

## POLICY HIGHLIGHTS

OECD Studies on SMEs and Entrepreneurship

# Understanding Firm Growth: Helping SMEs Scale Up



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### UNDERSTANDING FIRM GROWTH: HELPING SMEs SCALE UP



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# More than half of new jobs are created by scalers

**Few small and medium-sized enterprises (SMEs) scale up but these few firms are the major driver of new jobs added to OECD economies.**

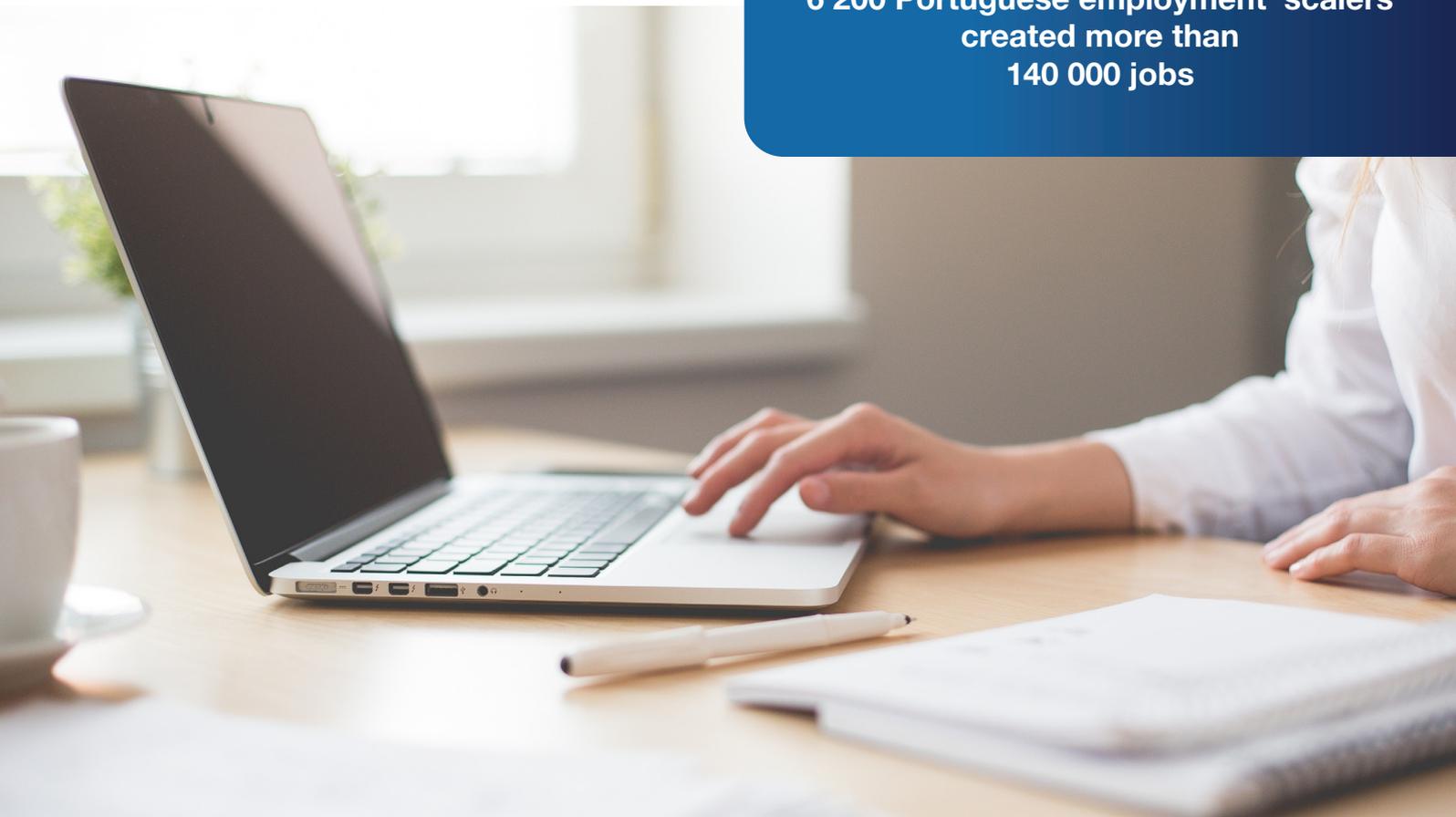
**Scalers are small or medium-sized enterprises (SMEs) that grow fast over a short period of time.** Scalers are defined as (non-micro) SMEs with 10-249 employees that grow in employment or turnover at an average yearly rate of 10% or more for three consecutive years. They are few, e.g. over the 2015-17 period, scalers in employment in the five countries studied (Finland, Italy, Portugal, the Slovak Republic and Spain) accounted for 13% to 15% of all non-micro SMEs. “High-growth scalers” that grow at an average rate of 20% or more over three years accounts for about one in three scalers.

