The background image is a scenic landscape featuring a paved road with yellow double lines that leads into a valley. The valley is filled with dense evergreen trees. In the distance, there are large, rugged mountains with patches of snow and some clouds hanging in the air. The sky is filled with soft, white clouds.

# Scale-up success: What do SMEs need to supercharge their growth?



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**ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.**

ACCA supports its **208,000** members and **503,000** students in **179** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **104** offices and centres and more than **7,300** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

ACCA is currently introducing major innovations to its flagship qualification to ensure its members and future members continue to be the most valued, up to date and sought-after accountancy professionals globally.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability.

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# Scale-up success: What do SMEs need to supercharge their growth?

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## About this report

This report examines how more small and medium-sized enterprises (SMEs) could experience wider success by adopting some of the practices of businesses with higher growth ambitions. In doing so it also explores the potential for a larger proportion of the global SME population to achieve increased productivity gains, turnover and job generation. For the purposes of this research, ACCA defines SMEs as businesses with fewer than 250 employees. This report is part of an ongoing research programme ACCA is undertaking examining different areas of SME growth.



# Foreword



**In this report, ACCA uncovers the key steps that can enable small and medium-sized enterprises (SMEs) to thrive, creating prosperity both for themselves and the wider economy. In doing so, we also highlight some of the ways entrepreneurs are already enhancing their growth prospects and scaling up their businesses.**

We have arrived at our recommendations by conducting interviews, roundtables and a global survey with over 1,300 entrepreneurs working across the global SME community. This exercise allowed us to explore the specific factors that allow small businesses to excel.

The most successful SMEs are frequently run by business leaders who are driven, industrious and innovative. The way these entrepreneurs seek to measure and define growth is often as varied as the wide range of businesses that make up our global economy.

Even so, one action they consistently sought to undertake was the development of a clear strategic vision that set out where they wanted their enterprise to get to and how they would achieve this.

In an increasingly interconnected and complex world, the skills that enterprises require are widening and evolving rapidly. At ACCA, we create members and students who can call on a broad range of capabilities and are able to tailor and adapt them to meet changing circumstances.

This means that – whether working within SMEs or advising them – ACCA members can continue to make a deep and multi-faceted contribution to the small business community and its growth.

**Helen Brand**  
Chief Executive, ACCA

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# Introduction

**When SMEs experience growth, they can generate a number of important benefits for the wider economy, such as higher productivity, stronger public finances and larger tax revenues.**

In recent years, the focus of business leaders and policymakers promoting SME growth has increasingly shifted from how entrepreneurs start and run businesses to how they develop them over time.

This change has partly come about in response to the persistently flat productivity that many major economies across the world have experienced since the 2007–8 global financial crisis. Data shows that labour productivity growth averaged 1.8% a year in OECD countries between 2001 and 2007, i.e. before the financial crisis, but dropped markedly to 0.8% from 2009 to 2017 (OECD 2018a).

This has encompassed knock-on effects that have included weak trade and investment and widening income inequality. Indeed today, SMEs contribute significantly less to economic growth in aggregate terms than other sections of the economy, largely owing to their low productivity.

Yet during this time the productivity rates of high-growth SMEs have proved to be more resilient than the rest of the business population (OECD 2018b). In fact, across many economies, these SMEs have continued to grow in a similar manner to before the financial crisis.

Despite making up only a small proportion of the global SME population, high-growth SMEs have been identified as a crucial source of job creation, while also boosting productivity by spreading new technological innovations (HM Treasury 2017).



The purpose of this research is to consider how all SMEs understand, interact with and experience growth as well as how more businesses can adopt relevant practices that contribute to growth.

The purpose of this research is therefore to consider how all SMEs understand, interact with and experience growth as well as how more businesses can adopt relevant practices that contribute to growth. This would enable more SMEs to experience stronger productivity gains and scale-up successfully themselves.

### ABOUT THIS RESEARCH

A global survey targeting private-sector businesses with 250 employees or fewer was specifically designed for this project in September 2018. The call for participants resulted in a total of 1,240 respondents. This sample was made up predominantly of ACCA members but also included additional responses from an external survey panel run by Borderless Access, a global market research company. This enabled the overall sample to be more representative of the global SME population (e.g. those in the SME sector who weren't qualified accountants).

Alongside the survey, ACCA conducted a series of focus-group discussions and interviews with SMEs around the world. These took place across the world but the majority were undertaken in Malaysia, Vietnam and the UK.

### DEFINITIONS: MODERATE-GROWTH AND HIGH-GROWTH SMEs

This report frequently refers to – and distinguishes between – ‘moderate-growth SMEs’ and ‘high growth SMEs’. The definitions for these two categories are based on the growth aspirations of SMEs, and specifically to responses to the following question in ACCA’s survey: ‘Which of the following most closely aligns to your business’s growth outlook over the next three years?’

We defined those that selected the following two responses as high-growth SMEs, or businesses that were actively looking to scale-up:

- Continue to grow with the aim of selling the business/exit
- Continue for high/fast growth within a short period of time

Meanwhile, those that selected the following two options were defined as moderate-growth SMEs:

- Continue to grow steadily/moderately over a longer period of time
- Continue to grow but do not mind at what rate.



## How do we define SMEs?

The global SME community is extremely diverse when measured across a range of metrics, such as business model, number of employees, and age of the business. SMEs also greatly vary in their performance, which itself is often disproportionately influenced by geography, industry and sector.

As a result, it is perhaps understandable that hundreds of definitions for ‘SME’ exist across the world. However, many centre on the broader characteristics of the domestic economy in which businesses operate. For the purposes of this report, ACCA defines an SME as a business with fewer than 250 employees. ■

# Executive summary

## What does a successful scale-up look like?

In exploring how SMEs understand, interact with and experience growth, as well as identifying some of the areas that businesses prioritise in order to maximise their growth potential, this report showcases several tools that SMEs can use to maximise their chances of scaling up. These include a framework for growth as well as a set of key recommendations for SMEs at different stages of their business lifecycle.

