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RESEARCH

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Interim evaluation of GrowthAccelerator

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BIS Expert Peer Review for Evaluation

The BIS Expert Peer Review Group for Evaluation reviews all BIS impact evaluation publications, and provides an independent assessment of the methodological quality of the evaluation.

This publication was peer reviewed by Dr Edward Anderson, Professor Peter Lynn and Professor David Torgerson.

You can view: The peer reviewers' assessment

1. Executive summary

GrowthAccelerator is a Government-backed service that aims to help England's brightest businesses realise their growth ambitions and potential. It was launched in May 2012 to provide a comprehensive business support package to Small and Medium Enterprises with potential to achieve high growth. The service diagnoses their needs and delivers a holistic package of support that includes:

1. Specialist business coaching tailored to addressing their specific needs across three main strands – *Business Development Coaching*, *Access to Finance* and *Growth through Innovation*.
2. Grants to contribute to the cost of leadership and management development;
3. Fast access to external sources of help such as trusted providers of business advice, business and investor networks.
4. Access to GrowthCommunity – a network of GrowthAccelerator alumni that allows them to connect to other high-growth business leaders.

GrowthAccelerator clients come from all sectors, sizes and ages, but have a number of distinguishing traits:

1. The service has already assisted 16,000 businesses and is on track to assist more than 23,000 by 31 March 2015.
2. Data shows that there is no standard profile of a high-growth-potential company. However, the clients of GrowthAccelerator are:
    1. younger than an average small business,
    2. more concentrated in dynamic, innovative sectors,
    3. significantly more capable in several aspects of running a business, especially accessing external finance and engaging in innovation,
    4. less likely to face external barriers to growth, such as regulations, and be more affected by difficulties recruiting people and a shortage of managerial skills.
3. The service is targeted at high-potential small and medium-sized enterprises and a structured selection process is in place to ensure that companies accessing the service have what it takes to achieve high growth.

GrowthAccelerator addresses a number of key market failures related to the uptake and supply of business support

1. Recipients said that the service had addressed the key market failures of the business support market.
2. Only 30 per cent of users said they could obtain similar support elsewhere, showing that Government intervention is effective in driving take-up of support.
3. Three in five clients identify cost-effectiveness as a reason for choosing support, showing that Government subsidy is effective in driving take-up of support.

4. GrowthAccelerator also helps the companies understand and clarify their business support needs – 94 per cent of users thought the initial diagnostic stage improved their understanding of their support needs.

5. As a result, 85 per cent of assisted companies said they are likely to continue using advice in the future.

6. GrowthAccelerator also improves connectivity in business support by referring clients to further specialist support, with 9 in 10 of those referred happy with the quality of referral.

GrowthAccelerator is expected to deliver good value for money

1. Companies have introduced a range of improvements in their business as a result of using GrowthAccelerator, from improving their strategic planning to accessing external finance. Companies are highly satisfied with the service and 97 per cent would recommend it to other firms.

The responses from recipients would imply that this provides good value for public spend, with a return of £12.5 for each £1 spent. However self-reported estimates can over-estimate the benefits. They are also sensitive to the choice of assumptions used. Further assessment of economic impact of the service will need to be conducted once the clients have reaped the full benefits of the assistance.

2. Introduction and background

GrowthAccelerator is a service aimed at small and medium-sized enterprises with high growth potential. It provides an in-depth diagnostic of business support needs and a bespoke plan of coaching and workshops tailored to help businesses achieve their full potential. As part of the monitoring and evaluation strategy, this research brings together existing survey evidence of the effectiveness and impact of the service to assess whether it is delivering against its objectives.

2.1 Background

In 2010 the UK emerged from the longest and deepest recession since the 1930s, which saw the UK's economy contract by 5.2 per cent in 2009[1]. Rapid and decisive action from Government was needed to enable the economy to return to a path of strong and sustainable growth.

Government had been involved in providing advice to businesses for a number of years, most notably through the regional Business Link service. While research had shown that Business Link delivered significant economic benefits, there was evidence to suggest that a more focused service would deliver greater impact[2]. Thus in order to realise the growth potential of the economy, Government investment in business support was to be refocused where it is likely to achieve greatest return[3]. The policy statement *"Bigger, Better Business: Helping small firms start, grow and prosper"* highlighted small business growth as Government's key priority and outlined a programme of policy measures to achieve this. A more targeted and tailored business support offer was expected to boost the UK's economic growth while delivering significant cost savings to the taxpayer[4].

One of the main components of the refocused portfolio of support was the introduction of GrowthAccelerator, then called Business Coaching for Growth. This new national service, delivered locally, was expected to be:

1. **Targeted**. Targeting the companies that had the potential to achieve yearly employment growth of more than 20 per cent on average over a three year period.
2. **Tailored**. Providing high growth coaching to enable those businesses to address their individual barriers to growth.
3. **Connected.** Connecting the companies to external providers of support, such as UK Trade and Investment or Manufacturing Advice Service.

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[1] ONS (2014) *"Summary of Upcoming Changes to GDP"*

[2] Mole, Hart, Roper and Saal (2009) *"Broader or deeper? Exploring the most effective intervention profile for public small business support."*

[3] BIS (2010) *'Bigger, Better Business: Helping small firms start, grow and prosper'*

[4] Ibid.

This paper is intended to assess the expected impact of GrowthAccelerator on the UK economy in terms of additional economic growth.

2.2 Market failures and the rationale for intervention

Business support has proven benefits

Use of external information, advice and guidance can improve business skills and in turn business outcomes, with almost 6 in 10 small and medium-sized enterprise employers who use strategic advice believing they have improved business performance as a result[5]. Specific business support interventions are also shown to have a significant positive impact on the economy. In 2007, a quasi-experimental evaluation of the national Business Link programme identified a significant short-term impact on assisted firms, increasing employment growth rates of clients by 2.4 percentage points[6]. More recent research indicates that this impact is likely to have been sustained for several years after treatment[7].

However, a range of market failures prevents businesses from accessing support

However, despite the benefits, just 25 per cent of small and medium-sized enterprise employers in England had used strategic advice to introduce change and grow their business in 2011-12[8]. Recent evidence estimates that about 30 per cent of small and medium-sized enterprise employers have an unmet need for external assistance, including those who recognised their needs and did not seek advice and those who were unable to recognise their support needs[9].

A number of market failures are linked to this. The most common market failure identified was that businesses find it difficult to place a value on the benefits of formal assistance (being the main reason for 26 per cent of non-users). Businesses also face difficulty assessing the competence and trustworthiness of external information or advice (14 per cent of non-users) and face difficulties accessing information and advice (14 per cent of non-users). Credit constraints can also make it difficult for firms to meet the cost of advice – 37 per cent of those not using advice report high cost as a reason for not using it [10].

The business advice market is dominated by those who sell services to businesses, such as accountants, banks and solicitors[11]. However, these service providers may, or at least be perceived to,[12] focus on a narrow set of

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[5] CEEDR (2011) *"Research to understand the barriers to take up and use of business support"*

[6] Mole, Roper, Hart, Storey and Saal (2006) *"Economic Impact Study of Business Link Local Services"*

[7] Hart and Drews (Forthcoming) *"Feasibility Study: Exploring Long-Term Impacts of Business Improvement Services"*

[8] BIS (2012) *"Small Business Survey".* Further 20 per cent of SME employers have only accessed information, related to day to day running of their business.

[9] CEEDR (2011) *"Research to understand the barriers to take up and use of business support"*

[10] BIS (2012*) "Small Business Survey 2012: SME employers"*

[11] BIS (2012) *"Small Business Survey 2012: SME employers"*

issues, lack impartiality and lack the incentive to refer prospective clients to a more appropriate service. This therefore fails to address the difficulties businesses face in assessing their support needs and navigating the market.

Government interventions need to be targeted on the companies with the highest growth potential in order to deliver greatest impact

A review of the outcomes of Business Link clients has shown the more intensive interventions, providing more support to a smaller number of firms, were significantly more effective[13]. This suggests the need to limit the number of assisted companies and instead provide each company with more intensive assistance.

Research shows that a large proportion of jobs and value added in the economy are created by a small proportion of firms. Only around 7 per cent of small and medium-sized enterprises (with 10-250 employees) are classed as 'high growth' according to the OECD definition[14]. However, these small and medium-sized enterprises generate around a quarter of all new jobs amongst existing businesses over a three year period[15]. Many market experts have called for greater focus of Government-funded business support on businesses with the potential for high growth, including Enterprise Research Centre[16] Experian[17], Nesta[18], and the Work Foundation[19].

A number of firm characteristics can be linked to high growth potential, but identifying such companies is still challenging

To deliver the greatest economic benefit, GrowthAccelerator is targeted at companies with the potential to achieve high growth. Analysis of firm data highlights a number of factors associated with high growth potential. For example, those who persistently invest in research and development have higher productivity and export more[20]. Research[21] also suggests that high growth outcomes are linked to motivations and the managerial capacities of firms. Small and medium-sized enterprises with higher ambition are more likely to grow; 46 per cent of ambitious small and medium-sized enterprises have increased turnover, compared to 32 per cent of those with low growth ambition[22].

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[13] Mole, Hart, Roper and Saal (2009) *"Broader or deeper? Exploring the most effective intervention profile for public small business support."*

[14] OECD and Eurostat define a high-growth firm as a firm that has grown employment or turnover by average of 20 per cent per year over 3 years, having started the period with at least ten employees.

[15] ED AU secondary analysis of data in NESTA (2009) 'Measuring business growth'

[16] Roper and Hart (2013) *"Supporting sustained growth among SMEs – policy models and guidelines"*

[17] Experian (2010) *'Tomorrow's Champions: Finding the Small Business Engines for Economic Growth'*

[18] Nesta (2014) *"Increasing 'The Vital 6 Percent': Designing effective public policy to support high growth firms"*

[19] The Work Foundation (2011) *'Ready, Steady, Grow! Identifying what high growth firms need to succeed'*

[20] Cefis and Ciccarelli (2005), Cefis and Orsengio (2011), Loof et al (2011)

[21] Blackburn, Kitching, Hart, Brush and Ceru (2008) *"Growth Challenges for Small and Medium-sized Enterprises: A UK-US Comparative Study"* UK Treasury and BERR Report URN 09/683

[22] TBR and Qa Research (2012) *"Business growth ambitions amongst SMEs"*

Still, approaches based on basic traits of a company have little power in predicting its performance[23]. Identifying companies with high growth potential therefore requires a more comprehensive qualitative assessment of the potential client's business.

While business support should be focused on firms with potential for growth, government should only intervene where it can make a real difference to firm's growth. Thus the targeted companies need to be those that face obstacles to growth that can be addressed by the intervention.

2.3 GrowthAccelerator

This section explains how GrowthAccelerator is designed and operated as set out in the operations manual.

The service

GrowthAccelerator is a Government-backed service that over three years aims to help up to 26,000 of England's brightest businesses realise their ambitions and potential. It was launched in May 2012 to provide a comprehensive business support package to Small and Medium Enterprises with the potential for achieving high growth[24]. It is delivered by a consortium of private sector companies led by Grant Thornton UK LLP, and provides expert business coaching, tailored to addressing each business's needs.

GrowthAccelerator involves a rigorous selection process used to identify a company's potential to achieve high growth, by assessing their ambition, opportunity and capacity for growth. Clients complete a bespoke diagnostic tool which assesses the businesses needs to inform the coaching process. A Growth Manager then works with the firm to identify the scope of the coaching required, develop a detailed Scope of Support (action plan) and recommend a Growth Coach suitable for achieving the business's objectives.

The coaching offer is split into three main strands – Access to Finance, Growth through Innovation and Business Development. Assisted companies can also access up to £2,000 of matched funding for Leadership and Management (L&M) training for each senior manager. As well as coaching, GrowthAccelerator provides comprehensive support by connecting businesses to other trusted providers of business advice that might be better suited to help them achieve their growth ambitions, such as UKTI, incubators and professional advisors. Directors of the assisted firms are also referred to GrowthCommunity – a network that allows them to connect to their peers, gain access to cutting-edge business intelligence and learn from business experts. As of July 2014, over 16,000 small and medium-sized enterprises had joined the service.