**Scaling-up in turnover is more common than scaling-up in employment.** Between 20% to 26% of non-micro SMEs became turnover scalers over the 2015-17 period, with up to 50% of them scaling simultaneously in turnover and employment. Scaling-up in turnover is more frequent than scaling-up in employment because firms can expand output by increasing other inputs (e.g. machinery) in addition to hiring more workers.

**Employment scalers account for 50% or more of new jobs added to their economies.** Scalers contributed 47% (Italy) to 69% (Finland) of all jobs created by growing non-micro SMEs to their country's economies between 2015 and 2017. Even among scalers, the fastest growing firms make the largest contribution to job creation. High-growth scalers contributed 54% to 72% of all jobs created by scalers. New firms entering the market account for most of the other new jobs, while surviving businesses that do not scale contribute only marginally.

**Scalers in turnover contribute disproportionately to value creation.** Scalers in turnover contribute between 51% (in Spain) and 71% (in Finland and Portugal) to growth in total sales by non-micro SMEs. Turnover scalers also create jobs, accounting for almost half of jobs created by non-micro SMEs, driven by the one-third of firms that scale up in both employment and turnover.

**Between 2016 and 2018, around 6 200 Portuguese employment scalers created more than 140 000 jobs**



**Between 11% (Spain) and 25% (Portugal) of scalers continue their fast growth, scaling up twice over a six year period.**



# Scalers continue to add jobs and contribute to economic growth after scaling up

## Most scalers maintain the new scale or continue to grow

The majority of scalers are able to consolidate their new scale or even continue to grow in the three years after scaling up. About 60% of employment scalers continue to add jobs or at least maintain their new scale in the three years after their initial high-growth phase. Scalers in turnover are only slightly less likely to consolidate their scale than scalers in employment.

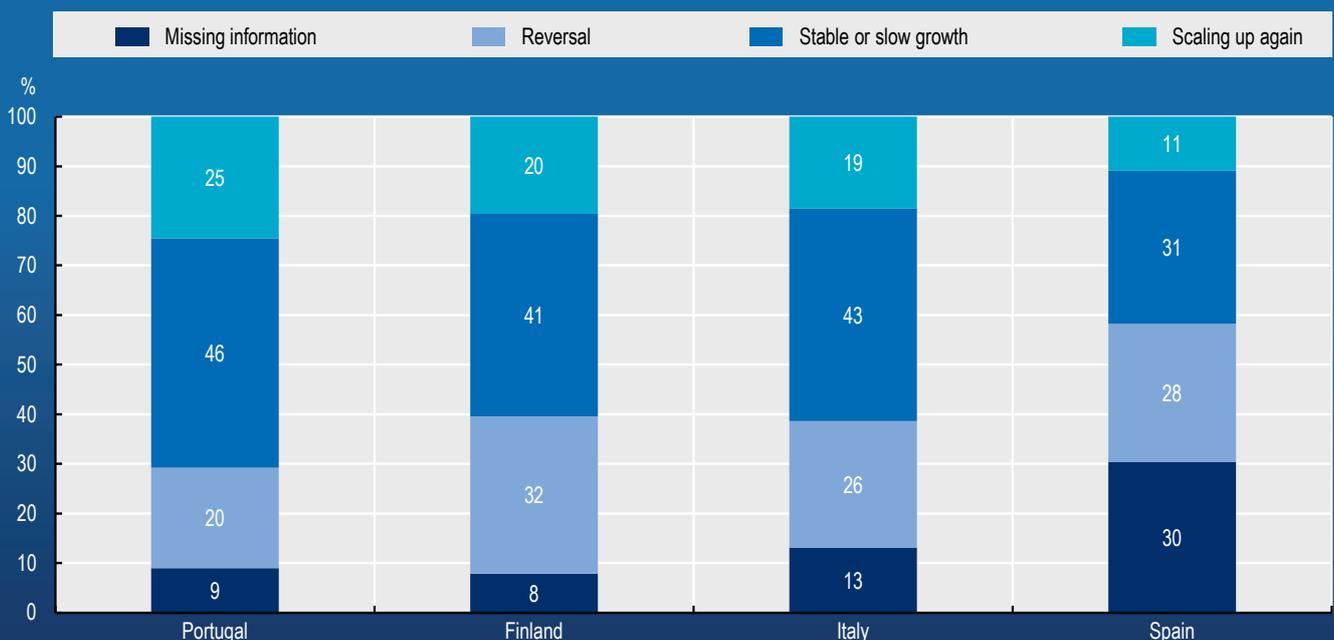
The aggregate contribution to job and turnover growth for scalers continues to be positive in the years following scaling up. Support for scalers, therefore, continues to “pay off” beyond the scale-up phase despite some scalers falling “victim to their own success”, i.e. they shrink or even exit the market in the three years post scaling.

