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Business Growth Ambitions amongst
SMEs – changes over time and links to
growth (Interim report)

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RESEARCH

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Executive Summary

Aims and objectives

This study is a follow up to a report published in 2012 which examined the level and determinants of growth ambition amongst UK SMEs¹. The purpose of this research is to resurvey the respondents to the 2012 study in order to generate new data which, in combination with secondary data on business performance, will provide answers to the following key research questions:

- How does ambition change over time and what influences this?
- What is the relationship between ambition and business performance?

In addition to these major research aims, other study objectives were set which include examining the effect of growth ambition on productivity, employment growth and turnover growth and to examine and identify the policy relevance of the findings.

The 2012 survey was conducted in January-February whilst the 2014 survey was conducted in October-November. Comparisons between the two surveys therefore reflect changes over an approximate 30 month period, whilst secondary data on business performance was captured for 2012, 2013 and 2014.

This report sets out interim findings from the 2014 study. The report should be considered as an initial review of emerging findings whilst recognising that further analysis will be undertaken. Furthermore, additional research – including qualitative case studies – is also being conducted but is not reported here.

The study has been delivered by TBR, a leading economic research consultancy, working in partnership with Professor Jonathan Levie of the University of Strathclyde and Dr Ron Botham, an independent consultant. Fieldwork was delivered by Qa Research.

Methodology

A telephone survey targeted at the 1,250² respondents of the previous survey was undertaken and this generated 503 complete responses. The survey was designed to support a direct comparison between responses in 2012 regarding the respondents' level of ambition and behaviours that are driven by that ambition. However, some previous questions were removed (regarding determinants of ambition, for example) and others added. New questions focused on change in ambition and the reasons for any observed change. In addition to the survey, research was undertaken to track the outcomes of all the firms that were not surveyed.

¹ Business Growth Ambitions Amongst SMEs (2012); BIS, Scottish Enterprise, Invest NI and Welsh Government

² Note that 162 previous respondents opted out of future research and a further 88 have ceased trading, reducing our potential sample to 1,000.

The 2012 study established a typology of ambition which categorised firms as having substantive ambition, low ambition or moderate ambition, which are defined as follows:

- **Substantive ambition** – where owner/managers have the highest level of personal ambition for business growth (ten out of ten on a Likert scale) and where they intend to grow their business to a point where it is significantly larger than its current size.
- **Low ambition** – where owner/managers have a low level of personal business growth ambition (seven or lower on a Likert scale) and state they are not intending to grow their organisation and view the ideal size of their business as being no higher than current size. Respondents were also included in the low ambition category if they scored themselves five or lower on a Likert scale, regardless of their responses to the other questions.
- **Moderate ambition** – where other owner/managers fit neither into the substantive ambition category or the low ambition category. Such individuals might display high levels of ambition for growth but are not intending to act on that ambition, or they might be intending to grow their business but have low levels of ambition for growth.

This typology has been carried forward into the 2014 survey to allow for direct comparisons to be made.

Key findings

Change in ambition

Major Findings

- There were substantial changes in ambition amongst individual firms over time, with 41% showing changes in ambition between 2012 and 2014. However, the numbers seeing rising ambition was similar to those with falling ambition (17% compared with 24%). This highlights that ambition can change over time within individuals and firms.
- Whilst more than four in ten firms have changed ambition level between 2012 and 2014, only one in forty (2.4%) have changed their ambition level substantially (i.e. from low ambition to substantial or substantial to low).
- Among the re-surveyed firms, over the period from 2012 to 2014 the proportion of SMEs in the substantive ambition segment declined from 20% to 15% while the number in the low ambition segment increased marginally from 17% to 20%. This shows that while whilst many firms have changed their individual level of ambition, there has been little change in overall levels of ambition.
- On the surface the overall level of ambition within the studied firms looks relatively stable. But within this is a significant amount of movement into and out of the moderate ambition level whilst very few firms have shown evidence of significant swings in ambition.

Supporting Findings

- It should be noted that growth ambition is expected to be lower in the 2014 survey because most of the respondents are three years older, as are the firms. The evidence suggests that the highest levels of ambition are found in younger people and younger firms. Note that it is not the intention of this study to reassess the ambition 'benchmark' for UK SMEs and these results should not be interpreted as indicating an overall decline in SME growth ambition in the UK.
- It should also be noted that, because only firms that survived the three year period were included in the 2014 survey, the follow up sample will be biased towards surviving firms. This may also have influenced some of the changes in growth ambition over the three year period.
- Respondents that had changed ambition level were asked for their view on the key factors which explained their change in ambition. A wide range of answers were given, but the most widely quoted factor for both respondents that increased and reduced their ambition was a change in market conditions (cited by 36% of those whose ambition had increased and by 28% of those whose ambition had decreased). Ownership change is thought to explain the change of ambition in 6% of those who increased their ambition. A deteriorating environment for raising finance accounts for 4% of those who reduced their ambition.
- We examined whether firm growth or decline affected ambition among re-surveyed firms. It appears that any effect of firm growth/decline is at best minimal. However, there is a hint that firms which have grown in terms of employment in the three years (2012-14) are marginally more likely to have reduced ambition.

Ambition and behaviour

Major Findings

- Among the re-surveyed firms, respondents with substantive growth ambition in 2012 were more likely to have reported taking part in a range of behaviours between 2012 and the 2014 survey than firms with low growth ambition.
- These behaviours include: investment, exporting, training, improved efficiency (a proxy for productivity), innovation and management decisions.

Supporting Findings

- A greater proportion (85%) of those with substantive growth ambition say they have taken active steps to achieve growth than those with low growth ambition (61%).
- Firms with substantive ambition are more likely to have experienced a major investment recently (45% compared with 34% in firms with low growth ambition).

- Both product and process innovation is related to the level of growth ambition among re-surveyed firms. Sixty per cent of firms with substantive ambition in 2012 report product innovation and 40% process innovation between 2012 and 2014 compared with just 39% and 22% of firms which had low growth ambition in 2012.
- 19% of re-surveyed CEOs with substantive growth ambition have set-up at least one new business between 2012 and 2014 compared with eight per cent and ten per cent of those with moderate and low growth ambition respectively.
- Of those re-surveyed firms with substantive growth ambition, 39% have achieved at least some exports compared with 22% of those with low growth ambitions.
- Re-surveyed firms with substantive growth ambition are much more likely to have set new strategic goals. 51% of those with substantive growth ambition say they had changed their strategic goals by 2014, compared with just 37% and 19% for moderate and low growth ambition, respectively.
- Re-surveyed firms with substantive growth ambition are more likely to have invested in management and leadership training and to have invested in off-the-job training for employees. They are also more likely to have taken strategic advice about running the business, used a business mentor and participated in formal training.

Characteristics of re-surveyed growth firms

Having identified that ambition drives certain behaviours to deliver growth, we then examined whether firms that had grown over the study period displayed such behaviours.

Major Findings

- Re-surveyed firms that grew between 2012 and 2014 were more likely to have established new strategic goals than firms that declined. Conversely, firms that declined were more likely to have experienced a change in ownership and to have undergone a major change in the way they do business.

Supporting Findings

- Re-surveyed growth firms were more likely to currently export than non-growth firms. They were also more likely to innovate.
- In terms of further enterprise activity outside their existing business, re-surveyed firms that grew were both more likely to have acquired, invested, sought to acquire or sought to invest in another business in the previous three years.
- Re-surveyed firms that grew were generally more inclined to invest in human resource development than firms that did not.

Ambition and growth

Major Findings

- Looking at the full sample of 1,250 firms in 2012, secondary research combined with the responses from the second survey suggest that more than 41% of firms with substantive ambition in 2012 have grown in employment terms, compared with 38% of firms with moderate ambition and 32% of firms with low ambition.
- Employment growth in the cohort is strongly concentrated: of the 472 firms making job gains just six per cent provided 75% of the jobs.
- In contrast, 42% of firms with substantive ambition and moderate ambition experienced employment decline (or no had no employees at all), compared with 48% of firms with low ambition.
- Employment decline is also strongly concentrated: of the 538 firms that reduced employment, just five per cent were responsible for 75% of job losses.

Supporting Findings

- Of the original 1,250, 83% were continuing to trade under the same ownership as the same business, while only 6% were 'dead'. The remainder had undergone changes in legal status or ownership.
- In addition to ambition, other factors appear to influence growth outcomes. For example, firms with CEOs in 2012 who were founders and internal appointees tended to shed jobs overall between 2012 and 2014, while firms whose CEOs were appointed from outside the organisation and/or from within the family in family businesses had net job gains.

Next steps

The research is ongoing, as is the process of analysis and reporting. Key next steps are:

- Delivery of 25 case studies to examine in more detail the complex relationships identified above and to examine what drives change in ambition and how ambition drives behaviours which themselves deliver positive or negative business performance.
- Further examination and analysis of the 2012 and 2014 survey datasets to dig deeper into the role of ambition in business growth.
- Consider the relevance of regression analysis to accompany descriptive statistics in order to enhance the study findings.

- Once all analysis and research has been completed, to development of a final study report.
- Identification based on the findings, of key policy implications for the client to consider.

It is anticipated that the final report will be published in late spring 2015.

Introduction

In early 2012, TBR completed a study for the UK government which measured growth ambition amongst UK Small and Medium-sized Enterprises (SMEs) and investigated the relationship between growth ambition and growth performance³. This project revisits that research, brings it up to date and provides a unique opportunity to examine in more detail the relationship between ambition and performance for a selection of SMEs.

This interim report presents some early-stage findings of the study which are to be presented at the BIS Research Conference in March 2015. A full report will be published later in 2015 once all the research and analysis has been completed.

The project is being delivered by TBR in partnership with Professor Jonathan Levie (of the Hunter Centre for Entrepreneurship at the University of Strathclyde) and Dr Ron Botham (an independent consultant). Qa Research delivered the primary research fieldwork.

Aims, objectives, purpose of the study

This project builds directly upon the 2012 research study. The aim of this project is to revisit the 2012 research and analyse changes in the ambition of SMEs that participated in the 2012 project. Revisiting previous respondents provides an invaluable opportunity to understand how ambition changes over time, what influences ambition and to explore the relationship between ambition and business performance.

The key aim of the study is to provide answers to the following research questions:

- How does ambition change over time and what influences this?
- What is the relationship between ambition and business performance?

In order to achieve this aim, a number of objectives were also set. The primary objectives of this project were to:

- i. Provide up-to-date data on firm performance that can be related to the levels of ambition recorded in 2012.
- ii. Document and analyse any changes in ambition since 2012.
- iii. Explore how and why has ambition changed and what are the implications for business activity and performance.

³ Business Growth Ambitions amongst SMEs (2012), BIS, Scottish Enterprise, InvestNI and Welsh Government. See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/187058/12-1169-business-growth-ambitions-amongst-smes.pdf

The project was also configured with a view to addressing three further, secondary, objectives:

- iv. Extend the analysis to consider effects on productivity as well as employment growth and consider the potential to include metrics relating to, for example, investment, innovation, exporting, training and the development of management and leadership skills.
- v. Produce metrics that will help define a segmentation model based on levels of ambition and businesses' potential for future productivity gains and growth.
- vi. A fuller exploration of the policy relevance of the research findings.

Methodology

The 2012 study generated primary data that explored the level of ambition across 1,250 UK SMEs. The scope and design of the survey that generated these data were informed by secondary data analysis, including a review of existing UK and international academic and policy literature on the factors affecting and influencing growth ambition and secondary analysis of existing data provided by the Small Business Survey⁴, SME Business Barometer⁵ and other government data/reports. The primary data were manipulated to create typologies that categorised respondents into one of three groups based on their responses to the telephone survey: those with substantive growth ambition, those with moderate growth ambition and those with low growth ambition. Further details can be found in Appendix I.

This study tracks changes in ambition and examines the link between ambition and performance within this group of 1,250 SMEs (recognising that some will have closed and others will have declined, as part of their 2012 response, the request to be included in future research). The study is founded on a process of resurveying a sample of the previous respondents and coupling this with outcome and performance data from secondary data sources for firms which have not been resurveyed.

This study has generated up-to-date primary data on ambition levels and recent historic performance. Furthermore, the causes of ambition were examined along with the causes of observed changes in ambition levels at the firm level. A copy of the questionnaire can be found in Appendix III.

To complement the primary data, and recognising that it would not be possible or feasible to resurvey all respondents (for practical as well as methodological reasons), the project also drew upon a range of secondary quantitative data sources to ensure that the analysis it delivers has been thoroughly validated. These include TBR's in house business dataset

⁴ See <https://www.gov.uk/government/collections/small-business-survey-reports>

⁵ See <https://www.gov.uk/government/collections/small-business-barometer>

(TCR), other commercial business data (Hoovers) and government's own Inter-Departmental Business Register (IDBR)⁶.

The primary data collection methodology employed a CATI-driven telephone survey targeted to achieve 500 responses from the original sample of 1,250 respondents from 2012. The previous sample was reduced to 1,088 when firms were removed which had indicated that they would not be willing to take part in future research (in 2012).

The questionnaire was constructed to enable direct comparison across particular indicators and an identical process of classification based on responses to that which was adopted in 2012.

Following analysis of the survey data, the project team were instructed to supplement the quantitative analysis with a series of qualitative research interviews⁷. These interviews were included to develop a more detailed understanding of some of the challenges particular firms had faced alongside the determinants of their ambition level.

The influence of survivor bias

This project used the dataset developed in 2012 as its basis for further research. Repeating the 2012 methodology with a randomised group of firms would have generated time-series data that could be compared to identify macro trends in ambition levels within SMEs. However, the 2012 method was not repeated. Instead, this project revisited the list of 1,250 firms that participated in the 2012 survey and surveyed 503 of these. This enables longitudinal data to be developed that can monitor changes in ambition at an individual firm level.

As a consequence, this project does not present an update of the overall level of growth ambition in SMEs. Instead it is a detailed study into changes in ambition between 2012 and 2014 across a sample of surviving firms, how these firms have fared in terms of performance, what the characteristics of these changes are possible policy implications. It is important to bear in mind the potential influence of survivor bias when considering the results presented here.

Typology definition

As part of the 2012 study, a set of ambition typologies were created to categorise telephone survey respondents into three groups based on their survey responses – those with substantive growth ambitions, those with moderate growth ambitions and those with low growth ambitions. A full explanation of these typologies and the characteristics of firms allocated to them is provided in Appendix I. Broadly, the typology categories are defined as follows:

⁶ Note – this interim report does not include analysis of the IDBR datasets as this task was still in process at the time of writing.

⁷ Note – the qualitative interviews were being delivered as this report was completed and the results of this stage are not included within this document.

- **Substantive ambition** – where owner/managers have the highest level of personal ambition for business growth (10 out of 10 on a Likert scale) and where they intend to grow their business to a point where it is significantly larger than its current size.
- **Low ambition** – where owner/managers have a low level of personal business growth ambition (7 or lower on a Likert scale) and state they are not intending to grow their organisation and view the ideal size of their business as being no higher than current size.
- **Moderate ambition** – where other owner/managers fit neither into the substantive ambition category or the low ambition category. Such individuals might display high levels of ambition for growth but are not intending to act on that ambition, or they might be intending to grow their business but have low levels of ambition for growth.

It is worth noting that the majority of firms fall into the middle ‘moderate’ ambition category. These typologies have been carried forward into the study update to provide continuity of analysis and a basis for comparison. Many of the comparisons made in the study have focused on the substantive and low categories, as these provide the greatest contrast.

Report structure

The remainder of this document is structured as follows:

Previous study findings: This section provides a review of the main findings from the 2012 study. It also provides a high level review of other research which has been published within relevant subject areas since the 2012 study was published.

Changes in ambition: This chapter examines the extent to which SME growth ambition changed between 2012 and 2014 in our sample of SMEs and why any change has occurred.

Behaviour and ambition: This chapter examines the effects of ambition on firm/owner manager behaviour by contrasting the behaviour of firms/owners against their level of ambition.

Links between ambition and growth: This chapter examines the ‘outcomes’ for the 1,250 firms surveyed in 2012 and relates this back to their previous ambition levels.

Conclusions and Next steps: Here we summarise the interim study conclusions and identify next steps towards publication of the final research report.

Appendices: These include a description of the typology definitions and the process for assigning outcomes to the original 1,250 firms. It also includes a copy of the telephone survey script.

Previous study findings

Introduction

By reviewing and summarising the main findings of our 2012 study and other recently published research, this chapter summarises what is known about the two central questions addressed in this study i.e. how does ambition change over time and what influences this, and what is the relationship between ambition and business performance?