### **BUILDING A GROWTH STRATEGY FOR SCALE-UP**

As part of an effective approach towards scaling up, SMEs should look to build a strategy which enables a growth culture to be instilled across all areas and activities in their organisations.

In the design of such a strategy business leaders first need to define a clear purpose and vision across their organisation. This should be used to inform the development of three key areas: the business's organisational structure, outlook as well as its team's behaviours.

The organisational structure is often underpinned by how proactively a business approaches the creation of management and governance frameworks. If such processes are formalised from an early stage, these can potentially be used to significantly enhance the business's long-term decision-making processes.

With regards to the business's outlook this can be supported by developing a strategy which recognises the value of support from outside of the organisation as much as from within its own talent pool. Indeed, utilising external advice is often vital towards boosting an organisation's growth potential.

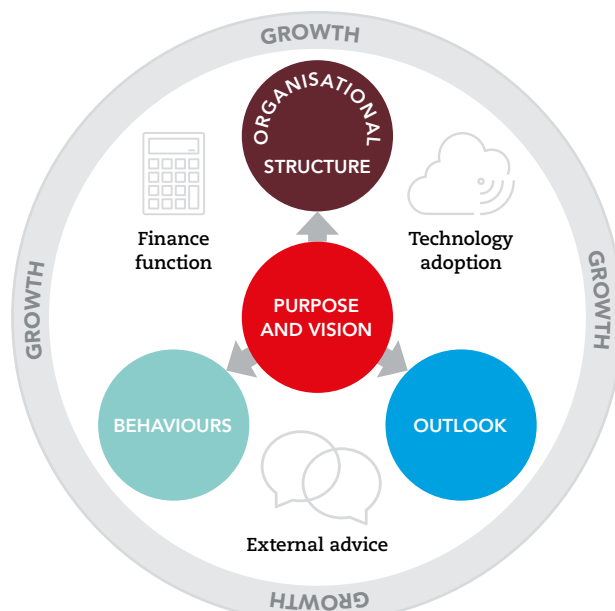
In terms of behaviours, the leaders of an organisation must take steps to ensure staff share and are committed to the business's purpose and vision. This can be supported by introducing both targets and incentives that bind staff into collaborative efforts to ultimately achieve common goals.

Finally, a growth strategy should consider how the business will engage the

available drivers of productivity that exist within the organisation. This might include, for example, a focus on adopting particular technologies or building a finance function that proactively seeks to add value across the business.

Collectively, a strategy which addresses these areas could significantly contribute towards developing the mechanisms within a business that enable scale-up to occur.

**FIGURE E1:** A growth strategy for scale-up

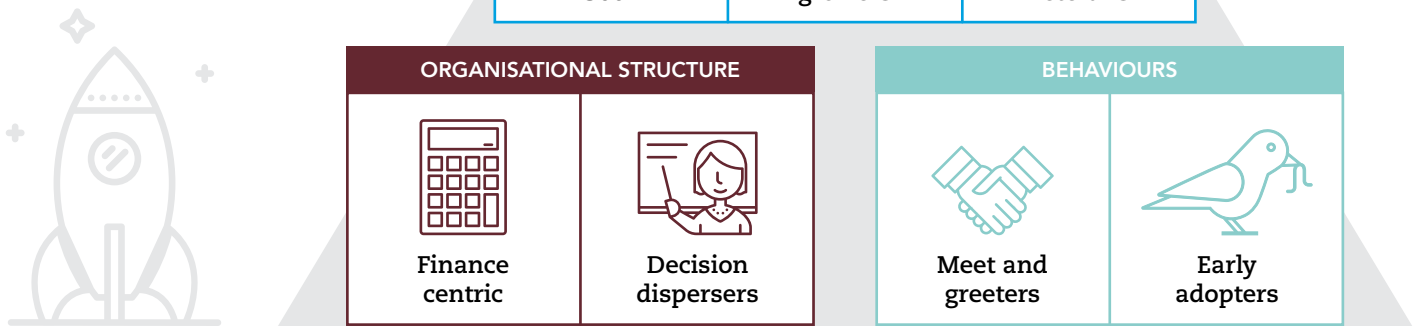




# Key competencies for scale-up success

SMEs with higher growth ambitions often adopt characteristics that are distinct from those with moderate growth ambitions. This is primarily because the aim of achieving growth often informs their wider approach to doing business at all levels of the organisation.

Table E1 sets out the key competencies for scale-up success that were consistently identified during our research and links these to the growth framework in Figure E1.



**TABLE E1:** The key competencies for scale-up success

PURPOSE AND VISION	<b>Growth visionaries</b>	It may appear obvious that those entrepreneurs who publicly communicate an aspiration to grow their businesses are more likely to do so. However, this represents an important distinction with other businesses. Growth often underpins their approach towards all leadership and management practices. In contrast, SME leaders who do not explicitly communicate a desire to grow their business are more likely to have moderate-growth ambitions.
	<b>Non-stop strategy</b>	High-growth businesses are focused on developing their goals and the strategic vision of their organisations. This includes the creation and regular reviewing of medium and long-term performance targets.
OUTLOOK	<b>Customer 360®</b>	Business leaders of high-growth SMEs are more likely to talk about growth and success in terms of a wider range of metrics than just, for example, revenue and sales targets. These include product development or the business's wider value proposition. In addition, the importance of customer service is often filtered through all levels of the business – including the finance function.
	<b>Global growers</b>	High-growth businesses often wish to participate in international trade either from the outset of their business lifecycle or from an early stage. Subsequently, they do not look to restrict their external engagement to domestic customers, suppliers and partners.
	<b>Venture veterans</b>	Management teams of high-growth SMEs often have previous experience of either running businesses or working for them at a senior level. This made many of them more likely to appoint non-executive directors (NEDs) in their current organisations or use their established networks to tap into relevant expertise.
ORGANISATIONAL STRUCTURE	<b>Finance centric</b>	The finance function of high-growth SMEs – whether inhouse or outsourced – tends to incorporate a wider range of responsibilities that go beyond core accounting activities (e.g. compliance, tax and reporting). If inhouse, they are also likely to proactively demonstrate their strategic value and provide a supporting role to other teams across the business.
	<b>Decision dispersers</b>	High-growth businesses frequently adopt management and governance structures that decentralise control, moving it away from owner-managers. Roles and teams are subsequently more likely to be formalised across the organisation. At the same time, there is often recognition that collaboration across different teams is crucial to driving a shared strategic vision across the whole organisation.
BEHAVIOURS	<b>Meet and greeters</b>	Owners and chief financial officers (CFOs) of high-growth SMEs are proactive networkers – often using this to overcome limitations in human and financial resources to scale-up their businesses. They participate in industry and media events in order to raise the profile of their organisations. Many also seek to use networking to develop commercial alliances with larger businesses in their industry.
	<b>Early adopters</b>	High-growth businesses are very open to technology's potential for both enhancing their offering to customers and improving the performance of their business internally. Equally, many seek to prioritise the adoption of new technologies for measuring performance, to facilitate more effective incentives and reward individual members of staff.