The share of scalers that continue to grow differs between economic sectors. At the upper end, between 66% and 75% of employment scalers in high-tech manufacturing maintain their new scale or continue to grow. The typical lower end of rates for successful scalers are in construction, but even in this sector around 50% of employment scalers continue to operate at least at their new scale.

Young employment scalers are more likely to scale up twice over a six-year period than mature firms. Between 11% (Spain) and 25% (Portugal) of scalers continue their fast growth, scaling up twice over a six year period. Young scalers are more likely to follow their first high growth phase with a second one. For young firms the share of continuing scalers ranges from 11% (Spain) to 29% (Portugal) compared to 10% (Spain) to 20% (Portugal) for mature firms, with an average gap of around 5 percentage across all countries.

Young scalers are also more likely to fail. Around 45% of young employment scalers shrink to go back to a smaller size or exit the market in the 3 years following their initial high growth. For mature firms, the average is about 7 percentage points lower.

## Growth dynamics of employment scalers in the three years after scaling



**Note:** Employment scalers grow in employment by at least 10% per year over three consecutive years on average. The sample includes scalers that end their first 3-year scaling period between 2011 and 2015 in Finland, 2004 to 2015 in Italy, 2013 to 2014 in Portugal, and 2006 to 2015 in Spain. The sample is limited to the non-financial business economy. Owing to methodological differences, figures may differ from official statistics.

# All types of firms can scale up

## The typical scaler is a mature SME providing less knowledge-intensive services

**Knowledge-intensive services is the sector with the highest scaling propensity, with up to 23% of all non-micro SMEs scaling up in employment.** Knowledge-intensive services, however, only account for around 9% to 20% of SMEs in Finland, Italy, Portugal, the Slovak Republic and Spain. Less knowledge-intensive services represent 38 to 46% of all non-micro SMEs and, therefore, SMEs in less-knowledge intensive services account for a larger number of scalers, despite the 2 to 10 percentage point lower chance of scaling-up.

### SMEs in construction and high-tech manufacturing have the highest probability of scaling in turnover.

One in four firms scales up in turnover in the construction and manufacturing sectors, on average, across the five pilot countries, compared to about one in five SMEs in less-knowledge intensive services and in education, social care, and health services. There are, however, differences across countries. For example, Finnish and Italian SMEs have a higher probability of scaling up in the education, social, and healthcare sector than SMEs in low-tech manufacturing and less knowledge-intensive services.