Ambition and SME Growth

The 2012 Study⁸

The 2012 study surveyed 1,250 UK SMEs with the main aim of discovering the extent and potential determinants of SME growth ambition. However, it also made an attempt to explore the relationship between the level of growth ambition and SME performance/growth. To begin to assess whether growth ambition influences subsequent SME growth, the survey explored three issues:

- Growth performance over the past three years. Data were collected on current employment and turnover and respondents' recollection of these three years previously. Answers were used to produce estimates of SME growth/decline.
- Growth ambition (both current and three years previously). Owner-managers were asked to score their desire for growth on a linear scale of 1 to 10 both currently and three years previously. An initial analysis of ambition based on this one score alone was then undertaken (rather than a combination of variables, as in the Ambition Typology described in the next bullet).
- The development of an Ambition Typology based on three categories: substantive ambition, moderate ambition and low ambition (see Appendix I for a description of how the typology was designed).

These data enabled an examination of the relationship between SME growth ambition (2008) and estimated growth (employment and turnover) between 2008 and 2012.

The data is far from ideal. They depend on the respondents' knowledge and memory of history. Such data is likely to contain inaccuracies and potential bias. Nevertheless the main findings (relevant to the current study) of this analysis were:

- Firms with substantive ambition were much more likely to be proactive in seeking growth.

⁸ Business Growth Ambitions amongst SMEs (2012), BIS, Scottish Enterprise, InvestNI and Welsh Government. See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/187058/12-1169-business-growth-ambitions-amongst-smes.pdf

- Firms with high levels of growth ambition in 2008 were more likely to grow than firms with low growth ambition. For example, 32% of those with substantive growth ambition subsequently increased employment compared with 14% of those with low growth ambition.
- Those with substantive growth ambition were much more likely to grow very substantially/rapidly. However, only a small percentage of firms with substantive growth ambition achieved rapid growth subsequently.
- While firms with substantive growth ambition were more likely to grow, at the same time they had an above average probability of decline in both employment and turnover. The performance of the group of substantive ambition firms, taken as a whole, was more variable (volatile) than firms with lower growth ambition.
- Far from all firms with growth ambition actually achieved growth and some with low ambition did achieve growth.
- The net economic impact of highly ambitious firms was positive (compared with negative net employment and turnover economic impacts of firms with moderate or low growth ambition).

While the report emphasises the positive effects of growth ambition on SME performance and the wider economy, it also notes that the relationships are complex, not necessarily causal and that more firms with substantive ambition (29.9%) actually declined in employment terms than increased employment (23.1%) subsequently.

Research into ambition since 2012

There is limited research literature on the links between SME growth ambition and actual growth. The thirteen articles which relate ambition to subsequent growth performance (using some form of multiple regression) were reviewed by Levie and Autio⁹. None of the studies were based on UK evidence. The definition of growth ambition varied between studies and included intentions, aspirations, willingness to grow, a comparison between the ideal and actual size of the business and the need for achievement. The measurement of firm growth was equally variable. Nevertheless the review found consistent evidence that growth ambition had small to medium positive effects on sales and employment growth of established SMEs and that at least some of the effects were via the influence of ambition on pro-activeness (taking action), innovation and willingness to take risks. None of the studies demonstrated a statistically insignificant relationship or a negative relationship.

With only a few exceptions (reviewed below) the primary focus of these studies was not on the effects of growth ambition on SME actual growth but on, for example, the effects of research and development (R&D), innovation, skills etc. on firm growth and the development of SME growth models. A variable for growth ambition was usually included simply as a control variable. While it was a statistically significant variable in all the

⁹ Levie J and Autio E. Growth and Growth Intentions: A meta-analysis of existing evidence. Enterprise Research Centre. 2013.

regressions, as a control variable, it was rarely analysed or discussed further. It is also of note that the level of explanation (r^2) in all the studies is fairly low. Consequently the amount of growth explained by growth ambition must be limited. While sometimes making some limited checks for potential survivor bias, none of the studies adequately allow for this possibility.

The exceptions, which are worthy of review in some depth, include a study of 326 Swedish SMEs¹⁰ with between 10 and 50 employees which responded to a survey in 1996 and the follow-up survey in 1999. Using a business growth variable made up of both employment and turnover and a 'sophisticated' index of growth ambition, the regression found the statistically significant variables to be: ambition, access to capital and the interaction effects between ambition and education, experience and a dynamic business environment. It concluded that growth ambition is a key driver of SME growth but with greater growth when ambition is combined with education, experience and/or a dynamic business environment. The interactive effects between ambition and other factors increased the level of explanation substantially (in this case to 24%)¹¹.

At least in the Swedish context, the study provides strong evidence that SME growth ambition really matters and is a key driver of growth. The caveats noted are that the findings could be affected by survivor bias and that 'It is possible that higher growth aspiration is also associated with greater risk propensity. Risk taking, in turn, may be associated with higher chance of failure.' This possibility is not explicitly examined.

In a second study using two large (with usable responses from over 800 Firms) samples of Swedish SMEs survey in 1994/98 and 1996/99, Delmar and Wiklund confirm that growth ambition at Time T1 is positively related (and statistically significant) to actual growth in period T2 (in both employment and turnover).¹² While the effect appears relatively limited, growth ambition is a better predictor of growth than is past growth. They also assess the stability of individual growth ambition over time and estimate the feedback effect of firm growth (period T1) on growth motivation (at T2). These estimates are commented on in the discussion of changes in ambition (below).

A final exception worthy of an explicit comment is a study of the growth performance of new starts in the Netherlands between 1994 and 2000 by Stam and Wennberg¹³. As in most other studies, growth ambition is included in their growth model simply as a control variable with the main concern being to develop a model testing the role of R&D and innovation on small firm growth. However, R&D and innovation variables were only statistically significant for a subset of high tech and the most rapidly growing firms. For high tech firms, growth ambition was not statistically significant (and indeed had a negative sign). On the other hand, for the vast majority of small firms (i.e. which are not high tech) R&D and innovation were not significant. The only statistically significant variable for these firms was growth ambition. It is concluded that for the vast majority of small firms, growth ambition is the critical factor making for growth.

¹⁰ Wiklund J. and Shepherd B. A. Aspiring and Achieving Growth; the moderating role of resources and opportunities. *Journal of Management Studies* 2003. Vol 40. No. 8.

¹¹ This is a substantially higher level of explanation than achieved in SME growth models which do not include such effects in which r^2 rarely exceeds 0.15

¹² Delmar F. and Wiklund J. (2008) The Effects of Small Business Managers Growth Motivation on Firm Growth: a longitudinal study. *Entrepreneurship Theory and Practice*

¹³ Stam E. and Wennberg K (2009). The roles of R&D in new firm growth. *Small Business Economics* 33 (X) pp77-89

Only one paper not covered in the Levie and Autio meta analysis which uses growth ambition as an explanatory variable for subsequent SME growth has been found. In an unpublished report¹⁴ Stam and Gibcus examined the growth performance of 200 new starts in the Netherlands. The firms were surveyed at start-up then at intervals of two, four and six years later. The main focus was on dynamic capability. But none of the variables measuring dynamic capability proved to be explanations of SME growth. Growth intentions (a widely used proxy for growth ambition) at start-up was used as a control variable. It was statistically significant for each of the two year periods examined and was the only consistent driver of SME growth. (Other variables were significant for some time periods but not others.)

Finally, it is worth highlighting two observations based on recent research aiming to explain small business growth which have potential implications for understanding the link between ambition and subsequent growth. The first is the potential importance of interactive effects (i.e. the influence of ambition when an individual simultaneously has growth ambition and some other variable such as higher education, resources or skills as demonstrated by the Wiklund and Shepherd study of Swedish SMEs). However, while not specifically applied to ambition, several other SME growth studies have found that factors in combination can have a greater impact on growth than when each exists on its own¹⁵. Ideally it is important to consider the growth performance when the owner-manager has substantive ambition and relevant skills etc. rather than just growth ambition.

The second observation relates to the possibility that ambition is subject to diminishing returns. Increasing growth ambition may lead to growth up to a point after which further increases in ambition have an adverse effect on growth (or even lead to business failures). While such a possibility is noted by some authors, it has not been tested empirically. However, it has been shown that increasing Entrepreneurial Orientation within a SME initially increases growth but is eventually subject to diminishing returns and results in declining growth.¹⁶ It is expected that Entrepreneurial Orientation is correlated with growth ambition. Perhaps it is possible to have too much growth ambition, at least when it is not combined with other important ingredients which enable SME growth, that does not lead to greater growth but perhaps too much reckless risk taking and failure.

Changes in Growth Ambition

The 2012 Study

The main concern of the 2012 study was to establish the level of growth ambition in the UK small business population and to begin to identify potential determinants of it. Nevertheless some attempt was made to obtain an estimate of the extent of change in individual ambition and what might account for any observed change. To do this respondents to the survey were asked to rate their desire for growth on a scale of 1 to 10

¹⁴ Stam E. and Gibcus P. (2012) Firm resources, dynamic capabilities and the early growth of firms. Zoetermeer, Netherlands. Panteia/SCALES, Research Report HO201219.

¹⁵ Delmar F. and Wiklund J. (2008). Op Cit.

¹⁶ Wales W. J. et al (2013). Too Much of a Good Thing? Absorptive Capacity, Firm Performance and the Moderating Role of Entrepreneurial Orientation. *Strategic Management Journal* 34 pp622-633. Wales W. J. et al (2013). Nonlinear Effects of Entrepreneurial Orientation on Small Firm Performance: the moderating Role of Resource Orchestration Capabilities. *Strategic Entrepreneurship Journal* 7 pp. 93-121.

three years previously i.e. in 2008). This was then compared with how they had rated their current desire for growth.

The comparison of their then current (i.e. 2012) score with their 2008 score found that 75% rated their desire exactly the same in both years (i.e. 25% rated their score differently.) Of those rating their growth desire differently, 57% rated their current growth desire higher than previously. In other words 14% of owner-managers had increased their desire for growth over a three year period. Forty three per cent of those whose ambition had changed believed it had declined (i.e. 11% of the sample had experienced a decline in ambition). On balance it appears growth ambition increased somewhat over the three years.

However, the study does not use the data on past performance and changes in ambition to explore the feedback of SME growth performance on their level of ambition. Instead, it explores this question in the survey by asking owner-managers who had changed their desire for growth to score their opinion on why their ambition had increased/decreased. The main reasons given for reduced ambition were the current economic climate (approximately 50% of those who had reduced their ambition) while many of the rest gave reasons related to an inability or [lack of?] need to grow. Just under 10% of those who had reduced ambition gave the impact of personal issues (such as ill health) as the reason. A series of company case studies found that ambition could be reduced through a bad experience, or hassle, of trying to grow the firm. The hassle could arise from, for example, regulations, planning policies or problems with staffing. Others had achieved their previous growth targets so no longer desired further growth. The reduction in ambition on occasion seemed to reflect a rational decision based on their assessment of the risk/reward trade-off. However, it should be emphasised that these observations were based on a handful of case studies of firms which had reduced ambition.

The main reasons given for increasing ambition were the economic climate and the need to get back to where they were previously, accounting between them for just over 50% of responses. Many of the remaining comments related to the need to survive or to make more money because the business had begun to perform better. The case studies did not identify additional possible explanations. Nevertheless, it appears there is a feedback from past growth/decline onto growth ambition. But for some SMEs it is a positive feedback while for others it is a negative one.

The obvious limitations of the analysis are that it is based on a simple definition of ambition and depends on the respondents' memory of their desire for growth three years previously. Nor does it attempt to estimate the extent of change in the economy arising from:

- Changes in the structure of the small business population. For example, it might be expected that aggregate SME ambition would increase if the groups found to have above average ambition (e.g. business service sector firms, owner-managers with an annual income over £159k) increased their presence in the economy. Similarly it could decline if groups found to have below average ambition (e.g. female owner-managers over 55 years, older firms over 10 years old) increase their importance in the economic structure.
- Change in the determinants of growth ambition. For example, ambition was found to be associated with (and possibly determined by), inter alia, attitudes to making

money. Should owner-managers become more concerned with their income, growth ambition would be expected to increase.

Nor has there been any attempt in the research literature to estimate changes in the level of ambition brought about by such structural change. Indeed there has been almost no discussion of how and why small business growth ambition might change over time.

Research into change in ambition since 2012

The absence of interest in examining whether or not growth ambition is stable over time may reflect the belief (largely from psychology) that ambition is stable over time or changes only slowly over prolonged time scales. It is essentially assumed to be a stable, non-changing characteristic. In the psychology literature ambition is assumed to be more or less constant throughout an individual's life¹⁷. Defining it as 'the persistent and generalized striving for success, attainment and accomplishment', it is not compartmentalised to just a single domain (an individual is ambitious in several walks of life) and it does not cease when a goal is reached (new higher ones are set). Ambition is not about a single goal (i.e. the intention to grow the business in the next two to three years). When applied to a specific goal or domain such as business growth it is accepted that this introduces the prospect of some change throughout life. It may also be assumed that change in growth ambition due to structural change in the economy (as discussed above) can only occur over a prolonged time scale. The extent to which individual or aggregate ambition is stable over time has not been tested extensively empirically.

However, Delmar and Wiklund have estimated the effect of past SME growth on growth motivation in the Swedish context.¹⁸ They explain growth motivation at time T2 with independent variables including growth motivation at time T1 and growth in period T1. Growth motivation at T2 is found to be related to the age of the owner/manager, education, past motivation (i.e. at T1) and past growth. The findings are argued to suggest that growth ambitions are stable over time and the existence of a virtuous circle with SME growth leading to greater growth motivation (or decline leading to lower growth ambition). However, the relationships are relatively weak. It is important to note that it does not examine explicitly whether past growth is related to (affects) change in growth ambition. While statistically significant, the ability of growth ambition at T1 to produce growth ambition at T2 is fairly limited. It would be very surprising if there were not a statistically significant relationship between growth ambition at T1 and T2. While the relationship is interpreted as demonstrating that growth ambition is reasonably stable, that the relationship is not stronger could be interpreted as illustrating that there are substantial changes in individual ambition over a period of a few years. Nor does the study consider or test for a negative feedback from growth onto growth ambition and vice-versa (e.g. growth reduces ambition and SME decline increases growth ambition.)

In addition, there are some other limited indications that ambition, and especially small business growth ambition, is less stable than generally assumed. For example, while testing the influence of psychological traits on growth, Bellu and Sherman provide almost

¹⁷ Judge T. A. and Kammeyer-Mueller J. D. (2012). On the Value of Aiming High: the causes and consequences of ambition. *Applied Psychology*.

¹⁸ Delmar F. and Wiklund J. (2008) op. Cit.

an incidental test of whether traits which underpin ambition are stable over time.¹⁹ Comparing entrepreneurs' need for achievement in 1989 and 1994 they find a correlation of $r= 0.52$. From this they comment that the need for achievement is fairly stable. However this figure could be interpreted as showing a fair degree of change over a relatively short time period.

Finally, the proportion of SMEs planning to grow over the next two or three years also appears to vary from year to year.²⁰ This evidence, although far from conclusive, perhaps at least suggests that individual growth ambition is amenable to change possibly brought about by policy intervention.

Moving forward from the 2012 study

The 2012 study established an important baseline for the level of ambition across UK SMEs. It also created a cohort of businesses that had identified their willingness to take part in future research. The sample of 1,250 surveyed firms therefore provides a highly useful resource from which to generate additional research intelligence.

The 2014 study was designed to capitalise on two important opportunities that the 2012 study had presented:

- To gather up-to-date performance and 'outcome' data to establish how each of the 1,250 business has fared since the 2012 study. These data can then be cross-referenced with levels of ambition in 2012 to support an analysis of the relationship between ambition and performance. Whilst the 2012 study investigated this to some extent, it did so using a limited data set (i.e. solely the self-reported responses to questions about the performance of their business in the previous three years). The 2014 study therefore presents the opportunity to bring together secondary data (from government as well as commercial sources) along with new primary data (collected through a second survey) and more accurate primary data (by asking for current absolute employment and turnover data which can be compared with similar data captured in 2012) to provide a more robust and extensive analysis of the relationship between ambition and performance.
- To re-survey a sample of businesses from the original group of 1,250 firms in order to measure changes in levels of ambition and the causes for any observed changes. The 2012 survey explored this to some extent, by asking questions about whether respondents perceived any changes in ambition since 2009. However, this approach is limited since we also established in the 2012 study that the creation of a measure of ambition required a more sophisticated examination of also growth intent and plans as well as stated ambition levels. Therefore to simply ask whether ambition had increased or decreased in the last three years is highly limiting. The 2014 survey provides the opportunity to ask all questions which contribute to the assignment of each firm to a growth ambition typology category, and to then ask

¹⁹ Bellu R. R. and Sherman H. (1995). Predicting firm success from task motivation and attributional style: a longitudinal study. *Entrepreneurship and Regional Development: an International Journal* 7(X) pp348-363.

²⁰ BIS

relevant questions regarding change in ambition to those that demonstrate a change in ambition based on their responses to five questions, rather than one.

