Growth-Oriented Entrepreneurship

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§1 Introduction

Entrepreneurship is a popular topic for researchers and policymakers around the world and much of the work in the area does not distinguish new businesses by size or strategy. However, it is now widely acknowledged that a sub-class of entrepreneurs, often referred to as “growth-oriented entrepreneurs” or “high-growth entrepreneurs”, can be identified and distinguished by their aspirations relating to job creation, innovation and internationalization, all of which have been positively related to the economic development that is important to so many governments.¹ Acs and Szerb, the creators of the Global Entrepreneurship and Development Index (“GEDI”), argued that international rankings of entrepreneurial activities in various countries should place more weight and importance on the amount of entrepreneurial activity directed toward innovation, high-impact entrepreneurship and globalization focused their research on international entrepreneurship and “the efforts of the early-stage entrepreneur to introduce new products and services, develop new production processes, penetrate foreign markets, substantially increase the number of firm employees, and finance the business with either formal or informal venture capital, or both”.²

As to what constitutes a “high-growth firm”, Audretsch offered several definitions.³ For example, the 2007 OECD-Eurostat Manual on Business Demography Statistics defined the term to include: “All enterprises with average annualized growth greater than twenty percent per annum, over a three-year period, and with ten or more employees at the beginning of the observation period. Growth is thus measured by the number of employees and by turnover.” The same source explained “gazelle firms” to be “[a]ll enterprises up to five years old with average annualized growth greater than twenty percent per annum over a three-year period, and with ten or more employees at the beginning of the observation period.” When Delta Economics surveyed “growth oriented” entrepreneurs in BRICS countries, the US and Europe, it limited its survey to entrepreneurs running relatively young businesses (between 2 and 10 years old) that had turned over a minimum of $300,000 after the second year of trading and found that “growth oriented” businesses shared several common features: high growth rate in turnover; average employment of around 25 people and expectations of doubling the size of the workforce within three years; high likelihood that initial financing came from self-

investment, usually from savings; some level of innovation in the way in which they approached their markets, product differentiation or research and development; and international orientation. For Llisterri and Garcia-Alba, “new, dynamic ventures” in Latin America, Asia and Europe were “firms between three and ten years old that had grown to employ at least 15 workers, and no more than 100, during the study” and which were likely to engage in export activities and compete on innovation (i.e., offering differentiated products or services) rather than price.

As for characteristics of growth-oriented entrepreneurs, noted that there did not appear to be significant differences in the educational background of the founders of the dynamic and less dynamic companies. In most cases, they had attained high education levels and their college degrees had provided them with important technical knowledge, especially for the dynamic entrepreneurs; however, the educational system did little to transfer other skills necessary for successful entrepreneurship. Dynamic entrepreneurs appeared to have distinctly different learning processes for entrepreneurship than their counterparts among the less dynamic companies. For example, the previous work experiences of dynamic entrepreneurs provided significant advantages in terms of gathering information on business ideas and learning the skills necessary to commercialize those ideas. In addition, dynamic entrepreneurs were better able to establish and mine networks of relationships that provided them with valuable support on such things as identifying business opportunities, accessing funds, forging relationships with executives at larger companies and obtaining access to information and non-financial resources such as raw materials or facilities. Delta found that the top four drivers in motivating growth-oriented entrepreneurs worldwide were in order: following a dream; taking advantage of a market opportunity; getting autonomy over the entrepreneur’s time; and “making a lot of money”. While growth is an important facet of growth-oriented entrepreneurship, recognition has also been given to smaller firms that had opportunities to grow, and grow quickly, yet decided that while growth was a sign of health it was better to focus on “other, nonfinancial priorities as well, such as being great at what they do, creating great places to work, providing great service to customers, making great contributions to their communities and finding great ways to lead lives”.

A number of different methods have been used to describe “growth-oriented entrepreneurship”; however, there is a consensus that there is a particularly desirable form of entrepreneurship that seeks to create and
scale up businesses that will drive productivity growth, create new employment, increase innovation, promote business internationalization and achieve sustainable economic growth.

Criterion for growth-oriented entrepreneurship can be understood from the following descriptions:

- "Knowledge-based entrepreneurship" is entrepreneurship in the context of medium and high technology industries, both in the manufacturing and service sectors as well. Distinguishing factors include the sophistication or intensity of technology involved, level of education and product/service uniqueness.

- "Innovation" is a condition of growth-oriented entrepreneurship that includes both the development and commercialization of new products and services and the development and implementation of new or improved processes that enhance productivity or reduce costs associated with manufacturing or distributing existing products. Innovation involves firms pursuing distinctive business strategies and doing new things in new ways to increase productivity, product development, sales and profitability, including finding and developing new ways of identifying the needs of new and existing customers and making and marketing products that satisfy those needs.

- "Opportunity-based entrepreneurship" focuses on the motives of the entrepreneur and includes entrepreneurship undertaken to take advantage of a business opportunity. The key characteristic among opportunity-based entrepreneurs is their acknowledgement that they made a voluntary career choice to pursue an entrepreneurial path.

