BIS Department for Business Innovation & Skills

RESEARCH INTO MID-SIZE BUSINESS GROWTH

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Research into Mid-Size Business Growth

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The views expressed within this paper are those of the authors and should not be interpreted as those of BIS or HM Government

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EXECUTIVE SUMMARY

Research Objective and Methodology

- The research examines the factors influencing the growth plans and potential of mid sized businesses (MSBs) and decisions about the scale and future direction of investment. MSBs are defined as having a sales turnover between £25-£500 million.

- A sample of 35 MSBs across a range of sectors was interviewed during August and September 2011 and reflected different categories of growth orientation: (i) seeking growth and achieving it; (ii) seeking growth but having difficulties achieving it; and (iii) survival orientated.

Characteristics of surveyed MSBs

- Typically well established businesses, with 30 (86 per cent) trading for 20 years or more.

- Just under half (46 per cent) are family owned businesses and a similar proportion (46 per cent) are subsidiaries of larger companies. The majority of subsidiaries are owned by foreign companies (mostly from other EU countries).

- One fifth currently employ less than 100 staff and just over one fifth (22 per cent) employ 500 or more.

- Manufacturing (29 per cent) and business and financial services (29 per cent) are the largest sectors represented.

Growth Aims and Achievements

- More than four fifths (85 per cent) were aiming for growth over the last three years, with the rest aiming to ‘survive’ or ‘consolidate’. Growth was mainly sought in terms of increases in sales turnover, profits and market share.

- The MSBs exhibited very mixed business performance over the last three years. Just over a third of them (37 per cent) exhibited a combination of increasing sales, profits, and employment.

- Growth was mostly achieved organically (in 74 per cent of MSBs) although in nearly a third (31 per cent) it also involved making acquisitions (especially in financial services and construction). Just under a third (29 per cent) described their growth as opportunistic, at least to some extent.

- Two thirds experienced increases in sales turnover over the last three years, compared with just over a quarter (28 per cent) that had reduced sales turnover. Several experienced dips during 2009-10 due to the impact of adverse market conditions.

- Just under half (46 per cent) experienced an increase in net profit compared to over a third (37 per cent) experiencing a decrease. Similarly, almost half (49 per cent) achieved an increase in employment, against two fifths (40 per cent) where employment fell.

- The *best performing* MSBs came from three main sectors: manufacturing (especially defence related activities); transport and logistics, and financial services. The worst performing were concentrated in the construction and property related sectors, reflecting the particularly difficult conditions affecting these markets in recent years.

- *Family owned* MSBs tended to be amongst the 'middle' business performers, with several of them being in sectors experiencing difficult market conditions.

- A higher proportion of subsidiary MSBs achieved growth in sales, net profits, and employment over the last three years than did their independent counterparts (44 per cent compared to 32 per cent). They were also less likely to grow by means of acquiring other companies.

- The *large MSBs* (with over £100 million sales turnover) were well represented amongst the best performers. They also exhibited higher levels of management satisfaction with business performance than their smaller counterparts.

- In terms of their predicted performance during 2011-12, more than two thirds (69 per cent) of MSBs expected an increase in sales turnover, under half (46 per cent) expected an increase in net profits, and half (51 per cent) expected an increase in employment.

- Whilst only one in six predicted declining sales turnover in the next year, two fifths predicted declining employment.

Investment & Finance

- Investment levels tend to be polarised, with a few MSBs (particularly in transport and logistics) making high levels of investment (15 per cent investing more than £25 million over the last three years) with others (particularly in service sectors) investing relatively little (29 per cent investing less than £1 million over the last three years).

- Whilst the majority of MSBs planned little change to the level of investment over the next two years, five proposed to make a significant step up in investment compared to just one expecting investment to be lower.

- Investment was financed in various ways, including through re-investing profits/surpluses, funding from parent companies, as well as from different external sources. Just over half of the growth orientated MSBs raised at least part of their investment funding needs from external sources. Only one business reported difficulties in obtaining the bank finance that it needed.

- Whilst subsidiary MSBs had a similar investment pattern to other MSBs, they relied less on external finance as they were able to draw on the financial resources of their parent companies.

Markets and Exporting

- One third of MSBs considered that their markets had become increasingly competitive over the last three years, whereas one eighth indicated decreasing levels of competition. Family owned businesses exhibited a high proportion experiencing increasing competition, reflecting their close association with the construction/ property sector.

- More than half (54 per cent) of the MSBs were involved in export activity, with exports accounting for an average of 49 per cent of sales in these firms. More firms had increased than decreased their export activity over the last three years.

- Foreign markets provided important opportunities for growth for some firms/sectors at a time when many UK markets had become stagnant. The majority of MSBs where exports accounted for at least 50 per cent of sales turnover achieved growth over the last three years, and included some of the best performing firms.

Capabilities and Constraints

- When asked about their understanding of the strengths and weaknesses of their business, employee skills was the most frequently mentioned strength followed by customer service and business operations/systems. The main areas where scope for improvement was identified related to operational systems, particularly with regard to IT and client management systems.

- Over half (55 per cent) of MSBs identified at least one internal barrier or constraint to the growth and development of their business, the most frequently mentioned being management capacity, skills and capabilities (20 per cent) and operations systems, often relating to IT issues (20 per cent).

- The majority (89 per cent) of MSBs identified at least one external barrier or constraint to the growth and development of their business, the most frequently mentioned being market uncertainties (43 per cent), followed by regulatory issues (37 per cent), staff recruitment (26 per cent), and access to finance (17 per cent).

- External market conditions are a major concern over the next 12 months for more than two fifths (43 per cent), along with regulations (particularly employment law) (37 per cent) and recruitment of key skilled staff (26 per cent).

1. INTRODUCTION

1.1 Research objective

Using a case study approach, the research is concerned with understanding the factors that are influencing the growth plans and potential of mid sized businesses (MSBs) at the present time and affecting management strategies and decisions about the scale and future direction of investment. The primary focus of the research is on companies that potentially appear to be in a strong position to grow in that they are profitable and financially healthy and have an appetite for growth, However, some of these companies may have been under-achieving in growth over the last three years, with their managers not being totally satisfied with the growth rate and performance achieved. Other companies may have done comparatively well, but objectively given certain measurable factors (e.g. quality of management or strength of balance sheet) ought to have done or be doing even better. For comparative purposes, the research has also included a number of MSBs that have been struggling to grow and more concerned with survival than growth over the period. This will enable us to see whether or not non-growth MSBs share many of the same characteristics (e.g. in terms of sector, ownership, investment) as growth MSBs.

1.2 Methodology

The research was undertaken between August and September 2011 and focused on a sample of 35 MSBs, defined as having a sales turnover of between £25m-£500m, selected from the 2010 Finance Survey of Mid-cap Businesses (undertaken by BDRC Continental and using a sample of 10,627 mid-cap businesses provided by pH group). The sample was selected from the database of 401 businesses that were interviewed in September-October 2010, of which 184 (46 per cent) agreed to be re-surveyed.