The 2014 study therefore represents an opportunity to explore the key research questions in a more robust and sophisticated way. Interim results of the 2014 are presented in the ensuing chapters.

Change in ambition

Chapter summary

- This chapter examines the extent to which SME growth ambition changed between 2012 and 2014 in our sample of SMEs and why any change has occurred. It is based on the 503 SMEs which responded to both our original 2012 survey and our 2014 follow-up survey.
- **A key finding is that at an individual level, SME growth ambition is not completely constant over time.**
- **Of the 503 respondents, the majority (59%) remained unchanged within the same ambition category. However, 85 (17%) increased their ambition (i.e. they moved to a higher ambition segment) and 123 (24%) reduced ambition.**
- **Whilst more than four in ten firms have changed ambition level between 2012 and 2014, only one in forty (2.4%) have changed their ambition level substantially (i.e. from low ambition to substantial or substantial to low).**
- **Over the three years the proportion of SMEs (amongst the re-surveyed firms) in the substantive ambition segment declined from 20% to 15% while the number in the low ambition segment increased from 17% to 20%.**
- **On the surface the overall level of ambition within the studied firms looks relatively stable. But within this is a significant amount of movement into and out of the moderate ambition level whilst very few firms have shown evidence of significant swings in ambition.**
- It should be noted that growth ambition is expected to be lower in the 2014 survey because most of the respondents are three years older as are the firms. Given that ambition tends to decline with both, some decline in aggregate ambition is expected. Over 30% of our respondents were aged over 55 in 2012 and potentially approaching retirement. This decline in ambition cannot be taken as meaning that growth ambition has declined in the UK's small firm population.
- Almost 9% of the respondents said that the firm had experienced a change in ownership over the past three years. Within this group, 20% increased ambition while 25% reduced their growth ambitions.
- Just over 18% of SMEs say they experienced a change in senior management since the 2012 survey. The majority of these firms experienced no change in ambition, however slightly more declined (25%) than increased their ambition (16%).

- Respondents that had changed ambition were asked for their view on the key factors which explained the change in ambition. The most widely quoted factor for both respondents that increased and reduced their ambition was ‘change in market conditions’. Ownership change is thought to explain increased ambition of 6% of those who increased their ambition. A deteriorating environment for raising finance accounts for 4% of those who reduced their ambition.

Introduction

This chapter examines the extent to which SME growth ambition changed between 2012 and 2014 in our sample of SMEs and why any change has occurred. It is based on the 503 SMEs which responded to both our original 2012 survey and our 2014 follow-up survey. Consequently, it is an examination of how ambition has changed (and why) in a surviving sample of UK SMEs. As such it is not an assessment of change in SME growth ambition in the UK’s population of small firms. Between 2012 and 2014 some SMEs have exited the economy and SME population while a substantial number of new firms have entered the small firm population. The turnover (or churn) in the small firm sector is considerable. Consequently, observed change in growth ambition in our sample of existing surviving SMEs cannot be assumed to be representative of aggregate (i.e. economy wide) change.

Aggregate change in SME growth ambition (in the sample)

Table 1 summarises the number of firms in which the respondent changed their ambition segment between the 2012 and 2014 survey. Of the 503 respondents, the majority (59%) remained unchanged within the same ambition category. However, 85 (17%) increased their ambition (i.e. they moved to a higher ambition segment) and 123 (24%) reduced ambition. Over the 3 years the proportion of SMEs in the substantive ambition segment declined from 20% to 15% while the number in the low ambition segment increased from 17% to 20%. SME growth ambition declined marginally in our sample of SMEs. A key finding is that at an individual level, SME growth ambition is not completely constant over time.

Table 1: Changes in individual ambition between 2012 and 2014

	Number (<i>Proportion</i>)
Increased ambition	85 (17%)
Stasis	295 (59%)
Reduced ambition	123 (24%)
Total	503 (100%)

Source: TBR 2014

Base: Respondents to 2014 survey, 503 responses

A more detailed examination of the levels of change is provided in Table 2, which presents a matrix of ambition levels and compares ambition in 2012 with 2014. This supports a number of important findings. It demonstrates that much of the change in ambition levels can be identified as incremental shifts from one ambition level to the adjacent category above or below. A total of 196 firms can be described in this way (39% out of the 41% that have changed ambition level). Much of the change in ambition is therefore centred around the ‘middle’ category and very few firms change their ambition level sufficiently to

cross the 'middle' and take up a position in one extreme ambition level or another. In fact, only 12 firms (2.4%) have changed ambition level significantly, moving either from substantive ambition to low or vice versa.

Table 2: Shifts in ambition classification between 2012 and 2014

	2012				
2014 \		Low	Moderate	Substantive	Total
Low		42 (8%)	52 (10%)	9 (2%)	103 (20%)
Moderate		43 (9%)	221 (44%)	62 (12%)	326 (65%)
Substantive		3 (1%)	39 (8%)	32 (6%)	74 (15%)
Total		88 (17%)	312 (62%)	103 (20%)	503 (100%)

Source: TBR 2014 (TBR ref: W1/S1)

Base: Respondents to 2014 survey, 503 responses

NB. The percentage distribution of firms by ambition level in 2012 does not match the published proportion in the previous study report. This is because the 2012 published ambition levels were based on weighted survey data, whereas the data presented here are unweighted.

The analysis of change in ambition therefore provides some important findings. From the surface, the level of ambition looks relatively calm and constant with little change between 2012 and 2014. However, if we examine the components of change which deliver this aggregate change, we can see there is a large amount of churn with four in ten firms having changed their level of ambition within the three years. Finally, we also see that the proportion of firms that change their ambition levels significantly is very small (one in forty firms).

Structural change or sampling error

An important question is whether or not the observed change is due to a change in the structure of the sample compared with the 2012 sample. For example, using the findings from the previous study ambition is lower amongst women, older people (over 55), owners who inherited the business, senior managers recruited from outside the company, respondents with an income under £100k, owner/managers with no qualifications or who believe they cannot grow the company even if they wished to and firms older than ten years of age, located in Wales or in the transport and construction sectors. Should individuals/firms with these characteristics have a greater presence in the 2014 survey than in the 2012 survey the effect would be to reduce ambition. Such individuals/firms could be over-represented because of chance sampling error or because the structure of the population of firms from which the sample has been drawn has changed (e.g. the surviving firms include a greater proportion of firms in which the owner inherited the business, are run by women or externally recruited managers with an income under £100k in construction etc.).

The converse of course is that ambition could appear to increase if the 2014 sample contains a disproportionately large number of respondents from groups which had well above average ambition in 2012. These include respondents with a degree, aged under 35 or with an annual income over £100k and firms in hospitality, business services and under 10 years of age. Again such respondents could be over represented because of random sampling error or survivor bias.

Table 3 compares a selection of the characteristics of the sample of 503 responding to the 2014 survey with the 1,250 who responded to the survey in 2012. On the majority of variables the samples are very similar. With regard to personal characteristics, the obvious exception is the reduction in the proportion of managers who were recruited externally. Given this group had below average ambition in 2012, this might be expected to increase ambition in the total sample. Groups with below average ambition in 2012 do not appear to have a greater representation in the 2012 sample. Consequently, there is no evidence that sampling error or a change in the structure of the population from which the sample is drawn (due to survivor bias) is responsible for the observed reduction in SME growth ambition.

Table 3: Characteristics of owner/managers in 2012 and 2014 sample (% firms)

	2012	2014
	%	%
Male	76.9	78.3
Aged under 35	9.3	7
Aged over 55	31.2	36.8
Founder	37.4	39.8
Inherited Business	10.8	9.1
Manager recruited from outside	27.5	20.5
Highest qualification is at least a Degree	33.2	35.8
No Qualifications	6.9	5
Annual Income Over £100k	6.2	5.4

Source: TBR 2014 (TBR Ref: W1/S1)

Base: 2012 survey is 1,250; 2014 survey is 503

It should be noted that growth ambition is expected to be lower in the 2014 survey because most of the respondents are 3 years older as are the firms. Given that ambition tends to decline with both, some decline in aggregate ambition is expected.

Effect of ownership change

This section examines the effect of ownership change and this is done to explore whether there is evidence that a significant change ‘at the top’ has an effect on ambition.

Almost 9% of the respondents said that the firm had experienced a change in ownership over the past three years. The review of firms which increased their ambition substantially (see below) suggests that change of ownership can bring about a substantial increase in growth ambition (especially in SMEs with low growth ambition in 2012). If enterprises with low growth ambition are the firms subject to most ownership change, change of ownership might be expected to have a positive impact by increasing the number of SMEs with greater growth ambition. However, Table 4 shows that a greater proportion of firms with substantive growth ambition experienced a change in ownership than firms with moderate or low growth ambition. Given that change in ownership was not concentrated amongst firms with low growth ambitions, change in ownership is perhaps not responsible for a substantial increase in the number of SMEs with substantive growth ambitions. This is confirmed in Table 4 which shows that only 20% of SMEs which experienced a change in ownership increased ambition while 25% actually reduced their growth ambitions.

Table 4: Influence of ownership change on change in ambition (2014 survey - % firms)

	2012 Ambition Level		
	Substantive	Moderate	Low
	%	%	%
% of firms that experienced ownership change	15	7	6
	Change in Ambition level		
	Increased	Stayed the same	Reduced
	%	%	%
% of firms that experience ownership change	20	20	25

Source: TBR 2014 (TBR Ref: W1/S2)

Base: 2014 survey, 44 responses

Just over 18% of SMEs say they experienced a change in senior management since the 2012 survey. Changes in senior management could have increased growth ambitions and this possibility is examined in Table 5. As can be seen, changes in management were most frequent in firms with substantive and moderate growth ambition in 2012 and least common in firms with low ambition. Management change increased ambition in 16% of the firms which experienced management change and reduced it in 25%. It left the firms' growth ambition unchanged in the majority of firms which experienced a change in senior management. However, the net effect of change in senior management reduced SME growth ambition in our sample.

Absolute numbers of firms experiencing a change in senior management have been included in Table 5 below in order to indicate that whilst the percentages are similar, the moderate category is significantly larger than either the low ambition or substantive ambition category.

Table 5: Management change and change in ambition (2014 survey - % firms)

	Substantive	Moderate	Low
		%	%
% of firms experiencing a change in senior management	17	21	19
Number of firms experiencing a change in senior management	18	65	9
	Increased	Stayed the same	Reduced
	%	%	%
% of firms which have changed senior management by ambition change	16	59	25

Source: TBR 2014 (TBR Ref: W1/S3)

Base: 2014 survey, 92 responses

However, it should be noted that to some extent this reflects the way in which ambition is measured. Those classified as in the substantive ambition segment cannot further increase their level of ambition.

Self-explanation of individual change in ambition

During the administration of the 2014 survey, whether or not the respondent had increased or decreased the level of ambition was calculated in real time.²¹ Respondents/firms with increased or reduced ambition were then asked for their view on the key factors which explained the change in ambition. The results are summarised in Table 6.

Table 6: Respondents' explanation of change in ambition (2014 survey - % firms)

Changes in...	Increased Ambition	Decreased Ambition
	%	%
Market conditions	37	28
Personal Circumstances	2	2
Top Management	1	3
Ownership	6	1
New Staff Joined Firm	2	1
Environment for Raising Finance	0	4
New Products/Services Launched	8	2
Partners/Joint venture	2	0
Other (see below)	51	67
No Change	7	9
Don't Know	1	5
All Sample	17	24

Source: TBR 2014 (TBR Ref: W1/S4)

Base: 2014 survey, 208 responses

As can be seen the only widespread explanation offered is changes in market conditions which respondents reported being responsible for both increased and reduced ambition. Beyond this, perhaps the only other points which emerge from Table 6 are:

- The most widely quoted factor is 'Other'. This is examined further below, but illustrates the fact that a wide variety of factors influence changes in ambition. But each factor influences only a few individuals/firms.
- The launch of a new product/service (i.e. innovation) has increased ambition amongst a few individuals/firms.
- Ownership change is thought to explain increased ambition of 6% of those who increased their ambition.
- A deteriorating environment for raising finance accounts for 4% of those who reduced their ambition.
- In a small number of cases, the individual did not believe their level of ambition had in fact changed since 2012.

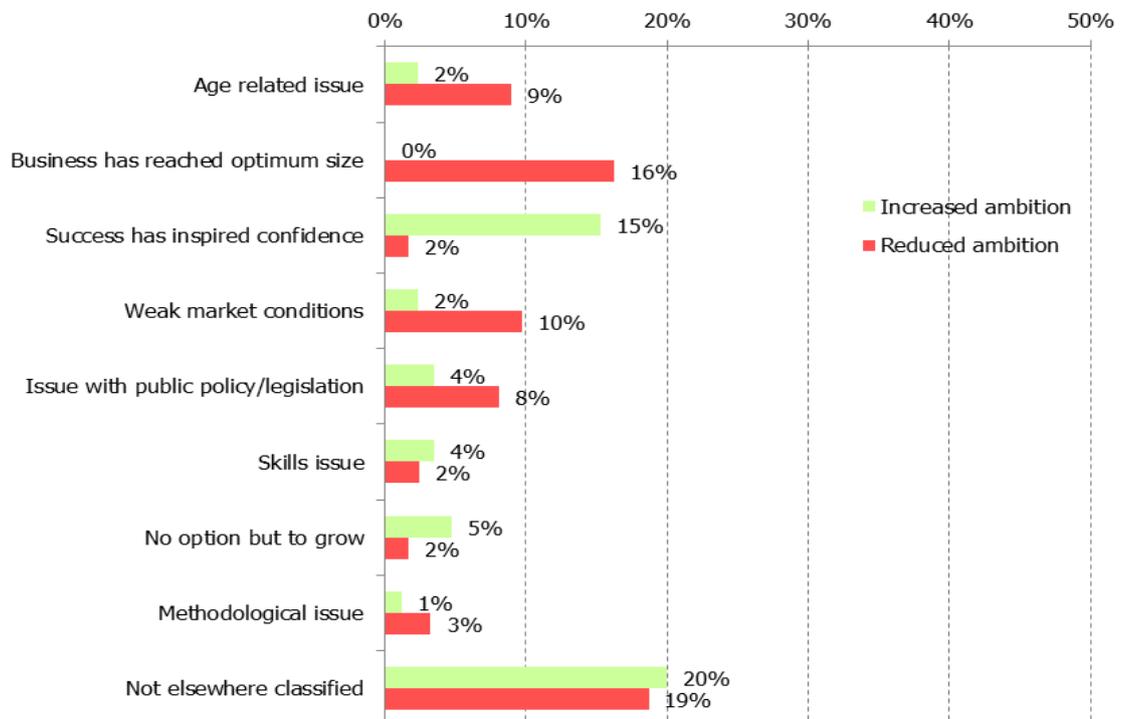
²¹ This was defined as a movement between the Low, Moderate and Substantive ambition segments.

An alternative way of presenting the data to illustrate how few firms/individuals are affected by any specific factor is to show the percentage of the entire sample (i.e. the 503 firms) to which the factor applies. To illustrate how few firms are affected by a specific factor, the most widespread factor (change in market conditions) is used. Just over six per cent of the total sample explained their increased ambition by improved market conditions and 5.6% explained that this factor had reduced their ambition. Just over one per cent of firms said they had increased ambition because they had launched a new product. All other factors affected less than one per cent of firms (except impending retirement which is discussed below).

The ‘Other’ factors respondents felt to be responsible for their increased ambition included:

- Increased confidence because of, for example, greater experience, having achieved previous growth targets, successful implementation of a new strategy, the business now being in a more secure position with just one individual saying participation in a training programme.
- A couple noted the need to grow to survive, make better use of existing capacity or to replace sales which had been lost during the recession.
- A couple said that changes to legislations had created new opportunities.

Figure 1: ‘Other’ reasons for change in ambition (% of all respondents)



Source: TBR 2014 (Note, percentages do not sum to those in Table 6 due to rounding.
Base: 2014 survey, 126 responses

The idiosyncratic nature of the explanations is illustrated by two individuals who said they were approaching retirement and needed to build up a nest egg.

Turning to the 'Other' factors thought to explain reduced ambition, the main ones were:

- By far the most widespread (identified by 16% of those whose ambition had declined) was that the business had reached its optimum size. This is followed by age/getting older, cited by 9%.
- Several quoted some form of business hassle due to, for example, legislation, difficulty of growing/past growth plan failures (i.e. having tried and failed) so they had now become more realistic.
- Several had achieved previous growth targets and further growth was unrealistic, the business was now at its optimal size or the need now was to consolidate.
- A couple of respondents believed a further recession was on the way and based on their past experience of recessions they needed to be more cautious.

