

# Fast-growth companies in Scotland

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- Only a small proportion of companies achieve fast-growth, but fast-growth companies account for a disproportionate level of turnover and employment growth in the economy. There were 132 fast-growth companies in Scotland in 2014 (based on the definition used for this research) with a combined turnover that increased from £570m in 2011 to £2bn in 2014 - a growth rate of 266%. Scotland produces fast-growth companies from its business base at the same rate as most other UK regions.
- The largest fast-growth companies in Scotland (and the UK) tend to be involved in low productivity activities, with jobs that are likely to be low skilled and low paid. The majority of employment in fast-growth companies (and employment growth) is in companies with productivity below the total Scottish industry average.
- This suggests that, overall, fast-growth companies are not making a positive contribution to Scotland's productivity levels or to inclusive growth.
- Scotland needs more fast-growth companies in higher productivity sectors. Scottish Enterprise's Company Scaling approach will provide evidence of 'what works' in helping companies achieve fast growth.
- Low productivity, fast-growth companies tend to be in sectors that are not a policy focus for Scotland. New approaches and more evidence will be required to understand factors affecting productivity performance, and the productivity potential of companies in these sectors, and how their potential can be realised.

## 1. Introduction

Research shows that fast-growth companies contribute disproportionately to jobs growth, and, compared to non-fast growth companies, tend to be more innovative, and are more likely to be exporters<sup>2</sup>. Therefore, developing a better understanding of fast-growth companies in Scotland will contribute to our evidence-base on their contribution to productivity performance.

This paper presents new evidence on fast-growth companies in Scotland. For this analysis, we have considered companies in the turnover sizeband of between £5m and £25m, and that have a minimum of 10 employees. Fast-growth companies are defined as those within this sizeband that achieved turnover growth of at least 60% between 2011 and 2014.

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<sup>1</sup> [Scottish Enterprise](#) is Scotland's main economic development agency and a non-departmental public body of the Scottish Government. It work with partners in the public and private sectors to identify and exploit the best opportunities to deliver a significant, lasting impact on the Scottish economy.

<sup>2</sup> See for example [High Growth Firms and Productivity - Evidence from the United Kingdom](#) - and [Moving on from the 'Vital 6%'](#)

This sizeband was selected as it includes companies that have achieved a level of success (£5m+ turnover). Growth of at least 60% over the three year period was selected as this broadly reflects other definitions of fast (or high) growth<sup>3</sup>.

The aim of the paper is to identify the characteristics of fast-growth companies in Scotland; assess their contribution to productivity; and highlight the potential implications of the nature of fast-growth companies for economic growth in Scotland.

## 2. Fast-growth companies across the UK

The FAME business database was used for the research. This database has the advantage of allowing the identification of individual companies and the nature of their activities. This allows a broad indication of the types of jobs that fast-growth companies in Scotland provide<sup>4</sup>.

In 2014, there were 2,022 fast-growth companies in the UK. They generated 1.2% of the UK's turnover growth over the period 2011 to 2014, despite only accounting for 0.06% of the entire UK business population. They accounted for 4.7% of all companies with 10+ employees and turnover of between £5-£25m.

There were 132 fast-growth companies in Scotland. Though only 3% of all fast-growth companies in the UK, it is the fourth largest regional total. Scotland's fast-growth companies accounted for 0.07% of all Scottish companies, and 5% of companies with turnover of £5-£25m/10+ employees.

The combined turnover of the 132 companies grew from £570m in 2011 to £2bn in 2014 - a growth rate of +266% - with employment potentially growing by over 13,000<sup>5</sup>. FAME data does not allow an assessment of the extent to which this growth is 'new' activity or employment or displaced from other companies (e.g. through acquiring other companies or taking market share).

This suggests that 5% of companies were responsible for 33% of all turnover growth amongst companies with turnover of £5-£25m/10+ employees. This highlights the disproportionate contribution that fast-growth companies make to the economy.