- "Genuine entrepreneurship" describes situations where individuals start businesses with the goal of generating sufficient income so that a portion of it can be reinvested in order to underwrite business growth and development.

- "High-impact entrepreneurship" combines various characteristics and goals of entrepreneurial activity including innovation (i.e., development of new technologies, products and/or services and/or development of new production processes), penetration of foreign markets and globalization of overall business activities, an objective of substantially increasing the number of firm employees, and financing the business with risk capital.

Relevant metrics for growth-oriented entrepreneurship include changes in sales, assets, employment, productivity, profits and profit margins.

The goal of the launch phase for growth-oriented entrepreneurial ventures is to reach the point of "scale up" and common goals and activities associated with the launch phase include market disruption and penetration; gaining access to capital and markets and mentorship opportunities; organizational growth through management capacity, systems, resources (i.e., people, product and assets) management; embedding organizational culture; development of stakeholder relationships; monitoring and evaluation; and governance and reporting.

Finally, framework conditions for growth-oriented entrepreneurship to flourish and sustain include financial support; government policies; government programs; education and training; research and development transfer; commercial and professional infrastructure; internal market openness; access to physical infrastructure; cultural and social norms; and protection of intellectual property rights.

§2 Global Entrepreneurship Monitor

The Global Entrepreneurship Monitor ("GEM") is a partnership between the London Business School and Babson College that administers a comprehensive research program to produce annual assessments of national levels of entrepreneurial activity. The project was first launched in 1999, when it covered just ten countries, and has since grown to cover as many as 85 countries in subsequent years and is recognized as the largest ongoing study of entrepreneurial dynamics in the world. The main objectives of the
GEM program are measurement of differences in the level of entrepreneurial activity between countries, uncovering the factors that lead to appropriate levels of entrepreneurship and making suggestions for policies that may lead to enhancement of national levels of entrepreneurial activity.8

The GEM is based on a conceptual model of the institutional environment and its effect on entrepreneurship. The model recognizes the importance of the social, cultural and political context in which entrepreneurial activities occur and assumes that these contextual factors influence three sets of conditions: basic requirements, which include institutions, infrastructure, macroeconomic stability, health and primary education; “efficiency enhancers”, which include higher education, goods and labor market efficiency, financial market sophistication, technological readiness and market size; and the “entrepreneurial framework conditions” (“EFCs”).

Entrepreneurship itself is measured in the GEM surveys by looking at the entrepreneurship profile of prospective and actual entrepreneurs, including their attitudes, activities and aspirations; and at the entrepreneurship process itself. Data is collected through adult population surveys in all of the countries that are used to measure individual involvement in venture creation, identify the motives of entrepreneurs, measure the aspirations of entrepreneurs with respect to pursuing high growth and/or activities in foreign markets and understand the societal climate for entrepreneurship.

GEM is concerned with all types of entrepreneurship and “potential entrepreneurs”, who are described as persons who see opportunities in their areas, believe they have the abilities and resources to start businesses to pursue those opportunities and who are not deterred by fear of failure in pursuing those opportunities. Potential entrepreneurs who go on to start new businesses are referred to as “new business owners” in the GEM surveys and are tracked for up to three and one-half years after they first go into business. No size or strategy conditions are imposed on “new business owners”; however, the GEM researchers have recognized the special impact of growth-oriented entrepreneurs, who can be identified and distinguished by their aspirations relating to job creation, innovation and internationalization, all of which are measured and compared within the survey methodology used by GEM.9

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8 For further discussion of the GEM, see “Research on Entrepreneurship” in “Entrepreneurship: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

§3 — Job creation

GEM measures growth orientation by focusing on plans and expectations of the entrepreneur with respect to creation of new jobs. GEM surveys early-stage entrepreneurs to learn how many employees (other than the owners) they currently have and expect to have in the next five years. Amoros and Bosma explained that “this measure relates to the entrepreneurs’ expectations about the potential for their businesses, but in most cases this is also reflecting their ambitions to grow their ventures”, which is important because research has shown that while the goals for job creation may not be realized success is achieved without having expectations or ambitions for growth.\(^\text{10}\)

The results of GEM surveys are presented with three levels of projected growth for new businesses: low (0-5 new employees in five years); medium (6–19 new employees), or high (20+ new employees). Amoros and Bosma noted that while the percentage of adult persons in Sub-Saharan Africa engaged in some way in launching a new business was higher than anywhere else in the world, growth aspirations among early-stage entrepreneurs in Sub-Saharan Africa were quite limited: more than 80% of the entrepreneurs indicating they expect to add less than five employees within the next five years and only 4% projecting 20 or more new jobs. On the other hand, while percentage of adult persons engaged in entrepreneurship in North America and Europe was much lower than in Sub-Saharan Africa, more than 10% of the early-stage entrepreneurs in those regions had high growth expectations (i.e., 20+ new employees in five years).