Specific events and changes in growth ambition

From our earlier study examining the determinants of ambition, the case studies suggested that major events affecting the firm or the owner/manager (e.g. a death in the family, business 'hassle' due to bureaucracy, problems raising finance, loss or problems with a major customer) could have an impact on ambition. While most of the issues identified were found to have a negative effect on growth ambition, it is obviously possible for major events (especially improved market conditions, a change in ownership and/or senior management) to have a positive effect on SME growth ambition.

To examine these possibilities, respondents were asked if the firm/they had experienced a series of specific events in the past three years. It was expected that those experiencing such events were more likely to have increased/reduced ambition than those not experiencing major business or personal events. The results are summarised in Table 7.

Taking first the sample as a whole, the majority of surviving SMEs (74%) have experienced at least one of the events specified in the past three years. The most common ones are a major change in market conditions (36%), a problem (late payment, bad debt) with an important customer (27%), with around one fifth saying they have experienced serious staff shortages, the departure of a key member of staff, a life threatening event for the business, a serious problem with their premises (sometimes planning related) and a significant event in their private life. Ten per cent of SMEs say they have had an application for finance rejected in the past three years. Obviously some of these events may be related or refer to the same event (e.g. the business life threatening event could be the rejection of an application for finance or the problem with an important customer).

Table 7: Influence of events on ambition levels (2014 survey - % firms)

Event	Change in ambition level			All Firms
	Increased	Same	Declined	
	%	%	%	%
Significant Change in Market	44	32	39	36
Problem with Major Customer	33	23	25	27
None of These	19	28	26	26
Departure of Key Member of Staff	27	21	18	21
Serious Staff Shortage	25	20	22	21
In Private life (management team)	18	29	22	20
Life Threatening Business Crisis	20	17	21	18
Change in Management Personnel	17	18	16	17
Problem with Premises	13	19	12	17
Emergence of Dominant Player	17	13	8	13
Finance Application Rejected	12	9	11	10
Any Other (Write in)	13	8	6	8

Source: TBR 2014 (TBR Ref: W1/S5)

Base: 2014 survey, 503 responses

Turning to how these events might affect the level of ambition, there is some evidence in Table 7 that a business life threatening event, rejection of an application for finance, a serious problem with an important customer, a serious staff shortage and a significant change in market conditions has a small effect on changing ambition in SMEs. Those experiencing these events are more likely to both increase or reduce their level of ambition. Those experiencing these events are marginally over represented amongst those both increasing and reducing their growth ambition. With the exception of an event which threatens the life of the business (which appears to have a greater negative rather than positive effect on ambition), all the other events on balance appear to have a net positive effect on growth ambition within surviving SMEs.

Firm growth/decline and effects on ambition

There is some evidence from the literature that past business performance feeds back to influence growth ambition. It has been found that recent growth marginally increases SME growth ambition. On the other hand our earlier study²² suggested that recent growth could also reduce SME growth ambition while recent firm decline could produce an increase in growth ambition as the entrepreneur seeks to at least return to the firm's previous level of performance. It also found that in some firms recent growth had a positive effect on growth ambition. The implication is that recent growth and/or decline can have a variable effect (either positive or negative) on growth ambition (perhaps dependant on circumstances). This possibility is explored in Table 8.

²² Business Growth Ambitions amongst SMEs (2012), BIS, Scottish Enterprise, InvestNI and Welsh Government. See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/187058/12-1169-business-growth-ambitions-amongst-smes.pdf

Table 8: Effects of firm growth/decline on ambition (% firms)

Employment	Change in Ambition level			All Firms
	Increased	Same	Declined	
	%	%	%	%
All Firms	17	59	24	100
Grown	14	61	25	100
Stayed the same	18	57	25	100
Declined	20	57	23	100

Source: TBR 2014 (TBR Ref: W1/S6)

Base: 2014 survey, 503 responses

Table 8 shows:

- The proportion of firms in the entire sample in which ambition has increased (17%), remained unchanged (59%) and declined (24%).
- The proportion of firms which have grown, remained the same and declined (measured as employment change 2012-2014) in which ambition has increased, remained unchanged and declined between 2012 and 2014.
- Employment change is based on the respondent's own estimate (i.e. in response to the question has employment increased, declined or stayed the same compared with 2012).

The data is far from ideal. Employment change is far from an ideal measure of growth/decline: the data is for the simultaneous change in firm growth and ambition (i.e. 2012-2014) rather than change in ambition as a lagged variable for firm growth and the sample could be affected by survivor bias etc. Given the limitations of the data it only offers an initial assessment of whether firm growth/decline has an effect on changing ambition within the firm.

The most obvious observation is that any net effect of firm growth/decline is at best minimal. However, there is a hint that:

- Firms which have grown measured by employment in the three years 2012-14 are marginally more likely to have reduced ambition. Of these firms 14% increased ambition while 24% reduced their growth ambition.
- However, in the majority of SMEs which have grown (59%) growth ambition has remained unchanged.
- Within firms which have reduced employment, 20% increased growth ambition while 23% reduced growth ambition. The net effect of firm decline appears to be to reduce SME growth ambition. (However it increases it in a substantial minority of firms).

A further limitation of this analysis requires identification. Within the group of firms recording the same level of ambition between 2012 and 2014 will be those with

substantive ambition in both years. Clearly there is no scope for these firms to increase their ambition over the time period. A similar point should be made regarding firms registering low ambition in both years, in that they cannot reduce their ambition level within this framework. A total of 32 firms (6%) from the 503 sampled in 2014 had substantive ambition in both years, whilst 42 (8%) had low ambition in both years.

Notwithstanding the data limitations, it is expected that it would be capable of picking up evidence of any substantial feedback effect of firm performance on SME growth ambition.

The best conclusions that can be drawn for the sample as a whole are that:

- Past firm performance has a feedback effect on growth ambition in a substantial number of SMEs.
- However, in some firms the feedback increases growth ambition while in others, it reduces it.
- Consequently the net effect on growth ambition is small but negative (i.e. during this time period it has marginally reduced growth ambition in our sample of surviving SMEs).

This later conclusion is at odds with the findings in our earlier study and in the limited Swedish literature which estimates such feedback effects.

Substantial change in ambition

Very few (less than three per cent) individuals/companies (responding to both surveys) changed ambition between 2012 and 2014 dramatically. Three increased ambition from Low into the Substantive ambition segment and nine decreased ambition from Substantive ambition in 2012 to the Low ambition segment in 2014. While a small number, it might be expected that these firms would illustrate the factors which cause substantial change in SME growth ambition. Consequently, the three firms which increased ambition substantially are examined in Box One and those in which ambition declined substantially in Box Two.

Substantial increase in growth ambition (Box One – see Appendix IV)

In all three cases a different individual responded to the two surveys. The respondent to the 2012 survey had left the firm by 2014. In all cases there had been a change in senior management brought about by a change in ownership. The new owner/manager perceived improved market conditions for the company or perceived opportunities that the company had not previously exploited. No other factors emerge from the survey responses which might explain a substantial increase in growth ambition within the firm.

Substantial decline in growth ambition (Box Two – see Appendix IV)

In all these cases the same individual responded to both the 2012 and 2014 surveys (i.e. there has been little change in ownership or senior management). In only one case was

there a change in ownership with the new owner (who had been previously employed as the manager in the company) not interested in growth - discouraged by the perceived difficulty and headaches of employing staff. This issue was not mentioned by any of the other cases. While the reasons for substantial declining ambition vary from case to case, several more common themes can be identified:

- Several experienced a life threatening event for the business and/or a serious problem with a major customer. The 'problem' was generally associated with a view that market conditions had further deteriorated with little recovery (in their local market) from the recession.
- A couple noted specific problems with regard to premises (which were constraining growth) and the difficulty of overcoming the problem largely because of local planning authorities. Two of the companies specifically said that dealing with local planning had sapped their enthusiasm (ambition) to grow the business.
- In 3 companies ambition may have declined in part because there had been a major event (change of circumstances) in the owner/manager's private life.

Compared to what would be expected from the overall sample, these companies were more likely to have experienced a major business life threatening event and a major event in the respondent's private life.

In a couple of cases, the company had experienced no business or personal event which could account for the decline in ambition. Rather in these cases, the respondent said previous plans/objectives had been achieved and that the firm was now at its optimum size with little room for further expansion.

It is hoped/intended to undertake case studies of a couple of the firms in which ambition has declined dramatically to explore, inter alia, the nature of the problems/events that have been experienced and the extent to which these factors account for the decline in ambition.

Concluding comments

The proportion of SMEs with substantive growth ambition within the population of surviving UK SMEs has declined marginally and the proportion with low growth ambition has increased marginally. Given that the firms by definition are two years older along with most of the owner-managers this is perhaps not surprising. The effect of owner-manager ageing is perhaps further emphasised when it is noted that over 30% of our respondents were aged over 55 in 2012 and potentially approaching retirement.

It may be that growth ambition in the population of existing SMEs tends to decline over time (particularly as owner managers approach retirement and/or founders are replaced by externally hired managers). However, in the economy as a whole the stock of SMEs is gradually renewed by new firm formation. Such firms have been found to have above average growth ambition with a positive impact on growth ambition in the UK's population of SMEs. The net effect on growth ambition of the negative impacts of ageing and the positive impacts of new firm entry is unknown.

Whilst the overall level of ambition in the re-surveyed firms has not changed significantly, there has been much churn below the surface with 41% of firms changing ambition level. The most common cause for a change in ambition level, whether up or down, is a change in market conditions. So clearly some owner/managers regulate their ambition based on their assessment of external conditions. Ownership change is thought to explain increased ambition of 6% of those who increased their ambition, whilst a deteriorating environment for raising finance accounts for 4% of those who reduced their ambition.

When we examined the feedback loop between performance and ambition, we saw that any net effect on ambition of growth and decline is at best minimal. Firms that have grown measured by employment in the three years 2012-14 are marginally more likely to have reduced ambition. However, the majority of SMEs that grew (59%) have demonstrated very stable ambition levels. This suggests that there is a minimal link between experience of growth and decline and levels of ambition for future growth.

Behaviour and ambition

Chapter Summary

- The level of ambition is expected to influence SME behaviour such as decisions about strategy, investment or innovation which in turn will impact firm growth performance. This chapter examines the effects of ambition in 2012 on firm/owner manager behaviour. Data is available only for the 503 SMEs which responded to both the 2012 and 2014 surveys.
- **Among the re-surveyed firms, respondents with substantive growth ambition in 2012 were more likely to have reported taking part in a range of behaviours between 2012 and the 2014 survey than firms with low growth ambition.**
- **These behaviours include: investment, exporting, training, improved efficiency (a proxy for productivity) and innovation and management decisions.**
- A greater proportion (85%) of those with substantive growth ambition in 2012 say in the 2014 survey that they have taken active steps than those with low growth ambition (61%). Sixty-one per cent of those with low ambition in 2012 say in the 2014 survey that they have taken no major decisions about change: this is true for just 21% of those with substantive growth ambitions.
- In firms with substantive ambition it is more likely there has been a major investment than in moderate or low ambition firms (45% compared with 34% in firms with low growth ambition).
- Firms with substantive growth ambition are much more likely to have set new strategic goals. For example, while 51% of those with substantive growth ambition say they had changed their strategic goals by 2014, the equivalent figures for those with moderate growth ambition was 37% and with low growth ambition was 19%.
- Firms with substantive growth ambition are more likely (especially compared with firms with low growth ambition) to have invested in management and leadership training and to have invested in off-the-job training for employees they are also more likely to have taken strategic advice about running the business, used a business mentor and participated in formal training.
- Both product and process innovation is related to the level of growth ambition. Sixty per cent of firms with substantive ambition in 2012 report product and 40% process innovation compared with just 39% and 22% of firms which had low growth ambition in 2012. Eleven per cent of substantive ambition firms believe they have introduced a radical innovation compared with two per cent of those with moderate and five per cent of those with low ambition.

- Although firms with substantive growth ambition accounted for 50% of radical product innovators, high growth ambition firms do not account for the majority of innovative firms overall. A policy focus on firms with high growth ambitions would ignore the majority of innovative SMEs.
- Those with substantive growth ambition are more likely to believe the firm is now a lot more efficient (38%) than those with less growth ambition (especially those in the Low Ambition segment (14%)).
- Nineteen per cent of those with substantive growth ambition have set-up at least one new business in the past three years compared with eight per cent and ten per cent of those with moderate and low growth ambition.
- Of those with substantive growth ambition, 39% have at least some exports compared with 22% of those with low growth ambitions. A greater proportion of SMEs expressing substantive growth ambition also export over 25% of their turnover.

Introduction

The level of ambition is expected to influence SME behaviour such as decisions about strategy, investment or innovation which in turn will impact firm growth performance. Prior to examining the relationship between ambition and SME growth, this chapter examines the effects of ambition on firm/owner manager behaviour. While the analysis of the link between ambition and SME growth will be based on records from all firms responding to the 2012 survey (or at least all those which could be traced), less information is available to analyse the effect of ambition on firm behaviour. Data is available only for the 503 SMEs which responded to both the 2012 and 2014 surveys. This enables an analysis of SME behaviour since 2012 and related to their ambition in 2012 (whether they were categorised as having substantive, moderate or low growth ambition).

Ambition and management action

The majority of our 503 respondents (80%) say in the 2014 survey that they have taken active steps to try to achieve growth (as defined by the respondent) since 2012. As shown in Table 9, this applies regardless of their level of ambition in 2012. However a greater proportion (85%) of those with substantive growth ambition in 2012 say they have taken active steps than those with low growth ambition (61%). Those with substantive growth ambition in 2012 are not, surprisingly, more active and have done more to achieve growth. This is reflected in the observation that, while 61% of those with low ambition in 2012 say they have taken no major decisions about change, this is true for just 21% of those with substantive growth ambitions (in 2012).

Table 9: Management action and growth ambition (% firms)

Action since 2012	Ambition level 2012			% of all firms
	Substantive	Moderate	Low	
	%	%	%	%
Taken Active Steps to Achieve Growth	85	81	61	80
Major Investment in Company	45	39	34	39
Changed Market Focus	31	21	11	21
Set New Strategic Goals	51	37	19	36
Major Change in Way We Do Business	28	14	7	14
Change in Senior Management	17	21	10	18
No Major Changes/Actions	27	42	61	45

Source: TBR 2014 (TBR Ref: W1/S7)

Base: 2014 survey, 503 responses

In substantive ambition firms it is more likely there has been a major investment (45% compared with 34% in firms with low growth ambition). Interestingly there is little evidence that the sources of finance vary depending on growth ambition. Regardless of the level of ambition, the investment was mainly financed (in just over 50% of cases) by equity from the firms' existing owners. The only other widespread source was debt from a financial institution (for approximately 30% of firms regardless of their level of ambition in 2012).

Firms with substantive growth ambition are much more likely to have set new strategic goals. For example, while 51% of those with substantive growth ambition (in 2012) say they had changed their strategic goals by 2014, the equivalent figures for those with moderate growth ambition was 37% and with low growth ambition was 19%. As shown in Table 9, they were also more likely to have made significant changes to their market focus and the way in which they do business.

When asked how they had changed their market focus and in what ways they had changed how they do business, their responses show no systematic differences in the nature of change (beyond the frequency of change). For example, in response to how they had made change, regardless of the level of ambition, change often emphasised marketing and adoption of digital/web technology.

Ambition and involvement with training and personal development

Table 10 shows that participation in training and personal development (between 2012 and 2014) varies systematically with the level of ambition in 2012. Firms with substantive growth ambition are more likely (especially compared with firms with low growth ambition) to have invested in management and leadership training and to have invested in off-the-job training for employees. Similarly individuals with substantive growth ambitions are more likely (again especially compared with individuals' with low growth ambition) to have taken strategic advice about running the business, used a business mentor and participated in formal training.

Table 10: Ambition and training/development (% firms)

Training and development since 2012	Ambition level 2012		
	Substantive	Moderate	Low
	%	%	%
Firm Invested in Management/Leadership Training	48	43	34
Firm arranged/funded off job training for employees	70	68	52
Respondent Personally Taken Strategic Business Advise	47	40	37
Respondent Personally Used Business Mentor	35	27	16
Respondent Taken part in Formal Training/Personal Development	52	44	41

Source: TBR 2014 (TBR Ref: W1/S8)

Base; 2014 survey, 503 responses

Ambition and innovation

Innovation is a critical means through which SMEs might seek to grow. Consequently, if growth ambition is related to actual growth, it is expected that growth ambition should lead to greater innovation. To examine this possibility, respondents were asked a series of questions about whether the firm had introduced any new products/services (product innovation) or new means of production/distribution (a proxy for process innovation). The results are presented in Table 11. Half of all SMEs say they have undertaken product innovation in the past three years and 26% say they have introduced process innovation. Table 11 also shows that both product and process innovation is related to the level of growth ambition. Sixty per cent of firms with substantive ambition in 2012 report product innovation and 40% process innovation compared with 39% and 22% of firms which had low growth ambition in 2012.

