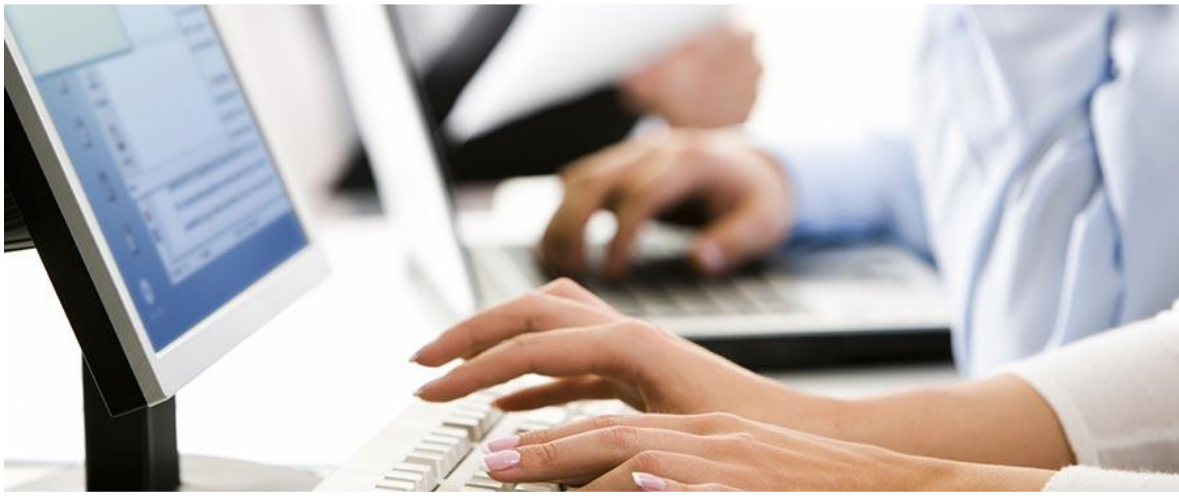
Research Report



Business Growth in Cumbria

Prepared for: **Cumbria Local Enterprise Partnership**

Prepared by: June Wiseman, Emma Parry and Philip Roe, BMG Research

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1. Introduction: perspectives on business growth

Introduction

1. In 2013, a telephone survey of two thousand employers in Cumbria was commissioned by Cumbria's Local Enterprise Partnership (LEP). This survey addressed a variety of factors concerned with the County's economic performance including broad business trends, business access to finance, the availability of skills, and workforce development. However, a principle and underlying concern of the LEP is with *growth* in Cumbria's economy. The LEP's 'Business Plan: Key Priorities' of March 2013 notes that 'we are determined to increase Cumbria's Gross Value Added by working together to exploit our talents, building on our entrepreneurial culture, implementing new approaches and ensuring that investment and agreed interventions are targeted at key issues and opportunities'. One key strand in the LEP's strategy is a business-focussed one in which the LEP 'inspires and support businesses to reach their full potential – locally, nationally, and internationally'. Essentially, the intent is that growth of individual companies should provide the building blocks of aggregate growth in the local economy as a whole.

2. Analysis of the survey, therefore, also gave some attention to the scale and distribution of business growth in Cumbria in order to provide a factual benchmark against which efforts to stimulate growth can be assessed. In addition, however, a further twenty interviews were undertaken in more depth with a selection of businesses (identified either by the LEP or from the telephone survey itself) which were believed to have shown significant growth or to have significant growth potential. The purpose of these further interviews was to examine in more detail the factors and circumstances which are conducive to business growth in Cumbria and which may offer good practice guidance both to other businesses in the County and to local business support interventions.

3. This short report draws on both sources (the large telephone survey and the shorter programme of depth interviews) in order to deliver such insights. Before this analysis, however, it may be useful to consider some wider perspectives on business growth, particularly on growth in the smaller and medium enterprises which, in Cumbria as in almost all local economies, make up the great majority of businesses. There is a very large and sometimes highly technical body of literature on the phenomenon of small firm growth and on public interventions to promote it. The intention here is not to review this literature systematically, a task which is beyond the scope of this report, but to point to a number of themes and issues which are worth thinking about when growth in Cumbria is considered in more detail in later sections of this report.

What is business growth?

4. A first observation is that 'growth' is itself open to varying interpretations. Basically, firms may grow on a variety of measures – asset strength, return on investment, sales value, profits, numbers of customers, market share, movement towards higher value products or services, employment, and so on. These may, but very often do not, advance in parallel. A firm may grow sales in a generally rising market but, performing less well than its competitors, may lose market share; a firm may increase its revenue but, with greater productivity, may not increase its employment level; a firm may deliberately shed its low value customers in order to increase margins by better serving its most profitable ones;

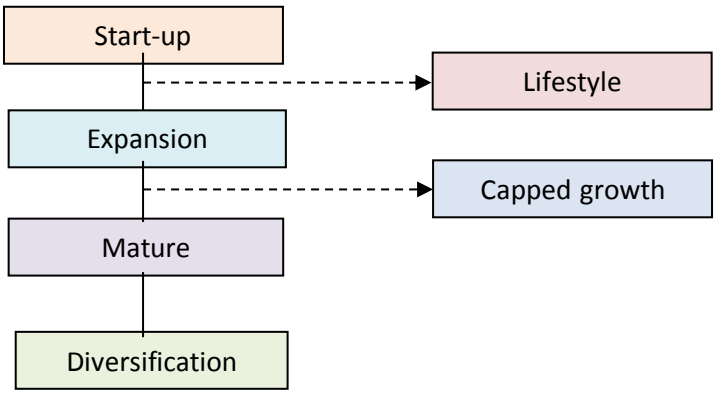
investment in staff or equipment may reduce reported profit in order to lay the foundations for future growth; and so on. The simple point is that obvious or headline measures of business growth may not reveal the true performance of the business relative to its competitors or when its performance is considered over a longer period.

5. A second point is that external public agencies tend to position employment as a key measure of growth since it is readily measurable (though shifts between full-time/permanent employment and part-time/casual employment may muddy the waters) and since high employment (or, at least, reduced unemployment) frequently constitutes an overt objective of public policy. However, as above, changes in employment level may be an imperfect correlate of other measures of growth, particularly as, for firms themselves, employment levels are a symptom of business performance not business performance per se. While many businesses may try to protect their existing staff from redundancy and recruit at levels to meet their business objectives, ultimately, the maintenance and growth of profit, not a particular level of employment, usually constitutes their key measure of business performance.

6. One obvious message for public agencies seeking to support successful local businesses is that they need to look carefully at those businesses' strategies in total in order to judge where support is appropriate – the prospect of short term employment growth may not be the best arbiter of the decision to support or otherwise if taken in isolation.

Lifecycle or stage models of business growth

7. A further frequent theme of the 'small firm growth' literature is the attempt to construct a theory of growth on a quasi-biological model – such that firms, from start-up onwards, have a typical trajectory akin to that of a living organism. These models are varied but they usually have a basic pattern such as:



8. The basic proposition is that firms move through stages:

- Start-up – young, small, simple organisational structure, centralised, informally managed, little functional specialisation of employees.
- Expansion – slightly older, more organisational levels, more employee specialisation, but still centralised management.
- Mature, typically now substantially larger, more complex organisational structure, more devolution of management.

- Diversification – divisionalisation of structure, management (apart from 'core' management) devolved to divisions, subject to mergers, acquisitions, and divestments to rationalise organisational structures and to maximise overall profit.