Almost half (48%) of the UK's fast-growing companies are located in London and the South East of England. Figure 1 shows fast-growth companies as a percentage of all companies with turnover of between £5-£25m/10+ employees for UK regions. This indicates that only a small proportion in the size band achieve fast growth. Scotland compares favourably to most other regions with nearly 1 in every 20

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<sup>3</sup> See for example [Tomorrow's champions: finding the small business engines for economic growth](#). Additionally, the OECD define 'high growth' as companies that achieve at least 20% growth a year over three consecutive years. Analysis in this paper just considers growth of 60% between 2011 and 2014, not whether a minimum of 20% was achieved each year.

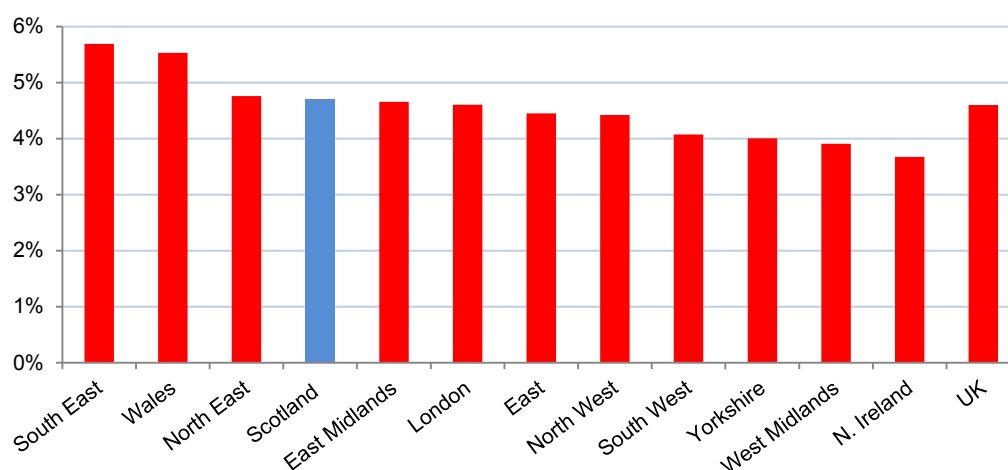
<sup>4</sup> See Appendix 1 for further information on FAME

<sup>5</sup> Employment growth data is not available through FAME, so this has been estimated based on average turnover per employee for each fast growth company.

companies achieving fast-growth<sup>6</sup>. This suggests that compared to most UK regions, companies in Scotland are slightly more likely to achieve fast-growth.

The high percentage of companies achieving fast-growth in the South East of England is expected, given the region's fast growing and highly dynamic economy. However, perhaps more surprising is the high percentage of companies achieving fast-growth in Wales, and the relatively low percentage in London. The reasons for this are unclear.

**Figure 1:** Fast-growth companies as a % of all companies with turnover of £5m+ and employing 10+ staff, by UK nation and region, 2014.



Source: FAME

### 3. Characteristics of fast growth companies in Scotland

Scotland's fast-growth companies are spread across the country, although 55% are located in Aberdeen, Edinburgh and Glasgow<sup>7</sup>. This suggests that in Scotland fast-growth can be achieved in both cities and rural locations<sup>8</sup>.

The 31 fast-growth companies in Aberdeen and Aberdeenshire are predominantly based in or supporting the oil & gas industry. Given the continuing challenges facing the industry, it is likely there are fewer fast-growth companies in Aberdeen now than for the period used in the research.

The data shows that fast-growth can be achieved across a wide range of sectors, including those that are not usually considered to be high technology or knowledge intensive.

The largest numbers of fast-growth companies in Scotland (and the UK) are in financial & business services, technology & advanced engineering, wholesale & retail, and construction (together accounting for 50% of all fast-growth companies)<sup>9</sup>.

<sup>6</sup> The data does not allow an international comparison, but this could be considered via future research.