Table 11: Ambition and innovation (% firms)

Innovation since 2012	Ambition level 2012			All firms
	Substantive	Moderate	Low	
	%	%	%	%
Product/Service Innovation	60	51	33	50
- Radical/New to World	11	2	5	9
Process Innovation (including distribution)	40	26	22	26
- Radical/New to World	--	1	1	
Ongoing Innovation Efforts	39	23	11	24
Abandoned Innovation/did not work	13	2	5	

Source: TBR 2014 (TBR Ref: W1/S9)

Base; 2014 survey, 503 responses

The influence of growth ambition on the likelihood of innovation is further emphasised by data on radical product innovation (i.e. respondents believe the new product/service is new to the world). Eleven per cent of substantive ambition firms believe they have introduced a radical innovation compared with two per cent of those with moderate and five per cent of those with low ambition. It is also clear that a greater proportion of firms with substantive growth ambition are involved in ongoing efforts to innovate (39%) compared with firms with

moderate (23%) or low (11%) growth ambition. They have also been more involved in innovative efforts which did not succeed and were abandoned.

The most obvious anomaly which emerges in the relationship between growth ambition and innovation in Table 11 is the level of radical innovation in firms with low compared with moderate growth ambition (i.e. a greater proportion of firms with low growth ambition in 2012 appear to have introduced radical product innovation than firms with moderate growth ambition). A greater proportion has also been involved in innovation efforts which did not work and have been abandoned. This may be an issue worthy of further investigation.

Firms with substantive growth ambition are more likely to innovate. However, although firms with substantive growth ambition accounted for 50% of radical product innovators, high growth ambition firms do not account for the majority of innovative firms overall. A policy focus on firms with high growth ambitions would ignore the majority of innovative SMEs. Seventy five per cent of SMEs which say they had a product innovation in the past three years had either moderate (63%) or low (12%) growth ambition in 2012. For process innovators, substantive growth ambition firms represent 31% of process innovators while moderate (53%) and low (16%) ambition growth firms account for the majority of process innovators.

Efficiency

The ITT explicitly requested that the study should seek to consider the effect of growth ambition on, inter alia, SME productivity. It proved very difficult to obtain data from a questionnaire survey from which reliable measures of productivity could be estimated. Consequently, a simpler approach was adopted. Respondents were asked their view on how the firm's current efficiency compared with its efficiency three years ago (about the same, a bit more, a lot more, a bit less, a lot less efficient). Very few believe the firm is now less efficient with 29% saying it was about the same and 29% saying it was now a lot more efficient (Table 12). Those with substantive growth ambition are more likely to believe the firm is now a lot more efficient (38%) than those with less growth ambition (especially those in the Low Ambition segment (14%)).

Table 12: Ambition and change in efficiency since 2012 (% firms)

Change in efficiency since 2012	Ambition level 2012			All Firms
	Substantive	Moderate	Low	
	%	%	%	%
Efficiency improved a lot	38	31	14	29
Efficiency about the Same	24	28	38	29

Source: TBR 2014 (TBR Ref: W1/S10)

Base; 2014 survey, 503 responses

Entrepreneurship

In the 2012 survey 12% of the sample said they intended to set-up a new business in the next three years. This emphasised the idea that some individuals seek to realise their

growth ambitions via new firm formation rather than growth of an existing SME (or at least as well as). Indeed just over 11% of respondents to the 2014 survey have personally set-up at least one new business and almost 4% have set-up two or more. Table 13 shows that such entrepreneurship is related to the level of an individual's growth ambition. Nineteen per cent of those with substantive growth ambition have set-up at least one new business in the past three years compared with eight per cent and ten per cent of those with moderate and low growth ambition. Not surprisingly those with substantive ambition are also more likely to have set-up several new businesses in the past three years than those with moderate or low ambition.

Table 13: Ambition and enterprise formation (% firms)

Enterprise formation since 2012	Ambition level 2012		
	Substantive	Moderate	Low
	%	%	%
Invested in/Acquired Another Firm	22	15	15
Respondent Personally created at least one new firm in past 3 years	19	8	10
- Two or more new businesses	8	2	3
Respondent intending to set-up new business in the next 3 years.	13	9	6
- Not sure/maybe	8	6	3

Source: TBR 2014 (TBR Ref: W1/S11)

Base; 2014 survey, 503 responses

In addition, a few businesses have been set-up by the respondent's company without their personal involvement. Of the new starts personally set-up by the respondent approximately 50% were at least partly owned by the respondent's current employer/enterprise. This means of course that approximately 50% were set up without such involvement from an existing business.

It seems likely that this group of individuals will set-up further new businesses in the future. Eight per cent say they will set-up at least one new business in the future and five per cent say they are not sure if they will or will not. As shown in Table 13, possible future entrepreneurial activity is related to their level of ambition in 2012. It declines as growth ambition declines.

Almost 11% of respondents said either they personally or their business had, over the past three years, invested in or acquired another business. Those with substantive ambition are more likely to have done this (22%) than those with moderate (15%) or low ambition (15%).

Exporting

It might be expected that growth ambitions would encourage greater interest in exporting as a means to growth. As illustrated in Table 14, this is indeed the case. Of those with substantive growth ambition, 39% have at least some exports compared with 22% of those with low growth ambitions. A greater proportion of SMEs expressing substantive growth ambition also export over 25% of their turnover. When those not currently exporting were asked whether there are any prospects of them exporting in the future, 21% of those with

substantive growth ambitions responded 'yes' compared with five per cent with moderate or low growth ambitions.

Table 14: Ambition and exporting (% firms)

Exporting since 2012	Substantive	Moderate	Low
	%	%	%
At Least Some Exports	39	30	22
25%+ of Turnover Exported	12	7	3

Source: TBR 2014 (TBR Ref: W1/S12)

Base; 2014 survey, 503 responses

Future plans

In 2012, 86% of firms (which subsequently responded to the 2014 survey) intended to grow the business. Thirty seven per cent planned to increase employment by at least 20%+ and 19% by 50%+. Table 15 shows, for the same firms their current (i.e. from the 2014 survey) growth intentions and plans. Currently 83% say they intend to grow the business: 36% say they plan to increase employment by at least 20% and 14% by 50%. Amongst this sample of firms growth intentions have changed little. However, to the extent that there has been change, very slightly fewer firms now intend/plan to grow. This is consistent with the finding in the previous chapter that growth ambition has declined marginally.

Table 15: Ambition and future growth plans (% firms)

Growth intention in 2012	Ambition level 2012			All Firms
	Substantive	Moderate	Low	
	%	%	%	%
Intend to Grow	91	85	64	83
- employment by 20%+	41	37	28	36
- employment by 50%+	22	12	9	14

Source: TBR 2014 (TBR Ref: W1/S13)

Base; 2014 survey, 503 responses

Concluding comments

This chapter has demonstrated that having growth ambitions in 2012 is associated with subsequent actions (2012-14) such as investment, exporting, training, improved efficiency (a proxy for productivity) and innovation and management decisions such as changing the businesses strategic goals, market focus and the way the business does its business. It is expected that these actions and decisions should generate greater SME growth²³. This possibility is examined in the next chapter.

Links between ambition and growth

Chapter summary

- The base theory examined here is that ambition influences behaviour and if those behaviours are themselves linked to growth, then we should observe a link between ambition and growth. The previous chapter identifies that high ambition is linked to increase levels of growth-related behaviour (e.g. innovation, exporting).
- In this chapter we first examine the characteristics and behaviours of growth firms to investigate whether there are similarities between growing firms and ambitious firms.
- Then we examine the link between 2012 ambition and performance, specifically examining how the firms surveyed in 2012 have fared up to 2014.

The characteristics of firms that have grown and declined

- **The research has identified a number of characteristics of growth firms which mirror the characteristics of highly ambitious firms:**
 - **Re-surveyed firms that grew between 2012 and 2014 were more likely than firms that declined to: have established new strategic goals, export and be confident that exporting values could be increased, innovate, invest in human resource development (especially management and leadership development) and acquired, invested or sought to acquire or invest in other businesses.**
 - **Conversely, firms that declined were more likely to have experienced a change in ownership and to have undergone a major change in the way they do business.**

The outcomes achieved by firms in the 2012 survey sample

- Having established that growth firms display similar behaviours to ambitious firms, this section states the 'outcomes' for the 1,250 firms surveyed in 2012.
- Secondary research combined with the responses from the 2014 survey suggests that of the original 1,250, 83% were continuing to trade under the same ownership as the same business. Six per cent of the total were dead by the time of the second survey, two per cent had risen again from some form of insolvency, five per cent

²³ Those with greater ambition are also more likely to set-up new businesses. This contribution to economic growth is not captured in the subsequent analysis of growth generated by our sample of existing SMEs.

had new owners and three per cent had changed their legal status but were carrying on the same business activity.

- Overall almost 4 in 10 (38%) of all 2012 firms have in fact grown in employment terms. This is the largest group, followed by those that have declined (35%) and remained static (19%), while eight per cent had no employees at all in 2014.

Ambition and growth

- Finally, we examine the relationship between ambition levels and growth
- **More than 41% of firms with substantive ambition in 2012 have grown in employment terms, compared with 38% of firms with moderate ambition and 32% of firms with low ambition. Absolute employment growth and decline within the cohort is strongly concentrated in just a few firms, however.**
- **Employment growth in the cohort is strongly concentrated: of the 472 firms making job gains just 6% provided 75% of the jobs.**
- **In contrast, 42% of firms with substantive ambition and moderate ambition experienced employment decline (or no had no employees at all), compared with 48% of firms with low ambition.**
- **Employment decline is also strongly concentrated: of the 538 firms that reduced employment, only 5% were responsible for 75% of job losses.**
- It is also true that many firms with low and moderate ambition levels also grow: therefore, growth is not restricted only to those firms with the highest ambition levels.
- These results suggest that firms with the highest levels of ambition show an increased probability of growth (though this is only marginally ahead of those with moderate ambition).
- In addition to ambition, other factors appear to influence growth outcomes. For example, firms whose surveyed executives were appointed from outside the organisation were more likely to gain employment than other types of respondent.

Introduction

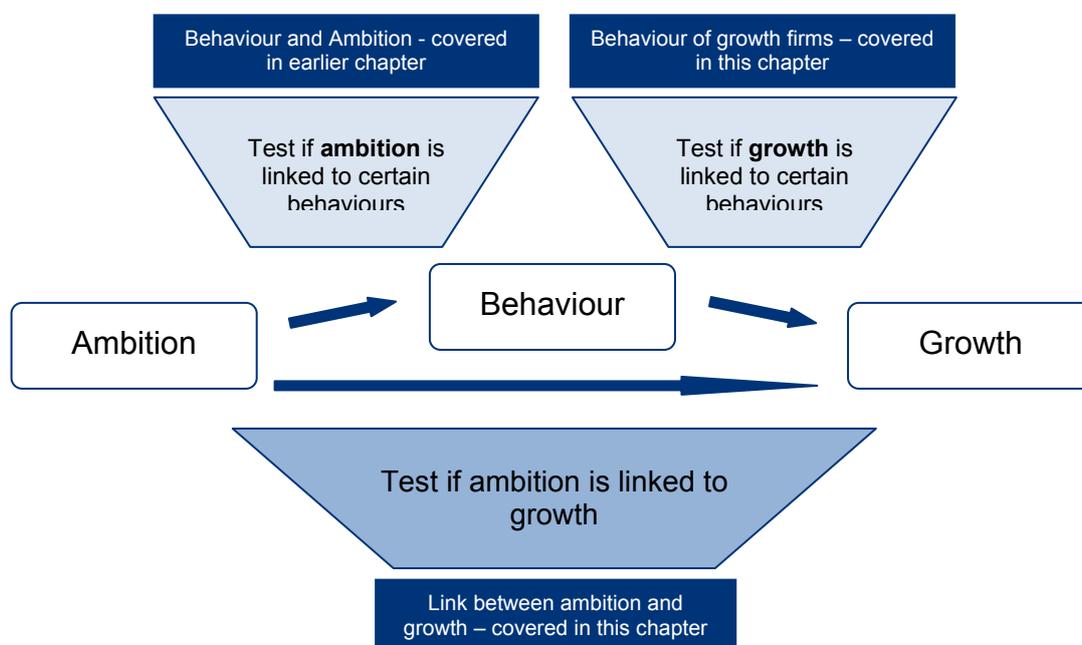
A key question addressed by this study is: what is the relationship between ambition and business performance? We've seen from the previous chapter that ambition influences behaviour. Firms with substantive ambition are more likely to be proactive in terms of exporting, innovation, undertaken a major investment, set new strategic goals and invest in management and leadership training. The first question examined in this chapter is whether growth firms display a similar set of characteristics to firms with high ambition.

If growth firms show such behaviour then we can then examine whether or not firms with high levels of ambition are more likely to have experienced growth. This is a critical line of

enquiry for the study. The second question we focus on is whether highly ambitious firms are more likely to grow.

The relationships we are attempting to test are described in Figure 2 below.

Figure 2: Ambition, behaviour and growth relationships



Characteristics of firms that grow, decline and remained static

This section focuses on an analysis of the characteristics of firms that have experienced growth, with particular regard to the range of behaviours that we saw to be associated with ambition in the previous chapter.

Measuring growth

There are various ways through which firms' growth between 2012 and 2014 could be measured. Most obvious amongst these are employment and turnover. Employment is a less volatile indicator: a firm will often absorb an increase in turnover before seeking to increase its headcount, and vice versa. For this analysis, we have used employment²⁴ to maintain consistency with the outcomes analysis presented above. This analysis is also based currently on self-reported employment numbers drawn from the primary research in 2012 and 2014: these will subsequently be corroborated with additional datasets through the process of further analysis which is currently ongoing and will be reported in the final report.

Hereafter, in this section when we refer to firms that have grown this should be interpreted as self-reported growth in employment between 2012 and 2014, amongst the 503 firms that were re-interviewed.

²⁴ This choice was made at this stage in the study due to availability of data. It should be noted that the 2012 study found that most firms used turnover as their primary measure of performance.

Growth and business experience

In terms of the business experiences that firms reported, firms that grew were more likely to have established new strategic goals than firms that declined: almost 50% of growth firms reported having done this. Conversely, firms that declined were more likely to have experienced a change in ownership and to have undergone a major change in the way they do business.

Table 16: Growth and major organisational changes

	Grown	Declined	Stayed the same	Don't know	Total
	%	%	%	%	%
Made a major change in market focus	26	23	17	100	22
Established new strategic goals	50	27	28	100	37
Experienced a change in ownership	10	16	5	0	9
Undergone a major change in the way they do business	16	27	12	0	16
Undergone a change in senior management team	27	17	11	100	18
None of the above	30	43	56	0	43

Source: TBR 2015

Base: 2014 survey, 503 responses

Table 17: Growth and major business events

	Grown	Declined	Stayed the same	Don't know	Total
	%	%	%	%	%
A business crisis that threatened the existence of the business	16	39	13	0	19
Rejection of an application for finance (e.g. a bank loan/overdraft, government finance)	10	17	7	0	10
Major changes in management personnel	23	23	9	100	17
Departure of key team members	23	27	17	100	21
A major problem of customer late payment of invoices or bad debt	27	36	24	0	27
A serious staff shortage	24	27	17	0	21
Significant changes in the market for goods/services	32	51	34	100	36
Problems with your premises	19	21	13	0	17
Emergence of a dominant player in current market	10	16	13	0	13
A major event in the personal life of one of the management team	21	16	21	0	20
Another significant event	8	13	7	0	8
None	24	13	32	0	26

Source: TBR 2015

Base: 2014 survey, 503 responses

In terms of disruptions to business activity, these were generally most likely to have been experienced by firms that declined. However, firms that grew were more likely to encounter at least one of these challenges than firms that stayed the same size. In particular, firms that declined were much more likely to encounter a business crisis that threatened the existence of the business (39%) and significant changes in the market for goods/services (51%) than those that had grown or stayed the same.

Growth and exporting

Across a range of measures, both past and future, firms that had grown reported a more positive outlook on export activity. Growth firms were more likely to currently export than non-growth firms. Those growth firms that currently export were also more likely to feel that exporting can be expanded than non-growth firms.

However, firms that had declined and do not currently export were more positive about the prospect of exporting in future than equivalent firms who had maintained their current size. Both firms that grew and firms that declined were less likely to have experienced a decline in exports over the past three years than firms that maintained their current size.

Firms that have stayed the same size appear overall less convinced by the prospect of exporting as a tool through which to improve the performance of their business than firms that have declined.