9. Progress through these stages, however, may be diverted. Start-ups may evolve rapidly into *lifestyle businesses* which may exist for many years and whose main function is to provide an acceptable level of income for their owners. This may be a matter of choice or an inevitable effect of operating in small local niches (typically local retail, hospitality, or other specialised services). *Capped businesses* have expanded to modest size through the expansion phase, but, because they are in constrained niches or because their continued success actually depends on their remaining smaller, flexible and 'nimble' businesses in the face of more powerful but less responsive competitors, they do not expand further. Provided environmental change or ineffective management do not reduce their competitiveness, such businesses may remain profitable for many years, but do not grow much further.

10. Such models have an attraction for external support agencies in so far as, being able to classify businesses as being in one or other of the groups, they offer a systematic basis for intervention. If a marginal pubic investment can help businesses in start-up or expansionary phases to move onwards through the growth stages, or can help a 'capped business' escape its niche, then a public reward of increased employment may be on offer.

11. However, the critique of such models is that they are largely descriptive, in that: they report what is observable *following* the growth of some firms but don't reveal the underlying processes of the phenomenon; that they are selective of firms which have grown – they don't account for the cases of non-progress, omission of stages, and regression which are actually much more frequent than the cases which progress neatly up the hierarchy; and that they don't recognise the varied endowments (of resource, opportunity, and so on) which are brought to the start-up phase *before* start-up and which may be critical to the extent of 'lift off' thereafter. Whilst life-cycle models remain an interesting conceptualisation of firm growth, in practice, focus on the firm as a firm rather than as the embodiment of a model 'stage' is, again, generally necessary to understand its growth or growth potential – either for 'academic' purposes or, more practically, to assess its value as a public or private investment opportunity.

Multi-factorial models of small firm growth

12. In this light, the bulk of 'small firm growth' literature examines growth as the product of multiple factors attaching to each business as an entity in its own right. Broadly, these factors can be grouped as environmental, resource-related or management-related.

Environment

13. 'Environment' factors can themselves be clustered into two main groups (with some interrelationships between them).

14. The first group may be termed 'macro-environmental'. Within this group, there are simple economic geography theories based on consideration of the appropriateness of the environment (natural resources, availability of labour and skills, distance from markets, and so on). Elaborations concern ideas of sector specialisms and the 'industrial tissue' hypothesis in which communities of interlocked commercial interests, skills, ideas, and

innovation collectively confer advantage on the individual business and promote its growth (Silicon Valley, City of London, Energy Coast, or any number of present or historic geographical conglomerations of particular specialised production are examples). Whilst globalisation and the explosion of communication technologies can theoretically attenuate such localised agglomerations, physical proximities still appear to have very considerable significance to patterns of output.

15. 'Micro-environmental' factors concern the particular customer/competitor set which applies to the individual firm, largely determined by the firm's product or service offer. The obvious contrast of extremes is between, say, the local village store with little scope for growth and a high-tech start-up with, potentially, a global market accessed via an advanced marketing strategy and with a readily transportable and innovative product or service. The inherent challenge for growth is the extent to which a potential 'space for business', in terms of its volume and value, can be exploited and, if too restrictive, the ability of the business to diversify into new territory.

Resources

16. Resource theories suppose, quite obviously, that if the business has adequate or generous resources, then it can overcome other limitations (for example, by buying in expertise it can overcome shortages of management capability, or, if apparently constrained to a particular niche, it can afford expansionary marketing or research and development to expand the range of products or services). Whilst 'resources' may nominally include, say, premises or equipment, the basic resource is, of course, access to cash (from the original start-up investment, from retained profits, from venture capital, from bank loans secured on assets, or whatever).

Management

17. The final factor in the multi-factorial mix is the quality of management. Essentially, this concept blends two main groups of factors – 'attitudinal' ones and 'expertise' ones. There is much literature which explores the significance to growth of the leadership dimension (blending ambition, appropriate attitudes to risk, the personal charisma to inspire staff loyalty or generate sales, and so on) and the more technical management dimension (organisation of delivery and accounting systems, appropriate distribution of functions and lines of responsibility, development of quality control, and so on) – and the relative importance of the two sets of factors at different stages of business development.

Balance of factors

18. Whilst the potential impact of these three main groups of factors on the growth trajectory of an individual firm is virtually self-evident, the difficulty is that there is no single algorithm linking the factors which transfers readily from business to business. Each business has its unique blend and individual features which seem critical to success in one case but do not necessarily produce success in others because of marginal differences in other aspects of the business. At the extremes, very obvious limitations and very obvious advantages may lead to robust identification of 'no hope' and 'triple A' prospects but between those extremes the prediction of growth is much more uncertain.

19. The messages for public intervention may simply be once again that, if considering significant support to specific businesses, it is necessary to undertake a full review of business strengths (of all forms) and of business strategy; and, in seeking to promote

good business practice, the message to businesses has to be 'it is likely to be beneficial if you do X' rather than 'if you do X your business will grow'.

Barriers to growth

20. As a reciprocal to the growth factors discussed above, some 'growth literature' focusses on growth as an outcome of overcoming limitations imposed by the external environment or by internal limitations in the capability or capacity of the firm. These may include not only the absence of, or constraint on, the original 'good' attributes (strong management, availability of skills, adequate and growing demand, etc.) but the constraints generated by growth itself – pressure on supply chains, cashflow problems, or ability of management to adapt to higher levels of output (failure to move, for example, from a 'craft-based' mindset to a 'business-based' mindset or conversely, as volumes grow, losing the focus on quality and uniqueness which initially generated success).

Public interventions

21. In essence, public policy in support of business growth seeks to influence the three groups of factors on which business growth is predicated, for example:

Environment	Business resources	Management
Taxation policy Regulatory frameworks Education and training policy and practice Transport, energy, and ICT infrastructure Exporting or marketing initiatives (eg. area branding) Sector or supply chain initiatives Inward investment to generate local supply opportunities	Assistance with finding sites and premises (sometimes at subsidised cost) Improving access to finance	Leadership or management education or consultancy Business mentoring Business learning networks Business advice or information

22. Of course, some of these 'interventions', such as taxation or regulation, simply set a context for business operation, are largely non-discriminatory between different sectors and businesses (though there may, for example, be some concessions for small businesses), and are set at national or European level. Others (such as business advisory services or export initiatives) operate both at national and sub-national levels (generally, in the UK, with the demise of RDAs, at local rather than regional level) whilst some (such as local branding or sites and premises assistance) are usually locally derived and delivered.

23. One particular issue for interventions operated at local level concerns support services which are *not* 'open-access' or otherwise business-neutral (such as general improvements to local educational institutions or transport infrastructure which simply

raise the general level of business efficiency). Where local support to businesses is selective and offers intensive assistance to some firms, it has the potential to distort local competition frameworks: if there is a finite local market, simply assisting one local supplier to become more efficient at the expense of other local suppliers may, through the displacement effect, have zero sum effects for the local business community and employment levels, at negative cost to the public budget. Broadly, local business support may, perhaps, be most safely applied where it raises the efficiency of a local business community or sector or supply chain as a whole and/or where it assists particular businesses but these have wide markets outside the local area and, hence, 'import' wealth into an area. It may be of lesser value where, as above, *net* benefits to the area are likely to be negligible.

Remainder of this report

24. Further chapters of this report now briefly review the evidence on business growth in Cumbria generated by the large scale survey of Cumbria employers in 2013 and report key findings from the depth interviews undertaken with a further 20 Cumbria businesses. A final chapter draws out some conclusions based on that evidence and informed by the more general perspectives on business growth set out in this chapter.

2 Business growth in Cumbria: survey analysis

Trends in Cumbria's economy

25. Using employment levels as a first indicator, the overall picture of Cumbria's economy (revealed by the business survey of 2,000 employers) is one of *broad stability* in 2013. Around four out of five employers reported that their employment level had remained stable, whilst around 1 in 10 in each case reported increasing or declining employment. When actual changes in job numbers are projected upwards from the survey sample onto Cumbria's employers as a whole, the effect for Cumbria is estimated to be an overall modest net gain of around five hundred jobs. [However, the survey was unable to account for employment lost in businesses which closed in the year (obviously, these were not available to the survey) and the survey did not distinguish between part-time and full-time jobs, so it is not known whether the apparent modest growth in total job numbers reflected a total gain in hours worked in the economy or not.]