Customer acquisition

The customer acquisition process is targeted at companies with high growth potential who have the potential to benefit from the service. GrowthAccelerator relies on a range of activity to engage companies

[23] Experian (2010) "*Tomorrow's Champions: Finding the Small Business Engines for Economic Growth*"

[24] The definition of high growth has been adapted to include micro firms and start-ups.

including: the national website, digital marketing, social media, awareness raising events, public relations, partnership & channel marketing. Potential clients come through three main routes:

1. **Local intermediary and direct engagement** – potential clients are proactively identified by Growth Managers, regional delivery partners and L&M specialists. Companies that attend events and potentially suitable firms may also be contacted.
2. **Introducers** – many potential clients are referred to the service by Growth Coaches, GrowthAccelerator alumni or local partners. These companies either apply to the service directly via the website, or are fast-tracked to suitability assessment by a Growth Manager.
3. **National service comminication** – national awareness raising via case studies, public relations etc.

When a potential client is identified, an assessment is made of their eligibility for the service.[25]

The value of the service per business is estimated at £3,500 + £700 Value Added Tax. The Department for Business, Innovation and Skills subsidises a part of the cost, on the basis that larger companies are less likely to face financial barriers to support, their support is subsidised less. The price of the service by firm size is:

1. 0-4 employees - £600 + £700 VAT
2. 5-49 employees - £1,500 + £700 VAT
3. 50-249 employees - £3,000 + £700 VAT

Suitability

Once a company is deemed eligible for the service it is allocated a Growth Manager, who is primarily responsible for the account management throughout the customer journey. To begin with, the client's suitability, in terms of the company's potential to achieve high growth[26] and benefit from GrowthAccelerator, is assessed. The assessment is based on three main criteria:

1. <u>Ambition</u> measures how committed the firm is to grow and whether the company has a strong vision for growth.

[25] A business is eligible if it is:

1. Based in England
2. Registered in the UK
3. Has fewer than 250 employees
4. Has turnover below €50 million (~£41 million) OR balance sheet below €43 million (~£35 million), following the official European Union definition of a small or medium-sized enterprise.
5. Not more than 25% owned by another company or companies, which are not small or medium-sized enterprises.

[26] High growth firm is defined by Eurostat - OECD as a firm that achieved at least 20 per cent average yearly employment growth over 3-year period, excluding the firms with less than 10 employees. For GrowthAccelerator, the definition is extended to include micro firmsand start-ups; for these businesses growth potential is assessed against an absolute change in employment or turnover or employment.

2. Opportunity measures whether the market environment is conducive to growth and whether the company has the competitive advantage it can use to grow.

3. Capacity measures the company's capability to overcome the barriers to growth in terms of skills, finance and resources.

Each of the criteria is assessed on a three point scale from 1 – low growth potential which is unlikely to be enhanced by the service – to 3 – high growth potential, likely to be enhanced by GrowthAccelerator. Companies with a combined score of more than 6 out of 9 are automatically considered suitable for the service. If their score is 5 or lower, they can still be deemed suitable following further discussion.

Based on the interview the Growth Manager allocates the companies to the most appropriate service strand – Business Development Coaching, Access to Finance or Growth through Innovation.

Diagnostic

The next step is for members of the participating company's senior management team to complete the *GROWTHmapper®* questionnaire. *GROWTHmapper®*, developed by Oxford Innovation, is a bespoke self-assessment tool that draws out the perceived strengths and weaknesses of the business, as well as needs for improvement.

The Growth Manager then meets with the company's management team to identify its Scope of Support. The Scope of Support is designed to identify the growth opportunities that the client is not currently realising, causes of that unrealised growth and ways to address them. In addition to agreeing the scope of coaching, the Growth Manager sign-posts the business to other relevant sources of support, including workshops and masterclasses, local networks and courses, and offers the Leadership and Management grant, if suitable.

Coaching

The principal purpose of GrowthAccelerator is the coaching support, which focuses on the development of managerial and organisational capabilities of the company. The coaching service is delivered by independent Growth Coaches in a way that is tailored to the specific needs of the client, identified through the diagnostic process.

Coaches are contracted to deliver specific outcomes for the clients, which are presented as a range of work packages.

Growth Coaches are recruited on the basis of:

1. Strong personal record in business –a strong track record of senior management positions in growing businesses;
2. Previous coaching experience.

To ensure that the clients are matched to the most appropriate Growth Coach, an automated system is available to select a shortlist of potential coaches that are then interviewed by the Growth Manager.

The three work streams

Business Development Coaching (BDC). Business Development Coaching provides tailored support to develop the business capabilities and help remove the barriers to growth. Typically, the Growth Coach is tasked with facilitating the creation and implementation of a growth strategy using two structured tools.

1. Visioning Orbit helps the company formulate its strategic growth plan. It involves articulating the steps needed to get to where the company aims to be in terms of its performance measures in three years' time.
2. Single Page Plan involves identifying the projects needed to achieve the key growth goals over the next 12 months.

Growth Coaches help to change behaviours and improve business performance by transferring skills and knowledge into the business. BDC concentrates on factors like strategic planning, marketing, service implementation and more to inspire enhanced growth performance.

Access to Finance (A2F). Access to Finance helps businesses improve their investment readiness. The intervention is split into three phases:

1. <u>Funding requirements</u>. Full assessment of the company's suitability and potential for raising finance.
2. <u>Investment/finance readiness.</u> Support to develop and consolidate the building blocks to attract investment.
3. <u>Fund-raising.</u> Help to secure suitable finance to enable business growth/expansion.

The A2F service provides a bespoke approach integrating specialist 1:1 coaching, access to four unique masterclasses and close interaction with a dedicated investor relations team.

Growth through Innovation (GTI). This strand focuses on addressing client's needs related to their innovation capabilities. It is provided by innovation specialists over several months to enable the company to implement lasting changes within the organisation. The service is built around five key business needs:

1. Creating competitive products and services;
2. Understanding unmet customer needs;
3. Collaboration and partnering for innovation;
4. Developing an innovative organisation;
5. Understanding, protecting and exploiting IP.

Leadership and Management support

Leadership & Management (L&M) training, available to all GrowthAccelerator clients, is aimed at improving the skills and capabilities of managers in assisted firms. Skill gaps in management teams are identified and then addressed with training that will help the management team to realise the business's maximum growth potential. A grant of up to £2,000, to be matched on a £ for £ basis, is available for each senior manager of participating companies.

2.4 Objectives and KPIs

As part of Government's strategy of supporting small business, the ultimate objective of GrowthAccelerator is to help drive the UK's economic growth through facilitating additional growth and productivity amongst businesses with high growth potential.

Effectively driving economic growth rests on effective service delivery, which is underpinned by achieving the operational objectives of the service. These objectives form the basis for Key Performance Indicators (KPIs) of the service.

In 2012-2013, KPIs were based on immediate outputs and intermediate outcomes – at that point it was not possible to obtain reliable measures of economic impact and they were chosen as a proxy. The indicators covered client and stakeholder satisfaction, business outcomes in each strand of the service and the amount of private sector leverage.

In 2013-2014, output measures were replaced by early estimates of gross economic impact of the service – job creation and additional Gross Value Added. In order to measure them, a separate validation survey is conducted to measure the turnover, jobs and GVA of assisted firms 1 year after they have signed up. It also included measures of stakeholder and client satisfaction, as well as private sector leverage.

2.5 Evaluation and monitoring strategy

The Department for Business, Innovation and Skills is committed to actively monitoring and evaluating the performance of its policy interventions to ensure that they are delivered effectively and provide value for money. It is recognised that many of the impacts on assisted businesses can take a number of years to be realised, however, it is necessary to use the best evidence available at earlier dates to improve service delivery and provide an early assessment of the impact. The monitoring and evaluation strategy of GrowthAccelerator consists of the following:

<u>Regular monitoring surveys</u>

Service monitoring surveys are independently conducted to collect evidence of quality of service delivery and impacts on the assisted companies. This report mainly draws on the findings of these surveys to assess the performance of GrowthAccelerator. For more detail on the survey approach, see chapter 2.7.

<u>Formative evaluation (expected October 2014)</u>

A formative evaluation of the service was commissioned when the service had been in operation for approximately 18 months to gather qualitative evidence on service delivery. This evaluation has two key objectives:

1. To assess how GrowthAccelerator is being delivered and whether it is being delivered as intended, and to identify factors that have helped or hampered its effectiveness.

2. To document the customer journey from either being proactively identified for participation or from contacting the service, and assess how various elements of the customer journey are working.

This will provide valuable insight on the performance of GrowthAccelerator and provide indications of how to improve the delivery to aid value for money. It will be published on GOV.UK alongside this report.

Quasi-experimental impact evaluation

Quasi-experimental impact evaluation involves comparing a sample of assisted companies to a similar group of non-assisted firms. It is considered one of the most robust approaches to economic impact evaluation, as it accounts for selection effects. The feasibility of applying this approach is currently being assessed, but will require a longer period of data on firms than is currently available.

Growth Impact Pilot

The Growth Impact Pilot, launched in April 2014, is the Government-supported research project into the GrowthAccelerator service. The Growth Impact Pilot will assess whether the provision of GrowthAccelerator coaching is the reason why firms on the service achieve high rates of growth, or whether this growth would have happened anyway. It is designed to assess the impact of coaching by comparing two groups:

1. Group 1 who receive Leadership & Management Grant
2. Group 2 who receive Leadership & Management Grant AND specialist coaching services.

Once recruited, businesses will be divided into one of the two groups by a process of random selection. By comparing the performance of the two groups, it will be possible to identify whether coaching really makes a difference for the assisted businesses. It may take several years for the economic impact of the trial to emerge, but monitoring and evaluation will be undertaken at earlier stages.

2.6 Objectives of this research

The main objective of this report is to present an early assessment of the realised and expected impacts of the service. This report considers the views of the service of clients, investors and relevant stakeholders, based on the relevant monitoring survey findings. Monitoring information is also reviewed.

The survey results are also used to obtain a preliminary estimate of the economic value of GrowthAccelerator. Given that the service was launched just over two years ago, businesses are unlikely to have realised the full economic impact of the service. However, assisted firms are likely to have already introduced a number of improvements to the operations and strategy of their business. This enables the firms to estimate, how much growth they expect as a result of the direct outputs of GrowthAccelerator.

This mixed approach to evaluation draws on a range of different evidence to provide a comprehensive view of the service. Analysis in this report is based on the results of regular monitoring surveys up to April 2014.

2.7 Survey approach

Five monitoring and evaluation surveys have been designed in order to generate robust evidence on the delivery and impact of GrowthAccelerator. The surveys seek to measure KPI measures as well as providing wider evidence and insight around the performance of the service. The surveys have been developed jointly by Grant Thornton and BIS, drawing heavily on previous best practice and similar surveys undertaken by BIS to enable comparison to, and linkages with other surveys. A small sample of businesses were surveyed in November 2012 to pilot the questionnaires and ensure they were effective.

Three client surveys are conducted on a rolling basis:

1. The **effectiveness survey** is undertaken with businesses three months after they have signed a GrowthAccelerator contract. It focuses on understanding how effective the scheme has been in delivering support. Results presented are based on 1003 interviews with assisted firms.

2. The **outputs survey** is undertaken with businesses nine[27] months after they have signed a GrowthAccelerator contract. It focuses on understanding the difference the support has made. Results presented are based on 577 interviews with assisted firms.

   Effort is made to survey every business as rarely as possible – if a business has been interviewed for the effectiveness survey, it will not normally be contacted for the outputs survey.

3. The **Leadership & Management (L&M) survey** interviews the individuals who have accessed L&M support to understand the effects that training had on their skills and capabilities. Results presented are based on 357 interviews with managers that received subsidised training.

Two additional surveys are undertaken annually:

4. The **stakeholder survey** is undertaken on a yearly basis to understand their level of awareness and perception of the service, as well as the extent of alignment between their objectives and objectives of GrowthAccelerator. The list of stakeholders surveyed has been agreed with BIS and includes delivery partners, Local Enterprise Partnerships, business schools, science parks, etc. 81 stakeholder was interviewed in 2014.

5. The **investor survey** is undertaken on a yearly basis to understand their degree of engagement with GrowthAccelerator and their views on GrowthAccelerator as a source of potential investments. The list of respondents has been agreed with BIS and includes business angels, equity funds and venture capital providers. 43 investors were interviewed in 2014.

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[27] Six months for those surveyed in year 1.

Table 1. Response rates for 2013-14 client surveys[28]

Survey Type	Success	Others	Response rate
Outputs	577	411	58%
Effectiveness	1003	430	70%

As highlighted in Table 1, response rates achieved in client surveys were relatively high[29], especially for the effectiveness survey. Still, non-response bias[30] may be an issue and needed to be explored.