The sample aimed to be representative of the sectoral and size profile of MSBs, as demonstrated in Table 1 below. Contextual data presenting the overall BDRC 184 MSB sample characteristics can also be found in the Annex Table at the end of the report.

Surveyed MSBs were selected in order to provide a sufficient sample that reflected different categories of growth orientation:

(i) seeking growth and achieving it;

(ii) seeking growth but having difficulties achieving it;

(iii) survival oriented.

Table 1: Mid Size Business Sample

	pH Sample		BDRC Sample	
Sales Turnover 2010 (£m)	**No**	**%**	**No**	**%**
25-49.9	2181	43.1	61	38.6
50-99.9	1482	29.2	52	33
100-500	1406	27.7	45	28.4
Total	5069	100	158	100
Sector				
Primary	65	0.6	0	n/a
Manufacturing	2533	23.8	47	25.5
Construction/Utilities	839	7.9	11	6
Wholesale/Retail/Vehicles	2620	24.7	46	25
Restaurants/Catering	219	2.1	1	0.5
Transport	779	7.3	23	12.5
Business/Financial Services	2918	27.5	47	25.5
Health/Education	228	2.1	2	1.1
Other Services	426	4	7	3.8
Total	**10627**	**100**	**184**	**100**

The sample also aimed to capture a number of family-owned businesses, which were defined as businesses where families own at least a 20 per cent share[1] and are involved in the day to day management of the business (rather than leaving this to separate, professional managers).

The survey consisted of 35 extended telephone interviews with key managers and decision makers in the MSBs (i.e. Chief Executive Officers, Managing Directors and Financial Directors) and typically took between 30 and 45 minutes to complete. Each interview was fully written up and presented to BIS as anonymous case studies (subject to the agreement of the interviewee).

The remainder of this report sets out the MSB survey findings, specifically presenting sections on: survey characteristics, growth aims and achievement, investment and finance, markets and exports, business capabilities and barriers, and views on government policy. The importance of family ownership and size within the MSB turnover band are presented as cross cutting themes of particular interest to BIS. The report concludes with a summary of key findings.

[1] Chakrabarty, S. (2009) The influence of national culture and institutional voids on family ownership of large firms: a country level empirical study, Journal of International Management, 15(1).

2. SURVEY CHARACTERISTICS, GROWTH AIMS AND PERFORMANCE

2.1 Introduction

This section sets out the characteristics of the surveyed MSBs, contextualising them within the UK MSB population, before focusing specifically on their growth aims and performance during the past three years and forecast over the next year or two. The data presented in this section relates to the performance of UK based businesses (i.e. excludes overseas offices) and where they are a subsidiary of a larger firm, they have only been included if they are a separate profit making centre.

2.2 Survey Characteristics

The surveyed MSBs are well distributed throughout the UK which, as many of them are multi-office, is largely reflective of their UK head office locations. Just over half (54 per cent) are located in the London, South East and Eastern regions, with 14 per cent in the North of England, 12 per cent in the Midlands and South West, 11 per cent in Scotland and nine per cent in Northern Ireland.

Current UK employment in the surveyed MSBs ranged from 23 in an art gallery to 4,500 in a contract cleaning company (with many part-time employees), with a median size of 250 employees. One fifth currently employ less than 100 staff and just over one fifth (22 per cent) employ 500 or more, of which 11 per cent employ 1,000 or more.

More than three quarters (78 per cent) are private limited companies, the remainder being Public Limited Companies and one Limited Liability Partnership (LLP). Just over half (46 per cent) are subsidiaries of larger companies, of which 11 are foreign owned (mainly European, but also including Japanese and US companies).

The MSBs in the sample are typically well established companies, the youngest one trading for eight years, with just five (14 per cent) trading for less than 20 years and 14 (28 per cent) trading for more than fifty years. Six businesses were spin outs, typically from other businesses, but including one university R&D spin out and a further case started as a franchise. Only four cases (11 per cent) had changed ownership during the last five years.

The surveyed MSBs are typically reflective of the overall 'pH' sample of MSBs with regard to sales turnover size and sector. Table 2.1 shows that just over two-fifths are currently in the £25-49m sales turnover category and just over a quarter (26 per cent) have between £100-500m sales turnover. Manufacturing (29 per cent) and business and financial services (also 29 per cent) are proportionately the largest sectors represented, with a fairly even distribution of construction, transport, wholesale/vehicle distribution and other services also being represented.

Table 2.1: Sector and Sales Turnover Size Distribution

Sales Turnover (£m)	**No**	**%**
25-49	15	43
50-99	11	31
100-249	6	17
250-500	3	9
Total	**35**	**100**
Sector	**No**	**%**
Manufacturing	10	29
Construction/Utilities	5	14
Wholesale/Retail/Vehicles	3	9
Transport	4	11
Business/Financial Services	10	29
Other Services	3	9
Total	**35**	**100**

2.3 Family Businesses

Nearly half (16 cases; 46 per cent) of the MSBs surveyed were defined as ‘family’ businesses, with the family owning between 51-100 per cent of the shares. They included two MSBs which were UK subsidiaries of German parent companies that were family owned. Interestingly, only one of these family owned MSBs was still under first generation ownership. Five (31 per cent of them) were owned by members of the second generation, and ten (63 per cent) by members of subsequent generations. With the exception of a 100 year old company that had gone through various ownership changes but been bought back 12 years ago by descendants of the original founders, all these MSBs had stayed within the same family throughout their history.

In 14 of the cases, the family has a role on the executive board and in several cases this was flagged as a controlling role (e.g. CEO, Chairman, Managing Director). Indeed, only one family owned business was defined as being operated by a professional management team, with no input from a family member. Five of these businesses have Non Executive Directors (NEDs), a lower proportion than is found amongst other MSBs surveyed (31 per cent of family MSBs, compared to 58 per cent of other MSBs). Sometimes NEDs are sourced through family contacts, but also through industry and business service providers. NEDs most typically offer specialist industry sector advice, or financial management expertise.

2.4 Subsidiaries

UK based subsidiaries were included in the study where they were separate profit centres and part of larger organisations with under £500m sales turnover. Just under half (46 per cent) of the MSBs surveyed were subsidiaries of larger companies, this being a slightly higher proportion than found in the BDRC survey (35 per cent: Annex Table). Although they had a similar employment size distribution to their independent counterparts, a slightly higher proportion of them had sales turnover in 2010 of between £250-500m (13 per cent compared to five per cent). These firms also had a far higher proportion of manufacturing, construction and transport firms than their independent firm counterparts (80 per cent compared to 35 per cent).

A clear distinction between the subsidiaries and other surveyed MSBs is that 11 of the 16 subsidiaries were overseas owned (eight EU, two Japanese and one US). They also exhibited a higher proportion changing ownership over the last five years than their independent counterparts (19 per cent of them compared to five per cent). Just over a third (38 per cent) of subsidiaries were part of family owned groups compared to more than half (53 per cent) of the independently owned MSBs.