26. Two further observations on this summary data are important. Firstly, the picture of stability (or perhaps of modest growth) contrasts markedly with that presented following a comparable survey in Cumbria in 2011 which estimated a net loss of 8,000 jobs in the County in that year. Stability in the economy this year marks a very significant improvement on the position two years ago.

27. Secondly, while job changes overall were not pronounced, it is noticeable that they were not even across sizes and sectors of employment. Thus, the greatest net loss (of around 2,300 jobs) occurred in very small businesses, those with fewer than 10 staff. In establishments with 10 or more staff, net employment change was positive for all size groups (and totalled a net jobs gain of around 2,800 jobs). In terms of sectors, the greatest loss (of around 1,300 jobs) was of employment in the public services sector due, it can be assumed, to reductions in the public budget (though construction, with a net loss of 500 jobs, and manufacturing, with a small net loss of 200 jobs, also declined in the year). All other sectors reported broad stability or growth in employment. Essentially, thus, if the 'deficit reduction' element of the employment picture is extracted as being a special case, then Cumbria's economy showed somewhat more significant growth (than the overall plus-500 figure suggested above) of around 1,800 additional jobs.

28. In terms of sales turnover, a lower proportion of businesses, 44%, reported stability (compared with their previous trading year) than reported stable employment. A slightly higher proportion (28%) reported an increase in sales turnover than reported a decrease (25%). Again, larger SMEs (those with 10 or more staff and, particularly, those with 100 or more staff) were more likely to report gains and less likely to report declining turnover than were very small businesses with fewer than 10 staff. Generally, therefore, the sales performance of Cumbria's business economy (with an estimated 6,000 firms seeing turnover growth against an estimated 5,200 firms seeing turnover decline, and with the former weighted to larger businesses and the latter weighted to very small ones) suggests that a basis for growth in Gross Value Added in the local economy was in place during 2013 – but with only some of this growth reflected in the more restricted employment change noted above.

29. Within this general, and moderately positive, set of findings on local economic growth, a number of further points can be made.

30. Firstly, as is typical of small businesses, which tend, of course, to be 'market-takers' rather than 'market-makers', many more businesses saw market conditions as driving their growth than other business factors reflecting internal strategy or organisation as drivers. When asked to identify the single main driver of their growth, 28% of businesses which had grown said 'an improvement in demand', 11% said 'stronger marketing', and 8% said 'expanding into new markets' compared, say, with the 5% who said 'investment in new technology or premises', the 4% who said 'a formal strategy for growth', or the 3% who said 'staff or management training or development'.

31. Correspondingly, businesses most frequently saw external factors, mainly at a national level, as *constraints* on their performance – 'the economy' was seen as a constraint by 66%, regulations by 53%, taxation and national insurance by 49%, compared, for example, with smaller proportions who said the unavailability of suitable training (15%) or of suitable premises (10%) were constraints. In between these extremes, it was also notable that, while most local factors (local planning system, local road network, available of parking, etc.) have remained more or less stable as constraints on proportions of Cumbria businesses, two local labour market factors, 'the availability of people *able* to do the job' and 'the availability of people *willing* to do the job', have risen steadily in salience – the former from a constraint on 21% in 2009 to a constraint on 35% in 2013, the latter from constraining 20% in 2009 to constraining 32% in 2013. These factors, indicating rising difficulty in sourcing labour, may reflect increasing labour demand in line with a strengthening economy, rather than any decline in the actual levels of skills and motivations in the local workforce.

32. Thirdly, when asked about more specific business trends (than in employment and sales turnover levels) more businesses saw increased energy prices, raw materials prices and staff costs than saw falls in the cost of these inputs; whilst more businesses saw lower profit margins and cash in the business than saw increases in these outputs. Thus, even though more businesses saw increases in orders and production than saw declines in these, the sense of the data is that increases in volume of production or service delivery did not deliver as much added value as would have been the case if input costs had not risen (most notably energy costs, reported as having risen by 68% of businesses and has having reduced for only 3%).

33. Looking to the future, two-thirds of businesses expected to grow their sales turnover in the next 2-3 years. However:

    - Again, the most frequent driver of this growth was an expected increase in market demand and stronger marketing rather than internal development of business capability.
    - Only a third of businesses (34%) which said they expected to grow actually had formal plans and budgets to drive growth forward.
    - And the impact of expected sales growth had a relatively soft effect on expected employment growth: although, as above, 66% expected turnover growth, only 31% expected employment levels to rise.

34. In summary, therefore, the Cumbria employer survey presents a picture in which:

- The economy substantially recovered from the 2008/09 recession: in 2013, more businesses grew their sales turnover than reduced it and most of this growth occurred in businesses with 10 or more staff, rather than in micro-businesses.
- The effect of this was to stabilise employment levels: whilst a 2011 survey estimated very significant net jobs loss in Cumbria, the 2013 survey estimates modest increase.
- Many businesses (though, of course, not all) see business growth or lack of it largely in terms of external factors – the level of demand in their markets and taxation and regulation being the most commonly identified constraints on growth.
- Looking forward, business confidence in sales turnover growth is high (and, given positive national economic indicators at time of writing) may well be justified.
- However, in line with the point above – that many firms see business growth as a matter of rising on the tide of increased demand – only a minority of businesses expecting to grow have formal plans and budgets to ensure that the business is positioned to fully deliver their growth potential.
- Further, business caution and/or the ability to expand sales without increasing their current employment levels (presumably because of spare capacity or expectation of productivity gains) mean that the proportion of firms expecting to increase their job numbers is considerably lower than the proportion which expects to increase sales.
- And, because of the rising cost of inputs (energy and other supply prices), which are largely outside of local control, the added value generated by recovery has necessarily been lower than it would have been without this factor. It remains to be seen whether the value of further growth in the local economy which, given current national indicators and the level of local business confidence shown in the business survey might be expected, will remain constrained by this rising-costs factor.

Growth businesses in Cumbria

35. The first section of this chapter has made some general observations about recent and prospective growth in Cumbria's economy. However, a classification of businesses in the survey was undertaken which specifically grouped employers as:

- *'Growers'*: Businesses or organisations that have increased the number of staff employed by 5% or more in the last year or that have increased turnover by 5% or more in the last year.
- A sub-set of 'Growers' that are *'High Growers'*: Businesses or organisations that have increased the number of staff employed by more than 20% in the last year or those that have increased their turnover by more than 20% in the last year.

- *'Stable'*: Businesses or organisations that have had the same number of staff or who employed less than 5% more or fewer employers than 12 months ago *and* whose turnover has remained the same or increased or decreased by less than 5%.
- *'Shrinkers'*: Businesses or organisations that have reduced the number of staff employed by 5% or more in the last year or that report a reduction in turnover of 5% or more compared with 12 months ago. In addition, this group has not grown employment or turnover by 5% or more.

36. Using this classification, it is possible to look beyond the general points on local economic growth set out above and to consider in more detail the characteristics of businesses in Cumbria which grow – particularly those in the 'high growth' category – in order to identify messages which may be useful to local economic development policy.

37. In considering growth businesses, a first point to note is that while survey data frequently distinguishes growth organisations from stable or shrinking ones on various characteristics, it does not always do so by huge percentage margins: there is evidence that growing organisations are more likely to exhibit particular characteristics but they seldom have a monopoly on those characteristics (for example, see later, growth businesses are more likely to export but not all growth businesses export nor are all exporters growth businesses).