Table 2 compares the turnover distribution between the survey respondents and total GrowthAccelerator client population. As can be seen from the table, the two distributions look relatively similar. However, some differences between the proportions in a certain size-band are statistically significant. Weighting the survey responses by turnover and employment did not produce statistically significant differences in any of the statistics, mentioned in this report. Based on that, it was decided not to weight the responses.

Table 2. Comparison of turnover between survey sample and population

Turnover band	Survey respondents	All clients
Under £50,000	20%	21%
£50,001 - £250,000	27%	23%
£250,001 - £1 million	31%	27%
£1 million - £10 million	21%	25%
Over £10 million	2%	3%

An independent Market Research Firm RMG: Clarity has been contracted to undertake all five of the surveys. The surveys are completed through Computer Aided Telephone Interviews (CATI). Anonymised results are provided back to the Growth Observatory for analysis and reporting to BIS. With the exception of those companies who have indicated that they do not wish to be surveyed[31], all respondents eligible for the survey are put forward into the sample. RMG: Clarity has been provided with the relevant contact details for each survey along with the data required to pre-populate certain questions. Clients are then sampled randomly from the population.

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[28] The numbers here do not include participants in pilot surveys. As mentioned, findings presented are based on 577 interviews for outputs survey and 1003 interviews for effectiveness survey.

[29] Compared to 36 per cent average in collecting data from organisations (Baruch and Holtom (2008) “Survey response rate levels and trends in organizational research”.)

[30] Non-response bias arises when the characteristics of survey respondents and those who refused to respond are markedly different and influence the findings.

[31] Less than 1% of firms in the population have excluded themselves from being contacted, so this should not present an issue.

In analysing survey results, “Don’t know” and “Not applicable” responses are excluded – thus the effective sample sizes for each question will be somewhat lower than those listed above.

All the findings presented are statistically significant at 95 per cent confidence level. The 95-per cent confidence interval on proportions presented does not exceed 5 percentage points[32], except for the findings on Access to Finance in section 4.3.

2.8 Structure of this report

The report is structured as follows. Section 3 discusses the profile of current users, their needs and whether the targeting of the users supports the service objectives. Section 4 analyses the monitoring survey findings to assess the impacts of GrowthAccelerator. This includes assessing the extent to which the service addresses the market failures, short-term and long-term client outcomes and the areas for improvement. Finally, section 5 uses the survey evidence to monetise the expected economic impact of GrowthAccelerator.

[32] Up to 4.1 percentage points in the outputs survey and up to 3.1 in the effectiveness survey.

3. Client profile

As of July 2014, GrowthAccelerator has helped more than 16,000 companies and is on track to have assisted more than 23,000 by the end of this financial year. Client selection process follows a structured process – almost 90 per cent of clients meet the formal suitability criteria of the service. While the clients come from all sectors, ages and sizes, they are younger, more capable and less likely to perceive their external environment as an obstacle to growth.

Volume of companies assisted

GrowthAccelerator was initially set up to assist up to 26,000 companies over 3 years (May 2012 – April 2015). The service was expected to assist up to 6,000 companies in the first year of operation and reach up to 10,000 companies in both financial years 2013/14 and 2014/15.

The actual dynamics of the contracts signed confirmed this prediction, although the numbers fell short of the expectations in both years to date. Over the first 8 months, as the service established itself, the volume of contracts signed was on average around 300 contracts per month. In subsequent months it stabilised at around 700-800 contracts per month. Thus 5,043 firms signed-up for the service in 2012/13 and 8,912 during 2013/14.

Selection

As outlined, one of the key elements of the service is effective selection of clients, and recent literature further emphasises the importance of selection in business support[33].

The evidence does show that selection follows a structured process as set out in section 2.3. Looking at the distribution of suitability scores, 90 per cent of the accepted companies met the 6 out of 9 point threshold for participation in the service, meaning that few of the businesses were accepted at Growth Manager's discretion. This suggests that the vast majority of the applicants were suitable for the service according to the set criteria.

The service was directly geared towards assisting well-established small and medium-sized enterprises with the capacity to achieve high growth. This implies that very small and very young companies were not expected to form a significant proportion of the clients, since such companies were not expected to have built up sufficient capacity to benefit from the GrowthAccelerator support. The desired firm size therefore assumed a greater share of larger small and medium-sized enterprises, as shown in Table 3.

A comparison between all UK small and medium-sized enterprises and assisted companies reveals that the firm size distribution is very similar, as demonstrated in Table 3. To an extent, this finding reveals that companies of all sizes can have the potential to achieve high growth.

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[33] Roper and Hart (2013) *"Supporting sustained growth among SMEs – policy models and guidelines"*

Table 3. Size profile of assisted firms

	UK Business Population 2013[34]	GrowthAccelerator clients
Micro (1-4) [35]	63%	57%
Small (5-49)	35%	39%
Medium (50-249)	2%	4%

The age distribution of the assisted companies reveals that GrowthAccelerator is primarily assisting firms that are well-established, with 60% of companies over 5 years old, and only 12% start-ups (<1 year old). Still, the clients are significantly younger than an average small/medium-sized enterprise, which is consistent with younger firms having generally more ambition to grow[36].

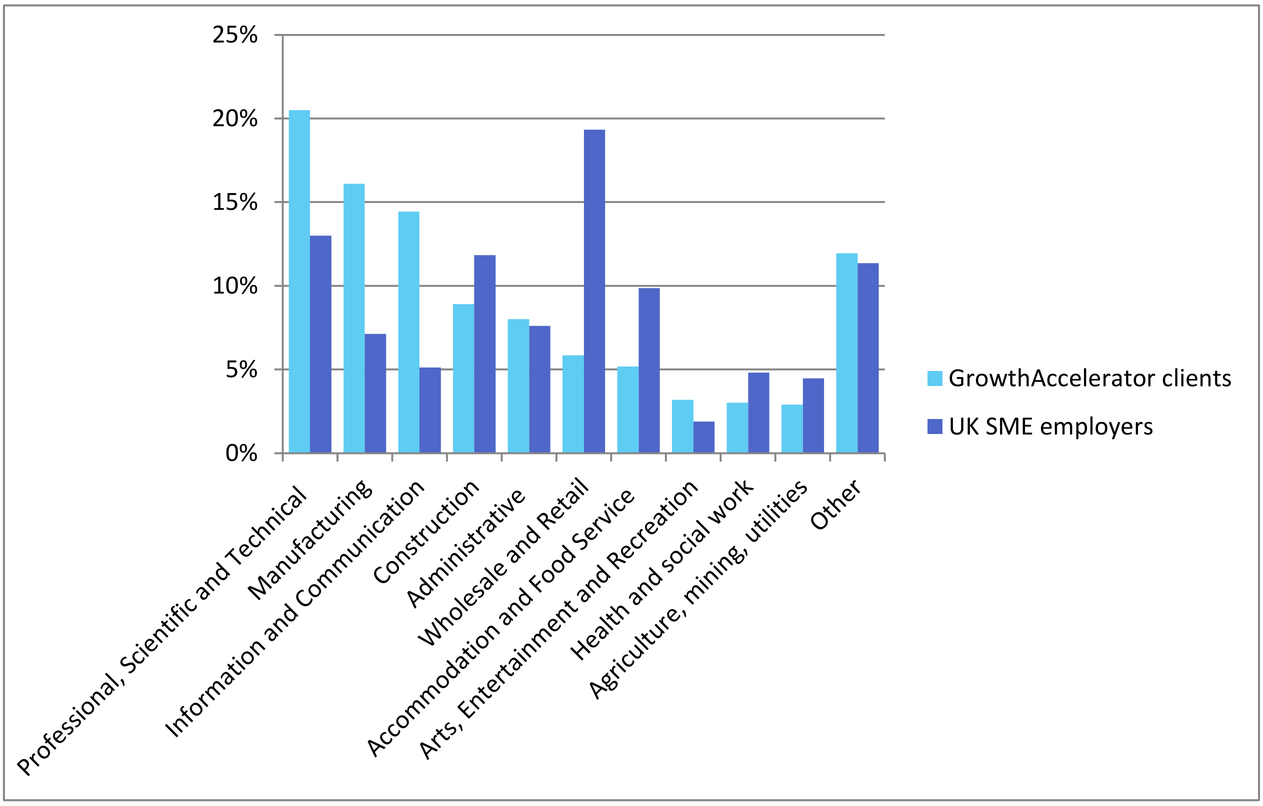

Figure 1. Sector distribution of assisted firms and England's business population

Figure 1 shows the distribution of assisted firms and all small and medium-sized enterprise employers by industry. While it is clear that GrowthAccelerator clients are spread across all sectors of the economy, there are some clear patterns. Companies in *'professional, scientific and technical'*, '*manufacturing*' and '*information and communication*' sectors were more than

[34] Proportions of each sizeband amongst all UK SME employers (1-249 employees)

[35] The firm size definitions used in GrowthAccelerator differ slightly from the commonly accepted definitions. Normally, microbusinesses are defined as having 0-9 employees, small businesses -10-49 and medium-sized businesses 50-249.

[36] TBR (2012) *"Business growth ambitions amongst SMEs"*

twice as likely to be amongst GrowthAccelerator clients compared to other companies. These three sectors make up 52 per cent of all clients. Firms in these sectors are more likely to engage in product and process innovation, and their high prevalence shows that innovation is a key aspect of high growth potential. Interestingly, the sector distribution of non-contracted companies (those who were rejected or dropped out) is very similar to that of GrowthAccelerator clients.

Client needs and capabilities

The effectiveness survey, conducted with firms 3 months after sign-up, provides some detail on the issues that assisted businesses face and their level of capability. The survey questions are consistent with the UK-wide Small Business Survey[37], which allows us to draw out the issues and behaviours that differentiate the assisted companies from other small and medium-sized enterprise employers in England.

Table 4. Capabilities of GrowthAccelerator clients

	GrowthAccelerator clients		All SME employers	
	Strong	Poor	Strong	Poor
Developing and introducing new products or services	64%	8%	**40%**	**22%**
Developing and implementing a business plan and strategy	64%	7%	55%	13%
Operational improvement, e.g. adopting industry best practice	63%	7%	54%	11%
People management, such as recruitment and delegation	61%	8%	56%	11%
Taking decisions on regulation and tax	59%	13%	62%	9%
Using formalised business systems such as customer information records	51%	19%	42%	22%
Entering new markets	41%	20%	23%	33%
Accessing external finance	38%	32%	18%	41%

Table 3 shows the breakdown of self-assessed capabilities of the assisted firms. Areas of strength are innovation, strategy and people management, with over 60% of companies reporting their capability level as ‘strong’ in these areas. Using formalised business systems, entering new markets and accessing finance are the areas companies feel least confident about. However, this does not necessarily indicate that firms’ support needs lie in these areas. For example, while access to finance seems to be an area of weakness for the clients, only 32 per cent of them consider lack of finance to be an obstacle to growth (Figure 2).

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[37] BIS (2012) *“Small Business Survey 2012”*

Two key differences are apparent when comparing the capabilities of the clients with the general business population. First, the clients are on average more capable in 7 out of 8 skills areas, and the gap is very wide in many of them. This indicates the effectiveness of customer acquisition of the service – while the extent of selectivity is limited, self-selection and referral processes allowed GrowthAccelerator to recruit relatively more capable companies. However, it is possible that higher levels of reported capability reveals greater self-confidence of the clients or is a result of using the service.

Second, while the relative ranking of capabilities is fairly similar, strong capability in "*developing and introducing new products or services"* seems to be a distinguishing feature of GrowthAccelerator clients. This further indicates that firms developing innovative products are more likely to have the potential for growth.

To understand the support needs of the clients, it is important to understand the obstacles to growth they face. Figure 2 presents the prevalence of different obstacles to growth. There are some differences in the distribution of obstacles between clients and the general business population. GrowthAccelerator clients are significantly less likely to report the economy, taxation, regulations and competition as obstacles to growth. On the other hand, they seem to be more affected by the shortage of managerial skills and difficulties recruiting staff.