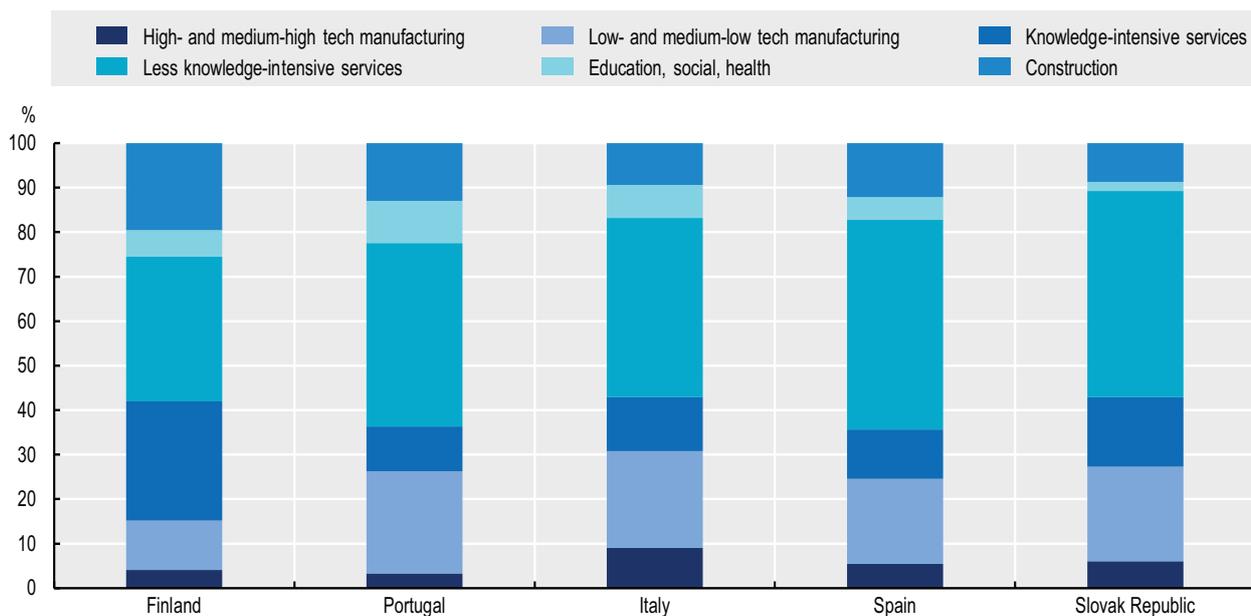
### Most scalers are mature firms, as they have a lower probability of scaling up but are more numerous.

About three-quarters of employment scalers have been established at least six years before the beginning of their high-growth phase. Young firms account for the remaining one-quarter of scalers. Despite their significantly higher propensity to scale (18-25% young SMEs scale up, compared to 4-10% among old SMEs with 21 years of activity or more), only one in five SMEs is a young firm, thus young firms represent a minority of all scalers.