38. A second point to consider is that the causality of relationships in the survey data is not established. It is seldom possible to say whether organisations grow because they have a particular characteristic or whether their growth stimulates or supports the characteristic, though, of course, it is likely that there is close synergy between 'growth activities' – increases, say, in investment or exporting – and growth itself, which manifests as increased turnover or employment .

39. With those preliminary points in mind, some associations in the survey data between groups of organisations having different growth characteristics and their other characteristics and behaviours can be summarised.

The distribution of growth businesses

40. Firstly, the overall proportions of the different groups are identified. Thus, 9% of Cumbria's employers are identified as 'high growers' and a further 18% as moderate growers. In aggregate 27% of Cumbria's employers are identified as 'growers'. More than half, 54%, are identified as stable, and a fifth, 19%, as 'shrinkers'.

41. Differences between Cumbria's *districts* are not great (and may be affected by sampling error in the sub-samples). However, indicatively, South Lakeland with 30% of employers in the 'growers' category has a 7% advantage on the 'least frequent' growth area of Barrow, which has 23% of its employers in this group.

42. There are, however, more pronounced relationships between the growth categories and the *size* and *age* of organisations. Thus:

- Small employers with fewer than 25 employees (but excluding 'no employee' businesses, of course) are more likely to be 'high growers'. Ten per cent of these are 'high growers' compared with 6% of employers with between 25 and 99 staff and 1% of those with 100 or more staff.
- However, larger organisations are more likely to be more moderate growers with a higher proportion in the 'growers'[1] category (37% of those with 100+ employees compared with 29% of those with fewer than 10 staff which are 'growers', but just 1% of 100+ employees are 'high growers', compared with 10% of those with fewer than 10 staff).
- Putting the two factors together, the single size group showing most growth is that of organisations with between 10 and 24 staff (36% in the 'growers'[2] group, almost a third of them 'high growers'). For all other size groups of organisation, the value increases with size (1-9 employees – 29%; 25-99 employees – 33%; 100+ employees – 37%).
- Young organisations, those less than 4 years old, are markedly more likely to report high growth (20%) than are older organisations (8%). With 41% of young organisations in the 'growers' category, compared with 25% of older organisations.

43. These figures tend to give some support to the 'lifecycle' theories of business growth, discussed in our first chapter, which identifies fast growth with start-up and expansionary phases of businesses. It should be noted, however, that the growth categories used here are proportional ones. Hence, 'high growth' in a very small organisation can be identified as a result of numerically small recruitment. For example, adding 4 new staff to an existing workforce of twenty people would classify the business as 'high growth' whereas many more recruits in a much larger organisation would not necessarily do so.

44. In terms of *sectors*, high growth was most strongly associated with professional, scientific and technical services (15% 'high growth'), with manufacturing (13%), and with the transport and communication sectors (12%), compared with the average of 9% across all organisations. However, more generally, 'grower' businesses (those which had had increases of 5% or more in employment and/or sales turnover) were most frequently found in business services (35%) and accommodation and food services (33%), compared with the average of 27% across all organisations. Overall, differences in their proportions of growth firms between all the private sectors (except for primary industries, mainly agriculture, which showed slightly less growth and significantly more shrinkage than average) were generally modest. Essentially, at a fairly high level of Standard Industrial Classification of organisations (necessary to seek reasonable levels of statistical meaning) there was no sector with sufficient growth to be identified as a 'growth sector' whose stand-out performance might hypothetically mark it as a special focus of economic development strategy.

[1] Not including 'high growers'.
[2] Which includes 'high growers'.

The nature of business growth

45. Of course, businesses which were classified as 'growth' businesses had grown their employment and/or turnover; these were the basic criteria by which the classification was determined. However, the key factor determining the growth classification was more often a rise in sales turnover rather than an increase in employment. Thus, 87% of 'grower' businesses had seen increases in turnover but only 37% had seen increases in employment in the previous 12 months.

46. As our introduction noted, business growth can be measured on factors other than sales and employment. In two cases, of 'domestic orders' and 'output', the indicators were virtually synonymous with turnover. The first of these had increased very significantly more often for 'growers' (52%, rising to 55% of 'high growers') than for 'stable' (16%) and 'shrinker' (5%) businesses. In the second case, output had increased by 63% among 'growers', increasing to 70% of 'high growers', compared with 15% for 'stable' and 8% for 'shrinkers'.

47. However, other indicators also showed much better performance for growth businesses. Profit margins increased for 39% of 'growers' (35% of 'high growers'), compared with 12% of 'stable' businesses and 5% of 'shrinkers', while cash retained in the business increased respectively for 36% (41%), 8%, and 4% respectively. It was also notable that more 'growers' (35%; 30% of 'high growers') were able to raise prices to customers than were 'stable businesses' (24%) and 'shrinkers' (18%). Essentially, growth in turnover and employment in growing businesses was not bought at the expense of margins, the asset strength of the business or price reductions.

Growth-related behaviours

48. It was noted earlier that association between business growth and business behaviours does not necessarily mean that adopting particular behaviours is the *cause* of growth. Clearly, too, some businesses cannot adopt some behaviours – for example, many products and services cannot be exported, the scope for innovation is more restricted in some sectors than others, and so on. Whist recognising this, some associations which the survey observed were:

    - Growth businesses were more likely to have export markets ('growers' 28% - 'high growers' 29%; 'stable' 19%; 'shrinkers' 21%).
    - Where businesses had export markets (whatever their growth classification), 'growers' (24% saw growth, rising to 36% of 'high growers') were more likely to have seen growth in their export volumes than were 'stable businesses' (7%) and 'shrinkers' (12%).
    - Growth businesses were more likely to have increased investment in the business in the last 12 months; 'growers' (33% increased), including 38% of 'high growers'; 'stable' (14%); 'shrinkers' (13%).
    - Growth businesses were more likely to report *product or service* innovation; 'growers' (50% innovated, including 53% of 'high growers'); 'stable' (30%); 'shrinkers' (28%).
    - Growth businesses were more likely to report *process* innovation; 'growers' (39% innovated, including 44% of 'high growers'); 'stable' (23%); 'shrinkers' (17%).

- Growth businesses were more likely to supply training to their staff and, particularly, to supply *formal* training; 'growers' (54% supplied formal training, including 59% of 'high growers'); 'stable' (39%); 'shrinkers' (28%).

49. A final business 'behaviour' which is considered is one which is often held to be an important factor in business growth – that is, the ability to adopt an appropriate position in respect of the balance of risk and reward which is conducive to growth, with the further popular assumption being that successful entrepreneurs tend towards the 'riskier' end of the spectrum. In fact, survey data suggests that differences (in Cumbria at least) are quite modest. Shrinking businesses were somewhat more likely (perhaps understandably) to describe themselves as very cautious and stable businesses were less likely to distinguish themselves as 'aggressive', but otherwise, there was no clear differentiation of the groups:

Growth categories and self-perceived attitudes to risk/reward; percentages

	High growers	Growers*	Stable	Shrinkers
Very cautious	27	24	29	37
Fairly cautious	51	50	51	46
Fairly aggressive	11	15	6	10
Aggressive	4	4	1	4
Other/not sure	7	6	12	4
Total	**100**	**100**	**100**	**100**

******includes 'high growers'*

Constraints on growth

50. It was noted in our introduction that some commentators examined growth not as the output of positive attributes of business but as a reflection of the constraints that businesses were under. Looking at survey data from this perspective, it can be seen that:

- When asked whether there were particular local markets which they found it difficult to break into, growth businesses said *more* frequently that they had difficulty gaining nuclear industry and health service clients.
- When asked more generally about constraints on their growth, growth businesses were *less* likely to identify general economic demand and cashflow problems than shrinking ones – but were *more* likely to see a wide range of local issues (for example, planning, business premises, road and rail access, availability of labour) as constraining them.
- Growth businesses were *less* likely to have seen rises in the cost of raw materials or energy in the last year but were *more* likely to have seen rising staff costs.
- Growth businesses were both *more* likely than shrinking businesses to have sought external finance in the past year but *less* likely (if they had done so) to have had difficulty getting the finance they needed.