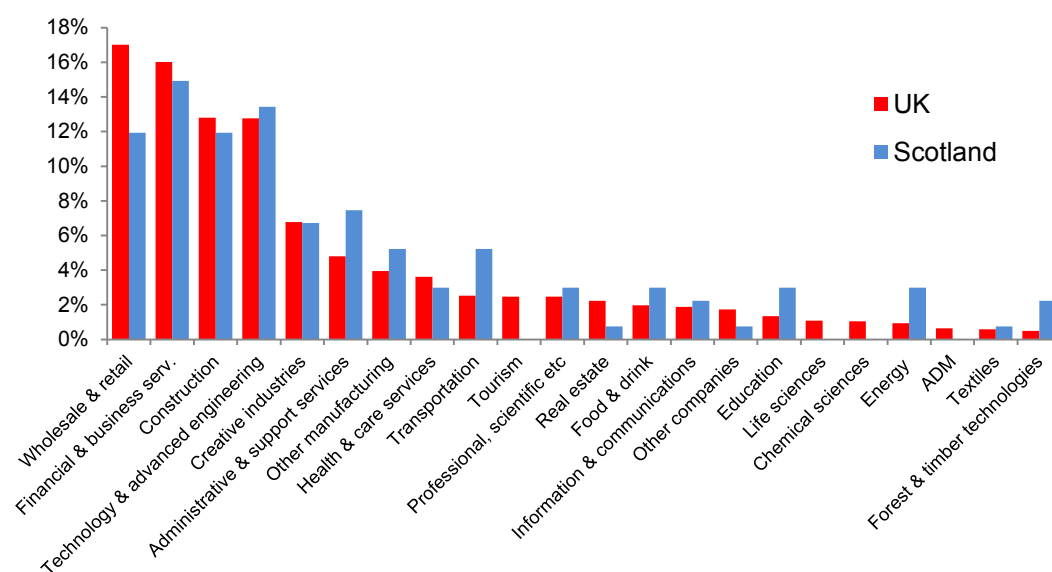
<sup>8</sup> Appendix 2 provides a full breakdown of geographical location

<sup>9</sup> Due to data confidentiality, names of these companies cannot be provided.

The percentage breakdown of fast-growth companies by sector is broadly similar for Scotland and the UK, with the main significant difference being wholesale & retail accounting for a higher proportion in the UK, and Scotland having a higher proportion in the administration & support, transportation, education and energy sectors.

Notably, for two of the Scottish Government's growth sectors<sup>10</sup> (tourism and life sciences) there are *no* fast-growth companies in Scotland - and in the UK as whole, fast-growth companies are very rare in these sectors. The reasons for this are not clear.

**Figure 2:** Fast-growth companies in Scotland and the UK by sector (% of all FGCs).



Source: FAME.

Most fast-growth companies in Scotland (and the UK) are in 'non-tradable' sectors that are more locally or domestically focused in terms of markets (rather than international), although the two largest sectors (financial & business services and technology & advanced engineering) are tradable<sup>11</sup>.

Fast-growth companies in tradable sectors account for a higher proportion of fast-growth company employment than turnover than those in tradable sectors - this suggests that productivity in fast-growth companies in tradable sectors is higher than those in non-tradable sectors.

Figure 3 highlights the proportion of companies within each sector that achieve fast growth, providing a broad indication of which sectors are more likely to 'produce' fast growth companies.

<sup>10</sup> Scottish Government [Growth Sectors Database](#)