### All types of regions can produce scalers.

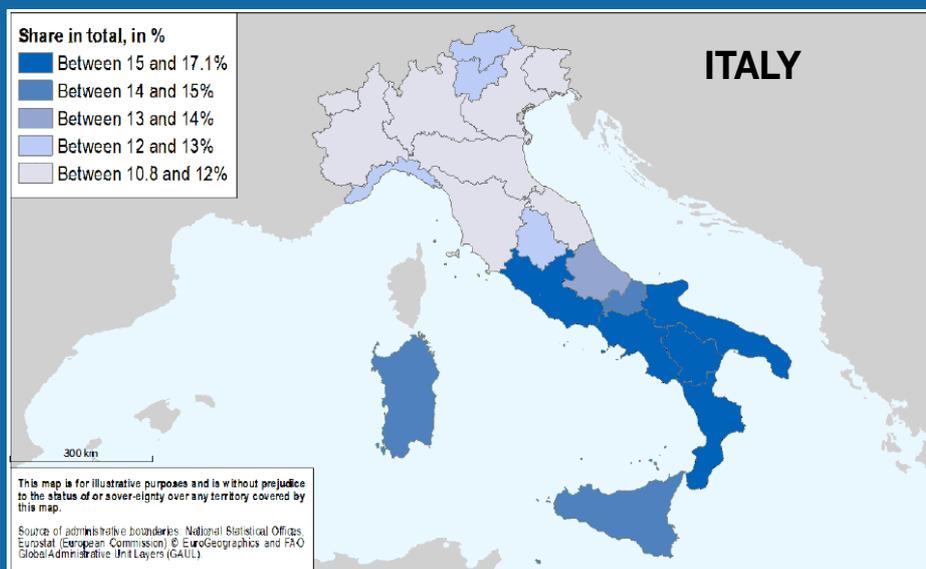
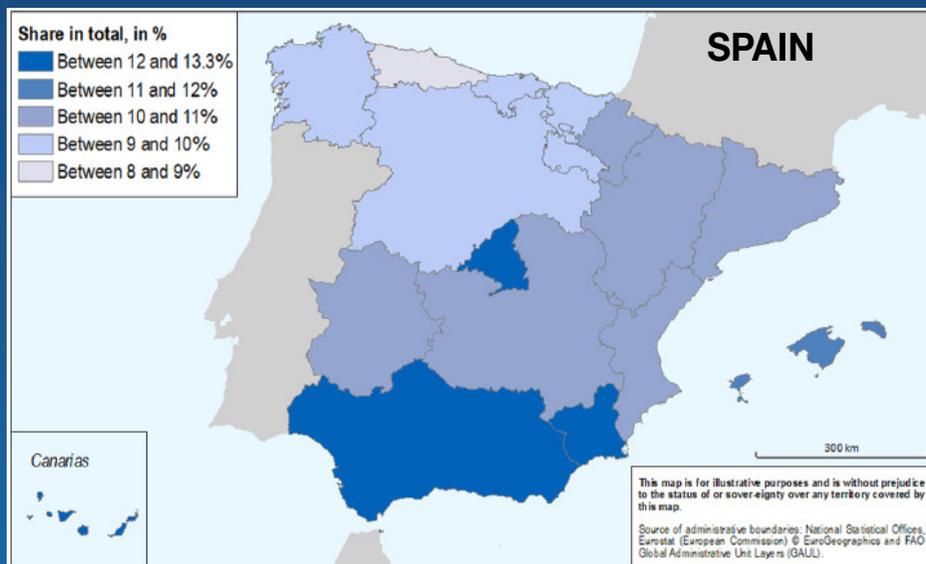
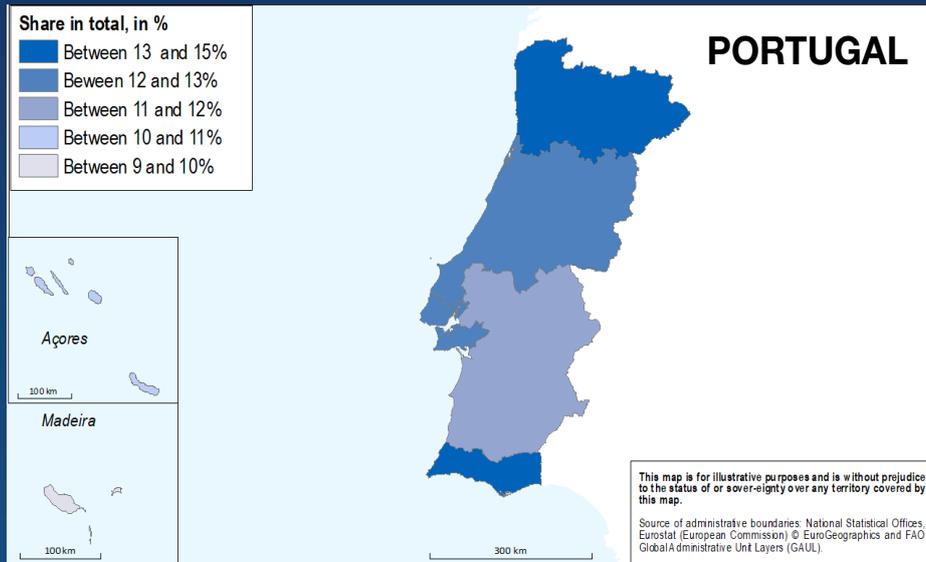
The likelihood of SMEs in different regions to become scalers ranges from 10% to 17% in Italy, from 8% to 13% in Spain, from 8% to 14% in Portugal, and from 14% to 17% in the Slovak Republic. Importantly, scalers are not limited to the most developed parts of a country (in terms of per capita gross domestic product - GDP). Regions such as Andalucia and Murcia in Spain or Apulia and Campania in Italy, with per capita GDP below the national average, are also among the regions with the highest shares of scalers.

## Share of employment scalers by their main sector of activity



**Note:** For each country, the chart reports the average share of scalers of a given sector group among all scalers. Employment and turnover scalers are firms with 10 employees or more that grow in employment or in turnover, respectively, by at least 10% per year over three consecutive years on average over the period 2015-17.

## Share of SMEs that scale up in employment in each large (TL2) region



**Note:** Employment scalars are SMEs with 10-249 employees before scaling up that grow in employment at an average annual rate of 10% or more over a three year period. The averages are computed on scalars that end their scaling-up period in 2004 to 2018 in Italy, 2013 to 2017 in Portugal and 2006 to 2018 in Spain. Shares are calculate for each year and averaged for the full period, weighted by the number of active firms in each year.