- Growth businesses were more likely to report skills gaps in their workforces; 'growers' (19% had skills gaps, including 22% of 'high growers'; 'stable' (11%); 'shrinkers' (15%).

51. Generally, thus, such data as is available does not support a single 'constraint' theory in respect of business growth in Cumbria. Rather, there appear to be two sets of constraints. For shrinking businesses the constraints are mainly economic/financial ones leading to recent business decline – lack of demand, rising input costs, some difficulty in financing the business and, in consequence, cash flow problems. For growth businesses the constraints are those arising from growth itself and from the pursuit of growth – frustration at not being able to get into some markets, running up against planning, transport, or premises constraints, pressure on skills in the workforce and difficulty in finding suitable external recruits.

Recent growth and future growth

52. Finally, it can be noted that 'growth' is not simply a matter of contingent environments and internal resources, it also depends on business attitudes and strategy: essentially, does the business want growth and plan for it. It is noticeable that growth businesses are much more likely than those which have recently been stable or shrunk to seek to grow further in the near future:

Plans for growth in the next 2-3 years; percentages

Plan to grow….	High growers	Growers*	Stable	Shrinkers
Output	89	83	52	50
Sales	90	88	58	56
Employment	63	52	23	21
All of these	60	49	21	19
None of these	7	10	35	36

**includes 'high growers'.*

3 Business growth in Cumbria: depth interviews

Introduction

53. Having summarised some key findings on business growth from the large telephone survey of Cumbria employers, this chapter now focusses on findings from twenty interviews conducted in greater depth. These interviews were held either face-to-face at respondents' business premises or by telephone. The interviews, which typically lasted between three-quarters of an hour and an hour and a quarter, were guided by a discussion guide. This asked for:

    - A brief profile of the business.
    - An account of the business's performance in the last 2 to 3 years and of the main factors impacting on that performance.
    - The business's approach to its markets and changes in its address to those markets.
    - Expectation of future growth and strategies and investments to achieve growth.
    - Challenges to, and constraints on, the business's growth.
    - The role of external support to the business in facilitating and encouraging growth.

54. Businesses were selected either from a list provided (by the LEP) of businesses which were known to have grown recently or believed to have prospects for growth or were undertaken as second, in-depth, interviews of businesses which had reported growth in the telephone survey. Interviews were mainly focussed on sectors which are particularly significant to Cumbria although the availability and willingness of managers to help the survey necessarily influenced the final structure of the sample.

55. The actual out-turn was that 12 of the businesses were located in engineering, manufacturing, and technical services. Several of these had close links to the nuclear and energy industries as suppliers. Five businesses were in the 'visitor economy' including three hotels/caterers and two visitor attractions. Two businesses were in the food production sector. The final business in the sample was a logistics company.

56. Most businesses were established ones, typically having been started between ten and twenty years ago but there were four which had been in operation for longer than that (ranging from formation between thirty and a hundred years ago in these cases). Most businesses employed between 10 and 80 staff (but there were some 'outliers' – 3 businesses which employed fewer than 10 permanent staff and 3 businesses which employed some hundreds). Businesses in the visitor economy, of course, also varied in size according to the season with a core of permanent full-time staff being expanded at peak times with the recruitment of seasonal, often part-time, staff.

57. In the discussion which follows, the main point is to draw out common factors which appear to be implicated in the relative success of the businesses that were interviewed. Of course, relatively short and simple interviews with businesses are not able to gain a full account of those businesses' performance and the reasons for that. That would require a much more detailed review of the business and its accounts. The findings are somewhat impressionistic, therefore, but nevertheless, some interesting findings emerge.

Business growth

58. First, however, it may be helpful to briefly characterise the growth which was observed.

59. The dominant pattern of growth was one in which the business showed reasonably consistent growth over a period of some years. Depending on the type of business and its markets, this growth could be steady – increasing sales turnover most years and adding, perhaps, a handful of staff each year in order to handle the increased output. In other cases, the growth would be punctuated or generated by sharp upward movements in output and employment with, say, turnover doubling in a period of 2 or 3 years. Such movement was typically occasioned by a shift in their markets – moving into a new customer group or gaining a single major order for the first time – and was often accompanied by major investments such as a move to larger, more efficient premises, the buy-out of a related company, a major shift in technology, or the establishment of new ventures.

60. As above, the scale and rate of such growth varied. One business in food production had grown from an annual turnover of £120,000 in its start-up year, 20 years ago, to £40 million in 2013; another business in engineering had advanced its turnover to £700,000 in the first 70 years of its existence but then saw its turnover rise to £2.5 million in its most recent 3 years of trading; another, tourism, business employed 50 people in its first venture established 40 years ago but then advanced in substantial steps as new ventures were periodically established to now employ in excess of 500 people; and another business, offering technical services, started in 2000 with 3 people but now employs 28 people, having added 2 or 3 new staff in most years since start-up. It was also the case that, whilst growth of these businesses was *reasonably* consistent, it was often not without occasional flat or negative trading years as markets, in 2008 and 2009 most obviously, flattened or declined.

61. In a small minority of cases, the businesses were not, in recent years, growth companies as such. In one case, for example, a visitor attraction had seen mostly stable turnover over the last 4 years, despite diversification of the product to protect revenue, whilst an engineering company reported a 'massive hit' in turnover in the recession from which it is still recovering. Given that a number of the companies interviewed were direct or second tier suppliers into Sellafield, a particular factor affecting their recent growth trend was Sellafield's order schedule – simply, if the schedule prioritised the company's area of work, substantial growth could be maintained or stimulated; if the schedule delayed or did not prioritise some types of work, then the company suffered. The response to this particular market fluctuation was frequently that the companies concerned shifted some production, typically into marine, oil and gas, or renewable technologies markets. The extent to which their sales turnover and growth were maintained depended on their success in penetrating such markets.

62. Finally, none of the companies interviewed could be characterised simply as 'lifestyle' businesses. Whilst the three small businesses (with fewer than 10 staff) which were interviewed were family-owned, they had all sought and continued to seek to maximise revenue. Each had plans to grow the business further albeit that they would do so cautiously, with only low-risk investment, and in the longer term.

Business growth and its drivers

63. What then were the drivers of growth in this set of businesses and, particularly, what were the drivers which tended to be common between them? A number of factors are discussed separately below although it will be recognised that, in practice, they are interlocked in various ways.

Management

64. A first obvious factor is that most of the businesses were directly managed by their owners or part owners, most frequently as 'family businesses' (that is, one individual owned and managed the business or members of the same family owned and managed it) or, less frequently, in partnerships. Whilst some of these businesses had, with growth, brought in experienced senior managers as employees and these had important roles, the essential control, decision-making, and driving force of the business was actively maintained by involved owner/managers.

65. Only in four cases was the business's ownership and management separate. In two cases (of visitor attractions), a trust or charity owned the business whilst in two further cases the business was managed by a senior management team reporting to a board and shareholders. In these cases, the businesses basically relied on the 'higher authority' for ultimate decision-taking but relied on committed managers (sometimes performance-incentivised) to generate business options and drive the business forward on a day-to-day basis.

Knowledge

66. A second factor which was widely observed in these businesses was their managers 'high level of knowledge of what they were doing and how to do it. There were a number of aspects to this.