2.5 Business Growth Aims

More than four fifths (85 per cent) of the surveyed MSBs were aiming to grow during the past three years, with the remaining five MSBs stating that they were aiming to “survive” or “consolidate”.

Table 2.2 below indicates that the MSBs were seeking to grow in various ways, but that the main aims were typically increased sales and profits, followed by increased market share. Profitability was most frequently mentioned, including by those MSBs that were not performing as well as they aimed to, but were seeking consolidation and efficiencies:

“*We are seeking to grow bottom line profitability through developing added value meat processing*.” – (agri-business)

“*We aim to hold onto the higher margin business and let the low margin side go.*” – (textile importer)

Two fifths were seeking to increase exports, whilst only one quarter were aiming to grow employment. Four businesses with equity investment were highly growth seeking, being purportedly well managed and aiming to achieve increased value for their shareholders, or for future trade sales.

Past growth was mainly achieved organically (26 cases; 74 per cent), but with 11 cases (31 per cent) undertaking acquisitions during the past three years and five cases only growing through acquisitions. Acquisitions were viewed as important to growth for wholesale/retail and service providers such as builders merchants and travel agents, in order to generate more sales outlets and increase market share, but also for developing R&D and new markets. In some cases acquisitions were opportunistic, rather than strategic, where poorer performing competitors with suitable client profiles have been purchased at relatively little cost.

Table 2.2: Types of Past and Future Growth Aims

Type of Growth	Last 3 years		Next year	
	no.	%	no.	%
Sales Turnover	25	72	25	72
Market share	23	66	27	77
Profits	26	74	27	77
Market valuation	4	11	4	11
Employment	9	26	13	37
New markets	18	51	16	46
Exports	14	40	13	37

When asked whether growth achieved had been 'opportunistic', 10 cases (29 per cent) mentioned that this had been the case, at least to some extent, with two specifically mentioning that growth had been entirely opportunistic. An example of this was an insurance company where the manager stated:

"*We did not plan to grow …..This is due to the competitors pricing of motor insurance policies, which has increased considerably in recent years. We simply raised our prices in line with the market and made more profit. We didn't need to do this. Actually we do not want to get too much share of the market as we wouldn't be physically able to service it*."

A similar proportion (86 per cent) of MSBs had a future growth aim for the next year or so, as for the previous three years. As Table 2.2 demonstrates there is a slightly greater emphasis on increasing future market share, alongside with profitability, and also with more than a third of MSBs indicating aims for increased employment. Again organic growth is largely favoured (80 per cent), with 29 per cent considering acquisitions as part of their growth strategy and nine per cent focusing growth on acquisitions.

2.6 Business Growth Performance

The surveyed MSBs exhibit very mixed business performance results, both over the past three years and in their forecasts for the next completed financial year. This is potentially reflective of the wider MSB population, given the range of sectors surveyed and the relative impacts of the economic downturn on them.

Surveyed MSB managers were asked for sales turnover, net profit and employment change data for the past three years and for projections over the next year. Sales turnover results therefore relate to the three years up to the last completed financial end of year, with forecasts for the next completed financial year. Employment relates to total aggregate employment (full-time and part-time and disregards seasonal changes). Net profitability forecasts have not been recorded for three Public Limited Companies due to their shareholder confidentiality rules.

Two thirds of MSBs had experienced increasing sales turnover during the past years, although in a number of cases there had been dips during the 2009-10 period due to the demand reduction impacts of the economic downturn. Just over one quarter experienced reduced sales turnover in this period. There was less growth in net profits over the last three years, with just under half (46 per cent) of MSBs experiencing an increase and over a third (37 per cent) experiencing a decline. They also performed less well in terms of employment, with almost half (49 per cent) increasing employment against two fifths (40 per cent) reducing employment. A number of MSBs experienced tightening and reduction in profit margins and shed labour in a drive to reduce costs and improve efficiencies and this affected some firms that were growing their sales turnover, as only 13 MSBs (37 per cent) exhibited a combination of increased sales, profits and employment.

Table 2.3: Summary Business Performance, Past 3 Years and Next Year Forecast

	Past 3 years		Next Year	
Sales Turnover	**no.**	**%**	**no.**	**%**
Up	23	66	24	69
Same	2	6	5	14
Down	10	28	6	17
Net Profit				
Up	16	46	16	46
Same	6	17	13	37
Down	13	37	3	8.5
d/k	n/a	n/a	3	8.5
Employment				
Up	17	49	18	51
Same	8	23	3	9
Down	14	40	14	40

The most successful businesses come from three main sectors; manufacturing, transport and financial services. These businesses are characterised by having clear growth plans and strategies. For manufacturing and transportation this involved expanding export markets, particularly in exploiting emerging markets in the Far East (particularly China), India, Brazil and Eastern Europe. In a number of service businesses, growth involved strategic and opportunistic acquisitions to increase market share. In several cases growth had been opportunistic, because of improved market circumstances and this was particularly evident in the financial services where insurance prices have been rising. The following is an example of a travel service company's opportunistic acquisition strategy:

"*Growth has been largely planned, but we have made two opportunistic acquisitions. One small travel company owned by a friend was taken over at no cost, because it was struggling, but had the right type of client base for us to work with. Another small commercial travel operator has been purchased through an 'earn out' arrangement. Again, this was a struggling company which fitted well with our client base and commercial business market*."

Amongst those businesses that have seen only partial growth, this has often been due to adverse and difficult market conditions, as exemplified by the manager of a property maintenance company:

"*Any growth in sales has been through planned strategic activity, increasing market share and expanding into new markets, but overall the business is shedding labour and experiencing a struggle to maintain current levels of profitability*."

Achieving growth is not necessarily a smooth, continuous process, with some MSBs experiencing a decline in the volume of business and then subsequently regaining the lost ground. For example a manufacturer of iron and alloy steels for the automotive sector experienced a 27 per cent fall in its sales turnover between 2007 and 2009 because of a falling order book and the closure of several of its customers, but then experienced substantial sales growth in 2010-11 to return to its pre-recession level. From making 35 redundancies and operating a three day production week, the company was now back to its previous employment level and operating two shifts per day and overtime. Similarly, a road construction machinery importer and sales company experienced a dip in sales and profits in 2008-09 and 2009-10 before returning to previous levels in 2010-11 – to quote from the interviewed finance director: "*we have been pleased with the recovery of the business, which has surpassed expectations*."

The poorer performing MSBs, of which eight (23 per cent) experienced declining sales, profits and employment during the last three years, are characterised particularly by poor market conditions. These include a number of construction and property related businesses that are tied to the UK market. This group also contains MSBs that have undertaken extensive rationalisation strategies in order to become leaner and more efficient in the future and are now showing signs of improvement. The response from a manufacturing manager highlights this:

"*The business has contracted in size during the last 3-5 years, due to the realisation that we will be more profitable in the longer term by reducing our chemical manufacturing activities, which are not globally competitive with those of emerging market suppliers in China, and focusing more on R&D*."