# Life in the fast lane: A comparative growth roadmap

Using both the growth framework (Figure E1) and key competencies (Table E1) highlights the distinctive approach that high-growth SMEs often take to scaling up. This is illustrated in the comparative roadmap below, which compares the actions a high-growth SME might take at different stages of organisational development with those of a moderate-growth SME.



1	2	3	4	5
<b>Business plan written</b>	<b>Early approach to management practices begins to be defined</b>	<b>Development of the finance function</b>	<b>Adoption of new technologies</b>	<b>Networking and external engagement</b>
<p><b>HIGH-GROWTH SME</b> Includes clear growth objectives, a value proposition and annual forecast targets.</p> <p><b>MODERATE-GROWTH SME</b> Includes annual forecast targets.</p>	<p><b>HIGH-GROWTH SME</b> Management team established. Formalised structure adopted with responsibilities (e.g. finance, sales, marketing, HR, logistics) decentralised and moved away from founder.</p> <p><b>MODERATE-GROWTH SME</b> Responsibilities may be centralised around owner-manager or founder.</p>	<p><b>HIGH-GROWTH SME</b> Wider range of responsibilities taken on while adopting a strategic role across the business. May lead to appointment of a CFO or financial director (FD).</p> <p><b>MODERATE-GROWTH SME</b> Responsibilities centred on core accounting activities, including compliance, tax and reporting.</p>	<p><b>HIGH-GROWTH SME</b> Invests in systems that support the managerial approach, such as the performance monitoring of key operations and processes. Data, such as that obtained through cloud computing systems, is used to generate efficiencies and increase productivity.</p> <p><b>MODERATE-GROWTH SME</b> Focused on supporting individual work practices and business processes (e.g. telecommunications and e-commerce).</p>	<p><b>HIGH-GROWTH SME</b> Proactive networking approach undertaken in order to understand how the business can access funding, internationalise more quickly, and adopt new technologies to increase competitive advantage.</p> <p><b>MODERATE-GROWTH SME</b> Engagement centred on intelligence gathering (e.g. relevant compliance and regulatory changes) and business referrals within limited network of suppliers and partners.</p>

Growth can come at any stage of an SME's lifecycle. This requires business leaders to think strategically about the steps they can take to enable it.

#### **RECOMMENDATIONS FOR SCALING UP**

Growth can come at any stage of an SME's lifecycle. This requires business leaders to think strategically about the steps they can take to enable it. These actions will often need to be revisited on a regular basis, particularly as the organisation begins to develop. This process can often be made easier by embedding a culture and management structure across organisations, which recognises the importance of growth and how best it can be achieved.

- 1. Leadership must define a growth culture** – When staff share and are committed to an organisation's purpose and vision, they are more likely to see its future as their own. This can be further supported by developing a growth strategy, vision and targets that allow a growth culture to emerge across all levels of the organisation.
- 2. Establish a governance framework to help build resilience** – Growth prospects can be supported if SMEs build a governance structure from the outset of their business journey. This can be used to support the strategic direction of the organisation and provide it with greater flexibility and resilience as it grows.
- 3. Continue developing management team alongside business growth** – Those founders who seek to retain control over all aspects of their business may run into trouble as complexity increases. It is therefore important to establish a management team that encompasses the broader skills and experience required to help expand the organisation.

- 4. Integrate finance into growth strategy** – It is vital that the finance function of SMEs seeks to understand the organisation's wider goals and to add value to these activities. The appointment of a CFO or FD can support this process, particularly in being able to provide more informed strategic advice to the management team.
- 5. Adopt new technologies and use the right data** – Technology adoption is essential for businesses that scale-up, which often require additional resource to address ever-greater complexity in the operation of business processes. Integrating scalable technology adoption into a growth strategy can make a significant contribution to increasing businesses' growth potential.
- 6. Use external advice to develop what you have** – With limited resources every SME will encounter operational challenges during growth episodes. Despite this, SMEs can help improve their resilience by developing relationships with relevant sources of external advice.
- 7. Build an external funding network** – High-growth businesses are continually looking for opportunities to profile their business, in order to attract investment. Through building the right network, businesses looking to scale-up may find external funding more accessible.





# 1. What really drives SME growth?

**Growth and productivity are often used synonymously by economists and policymakers when discussing how SMEs can scale-up successfully. In the simplest terms, ‘productivity’ refers to additional output being produced (e.g. products or services) with the same inputs (e.g. staff, capital or resources).**

In the context of this research, improved SME productivity is defined as the result of greater efficiencies being created through the process of bringing a product or service to market. This is important because the more productive a business is the more likely it is to grow.

Equally, those economies that cater to the business community by providing good infrastructure, skilled labour forces and

well-resourced capital markets are more likely to create an environment conducive for businesses to grow successfully.