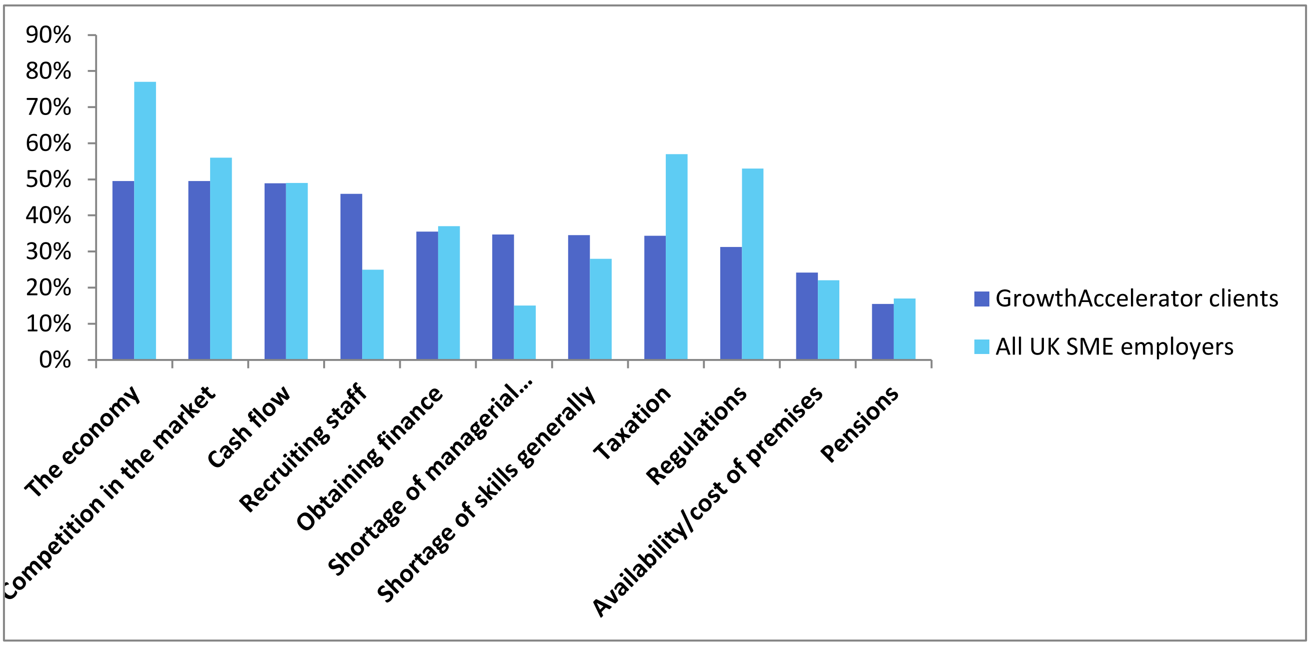

Figure 2. Barriers to growth as reported by GA clients and in all England small and medium-sized enterprises

Clients of the service seem to be less hindered by the barriers related to the external environment, and more affected by the barriers related to their internal capability. Literature on entrepreneurial psychology highlights that one of the key qualities of a successful entrepreneur is *internal locus of control*[38].

[38] Lefcourt (1991) *"Locus of control"*

Individuals with internal locus of control believe that their own actions, rather than the external environment, drive what happens to them. The findings would therefore suggest that the entrepreneurs who access GrowthAccelerator are on average more driven and more likely to achieve success. Another interpretation is that the needs diagnostic process has improved firms' understanding of their obstacles to growth.

It is worth noting that the proportion of clients identifying shortage of managerial skills as an obstacle is almost double that in the general population. This finding indicates that the initial diagnostic stages of GrowthAccelerator improve the companies understanding of their support needs. On the other hand, GrowthAccelerator is probably more likely to attract the companies that face gaps in their leadership and management skills. This issue is explored in section 4.2.

4. Impact of GrowthAccelerator

GrowthAccelerator helps the assisted firms achieve a range of operational improvements in their businesses. The support received is well regarded by beneficiaries, and has low deadweight reported by clients, as only 3 in 10 would access similar support in the absence of the service. Evidence also indicates that the service is addressing a number of market failures, related to the uptake of business support.

4.1 Addressing market failures

Understanding benefits of advice

Just 32 per cent of the assisted companies accessed external advice in the year before starting GrowthAccelerator. While this proportion compares favourably to use of advice amongst all small and medium-sized enterprises[39], evidence suggests that many more companies could benefit from support[40]. As outlined in section 2.2, low use of advice can be related to a range of market failures. One of them is difficulty assessing and monetising the expected benefits of external support[41]. Using advice is likely to address this market failure as having first-hand experience of using business advice allows firms to make a more accurate assessment of its value. This is supported by survey evidence showing that 85 per cent of the companies confirm that as a result of using GrowthAccelerator they are likely to continue using advisors in the future.

Financial barriers to support

Another barrier that businesses face is related to the cost of support. Given the challenge of assessing the benefit of support, firms are likely to be reluctant to spend a great amount of money on support. Short-term cashflow pressures can also prevent businesses, especially the smallest ones, from using support despite significant long-term benefits. This is addressed by GrowthAccelerator by subsidising part of the service costs, with the size of the subsidy contingent on firm size.

When asked about the reasons for choosing GrowthAccelerator, 42 per cent identified value/cost effectiveness and a further 18 per cent identified lack of finances to pay for alternatives. This shows that client businesses care about affordability of support and that it was an important factor in this case.

Lack of connectivity

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[39] In 2012, 23 per cent of UK small and medium-sized enterprise employers had used strategic advice over the previous 12 months. (Small Business Survey 2012)

[40] See BIS (2013) *"SMEs: Key enablers of business success and the rationale for government intervention"*

[41] CEEDR (2011) *"Research to understand the barriers to take up and use of business support"*

One of the supply-side market failures is related to lack of connectivity and at least perceived impartiality of providers – private sector support providers may lack the incentives to refer clients to the most appropriate source of support and be motivated to provide support themselves. GrowthAccelerator addresses this by referring clients to other sources of support if the diagnostic process identifies a need for more specific support from other sources.

In just 3 months after starting GrowthAccelerator, 42 per cent of clients were referred or connected to other business support services and 90 per cent of them were satisfied with quality of referral. The largest proportion of referrals is made to other Government-funded business support services (such as UKTI or Manufacturing Advisory Service), with almost 1,400 recorded referrals to date. Overall, this shows the service is fairly effective at connecting clients to appropriate sources of additional support.

Understanding own support needs

Many firms will be held back from accessing appropriate support due to inaccurate perceptions of their business support needs. Survey responses indicate that the initial diagnostic process in GrowthAccelerator significantly improves clients' understanding of their development needs. Thirty-five per cent of the respondents thought that the initial review identified issues that they were not aware of and 75 per cent said that it clarified the issues they should focus on. Only 6 per cent thought that the initial diagnostic had "no influence on their decisions"

Policy deadweight

By definition, for an intervention to address a market failure, it needs to provide something unique in the market. If a service is already provided by the market, it would be more effective to subsidise private support rather than design a separate service. If it does not provide anything unique, it creates deadweight, simply competing with existing providers rather than adding value. Based on the survey results, GrowthAccelerator has low deadweight – only 3 out of 10 clients would use similar support without GrowthAccelerator[42].

4.2 Client outcomes

Immediate benefits

Firms have introduced a range of improvements to their business as a result of accessing support. Ninety per cent of companies thought GrowthAccelerator helped them become better at business planning. This is a positive result given the link between more sophisticated business planning and business growth[43]. Businesses have also improved their access to finance, innovation and marketing capabilities, and these improvements were achieved by users of different strands of support, not just the users of the relevant coaching products. This finding suggests that close engagement with the coach can have much more wide-ranging effects than those they expect

[42] Scottish Enterprise (2008) *"Additionality & Economic Impact Assessment Guidance Note"*

[43] Brinckmann et al (2010*) "Should entrepreneurs plan or just storm the castle? A meta-analysis on contextual factors impacting the business planning–performance relationship in small firms"*

to achieve in their Scope of Support. The key findings are summarised in Table 5.

Table 5. Areas where improvements were achieved for assisted companies

	Yes, to a large extent	Yes, to some extent	Total
More likely to grow in the future	58%	36%	94%
Planning	46%	44%	89%
Marketing	34%	44%	78%
Coping with the economic downturn	26%	45%	71%
Developing new products or services	23%	47%	70%
Spotting opportunities	25%	45%	70%
Financial management skills	28%	34%	62%
Investment readiness	19%	42%	61%
Understanding risk	19%	41%	60%
Managing costs	20%	40%	59%
Seeking external finance	19%	33%	52%
Exporting	3%	10%	13%
The business has started to export	2%	8%	11%

Despite GrowthAccelerator's main aim being to help assisted companies grow, many of the benefits identified by the firms are not directly related to business growth. Helping the assisted firms manage their costs, cope with economic downturns and improve their financial management are not the direct aims of the service, yet at least one of these benefits was achieved by 91% of the assisted companies. This suggests that it is too narrow to look at the impact of the service only in terms of business growth, since business coaching has much wider effects on business.

This is also significant in the context of analysing the economic impact of the service. Reductions in business cost or increases in productivity would not be captured by naïve impact analysis, which only looks at increases in turnover and employment relative to the counterfactual. However, the extent to which cost savings constitute economic value added is hard to define and measure.

For example, the standard definition of Gross Value Added (GVA)[44] does not consider employee costs of the firm to be a cost to the economy.

GrowthAccelerator appears to be addressing the client needs presented in Chapter 3.

1. The most widely identified barrier to growth identified by the clients was cashflow, i.e. lack of liquidity in the firm that could be reinvested in the business. Given that the majority of clients have improved their investment readiness and financial management skills, GrowthAccelerator seems to be helping the companies overcome cashflow difficulties.
2. The second most common barrier identified was the economy, which may be partly due to the recent financial crisis. It is encouraging that 71 per cent of assisted companies have improved their capability in dealing with the economic downturn. As the economy further recovers, it is likely to become a driver of business growth and therefore coaching should focus more on exploiting the opportunities available.
3. On average, accessing external finance was the weakest area of clients' capability – something that holds for the wider business population too. However, only 30 per cent of client businesses thought that this was actually hindering their growth. As explained earlier, GrowthAccelerator provides specialised support through the A2F strand for such companies. However, many of the companies on the BDC and GTI strands of the service also achieved marked improvements in their investment readiness and access to finance capability.

In addition, GrowthAccelerator seems to be making a positive impact on exporting. Eleven per cent of companies report having started to export as a result of GrowthAccelerator support and a further 14 per cent expect to start exporting in the next 12 months[45]. Given that only 19 per cent of UK small and medium-sized enterprises export, this is quite significant. This is an expected consequence of high growth - for many firms exporting will be a way to expand. A significant proportion of assisted companies were referred to UKTI for specific support, which could explain the findings further.

Customer experience

The level of satisfaction with a service is a key indicator of the quality of delivery. While the benefits of assistance might be high, the level of satisfaction provides insight as to whether certain parts of the process are confusing, cumbersome or time-consuming. The effectiveness survey asks about satisfaction with reference to the different aspects of the three main stages of GrowthAccelerator support – initial assessment, engagement with the Growth Manager and coaching.

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[44] ONS (2013) *"Annual Business Survey 2012 – exporters"*

[45] For comparison, of all England's small and medium-sized enterprise employers, only 3 per cent expect to start exporting over next 12 months.

1. **Initial assessment.** The online application to GrowthAccelerator had the lowest satisfaction rate out of all the stages of the process – but still the vast majority (81 per cent) were satisfied with the online application. The telephone interview and face-to-face discussion had higher satisfaction rates, with 90 and 92 per cent of clients satisfied respectively. This shows the value of more personal engagement with the client – face to face contact increases clients' level of trust and helps them clarify anything they find confusing..
2. **Growth Manager.** Client satisfaction with their engagement with their Growth Manager was very high. Ninety-three per cent of users were satisfied with the face-to-face meeting and action plan. In general, companies were very satisfied with their Growth Manager, including their insight of business (89 per cent), scope of support (86 per cent) and knowledge of services (90 per cent).
3. **Coaching.** The level of satisfaction with coaching was even higher across four different indicators. Assisted companies were satisfied with their coach's understanding of their business (91 per cent), business experience (94 per cent), technical skills (90 per cent) and credibility (95 per cent).

Overall, 97 per cent of assisted companies reported that they would recommend GrowthAccelerator to other businesses, reflecting a very high level of satisfaction with the service.