Table 18: Growth and exporting

	Grown	Declined	Stayed the same	Don't know	Total
	%	%	%	%	%
Currently export	36	15	31	0	30
Of those who do not currently export, those who are open to prospect of exporting	11	9	5	0	8
Of those who do currently export, those who believe exporting can be expanded	77	33	56	-	64
Of those who do currently export, those who have experienced a decline in exports over the previous 3 years	8	8	16	-	12

Source: TBR 2015

Base: 2014 survey, 503 responses

Growth across other parameters

Firms that reported growth in employment were also more likely to exhibit growth across other parameters. These parameters encompass turnover, profit, market share, company profile and reputation, and number of companies or branches in the organisational structure. This is what we would intuitively expect: employment is recognised by analysts as being a lagging indicator which tends to follow expansion in productions, and therefore increases in turnover and profit. It would be unusual for employment to increase in advance of or in the absence of growth in turnover and/or profit.

Table 19: Growth and other parameters

	Grown	Declined	Stayed the same	Don't know	Total
Grown over the past three years in terms of...	%	%	%	%	%
<i>Turnover</i>	89	18	40	100	56
<i>Profit</i>	72	22	29	0	45
<i>Market share</i>	52	8	18	0	30
<i>Company profile and reputation</i>	80	37	50	100	60
<i>Number of companies or branches in organisational structure</i>	23	5	8	0	14

Source: TBR 2015

Base: 2014 survey, 503 responses

Growth and business ownership

Firms that grew were more likely to be privately owned or social enterprises, and less likely to be sole proprietors or partnerships. These firms were also less likely to be majority owned by members of the same family.

Table 20: Growth and business ownership

	Grown	Declined	Stayed the same	Don't know	Total
Current ownership status	%	%	%	%	%
<i>Sole proprietor or partnership</i>	18	33	31	0	26
<i>Privately owned</i>	53	42	46	100	48
<i>Public limited</i>	18	19	14	0	16
<i>Equity investor-owned</i>	0	0	1	0	0
<i>Social enterprise, community interest company or cooperative</i>	6	1	3	0	4
<i>Other</i>	4	5	5	0	5
<i>Don't know</i>	1	0	1	0	0
Family ownership	0	0	0	0	0
<i>Majority owned by members of the same family</i>	52	61	63	0	58
Business acquisitions	0	0	0	0	0
<i>Individual or business has acquired or sought to acquire or invested in any other business in the previous three years</i>	24	16	11	0	17
Business launches	0	0	0	0	0
<i>Established at least one new business in the last year</i>	18	11	11	100	14

Source: TBR 2015

Base: 2014 survey, 503 responses

In terms of further enterprise activity outside their existing business, firms that grew were both more likely to have acquired, invested, sought to acquire or sought to invest in another business in the previous three years: 24% of growth firms met these criteria, compared with 17% of firms overall. Furthermore, firms that grew were also more likely to have established one or more firms in the previous twelve months (18%) than those that had declined or stayed the same.

Growth and human resource development

Firms that grew were generally more inclined to invest in human resource development than firms that did not. This increased likelihood is most pronounced in the firms that invested in leadership and management training. Furthermore, firms that declined were also more inclined to invest in these activities than firms that stayed the same size. This supports the notion that some firms are comfortable in their current market and comfortable with the current business size: they are not proactively seeking to grow, but neither do they feel forced to adopt new practices in an attempt to respond to deteriorating market conditions.

Table 21: Growth and human resource development and advice

	Grown	Declined	Stayed the same	Don't know	Total
	%	%	%	%	%
Invested in management or leadership training	56	41	33	100	44
Arranged or funded any formal off-the-job training for employees (excluding yourself)	80	63	53	100	65
Taken any strategic advice about running your business	47	43	35	0	41
Used a business mentor that is somebody with business experience who supports you through the development and running of the business	36	24	19	0	26
Been involved in any formal off-the-job or formal on-the-job training or development (yourself)	54	39	39	100	45

Source: TBR 2015

Base: 2014 survey, 503 responses

Growth and innovation

Growth firms are generally more likely to have innovated in the past three years than firms that had declined or stayed the same. Furthermore, growth firms were approximately twice as likely as non-growth firms to see this innovation as a driver of business performance.

Although growth firms were more likely than non-growth firms to have introduced both product/service and process innovations, the difference is more pronounced in process innovations.

Of the innovations that have been introduced, growth firms were more likely than non-growth firms to report that these innovations were new to the world. In fact, all of the process innovations reported within the survey as being new to the world were generated by growth firms.

Table 22: Growth and innovation

	Grown	Declined	Stayed the same	Don't know	Total
Role of innovation	%	%	%	%	%
<i>Launch of new product(s)/service(s) have driven business performance</i>	10	5	5	0	7
Product/service innovation					
<i>Introduced new or significantly improved products or services over the past three years</i>	56	51	43	100	50
<i>Completely new to the world</i>	14	7	3	0	9
Process innovation					
<i>Introduced new or significantly improved production or distribution processes over the past three years</i>	37	18	20	0	26
<i>Completely new to the world</i>	3	0	0	2	3

Source: TBR 2015

Base: 2014 survey, 503 responses

Ambition and Outcomes

Having shown that certain behaviours and experiences affect growth in the re-surveyed sample of surviving firms, we now look at the relationships between ambition and growth through an examination of overall outcomes for the 1,250 firms studied in 2012, including those that died between 2012 and 2014. This provides a stronger “test” of the relationship between ambition and growth, because while substantive ambition may result in higher growth of surviving firms, it may also bring higher risks of failure. Studying the outcomes in 2014 of all firms in the 2012 sample can check for this possibility. The methodology used to confirm the status in 2014 of all firms sampled in 2012 is explained Appendix II (page 62).

Outcomes in 2014 for firms surveyed in 2012 are presented in Table 23 in two ways: a spectrum of change in legal status from death to continuity, and a spectrum of change in employment. In the first set of outcomes, three main categories are recognised: firms that had died or had ceased to trade normally, firms that had undergone a change of ownership or become insolvent and resurrected by a previous owner (“Phoenix” firms), and firms that had not changed ownership, even if they had changed legal status such as moving from a sole trader to a limited liability company or vice versa.

As Table 23 demonstrates, the most likely outcome for our 2012 survey respondents is that their business continues into 2014 in a similar form or structure. Only six per cent of firms have died with no sign of continuing business activity and a further one per cent are

not currently trading normally whilst five per cent have undergone a significant owner change and two per cent have been classed as 'Phoenix'.

When we then introduce data regarding change in employment of these firms, we see in Table 23 that almost four in 10 (38%) of all 2012 firms have in fact grown in employment terms. This is the largest group, followed by those that have fewer employees (35%), those with no change to their employee numbers (19%) and a final group (three-quarters of which are dead firms) with no employees (eight per cent).

Table 23: Business Outcomes and Employment Performance

2014 legal status outcome	Total
Dead/not trading	8%
Phoenix/owner change	7%
Continuing (includes change of legal status)	86%
Total	100%
2014 employment outcome	Total
More employees	38%
No change in employee numbers	19%
Fewer employees	35%
No employees (includes all dead firms)	8%
Total	100%

Source: TBR/University of Strathclyde 2015

Base: 2012 survey, 1,250 responses

This analysis takes no account of the size of employment gains and losses in individual firms. In fact, employment gains and losses in this cohort were highly concentrated in a few firms. To be precise, of the 472 firms making job gains just six per cent provided 75% of all net new jobs. Similarly, of the 538 firms that reduced employment, just five per cent were responsible for 75% of all firm-level net job losses.

Links between ambition and growth

This establishes an important context within which to examine the relationship between ambition levels in 2012 and business performance between 2012 and 2014. The results are set out in Table 24. Recognising that we are not accounting for scale of growth or decline at this stage or controlling for other important factors, the outcomes appear slightly more negative for those businesses with low ambition in 2012. Only 32% of firms with low ambition in 2012 have grown in employment terms compared with 38% of firms with moderate ambition and 41% of firms with substantive ambition. There is also a hint that those firms with substantive ambition may be more volatile, with a slightly lower continuation rate at 81% than those with low ambition (86%) or moderate ambition (87%).

This suggests that higher levels of ambition may increase the probability that a firm will grow, but that at some point of substantive ambition there may be a trade-off between level of ambition and risk. It is also true to say that many firms with low and moderate ambition levels also grow: therefore, growth is by no means restricted only to those firms

with substantive ambition. In fact, the pattern of employment outcomes in Table 24 for moderate and substantive ambition firms is remarkably similar.

Table 24: Ambition and growth

2014 legal status outcome	Ambition level 2012		
	Substantive	Moderate	Low
Dead/not trading	9%	7%	10%
Phoenix/owner change	10%	7%	5%
Continuing (includes change of legal status)	81%	87%	86%
Total	100%	100%	100%
2014 employment outcome	Substantive	Moderate	Low
More employees	41%	38%	32%
No change in employee numbers	17%	20%	20%
Fewer employees	34%	34%	37%
No employees (includes all dead firms)	8%	8%	11%
Total	100%	100%	100%

Source: TBR/University of Strathclyde 2015
Base: 2012 survey, 1,250 respondents

Table 24 also shows that in this cohort of firms, the higher the ambition level, the more likely it is that a firm will undergo a change of ownership or become a phoenix. This suggests that ambition for the business may be related to the perceived potential of the business.

The influence of key individual characteristics

The 2012 survey gathered a range of data regarding the characteristics and demographics of the key individual within each surveyed firm. This provides the opportunity to examine the influence that these might have on ambition and on outcomes.

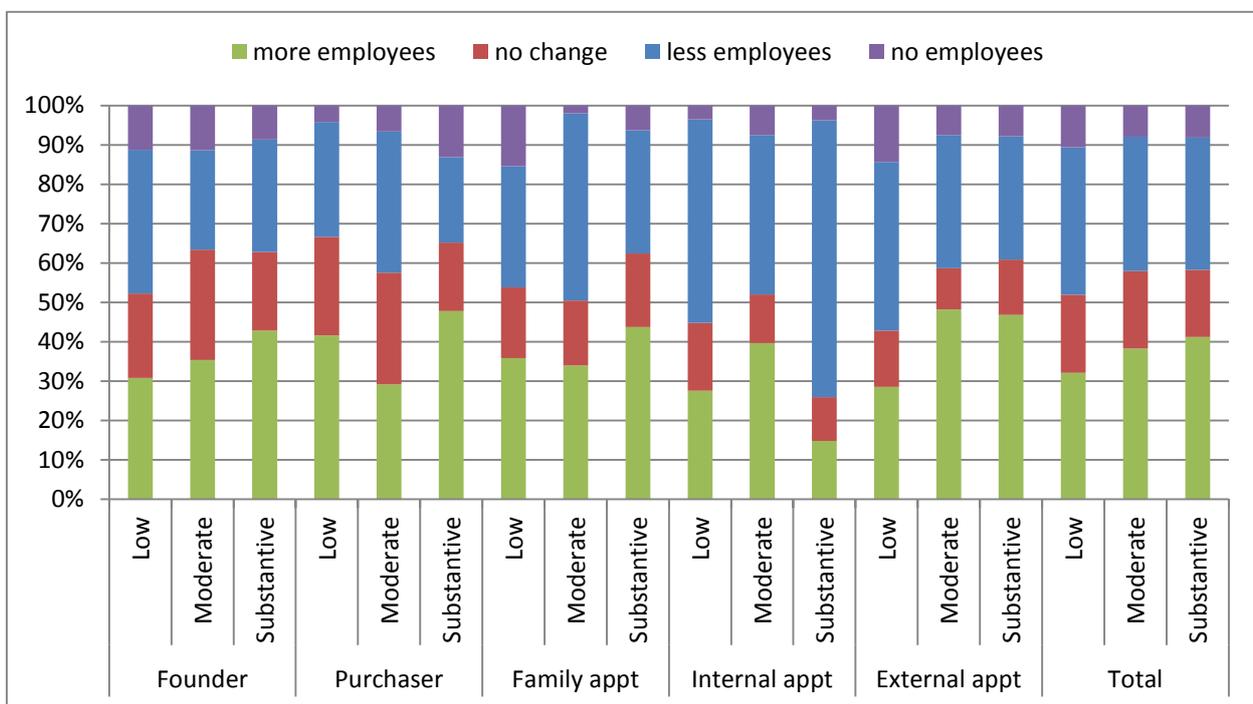
This element of the analysis is still in development but by way of example, Figure 3 shows how change in employment outcomes from 2012 to 2014 by the cohort of 1,250 firms varies by senior executive type and ambition level. To reiterate, this includes all firms including those that have gone out of business (not just those that responded to the 2014 survey in 2014). The senior executive type refers to the 2012 survey respondent.

The relationship between ambition and employment outcomes varies according to the type of executive. The greatest contrast in outcomes of executives with substantive ambition is between internally and externally appointed executives. Almost half of firms with externally recruited executives with substantive levels of ambition increased employment, whereas only 15% of internally appointed executives with substantive ambition increased employment. As a group, 46% of firms with external appointees gained employment, compared with between 34% and 36% for all other groups. Firms run by founders were

least likely to lose employment (28%), while internally appointed executives (47%) followed by family appointees (42%) were most likely to lose employment.

The greater likelihood of employment creation in firms run by externally recruited executives, and greater likelihood of employment losses in firms run by internal or family appointees, might be explained by the size of the talent pool within which firms recruit their senior executives. Firms that recruit from outside the firm can choose from a larger talent pool. These relationships however may also be affected by firm age and size. To confirm patterns such as these, more sophisticated analysis that takes these and other factors into consideration would need to be undertaken.

Figure 3: Ambition level, employment gains and executive type



Source: TBR/University of Strathclyde 2015
 Base: 2012 survey, 1,250 respondents

Concluding comments

In this chapter we examined whether the behaviours of growth firms mirror those of ambitious firms, and this was indeed demonstrated to be the case. Then, given that there are observed similarities in behaviour between firms with high ambition and firms which had delivered growth, we sought to test the relationship between ambition and the outcomes of those behaviours – namely, business performance.

The findings in this chapter are important to the overall study. They show that firms with low ambition are more likely to close and less likely to grow in terms of employment than firms with substantive or moderate ambition levels. We also found that businesses with substantive ambition are more likely to have grown (41%) than firms with either moderate

(38%) or low ambition (32%). However, it should be noted that growth is therefore not the sole preserve of businesses with high ambition.

When we look at the size of employment gains and losses we found that growth and decline tend to be concentrated in a small proportion of firms. Of the 472 firms making job gains just six per cent provided 75% of all net new jobs. Similarly, of the 538 firms that reduced employment, just five per cent were responsible for 75% of all firm-level net job losses

Interim conclusions and next steps

This study has taken a unique look at the dynamic nature of growth ambition by re-visiting 503 respondents to the original study from 2012. It has focused on responding to two key research questions:

- How does ambition change over time and what influences this?
- What is the relationship between ambition and business performance?

The study findings provide some fascinating insights into these two major issues, though they also demonstrate how complex the relationship between ambition, personal circumstances, business experience/events, owner-manager characteristics and business performance is.

Key findings

How does ambition change over time and what influences this?

Based on the re-surveying of 503 of the original 1,250 respondents to the 2012 survey, we find that the overall level of ambition has not changed significantly. We found that ambition tended to decline between 2012 and 2014, the proportion of SMEs in the substantive ambition segment declined from 20% to 15% while the number in the low ambition segment increased from 17% to 20%. It should be noted that growth ambition is expected to be lower in the 2014 survey because most of the respondents are 3 years older as are the firms. This decline in ambition cannot be taken as meaning that growth ambition has declined in the UK's small firm population, but it is an indicator of how ambition changes in a defined cohort of firms as they move through time.

However, when you look beneath these headline figures to examine the movement of individual businesses across ambition category levels, you see that more than one in four businesses (41%) have changed ambition level since 2012. This is a significant finding and provides evidence of significant churn in ambition levels.

There is a significant amount of movement into and out of the moderate ambition level whilst very few firms have shown evidence of significant swings in ambition. Only one in forty (2.4%) have changed their ambition level substantially (i.e. from low ambition to substantial or substantial to low).

There are a number of key factors which are related to change in ambition. When asked what had driven a change in ambition level, the most widely quoted factor for both respondents that increased and reduced their ambition was a change in market conditions (cited by 36% of those whose ambition had increased and by 28% of those whose ambition had decreased). Ownership change is thought to explain the change of ambition in 6% of those who increased their ambition. A deteriorating environment for raising finance accounts for 4% of those who reduced their ambition.

We also examined whether firm growth or decline affected ambition among re-surveyed firms. It appears that any effect of firm growth/decline is at best minimal. However, there is a hint that firms which have grown in terms of employment in the three years (2012-14) are marginally more likely to have reduced ambition.

What is the relationship between ambition and business performance?

We tracked the growth and outcomes of all 1,250 firms from the 2012 survey to provide the largest dataset possible from which to analyse performance. We categorised firms into three outcome categories (continuing, 'phoenix'/owner change, dead/not trading). Firms in the continuing and 'phoenix'/owner change categories were then also categorised by their employment performance between 2012 and 2014.