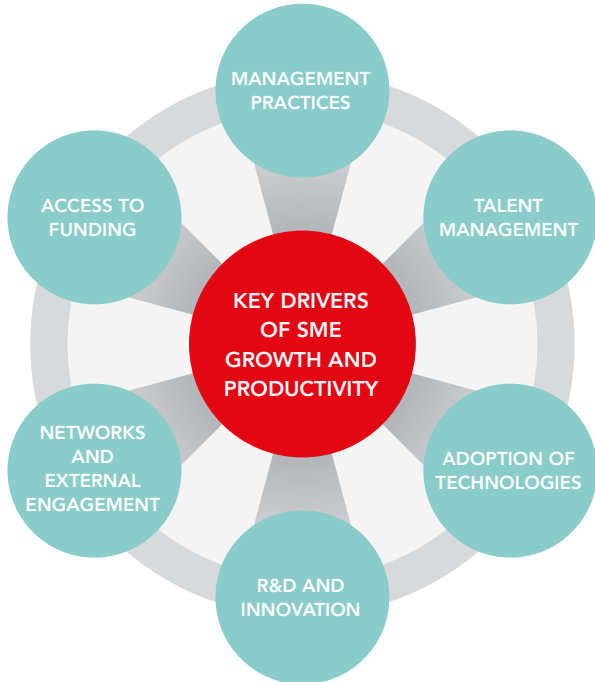
## **DRIVERS OF SME PRODUCTIVITY**

There are multiple drivers across areas of business activity that SMEs can develop in order to increase their productivity. Some of these are highlighted in Figure 1.1 below.

Governments can and do provide targeted support to assist SMEs in better utilising these internal drivers of productivity.

Nonetheless, businesses’ growth prospects are also of course subject to external drivers as well – primarily the conditions of the market and industry in which these SMEs find themselves. These encompass factors such as levels of domestic competition and regulation as well as the availability of talent and external funding. As a result SMEs’ growth prospects are more often than not disproportionately influenced by one’s location.

**FIGURE 1.1:** SME productivity drivers



Source: OECD 2018a

For SMEs operating at growth stage, an increase in productivity, staff, research and development and ‘internationalisation’ were all relatively important factors for defining growth.

**HOW DO SMES MEASURE AND DEFINE GROWTH?**

Although the key drivers of productivity that were highlighted before are applicable to most businesses, given the diversity of the global SME community, the way in which entrepreneurs themselves understand growth is likely to vary widely. One aim of this research is therefore to reveal how different SMEs approach this subject and whether their understanding of ‘growth’ could be linked to different outcomes.

**Growth focus changes over time**

We asked respondents working for SMEs that had been operating for different periods of time (1 year, 4 years and 6–10 years) what they recognised as the most important factors for defining or measuring growth. Although the business lifecycle of every SME is different, these time periods broadly overlap with development stages commonly referred to as ‘start-up’, ‘growth phase’ and ‘established business’.

For SMEs operating at the start-up stage, increases in profit and numbers of customers are the most important factors for defining or measuring growth. To some extent this is a matter of necessity – with limited resources these businesses will be looking to stabilise their operations by acquiring customers and managing cashflow as soon as possible.

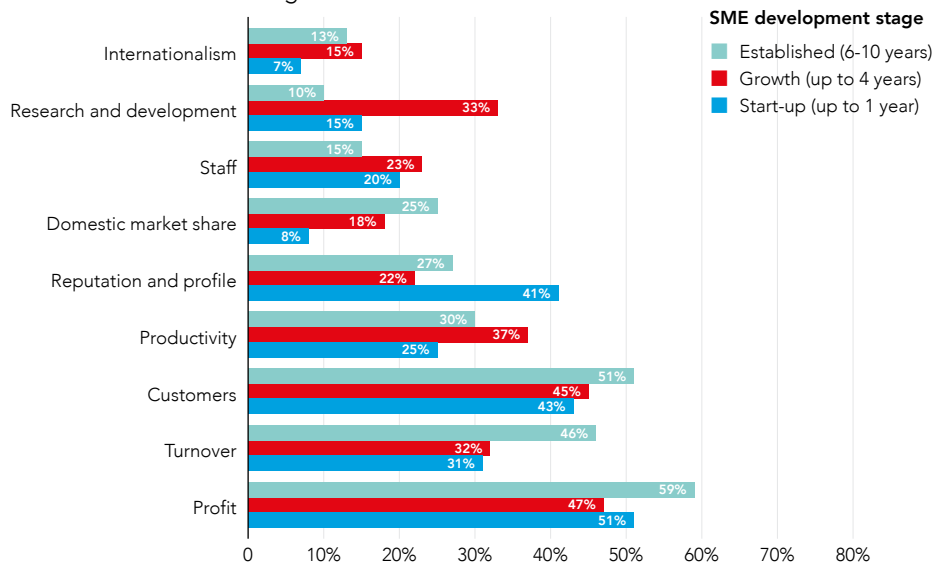
Start-ups are also significantly more likely than other SMEs to cite increasing reputation and profile as a measure of growth, and this is clearly linked to acquiring customers and establishing themselves within their market.

For SMEs operating at growth stage, an increase in productivity, staff, research and development and ‘internationalisation’ (e.g. participating in more activities related to international trade) were all relatively important factors for defining growth. Self-evidently, the growth period is when new opportunities are proactively explored across a wide range of areas. It is also a period when businesses may look to develop their finance and management systems in order to tackle a range of new challenges they may be taking on.

For established SMEs, as with all the respondents, increases in profit, turnover or customers were the most commonly cited factors – but more so. These goals have become more and more focused. Established SMEs were also more likely than other groups to recognise an increase in domestic market share as a definition or measure of growth.