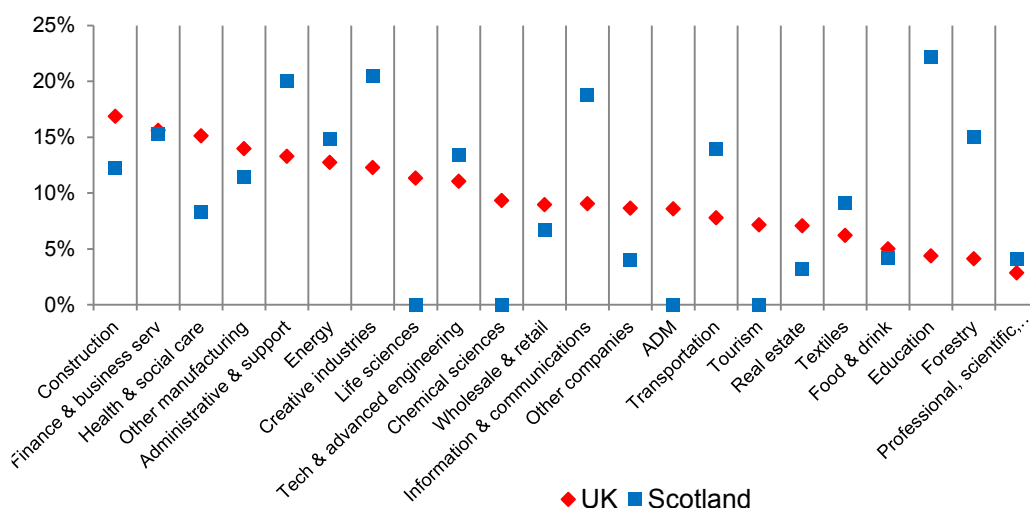
<sup>11</sup> Industries have been classified as 'tradable' and 'non-tradable' using a broad OECD methodology that considers levels of imports and exports for each sector. See Appendix 3 for a list of sectors.

There are a number of differences between the UK and Scotland. Scottish companies are more likely than those in the UK to become fast-growth in ten of the 22 sectors, particularly in education, information & communications, administration & support services and creative industries.

Conversely, companies in Scotland in construction, aerospace/defence/marine and health & social care are less likely to achieve fast growth than those in the UK. If Scotland matched UK performance in the sectors in which it currently lags the UK, this would result in 22 more fast-growth companies in Scotland.

Although there is no consistent pattern, the data suggests that non-tradable sectors may be slightly more likely to produce fast-growth companies than tradable sectors.

**Figure 3:** Fast-growth companies as a percentage of all companies with 10+ employees and turnover of £5-£25m, by sector



Source: FAME.

#### 4. Productivity

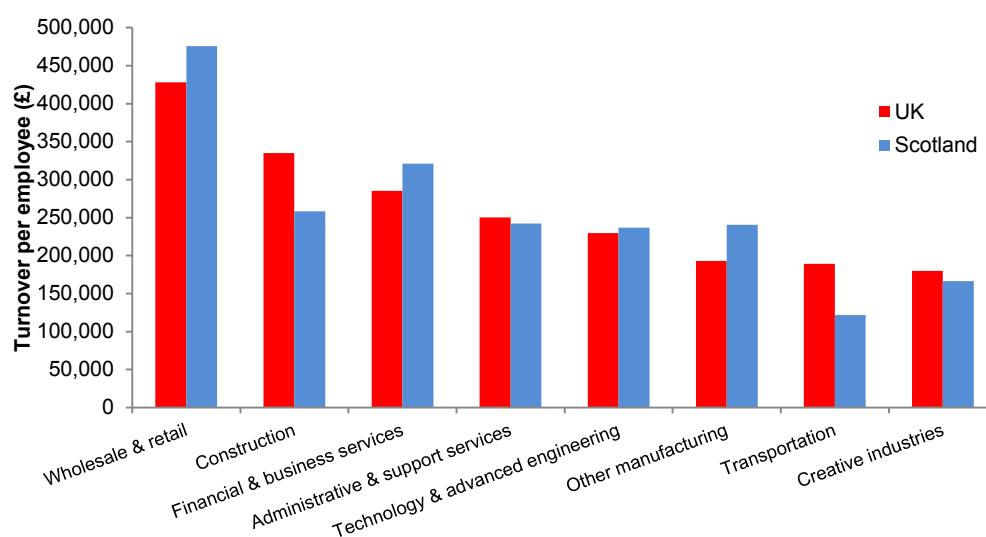
Productivity is usually defined as gross value add (or GVA)<sup>12</sup> per employee or hour worked. However, this data is not available in FAME, so turnover per employee is used as a proxy productivity measure in the analysis below<sup>13</sup>. For the largest eight sectors for fast-growth companies, productivity is very similar in Scotland and the UK as a whole.

