

## Policy Briefing

# Knowledge Spillovers, Entrepreneurial Ecosystems and the Geography of High Growth Firms Redux

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### Key findings

This research revisits the geography of high-growth firms (HGFs) in the UK to understand why some regions consistently generate more of them than others. Building on and extending recent studies, the paper focuses on the role of entrepreneurial ecosystems (EEs) and knowledge spillovers as key drivers of localised high-growth activity. The study uses granular, longitudinal data across UK Local Authority Districts from 2009 to 2021, addressing earlier methodological limitations to provide robust insights. The goal is to inform more effective regional development strategies by identifying ecosystem elements that enable sustained business dynamism, and by re-evaluating the significance of spillovers in shaping local growth trajectories.

- The presence of HGFs is highly persistent at the regional level, contrasting with firm-level volatility of high-growth episodes, indicating long-term structural advantages in certain places.
- Entrepreneurial ecosystem elements—particularly human capital, business services, and creative industries—are strongly linked to higher HGF rates.
- Innovation capacity matters: regions with higher R&D employment and Innovate UK grant applications exhibit significantly more HGF activity.
- The evidence on the role of knowledge spillovers (e.g. related variety, vertical relatedness) is inconsistent, calling for further research.

While regional differences in HGF incidence are clearly persistent over time, the underlying drivers of this persistence remain only partially understood. While targeting individual high-growth firms appears ineffective, attempting to “pick winners” at the regional level may also be problematic without a deeper understanding of local growth conditions.

This study uses a panel dataset covering 379 UK Local Authority Districts over the period 2009–2021 to examine the drivers of HGF incidence and its regional persistence. The analysis addresses prior methodological issues (notably autocorrelation from overlapping growth periods) and applies robust econometric techniques to explore the impact of entrepreneurial ecosystem and knowledge spillover indicators.

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The findings confirm a high degree of temporal persistence in regional HGF incidence, pointing to entrenched local advantages. Ecosystem factors such as a skilled workforce, specialisation in business and creative services, and innovation infrastructure (as measured by R&D intensity and grant applications) are among the most consistent predictors of high-growth activity.

By contrast, the role of knowledge spillovers—often cited as a key enabler of innovation—is found to be context-dependent and statistically fragile. This nuance underscores the importance of tailored, evidence-based approaches to regional development.

## Policy implications

Our findings highlight persistent differences across UK regions in their capacity to attract high-growth firms (HGFs) over a ten-year period. This suggests that regional ecosystems play a critical role in shaping growth outcomes. However, the underlying drivers of this persistence are not yet fully understood, raising important policy questions about the appropriate spatial and temporal scales of intervention, as well as the key ecosystem characteristics to target. While firm-level “picking winners” approaches have proven limited, regional-level strategies may also fall short unless they are underpinned by deeper evidence on what makes ecosystems conducive to growth. Future policy should prioritise place-based research and experimentation to better understand how to foster dynamic local conditions that support firm growth.

### Full paper link:

<http://enterpriseresearch.ac.uk/publications/erc-research-papers/>

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