Stakeholder views

GrowthAccelerator largely relies on referrals in its customer acquisition, which is why it is crucial to work with relevant stakeholders to ensure they refer the potentially suitable companies to the service. A range of stakeholders were interviewed, including representative from Local Enterprise Partnerships, business schools, membership organisations, universities, trade bodies and the Government.

All the stakeholders interviewed reported being aware of the service – unsurprisingly so given that most of them have already been interviewed in 2013. However, only 74 per cent of them reported being sufficiently aware of how the service is delivered locally.

The service is viewed by stakeholders as useful for the assisted companies – 88 per cent of the stakeholders have already recommended it to firms and 96 per cent intend to do so in the future. The main concern expressed was duplication of existing services – only 66 per cent of the stakeholders thought that the service adds value to the local support infrastructure.

Only 52 per cent of stakeholders agreed that clients would not be able to access similar support elsewhere. Interestingly, this is different from the clients view – 68 per cent of the clients thought that they could not access similar support in the absence of GrowthAccelerator. This is probably due to stakeholders being more aware of the whole business support landscape.

4.3 Strands of support

Leadership and Management

As already mentioned, a sample of client firm senior managers receiving Leadership and Management assistance are surveyed on a rolling basis to understand their views of the offer.

Addressing the market failure. Survey evidence confirms the presence of market failures, related to L&M support:

1. Thirty-one per cent thought that they could not have afforded to invest in improving their L&M capability without GrowthAccelerator
2. Twenty-eight per cent thought they would not be able to identify the chosen training course without help
3. Twenty-six per cent thought they would not be able to diagnose their training needs without help

The degree and nature of additionality varied across the clients. Only 19 per cent of users thought the service was 100 per cent additional – meaning that they would not have done anything without the support received. But, 58 per cent did note that they would otherwise be constrained by the lack of time – they either would not have time to access support or would delay using support.

Seventy-eight of the managers surveyed thought that the initial needs diagnostic and planning stage had added value. In particular:

1. Forty-two per cent of the clients developed their capabilities in an area that they would not have considered otherwise.
2. Forty per cent accessed training of a type that they would not have considered otherwise.
3. Thirty-six per cent accessed training through a provider that they would not have worked with otherwise.

Outcomes of using support.

Ninety-nine per cent of the clients thought the service was important in improving their management capability. Further to that, few of the assisted managers experienced difficulties in putting the newly-acquired management skills into practice. The key barrier to implementing new practices was lack of time, quoted by 28 per cent of the respondents.

It is expected that the improvements in individual manager capabilities will in turn result in improved performance of the assisted firms. The findings indicate that this is indeed the case, with 78 per cent of managers reporting that their newly acquired skills were very much relevant to the needs of their business.

Table 6. Outcomes of Leadership and Management assistance.

Immediate business outcomes		Mid-term business outcomes		Long-term business outcomes	
Enabled you to engage more effectively with your employees	85%	Increased investment in training and skills	80%	Improved business growth	83%
Enabled you to increase the motivation and commitment of employees	85%	Improved marketing	70%	Increased productivity	81%
Improved quality standards	73%	Increased/new markets	61%	Improved likelihood of company survival	78%
Introduction of new employee involvement practices	71%	Development of new products and/or services	61%	Increased sales	73%
Introduction of new recruitment and performance management systems	65%	Introduction of new technologies and/or production processes	52%	Increased profits	69%
Introduction of new staff reward and commitment practices	55%				

As Table 6 shows, managers surveyed are very confident about having improved their capabilities and the resulting long-term effects on their firms. Eighty-five per cent of the managers thought the service already enabled them to engage more effectively with their employees and increase their motivation and commitment. A number of other immediate improvements have also been achieved. The third column shows the resulting long-term business outcomes, with both growth and productivity improvements expected by more than 80 per cent of assisted managers.

Access to Finance

Companies are granted access to the Access to Finance (A2F) offer if lack of external funding is deemed the key barrier to growth. Survey evidence allows us to look at the extent to which assisted companies are achieving the short-term outcomes of improving their investment readiness and securing finance.

Questions on access to finance form a part of outputs survey. Only 127 businesses answered these questions, hence findings need to be interpreted with caution. A number of large investors are also surveyed to investigate their level of awareness and views of the service.

Additional finance raised

Since signing up to GrowthAccelerator, 27 per cent of A2F clients had made an application for external finance. For two thirds of them it was for the first time. For comparison, only 8 per cent of all UK small and medium-sized enterprises had applied for external finance over the last 12 months, according to SME Finance Monitor[46]. The success rate of the applications was very high at 87 per cent, up from 71 per cent for those who had applied for finance before using the service[47]. Average amount secured by the companies was £111 thousand pounds. Clients largely attributed receiving that finance to the effects of GrowthAccelerator – 62 per cent of them thought that the assistance received was important in securing finance.

In addition to the impact in terms of finance already raised, many other clients will have improved their investment readiness, but not yet applied for finance. Survey evidence supports this as 70 per cent of the A2F clients agreed that they have improved their investment readiness as a result of using support.

Investor views

A2F clients receive support from a dedicated investor relations team, which works on specific finance propositions and refers the clients to the most appropriate investors. Investors' views on the quality of referrals are largely positive: 87 per cent of the investors surveyed would recommend GrowthAccelerator as a source of potential investments. All of the investors surveyed expressed a desire to receive further referrals from GrowthAccelerator. However, 81 per cent of investors thought that opportunities received were similar or worse than those they get from their usual sources.

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[46] BDRC Continental (2014) *"SME Finance Monitor Q1 2014"*

[47] Includes applications for all types of finance. For comparison, 55 per cent of all loan applications by UK small and medium-sized enterprises were successful according to Q1 2014 SME Finance Monitor. Success rate defined as the proportion of clients that were offered any amount of finance as a result of their application.

5. Economic impact assessment

Analysis of the client surveys suggests that GrowthAccelerator is expected to have substantial benefits for the assisted companies and the whole economy. This suggests that the service is delivering good value for public spending and is on track to achieve its objectives. The findings present the best available evidence of the economic impact of the service at this time.

5.1 Key findings

Table 7 presents the main findings from the economic impact assessment, based on the client survey results. As outlined in section 2.5 Evaluation and monitoring strategy, this will be complimented by further evaluations as the benefits of the scheme are further realised by the assisted businesses.

Table 7. Preliminary assessment of the economic impacts of the service

	Lower bound	**Best estimate**	Upper bound
Net sales generated	£2,600 million	**£4,100 million**	£5,600 million
Net jobs created	23,200	**36,900**	50,700
Net economic benefit	£1,000 million	**£1,600 million**	£2,300 million
Exchequer costs	£110 million	£110 million	£110 million
Wider economic costs	£110 million	£110 million	£110 million
Total economic cost	£230 million	£230 million	£230 million
Return on investment	7.1	**12.5**	17.9
Additonality	**20%**		

Analysis of the survey findings suggests that the expected Net Economic benefit of the support provided during first two years is **£1.6 billion**, which corresponds to an £**12.5** return on every £1 of exchequer spending. These values are obtained using expected self-assessed measures of impact, which can overestimate the benefits and can be sensitive to the assumptions used. Albeit this approach does provide an early indication of the economic impact. However, even in the lower bound estimate, the impact of the service is found to be positive. The methodology for calculating the lower and upper bound estimates is explained in section 5.5 Cost-benefit analysis.

5.2 Method

The estimated economic benefits and costs are assessed for 13,955 businesses assisted during first two financial years of the service – 2012/13 and 2013/14. Section 5.5 explores the expected benefits of the service in 2014/15, when the current delivery contract is due to end, based on forecasted number of contracts.

To estimate the impact of the service on employment and turnover self-reported expectations were used. The firms were asked to estimate their turnover and employment in three years' time. If a firm reported that it was expecting to grow[48], it was asked what proportion of this growth can be attributed directly to the effects of GrowthAccelerator. This allows us to compare the expectations of a business to an alternative scenario of what would have happened if the firms did not access GrowthAccelerator. The additional economic benefit of the service is the difference between the expected turnover/employment with GrowthAccelerator and in the counterfactual case (This additional employment is shown by the blue area in Figure 3).

Time horizon. Firms estimate their expected turnover and employment over a 3 year period following participation. However, research[49] shows that the benefits of business support services can persist for longer and therefore to capture the full economic value of the service it is necessary to extend the time horizon further. In this assessment the evaluation horizon is extended to five years following participation[50]. However, it is assumed that firms' employment and turnover does not change in years 4 and 5 after finishing the support[51]. This is consistent with the empirical finding that in most cases, high growth is episodic[52] and is rarely sustained for longer than 2 to 3 years. More generally, there is also some evidence that growth in one period may reduce the likelihood of growth in the next period[53].

Firm closure. Data shows that only 42 per cent of all firms registered in a given year survive for more than 5 years[54]. It is therefore necessary to take into account the probability that some firms will close over the period of estimation. However, the majority of GrowthAccelerator clients are older than 5 years. Plus, for high growth firms the probability of closure is likely to be lower. Anyadike-Danes, Bonner, Hart & Mason (2009) used a sample of new firms who recorded at least one year of high growth[55] since 1998, and showed that 82 per cent of them survived over a 10 year period[56]. This would equate to an average yearly closure rate of ~2 per cent. This closure rate is assumed to apply to GrowthAccelerator clients.

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[48] All of the firms surveyed expected to grow over the following three years. This is unsurprising, given that GrowthAccelerator is aimed at businesses with high growth potential, and expecting to grow is one of the prerequisites for participation on the service.

[49] Hart and Drews (Forthcoming) "Feasibility Study: Exploring Long-Term Impacts of Business Improvement Services"

[50] At least, 5 years and 9 months after signing up – actual duration of the coaching can be higher or lower than 9 months.

[51] It is then assumed that without GrowthAccelerator, their employment and turnover would also stay the same in years 4 and 5.

[52] Anyadike-Danes, Bonner, Hart & Mason (2009) "Measuring business growth: high growth firms and their contribution to employment in the UK", report for NESTA.

[53] Coad & Holzl (2009) "On the Autocorrelation of Growth Rates: Evidence for Micro, Small and Large Firms from the Austrian Service Industries, 1975-2004"

[54] ONS (2013) "UK Business Demography 2012".

[55] Over 20 per cent yearly employment growth.

[56] Anyadike-Danes, Bonner, Hart & Mason (2009) "*Measuring business growth: high growth firms and their contribution to employment in the UK*."

Given the relationship between high growth and the probability of closure, it is assumed that the firms with the lowest growth rates are those most likely to close. Hence the 2 per cent of firms with lowest growth rates at the end of each year are assumed to have closed. Participation in the service could reduce the closure rate further, but this is not accounted for in the analysis.

Additionality. Expected growth of the client firms needs to be adjusted for additionality – the extent to which firm-level benefits are additional to the economy. The methodology of additionality assessment is explained in section 5.5. The average estimated additionality of the service is 20 per cent. This figure is based on conservative assumptions and does not include economic multiplier effects, due to the difficulties in estimating this. An assumption is made that the treatment effects i.e. the different strands of support, do not influence the extent of additionality[57].

Timing. All the numbers reported are expressed in 2013/2014 terms. Following the Green Book, a discount rate of 3.5 per cent is applied to expected future benefits. Service costs and benefits are also adjusted for inflation using the ONS GDP deflator and projected inflation[58], to reflect the value of the service in 2013/2014 prices.

Calculation. In the economic impact calculation, values are calculated for each firm in the sample individually and then averaged and extrapolated to the population of assisted firms. Thus if there is a correlation between any of the variables used – e.g if deadweight is higher for those who grew more, this will be captured in the analysis.

5.3 Benefits of the service

Sample profile

The analysis is based on the findings of the outputs survey, conducted with businesses that have been on the service for at least 9 months[59]. Businesses were selected using a random sampling method. Table 8 summarises the characteristics of the sample.

Table 8. Sample profile

		Sample	Population
Number of firms		577	13955[60]
Size distribution[61]:	**Micro (0-9)**	64%	65%

[57] It is implicitly assumed that: 1) Alternative support would have exactly the same impact as GrowthAccelerator 2) Displaced firms would have same productivity and same price levels as GrowthAccelerator clients. As discussed in the sections on additionality, both assumptions are very conservative.

[58] ONS (2014) “April 2014 GDP deflators”

[59] 6 months for the companies surveyed in 2013

[60] Population based on actual assisted firms during 2012-2014, and 10,000 firms assisted in 2014/15.