§4 — Innovation

Innovation orientation is measured and valued by GEM because it is perceived as being the foundation of structural renewal over the long term. Amoros and Bosma explained that innovation represented “the perceived extent to which an entrepreneur’s product or service is new to some or all customers and where few or no other businesses offer the same product”. GEM surveys focused on two separate, albeit closely related, measures of innovation: the percentage of adult persons engaged in entrepreneurial activity that declare they have a product or service that is a novelty (new) for all or some or their consumers; and the percentage of such persons that declare they are new in the market with few or no other businesses that offer the same product or service. Not surprisingly, the average level of innovation in a geographic region increases along the overall level of economic development in that region. Amoros and Bosma reported that North America and the European Union had the largest proportions on both measures and that high proportions of innovative products were also seen in Asian countries such as Japan, Korea and China. Among the emerging markets, high rates of both new products and new markets were found in Columbia, Chile, South Africa and Taiwan.

§5 — Internationalization

Finally, the interest of GEM in international orientation reflects the reality of an increasingly global economy and the ability of even the smallest firms to leverage technological tools to broaden the scope of their businesses beyond their domestic market, a path that is particularly important for firms in economies with smaller internal markets. GEM recognizes for categories of early-stage entrepreneurs relating to their degree of internationalization: from 0% of their customers living outside the origin country, to high degrees of internationalization with 75% or more of their customers living outside the country. Amoros and Bosma reported that countries in the European Union had a high proportion of entrepreneurs with at least 25% of their customers living outside their countries, a result they attributed in part to the tradition of international commerce among those countries and their geographic proximity. On the other hand, much lower proportions of international-oriented entrepreneurs were found among the countries in the Latin American and Sub-Saharan economies. Amoros and Bosma emphasized three key observations regarding trends seen in the internationalization data:

- China, India, Indonesia, Thailand, Brazil, Mexico and Russia, all economies with large populations and large land mass, have very low rates of internationalization among their early-stage entrepreneurs.
- Early-stage entrepreneurs in the US, the largest market in the world, exhibited medium internationalization rates, a reflection of the fact that while such entrepreneurs were attracted to foreign markets they also did not want to neglect their own large and diverse domestic market with customers that have relatively high disposable incomes. In addition, competitive intensity is high in the US and demands significant attention and resources from early-stage entrepreneurs attempting to gain a foothold in their internal market.
- Several countries with relatively small local markets had high levels of internationalization among their early-stage entrepreneurs. For example, entrepreneurs in countries such as Israel, Luxemburg and Singapore expanded aggressively into foreign markets with their highly innovation orientation in services and technology-based products. Smaller countries in the European Union had high levels of international oriented due to their traditional emphasis on trade and their need and ability to participate in their regional trading arrangement.

§6 Global Entrepreneurship and Development Index

Acs and Szerb, the creators of the Global Entrepreneurship and Development Index (“GEDI”) believed that the GEM project and its focus on the business formation process in a large number countries, while impressive and valuable, fell short due to its failure to incorporate the different impacts of new businesses and its ranking of countries based primarily on the number of new businesses without regard to their success from a financial perspective or in terms of job creation, improving the local knowledge base and

increasing the level of development and innovation. The GEDI captures the contextual features of entrepreneurship by focusing on three broad areas: entrepreneurial attitudes (i.e., a society’s basic attitudes toward entrepreneurship through education and social stability); entrepreneurial activity (i.e., what individuals are actually doing to improve the quality of human resources and technological efficiency; and entrepreneurial aspirations (i.e., the amount of entrepreneurial activity directed toward innovation, high-impact entrepreneurship, and globalization).”

The third area, “entrepreneurial aspirations”, focuses specifically on qualitative elements of entrepreneurial activity (e.g., skills, innovation and high growth) and places greater weight and importance on “the efforts of the early-stage entrepreneur to introduce new products and services, develop new production processes, penetrate foreign markets, substantially increase the number of firm employees, and finance the business with either formal or informal venture capital, or both”.

Acs and Szerb believed that “entrepreneurship” should be seen as a dynamic interaction of the three areas mentioned above—attitudes, activity and aspirations—and should be clearly distinguished from small businesses, self-employment, craftsmanship and “usual businesses”. They felt that it was essential to acknowledge that certain new businesses were more impactful than others with respect to key metrics for economic development such as job creation, improving the local knowledge base and increasing the level of development and innovation and urged countries to focus their resources and strategies on building and improving institutions (e.g., property rights, size and role of government and regulatory conditions to new venture formation) that could best support drivers of development such as technology-based ventures and enterprises that pursue distinctive business strategies and seek to become fully integrated into a global marketplace.

§7 High-growth entrepreneurship

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Audretsch prepared a report on “High-Growth Entrepreneurship” for the OECD that was presented in Copenhagen in March 2012. Audretsch examined several important research questions including what constitutes a “high-growth firm”; how prevalent are high-growth firms; what is the economic impact of high-growth firms; and what are the determinants of high-growth firms (e.g., firm-specific or locational)? Based on his findings, Audretsch noted the importance of promoting entrepreneurship capital and access to finance and reducing heavy regulatory burdens that make it difficult for new companies to enter the market and increase competitive pressures on incumbents through application of entrepreneurial principles and strategies.