With regards to their future outlook, more than two thirds of the MSBs indicated increasing sales turnover over the next year and half indicated that they will increase employment, with less than one in ten indicating reduced profits and one in six indicating declining sales turnover. Of more concern is the prediction that two fifths may reduce employment.

The most positive growth forecasts for the next year are from the transport and manufacturing sectors where increased export/overseas activity is driving business development, and from UK based service providers, mainly in financial services, where further acquisitions are planned, or the market conditions appear favourable.

However, even amongst these MSBs there are concerns that the global economy may be taking another downturn:

"*There are less large-scale projects being undertaken right now and margins are being squeezed, due to market uncertainties, which first arose in 2008-09, receded in 2010, but have come back in the last few months again*." - (transport business)

Amongst the MSBs predicting declining business performance over the next year, the construction and related property market sectors appear to be particularly pessimistic, with some indications that there has already been a downturn:

"*Efficiencies have led to declining employment, fluctuating net profit and declining sales, despite increasing market share – the market has been shrinking fast. In such a volatile market we have managed to maintain a robust balance sheet, but this is probably the best we could hope for – particularly with the dip in demand in winter 2010*." - (construction business).

There are also concerns that the impact of UK public sector spending cutbacks have yet to be felt and that these could have further negative repercussions for forecast business performance in certain sectors.

"*Half of our customers are public sector where budgets are being cut back and they are becoming increasingly price sensitive. This has been particularly noticeable in the last few years and there is a shift away from quality towards achieving the lowest price. It will take us a long time to replace our public sector work with private sector work, so our immediate future performance is likely to be aiming for stability rather than growth*." – (property maintenance company).

Family owned MSBs

Although this is a small sample, the 16 family owned businesses appear to be mostly situated amongst the 'middle performers', with only five exhibiting overall growth in sales turnover, net profits and employment and three cases exhibiting a fall in all three measures. With regard to future growth, four family owned businesses were amongst the nine that forecast sales turnover growth of at least £15m in the next year, whilst two were amongst the six forecasting declining sales turnover.

Subsidiary MSBs

The performance of the 16 subsidiary MSBs was broadly in line with their independent counterparts, although with a slightly higher proportion achieving combined growth in sales, net profits, and employment (44 per cent compared to 32 per cent). With regards to future growth, five subsidiaries were amongst the nine that forecast sales turnover growth of at least £15 million in the next year, whilst four were amongst the six forecasting declining sales turnover.

Large MSBs

The nine businesses with £100m plus sales turnover provide five of the 13 cases where sales turnover, net profitability and employment all increased during the past three years and only one case where they all declined. Six of these large MSBs exhibit future forecast sales turnover increases of between £15m and £40m in the next year, with only one indicating a forecast fall (of £5m). Five out the nine large MSBs also forecast increased employment of between five and 200 staff during the next year.

Impact of NEDs

It is notable that the 17 MSBs with NEDs performed better than their counterparts, with regard to increasing sales turnover (76 per cent compared to 56 per cent), net profitability (53 per cent compared to 39 per cent) and employment (59 per cent compared to 39 per cent). This may indicate that these MSBs have a better range of management competencies to achieve growth.

2.7 Differences between Growth Ambitions and Performance

Whilst a high proportion of surveyed MSBs (30 cases; 85 per cent) were aiming to grow in the last three years, the actual performance of these growth seeking businesses was quite varied, with 20 of them increasing sales turnover, 15 increasing net profits and 16 increasing employment. Indeed, five experienced reduced sales, nine recorded declining profits and eight reduced employment in this period. Poor performance amongst the aspiring growth MSBs reveals that sectoral market conditions have been the main contributory factor, particularly in the construction/property related sectors and automotive industry. Other factors have related to exchange rates and the increasing cost of imported inputs, positioning in the product/service development or project cycle and the volatility of the market which has led to unexpected project cancellations and falls in demand, due to the economic downturn and resultant lack of confidence amongst customers. MSBs that are in the middle of the supply chain, rather than supplying end users have had their margins cutback, leading to strategic adjustments in some cases (e.g. in IT services and products) where the businesses are now exploring more end user markets.

3. INVESTMENTS AND FINANCE

3.1 Introduction

In this section we first describe the investments made by the MSBs over the last three years, identifying the amount invested and what it was spent on, before then reporting on how much interviewed managers expected to be invested in the growth and development of their businesses over the next year. We then consider the financing of the investment and the extent to which it involved the use of external funding sources. Finally, we consider the information relating to the cash balances held by the companies and their intended use of them.

3.2 Investment levels

Table 3.1: Recent and planned investment levels

	Investment last 3 yrs		Planned investment in next 2 yrs	
	no.	%	no.	%
£50m +	2	6	0	0
£25-49m	3	9	3	9
£10-24m	1	3	3	9
£5-9m	7	20	4	11
£1-4m	9	26	13	37
<£1m	10	29	10	29
Unknown	3	9	2	6
Total	35	100	35	100

As shown in Table 3.1, the distribution of investment levels tends to be polarised, with a few MSBs making high levels of investment on the one hand (15 per cent investing more than £25 million over the 2008-10 period), but the majority investing much less than this (almost two thirds investing less than £5 million). Investment intentions over the next two years show a similar polarised pattern with 18 per cent expecting to invest more than £10 million compared to 66 per cent less than £5 million. The majority of businesses were planning to keep to the same level of investment as in the previous three years (allowing for the planned investment frequencies in Table 3.1 covering just a two year period), although five were proposing to make a significant step up in investment – in two cases to make acquisitions, in a third case to bring call centre functions in house, in a fourth case to set up overseas offices, and in a fifth case to overhaul equipment as part of the company's five year investment cycle. Only one case expected investment to be lower, this being a fine arts dealer that had invested in a new gallery during the 2007-10 period.

The main determinant of the amount spent on investment is the sector that the MSB is in. Capital expenditure as a percentage of sales turnover ranged from less than two per cent in some service sectors with low overheads up to 30 per cent in sectors requiring expensive equipment and fixed assets. By far the highest levels were found amongst the transport and logistics businesses, with businesses involved in merchant shipping investing £25–30 million in a new vessel every year or so. Some growing manufacturing businesses invested between £1 – 3 million per year in new production facilities, R&D, and new product lines, whereas growing service businesses typically invested less than £0.5 million per year, normally in IT systems and associated staff training. For example, a rapidly growing motor insurance company with pre tax profits of £26 million only invested £150,000 per year as the directors considered there was no need to invest beyond maintenance and upgrading as they did not want to physically expand the business.

Achieving growth through the acquisition of existing companies also involved high levels of expenditure, this being fairly frequent amongst the fastest growing businesses in a diverse range of sectors. For example, a shipping logistics company spent £20 million on acquiring businesses in emerging markets in the last three years, a rapidly growing funeral services business invested £10-30 million per year in both acquiring small funeral businesses and opening high street retail offices, and a multi-media business had budgeted £20 million for making acquisitions over the next 2-3 years.