[61] Total number of employees is imputed, as only number of full-time equivalent employees is collected. GrowthAccelerator’s pricing and customer acquisition is based on a different definition of micro, small

	Small (10-49)	31%	28%
	Medium (50-249)	5%	7%
Average turnover		£1.4 million	£1.5 million

As shown in the table, the size distribution of survey respondents is fairly consistent with the size distribution of the population of assisted firms. The sample is therefore assumed to be representative of the population. Still, as a precaution, economic impact estimates are weighted by turnover. The average impact by turnover bracket is then assumed to apply to all clients within that size bracket.

Jobs created[62]

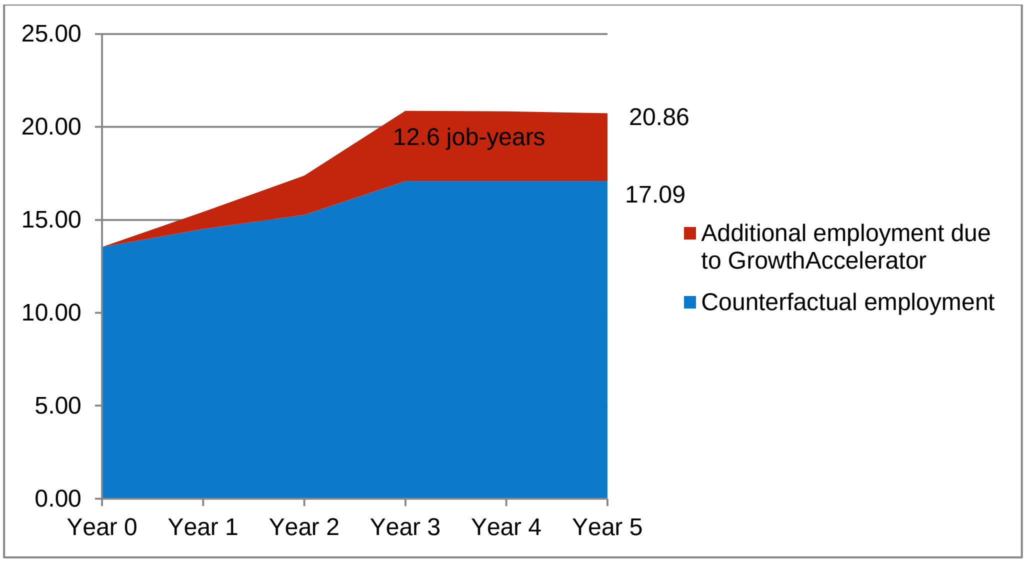

Figure 3. Expected employment impact on average firm

Figure 3shows the expected effect of assistance on client firms. Area in blue is the predicted employment growth if firms did not use GrowthAccelerator or similar support. The red area is then the extra jobs created due to GrowthAccelerator by year. Averaging over all assisted firms, 6 extra jobs are expected to be created by the end of estimation period[63]. This amounts to 12.6 extra job-years[64] in assisted firms.

Table 9 summarises the employment impact calculation. Applying the survey findings to the expected population of firms assisted, it is estimated that there

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and medium firms – however, that definition requires information on firms' balance sheet, which is not available here.

[62] The definition of employment, used throughout, includes full-time, part-time and temporary employees, but does not include working proprietors. The implicit assumption, used in the analysis is therefore that the proportion of part-time employees remains unchanged over time.

[63] 20.86 in the graph is the average expected employment among respondents who provided the data on attribution. The average employment estimate in three years for *all* firms was 23.23.

[64] Job-years are defined as added year of one person's employment.

are 176,000 gross additional job-years[65] created in the assisted companies. Adjusting this for additionality results in an estimated 36,900 extra job-years created in the economy due to the intervention.

Table 9. Total jobs created as a result of GrowthAccelerator support.

Sample size	430
Current employment	13.6
Expected employment in 3 years' time	23.2
Yearly growth rate	29 %
Attributed employment	51%
Counterfactual yearly employment growth	18%
Extra job-years due to GrowthAccelerator	12.6
Total jobs-years created in assisted firms	183,000
x Additionality	20%
Total net jobs-years created in the economy	**36,900 (± 5,700[66])**

Sales generated

In order to estimate the net increase in sales, a very similar methodology was used to the jobs estimate. The key difference here was the presence of large outliers, which positively skewed the distribution of outcomes – many firms reported expected turnover equivalent to over 300 per cent yearly growth. Given that GrowthAccelerator is aimed at high-growth firms, it would normally be useful to capture the firms that expect very high growth. However, it is difficult to distinguish between extreme growth potential and severe optimism bias. For the purpose of this assessment, the sample was 90-per cent truncated[67] to remove the outliers. As shown in Table 10, the average expected turnover in the truncated sample is much lower, indicating the full sample is indeed affected by outliers.

[65] Here and afterwards – gross additional outcomes refer to all the attributable outcomes of using the service. They are adjusted for deadweight and displacement to get a measure of **net additional outcomes,** which then show the extra economy-wide growth.

[66] 95 per cent confidence interval

[67] I.e. top 5% and bottom 5% of companies in terms of turnover growth were removed from the sample

Table 10. Summary of reported turnover estimates

	Full sample	Truncated sample
Sample size	431	387
Average current turnover	£1,410,000	£1,410,000
Average expected turnover in 3 years' time	£3,720,000	£2,830,000
Expected yearly turnover growth	47%	34%
Turnover attribution	46%	47%
Counterfactual turnover growth rate	33%	20%
Sales generated per firm, attributed to GrowthAccelerator		£1,690,000
Total sales generated in assisted firms		£25,600 million
x Additionality		20%
Total net sales generated in the economy		**£4,140 million (±£973 million)**

As shown in Table 5, GrowthAccelerator is expected to account for an average of £1.7 million of additional sales per assisted firm over 5 years since assistance was received. Applying that to the population of assisted firms gives an estimate of around £4 billion in net sales generated.

Additionality

As explained in the part 4.1, most of the gross firm-level outcomes will not be fully additional to the economy. Additionality assessment is based on established best practice[68]. In particular, there are two adjustments that have been made:

1. Policy deadweight is the likelihood of clients getting alternative support elsewhere if GrowthAccelerator did not exist. The average estimate, as per chapter 4.1 is **29 per cent**[69].

[68] Collins and Balarajan (2011) "Survey Questions for Impact Evaluations which rely on beneficiaries self-assessment: evidence and guidance" and BIS (2009) ""Research to improve the assessment of additionality"

[69] It is assumed that if the firm would access similar support otherwise, it would achieve the same outcomes. However, even when it is the case, firms are still likely to experience a cost saving, since private sector support would not be subsidised.

2. Displacement is the proportion of client growth that comes at the expense of other firms in their markets. It is estimated to be **71 per cent** on average[70].

The deadweight and displacement estimates are then applied to gross firm-level outcomes to obtain a measure of net additional economic growth due to GrowthAccelerator. Average additionality is found to be 20 per cent using this method.

5.4 Costs

Table 11. Summary of the economic costs of the service

Period	2011/12	2012/13	2013/14	Total[71]
Exchequer cost	**£8 million**	**£34 million**	**£71 million**	**£113 million**
ERDF funding		£21 million		£21 million
Client contribution	-	£5 million	£9 million	£15 million
Client time spent	-	£28 million	£49 million	£77 million
Total economic costs	**£8 million**	**£88 million**	**£129 million**	**£227 million**

Table 11 details the expected economic costs of the service. The total economic cost of the service is made up of three main components:

1. *Exchequer cost* constitutes an opportunity cost to the economy, since the resources used in delivering the service, like coach labour, would most likely be employed elsewhere in the absence of the intervention. The value of these resources is assumed to be equivalent to their cost.
2. In 2012-13, GrowthAccelerator received £21 million of additional funding from *European Regional Development Fund (ERDF)*, which also constitutes an opportunity cost, as in the absence of intervention, these funds would be spent elsewhere in the economy.
3. There are also significant indirect costs associated with the time and money that the assisted businesses invest in their participation in GrowthAccelerator. *Client contribution* in the table refers to the individual firm contribution towards the cost of the service, which is £600 for micro businesses, £1,500 for small businesses and £3,000 for medium-sized businesses. Firms also pay £700 in Value Added Tax for the service – but since this money is collected as tax, it is not considered to be an economic cost and VAT registered companies can claim the money back. Also unlike the client contribution, the VAT does not go towards paying for the time of

[70] Methodology of displacement and deadweight assessment is explained in more detail in Annex A.

[71] Total numbers are discounted and presented in 2013/14 present value terms. Yearly costs are presented in that financial years' terms.

an advisor, who could otherwise have worked elsewhere in the economy. In order to estimate the aggregate client costs, the price levels are multiplied by the expected number of firms assisted, applying the current firm size breakdown.

4. Client firms are also required to invest their management time in participating in the service, which constitutes an opportunity cost in terms of foregone income. GrowthAccelerator aims to address the firms' needs as well as possible and the actual coaching time will therefore vary greatly. Thus the average time spent is measured and extrapolated to all clients. A widely used method[72] is adopted to estimate the time costs of the service, with the foregone economic value of an hour spent on coaching equivalent to the hourly wage of the person. On average, the time costs for each client are:

   1. Equivalent of half a day telephone/face to face meeting with a Growth Manager, including feedback on the GROWTHmapper™ and defining the scope of support.
   2. Average of half a day of account management/L&M planning
   3. Six days of coaching.
   4. Equivalent of up to 3-4 days of workshops/masterclasses Equivalent of up to half a day per client through the community (attendance at events; networking sessions etc.)

   For the purposes of estimating the costs, it is assumed that participation in each of the stages requires the time of the CEO and two senior managers[73]. It is assumed that during the time spent on coaching, managers involved in coaching will not add any value to the company. The assumption is also that the firm did not consider these costs when asked to estimate their benefits from the programme.

5.5 Cost-benefit analysis

The additional economic growth, resulting from the service, is estimated by calculating the net additional Gross Value Added (GVA). However, GVA was not directly measured as part of the survey. As a substitute for this, GVA is inferred from net jobs created by a firm. This is done by multiplying the jobs created by a national GVA per employee ratio for SMEs – £43,912[74].

Table 12 summarises the steps taken to estimate the economic impact of GrowthAccelerator. As mentioned, all calculations are performed for each respondent firm individually, which is why the values in the table cannot be

[72] Wardman and Wheat (2013) "Meta-analysis of post-1994 calues of non-work travel time savings". As outlined in the paper, there are a number of more sophisticated approaches to estimation of time savings – however, they require further assumptions and more evidence.

[73] Wages used are the 2012 UK averages for CEO wage (£42.50) and upper management wage (£20.05), from ONS (2013) Annual Survey of Hours and Earnings 2012

[74] £42,228 ratio in the ABS 2012, deflated to adjust to 2014 price level. Early findings from 1-year validation surveys confirm that national jobs/GVA ratio is applicable to client firms, as no significant differences were found.

derived from other values directly[75]. Ninety-five per cent confidence interval around GVA and jobs created estimates is ±24% from the estimate.

Table 12. Summary of GVA calculation

Current employment	13.5
Expected employment in 3 years	23.2
= 3-year average increase in employment	**9.8**
* attribution	51%
Attributable increase in total employment	**3.8**
Gross additional job-years (area)[76]	**12.6**
less displacement	71%
less deadweight	29%
Net additional employment	**2.7**
* GVA/job ratio	£43,912
Net additional GVA per business	**£114,000**
* Number of assisted firms	13,955
Net additional GVA	**£1,600 million**
Exchequer cost	£113 million
Wider cost	£114 million
Total cost	**£227 million**
Return on public investment	**12.5**

The reason why employment, rather than turnover, is used as basis of the GVA estimate is that employment outcomes are assumed to be easier for businesses to estimate[77]. Earlier research also suggests that employment

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[75] E.g. to obtain a figure for attributable increase in employment, 9.75 is not multiplied by 51% - rather increase in employment (average of which is 9.75) is multiplied by the attribution (average of which is 51%) for every firm. The average of resulting values is then 3.78.

[76] Area between realised and counterfactual employment, as illustrated graphically in section 4.4.

[77] Conceptually, employment effects are expected to be easier to estimate because hiring is a direct result of the actions of business owner/management team.

effects of support are more immediate than the turnover effects[78] but that this gap would close over time[79].