§8 --Definition of high-growth firms

As to what constitutes a “high-growth firm”, Audretsch offered several definitions. For example, the 2007 OECD-Eurostat Manual on Business Demography Statistics defined the term to include: “All enterprises with average annualized growth greater than twenty percent per annum, over a three-year period, and with ten or more employees at the beginning of the observation period. Growth is thus measured by the number of employees and by turnover.” The same source explained “gazelle firms” to be “[a]ll enterprises up to five years old with average annualized growth greater than twenty percent per annum over a three-year period, and with ten or more employees at the beginning of the observation period.”

§9 --Prevalence of high-growth firms

Empirical information from the US, UK and other OECD countries indicated that the high-growth firms were relatively scarce: less than 5% of the firms in the US in a 1994 study; between 2-4% of the firms in the UK in a 2008 study; and less than one percentage of enterprises and less than two percent of turnover in most OECD countries according to a 2007 survey. However, the economic impact of the firms was impressive and substantial. A 1994 study covering the US from 1988 – 1992 found that 70% of all new jobs in the US during that period created by existing firms, rather than new startups, could be traced to just four percent of the firms. Those same four percent accounted for 60% of all the new jobs created in the US economy during that period. Studies in the UK and for the entire OECD confirmed that between just 2% to 4% of firms accounted for substantial shares of the growth in employment during any given period.

§10 --Determinants of high-growth

Audretsch explored various theoretic frameworks regarding the determinants of high-growth among firms and described how those frameworks stood up against empirical evidence. Some follow Gilbrat’s Law, which holds that firm growth is unpredictable,
randomly distributed and not specific to firm or locational characteristics. In contrast, the Framework of Knowledge Spillover Theory of Entrepreneurship assumes that knowledge created in one organizational context but not fully commercialized will eventually trigger entrepreneurial startups and that entrepreneurship thus provides a conduit for knowledge spillovers from creator organizations to commercialization organizations. Basic assumptions and predictions flowing from this Framework are that high growth should be systematically related to high knowledge contexts (firm & locational specific); negatively related to firm age (firm specific) and negatively related to firm size (firm specific).

Sutton and Caves, writing in the Journal of Economic Literature in 1997 and 1998 respectively, found that Gibrat’s Law did appear to hold for the largest firms and that high-growth opportunities among those firms were not systematically related to firm-specific characteristics such as size and age. However, when the groups of firms was expanded to a broader distribution of firms sizes, they found that growth rates were higher for younger enterprises, growth rates were higher for small enterprises and growth rates were even higher for young and small firms engaged in knowledge-intensive industries. Writing about firm-specific determinants, Henrekson and Johansson said: “net employment growth rather is generated by a few rapidly growing firms—so-called gazelles—that are not necessarily small and young. Gazelles are found to be outstanding job creators. They create all or a large share of net new jobs. On average, gazelles are younger and smaller than other firms, but it is young age more than small size that is associated with rapid growth.” However, Acs, Parsons and Tracy reached different conclusions based on data collected about US firms active from 1994-2006. They found that while most high impact firms are small, large high-impact firms accounted for most of the new job creation. In addition, they observed that high-impact firms were not young (i.e., the typical high-impact firm was not a startup) and, in fact, the mean age of such firms was 25 years old and they typically had survived startup and adolescent phases prior to being classified as high impact. They also found that high-impact firms could be found in most sectors of the economy, not just in knowledge-intensive industries.

Researchers have explored other characteristics beyond firm size and age to identify reliable determinants of potential for high-growth entrepreneurship. Studies in the UK have found results that support the following propositions:

- Entrepreneurs and management teams of high-growth firms have higher skill levels and educational attainment.
- High-growth firms are more likely to hold intellectual property assets, including trademarks.
- High-growth firms had superior access to finance, particularly access to venture capital financing.

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18 Z. Acs, W. Parsons and S. Tracy, High-Impact Firms: Gazelles Revisited (Unpublished manuscript prepared for the United States Small Business Administration, 2008).
• High-growth firms demonstrated a cultural context promoting high growth and thrived with “high social capital” (i.e., networks, partnerships, relationships and linkages to other firms and institutions in form of supply chains and formal strategic alliances).

Researchers examining characteristics of the entrepreneurs and other founders behind high-growth firms found the following to be prevalent: high levels of human capital (education); experience as an entrepreneur and/or as an employee in a high-growth firm; and high levels of industry experience. Notable characteristics of the founding teams of high-growth firms included the size of the founding team, stability of the team members, the time that the members had spent together as a team, heterogeneity of backgrounds and cohesiveness.

As noted above, firms were better able to achieve high-growth status if they were able to gain access to “high social capital” and researchers have focused a lot of effort on “innovation clusters” (i.e., clusters or agglomeration of complementary economic activity and supporting institutions) and their influence on generating higher growth rates for entrepreneurial startups within a cluster. Gilbert et al. and Lechner and Dowling found empirical evidence identifying higher growth rates for entrepreneurial startups within a cluster and others found geographic proximity facilitates accessing and absorbing localized knowledge spillovers. For example, worker mobility was higher in clusters, as was the number of entrepreneurial startups, and clusters had strong localized networks, linkages and social capital. However, Acs, Parsons and Tracy argued that high-impact firms are not confined to cluster and could be found in almost every US location. While location with close geographic proximity to an urban area had been important at one time, the importance of urban areas had been decreasing over time and Acs, Parson and Tracy argued that there was no discernable different in spatial location of high- and low-impact firms.