Overall these findings demonstrate both how SMEs’ understanding and experience of growth are more likely to be fluid definitions, rather than fixed

**FIGURE 1.2:** Most used factors by SMEs to define or measure growth, compared across SMEs of different ages



Source: ACCA 2018

For those whose turnover had increased by 20–30%, productivity, staff and research and development represented more significant factors when measuring and defining growth.

ones. Ways of measuring and defining growth change as SMEs focus on different productivity drivers and respond to new challenges that emerge at various stages of their business lifecycle.

Dr Nina Tan, Managing Director of Business Intelligence and Analytics in Singapore, explains that this was the case for her own business. ‘In the past success would simply mean sales growth and profitability. As we’ve matured as a business the definition has got more sophisticated. We’ve developed a brand and profile which we now seek to maintain, and as well as just being profitable, we also look to contribute something back to society’.

Thu Huong’s business, Organi Farm, creates organic produce in Vietnam. She also recognises this fluidity in definitions of business growth. ‘The definition changed hugely for us over time. In the first stage, success meant the acceptance of our products from retailers and customers. When they gave our products good feedback and came back for more that was enough to make us happy. In that period, we didn’t care much about profit;

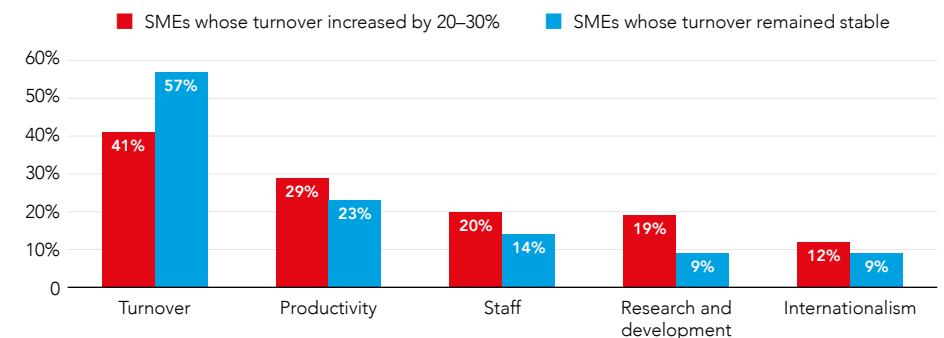
we focused more on attracting customers as much as we could. But at this point, our focus shifted more to profit to enable the scale of our production to grow’.

**Growth means something else to more ambitious SMEs**

Our research also shows how definitions of growth can vary according to levels of ambition within businesses. Figure 1.3 shows the responses to the same question as before, but with the responses divided between SMEs whose turnover had grown by 20–30% in the previous three years and those whose turnover had remained stable (i.e. within a 5% increase or decrease).

For those SMEs whose turnover had remained stable (e.g. increased or decreased by 5%), turnover was nonetheless a more significant factor for measuring and defining growth. In contrast, for those whose turnover had increased by 20–30%, productivity, staff and research and development represented more significant factors when measuring and defining growth. This suggests that SMEs with higher growth rates may use a wider range of factors for defining or measuring growth than do other businesses.

**FIGURE 1.3:** Top five factors that most closely align with SMEs’ definitions or measurements of growth, for different levels of turnover growth



Source: ACCA 2018




While our research shows that high-growth SMEs are often more resilient in overcoming obstacles to scaling up, they nonetheless face similar challenges to other businesses across their external environment.

### TOP FIVE BARRIERS FOR HIGH-GROWTH SMEs

While our research shows that high-growth SMEs are often more resilient in overcoming obstacles to scaling up, they nonetheless face similar challenges to other businesses across their external environment. Below we list the top five barriers that growth SMEs reported in our global survey.

- i. Domestic market conditions** – High-growth SMEs were most likely to list problems with their domestic market as their primary growth barrier. This included factors such as customer demand, the cost of doing business and the availability of infrastructure (such as office space, broadband connectivity and R&D support).
- ii. Recruitment and skills** – Access to talent regularly features as a leading barrier in scale-up surveys and our research showed the same complaint. High-growth SMEs want to develop their teams as they expand and that means identifying talent with the relevant skills locally and quickly.
- iii. Global trade environment** – SMEs with high growth ambitions often tend to have an international outlook from the outset of their business journeys. They are therefore keen to access new markets quickly. Therefore political and economic events that disrupt the global trade environment were regularly identified as affecting their plans for scaling up.
- iv. Access to funding** – High-growth SMEs require specific funding options to continue scaling and that means having both awareness and access to a wide range of relevant providers is important.
- v. Regulatory compliance** – Like all businesses, high-growth SMEs complained that regulatory compliance caused a range of negative impacts, including increasing the cost of doing business, affecting business decision-making and slowing the recruitment of new staff.





## 2. How can businesses scale-up successfully?

Building a growth culture becomes particularly important when a business experiences its first significant episode of growth during its lifecycle.

Now that we have examined the key challenges that SMEs experience in achieving growth and the ways in which they understand it, this chapter explores some of the key activities that enable businesses to scale-up their organisations successfully.

### **I. LEADERSHIP MUST DEFINE A GROWTH CULTURE**

Growth means different things to different SMEs and their ways of defining it change throughout their business lifecycle. Therefore, asserting whatever the definition may be across internal and external stakeholders is often the first step in driving the growth strategy a business wishes to implement.

The term 'growth culture' refers to a shared commitment to growth within an organisation. It is established through the collection of beliefs, knowledge and expertise that are expressed across the business's team.

Building a growth culture becomes particularly important when a business experiences its first significant episode of growth during its lifecycle. In such a period, an organisation may take on more staff or increased operational complexity. It is therefore crucial during this stage that the business's leaders are able to use a growth culture to bind the organisation together.

Such a process begins by articulating the organisation's purpose and vision. This entails business leaders understanding

what their organisation wants to achieve in the long term and how it might evolve in the future. It should be informed by multiple stakeholders, including those from both inside and outside the organisation (such as staff, customers and partners). This is necessarily an ongoing process that requires continual review by the business's management team.