To assess effectiveness of the service irrespective of the scale, return on public investment is used as a metric. It measures the amount of **net** benefits for each £ of public spending. It is calculated as:

$$Return\ on\ public\ investment = \frac{Economic\ benefit - Economic\ cost}{Budget\ cost}$$

Thus any value above 0 means that the service has a positive effect on the economy. 12.5 return on public investment then means that each £1 of exchequer spending has generated £12.5 of extra growth.

Expected total impact

Early appraisal of GrowthAccelerator, publicised during the launch of the service, estimated the impact at £2.2 billion GVA and 55,000 jobs created over three financial years from May 2012 to April 2015. This was based on the evidence from comparable business support interventions.

Current estimate of overall impact of the service is largely contingent on the expected number of companies assisted. Forecasts by the delivery Consortium expect the total number of assisted companies to reach between 23,000 and 26,000 by the end of financial year 2014/15. Table 13 below explores the expected range of economic impact for this number of clients.

Table 13. Expected overall impact of the service

Number of clients	23000-26000
Exchequer cost	£180 million
Total economic cost	£350-£370 million
Job-years created (Net)	60,800-68,800
Extra sales generated (Net)	£6,700-7,600 million
Total economic benefit (Net)	£2,700-3,000 million
Return on public investment	12.7-14.6

Sensitivity analysis

While the assumptions in the main model were chosen to provide the most sensible interpretation of the data available, they are reliant on a number of assumptions. It is therefore necessary to explore how sensitive our numbers are to alternative assumptions. Table 14 presents a summary of the economic benefit estimates for a range of different assumptions. Lower bound and upper bound estimates are then constructed to provide a reliable confidence interval for the expected economic benefits.

[78] Mole et al (2006) “Economic Impact Study of Business Link Local Services”

[79] Hart and Drews (Forthcoming) “Feasibility Study: Exploring Long-Term Impacts of Business Improvement Services”

Timing of the benefits. While research into business support services indicates that firms realise benefits over 4-6 years, it is unclear whether this will hold for GrowthAccelerator. The 5-year horizon is chosen, but the actual timing of benefits could be higher or lower. Table 14 calculates the total benefits assuming that the impacts only extend over 3 years – this still gives a 5.2 return on public investment estimate. Extending the horizon beyond 5 years would increase the benefits significantly.

Attribution bias. As explained in part 5.6, it is challenging for businesses to estimate the monetary benefits of the assistance received. The actual attribution could therefore be either significantly higher or lower. As a cautious assumption, the table below shows the effect of decreasing that value twofold.

Table 14. Effect of applying alternative assumptions

	Sales generated	Jobs created	Net economic benefit	Return on investment
Break-even	£800 million	5,200	£227 million	0
3 years horizon	£2,000 million	18,300	£820 million	5.2
50% lower attribution	£2,000 million	18,300	£810 million	5.2
Lower bound	**£2,600 million**	**23,200**	**£1,000 million**	**7.1**
Main estimate	**£4,100 million**	**36,900**	**£1,600 million**	**12.5**
No foreign displacement	£5,200 million	46,600	£2,100 million	16.3
Upper bound	**£5,600 million**	**50,700**	**£2,300 million**	**17.9**
No partial additionality	£8,800 million	82,000	£3,600 million	30.2

Displacement. Displacement is also difficult for businesses to estimate accurately[80]. Two alternative approaches to displacement estimation are explored in Table 8.

1. In the first approach all export sales are excluded from the displacement estimation – whereas in the main estimate, these are only excluded if firms' main competitors are from overseas.
2. The second approach ("no partial additionality"), applies a methodology used in some of the previous evaluations[81], by excluding the

[80] English Partnerships (2008) "Additionality guide"

[81] For example, Allison, Robson and Stone (2013) "Economic impact evaluation of the Enterprise Finance Guarantee scheme", report for BIS.

companies with either 100% displacement or 100% deadweight, but not accounting for partial additionality. This is not thought to be very plausible – for most firms, outcomes will only be partially additional. Still, this estimate provides a useful comparison with earlier work.

Lower and upper bound estimates. As discussed further in the section on limitations of our approach (5.6 Limitations), robustness of self-reported impact estimates can be questionable, and estimates obtained depend heavily on the choice of assumptions. It is, however, hard to understand the direction of potential bias in the estimates – a sensible argument could be made for either increasing or decreasing the estimates.

In order to understand the indicative range of actual impact, variance in expected effects is analysed. To account for the uncertainty in assumptions, lower and upper bound range of effects are chosen to be +- 3 sample standard deviations from the main estimate – equivalent to a 99.7 per cent confidence interval.

5.6 Limitations

Self-reported measures of impact are likely to be imprecise because they require the surveyed managers to implicitly assess a very complex counterfactual that cannot be observed. The possible limitations of this approach include:

Attribution. The proportion of expected growth attributable to the effects of GrowthAccelerator may be challenging for firms to evaluate accurately. This is supported by the cognitive testing of self-assessment questions[82], which concluded that respondents may find it difficult to assess the level of financial gain resulting from a treatment.

Whether the bias is positive or negative is unclear. Literature on behavioural economics suggests that individuals tend to overattribute the outcomes to each specific cause when they are considered individually. On the other hand, as outlined in chapter 4.1, GrowthAccelerator clients seem to display high internal locus of control, which means they are more likely to attribute their expected growth to their own skills and abilities.

Sensitivity analysis in section 5.7 considers a scenario where attribution figures are decreased by 50 per cent.

Selection bias. Growth Accelerator targets firms with high growth potential, so it can be argued that the assisted firms will grow because of their existing potential rather than the effects of GrowthAccelerator support. However, asking businesses what percentage of the outcomes they **directly** attribute to GrowthAccelerator is expected to adjust for that.

Optimism bias. In order to estimate economic benefits of the scheme, firms are asked to estimate their turnover and employment in three years. While it can be argued that firms can be overoptimistic about their future earnings,

[82] Department for Business, Innovation and Skills (2009) “Self-assessment as a tool to measure the economic impact of BERR policies”

actual data for GrowthAccelerator rejects that claim. The jobs and GVA validation surveys are conducted to estimate realised 1 year growth since signing up to the service. Over a sample of 530 observations, surveyed firms have demonstrated very similar 1 year growth across all firm size bands as expected in the survey findings. Therefore it is assumed that self-reported growth forecasts are fairly reliable, at least over the short term[83].

Estimating GVA. Gross Value Added (GVA) measures the contribution to the economy of each individual producer, industry or sector in the United Kingdom. The GVA measure therefore provides an estimate of the economic benefits of the intervention. At the firm level, GVA is commonly estimated as the sum of employee costs, operating profits, depreciation and amortisation. Due to the difficulty of estimating this directly, the economic benefit in terms of jobs created is calculated and then the national average GVA per employee ratio is applied[84].

Economic impact not captured. Given the services that GrowthAccelerator offers, the support may also improve the productivity in some businesses. Innovation, business development and the L&M work packages specifically are expected to enable businesses to make the most out of their existing resources, resulting in cost reductions and higher factor productivity. Survey evidence suggests that such effects are present – 77 per cent of the respondents thought GrowthAccelerator was important in raising their profitability. However, these effects are not monetised here.

If a firm grows at the expense of its competitors, it is assumed that this growth is not additional to the economy. However, that is not always the case – when a firm grows, it displaces less productive competitors, so that resources are allocated to a more optimal use and the prices are more competitive. While this will have a significant positive impact on the economy, capturing and monetising these impacts is challenging. The estimates also do not consider potential externality benefits from increased competition nor the innovative products and process supported.

In summary, the methodology used does have limitations and caution is required in interpreting the findings, but we have sought to adopt a conservative approach throughout which does increase the confidence in the findings.

[83] The growth trajectory beyond 1 year can still be different. Another caveat is related to the fact that validation surveys cover the 1-year period after sign-up, while the output survey covers the period since finishing the support.

[84] Based on ONS (2013) “Annual Business Survey 2012”. Early findings of validation surveys come up with a very similar GVA per job ratio as the national average.

Annex A – Cost-Benefit Analysis Methodology

The following outlines the calculation steps of calculating the benefits and costs of the service. These steps are implemented as an Excel model.

Economic impact of GrowthAccelerator is computed for each survey respondent separately (steps 1-10 below) and only then grossed up to the whole population. This is to account for any correlations between the intermediate variables, e.g. employment growth and deadweight. Because of that, calculations cannot be replicated without the underlying data.

Impact on individual firms

1. **Measuring employment growth over 3 years.**[85] In the surveys, clients are asked about their current level of employment and their expectation of employment in 3 years' time[86]. Average percentage yearly employment growth is then estimated[87], using a formula:

   $g = \sqrt[3]{\frac{e_3}{e_0}} - 1,$, where e_3 is the employment in 3 years' time and e_0 is the current employment. The firms that were unable to estimate their future employment were omitted from the sample.

2. **Estimating expected turnover over next 5 years.** We estimate the expected employment of each company surveyed by the end of each year on the programme – i.e at end of year 1 and year 2[88]. It is then assumed that each assisted firm's employment remains stable for the 2 years after that. Thus employment at the end of year 4 and 5 is assumed equal to that in year 3.

3. **Adjusting for firm closures.** As outlined in the report, it is assumed that the probability of closure in 2 per cent for high-growth firms each year. In the spreadsheet model, 2 per cent of firms with lowest employment growth rate are assumed to close in each year. Their expected employment is set to 0 onwards, both in expected employment and counterfactual.

[85] All companies expect to grow over next 3 years – which is natural given that high growth potential is a selection criterion for the programme.

[86] E2. Approximately how many employees are there on the UK payroll of your organisation?

E3. Approximately how many employees do you expect to have in three years' time?

[87] Change in turnover is also captured in the surveys, and impact calculation is replicated using turnover-based measure. However, future employment is assumed to be the more immediate outcome, which is backed by Coad, Cowling, Siepel (2012) "Growth Processes of High-Growth Firms in the UK. "

[88] It is assumed that employment growth rate stays constant between year 0 and year 3.

4. **<u>Estimating the counterfactual.</u>** In the surveys, client companies are also asked which proportion of the expected growth can be attributed directly to the effects of GrowthAccelerator. This is then multiplied by the increase in employment over 3 years to obtain the estimate of what employment growth would be like if the firm had not used GrowthAccelerator**,** i.e.:

$g = \sqrt[3]{1 + (\frac{(e_3 - e_0) \times (1-a)}{e_0})}$, , where e_3 is the expected employment in 3 years' time, e_0 is the current employment, and a is the proportion of employment growth, attributed to GrowthAccelerator.

5. **<u>Calculating additional employment.</u>** Yearly counterfactual employment is then subtracted from the expected employment to get **additional employment by year**. These are summed up and discounted by Social Time Preference Rate of 3.5%[89] to get the total additional employment. For lower-bound estimate, effects of support are assumed to persist for 3 years For a mid-point estimate, it is assumed that effects are felt over 5 years, but firms do not grow further after 3 years. For an upper-bound estimate, it is assumed that assisted firms will grow at the same rate for 5, rather than 3 years

Additionality

6. <u>Adjusting for policy deadweight</u>

Policy deadweight is defined here as the probability that the service users could access similar support elsewhere. Those users that would obtain similar support even if GrowthAccelerator was not around are thought to experience no additional impact from GrowthAccelerator.

In order to assess the extent of deadweight effects of GA, businesses were asked whether GA provided businesses with something that they could not have got from any other source. This provides a sensible proxy to estimate the proportion of businesses that would have accessed similar services if GA did not exist. Figure 4 summarises the responses. In order to arrive at a percentage estimate of deadweight for each individual firm, all the firms were assigned a probability score depending on their response[90].

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[89] As per HM Treasury's Green Book, Social Time Preference Rate (STPR) is the recommended rate at which future outcomes should be discounted. Thus £100 of impact now are worth as much as £103.5 in 1 years' time.

[90] In the absence of specific probability data, all responses are treated as equally spaced between 0 and 100%, thus:

To what extent would you agree or disagree with the statement 'the support has provided me with something, or will provide me with something I could not have got from any other source'?

Strongly agree coded as 0 (no deadweight)

Tend to agree as 0.25

Neither agree nor disagree as 0.5

Tend to disagree as 0.75

Strongly disagree as 0 (100 per cent deadweight)

The average deadweight was estimated to be 30 per cent using this method. This is roughly comparable with other similar business support schemes[91]. This figure is likely to overestimate true deadweight of the service – while many of the firms would have used advice elsewhere, majority of them believe that GrowthAccelerator is superior to its alternatives.