Are You a Scale-Up Entrepreneur?

One of the fundamental conditions for growth-oriented entrepreneurship is the desire of the entrepreneurs who are the members of the founding team to not only launch and navigate their businesses to the point of survival but to go beyond that to enjoy significant growth in revenues, employment and market impact. Isenberg and others have argued that the skills necessary to get through the start-up phase, will obviously crucial, are not the same as those that entrepreneurs need to “scale-up” the business to the point where growth engines are mobilized. Isenberg developed a simple set of assessment questions that entrepreneurs could peruse to determine whether they were “cut out to be a scale-up entrepreneur”. These questions were based on interviews that Isenberg conducted with scale-up entrepreneurs from around the world and suggest that backgrounds and actions associated with success in moving through the risky launch stage of a new business to the point where scaling is feasible. Specifically, entrepreneurs should make a note of

whether they “agree” or “disagree” with the following statements:

- Something inside compels me to make something that will impact the marketplace.
- I am great at selling things to people that they may not know they want, nor think they have the money to buy.
- I have people on my team who are better than me in several areas of knowledge or practice.
- My venture already has the procedures, policies, and processes in place to be ten times the size we are today.
- When I don’t know what my next step is, I have experienced people I can turn to for ideas.
- There is money out there to fuel a venture that is growing fast; I just have to find it when I am ready.
- When I achieve my objectives I keep raising the bar higher and higher.
- I am one of the best sales people I know.
- Think big; thinking small is a crime.
- I know entrepreneurs just like me who have grown big, fast.
- The sales process is just starting when the customer first says no.
- If my venture stands in one place too long, it runs the risk of perishing. We have to keep moving forward.
- I know how to find great people to hire.
- Nothing gives me a bigger rush than closing a big sale.
- It is more important to know of a big problem that customers have and then look for a solution, than it is to have a solution that is looking for important problems to solve.
- I used to think our great technology would take us to leadership in our market — now I realize it is our team, our organization, our marketing and our ambition to sell.
- Even though I am a startup, I think more like a market leader than a small business.

The greater the number of times that one “agreed” with a statement, the more likely that he or she had the motivation to scale up their new venture. Two important themes were emphasized when compiling the questions: persistence and experience in all aspects of selling (e.g., sales organization, compensation, pipeline management, and selling skills) and attitude, particularly the ambition to grow the business and a vision for the business that is grand and large.

While sales is one of the most important skills for a scale up entrepreneurs, others areas for which founding teams might seek out training including personal leadership, effective communication, project management, managing performance, selecting a winning team, negotiation and managing change.


§11  Global surveys of growth-oriented entrepreneurs and high-growth SMEs

A report prepared and distributed by The Association of Chartered Certified Accountants in July 2012 titled “High-growth SMEs: understanding the leaders of the recovery” relied on data collected and analyzed by Delta Economics. Delta surveyed “growth oriented” entrepreneurs in BRICSA countries (Brazil, Russia, India, China and South Africa), in

20 The Association of Chartered Certified Accountants, High-growth SMEs: understanding the leaders of the recovery (July 2012) (based on data and analysis provided by Delta Economics in “Challenges and Opportunities for Growth and Sustainability”).
the US and in Europe (i.e., the UK, France, Germany, Italy, Spain, Belgium and the Netherlands) between October 2010 and December 2011. In deciding which entrepreneurs should be categorized as “growth oriented”, Delta limited its survey to entrepreneurs running relatively young businesses (between 2 and 10 years old) that had turned over a minimum of $300,000 after the second year of trading. The chosen companies had already demonstrated extraordinary tenacity and resilience by surviving several years of economic and financial turbulence in the years leading up to the survey, thus making them particularly good candidates for becoming sustaining manager-owned businesses in the future.

Interesting findings from the study included the following21:

- The Chinese growth-oriented businesses were the biggest, with an average turnover of $4.13 million (in the last full year of trading) and a median growth rate of 453% since start up. Growth rates from start up in Brazil and India were 311% and 216%, respectively, the growth rate in the US was 130%, the growth rate in the UK was 176% and the growth rates among the European countries ranged from 100% to 150%.

- Average employment among all the businesses was around 25 people and expectations were that employment would nearly double within three years. German GOEs employed an average of 13 people and are expected to employ 21 in three years’ time, showing the highest figures in Europe. Employment growth in BRICSA was impressive; GOEs in China employed 32 people at the time of the survey and that number was predicted to increase to 84 in three years’ time (comparable numbers for India were 27 and 50).

- The average age of growth-oriented entrepreneurs is 45. The lowest average age was in China at 35: Belgium had the highest average age at nearly 52. China had the largest number of female entrepreneurs at 26% and the survey average for female participation was 16%.