Considering productivity in individual fast-growth companies, there is a large spread ranging from almost £1m turnover per employee to under £60,000. Companies with the highest levels of turnover per employee are from a range of sectors, including wholesale/retail, financial & business services, construction, energy and manufacturing.

<sup>12</sup> GVA at a company level is defined as employee costs + profits + depreciation

<sup>13</sup> Turnover per employee is a good proxy for GVA per employee. Companies that have high turnover per employee also tend to have high GVA per employee – although there are exceptions for a small number of sectors including wholesale and retail.

**Figure 4:** Productivity (turnover per employee) of fast-growth companies, by most common sectors, Scotland and UK, 2014



Source: FAME.

Figure 5 shows the distribution of Scotland's fast-growth companies by productivity and employment size. This suggests that fast-growth companies with the highest productivity are small in terms of employment, and the largest fast-growth companies in Scotland tend to be low productivity, and account for a significant proportion of fast-growth company employment. This is also the case across all regions of the UK.

Overall, 67% of fast-growth companies have productivity above the all company average across Scotland<sup>14</sup>, however, they account for only 32% of fast growth company jobs. Therefore, 68% of jobs in fast-growth companies have productivity levels *below* the Scottish average. This suggests that fast growth companies overall are not making a contribution to increasing Scotland's productivity performance<sup>15</sup>.

Fast-growth companies with the largest employment and the lowest productivity tend to be involved in low productivity activities, such as catering, care services, security, leisure services, facilities management and business process outsourcing. In these sectors job quality and wage rates are likely to be low. The 20 fast-growth companies with the lowest productivity (all below the overall Scottish average) are estimated to have accounted for 55% of employment growth of all fast-growth companies<sup>16</sup>.

The finding that fast growth companies tend to have low levels of productivity has been reflected in other research<sup>17</sup>.

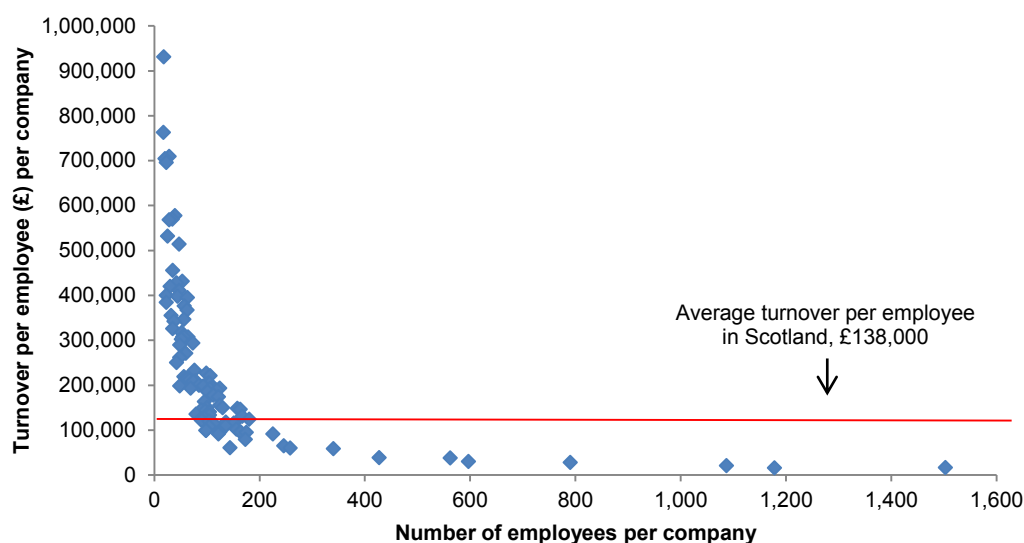
<sup>14</sup> Based on average turnover per worker in [Scottish Annual Business Statistics](#)

<sup>15</sup> It may be the case that a number of fast growth companies are experiencing higher than average productivity growth, however FAME data does not allow this to be measured.

<sup>16</sup> Due to data confidentiality, names of these companies cannot be provided.