Dr Leslie Spiers, Chairman of M12 Solutions, a UK supplier of phone systems, stressed the importance of identifying a purpose from the outset of an SME's business journey. 'Perspectives might be very different but these ambitions will have to converge and align to the marketplace. They also need to be very clearly stated in order to introduce a level of discipline and collective vision across the business – otherwise you're almost driving blind'.

The process of inculcating a growth culture should also be adapted to the unique characteristics of the business, such as its ownership, how it funds itself and the products and services it ultimately aims to bring to market. As Nauman Mian, CFO of Bayt.com, a job website in the Middle East and North

Africa, explains, for any business focused on growth, the objectives cannot be taken off the shelf but must be based on the challenges it faces today and will probably face in the future.

'As a dot.com business, if we are not technologically up to date we will suffer as we're going through a digital revolution', Nauman says. 'A lot of companies who have not done that have disappeared. We want to make sure we retain our growth status. Our objectives therefore relate to customer acquisition, job seekers and website traffic and, of course, this is eventually translated to a dollar value'.

### **Setting the right objectives and targets**

Many of the high-growth that we spoke to say this continuous process of defining a purpose and vision across their businesses provided them with a platform for subsequent development of appropriate objectives and performance targets.

Sam Ellis, Head of Operations and Finance at Interworks Europe, a UK-based technology business, highlighted his own experience of linking the business's wider vision to specific performance targets.

**‘We spent a lot of time working out the one factor that integrates everyone together in our business. If you find that one thing it can be very powerful’.**

**Sam Ellis, Head of Operations and Finance, Interworks Europe**

‘We spent a lot of time working out the one factor that integrates everyone together in our business. If you find that one thing it can be very powerful’.

Sam adds that this provided the platform on which to develop the business’s broader strategy. ‘Understanding our purpose allowed us to crystallise what our focus needed to be in the short and long term – as well as the metrics required to monitor how we get there. That hasn’t given us all the answers to how we want to grow but it has given us a stable base. We now have a platform to help us move forwards’.

Caroline Plumb OBE, Founder and CEO of Fluidly, a UK business which uses machine learning to help SMEs manage their cashflow, says her team has sought to develop performance targets that are linked to how the business should grow. ‘When we first started out I wanted to build something very scalable and made it a priority to develop a long-term plan with milestones around customers, revenue and staff’.

She added: ‘Growth is almost never linear so these milestones allow the management team to plot their way to climbing the growth mountain. It enables you to break it down into definable steps – and also to work out what the next steps should be as the business scales up’.

#### **Align staff performance with wider business targets**

The purpose and vision of a business’s growth strategy can also be supported by linking business targets to those of individual staff members. This provides a crucial example of how a growth culture can be practically instilled through an organisation and at all levels.

As Dr Nina Tan warns, while objectives and targets are important, a crucial component of good business is ‘ensuring [that] the behaviour of staff is aligned to the strategic direction of the business. So it’s important that SMEs seek to link the behavioural goals of individual staff members’ performance targets to the strategic objectives of the overall business’.

This, Nina explains, is one of the pivotal points often missing from SMEs’ growth strategies. ‘Businesses need to shape staff behaviour into goals that are set through a combination of objectives, targets and incentives. You want staff to

own the solutions, putting in the extra effort to achieve the business’s goals. You need to give them a sense of ownership over the destiny of the business. Therefore we prioritise tying their personal goals with the business’s goals’.

Amanda Powell, CFO of ME Digital Group, which runs a number of websites, describes a process which adheres to a similar approach. ‘We have objectives for the year and we also have a three year plan. Both are cascaded down to individual departments. Then each individual has objectives in the year which are monitored on a quarterly basis. That’s how we ensure our objectives are aligned across the business’.

## **II. ESTABLISH A GOVERNANCE FRAMEWORK TO HELP BUILD RESILIENCE**

**Building an effective governance framework across an SME’s organisation can be an essential component of its scale-up success. Good governance can yield a number of practical benefits, which include reducing the risk of conflict between owners and improving the business’s prospects of being able to access external funding.**

The term ‘corporate governance’ refers to ‘a set of relationships between a company’s management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined’ (OECD 2003).

In particular, corporate governance can also help to address the challenges that SMEs regularly face owing to their limited resources. This can help to reduce the risk of business failure, which often comes about owing to an inability to manage cashflow and deal with the increasing complexities that emerge with growth. Good governance can help SMEs become more resilient in the face of these challenges, primarily by expanding the range of networks and expertise to which they have access.

This is supported by the evidence in Figure 2.1, which shows what the SMEs surveyed believed would be the most significant barriers to their business’ growth over the subsequent three years.



The majority of SMEs have an informal approach to governance but this research suggests that high-growth SMEs may be more likely to prioritise the development of a governance framework.

Across these top five barriers, moderate-growth SMEs perceived them as more significant than high-growth SMEs, with the exception of recruiting or training staff. This indicates that SMEs with higher growth ambitions may maintain more resilient business organisations for dealing with problems ranging from the state of domestic and global markets to the burdens of regulatory compliance and poor payment practice.

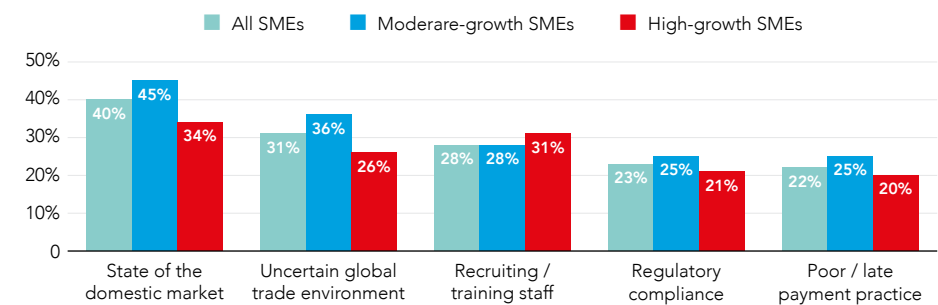
**Objectives of good governance in SMEs**

The majority of SMEs have an informal approach to governance but this research suggests that high-growth SMEs may be more likely to prioritise the development of a governance framework. There are a number of reasons for this but two in particular stand out.