67. First, nearly all the business owners had a background before starting the business which ensured that they did not come to it 'cold'. This was most obvious in the engineering, manufacturing, and technical businesses where the principals had previously worked at various levels, from apprentice/shop floor to managerial and professional levels, in larger, related businesses. In some cases, they had simply left and started their own businesses or less frequently, had 'spun out' the business by developing previously under-developed niches in their previous employers' operations (using product and customer knowledge to assist this).

68. Second, all the businesses were extremely knowledgeable about their markets and were responsive to those markets. In many cases, these markets were quite narrow ones. As above, Sellafield counted for more than half the total sales of some engineering businesses. BAe Systems had a similar role for another company. One food producer mainly sold to the 'big four' supermarket chains. Other companies had 'key customer' portfolios of a small number of massive international businesses from which most of their sales turnover was generated. In these cases, they ensured that, as far as they could, they 'kept these customers close' – closely observing their purchasing and investment decisions. Most particularly, they believed they had learned how to deal with big companies as customers. This basically involved, as several businesses observed, 'being a small company with a big company attitude'. In practical terms, this required obsessive attention to quality, full transparency in relation to their production (sometimes

involving inspection by the customers' quality teams), constant development to protect quality assurance standards, extensive and detailed product documentation (one business employing fewer than 50 staff reported having 5 full-time staff involved in documenting their products), and ability to handle the complex and protracted processes for securing and managing contracts (involving sophisticated presentations and attendance at numerous meetings). One business suggested that maintaining business with large companies involved producing above-specification solutions: 'knowing what they need better than they know themselves'.

69. In cases where the businesses relied on consumer markets (for example, in the visitor economy), there was often similar attention to market knowledge with the key point being to position the business accurately in relation to its target market. One hotel business remarked 'you have to know your own business thoroughly and decide who you are. Once you do that, you can then start marketing properly and match your product to demand'.

70. The third area in which businesses were 'knowledgeable' can be broadly summarised as openness to external inputs and opportunities. This took various forms including awareness of public grants and subsidies (the English Rural Development Programme and bio-mass fuel use grants, for example), the purchase of external scientific and technical consultancy (typically from universities in the North of England), the employment of financial/management consultants (for example, to advise on long negotiations necessary to secure bank finance), strong engagement with the Government-supported Apprenticeship programme, participation in local community initiatives (for example, service on public or charitable management committees or exploitation of 'community benefit' obligations in contracts), and intelligent engagement with planning authorities to secure the premises developments they needed.

71. Essentially, most of these businesses were not 'head down', focussing solely on the internal management of production and sales, but 'head up', bringing in external support as they needed it and exploiting external opportunities as they arose. There was, of course, often a hard business edge to this. One business which had had subsidy to its large scale switch to bio-mass fuel use remarked 'we like to look good on sustainability, but we went into this to save money not to save the planet', whilst another, which made large scale use of the Apprenticeship programme, observed that because of the pull of Sellafield wages, it was often difficult to retain skilled engineering workers 'but at least with Apprentices, we know we've got them for four years and for three of those they are good workers who make a return for the business'.

Quality, differentiation, technology, innovation, and niche exploitation

72. Related to points made in the previous section, a further key factor which was common to most of the businesses was that their product/service differentiation strategy was based primarily on quality not price (though, of course, customers frequently exerted downwards pressure on prices). None of the businesses involved in engineering, manufacturing or food production operated in the low margin/high volume segments of their industry (this, of course, often being precluded by globalisation and production outside of the UK or by the existence in the UK of some large-volume producers). Rather, they offered products and services within specialised niches. To protect themselves from competition and to preserve their positions, they had introduced new and advanced process technologies

which increased output and productivity. One business in the food industry, for example, reported the introduction of robotic systems developed in motor vehicle manufacture into their specialised area of production. An engineering business said 'our advantage is that we are both close to the customer and no-one within the region can do what we do'.

73. There are two obvious observations on this mode of operation.

74. Firstly, of course, that niche operation has the danger of customer-dependence. This was recognised by some engineering businesses (particularly those selling into Sellafield and/or BAe Systems) and food production businesses The reassurances in being in this position were various: that, whilst dependent on them, the large customers concerned were 'solid' and would not themselves relocate or close; that, as earlier, they had worked themselves 'into the fabric' of these companies, were trusted suppliers, guaranteed the quality levels demanded, and/or had developed some uniqueness in their business offer to these large customers; and that, by force or choice, they had, in some cases, diversified into wider markets to reduce their dependence, or knew of directions they could take if need be, or were actively developing new market outlets.

75. A further specific 'protection' which businesses believed they possessed was that, in cases where their notional competitors were large businesses with a more advantageous overhead-to-output ratio and, hence, better prices, they offered the speed and flexibility to deliver one-off products or short runs more quickly – essentially, they claimed nimbleness, flexibility, and customer service as a defence against their customer dependence and the threat of displacement.

76. The second observation is that operating in niches often places an upper limit on the eventual size of the business. This was widely and explicitly recognised by many of the businesses. Whilst they had grown and sought further growth, they could mostly envisage a point at which their business would maximise its size – both because of ultimate constraint on the volume of demand in their niche and, because they believed that expansion beyond a certain point would lose the competitive advantage which they achieved from the flexibility noted in the last paragraph and from the personal drive which they believed was a key factor in their businesses' success. To some extent, therefore, many of these businesses conformed to the 'capped businesses' which were noted in the 'business lifecycle' discussion in our introduction. While most had not reached that 'capped' point, their frequent recognition of an ultimate ceiling on growth implied that moving into a 'large business' stage with divisional structures, numerous, varied markets, and so on would be an unexpected long term outcome in most cases. Where there *were* ambitions for the business which were not explicitly constrained, it was also recognised either that further growth would be achieved by acquisition of other businesses or by sale of this business to become a sub-division of a larger one, rather than through continued organic growth of the business itself. It was also recognised by one business (in a technical services function with mainly technical or professional staff) that, just as the business had been created by splitting from a larger company and exploiting one of its niches, there was a danger that their own employees could seek to do the same thing if the business went too far down the road of growth and 'divisionalisation', particularly if this took the form of establishment of remote locations to promote overseas sales.

Attitude to risk and access to finance

77. Whilst only one or two businesses described themselves as very cautious, and many had made major investments in new ventures, acquisitions, premises, or technology, the general sense of the interviews was that these were usually carefully-judged expansions made in relation to actual or clearly foreseen increases in orders. There were, however, some businesses which saw themselves more explicitly as risk takers. For example, two businesses reported investment in equipment, staff training, market development, and prototype development as significant risks, though the actual scale of risk (on some point on a scale between simple loss of money and putting the business itself at risk) is hard to judge:

> *'We have always taken risks. When the recession kicked in and we went quiet that's when we made capital business investment in buying equipment and spent an enormous amount on training people. So even though it was quiet, we put a lot of work into training employees. When things picked up again in 2009, we were in a very strong position'.* (Professional/Technical Services)
>
> *'We have taken on many risks. For example, moving to direct exports which was a considerable risk. Investing in the prototype technology is a considerable risk. We are prepared to do that'.* (Manufacturing)

78. Where significant expansion of various kinds had taken place, finance was, of course, required to do this. There was no clear pattern in the types of finance used or the ease with which it was acquired. Some businesses were able to use retained profits (one business owner remarking 'I hate banks and would do everything possible to avoid using them for finance') whilst others sought external finance. In these latter cases, there were contrasting accounts of the difficulty of getting the lending needed. Some businesses simply said 'no problem'. One hotel complex expanded on this by reporting that, in securing substantial finance for a major development, the existing high level of collateral in the pre-expansion site and premises was sufficient for the bank to lend fairly readily. Another, smaller, hotel, however, reported a very tortuous process extending over 9 months with one bank with refusal of a loan at the end of it, before a second bank provided the money. An engineering company seeking a related acquisition and expansion reported an extremely protracted negotiation, in which they needed the services of a financial professional as an adviser, before the required finance was granted. One engineering company, however, ran an overdraft at a level tightly constrained by their bank and had been unable to expand this leaving them unable to complete a premises expansion quickly. This company said 'the banks are rubbish…. we could have grown more and more quickly if finance were available at a cheaper rate'.