- 60% and 80% of initial finance for the surveyed businesses came from self-investment and most of this self-funding (75% on average) came from savings. When external financing was used to start a new business, 10%-25% came from family, friends and “other investors”. Once the businesses were launched, few of the entrepreneurs reported problems accessing financing and those were looking for new financing (20%) were most interested in growth finance.

- Growth-oriented entrepreneurs in Europe and the US were more likely to seek professional advice during the start-up stage than entrepreneurs in the BRICSA and entrepreneurs in India (62%) and China (65%) were twice as likely as their counterparts in Europe to turn to family members for advice. Advice from support networks and governmental agencies was disfavored, perhaps because they had little value to offer to growth-oriented businesses.

- Challenges experienced across all of the countries included recruiting people with the right skills and training, accessing government grants and contracts and overcoming tax and other regulatory hurdles.

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21 Adapted from “Executive Summary” and “Introduction” of report. Id. at 1-8.
- The majority of the businesses showed some level of innovation in the way in which they approached their markets, product differentiation or research and development ("R&D"). Brazilian (55%), Chinese (71%) and South African (47%) companies are more likely to have invested in R&D than their counterparts in the US (41%) and Germany (22%); however, innovation spending could not be directly related to growth in turnover, perhaps due to length of time that needed to pass before the fruits of investment could be seen in the form of increased revenue growth.
- Internationally-oriented businesses grew faster than domestic only businesses. 60% of businesses in the UK and Europe were international, BRICSA entrepreneurs were just under 50% international and only 40% of US businesses were international. UK sample showed that the international businesses that established as “domestic only” first grew even faster.
- The top four drivers in motivating the entrepreneurs worldwide were in order: following a dream; taking advantage of a market opportunity; getting autonomy over the entrepreneur’s time; and “making a lot of money”.

§12 International surveys of “new, dynamic ventures”

Listerri and Garcia-Alba analyzed the results of studies of entrepreneurship conducted by the Inter-American Development Bank that began with surveys of approximately 2000 nascent and new entrepreneurs in seven countries from Latin America and four from Asia in 2001 and 2002 and expanded in 2005 to include two European countries. The surveys focused on “new, dynamic ventures”, which were defined as “firms between three and ten years old that had grown to employ at least 15 workers, and no more than 100, during the study”. The results achieved by these companies were compared to a control group of less dynamic SMEs (i.e., new firms that had grown to less than 10 employees during the study). Listerri and Garcia-Alba provided the following highlights of the profile of the dynamic enterprises, including contrasts to the less dynamic firms:

- The dynamic companies employed an average of 26 workers, and had average annual sales of around $800,000, in their third year in business (average sales per employee for the companies was around $30,000 in the third year).
- In most cases, the projected initial investment amount for the new enterprise was relatively small--$100,000 during the first year; however, most of the companies were successfully launched for less than that amount and only one in five of the companies exceeded that amount.
- Early sales activities of the dynamic firms contrasted sharply to those of the less dynamic firms: first-year sales of the dynamic firms averaged between five and six

22 J. Listerri and J. Garcia-Alba, HGSMEs in Latin American Emerging Economies. The paper was prepared for “The OECD Kansas City Workshop”, Session III. “From Invention to the Market Place: Acquiring knowledge and intellectual assets: The interaction between large firms and small business in the fast growth process”. The surveys were described in H. Kantis, M. Ishida and M. Komori, Entrepreneurship in Emerging Economies: The Creation and Development of New Firms in Latin America and East Asia (2002) and H. Kantis (Editor) with P. Angelelli and V. Koenig, Developing Entrepreneurship: Experience in Latin America and Worldwide (Inter-American Development Bank/Fundes International, Inter-American Development Bank, Washington DC (2005).
times the sales of less dynamic firms; the proportion of projects of at least $100,000 was double; and the average team size among the dynamic firms was almost 30% larger than the less dynamic firms. The dynamic firms were also much more likely to engage in export activities, although the domestic market was the main source of business for all surveyed firms during their early years.

- A little more than half of the dynamic companies relied on offering differentiated products or services, focusing primarily on their domestic market, and relatively few elected to compete primarily on price as opposed to some form of real innovation. Main customers were other Latin American businesses; however, only one in four firms were involved in outsourcing arrangements for their customers.
- Most of the dynamic companies were formed and operated in metropolitan areas and most of them were involved in production and distribution activities (e.g., food, furniture, clothing, metal, mechanic and metallurgy). One in three of the dynamic companies operated in knowledge-based sectors, primarily software companies providing Internet and telecommunications services.

Llisterri and Garcia-Alba also noted the following personal and professional characteristics of the entrepreneurs who created the dynamic companies:

- Most of the companies were launched by teams of two or more founders.
- Half of the founders came from homes where the father worked independently as a businessman, a profession or was self-employed.
- Founders typically brought experience from working for another company in a similar sector (i.e., supplier or customer) or being involved in a line of business related to that of the new company. The proportion of the founders who had worked in small, medium or large firms was relatively similar.
- The average age of the founders was 36-37 and the range was between 31 and 45; however, the average age that the founders started thinking about forming their new business was around 26.
- Main reasons given by the founders for launching their new businesses were the desire for personal fulfillment, the opportunity to apply one’s knowledge and the motivation to improve their personal income.

