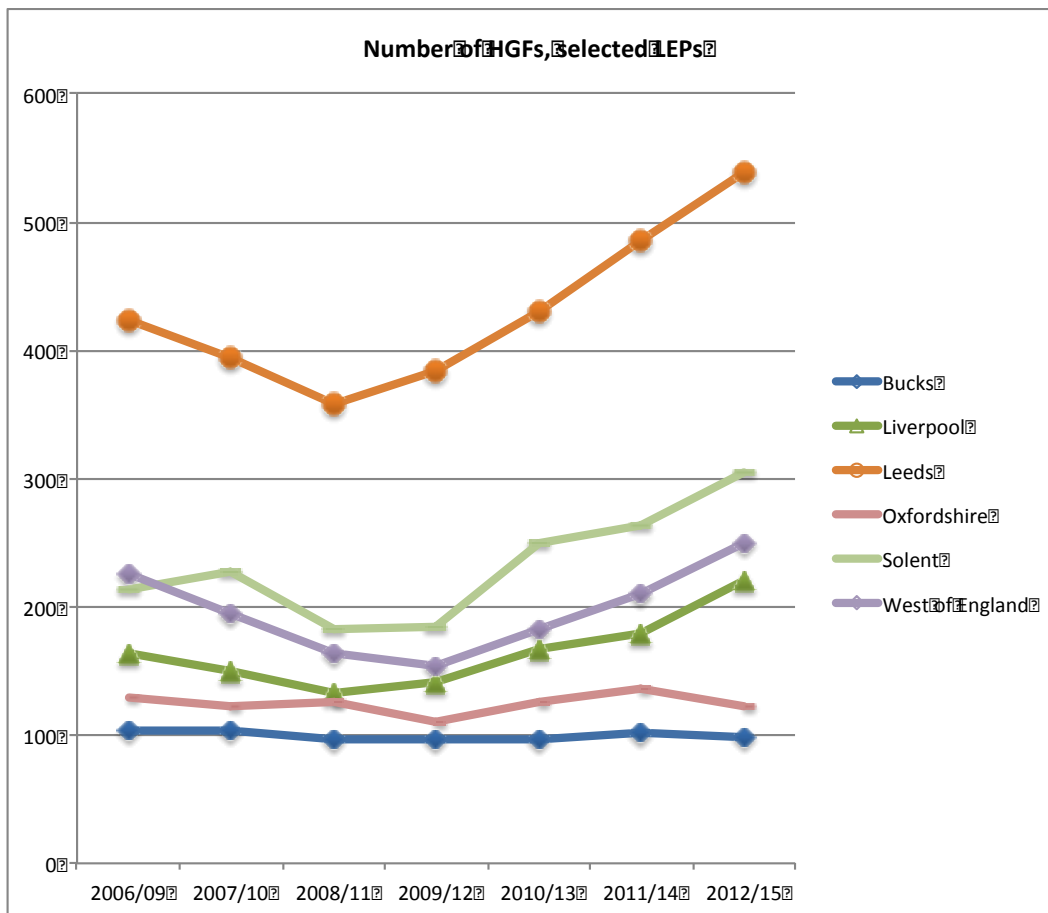
Source: ONS BSD (2009-2015)

England's High Growth Firms

If England has the largest share of HGFs in the UK, then the single largest agglomeration HGFs continues to be in London which had an incidence rate of HGFs in its 10+ employee business population of 9% in 2009/12 and 9.5% in 2012/15. London comprised 25% of all UK HGFs in 2009/12 and 22% in 2012/15.

What is revealed in the 2012/15 data however, is the strength of the growth in HGF numbers outside of London (see Figure 3). London has only increased its absolute numbers of HGFs by 15% between 2009/12 and 2012/15, way below the England average of 32%. Conversely, HGFs in Solent, New Anglia and West of England have increased by 60% or more, with Sheffield City Region, Liverpool City Region, Cornwall and the Isles of Scilly, Worcestershire, York and North Yorkshire all increasing numbers by more than 50%. Once again rural and coastal areas are showing strong growth as well as City Regions.