# Scaling up is about more than growth

## Scalers start transforming even before their high-growth phase

**Scaling up is the expression of a bigger transformation that a firm undertakes.** Transformation can include aspects such as changes in the managerial structure or ownership, or a firm's engagement in new activities, e.g. research or export. For scalers in the five pilot countries, scaling-up appears to be predominantly the outcome of a strategic gradual innovation path, rather than a random event that makes the scaler "a one-hit wonder".

**For many dynamic factors, such as labour productivity, integration in foreign markets or access to credit, scalers differ from to non-scaling peers already in the two years that precede scaling-up.** Employment scalers in Finland, Italy, Portugal and Spain, for example, are 5-15% more productive than their peers before scaling-up. In terms of integration into global markets, before growing scalers are already similar to firms in the larger size class that they achieve after scaling.

**Scalers' anticipatory efforts include greater emphasis on innovation than among their peers.** The share of workers specialised in research and development (R&D) is 15% and 40% higher in scalers than among their peers in Portugal and Finland, respectively.

Furthermore, the share of IT specialists is twice as large in scalers as in peers – before, during, and after scaling. In-house uptake of digital technologies, therefore, seems to be an important factor that distinguishes SMEs with scaling-up potential from other firms.

**Scalers widen the difference with non-scaling peers as they grow.**

In Italy, Portugal, and Spain, the profitability of scalers grows in correspondence with scaling-up to become 15-30% higher among employment scalers and 40-100% higher in turnover scalers than in peers. Turnover scalers are also 10-35% more productive than their peers after scaling up. Some of the extra profit is used to accumulate cash and other current assets that can be sold quickly, possibly to create a buffer to deal with bad times, or to fund future investments. Part of the profits is also shared with the employees, as wages are 1-2% higher in scalers than in their peers for comparable workers during and after scaling up.

**Scalers employ twice as many IT specialists as peers – before, during, and after scaling.**



# SCALERS COMPARED TO PEERS IN FINLAND

*Scalers start transforming before the high growth phase*

**ALWAYS**

## Innovation & Digitalisation



Scalers employ 30-50% more IT specialists

## Human Capital & Workforce Composition



Scalers employ 15-20% more workers with a master's degree  
Scalers' employees and senior managers are two years younger on average

## BEFORE SCALING

### Innovation & Digitalisation



Turnover scalers employ 15% more R&D staff

## DURING/AFTER SCALING

### Human Capital & Workforce Composition



Scalers pay 2% higher wages for comparable workers.