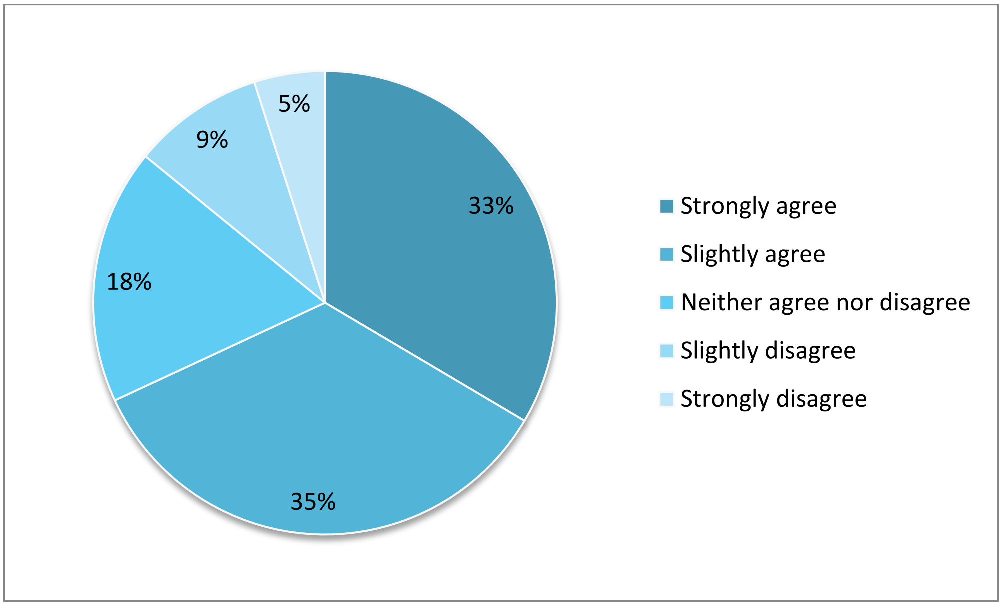

Figure 4. To what extent would you agree with the statement *"GrowthAccelerator support has provided me with something I could not have got from any other source"?*

7. Adjusting for product market displacement

Displacement is defined as the proportion of the intervention impacts that reduce impacts elsewhere in target area. Displacement can occur in three areas:

1. Product Market – The assisted firm grows, but this may come at the expense of a rival firm producing a comparable product or service.
2. Factor Market – the assisted firm grows, but in doing so uses the factors of production (labour and capital) that would have been used elsewhere in the economy.

Product market displacement can be estimated and is largely related to the degree of competition is assisted firms' markets. Factor market displacement, however, is not estimated in this report[92].

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[91] Department for Business, Innovation and Skills (2009) "Research to improve the assessment of additionality"

[92] Estimating factor market displacement requires constructing counterfactual outcomes for the labour and capital employed and is therefore challenging to measure. Plus, both types of displacement are deeply inter-related – product market displacement will in many cases include a large proportion of the factor market displacement . Finally, although most of the resources used by assisted firms could have been otherwise used elsewhere, in efficient markets this will be the most productive possible use of this resource.

Assessing the degree of competition that each assisted firm faces is crucial in understanding the economic impacts of any business support intervention. Normally, it is more efficient to support companies in less competitive markets, producing heterogenous, innovative goods, since their growth does not come at expense of other firms' growth.[93]

Following the general guidelines to measuring displacement[94], the measure used for this assessment was calculated using three key factors:

1. Question F8 in the survey asks firms *"If your business were to cease trading tomorrow, do you think any of your competitors would take up your current sales over the next year?".* Firms' estimates are then translated used as a proxy for displacement – as with deadweight, different response categories are assumed to be equally spaced:
    1. "Yes, all of the sales", coded as 1 (100% displacement),
    2. "Yes, some of them" as 0.5 and
    3. "No, none of the sales" as 0 (no displacement)
2. The issue with the question F8 was that it was heavily based on individual perception and had only 3 answer categories – thus a number of firms were considered to be 100% displacing. To complement that and provide a more well-rounded estimate, degree of competition is used. Question F7 asks *"Describe the nature of competition in your main market".* Level of competition is used as another proxy for displacement[95]. Average displacement is almost the same using both questions – however, there are significant differences on the individual firm level. Both are combined with equal weighting.
3. For companies, whose main competitors come from outside of UK, the proportion of exports is subtracted from the displacement estimate.

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[93] However, high market concentration can both be an advantage and a disadvantage in the context of business support. On one hand, if the increase in sales comes fully at the expense of other firms on the market, none of firms' increased turnover will translate into economic growth. On the other hand, the assistance that firms receive leads to cost savings and productivity improvements – through helping the companies manage company more efficiently, improve the production process, hire more productive employees, etc. This will in turn nudge other firms on the market to stay competitive by improving their productivity or exit the market. This will lead to a more productive allocation of resources in the economy and thus lead to economic growth.

[94] Department for Business, Innovation and Skills (2009) "Research to improve the assessment of additionality"

[95] With responses as "Very intense competition" – coded as 1(100% displacement),

"Intense competition" – 0.75,

"Moderate competition" – 0.5,

"Weak competition" – 0.25,

"No competition at all" – 0.

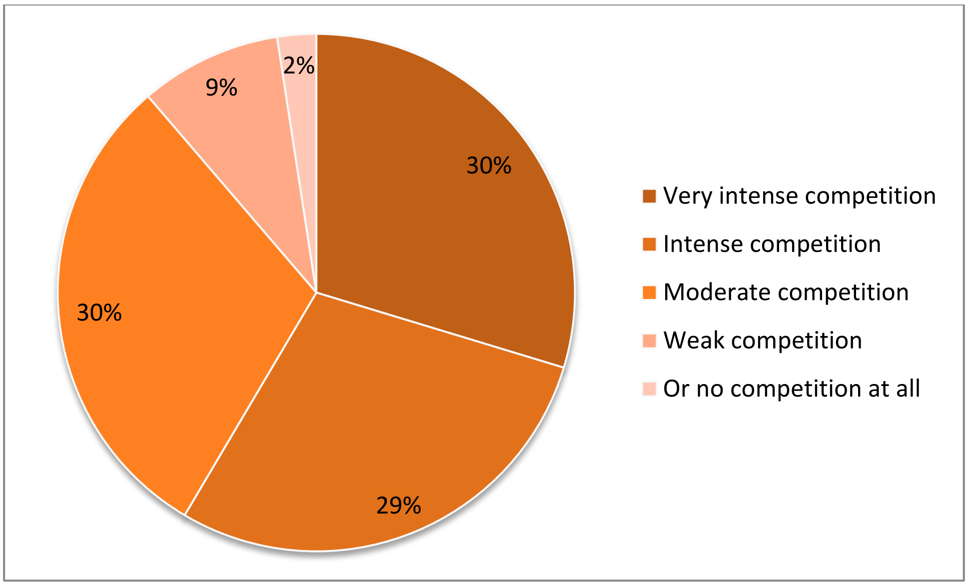

Figure 5. Reported degree of competition in firms' main markets.

8. **Effects not included**

Multiplier effect estimates quantify the further economic activity (e.g. jobs, expenditure or income) stimulated by the direct benefits of an intervention. Multipliers were not assessed as a part of this research. We therefore take no account of:

1. The impact of additional spending resulting from the impact of GA support on the income of employees and owners.
2. All of the suppliers, affected by increased sales of beneficiary firms, fall outside of the target area of intervention

Admittedly, those assumptions are quite conservative; however, accurately capturing the size of the multiplier effect would be tricky. Therefore by assuming no multiplier effects, a safer estimate is produced.

Leakage effects are also not included – there is not sufficient data to estimate the probability of the business moving elsewhere. In any case, this is assumed to be negligible.

Total benefits

9. Adjusting for additionality. To calculate total employment benefit per firm, total benefits are adjusted for deadweight and displacement:

$$B = (1-d)(1-D)B_{gross}, where\ d - deadweight\ and\ D - displacement$$

10. Estimating Gross Value Added. To calculate additional economic output due to GrowthAccelerator, Gross Value Added has to be measured. Gross Value Added is thought to be challenging to forecast – therefore, the national GVA per employee ratio among SMEs is used. The GVA and employment figures are taken from Annual Business Survey 2012 and adjusted for inflation using the ONS GDP deflators to bring the figure in 2014 terms. This gives a figure of £43,912 GVA per job per year. It is then multiplied by additional job years to get net GVA per firm.

11. Total benefits. To obtain a figure for overall benefits of the service, net GVA per firm needs to be grossed up to the whole population of firms assisted in 2012/2014. The GVA estimates have been weighted to reflect the turnover distribution of assisted firms. It was done by calculating average GVA in each turnover bracket and multiplying those averages by the number of firms of that size in the population.

Since the benefits need to be expressed in 2013/14 present value terms and 2013/14 prices, benefits from companies signed up in 2012/13 are multiplied by 1.035 (Social Time-Preference Rate), to account for difference in discounting of the outcomes.

Wider costs of the service

11. Client contribution. Client contribution to the cost of the service represents an economic cost of the service. In the counterfactual, clients would not have spent the money on securing the assistance from advisors therefore there is an opportunity costs relating to what these advisors would have produced elsewhere in the economy. To calculate the client contribution, price of the service by employment size band (£600, £1,500 and £3,000 for micro, small and medium-sized firms respectively) is multiplied by the number of companies assisted in each size band.

12. **Time spent.** Time spent using the service represents an opportunity cost – the time that firms' owner and managers spend using the service could have been spent working on the business. Here, it is assumed that all the time spent on support would otherwise be spent working, it is also assumed that wages of the employees reflect their marginal value to the business.

The number of hours spent on each activity is estimated by Grant Thornton. It is assumed that each activity on average uses time of the director and two senior managers – in reality, it can be more or less, depending on activity. Average hourly wages from the Annual Survey of Hours and Earnings 2013 are used as proxies for director's and senior managers' wages. Thus the average time cost per company is assumed to be 64 h. X £85.9 = £5,947. Costs are then discounted and adjusted for inflation.

Cost-benefit analysis

13. **Benefit-Cost Ratio (Return on public investment).** Cost-effectiveness of the service is measured by its benefit-cost ratio. Here, it is calculated as:

$$\frac{Total\ benefits - exchequer\ costs - wider\ costs}{Exchequer\ costs}$$

14. **Sensitivity analysis.** Given the sensitivity of findings to the assumptions chosen, a range of different assumptions are explored as a part of sensitivity analysis:

1. **3 years horizon.** Here, the benefits are assessed only over 3 years since using the service. The calculation steps are exactly the same as

in main estimate, except that years 4 and 5 are excluded from the calculation.

2. **50% lower attribution.** This explores the impact of the service, assuming that clients overstate the monetary impact of the support. Again, all calculation steps are exactly the same, but the attribution variable (% of employment growth directly attributed to GrowthAccelerator) is reduced by 50% for each of the firms in the sample.
3. **Lower and upper bounds.** Lower and upper bounds of the economic impact estimate are defined as +- 3 standard deviations around the mean estimates. Standard deviation of the mean is calculated as $\sigma_{mean} = \frac{\sigma}{\sqrt{n}}$, where σ is the sample standard deviation and n is the effective sample size.
4. **No foreign displacement.** This assumes that all exports are non-displacing, i.e. increased export earnings will not displacing other firms. Whether this estimate is an improvement relative to the main one is a tricky question to answer – for exports, there will be little to none product market displacement, but significant capital market displacement. For this estimate, displacement is calculated as:
$$D = \frac{\%turnover\ taken\ up + intensity\ of\ competition}{2} * (1 - \%\ of\ turnover\ from\ exports)$$
5. **No partial additionality.** Some of the earlier evaluations of government interventions[96] have used similar survey questions to measure deadweight and displacement, however, they interpreted the findings differently. In those studies, firms were either classified as either 100% additional or non-additional. Firms that were deemed non-additional were either those with:
    1. 100% policy deadweight (those who *"strongly agreed"* that the intervention provided something that they could not have got from any other source)
    2. 100% displacement (firms, whose sales would be taken up by competitors if they closed AND whose main competitors are located in the UK)

    As survey questions used were the same, it was possible to explore the vfm estimate that would result from applying those assumptions.

[96] Cowling (2010) "Economic Evaluation of the Small Firms Loan Guarantee (SFLG) Scheme", BIS (2012) "Economic evaluation of the Enterprise Finance Guarantee (EFG) scheme"

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