Figure 3 - Number of HGFs in Selected LEPs, 2006-09 to 2012-15



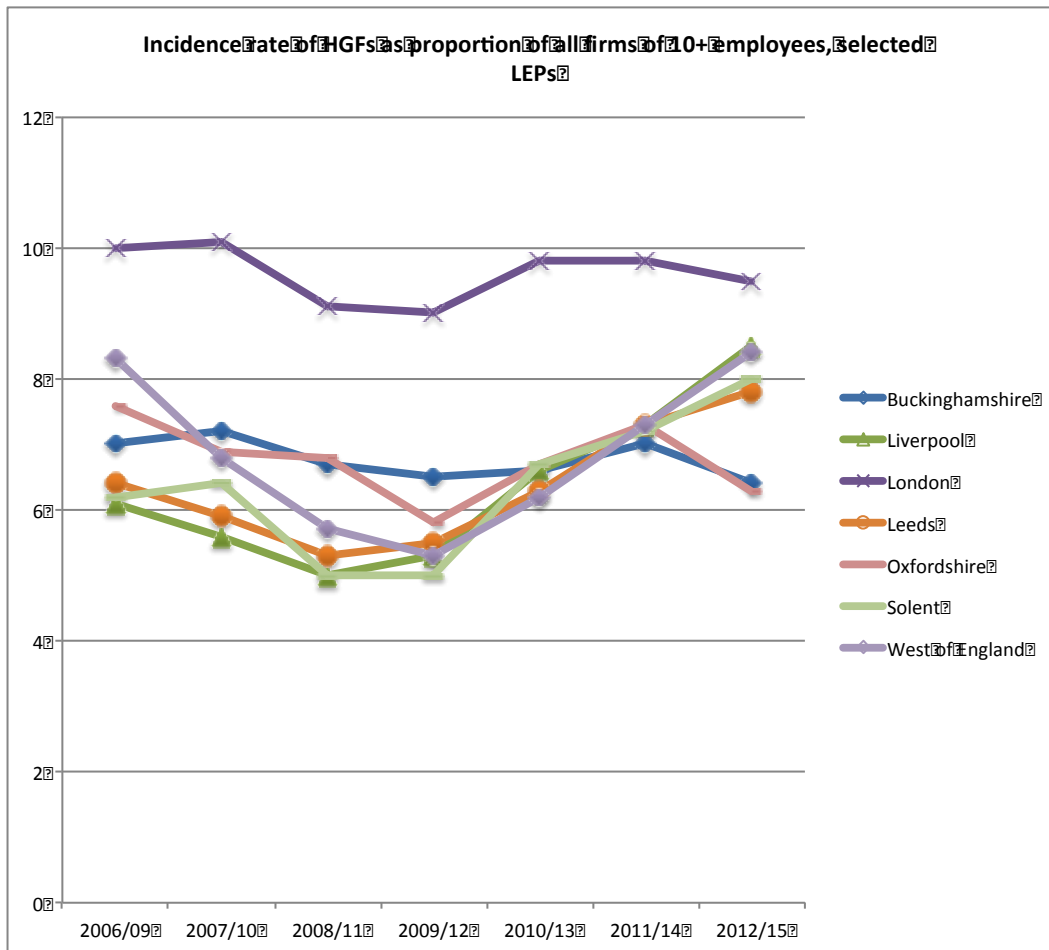
Source: ONS BSD (2006-2015)

This pattern is reflected in the incidence rates of HGFs (see Figure 4) and it has radically altered how the LEP areas are now ranked. Whilst London perennially retains the lead position, the resurgence in the incidence of HGFs in areas outside London has dramatically altered the pattern of LEP area performance with regard to this measure of growth.

In the top 10 areas for high growth firms, Liverpool has risen from 19th position to 2nd with the West of England rising from joint 19th in 2009/12 to 4th in 2012/15. Solent has increased from 27th to 7th and Leeds from 15th to 9th. Cheshire & Warrington, Greater Manchester, Coast to Capital, Enterprise M3 and Thames Valley Berkshire have all retained a strong position in the most prominent 10 LEP areas for the incidence of HGFs whereas Oxfordshire, Greater Cambridgeshire, Buckinghamshire Thames Valley and Coventry and Warwickshire have all slipped. In the case of Oxford and Buckinghamshire Thames Valley, they have slipped down into the bottom 10 areas⁴. A map of England locating these high and lower performing economic areas is at Figure 5.

⁴ Looking across the whole time series from 1998/2001 to 2012/15, we see that some local areas are more often than not in the top ten for HGFs (London and Enterprise M3 have been continually in this segment over this extended period) and a few are more often than not in the bottom 10