<sup>17</sup> [High-Growth Firms: Stylized Facts and Conflicting Results](#)

**Figure 5:** Distribution of Scotland's fast-growth companies by turnover per employee and employment size, 2014.



Source: FAME. Note: Excludes top 4 companies with £1m+ turnover per employee. Also excluded are 14 where productivity is unavailable.

## 5. Policy implications

The key findings from this analysis are:

- Fast-growth companies account for a disproportionate level of turnover and employment growth in the Scottish economy, but they are small in number.
- Overall, Scotland is just as good at producing fast-growth companies from its business base as most other UK regions (although for a number of sectors that are a focus for Scotland, there were no fast-growth companies over the 2011-2014 period).
- The largest fast-growth companies in Scotland tend to be involved in low productivity activities, with jobs that are likely to be low skilled and low paid (similar to the UK as a whole). The productivity of the majority of employment in fast-growth companies is below the total Scottish industry average.
- Overall fast-growth companies are not making a positive contribution to increasing Scotland's productivity levels (in terms of turnover per employee) and therefore to inclusive growth.

These findings raise two key policy issues:

- (i) How to create *more* and *larger* fast-growth companies in higher productivity sectors in Scotland, including in life sciences, chemical sciences and aerospace/defence/marine (ADM)?

Scottish Enterprise's 'company scaling' approach, which aims to support around 100 companies by 2018, should help to increase the number of fast-growth companies in Scotland. Given the focus of SE support is

to generally support higher productive sectors, this should help increase the number of higher quality and better paid jobs in Scotland.

(ii) How to increase productivity in low productivity companies and sectors?

The data suggests that many of the largest fast-growth companies are involved in low productivity / low pay activities such as security, recruitment, leisure and care. Companies in these sectors account for and create a significant number of jobs. A number of these sectors are forecast to expand significantly over the next decade, particularly the care sector.

A key consideration is the extent to which the productive potential of such companies can be raised, and the role policy can play in both raising their productivity potential and helping them achieve it.

Further research will be required to better understand the productivity challenges and potential for companies in these sectors, including identifying overseas examples of good practice (for example, the approaches taken by a care providers in the Netherlands to significantly increase performance, job satisfaction and productivity<sup>18</sup>).

A number of the sectors in which we find fast growth companies are outwith the usual sector policy focus in Scotland. This raises questions as to the best routes to identify productivity challenges and solutions and, the respective roles of partners in both the public (Scottish Government, Enterprise Agencies, Local Authorities and Business Gateway) and the private sectors (industry / sector bodies, Chambers of Commerce, FSB etc.).

### **Appendix 1: The FAME database**

FAME is a business database drawn primarily from Companies House, of companies in the UK and Ireland. It provides company profiles including subsidiaries and directors, accounting and financial information, shareholder details and latest company news. Companies are traceable to postcode level, and are assigned to regions based on a variety of criteria including company HQ and base location.

FAME provides a useful source for analysis, enabling a comparison of Scotland's performance with other regions in the UK, but there are challenges with using it. For example, smaller subsidiary companies can have financial data listed which refers to their larger, parent company, and employment data can vary on whether companies include all employees such as temporary and agency workers are included. As far as possible, these anomalies have been cleansed from this research.