We found that firms with low ambition in 2012 were the most likely to have closed (ten per cent compared to nine per cent in the substantive ambition category and seven per cent in the moderate ambition category). Firms with substantive ambition were more likely to appear in the 'phoenix'/owner change outcome category (ten per cent) than those with moderate (seven per cent) or low ambition (five per cent). Overall, therefore, firms with substantive ambition were less likely to be classified as continuous (81%) than firms with moderate ambition (87%) or low ambition in 2012 (86%).

When we examine the link between ambition and employment performance, we observe some interesting differences between businesses across 2012 ambition levels. Recognising that we are not accounting for scale of growth or decline at this stage or controlling for other important factors, the outcomes appear slightly more negative for those businesses with low ambition in 2012. Only 32% of firms with low ambition in 2012 have grown in employment terms compared with 38% of firms with moderate ambition and 41% of firms with substantive ambition. There is also a hint that those firms with substantive ambition may be more volatile, with a slightly lower continuation rate at 81% than those with low ambition (86%) or moderate ambition (87%).

Employment gains and losses in this cohort were highly concentrated in a few firms. To be precise, of the 472 firms making job gains only six per cent provided 75% of all net new jobs. Similarly, of the 538 firms that reduced employment, only five per cent were responsible for 75% of all firm-level net job losses.

These findings suggest that higher levels of ambition may increase the probability that a firm will grow, but that at some point of substantive ambition there may be a trade-off between level of ambition and risk. It is also important to recognise that firms with low and moderate ambition also experience growth.

Next steps

The research team is now focusing on a number of tasks to complete the study. These include:

- The presentation of interim findings at the BIS Research Conference in March 2015.

- Delivery of 25 case studies to examine in more detail the complex relationships identified above and to examine what drives change in ambition and how ambition drives behaviours which themselves deliver positive or negative business performance.
- Further examination and analysis of the 2012 and 2014 survey datasets, combined with business data from secondary sources (including IDBR) in order to dig deeper into the role of ambition in business growth. This will include a specific examination of the link between ambition and business performance based on turnover, to complement the employment analysis presented in this report.
- Consider the relevance of regression analysis to accompany descriptive statistics in order to enhance the study findings.
- Once all analysis and research has been completed, to development of a final study report.
- Identification based on the findings, of key policy implications for the client to consider.

It is our intention to deliver these tasks to a timetable that allows the full report to be published in late Spring 2015.

Appendix I - Ambition Typology

Definitions

Substantive growth ambition

The typologies have been developed to assess SME owner/managers' level of ambition in recognition that it is not possible to rely solely on any single question to provide a reliable or robust measure of ambition (e.g. self-assessment of the level of ambition on a scale of 1-10).

Consequently, we developed a series of questions about the strength and scale of ambition designed to provide a level of detail that has not previously been possible to generate in other studies. As such we believe that this is one of the most robust attempts to measure the ambition levels of SME owner/managers in the UK. In order to be categorised as substantively ambitious owner managers must meet **all** of the following criteria:

- Owner/managers intend to grow their organisation over the next three years²⁵ **AND**
- Owner/managers intend to grow their organisation by at least 20% over the next three years in terms of turnover **AND**
- Owner/managers that rate themselves as a '10' on a scale of 1-10 (where 1 is no growth ambition and 10 is very ambitious) **AND**
- Owner/managers that view the ideal size of their business as "significantly larger" in terms of turnover **AND**
- Owner/managers that have a desire to grow their business beyond the point where it provides them with a reasonable living

Requiring respondents to record a score of 10/10 may seem like an extremely strict requirement of the typology that unnecessarily disqualifies seemingly ambitious owner/managers from this category of the typology. However depth interviews with SME owner/managers revealed that those who recorded a score of anything below 10 were unlikely to be planning to grow significantly.

Low growth ambition

There are two qualifying categories for low ambition: those with a low expressed level of ambition (regardless of responses to other questions about ideal size of the SME and so on) and those with a mix of characteristics which suggest they have the lowest levels of

²⁵ This condition is necessary for entrepreneurs to qualify under the second condition, but it has been included in the typology description because it aligns with the approach taken in other large scale studies such as the BIS Small Business Survey. It is also helpful within the analysis to understand the percentage of SMEs which express an intention to grow in the next three years, rather than simply those that intend to grow by more than 20%.

ambition. The data for the low growth ambition typology presented in the report is a summation of these two categories. The categories are as follows:

Category 1

- Owner/managers that rate themselves as a '1-5' on a scale of 1-10 (where 1 is no growth ambition and 10 is very ambitious)

Category 2

- Owner/managers that rate themselves as a '1-7' on a scale of 1-10 (where 1 is no growth ambition and 10 is very ambitious) **AND**
- Owner/managers that do not want to grow their organisation over the next three years **AND**
- Owner/managers that do not desire to grow their business beyond the point where it provides them with a reasonable living **AND**
- Owner/managers that view the ideal size of their business as no higher than "current size" in turnover terms **AND**
- Owner/managers that view the ideal size of their business as no higher than "slightly larger" in terms of turnover.

Moderate growth ambition

- All other owner/managers

The segmentation that has been developed is described in Table 25 below. Note that all **SMEs not meeting the requirements** to be included in either the substantive ambition or low ambition categories **are allocated to the Moderate Ambition category**.

This typology analysis is designed to support a comparison of SMEs that fall into each category, on the basis of key characteristics and behaviours. It is recognised that the most instructive comparison, for the purposes of this study, is between those businesses in the Substantive Ambition category against those in the Low Ambition category. The analysis and results presented throughout this report draw upon this typology to aid the interpretation of the study findings.

Table 25: Typology definitions

Characteristic	Substantive ambition ²⁶	Low ambition (1)	Low ambition (2)
Do you intend to grow the organisation over the next three years?	Yes	Any ²⁷	No
Do you plan to grow the organisation by at least 20% over the next three years in terms of turnover?	Yes	Any	No
From your personal perspective, what is the ideal size of your business in the long term (beyond the next three years) in terms of turnover?	Significantly larger than its current size	Any	No higher than 'Slightly larger than its current size'
How strongly as an individual do you desire business growth now? (rating scale 1 – 10)	10	1-5 inclusive	1-7 inclusive
Do you have an ambition to grow the business beyond a point where it is able to provide you with what you would consider to be a reasonable income?	Yes	Any	No

Source: TBR 2012

²⁶ NB Respondents must provide the relevant required answer to each question to be categorised as substantively ambitious.

²⁷ The table entry "any" in this column reflects the fact that irrespective of a respondent's answer to these particular questions, they will still be categorised as 'low ambition' because they have rated themselves as five or lower on the scale of ambition out of ten.

Appendix II – Defining and assigning outcomes

The future existence of any firm is of course far from guaranteed. Some will grow, others will be voluntarily closed or reshaped, some will be acquired or merged whilst some die off because they are unsustainable. In this study we have sought to ascertain the current status of each of the firms in our 2012 sample at the time of the 2014 re-survey in order to classify them into outcomes categories. The categories have been selected based on a number of factors, notably: they are supported by data available for almost all of the SMEs that took part in the 2012 survey; and, they provide a useful framework for an examination of performance and, specifically, the relationship between ambition and performance or growth.

One of the difficulties in using business level data and tracking businesses through time is that they do indeed change. Changes in legal status, ownership and corporate structure, the engagement of individuals within the firm, market focus as well as a host of other factors can result in changes which make individual businesses difficult to track over time. For example, some firms are made up of a number of legal entities which, together, provide the accounting framework for a single business. A company that quarries slate might have a limited company to govern the quarrying activities, another as a trading arm through which manufactured slate products are sold and another to manage tours or other tourist activities associated with visits to the quarry and so on. At some point it might be decided that the benefits in having a separate legal entity for the sale of slate products no longer outweigh the costs and a decision is made to close that legal entity and to simply route the economic value of that activity through a different, pre-existing legal entity. If one imagines that scenario, one can see that, from an enterprise research point of view, it would appear that:

- A business has closed (which would commonly be interpreted as a negative outcome – a ‘failure’).
- The total number of firms in that ‘group’ has declined.
- A business has grown (probably in terms of both employment and turnover).

However, if one were to interview the owner of that ‘group’ they might suggest that nothing has changed at all with respect to the performance of their ‘business’.

So challenges abound when it comes to understanding change at the individual firm level. In order to present a more meaningful analysis of the link between ambition and growth, we have undertaken an extensive process of researching the outcomes of individual firms. In summary, this has necessitated the following steps:

- Identify, from secondary business data sources, whether the legal entities represented by the 1,250 firms in 2012 are still in operation. Identify two groups – continuing legal entities and discontinued legal entities.

- For the continuing legal entities, acquire primary and secondary data to check their current trading status and assess their current employment and where possible turnover. Also check whether they have undergone any major ownership change (see below) – either through primary data (for the 503 that responded in 2014) or through online searches for the remainder, with telephone checks where necessary. There are three outcomes for continuing legal entities: grown, stayed the same and declined (based on employment – an investigation of turnover will also be undertaken in the next stage of the study). A small number of businesses were active in legal terms but not currently trading or their trading status was unclear.
- For discontinued legal entities, establish the reason for this based on online research and using business data and directories, with telephone checks where necessary. There are three main potential ‘outcomes’: they have ceased trading, they have been replaced by another legal entity that is effectively the same business being run by the same people (this could be due to restructuring, a takeover or a rescue out of liquidation – i.e. a Phoenix business), or the business or its assets have been bought by a third party, in which case it will be treated as a case of ownership change if the business activities are clearly similar to the previous business.

Where a legal entity has discontinued without insolvency events and evidence suggests that the business activity within the legal entity has been consumed by another business under similar ownership, such businesses have been reclassified as ‘continuing’. Note that some firms report changes to ownership (e.g. one shareholder has increased their stake, or one of the partners has exited) but in order to be classified as ‘owner change’ the business must have undergone a fundamental change in owner. The term ‘Phoenix’ is reserved for businesses that have undergone insolvency events and been resurrected by one of their previous owners.

Appendix III - Study questionnaire

SME Growth Ambition Survey 2014 – Pilot Questionnaire

Could I speak to <<NAMED CONTACT FROM 2012 RESEARCH>>.

Contact available

Continue

Contact no longer works at business

Goto intro after Q3

Good morning/afternoon, my name is ??? and I'm calling from Qa Research on behalf of The Department for Business Innovation and Skills.

We are undertaking a study of business growth ambition as a follow up to a project from 2012, which you may recall you took part in.

This study is a follow up to that one and we would really like to speak to you again about what has happened in your business since 2012. We would be really grateful if you could spend approximately 15-20 minutes of your time completing the survey.

Yes

Continue or make appointment

No

Goto Q3

Just to reassure you, this interview will be carried out according to the Market Research Society's Code of Conduct. All responses are treated in the strictest confidence, and will only be reported upon in an anonymous format. The call may be recorded for quality purposes. Is that ok?

Q1. Great, can I just check that your job title is still <<job title from 2012>>.

Yes

Continue

No

Record new title

Q2. Can I confirm that you are still someone who is best placed to answer questions about the future plans of the organisation, and someone who has the ability to influence these?

INTERVIEWER: Ensure respondent is not screened out unnecessarily – see briefing notes.

Yes

Goto Q6

No

Goto Q3

Q3. Who would be the best person to speak to about the future plans of the organisation?

Record details and ask to be put through or make appointment.

Goto next section

FOLLOWING SECTION IS FOR NEW CONTACTS NOT INTERVEIWED IN 2012

Good morning/afternoon, my name is ??? I'm calling from Qa Research on behalf of The Department for Business Innovation and Skills.

We are undertaking a study of business growth ambition as a follow up to a project from 2012. Your business was one of over twelve hundred that took part in that study. This study is a follow up to that and we would really like to speak to you about what has happened in your business since 2012.

We would be really grateful if you could spend approximately 15-20 minutes of your time completing the survey. All responses are treated in the strictest confidence, and will only be reported upon in an anonymous format.

INTERVIEWER: If further clarification required:

- The aim of the survey is to understand levels of ambition for growth amongst firms in the UK and to determine what can be done to help businesses. It is an important opportunity for you to tell Government about issues affecting your firm.**
- All responses are treated in the strictest confidence, and will only be reported upon in an anonymous format. Would you be willing to participate please?'**

As an independent organisation we can guarantee that all responses are treated in the strictest confidence.

Would you be happy to take part in the survey?

Yes

Continue

No

Thank and close

Q4. Can I confirm that you are someone who is best placed to answer questions about the future plans of the organisation, and someone who has the ability to influence these?

Yes

Continue

No

Go back to Q3

Q5. Can I just confirm some details about yourself?

Name:

Position:

Contact Details: (including direct dial)

Gender DO NOT READ OUT:

Male

Female

ASK ALL

Q6. Can you confirm the address details of the organisation (including the postcode and nation). Interviewer Note – Please read out address from database and change if required.

ADDRESS FROM DATABASE

Section 1: Changes Since Last Survey

I'm interested to know whether there have been any major changes of focus or direction for your business in the last three years.

Q7. Which of the following has your business done? READ OUT

MULTICODE

Made a major change in market focus

Established new strategic goals

Experienced a change in ownership

Undergone a major change in the way you do business

Undergone a change in senior management team

None of the above

Don't know

ASK Q8 IF 'Made a major change in market focus' AT Q7

Q8. Please tell what your new market focus is and how this differs from previously.

CODES OPEN

ASK Q9 IF ‘Experienced a change of ownership’ AT Q7

Q9. How has your ownership changed?

CODES OPEN

ASK Q10 IF ‘Undergone a major change in the way you do business’

AT Q7

Q10. Please tell me what the major change was in the way you do business?

CODES OPEN

ASK Q11 IF ‘Undergone a change in senior management team’ AT Q7

Q11. Please tell me what the major change was in your senior management team?

CODES OPEN

Section 2: Current business

I’d now like to ask you a few questions about the size and performance of your company.

Q12. How many people are employed by your organisation in <<NATION FROM SAMPLE>>?

INTERVIEWER NOTE: Capture exact number. Only mark band if respondent not able to provide precise number.

CODES OPEN

SINGLECODE

0 (self employed)
1-4
5-9
10-49
50-99
100-249
250+
Don't know

Q13. Can you please tell me the approximate turnover of your business in the past 12 months?

INTERVIEWER NOTE: if necessary, remind respondent that all the information they give us is absolutely confidential; no third party will have access to this info. We can accept an estimate. Prompt with bands if necessary

CODES OPEN

SINGLECODE

Less than £67,000
£67,000 - £99,999
£100,000 - £249,999
£250,000 - £499,999
£500,000 - £999,999
£1m – £1.49m
£1.5m - £2.8m
£2.81m - £4.99m
£5m - £9.99m
£10m - £14.99m
£15m - £24.99m
£25m or more
Don't know
Unwilling to answer

Q14. Approximately what proportion of your turnover comes from exports?

SINGLECODE

0% - Don't export
0.1%-9%
10-24%
25-49%
50-74%
75% or more
Don't know

ASK Q15a IF '0% - Don't export' AT Q14, OTHERS GOTO Q15b

Q15a. Is there any prospect of your business exporting in the future?

SINGLECODE

Yes

No

Don't know

ASK Q15b IF EXPORT AT Q14, OTHERS GOTO Q16

Q15b. Is there any prospect of your business growing its exports in the future?

SINGLECODE

Yes

No

Don't know

ASK ALL

Q16. Has your business grown, declined or stayed the same over the past three years in terms of;

SINGLECODE

Grown

Declined

Stayed the same

Don't know

LOOP – RANDOMISE ORDER

Employment

Turnover

Profit

(IF EXPORT AT Q15a) Exports

Market share

Company profile and reputation

Number of companies or branches in your organisational structure

Q17. And what key factors have driven the performance of your company in the past three years? DO NOT READ OUT

MULTICODE

Market conditions have changed
Top management team has changed
Ownership of the company has changed
New staff have joined the team
Environment for raising finance has changed
New products/services have been launched
Partnerships, collaborations and joint ventures have changed
A new strategy or business plan has been launched
A major opportunity has come about
Attitude to risk has changed
Changes to the amount of time respondent has spent working on or in the business
Other (WRITE IN)
None
Don't know

Q18. How would you describe the ownership structure of your organisation? READ OUT

SINGLECODE

Sole proprietor or partnership
Privately owned
Public limited
Equity investor-owned
Social enterprise, community interest company or cooperative
Other (WRITE IN)
Don't know

Q19. Is your business a family owned business, that is one which is majority owned by members of the same family?

SINGLECODE

Yes
No
Don't know

Q20a. In total, how many people owned this business at the beginning of 2012?

NUMERIC RESPONSE

Q20b. And how many own the business now?