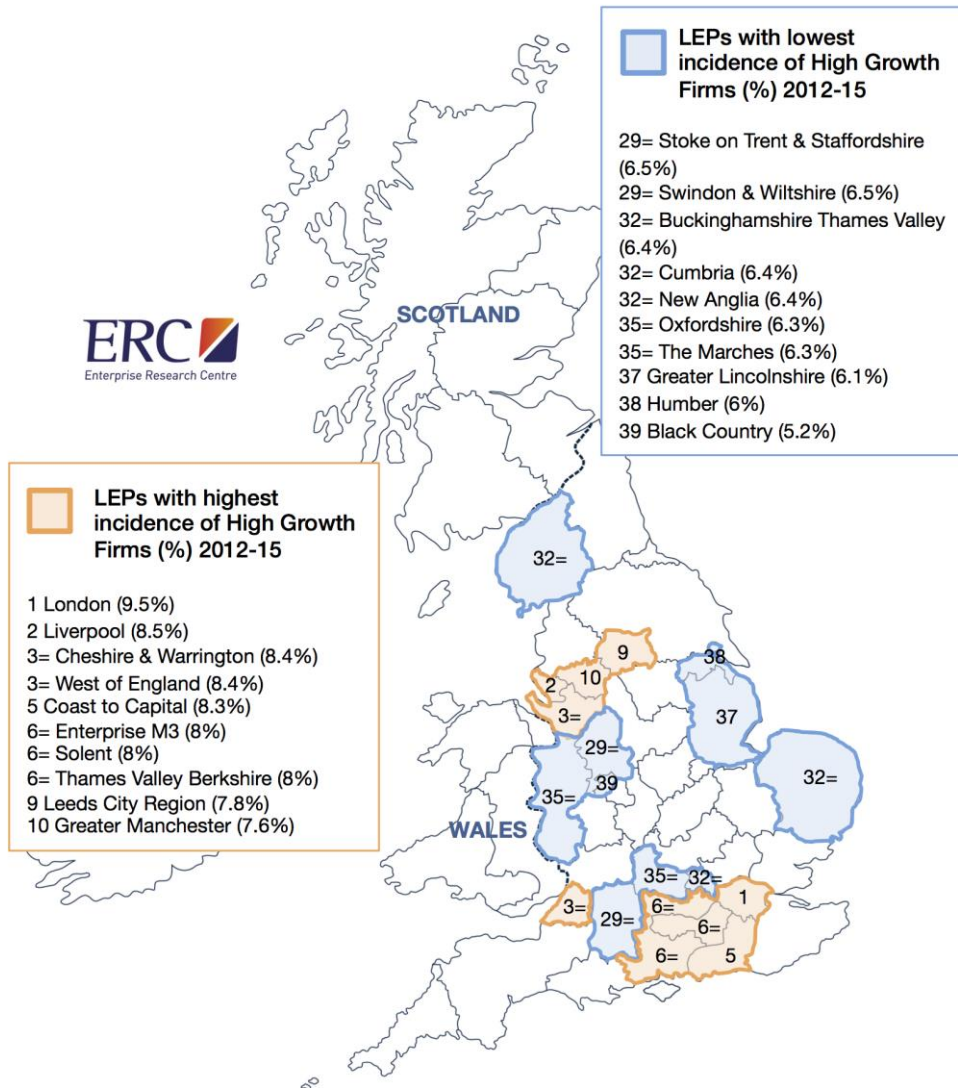
Figure 4 - Incidence Rate of HGFs as proportion of all firms of 10+ employees, selected LEPs, 2006-09 to 2012-15



Source: ONS BSD (2006-2015)

(Humber and Black Country perennially over our time series). For others there is more apparent volatility in their incidence rates and comparative ranking. For the majority of the periods studied, the rankings belie the true differences in HGF incidence rates between areas – individual LEP areas are often barely 2% points apart. The rankings are interesting not because of the absolute positioning of different areas but because they invite consideration of the different HGF incidence rates in areas where there might be more comparable economies such as Cumbria and Cornwall and the Isles of Scilly for example.

Figure 5 - English Local Economic Partnership Areas with highest and lowest incidence of High Growth Firms (HGFs) as a proportion of all firms with 10+ employees, 2012-15



Summary

The pattern of this change in the numbers of HGFs is one metric we might begin to use to form some judgements about both the resilience and vulnerability of some areas to economic shocks over time, the capacity of others to recover and perhaps even the efficacy over time of the portfolio of interventions available locally to support growth. For this reason building a lengthy time series and monitoring changes over extended periods continues to have value and ERC will provide an annual update on this important metric as well as developing complementary ones.