Because of the marked disparities in investment levels between MSBs in different sectors, it is not possible to discern any clear association between investment and growth performance from a small sample of 35 MSBs. Businesses with relatively high levels of investment (investing more than £5 million over the last three years) can be found amongst the growth underachievers as well as the best performers. Also, because investment is invariably lumpy, with major investments being made every few years rather than annually, it may take several years before there is an impact in terms of business growth and improved performance, as for example in the case of an electronics company that had a two-three year product development cycle. Thus growing MSBs may have been reaping the benefits of previous investments rather than ones made in the last three years, whereas current investments may not translate into growth for several years.

3.3 External financing

Just over half of the growth achieving businesses raised at least part of their investment funding needs over the last three years from external sources. A range of different sources was identified, including bank mortgages (e.g. to provide long-term finance for the purchase of shipping vessels), bank term loans (e.g. to fund acquisitions), hire purchase and trade finance (to fund machinery purchases), and in one case, public bond issues (to fund expansion generally). It would seem that all these growing businesses succeeded in raising the external finance that they needed without any real difficulty – to quote from one interviewed finance director, "*we have found that UK banks have been falling over themselves to provide the necessary funding*." (shipping company)

It is worth noting that for three MSBs that had been particularly active in making investments there was substantial involvement by private equity investors and that in at least two of these cases, the intention was to progress towards a trade sale in the next few years. For example, a tyre manufacturer owned by a private equity company has been aiming to maximise investment in new manufacturing equipment, R&D, and administrative systems for a trade sale realisation of the investment within the next three years. Similarly, a logistics company which was acquired by an equity investment company in 2006, had been increasing its investment in product and service development globally with a view to selling the business in the near future.

There is little apparent difference between the growth achieving MSBs and those that have encountered difficulties in achieving growth in terms of investment levels and the financing of them. Only one business reported difficulties in obtaining external funding, this being an agri-business requiring a £1 million bank loan to finance a new production facility –the interviewed managing director describing the five months of negotiation with their bank as '*a terrible experience*'.

There was less willingness to invest in the case of several of the survival oriented MSBs, particularly amongst those facing market uncertainties such as in the property and construction sectors. For example, a property management company dependent upon the public sector for half its business, reported that there was currently a lack of opportunity to invest. Similarly, the finance director of a fuel supply company said that they were naturally cautious about making investments in the current economic climate, as well as needing to keep reserves for dividends and to cover the company's pension shortfall.

As might be expected, the MSBs which were subsidiaries of larger companies exhibited far less reliance on external finance such as from banks and equipment suppliers than did their independent counterparts (37 per cent compared to 63 per cent). Several subsidiaries mentioned that although they were separate profit centres, they were able to draw upon group finance when required.

3.4 Cash Balances

The interviewed managers were asked about the size of the company's stock of cash and about whether there was an intended use for it.

Of the 27 businesses that provided information on cash balances, just over a third (37 per cent) said that they did not have any cash, either because all surpluses were returned to the parent company in the case of several subsidiary MSBs, or because any surplus was offset by debt finance, or because all of any surplus was reinvested or spent on purchasing stock. Another third (33 per cent) had a relatively small cash balance of less than £10 million, this typically being regarded as a 'buffer' or 'safety net' or in the case of a construction company being able to demonstrate to potential customers that they are capable of delivering on large contracts.

At the other extreme, almost a fifth of companies (18 per cent) had a cash stock in excess of £25 million, with three of them having more than £50 million. These included three financial and insurance companies where a significant part of the cash reserve was needed to meet FSA solvency regulations. In another case, a military engineering company had built up a substantial £50 million cash balance as a result of a major five year US military contract, leading to a fourfold increase in sales turnover in the last three years. The interviewed finance director said that this had happened very rapidly and that they had not had time to consider how they would invest their cash stock, although he added that they would need funds as a buffer when the present contract ended and would also need funds for investing in future projects.

4. SALES MARKETS AND EXPORTS

4.1 Introduction

This section explores the level of competition experienced by the surveyed MSBs and the extent to which they are exporting.

4.2 Competition

One third (34 per cent) of respondents mentioned that their markets had become increasingly competitive during the last three years, with just over half (54 per cent) indicating stable but competitive markets, and just one eighth (12 per cent) indicating decreasing levels of competition. The sectors experiencing the greatest increase in competition were manufacturing, particularly from new overseas manufacturers, and construction and property where the UK market has experienced increasing competition as the overall size of the market has contracted.

There is no indication of a discernable relationship between competitive pressures and levels of investment, as MSBs experiencing decreasing competition are just as likely to invest heavily in increasing capacity, R&D, new product and service development, and new operating systems as those facing increasing competition. This suggests that investment is being driven by other factors, such as managers' growth ambitions and new market opportunities, rather than the strength of competition per se.

The reasons provided relating to competitive advantage were: reputation and brand name (11 cases); service range and flexible, reliable delivery (6 cases), with several respondents stressing that they had good market coverage, offering a "*one stop shop of reliable and trusted in-house solutions*"; excellent customer management (6 cases) "*working closely with customers to deliver what is required*"; quality of products and services (5 cases), "*paying attention to added value and getting repeat customers*"; key skills of employees where respondents stated "*we only employ the best in the market*" (5 cases); niche market activities (2 cases); and financial strength (1 case).

Family owned MSBs exhibited a higher proportion experiencing increasing competition than their counterparts (44 per cent compared to 26 per cent). This was particularly reflective of the high proportion of family businesses in the construction/property sector.

There is a clear pattern of decreasing levels of competition as businesses increase in size. A far higher proportion of smaller MSBs in the £25-49 million sales turnover range experienced increasing levels of competition (47 per cent), compared to those in the middle tier with £50-99 million sales turnover (36 per cent), or the larger MSBs with £100 million plus sales turnover (11 per cent). With the largest companies in sectors such as financial services and transport and distribution stating that the level of competition had remained the same.

4.3 Exports

Table 4.1: Extent of exporting by MSBs

Proportion of Sales Turnover	No.	%
75-100%	6	17
50-74%	4	11
25-49%	3	9
1-24%	6	17
None	16	46
Total	35	100

More than half (54 per cent) of the MSBs were involved in export activity, with exports accounting for 100 per cent of sales turnover at one extreme and just one per cent at the other. The mean proportion of sales accounted for by exports in 2010 was 49 per cent, with 10 companies exporting more than 50 per cent of their sales. Not surprisingly, the level of exporting activity proved to be particularly high in the case of logistics and shipping companies. For example, 57 per cent of the sales turnover of a marine survey company was derived from its activities linked to new oil field exploration in Australia, South East Asia, and Central America, whilst 97 per cent of that of a shipping logistics company was from a range of international markets. Several of the manufacturing companies were also strongly export orientated, as in the case of an aircraft tyre manufacturer that increased its export sales revenue by a third in the last three years (accounting for 75 per cent of its sales turnover in 2010) from the European market and a rapidly growing Chinese market, with a further 11 per cent increase forecast for 2011.