Firstly, high-growth SMEs frequently have knowledge-intensive business models that rely on external networks for accessing best practice and expertise in order to grow. Secondly, establishing a good governance framework may help them to attract funding from investors when it is needed and potentially reduce the cost of raising such capital (Breedon 2012).

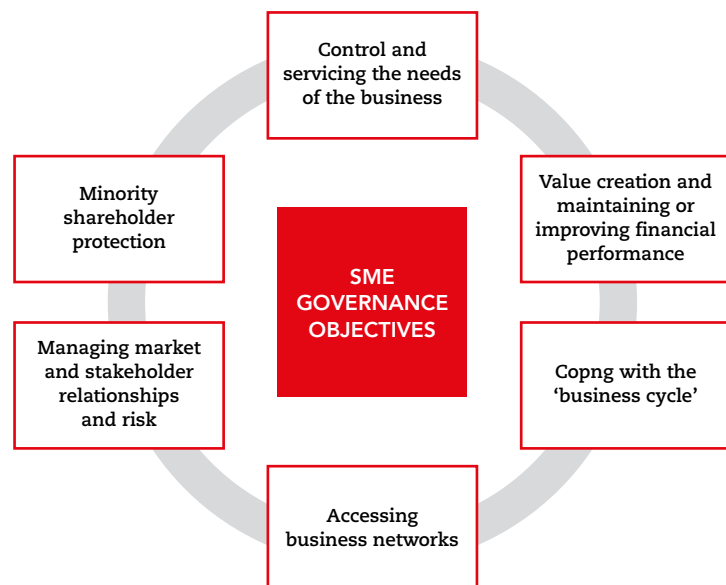
Figure 2.2 below illustrates the wide range of objectives for establishing good governance that are often prioritised by SMEs. The approach to governance taken by an individual SME is likely to vary considerably depending on its particular characteristics and circumstances.

**FIGURE 2.1:** The top five barriers that SMEs perceived as the most significant to their growth over the next three years



Source: ACCA 2018

**FIGURE 2.2:** SME governance objectives



Source: Li 2014

Partly in an effort towards attracting investors, high-growth SMEs may be more likely to link their governance frameworks with the development of new tools for risk management.

Partly in an effort towards attracting investors, high-growth SMEs may be more likely to link their governance frameworks with the development of new tools for risk management. As the business enlarges they are also likely to continue developing their approach to governance, not least in order to suit their changing needs.

**Building a governance framework**

SMEs looking to establish a governance framework broadly need to consider how they will address the three areas illustrated in Figure 2.3.

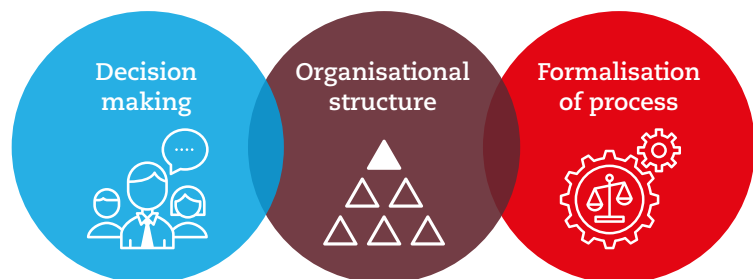
For decision-making, it is vital that the businesses put in place structures that will mitigate the risk that this activity will become too concentrated in the hands of a limited number of people (e.g. the founder or one or two senior individuals within the business). For example a properly constituted board will help to provide the accountability checks needed to regularly scrutinise and challenge executive decision-making processes.

Similarly, the business should look to formalise wider processes in the organisation in order to further decentralise decision-making. One important actor in this context is the finance function, where performance-monitoring activities will be central to the establishment of risk-management controls throughout the business.

Many founders of SMEs fail to take these steps. One CFO of in Vietnam explained that his own chief executive was resisting a loss of decision-making control: 'I provide analysis and advice but often the owner's mindset is difficult to change. It's almost an attitude that "no matter what everyone says, I will make my own decision". There can be costly lessons [from] this approach'.

Building a governance framework that ensures effective oversight of an SME's operations and processes, as well as the continual input of a wider range of external views, will improve the firm's ability to develop a growth strategy that is both more scalable and sustainable.

**FIGURE 2.3:** Principles of SME governance



**The value of NEDs**

One approach SMEs can take to support the creation of an effective governance framework is the recruitment of non-executive directors (NEDs). NEDs can often address the skills and experience gaps that SMEs experience as they scale-up. Equally, they provide an independent perspective that can help with businesses' development, often by helping them to achieve their strategic objectives.

NEDs can also play an important role in facilitating access to new networks from which SMEs can benefit. Those who have an expertise and a background in a particular industry can help businesses to develop new products or services as well as to access new markets. ■

## Vietnamese entrepreneurs discuss local challenges to scaling up



**ACCA Vietnam held a roundtable with entrepreneurs in October 2018 to discuss how local SMEs experience growth and what they can do to scale-up successfully in the future.**

Entrepreneurs said that it was often difficult to articulate a long-term growth ambition for many start-ups in Vietnam, as there was a focus on generating enough cashflow to survive. For the same reason it was unusual for most SMEs to set formal objectives for areas such as market expansion or revenue growth.

The key barriers to growth that businesses faced included uncertainty over market changes in the wider Association of South East Asian Nations (ASEAN) region, as well as unfair business practices emerging from the informal economy.

Vietnam is, of course, an emerging market and the last few years, in particular, have witnessed a significant change in the domestic business environment. One consequence, entrepreneurs say, has been that local regulations have struggled to keep up with technological change. As a result, compliance has become unnecessarily burdensome for those running SMEs.