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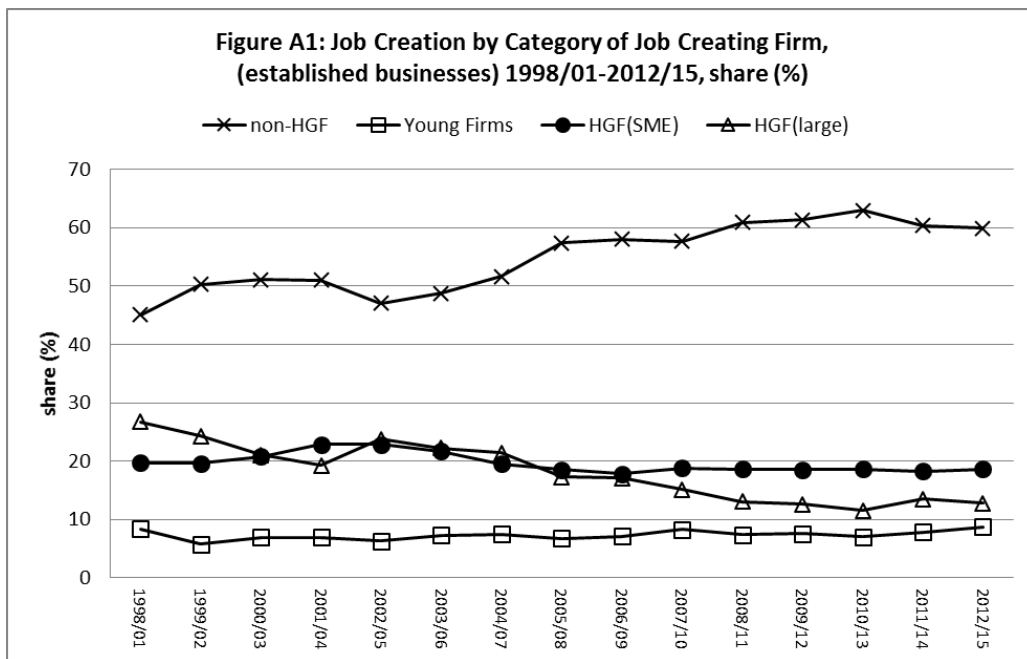
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Annex A

HGFs and Job Creation

The composition of job creation by established businesses over the last decade and a half has changed, as Figure A1 shows. In particular, the share of non-HGFs has increased by about 10 percentage points since the mid-2000s (a by-product of a significant increase in small firm births). One constant though has been the share of SME HGFs who represent fewer than 1% of established businesses: their contribution has been within one or two percentage points of the long-term average of 20% since 1998/01. Even the Great Recession made very little difference to this proportion. By contrast, the share of larger HGFs in job creation has shown a ten percentage point decline (roughly matching the increase in the non-HGF share).



Source: ONS BSD (1998-2015)

Annex B

Table 1 – Local Enterprise Partnership (LEP) areas of England by number of High Growth Firms, ranked by % change between 2009 -12 and 2012-15 (England average = +32%):

| LEP | HGF Number 2009-12 | HGF Number 2012-15 | % Change |
|--|--------------------|--------------------|----------|
| Solent | 185 | 304 | 64% |
| New Anglia | 158 | 256 | 62% |
| West of England | 154 | 250 | 62% |
| Sheffield City Region | 170 | 265 | 56% |
| Liverpool City Region | 141 | 220 | 56% |
| Cornwall and the Isles of Scilly | 61 | 95 | 56% |
| Worcestershire | 65 | 100 | 54% |
| York and North Yorkshire | 128 | 194 | 52% |
| Coast to Capital | 254 | 378 | 49% |
| Cumbria | 63 | 93 | 48% |
| Heart of the South West | 186 | 274 | 47% |
| Northamptonshire | 91 | 131 | 44% |
| Humber | 86 | 123 | 43% |
| Greater Birmingham and Solihull | 220 | 312 | 42% |
| Leeds City Region | 384 | 538 | 40% |
| North Eastern | 188 | 263 | 40% |
| South East | 420 | 582 | 39% |
| Greater Lincolnshire | 104 | 145 | 39% |
| Derby, Derbyshire, Nottingham and Nottinghamshire, | 261 | 354 | 36% |
| Lancashire | 185 | 252 | 36% |
| South East Midlands | 224 | 303 | 35% |

| | | | |
|---|--------------|---------------|------------|
| Hertfordshire | 165 | 222 | 35% |
| Cheshire and Warrington | 144 | 192 | 33% |
| The Marches | 75 | 100 | 33% |
| Tees Valley | 60 | 80 | 33% |
| Enterprise M3 | 291 | 382 | 31% |
| Greater Manchester | 362 | 470 | 30% |
| Leicester and Leicestershire | 140 | 181 | 29% |
| Swindon and Wiltshire | 85 | 107 | 26% |
| Stoke-on-Trent and Staffordshire | 124 | 151 | 22% |
| Coventry and Warwickshire | 130 | 157 | 21% |
| Black Country | 115 | 137 | 19% |
| Greater Cambridge & Greater Peterborough | 221 | 259 | 17% |
| Dorset | 106 | 124 | 17% |
| London | 2,105 | 2,430 | 15% |
| Thames Valley Berkshire | 186 | 213 | 15% |
| Gloucestershire | 97 | 112 | 15% |
| Oxfordshire | 110 | 122 | 11% |
| Buckinghamshire Thames Valley | 97 | 99 | 2% |
| ENGLAND TOTAL | 8,341 | 10,970 | 32% |