Llisterri and Garcia-Alba noted that there did not appear to be significant differences in the educational background of the founders of the dynamic and less dynamic companies. In most cases, they had attained high education levels and their college degrees had provided them with important technical knowledge, especially for the dynamic entrepreneurs; however, the educational system did little to transfer other skills necessary for successful entrepreneurship. Dynamic entrepreneurs appeared to have distinctly different learning processes for entrepreneurship than their counterparts among the less dynamic companies. For example, the previous work experiences of dynamic entrepreneurs provided significant advantages in terms of gathering information on business ideas and learning the skills necessary to commercialize those ideas. In addition, dynamic entrepreneurs were better able to establish and mine networks of relationships that provided them with valuable support on such things as identifying
business opportunities, accessing funds, forging relationships with executives at larger companies and obtaining access to information and non-financial resources such as raw materials or facilities. Finally, while self-funding was the financing strategy used by most of the entrepreneurs, the dynamic entrepreneurs appeared to be more adroit at using other financial resources and thus were better position to avoid the constraints on growth associated with satisfying requirements for accessing bank financing.

§13 Growth-oriented small enterprises in Tunisia

Mansouri defined growth-oriented small enterprises in Tunisia as small and medium enterprises in industry and services sectors with a total investment of less than $2.1 million equivalent and which are run directly by their owners who directly and personally assume responsibility for all financial, technical and moral matters relating to the venture. The number of employees working these ventures range from 10 to 100.\textsuperscript{23} Mansouri noted that growth involves job creation, internationalization, product and process innovation and organizational innovation and growth-oriented companies are focused on improving their competitiveness, increasing their size, searching for new market opportunities and acquiring comparing advantages. Factors and firm-specific characteristics relating to growth include the age and size of the firm, internal finance, capital structure, growth opportunities, factor productivity and the entrepreneur’s personal attitude regarding risk.

§14 Qualitative assessments of high impact small businesses

While most of the research described above has been grounded in quantitative analysis of growth-oriented entrepreneurs and their firms, there has been an explosion of books, reports and articles providing largely qualitative assessments of high impact small businesses. Consultancies in the human resources field have been especially interested in identifying firms that provide their employees with a health workplace environment. For example, “Great Place to Work” surveyed more than 88,000 employees at 450 small and medium-size businesses in the US to determine which of those businesses should be among the best employers.\textsuperscript{24} Among the small companies—defined as companies with 25 to 249 employees—the firms included on the “top 25” ranged in workforce size from 25 (Squaremouth, St. Petersburg Florida, with $4.5 million in annual revenue) to 235 (Ruby Receptionists, Portland Oregon, with $15.3 million in annual revenue) employees. Annual revenues among the companies in the “top 25” ranged from $3 million (Mammoth HR, Portland Oregon, with 40 employees) to $183 million (Granite Properties, Plano Texas, with 150 employees). Revenue per employee among the “top 25” companies ranged from $65,000 (Ruby Receptionists, Portland Oregon, with 235 employees and $15.3 million in annual revenue) to $1,89 million (Radio Flyer, Chicago

\textsuperscript{23} F. Mansouri, “Challenges in Accessing Finance for Growth-Oriented Small and Micro Entrepreneurs in Tunisia”, Presentation for 5\textsuperscript{th} Meeting of MENA-OECD Working Group on SME Policy, Entrepreneurship and Human Capital Development (February 2011, Casablanca Morroco).

\textsuperscript{24} 50 Best Small and Medium-Size Companies to Work For, Fortune (November 1, 2015), 40.
Illinois, with 58 employees, $110 million in annual revenues and the Number One ranking among the companies listed in terms of quality of the workplace).

A team of researchers led by Burlingham searched for US companies that had opportunities to grow, and grow quickly, yet decided that while growth was a sign of health it was better to focus on “other, nonfinancial priorities as well, such as being great at what they do, creating great places to work, providing great service to customers, making great contributions to their communities and finding great ways to lead lives”. The criteria used for selection was the same as Burlingham had previously used in writing a book called Small Giants and included the following:

- The company has been acknowledged as outstanding by those who know the industry best.
- It has had the opportunity to grow much faster, but its leaders decided to focus on being great rather than being just big.
- It has been recognized for its contributions to its community and to society.
- It has maintained its financial health for at least ten years by having a sound business model, a strong balance sheet and steady profit margins.
- It is privately owned and closely held.
- It is human-scale, meaning frontline employees have real interaction with top leaders.
- It has “mojo”, the business equivalent of charisma, which means that people want to be connected to it as a customer, a supplier or an employee.