The level of export activity was reported to have increased over the last three years in eight of the MSBs and had decreased in only one MSB. International markets, especially in emerging markets (especially India, China and Latin America), were seen as major growth areas at a time when the UK market was flat. The US and Eastern European markets were also a source of growth for some firms.

A key finding is that the majority of the ten MSBs where exports accounted for at least 50 per cent of sales turnover were clearly growth orientated and achieved growth over the last three years, with six of them achieving growth in sales turnover, profits, and employment. Foreign markets clearly provided important opportunities for growth at a time when the UK market had become depressed. There was only one case of a survival orientated company which was highly export oriented, this being a manufacturer of chemical fragrances and food flavours that was refocusing its activities in the face of the intensity of competition from low cost, emerging market suppliers.

Interestingly, a somewhat smaller proportion of the subsidiary MSBs were exporting than their independent counterparts (56 per cent compared to 65 per cent), reflecting the fact that some subsidiaries of foreign owned companies were specifically targeting the UK market, notably in the financial services, construction, and energy sectors.

5. BUSINESS CAPABILITIES

5.1 Introduction

This section examines the capabilities of the surveyed MSBs, specifically focusing on how they rate their recent business performance, their perceived strengths and weaknesses, assessment of levels of competition and their main aspects of competitive advantage, management systems and capabilities and barriers and constraints to business development, both for the past three years and for the next year or two.

5.2 Satisfaction with Business Performance

Interviewed MSB managers were asked whether they were satisfied with the performance of their business in the past three years. Three fifths indicated that they were satisfied, with some giving the caveat that this was "…*taking into context the difficult market conditions*." Where management was not satisfied with business performance they typically suggested that they had taken steps to cut costs and introduce more efficient practices in order to increase profit margins and market share, and in some cases to diversify and develop niche and higher value markets (e.g. a meat processing company that was developing higher value added chilled food products).

Larger MSBs with £100 million plus sales turnover exhibited proportionally higher levels of management satisfaction with business performance (78 per cent) than those in the £50-99 million (64 per cent) and £25-49 million (47 per cent) size categories. This seems to be in-line with the better growth performance of larger MSBs in the survey and their comparatively less competitive markets, when compared to their smaller MSB counterparts.

Family owned MSBs exhibited only slightly less management satisfaction with business performance (56 per cent) than their counterparts (63 per cent). However, a higher proportion of subsidiary MSBs exhibited management satisfaction (69 per cent) than their independent counterparts (53 per cent).

5.3 Strengths and Weaknesses

MSB managers were asked to highlight the main strengths and weaknesses of their businesses currently.

Table 5.1 demonstrates that a wide range of key business strengths were mentioned, with many respondents mentioning multiple strengths.

Table 5.1: Strengths and Weaknesses of MSBs

	Strengths		Weaknesses	
	no.	**%**	**no.**	**%**
Management skills	6	17	1	3
Employee skills	11	31	0	n/a
Staff development	6	17	4	11
Strategy	7	20	0	n/a
Operations/systems	8	23	6	17
Product/Service Development	7	20	3	9
New markets	4	11	3	9
Customer service	8	23	2	5
Reputation/reliability	5	14	0	n/a
Strong customer base/niche	2	5	0	n/a
Recruitment	0	n/a	2	5
Sales and Marketing	0	n/a	3	9

Note: % of n=35

Employee skills were the most frequently mentioned business strength, relating to almost one third of the MSBs. This particularly related to specific industry technical skills such as R&D and engineering, but was also important with regard to customer care and client handling, particularly for the business and financial services sector. Several respondents emphasised that "*we recruit the best people in the industry*." Allied to this, customer service and business operations/systems (which included client management systems, as well as production processes and logistics for flexible, 'just in time' delivery) were also frequently mentioned, by almost a quarter of managers. Furthermore, management skills and staff development and training were key strengths for one in six MSBs and business strategy was a key strength for one fifth.

Less than half (49 per cent) of MSB managers specifically mentioned business weaknesses, which were referred to as "*areas for business improvement*." These were mainly focused on improving operational systems, particularly with regard to IT and client management systems and notably in the transport and business and financial service sectors. Two themes emerging from this exploration of business weaknesses are the importance of recruitment and training of key skilled staff and management to future business development and concerns about sales and marketing and developing new markets. Perceived weaknesses were mentioned across the range of MSB performers with, if anything, more emphasis on improvements being displayed amongst the better performers.

A considerably lower proportion of family owned MSBs (32 per cent) exhibited perceived weaknesses compared to their counterparts (63 per cent) and it was businesses with sales turnover of between £50-99 million that had the highest proportion mentioning weaknesses (63 per cent) compared to one third of their smaller and larger counterparts.

5.4 Management Systems and Teams

More than four fifths (85 per cent) of surveyed MSBs are using management systems, the exceptions being the smaller scale, lower volume, people based services for high net worth customers. The main systems mentioned were: financial systems (11 cases) which particularly related to MSBs with external finance, such as publicly limited companies which had specific duties to report regularly to shareholders; key performance indicators (9 cases) and quality management systems (6 cases) for manufacturing and process driven businesses; and ISO (5 cases of International Organizational Standards) for MSBs with complex or hazardous operations, and overseas trading (e.g. transport sector). There were also various mentions of health and safety (3 cases), logistics (2 cases), human resources (2 cases) and profit related pay systems (3 cases).

Overall, there was a view that management systems form an important part of these businesses and that quality assurance and efficiency is vital to their reputations. A number of respondents specifically mentioned recent or planned improvements, particularly in the area of IT systems, which could improve customer communications and integrate with management information systems.

The majority of MSBs (60 per cent) appear to have well established management teams with a range of industry experience and suitable paper qualifications (e.g. management and vocational sector training accreditation). Respondents were particularly keen to impress that "*industry experience has enabled us to pull through difficult times*" and that management teams have an appropriate range of skills including strategic, financial, sales and marketing, production and service operations roles. Indeed, some respondents also enthused as to how they successfully introduced new, younger managers, who had injected a new vitality into the business:

"*A strength is the young and diverse management structure. We have taken on young graduates in recent years who have really helped the company to be more innovative in manufacturing processes and also product innovation. We have a good blend of experienced business managers, industry knowledge and youthful innovation*."

Subsidiary MSBs appear to be particularly strong in terms of staff skills, strategic development, and product/service development compared to other MSBs, reflecting their ability to be able to draw upon a greater range of internal resources and expertise.

Two fifths of MSBs revealed a need to improve their management capabilities, with five of the fourteen cases relating to MSBs where the management has been dissatisfied with the recent business performance. Four cases related to management training requirements for existing staff, either to improve the performance of existing managers, or to train new managers from within the company with a view to succession planning. IT management skills were mentioned in four cases and it was noted that recruiting appropriately skilled IT managers who could take the business forward is currently very difficult within the UK and EU, as there is a perceived skills shortage of top level people in this field. Other key management skills required included strategic management to assist a contract cleaning company to reposition themselves in an increasingly competitive market, a marketing manager for an art gallery, an export manager for a manufacturer and an engineering manager for a cutting edge IT manufacturer. The latter position had proven difficult to recruit for because "*the business is based in the North of England, rather than the more favoured locations in Cambridge, London and the South East of England*."