Table 2 - Ranking of Local Enterprise Partnership (LEP) areas of England by incidence (rate as percentage of all firms of 10+ employees) of High Growth Firms, (England average 2012 - 15 = 7.6%):

| LEP | HGF Rate (Percentage of all firms of 10+ employees) 2009-12 | Rank 2009-12 | HGF Rate (Percentage of all firms of 10+ employees) 2012-15 | Rank 2012-15 |
|--|---|--------------|---|--------------|
| London | 9 | 1 | 9.5 | 1 |
| Liverpool City Region | 5.3 | 19 | 8.5 | 2 |
| Cheshire and Warrington | 6.4 | 4 | 8.4 | 3 |
| West of England | 5.3 | 19 | 8.4 | 3 |
| Coast to Capital | 5.8 | 9 | 8.3 | 5 |
| Enterprise M3 | 6.2 | 6 | 8 | 6 |
| Solent | 5 | 27 | 8 | 6 |
| Thames Valley Berkshire | 7.4 | 2 | 8 | 6 |
| Leeds City Region | 5.5 | 15 | 7.8 | 9 |
| Greater Manchester | 6 | 7 | 7.6 | 10 |
| Coventry and Warwickshire | 6.4 | 4 | 7.5 | 11 |
| Greater Birmingham and Solihull | 5.3 | 19 | 7.5 | 11 |
| Hertfordshire | 5.6 | 13 | 7.4 | 13 |
| Lancashire | 5.4 | 16 | 7.4 | 13 |
| Derby, Derbyshire, Nottingham and Nottinghamshire, | 5.4 | 16 | 7.3 | 15 |
| Leicester and Leicestershire | 5.7 | 11 | 7.3 | 15 |
| North Eastern | 5.1 | 25 | 7.3 | 15 |
| South East Midlands | 5.4 | 16 | 7.3 | 15 |
| Northamptonshire | 5.2 | 23 | 7.2 | 19 |
| Tees Valley | 5.1 | 25 | 7.2 | 19 |
| Sheffield City Region | 4.4 | 33 | 7 | 21 |

| | | | | |
|---|------------|------------|------------|------------|
| Greater Cambridge & Greater Peterborough | 5.3 | 7 | 6.9 | 22 |
| Worcestershire | 4.5 | 31 | 6.9 | 22 |
| Cornwall and the Isles of Scilly | 4.4 | 33 | 6.8 | 24 |
| South East | 5 | 27 | 6.8 | 24 |
| York and North Yorkshire | 4.5 | 31 | 6.8 | 24 |
| Dorset | 5.7 | 11 | 6.7 | 27 |
| Heart of the South West | 4.6 | 29 | 6.7 | 27 |
| Gloucestershire | 5.6 | 13 | 6.5 | 29 |
| Stoke-on-Trent and Staffordshire | 5.2 | 23 | 6.5 | 29 |
| Swindon and Wiltshire | 5.3 | 19 | 6.5 | 29 |
| Buckinghamshire Thames Valley | 6.5 | 3 | 6.4 | 32 |
| Cumbria | 4.4 | 33 | 6.4 | 32 |
| New Anglia | 4 | 39 | 6.4 | 32 |
| Oxfordshire | 5.8 | 9 | 6.3 | 35 |
| The Marches | 4.6 | 29 | 6.3 | 35 |
| Greater Lincolnshire | 4.4 | 33 | 6.1 | 37 |
| Humber | 4.1 | 38 | 6 | 38 |
| Black Country | 4.2 | 37 | 5.2 | 39 |
| ENGLAND | 5.9 | n/a | 7.6 | n/a |

Data Note

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The dataset used in the production of the HGF metric is the Business Structure Database (BSD). This is a dataset produced by the Office of National Statistics (ONS) and is an annual snapshot of the Inter-Departmental Business Register (IDBR) which is a live register of data collected by HM Revenue and Customs via VAT and Pay as You Earn (PAYE) records. If a business is liable for VAT (turnover exceeds the VAT threshold) and/or has at least one member of staff registered for the PAYE tax collection system, then the business will appear on the IDBR (and hence in the BSD).