Companies on the list ranged from relatively small in terms of number of employees and annual revenues—Askinosie Chocolate, a Springfield MO chocolate maker with 17 employees and $1.8 million in annual revenue—to much larger businesses such as Abt Electronics, a family-owned, single-location electronics and appliance retailer in Chicago with $400 million in annual revenue and 1,400 employees. 12 of the 20 companies on the list had fewer than 250 employees and the annual revenues among the companies in that group ranged from $1.8 million to $110 million (the toymaker Radio Flyer from Chicago, the same company ranked Number One among small companies by Great Places to Work in the survey described above)

**Case Study: Radio Flyer and Integrated Project Management**

Two companies appeared on both of the lists described in the text: Radio Flyer, a Chicago-based toymaker that has been manufacturing popular and iconic toy wagons since 1917; and Integrated Project Management (“IPM”), a pioneer in the project management sector launched in 1988 and headquartered in Burr Ridge, Illinois. While the companies are comparable in terms of number of employees (Radio Flyer (101) and IPM (145)), Radio Flyer’s annual revenue of $110 million was significantly larger than the $29 million booked by IPM.

The lists were accompanied by very brief descriptions of each of the companies and no specific empirical information about how the companies were operated and managed was presented; however, some general insights were provided about why and how these companies fared so well in the overall surveys:

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25 B. Burlingham, “Best Small Companies”, Forbes (February 8, 2016), 86.
The leadership of Radio Flyer, a family-owned business for several generations, had a true passion for the company’s product and preserving and enhancing the company’s brand. For his part, the founder and CEO of IPM began the business in 1988 with the specific mission of building a company that would last for 100 years.

Radio Flyer’s traditional product line, which was heavily dependent on a single model of toy wagon, was critically assessed and investments were made in new product development to address competition and diversify the revenue stream.

Input from all Radio Flyer employees, including customer service representatives and administrative assistants, was solicited on all new product designs. As a result, Radio Flyer’s employees were highly vested in the success of new product launches. Employees felt like a family and were eager to find ways to improve the products and the way the company worked.

Radio Flyer’s costs were reduced through the use of foreign manufacturers overseen by a company office established in the country (China) where the manufacturing occurred.

A rigorous hiring process was implemented at Radio Flyer that called for each candidate to complete a writing assignment that included a description of three successes and one failure and a list of 15 questions they wanted to ask about the company. The CEO personally interviewed each candidate before a hiring decision is made.

Consistent with his goal of “building to last”, the first person the founder of IPM hired was someone who could succeed him if he was no longer able to lead the business, and that person remained second in command over 25 years after the company was started.

IPM focused on implementing “state-of-the-art” management disciplines from the very beginning that included all of the employees (e.g., all full time-employees are actively in the annual planning process). IPM employees also have opportunities for earning “development fees” for bringing in a new client equal to 3% of the first year’s revenue from the client.

The founder and CEO of IPM invested time and effort in becoming a pioneer of the fledgling industry—project management—in which the company operated.

Sources: 50 Best Small and Medium-Size Companies to Work For, Fortune (November 1, 2015), 40; and B. Burlingham, “Best Small Companies”, Forbes (February 8, 2016), 86.
About the Author

Dr. Alan S. Gutterman is the Founding Director of the Sustainable Entrepreneurship Project (www.seproject.org). In addition, Alan’s prolific output of practical guidance and tools for legal and financial professionals, managers, entrepreneurs and investors has made him one of the best-selling individual authors in the global legal publishing marketplace. His cornerstone work, Business Transactions Solution, is an online-only product available and featured on Thomson Reuters’ Westlaw, the world’s largest legal content platform, which includes almost 200 book-length modules covering the entire lifecycle of a business. Alan has also authored or edited over 40 books on sustainable entrepreneurship, management, business law and transactions, international law business and technology management for a number of publishers including Thomson Reuters, Kluwer, Aspatore, Oxford, Quorum, ABA Press, Aspen, Sweet & Maxwell, Euromoney, CCH and BNA. Alan has over three decades of experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He has been an adjunct faculty member at several colleges and universities, including Boalt Hall, Golden Gate University, Hastings College of Law, Santa Clara University and the University of San Francisco, teaching classes on a diverse range of topics including corporate finance, venture capital, corporate law, Japanese business law and law and economic development. He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph.D. from the University of Cambridge. For more information about Alan, his publications or the Sustainable Entrepreneurship Project, please contact him directly at alangutterman@gmail.com, and follow him on LinkedIn (https://www.linkedin.com/in/alangutterman/).

About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) engages in and promotes research, education and training activities relating to entrepreneurial ventures launched with the aspiration to create sustainable enterprises that achieve significant growth in scale and value creation through the development of innovative products or services which form the basis for a successful international business. In furtherance of its mission the Project is involved in the preparation and distribution of Libraries of Resources for Sustainable Entrepreneurs covering Entrepreneurship, Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Compliance and Risk Management, Finance, Human Resources, Product Development and Commercialization, Technology Management, Globalization, and Managing Growth and Change. Each of the Libraries include various Project publications such as handbooks, guides, briefings, articles, checklists, forms, forms, videos and audio works and other resources; management tools such as checklists and questionnaires, forms and training materials; books; chapters or articles in books; articles in journals, newspapers and magazines; theses and dissertations; papers; government and other public domain publications; online articles and databases; blogs; websites; and webinars and podcasts.

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