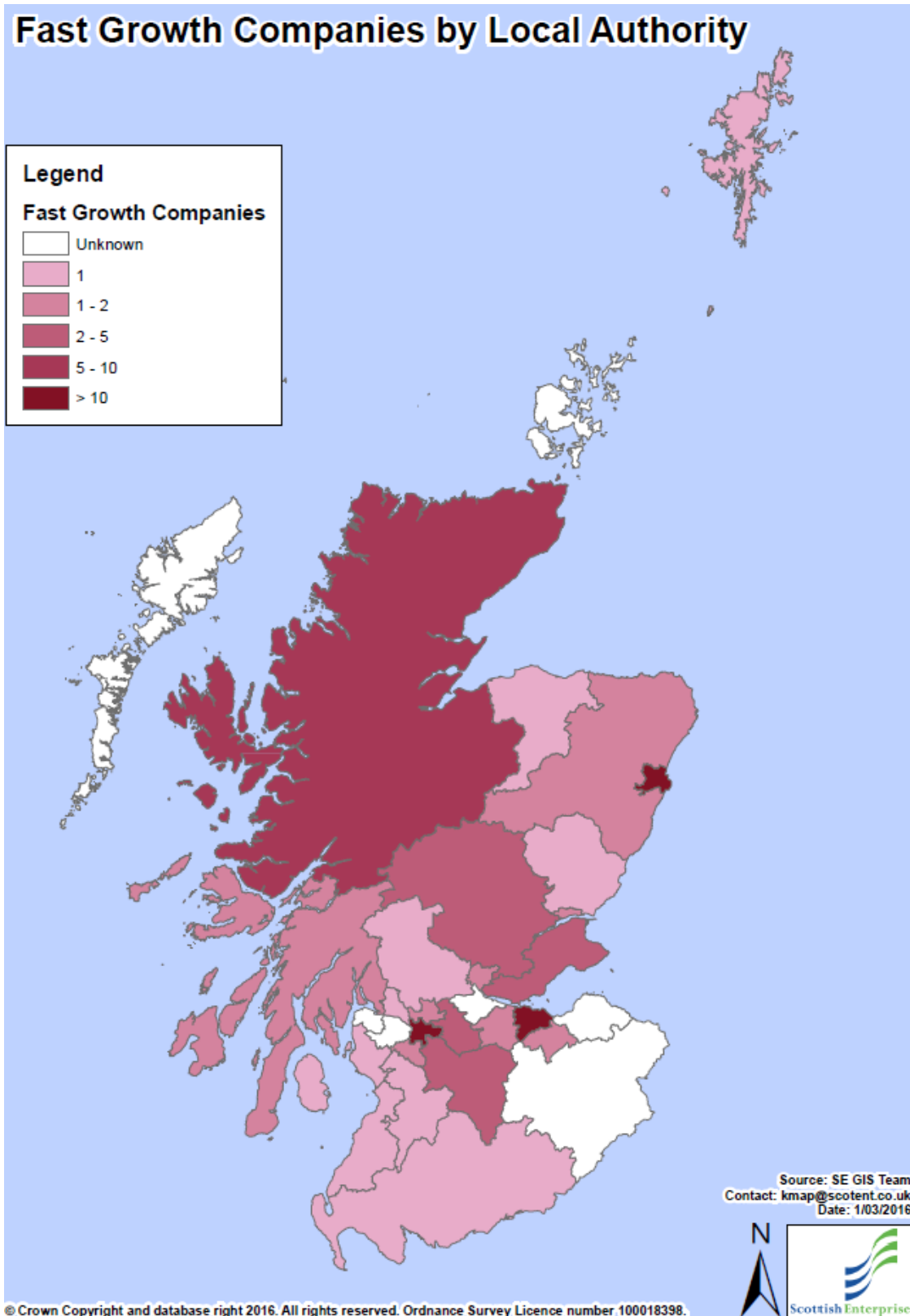
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<sup>18</sup> [Buurtzorg: better care for lower cost](#)



Appendix 2: Location of Scotland's fast-growth companies by Local Authority area

### Fast Growth Companies by Local Authority



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**Appendix 3: Categorisation of 'Tradeable' and 'non-Tradeable' sectors**

<b>Non-Tradable</b>	<b>Tradable</b>
Administration and support services	ADM
Education	Chemical sciences
Health and social care	Energy
Information and communication	Financial and business services
Construction	Food and drink
Creative industries	Forest & timber
Professional, scientific, technical services	Life sciences
Tourism	Other manufacturing <sup>[2]</sup>
Real estate	TAE
Transportation	Textiles
Other companies <sup>[1]</sup>	
Wholesale and retail	

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<sup>[2]</sup> These include packaging companies, rubber manufacturers, manufacturing of imitation jewellery, musical instruments, sports goods, games and toys, and protective safety equipment.

<sup>[1]</sup> These include arts, entertainment and recreation, sports activities, gambling, member organisations