Policy Briefing

Fast-growth firms in the UK: definitions and policy implications

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Fast-growth firms in the UK are prolific job creators and yet their definition has been controversial. Applying different definitions captures different subsets of business populations and consequently carries different policy implications. Using the UK Business Structure Database (BSD) for 1998-2013, we compare and contrast several popular fast-growth firm definitions based on their incidence in the business population, their contribution to the aggregate economy in terms of employment, turnover and productivity, and their key characteristics. The aim is to establish a complete understanding about how these 'families' of fast-growing firms differ and how they might relate to the development of a business support policy.

Key findings

- There is no theoretical foundation, nor statistical evidence to suggest productivity growth and employment growth at firm level should coincide. Fast-growth definitions in terms of employment and productivity capture rather different sets of firms. Statistically, the more likely a firm is a fast productivity growth firm, the less likely it is to be a fast employment growth firm.

- On the whole, employment-based fast-growth firms generate lots of jobs but have mixed productivity records, while productivity-based fast-growth firms have lower job creation records but show productivity superiority (see figure below).

- Definition matters. Applying policies on different types of fast-growth firms will affect different business populations, eventually resulting in different outcomes.

- Fast-growth phenomena are more relevant to SMEs and firms in their first five years of life, and more prevalent in Business Service sectors than Manufacturing.

- No evidence suggests that fast-growth firms are typical in the high-tech sectors.

- Fast-growth is not concentrated in any particular area of the UK and all regions have a combination of firms with either fast employment or productivity-based growth.

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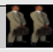
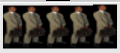
Key findings

Table: Impact of growth firm metric on jobs, turnover and productivity outcome

	Employment based		Productivity based			
	Bigger firms	Micro firms	Bigger firms		Micro firms	
	OECD-HGFs	Small HGFs	GHs	GSHs	GHs	GSHs
Jobs (stock)						
Jobs (net job creation)						
Turnover (stock)	££	£	££££	££	££	££
Turnover (growth)	££	£££	££	££	££££	£££
Productivity (level)	▯ ▯ ▯	▯ ▯ ▯ ▯ ▯	▯ ▯	▯ ▯ ▯	▯ ▯	▯ ▯ ▯
Productivity (growth)	↓	↓↓	▯ ▯ ▯	▯ ▯ ▯	▯ ▯ ▯ ▯	▯ ▯ ▯

Note: Employment-based fast-growth definitions include: **OCED-HGFs** (OECD, 2007, more than 10 employees and annual average growth in employment of 20% or more in 3 year period), **Small HGFs** (Clayton et al 2013, Firms with fewer than 10 employees whose employment grows by at least 8 in 3 years). Productivity-based fast-growth definitions include: Growth Heroes (**GHs**, Increase productivity in a 3 year period by increasing turnover and employment, used in Du and Bonner (2015)) and Growth Super Heroes (**GSHs**, Growth Heroes with above average productivity in base year). Jobs (stock) scoring is based on the percentage of total jobs in the economy, while Jobs (net job creation) is based on the index of job created. Turnover (stock) scoring is based on average total turnover in the economy, while Turnover (growth) is based on average turnover growth. Productivity (level) scoring is based on average labour productivity, while Productivity (growth) is based on average productivity growth. ↓ and ↓↓ indicate negative contribution, i.e. productivity decline.

Policy implications

- ***Conflict in policy goals***

  It is possible that polices supporting fast-growth firms based on an employment definition may impair productivity growth, and likewise productivity-driving measures may lead to dwindling employment growth. Policy-makers should be aware of the possibility of promoting one at the expense of the other.

- ***Definition matters***

  It is important for policy-makers to avoid making assumptions about the potential policy outcomes based on evidence from one fast-growth firm definition (most commonly OECD HGF). There needs to be a clear focus on the desired outcomes from supporting different types of firms and design policy interventions accordingly. This is particularly important in attempting to identify lead indicators for firms with the potential to scale.

  Considering that job creation and productivity are both important policy goals, we recommend considering both employment and productivity-based definitions of fast-growing firms and the outcomes associated business support policy instruments.

  It is important to note that fast-growth metrics derived from an arbitrarily chosen period could be unstable in the short run and hence misleading. We advocate longitudinal analysis of cohorts of firms over their life cycle to avoid these pitfalls.

- ***Wider economic impact***

  Beyond the direct impact of promoting fast-growth firms, the wider economic impact/externalities should be carefully assessed when evaluating the importance of fast-growing firms.