79. Perhaps the only common factor uniting the financial experiences of businesses which had needed cash to finance major investments was that , in almost all cases, they got it – this was fairly simple in some companies, retained profits or a readily collateralised loan providing what was needed, but even where it was difficult, the businesses had had the persistence and resource to pursue their objective and eventually to be able to finance the expansion they sought.

Challenges to, and constraints on, growth

80. As noted in our introduction, some small business growth theory examines growth or lack of it as a function of constraints on the business. However, when asked about factors

which constrain or potentially constrain their growth, the factors mentioned were not usually seen as critical factors impacting severely on growth trajectories but rather as business problems which had to be worked around. Additionally, no single factor was universally identified; rather they were mentioned by individual businesses or small groups of businesses:

- Several mentioned market demand, particularly downward movements or fluctuations in demand, and competition as constraints. (Of course, these are basic features of virtually any business environment and are likely to apply to most companies for most of the time, in Cumbria or elsewhere).
- More particularly, planning constraints in some businesses' development history or present circumstances were mentioned. One business described historic local opposition to one of their developments which had been overcome by careful design characteristics. Another business operating a high tech business in a very rural location described their situation as 'surreal' and observed that any further significant expansion would probably require relocation in the face of local opposition to, and probable planning constraint on, future development. Another business observed some inconsistency in application of planning regulations but another (seeking to develop in the National Park) reported that 'the planners are very helpful, once you get the principle agreed, it's just a matter of getting the detail right'.
- Known difficulties with broadband speed (and in one case with mobile network coverage) were mentioned by businesses in the visitor economy and manufacturing sectors. Even though some had applied the best technical solutions, low or moderate speeds inhibited the sophistication of data exchanges, booking systems and the efficiency of home working. Two businesses observed:

  > *'We do have a challenge, because we handle so much digital data, we have a problem with connectivity. Our area is not well blessed with good broadband connectivity. It's been one of my soapbox topics, this connectivity thing, for quite some time now. We need 100, 500 gigabit connectivity if we're going to support digital businesses, and we don't even have anything remotely like that on the table despite the Connecting Cumbria Programme. My challenge has always been that we should be connecting around the economic centres in Cumbria, and there aren't that many. We should be putting some incredibly fast connectivity in, because that in itself will attract businesses to this fantastic part of the world to do business. It overcomes our geographical barrier like nothing else. We talk about building railway lines and dual carriageways, which cost a fortune and realistically aren't going to come to us in any time soon, versus putting a piece of plastic cable as big as your little finger along the A66 and into the population centres.'* (Food and drink)

  > *'We're still in this debate whether or not we can get that level of connectivity into our population centres. It is the single most effective thing that will allow Cumbrian businesses to trade around the world and also businesses to locate to Cumbria to trade around the world, yet we*

have this aspiration which is only two megabits or more. We're competing on a global level with areas of the UK and areas of the world that have gigabit connectivity synchronous.' (Manufacturing)

- Some businesses in the tourism sector were also somewhat critical of the general 'tourism offer' of the Lake District based on negative observations such as: too many accommodation and catering outlets with low standards and low value, poor car parking and toilets for visitors, and general complacency about what the area offers in the face of wide competition for tourist expenditure.
- Generally, however, location in Cumbria was not a major constraint for most businesses: they had mainly local customers; or they had lightweight products that could be couriered overnight to distant customers; or they were situated close to the M6 allowing fast road transport to customers. Only a small number of businesses specifically mentioned distances and associated costs, for example:

'The distribution costs of shipping products out and our own fuel costs in visiting customers are issues for us. One of the main things with Cumbria is that so many places are so far to drive that you do waste a lot of time and get through a lot of fuel to reach potential customers or for normal drop offs for visits to existing customers.' (Food and Drink)

Labour and skills supply

81. The question of labour and skills supply as a possible specific constraint on business performance was raised with these interviewed businesses. For many, these were constraining factors. The various dimensions of the constraint are ones which are widely known, some of which are Cumbria-specific but several of which were recognised as being UK-wide:

- Managing high turnover of minimum wage staff in the visitor economy:

'One of the areas that we struggle to recruit in is our catering team, it's minimum wage. Reason is that this area is extremely competitive and there are a lot of cafes and big on tourism. So it's hard to find good people that will stay in their role.' (Visitor Economy)

- Difficulties in recruiting higher level staff from outside Cumbria because of its remoteness – with the issues of employment for spouses, of house prices in the National Park, and of the quality of local schools being additional influences on this: For example:

'It is a major issue in finding well qualified people in design. If you are a designer, you don't want to be working in Cumbria, you're likely to go to Manchester/Liverpool or London. So attracting the right people to work and live in Cumbria is an issue.' (Professional/technical Services)

- The difficulty of recruiting and retaining engineering skills from craft level upwards in the face of wage competition from Sellafield.
- An underlying and long term decline in the quality and volume of engineering skills.
- The particular shortage of chef skills in the hospitality sector.

- Uncompetitive attitudes of UK workers compared to those of Eastern European migrants.

82. Various responses to these issues, applicable to particular or groups of businesses, were reported:

- A small minority of businesses had accommodation for some proportion of their staff.
- Various bussing schemes were in place to transport staff on a daily basis to remote employment sites or to get people from low cost housing areas to employment sites in high cost housing areas.
- Attempts to raise productivity via training and technology in order to allow wages to become more competitive and/or to compete for staff on grounds other than wages:

> '*We have a different offering to our employees than Sellafield does in terms of the reasons people come here. We can't compete on wages, terms and conditions, so that would be stupid, we're going to lose every time. So what we tend to put forward to people is the ethos of the business, which is about being small, creative, solving technical problems, a certain culture and ethos within the business that people tune into. So the people who really resonate with that come to work for us and it's quite engrained, so we tend to have quite a stable workforce'* (Engineering)

- Use of a constant throughput of Apprentices in engineering businesses to counter the Sellafield issue.
- Use of Apprenticeships to develop chef skills and in some other specialist areas of skills shortage.
- Use of a 'constantly changing' migrant, multi-national workforce to service a hotel operation's lower skill requirements.

Engagement with external public or semi-public bodies

83. Businesses frequently saw public influences and resources as low order or negligible or, sometimes, negative inputs to their business performance. However, this somewhat dismissive attitude was contradicted, as noted earlier, by a quite wide range of actual engagement and benefit from national or local sources, for example:

- Receipt of grants or subsidies or consultancy from a variety of national or local support programmes (most notably Energy Coast Support in the local cases).
- Engagement with the local public skills infrastructure – most frequently but not exclusively through Apprenticeship programmes.
- Use of Universities to provide technical consultancy.
- Support from local authorities, particularly the County Council, in locating suitable sites and premises.
- Membership of local organisations (such as the Cumbria Community Foundation or the Cumbria Sustainable Environment Network).

- Support from UKTI to explore export opportunities.
- Support from Sector Skills Councils in establishing a local Apprenticeship programme.

84. Some negativity stemmed from particular instances where businesses didn't achieve their objectives. One technical consultancy reported 'we had a one year alliance with Cumbria University but it didn't go anywhere', a hotel which had been unsuccessful in receiving grant assistance remarked 'there's a lot of disinformation – you think you're eligible then eventually you find you're not', and another which approached the County Council on a broadband issue reported it as 'a waste of time and energy'.