NUMERIC RESPONSE

Q21a. How many people were in the senior management team at the beginning of 2012?

NUMERIC RESPONSE

Q21b. And how many are there now?

NUMERIC RESPONSE

Q21c. How many members of the senior management team were also owners of the business at the beginning of 2012?

NUMERIC RESPONSE

Q21d. And how many are now?

NUMERIC RESPONSE

Q22. How many, if any, new businesses has your company established in the last three years?

NUMERIC RESPONSE

None
Don't know

Q23. How many, if any, new businesses have you personally established in the last three years?

NUMERIC RESPONSE

None
Don't know

ASK Q24 IF ONE OR MORE AT Q23, OTHERS GOTO Q25

Q24a. How many of these were NOT owned in whole or in part by the business?

NUMERIC RESPONSE

None
Don't know

Section 3: – Growth ambition

This section asks about how you view growth, your personal desire for business growth and how this relates to the aims of your organisation.

Q24b. What do you see as the primary measure of the size of a business? DO NOT READ OUT

INTERVIEWER NOTE: No need to read out - prompt if necessary though - respondent is only able to select one measure.

SINGLECODE

Market share

Employment

Turnover

Profit

Company profile/reputation

Number of acquisitions

Other (WRITE IN)

Don't know

Q25. From your personal perspective, what is the ideal size of your business in the long term –i.e. beyond the next three years – in terms of the following...READ OUT

SINGLECODE

Significantly larger than its current size

Slightly larger than its current size

It is currently the ideal size

Slightly smaller than its current size

Significantly smaller than its current size

LOOP - DO NOT RANDOMISE

Employment

Turnover

<<ANSWER AT Q24 IF NOT TURNOVER OR EMPLOYMENT>>

Q26. On a scale of 1-10 (with 1 being not at all and 10 being very strongly), how strongly do you as an individual desire business growth now?)

SINGLECODE

- 1-Not at all
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10 – Very strongly

Q27a. Which of the following are important in terms of influencing your personal desire for 'growth' in your business? Please rate the importance factors on a scale of 1-5 (where 1 is not important at all, and 5 is very important) [READ OUT]

SINGLECODE

- 1 – Not at all important
- 2
- 3
- 4
- 5 – Very important

LOOP

- Willingness to take risks
- Confidence in own ability
- Desire to improve work life balance
- Desire to earn a higher salary
- Desire to be seen as a success

Q27b. Do you have a desire to grow the organisation BEYOND the point where it is able to provide you with what you would define as a reasonable living?

SINGLECODE

- Yes
- No

ASK Q27c IF 'No' AT Q27b, OTHERS GOTO Q28

Q27c. Why is that?

CODES OPEN

ASK ALL

As well as your personal ambition we are also interested in the ambition in your company.

Q28. On a scale of 1-10 (with 1 being not at all and 10 being very strongly), how focused and driven towards business growth is the ethos of the organisation you own/lead/manage NOW?

SINGLECODE

1-Not at all

2

3

4

5

6

7

8

9

10 – Very strongly

Q29. During the last three years has the business experienced any of the following events? READ OUT

MULTICODE

A business crisis that threatened the existence of the business

Rejection of an application for finance (e.g. a bank loan/overdraft, government finance)

Major changes in management personnel

Departure of key team members

A major problem of customer late payment of invoices or bad debt

A serious staff shortage

Significant changes in the market for your goods/services

Problems with your premises

Emergence of a dominant player in your market

A major event in the personal life of one of the management team

Another significant event (WRITE IN)

None

Don't know

Q30. In the past three years, have you personally or the business acquired or sought to acquire or invested in any other business?

SINGLECODE

Yes

No

Don't know

Q31. Have you taken any active steps over the past three years to help the organisation to grow?

SINGLECODE

Yes

No

Don't know

Section 4: – Management/Skills

Q32. How do you rate your personal management and leadership skills compared to people in similar positions in other businesses? READ OUT

SINGLECODE

Much weaker

Weaker

Same

Stronger

Much Stronger

Don't know

Q33. In the past 3 years, has the business done any of the following...READ OUT

SINGLECODE

Yes

No

Don't know

LOOP – RANDOMISE ORDER

Invested in management or leadership training

Arranged or funded any formal off-the-job training for employees (excluding yourself)

Q34. In the past 3 years, have you personally done any of the following...READ OUT

SINGLECODE

Yes

No

Don't know

LOOP – RANDOMISE ORDER

Taken any strategic advice about running your business

Used a business mentor –that is somebody with business experience who supports you through the development and running of the business

Been involved in any formal off-the-job or formal on-the-job training or development

Section 5: – Investment and productivity

Q35. Over the last three years have you made a major investment in the company?

SINGLECODE

Yes

No

Don't know

ASK Q36 IF 'Yes' AT Q35, OTHERS GOTO Q37

Q36. How was this investment financed? READ OUT

MULTICODE

Equity from existing owners

Equity from new owners

Debt from individuals

Debt from financial institutions

Debt from non-financial businesses

Grant aid

Another source (WRITE IN)

Prefer not to say

Don't know

ASK ALL

Q37. Compared to three years ago, would you say that your business is ...? READ OUT

SINGLECODE

A lot more efficient

A little more efficient

A little less efficient

A lot less efficient

About the same

Don't know

Section 6: Innovation

Q38a. Has the business introduced any new or significantly improved products or services over the past three years? Please exclude the simple resale of new products and changes of a solely aesthetic nature.

SINGLECODE

Yes

No

Don't know

ASK Q38b IF 'Yes' AT Q38a, OTHERS GOTO Q39a

Q38b. Were these significantly improved products or services... READ OUT?

SINGLECODE

New to your business only

New to your industry or market

Completely new to the world

Don't know

Q39a. Has the business introduced any new or significantly improved production or distribution processes over the past three years?

SINGLECODE

Yes

No

Don't know

ASK Q39b IF 'Yes' AT Q39a, OTHERS GOTO Q40

Q39b. Were these... READ OUT?

SINGLECODE

New to your business only

New to your industry or market

Completely new to the world

Don't know

ASK ALL

Q40. Over the past three years has your business undertaken any innovation activities that did not result in product or process innovation because the activities were abandoned or because they are still ongoing? PROBE

MULTICODE

Yes – abandoned

Yes - ongoing

No

Don't know

Section 7: Planned Behaviour

Q41. Do you intend to grow the organisation over the next three years?

SINGLECODE

Yes

No

Q42. Do you plan to grow the organisation by at least 20% over the next three years in terms of...READ OUT

INTERVIEWER: If yes by at least 20% ask if it will be over 50% and code as appropriate

SINGLECODE

Yes by at least 20%

Yes and by over 50%

No

LOOP

Employment

Turnover

Q43. Are you intending as an individual to set up any new businesses in the next three years?

SINGLECODE

Yes

No

Unsure

ICT – WE NEED TO ALLOCATE EACH RESPONDENT TO ONE OF THREE GROUPS BASED ON THEIR RESPONSES. THIS WILL THEN NEED TO BE COMPARED TO THE GROUP THEY WERE ALLOCATED TO IN 2012 USING THE SAME DEFINITIONS.

IF THIS IS THEN DIFFERENT ASK Q44, OTHERS ASK Q45.

HIGH

IF (Q41 = 1 & (Q42_2 = 1 | Q42_2 = 2) & Q26 = 10 & Q25_2 = 1 & Q27b = 1)

LOW

IF (Q26 <= 5) OR

IF (Q26 <= 7 & Q41 = 2 & Q27b = 2 & (Q25_2 = 2 | Q25_2 = 3 | Q25_2 = 4 | Q25_2 = 5))

MODERATE

ALL OTHERS

For comparison, this is the equivalent 2012 definition:

HIGH

IF (Q33 = 1 & (Q35_2 = 1 | Q35_2 = 2) & Q14A = 10 & Q13_2 = 1 & Q22B = 1)

LOW

IF (Q14A <= 5)OR

IF (Q14A <= 7 & Q33 = 2 & Q22B = 2 & (Q13_2 = 2 | Q13_2 = 3 | Q13_2 = 4 | Q13_2 = 5))

MODERATE

ALL OTHERS

2012	2014
Q13_2 (Turnover)	Q25_2 (Turnover)
Q14a	Q26
Q22b	Q27b
Q33	Q41
Q35_2 (Turnover)	Q42_2 (Turnover)

ASK Q44a IF GROWTH AMBITION SECTOR HAS CHANGED BETWEEN 2012 AND 2014, OTHERS GOTO Q44b

Q44a. Using responses to the survey in 2012 and 2014, we can classify your business as having <<SECTOR FROM 2012>> growth ambition in 2012 and <<SECTOR FROM 2014>> growth ambition in 2014. What would you say are the key factors that explain this change? DO NOT READ OUT

MULTICODE

Market conditions have changed
Respondent's personal circumstances have changed
The top management team has changed
Changes to the ownership of the company
New staff have joined the team
The environment for raising money has changed
New products/services have been launched
Partnerships, collaborations and joint ventures have changed
There has been no change in desire for growth
Other (WRITE IN)
Don't know

ASK Q44b IF GROWTH AMBITION SECTOR HAS NOT CHANGED BETWEEN 2012 AND 2014 OR NEW RESPONDENT

Q44b. Do you perceive that your personal desire to grow the business has changed since the start of 2012?

Yes
No
Don't know

ASK Q44c IF 'Yes' AT Q44b, OTHERS GOTO Q45

Q44c. What would you say are the key factors that explain this change? DO NOT READ OUT

MULTICODE

Market conditions have changed
Respondent's personal circumstances have changed
The top management team has changed
Changes to the ownership of the company
New staff have joined the team
The environment for raising money has changed
New products/services have been launched
Partnerships, collaborations and joint ventures have changed
There has been no change in desire for growth
Other (WRITE IN)
Don't know

Section 8: New respondents

IF NEW RESPONDENT AND NOT INTERVIEWED IN 2012 ASK Q45-Q48. OTHERS GOTO Q49

Q45. How did you attain your current position within the organisation? DO NOT READ OUT - PROBE
SINGLECODE

Inherited the business
Founded the business
Bought the business
Recruited into the business
Promoted from within the businesses
Other (please specify)
Don't know

Q46. What is your age?

CODES OPEN

Q47a. Do you have any of the following individuals dependent on your income? READ OUT

MULTICODE

Partner/spouse
Children
Other family members
Someone else (WRITE IN)
Prefer not to say
Don't know

ASK Q47b if 'Children' AT Q47a, OTHERS GOTO Q48.

Q47b. How many children do you have?
CODES OPEN

ASK ALL

Q48. What is the highest level of qualification you have? DO NOT READ OUT - PROBE

PHD

Masters degree or other postgraduate qualification

Bachelors Degree

Foundation Degree

Vocational Qualifications (please specify level)

A-levels/AS-levels/GCE/Highers

GCSEs/O-levels/Standard Grade

Other (please specify)

Don't know

None

ASK ALL

Q49. Please could you provide an indication of your annual income?

£0 (respondent draws no income from the business)

£1-19,999k

£20,000-34,999k

£35,000-49,999k

£50,000-74,999k

£75-99,999k

£100k-249,999k

£250k+

Prefer not to answer

Q50. And is this income entirely from the business that we have been discussing?

SINGLECODE

Yes

No

Don't know

Q51. Thank you very much for your time today. The Department for Business Innovation and Skills may want to carry out further research in the future. Would you be willing to help with that research?

Yes

No

Interviewer note: double check contact details have been entered correctly at start of questionnaire.

ASK Q52 IF 'Yes' AT Q51, OTHERS GOTO Q53

Q52. We are looking to speak to a small number of businesses in more depth about the subjects we have discussed today. Would you be happy to be a case study business? It would involve having a conversation in the next few weeks with our research partners TBR who are helping us to deliver this work for BIS.

Yes

No

INTERVIEWER NOTE (READ OUT IF YES): Thank you. One of our colleagues from TBR may be in touch with you again in the next few weeks to arrange a mutually convenient time to discuss some of these things in more detail.

ASK ALL

Q53. BIS may wish to anonymously link your responses to other information that you have provided previously to the Government. The data will be used for research purposes only and the confidentiality of your information will not be compromised. It will only be used in aggregate analysis and will not be used to identify individual business responses. Do you give your consent for BIS to do this?

Yes

No

Thank and close

ICT – Record interview length

Appendix IV – Analysis of change in businesses displaying largest changes in ambition

Box 1 – A substantial *increase* in ambition (from low to substantive ambition category)

Company 3. This is a small firm with 11 employees which is now smaller than 3 years ago (in terms of employment, sales and profits). This was a new respondent - the previous one has left the firm.

The company faced a crisis which threatened its existence. The current owner/manager, who previously worked in the business, bought the company. The previous management left the firm (sacked). Combined with this change in ownership and management there has been a substantial change in market conditions.

Company 8. This is a small firm with 8 employees. Compared to 3 years ago, employment has been stable but both turnover and profit have grown. This was a new respondent: the previous one has left the company.

The new respondent bought the business. Consequently the major issue has been a change in ownership and senior management. This has been combined with a change in market opportunities with the firm giving greater attention to on-line trading. Seeking to exploit these opportunities has not been problem free (applications for finance have been rejected).

Company 12. With 50 employees, both sales and profits have increased over the past 3 years but employment has declined. This was a new respondent: the previous one (who was the senior manager) has moved out of the firm.

The only other factor identified as a reason for the increase in ambition (i.e. beyond change in senior management) was market conditions. In seeking to realise the increased growth ambition, problems with local planning were identified as an issue.

Box 2 – A substantial *decrease* in ambition (from substantive to low ambition category)

Company1. This is a new business with the same owner and the same respondent as in the previous survey. It employs just 1 and is smaller (employment, sales and profit) than 3 years ago.

Over the past three years the business (presumably the previous one) faced a life threatening crisis and some senior management left and market conditions have changed. The owner/manager is put off seeking to grow by the headaches involved in employing and recruiting more staff. Over the past three years the firm has experienced serious staff shortages. New legislation was also noted as an issue.

Company 2. With 2 employees it is a micro-business. Employment, turnover and profit are unchanged compared to three years ago.

Apart from some problems of gaining planning permission, there appear no obvious reasons for the decline in ambition. It seems to be based on a logical analysis of the business which had achieved its 2014 objectives

Box 2 – A substantial *decrease* in ambition (from substantive to low ambition category)

and it was believed there was little room to go further.

Company 4. It employs 90. While sales have grown, employment and profits are unchanged since three years ago.

Over the past three years the firm has experienced several events (a change in senior management, a serious problem with an important customer and changes in market conditions) which could have affected ambition along with some difficulties seen as arising from legislative change and a major event in the respondent's private life. However it was also noted that the firm had met its planned changes and was now at its optimum size. Further growth would create too many headaches.

Company 5. This company employs five. Employment, sales and profits are the same as 3 years ago.

Despite the evidence of the respondent's previous and current survey answers, the respondent does not perceive any decline in ambition. The firm does not appear to have experienced any events which might account for a decline. The reason for not seeking to grow is that it is believed that growth would adversely affect the firm's reputation.

Company 6. This company employs 140 and has grown on all 3 measures of employment, sales and profit.

In the last three years the firm has had a major problem with an important customer and an application for finance rejected. In addition further growth does not appear realistic because of size constraints arising from the size of their premises.

Company 7. This was a new respondent who had been recruited into the company²⁸ (the previous one had left the company). It employs 58. While employment has stayed the same, both sales and profit have declined from 3 years ago.

In the past three years the firm had experienced a life threatening event (it appears to have been a problem with a major customer) and market conditions are still very depressed (in Northern Ireland).

Company 9. In the past three years the firm has made significant changes with a move to use subcontractors so that it no longer has many employees (3). Consequently, employment has declined while sales and profits have remained unchanged.

It does not appear to have experienced any significant events which could adversely affect ambition. The firm had tried to grow but have decided it is not a goer. Explaining this it was commented 'To be honest planners stopped it and we had not got the energy to fight them anymore.' The fight does not seem worth the effort since the view is that 'we are not going on for ever'.

Company 10. With 4 employees it has declined (employment, sales and profit) compared to 3 years ago.

The firm now has an explicit policy to remain small. This new policy seems to reflect problems with a major customer, a life threatening experience for the firm, difficulties with raising credit and worsening demand because of the continuing recession in their small town location. In addition the respondent had experienced a major event in his private life in the recent past.

Company 11. It employs 3. While employment has not changed, sales and profit have declined.

²⁸ It is worth noting that the previous study found that, on average, SME management recruited from outside had low ambition compared to owners and management promoted from within the company.

Box 2 – A substantial *decrease* in ambition (from substantive to low ambition category)

In addition to a crisis in the respondent's personal life, the firm had experienced serious difficulties with premises, a life threatening event for the business and serious problems with the local bureaucracy which he commented have 'killed my ambition for the business'.



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