An emerging theme is the emphasis on marketing and customer contact. One underperforming wholesaler demonstrated how even with a diverse management team, the loss of key management expertise had highlighted the importance of management gaining greater market understanding and customer focus:

"*The management structure of the company has been deficient in recent years following the retirement of two NEDs. There is a CEO, four senior managers, plus a team of specialist managers - e.g. HR, Finance etc. - and one NED with excellent knowledge of the market. However, we feel we lack an external focus and would benefit from better understanding of customers and exploring ways in which we can work more closely with them. The company is very strong technically, but less strong on the customer focus*."

The middle sized MSBs (£50-99 million sales turnover) appear most active in planning management changes over the next year (55 per cent), compared to only a third of their larger and smaller counterparts, whilst family owned MSBs exhibit only a slightly higher proportion planning management improvements (44 per cent) compared to their counterparts (37 per cent).

Interestingly, although MSBs with NEDs appear to be better growth performers, they also have a higher proportional response stating that they are dissatisfied with business performance in the past three years (47 per cent compared to 33 per cent of their counterparts), but are less inclined to require improvements in their managerial competences (35 per cent compared to 44 per cent). This may be indicative of the high performance demands of the MSBs with NEDs, rather than any lack of management competence.

5.5 Barriers and constraints

Table 5.2 presents the range of responses to barriers and constraints faced by the surveyed MSBs over the last three years and predicted for the next year or so. Nearly half of the MSBs (45 per cent) did not identify any internal barriers or constraints to the growth and development of their business in the last three years, whilst only four MSBs (11 per cent) did not face any external constraints.

The most frequently mentioned *internal constraints* faced during the past three years were management capacity, skills and capabilities (20 per cent) and operations systems, often relating to IT issues (20 per cent) and these were the two main priority constraints faced. Staff skills in relation to training and retaining key staff was also mentioned as a constraint by one in seven MSBs.

The most frequently mentioned *external constraints* faced during the past three years were market uncertainties (43 per cent), followed by regulatory issues (37 per cent), staff recruitment (26 per cent) and access to finance (17 per cent), with market uncertainties (40 per cent) and access to finance (17 per cent) receiving the most priority responses. Market uncertainties ranged from the concerns of exporters about the sustainability of export markets and currency exchange rates to sector specific issues around increased competition and reduced demand, notably due to the "*credit squeeze*." Regulatory issues frequently related to there being "*too much red tape, which government should remove as quickly as possible*" and employment law which was viewed as a major stumbling block to recruitment in some firms, particularly around issues such as "*at tribunals the balance is currently in favour of employees over employers*", maternity rights which "*may favour male recruitment*"' and "*cost industry a huge amount of money in locum cover*" , and concerns over "*the settings of minimum or living wage hourly rates*." Generally, businesses were in favour of trade regulations and health and safety, as these "*protect the integrity of the industry and prevent rogue traders entering the market*."

Table 5.2: Barriers and Constraints to Growth over the last 3 years and near future

	Last 3 years				Future	
Barrier	**Internal**		**Priority**		**Internal**	
	no.	%	no.	%	no.	%
Management Capacity	7	20	5	14	3	9
Cash flow	3	9	3	9	3	9
Staff skills/retention	5	14	2	5	2	5
Product/service innovation	4	11	1	3	0	n/a
Export knowledge	2	5	0	n/a	1	3
Operations/systems/IT	7	20	6	17	4	11
Equipment	2	5	0	n/a	0	n/a
Premises	1	3	1	3	1	3
	External		**Priority**		**External**	
Sourcing finance	6	17	6	17	5	14
Acquisitions	4	11	1	3	1	3
Recruiting key staff	9	26	4	11	1	3
Market uncertainties	15	43	14	40	12	34
Increasing competition	4	11	1	3	1	3
Export contacts	2	5	1	3	1	3
Regulatory issues	13	37	4	11	9	26
Taxes	3	9	1	3	2	5
Overhead input costs	1	3	1	3	2	5

Note: multiple responses for all constraints and main priorities were provided

Regulatory issues mainly centred on ensuring that the amount of restrictions on businesses, notably around employment law, are kept to a minimum, as the manager from an electronics business stated:

"*A key is for the UK government to intervene as little as possible and ensure that the UK is a good place to do business*."

There are also concerns that access to external finance, notably from banks, will become more difficult and one respondent made a potentially important observation that access to finance is being stymied by the operating practices of credit agencies, who "*rely on end of year accounts, rather than up to date business performance, which can be improving or worsening and which can act against businesses experiencing an up turn in trade and therefore hold back the economic recovery*."

6. GOVERNMENT POLICY

6.1 Introduction

This section examines MSB managers' comments relating to the ways in which UK government policy can facilitate the growth of their businesses.

6.2 Policies Mentioned and Prioritised

Table 6.1 shows the range of government policies that were mentioned and prioritised by MSB managers as areas for improvement which could facilitate their business growth. The most frequently mentioned and prioritised areas for government policy improvements were trade regulations, employment law and access to finance.

More than two fifths (43 per cent) mentioned trade regulations and 'red tape' and this was also the most frequently mentioned priority for policy improvement. This mainly referred to industry specific issues such as financial service laws, EU agricultural subsidies and export laws. Key specific issues included: the need to reduce financial service regulations which are increasing the cost of such services to the consumer; the potential increase in car insurance due to the EU Gender Directive; complaints about export license costs and EU trade off-set rules; and concerns over the new bribery act legislation which will prevent trading in parts of Africa. Generally, it was felt that "*The UK government should reduce red tape as much as possible in order to make the UK a good place to do business*." Two MSBs linked to the oil exploration industry in the North Sea wanted to see reduced taxation levels on oil companies as recent increases were beginning to have an adverse effect on the demand for their services.

Employment law was mentioned by more than one quarter of managers and was a priority concern for one fifth. Various issues were raised, which generally related to the current balance being too much in favour of employees, but also more specifically included the cost to industry of maternity leave and concerns over the potential impacts of changes to the retirement age and living wage/minimum wage settings. There was an acknowledgement that employment law is controlled by the EU, but that: "*the UK government should act strongly to curb the worst excesses of EU legislation*."

Although access to finance has not been a major concern for the surveyed MSBs over the past three years, it was mentioned by almost a quarter of managers as an area which could be improved and was prioritised by one in six managers. The main concern was for improved access to bank finance, and one respondent specifically questioned the role of credit reference agencies noting that they use end of year accounting data rather than up to date information describing this as "*a time bomb which will hold back the recovery*." Two managers also prioritised grant finance as being vital to R&D and manufacturing development.