85. Overall, the impression generated in discussions of the public sector's role in relation to businesses is that it remains fragmented and unfocussed in business eyes. This was apparent in some business observations on the LEP and its role. Some businesses were positive about its value to the local economy. However, there did not appear to be a consistent view of its role, some seeing this as representing the County in a promotional role ('they should talk Cumbria up') or as a lobbying organisation('they should pressure the government for whatever pots of money are going') while other saw its role as co-ordinating ('local government planning and economic development is confused in Cumbria with the Districts and the County Council not getting together'), helping with business finance ('they should push the banks to lend and set up a guarantee scheme for local loans'), or improving broadband networks ('someone needs to get this moving').

4 Discussion

86. This final chapter briefly reflects on the findings summarised in the previous chapters.

87. A first observation is that the findings from the 20 depth interviews reported in the previous chapter could not in themselves say anything definitive about the causes of growth. It is theoretically possible, for example, that samples of businesses which have declined or failed would, if *they* had been interviewed, have reported much the same attributes and attitudes. In that case, the factors we discussed in Chapter 3 would have been simply random ones with little significance to growth or not – growth or decline would have been determined by other factors which remained unknown.

88. However, the business characteristics and behaviours we observed in the depth interviews and which we have suggested were related to growth appear to have wider validity.

89. First, there is correspondence between findings from the depth interviews and the statistically more robust findings observed in the much wider survey of businesses reported in Chapter 2.

90. Thus, in the survey analysis, it was observed that growth businesses were distinguished from non-growth businesses by more frequent investment in the business and by product and process innovation. These were also frequent characteristics of the businesses which were interviewed in more depth. In the survey, consistent with their more frequent investment, it was observed that growth businesses more frequently sought finance and were more successful in getting it. In depth interviews, similarly, the need for external finance was frequent and most businesses which sought it had done so successfully – albeit after a difficult process in some cases. Other correspondences between the frequency with which growth businesses in the survey showed a characteristic and the typical behaviours of the businesses in the depth interviews concerned staff training – all the businesses in the depth interviews provided formal training to their staff of some kind – and in the prevalence of pressure on skills supply which was one of the main challenges for growth businesses observed both in the survey and in the depth interviews.

91. It was also noted in the survey analysis that growth businesses were not greatly different from non-growth businesses in their attitude to risk. The experiences of the businesses interviewed in depth were consistent with this. Thus, these businesses on occasion made very significant investments to advance the business but these gave the impression of being 'controlled risks', decisions being taken carefully in relation to existing or highly probable opportunities to increase sales significantly. There was no sense that these businesses were risking their basic security in the hope of high rewards.

92. A second validation of findings from the depth interviews is their consistency with the wider literature on business growth which was briefly summarised in Chapter 1.

93. As noted, that literature includes theories that businesses thrive when they are positioned in the right *environment*, have adequate or strong *resources*, and have *management* which displays both leadership and drive and 'technical' management skills.

94. Nearly all the businesses interviewed in depth operated in business *environments* which gave them adequate scope for growth. This derived variously from their position as suppliers to very large customers with huge purchasing schedules, to products or services saleable on a national or international scale, or, in the visitor economy cases, from access to the millions of annual visitors to the Lake District. Where businesses had found constraints or fluctuations in demand from their primary markets, they had had the skills and technologies to diversify into other markets requiring related products and services.

95. As noted at various points earlier, the businesses, from various sources, including retained profits, grants, and bank finance, had almost always been able to achieve the cash needed to fund growth. Essentially, although it would scarcely be accurate to say that finance was freely available to them – in many cases, finance was hard fought for and won – they had had the *resources* necessary for growth phases in their businesses.

96. Thirdly, we have noted that: most of the businesses had strong leadership and drive to succeed, based frequently on owner-management of the business; that the managers we talked to had a high level of knowledge (of their products, of necessary technologies, of competitor frameworks, of customer needs, and of external sources of support); and had frequently showed 'technical' management skills (in diversifying, in introducing new technology, in marketing, in ensuring adequate skills supply, in managing development projects, and so on). Essentially, though having different management styles and personalities, these businesses conformed to 'theoretical' literature on business growth which focusses on the *management* dimension in business success.

97. Finally, in terms of lessons from the business growth literature, two further observations can be made.

98. The first concerns 'agglomeration theory' – that some businesses grow as a function of being part of an interactive network of specialised production in a particular area. It was clear that several of the businesses interviewed in depth were indeed beneficiaries of Cumbria's nuclear/ renewables cluster, the customer base it supplies, and the related infrastructure for skills development which has been established. [It should also be pointed out, however, that at least one of the businesses involved in this sector had a view that there were some weaknesses in the concept – that the local supply chain in engineering products and services, weakened by the loss of many businesses over the years, had significant gaps and that there had been a corresponding loss of high quality skills which had not yet been made good].

99. The second observation concerns the 'business 'lifecycle' theories which were very briefly summarised on pages 3 and 4 of this document. Basically, the observation is that noted earlier, that, in terms of the simple model set out, the businesses interviewed in depth had all clearly survived the start-up stage at which many businesses fail, almost all had clearly avoided diversion into becoming 'lifestyle' businesses, most were in a long term expansion phase, some showed the characteristics of 'mature' businesses (such as departmental structures and devolution of some management to employed senior managers), but, as we suggested earlier, it seems likely that most were heading for a final position as 'capped growth' businesses – aspirations were often for further growth but to a defined level representing what they thought maximised the business's potential while still remaining in personal control and retaining the flexibility and customer responsiveness which they thought were key business strengths.

100. This is not, of course, a pejorative observation – the vast majority of businesses in the UK are small or medium sized and remain so throughout their existence, there being only a very small proportion which eventually break through to become major 'corporates' operating on national and international scales from multiple sites. It does, however, emphasise the fact that local employment growth stemming from the SME sector is usually the accretion of small numbers of jobs across a whole range of firms, often over a long period rather than from run-away expansion of some highly successful ones – while these occur, and there are some examples in Cumbria, they are the exception not the norm.

101. What then are the messages from this analysis for efforts to support business growth in Cumbria? Without having undertaken an audit of what 'business support' actually comprises in Cumbria, it is not possible to comment accurately on it. However, it seems certain that, in effect, it bears on the three areas which both 'the literature' and the research findings discussed in this report suggest are important:

- Supporting the business *environment*, for example:
  - Building better skills supply – from raising the quality of young people's basic skills and work-readiness through support to the development of intermediate skills, particularly the craft and technical skills required in key sectors, into local higher education.
  - Supporting physical infrastructure development, including the spread of fast broadband.
  - Encouraging the development of local supply chains in key industries.
  - Supporting marketing and export initiatives to allow businesses to widen their operating scope.
- Supporting businesses to strengthen their *resource* base, for example:
  - Enabling, through the planning system, businesses to find the premises they need for expansion.
  - Improving business access to finance.
- Supporting the strengthening of business *management*, for example:
  - The provision of generic and specialist management development courses.
  - Business mentoring and coaching.
  - Access to consultancy.

102. The question, however, may not primarily be one of deciding what forms of support are necessary or desirable – virtually all business support regimes take the form of the outline list above with additions and subtractions in different cases. In our research, although businesses in fact had widespread (though piecemeal) engagement with external bodies and support, and seized what opportunities they could, they seldom accorded what might be called the 'public realm' any great relevance to their operations. And where they had engaged, they sometimes found bureaucracy, or lack of substance, or lack of coherence. One business, for example, suggested:

> *'For SMEs understanding all the different agencies trying to help is very, very hard. LEP, the Chamber, the LA, the County Authority, it's all very confusing.'* (Professional/Technical Services)

103. The challenge is, perhaps, to ensure that a support programme has clear, realistic and explicit functions and mechanisms, that the programme is widely marketed to businesses which can benefit from it, and that it is delivered without undue bureaucracy and at 'business pace'.

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