As scalers grow, they employ 30% more foreign-born employees

### Profitability



Scalers are 10-20% more profitable

*Scalers widen their differences from peers as they grow*

# Understanding firm growth with better data

## Unlocking the potential of data in the vaults of OECD member countries

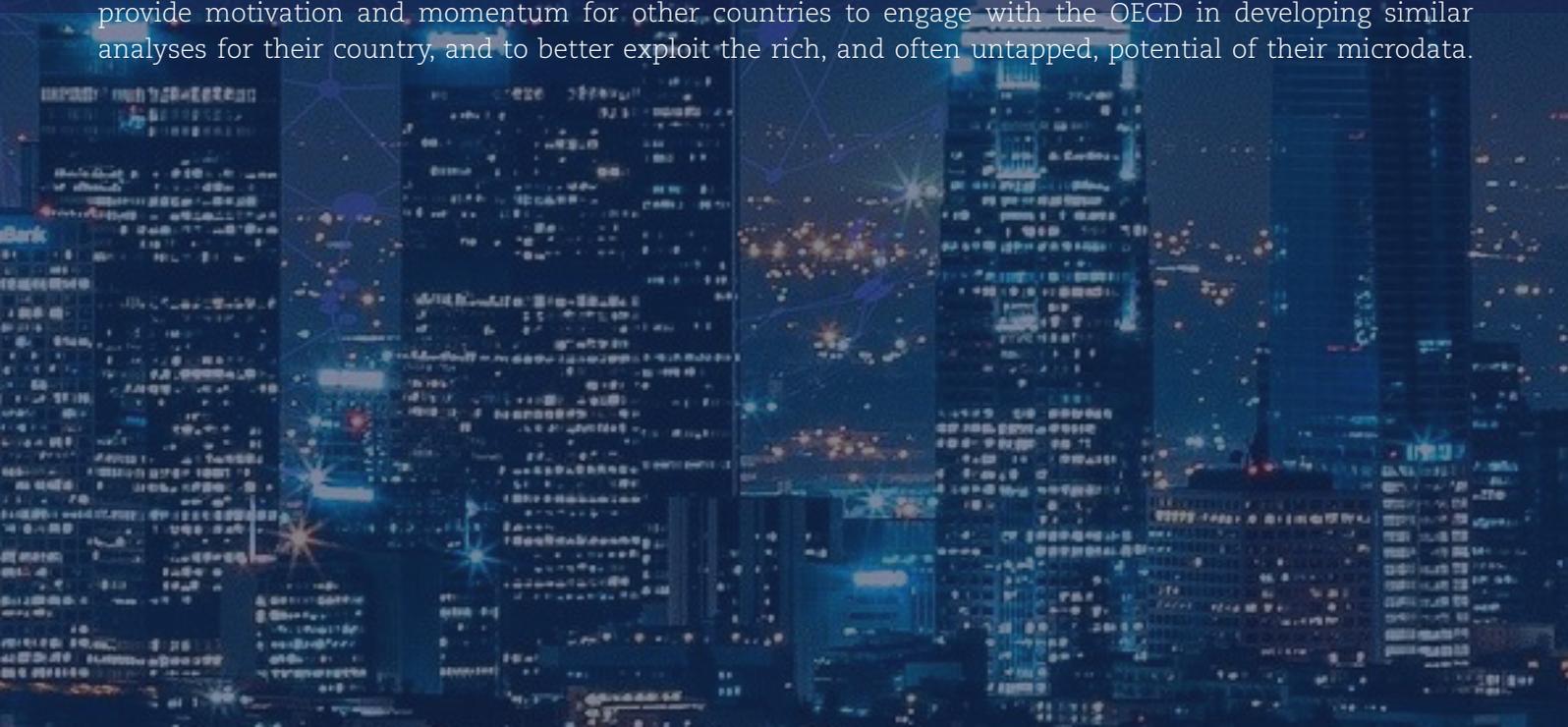
**A better understanding of the characteristics of scalers and of the transformation process that they undertake is essential for effective policy design to address growth barriers.** This report highlights the wide and varied range of firms with scaling-up potential, pointing towards the need for equally varied policy support. Often, policy packages target only a small share of potential scalers, such as recent start-ups, firms in high-technology sectors or prospective (ever-elusive) unicorns, i.e. privately held companies with a capital-based valuation of USD 1 billion or more. But there are opportunities to unlock growth and job creation in many other types of firms. With the right policy mix in place, scalers can play a key role in transforming new opportunities into jobs and economic growth. However, without detailed knowledge of the characteristics of scalers, policy makers might target their efforts at only a fraction of firms with scaling up potential or support them with the wrong tools.

**The crisis opened opportunities for scaling up that can be leveraged during recovery.** The enhanced uptake of digital tools by firms and households opens new markets and creates room for new products and services, as well as cost-saving measures. The diffusion of e-commerce has improved access to viable markets without the need for large investments in marketing and distribution. Demand for online services and goods during the crisis opened up opportunities for existing firms and new entrepreneurs.

**With limited knowledge on scalers, policy makers risk targeting only a fraction of firms with growth potential or supporting them with the wrong tools.**

**Cheaper access to shared IT resources in the “cloud” and the potential of continued working from home promise productivity gains or cost savings (e.g. as less office space is required).** There are clear opportunities for scaling up created by the crisis, but whether they will materialise and translate into jobs and economic growth will also depend on how extraordinary support is wound down and how SMEs will be supported during the recovery. Lack of skills or adequate digital infrastructure may represent binding constraints that are more difficult to tackle than access to financial resources.

**Understanding Firm Growth illustrates the powerful potential of leveraging on microdata, and, in turn, what is possible in many (if not all) OECD member countries by better capitalising on existing data within countries.** Through the provision of powerful new policy messages and indicators – without increasing response burdens and without breaching confidentiality – the project is also intended to provide motivation and momentum for other countries to engage with the OECD in developing similar analyses for their country, and to better exploit the rich, and often untapped, potential of their microdata.





<https://www.oecd.org/cfe/smes/>