Table 6.1: Types of Government Policy Mentioned and Prioritised

Policy Type	Mentioned		Priority	
	No	%	No	%
Trade Regulations	15	43	10	29
Employment Law	9	26	7	20
Access to Finance	8	23	6	17
Macro Policy	6	17	1	3
Public Procurement	5	14	4	11
Financial Regulations	3	9	3	9
Nothing	4	11	4	11

Macroeconomic policy was mentioned by one in six managers and typically referred to issues such as exchange rates and VAT, but was only prioritised in one case where a company was finding the cost of importing materials prohibitively expensive.

Public procurement policy was a priority for four MSBs, notably in the construction/property sector which specifically mentioned that local authority house building programmes should be supported in order to stimulate the sector.

Almost one in ten managers mentioned financial regulations and these ranged from the impacts of Corporation Tax and National Insurance to the considerable cost to the car industry of voluntary termination rights under the Consumer Credit Act, "*which leads to the industry writing-off huge sums of money*."

7. CONCLUSIONS

7.1 Characteristics of MSBs

Even though this study has been based on a relatively small sample of 35 mid size businesses, they are nevertheless broadly reflective of the UK MSB population by size, sector and geographical spread. As such, they comprise a diverse range of businesses in terms of sectoral activities, business size, ownership, as well as their recent strategies and growth performance. They include highly capitalised businesses in the transportation and manufacturing sectors on the one hand, and service businesses with low fixed assets and overheads on the other.

In terms of their size, there is a noticeable difference between the 26 per cent of the sample that have sales turnover between £100-500 million and more than 500 employees on the one hand, and the 43 per cent that have a sales turnover of less than £50 million and fewer than 100 employees on the other. It could be argued that in terms of various characteristics (e.g. market position and business capabilities) many of the latter group have more in common with SMEs than with the larger MSBs.

There is a strong representation of family owned businesses amongst the surveyed MSBs (46 per cent of them), with 14 of the 16 cases also currently actively managed by the family on a day to day basis. Moreover, over 90 per cent of them were now owned and managed by second and/or subsequent generations of the founding family. Sixteen of the 35 MSB cases were subsidiaries of larger companies, with the majority of them (11 cases) being foreign owned.

The majority of MSBs were growth seeking, with 85 per cent aiming to grow in the last three years and 86 per cent aiming to grow in the next year. They were mainly aiming to grow in terms of net profits, sales turnover and market share. Growth was mainly achieved organically (74 per cent of cases), although a significant proportion (31 per cent) also grew to some extent through acquisitions. Future growth intentions had a similar pattern.

7.2 Growth Performance

Actual growth performance did not necessarily measure up to these growth ambitions over the last three years. Thirteen MSBs (37 per cent) grew on all three growth measures i.e. sales turnover, net profits, and employment, whereas eight (23 per cent) declined on all three. The rest generally had increasing or stable sales turnover but decreasing net profits and/or employment.

Two thirds (66 per cent) achieved an increase in sales turnover, whilst more than a quarter (28 per cent) experienced a decrease. Almost half (46 per cent) achieved increased net profit, whilst more than one third (37 per cent) experienced a decline. And half (49 per cent) increased employment whilst two fifths reduced employment.

Similar proportions predicted increases in the next year. Whilst only one in six predicted declining sales turnover in the next year, two fifths predicted declining employment.

7.3 Key Findings Relating to Growth

The following summarises some of the main characteristics and factors influencing growth in the studied MSBs:

Growth is discontinuous: many of the MSBs experienced dips in sales and profits during the last three years, relating to market downturn and volatility and also project and product/service development cycles.

Sector is a key determinant of growth: MSBs in manufacturing (particularly defence related), transport and logistics and financial services performed particularly well, whilst those in construction and property management were badly affected by the economic downturn.

Exports have been a key determinant of growth: MSBs with more than half of their trade derived from exports performed comparatively well, particularly in manufacturing, defence, transport and logistics where the UK market has been flat.

Larger MSBs performed particularly well: MSBs with over £100 million sales turnover appear to be particularly robust, with few competitors, whilst many smaller MSBs appear to be more like SMEs, operating in highly competitive markets.

Access to external finance has not been an obstacle to growth: MSBs appear to have accessed a wide range of external finance, including bank loans and mortgages, trade finance for equipment and equity investment, including public bonds. Only one MSB cited access to external finance as an obstacle to growth.

In terms of the key characteristics of different performance groups:

Characteristics of Growth Achievers

The most successful growth achievers, experiencing increased sales, profits and employment, were mainly in the transport, manufacturing and financial services sectors. They were typically exporting to growing emerging markets (China, India, Latin America), or trading in favourable UK markets (e.g. insurance sector). Larger MSBs (£100-500 million sales) performed well, experiencing less competition. They were generally active investors, particularly in relation to acquisitions and equity financing.

Characteristics of Growth Aim Underachievers

Under achievers aiming for growth, but dissatisfied with performance, are mainly the smaller MSBs (sales turnover under £100 million), facing strong competition, market constraints, increasing input costs and tightening operating margins. They are in manufacturing, media and business services. Several of these MSBs were hit hard by the recession in 2009, but are now recovering, investing in improved management, operating systems and market repositioning (e.g. focusing on their markets with higher margins).

Characteristics of Poorest Performers

These MSBs were typically in the construction and property sectors and had undergone rationalisation to become leaner and re-establish profits. These businesses have typically been constrained within flat UK markets, or in sectors affected by disadvantageous global market forces (e.g. increased competition from emerging market manufacturing, increasing fuel costs). Survival orientated MSBs appear less willing to invest, due to market uncertainties.

Family owned MSBs

Family owned and operated MSBs are firmly placed within the middle tier of performers. They are generally characterised by moderate growth aspirations, steady performance and even amongst the poorer performing construction and property sectors, prudent financial management.

Subsidiary MSBs

A higher proportion of subsidiary MSBs achieved growth in sales, net profits, and employment over the last three years than did their independent counterparts (44 per cent compared to 32 per cent). They were also less likely to grow by means of acquiring other companies.

7.4 Future Concerns

Whilst the overall mood of the surveyed MSBs is optimistic and growth orientated, external market conditions are a major concern over the next 12 months for more than two fifths (43 per cent), along with regulations and particularly employment law (37 per cent) and recruitment of key skilled staff (26 per cent). Furthermore, with concerns for a market downturn, one in six prioritise access to finance as a future concern.

ANNEX

Annex Table: MSB Survey Sample and BDRC MSB Sample Characteristics

	MSB survey	BDRC
Location	%	%
London, South East, East	54	51
North	14	20
Midlands, South West	12	18
Scotland	11	6
Northern Ireland, Wales	9	5
Subsidiary		
At least 51% owned subsidiary	46	35
Legal status		
Private Limited Company	78	82
Public Limited Company	19	11
Limited Liability Partnership	3	3
Other	0	4
Employment size		
1-49 employees	6	12
50-250	40	36
251-1000	40	36
1000+	14	16
Sales Turnover*		
£25-100m	74	72
£100-500m	26	28
N=	35	184

Note: n=158 for sales turnover

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