Nonetheless, it was agreed that the most significant challenge for running an SME in Vietnam was talent management. Both recruiting and retaining staff were particularly difficult for smaller businesses with limited resources. The jobs market

in Vietnam is competitive, with well-qualified staff in high demand. These workers are therefore able to be more selective about employers as well as demanding higher salaries.

Entrepreneurs considered the finance function to be the backbone of any business. They further perceived it as having a central role in any attempt by an SME to access external funding – including taking responsibility for leading external engagement with prospective investors.

Entrepreneurs agreed that SMEs need to do more to formalise their finance functions from an earlier stage. In practice, as with access to talent more generally, it was often difficult to find the right professionals to scale-up inhouse finance teams. Partly as a result, business owners in Vietnam still tend to run day-to-day finance activities themselves, even though many of them lack the relevant knowledge and skills.

Finally, businesses discussed the advice market for SMEs in Vietnam. Besides basic accounting and legal services, entrepreneurs claimed that there was limited availability of more bespoke advice about growth. They said this was often a major competitive disadvantage for Vietnamese businesses, as SMEs from neighbouring countries had better access to such advice. Purchasing advice from overseas was not feasible for the majority of SMEs, who did not have the resources to do so. ■



Those SMEs that resist – or fail to recognise – the importance of developing management practices may run into difficulties.

### **III. DEVELOP MANAGEMENT TEAM ALONGSIDE BUSINESS GROWTH**

The first episode of significant growth in an SME's lifecycle can often mark a crucial turning point. Whereas the founder might previously have relied upon their own expertise to run the business, a significant growth period often requires the organisation to harness a wider range of skills and experiences, in order to deal with the emerging complexities that it might not have encountered previously.

Those SMEs that resist – or fail to recognise – the importance of developing management practices may run into difficulties. In particular, SMEs frequently experience significant amounts of inefficiency during a period of rapid growth.

In such a scenario, for example, businesses' operations frequently struggle to meet additional demand from customers, or to adapt to new suppliers. Senior management can also fail to re-allocate resources to deal effectively with the necessary organisational changes that need to take place across the business's structure.

For high-growth SMEs, the management approach of their organisation was often characterised by a series of key actions which we detail below.

#### **Establish a management team with complementary skills and experience**

SMEs should look to developing a management team, over time, with the skills and experience required to address the emerging challenges that come with growth. Microbusinesses, in particular, are frequently characterised by their informal approach in this area – often with the

founder/owner-manager centralising these activities under their own supervision – which is partly a consequence of their limited resources.

This is supported by existing evidence, which shows that SMEs are less likely to use formal management practices than larger businesses (Forth et al. 2006). This can represent a significant risk when growth occurs.

Mark Gold, a Partner at UK accountancy practice Silver Levene, says that scaling up requires SMEs to anticipate what skills and experience they will require as they grow, and then seek to obtain these attributes. 'As part of their growth strategy, entrepreneurs need to think about the future challenges they may face and whether they have the expertise in-house to deal with them'.

Mark explains that businesses may not have the resources to recruit management teams from the outset. 'You don't need to hire everyone at once but you should be able to reach out to those like your accountant in order to guide you along this process. What is key to building a sustainable growth strategy is broadly understanding what knowledge and capacity you'll need and when'.

#### **Tap into peer-to-peer networks**

High-growth businesses focusing on scaling up their management capacity may want to obtain relevant best practice and knowledge transfer in order to do so. This is often derived from peer-to-peer networks and mentoring support, as well as leadership and management programmes. Taking a proactive approach to identifying these opportunities can often significantly enhance businesses' growth prospects.

High-growth SMEs sought to position their finance function as a strategic centre, with a remit to add value proactively to other teams within the organisation.

#### IV. INTEGRATE FINANCE INTO GROWTH STRATEGY

Particularly after SMEs have begun to expand, their strategies for continuing to achieve long-term growth are often increasingly tied to the development of their finance capabilities. This is centred on formalising the function's role and developing its strategic focus.

There is often no correlation between the size of one's business and that of its inhouse finance function. Indeed, SMEs, particularly at start-up phase, may choose to outsource many relevant activities. However, as Dr Leslie Spiers stated, the role of the finance function – whether located internally or externally – must nonetheless match 'the size and scale' of one's growth ambitions: 'The finance function's activity has to meaningfully support the wider activities of the business as it scales up'.

##### Formalising the finance function

Establishing an autonomous finance function that seeks collaboration with other departments may provide greater stability as the business moves along its growth journey. In practice, as Uresha Walpitagama, a Consultant Project Manager at the Asian Development Bank noted, many entrepreneurs are not used to establishing or developing a finance function and building up the right systems.

'The transition from small to medium [size] is where business growth can really suffer', Uresha explains. 'Entrepreneurs tend not to believe that the finance function is important to growth – they think with their knowledge they can run the businesses alone. Yet this does the opposite as it prevents businesses from becoming more competitive in the market – largely because they lack financial discipline'.

In fact, the high-growth businesses we spoke to were quick to address these potential risks and therefore often sought to scale-up their finance function at an early stage of the business's lifecycle. Responsibility for finance activities was decentralised and moved away from the founder, with a large number having appointed an FD or CFO. Such staff

members were almost always members of a senior management team with a remit for proactively contributing to the wider strategic development of the business.

##### Developing a strategic focus

Our research revealed certain patterns in the specific activities for which high-growth SMEs' finance functions were responsible in contrast with the rest of the SME population. In particular, certain activities, including accessing external funding, carrying out business and investment analysis, as well as obtaining strategic support, were more characteristic of a finance function within a high-growth SME. This represents a process of diversification into a wider range of tasks away from 'core' accounting activities.

Indeed, some high-growth SMEs sought to position their finance function as a strategic centre, with a remit to add value proactively to other teams within the organisation. Nauman Mian describes the finance function in his business as a 'value-add department'. Its role is to provide 'strategic input on a regular basis to the whole organisation'.

'We talk to different teams about how they can run things better and be more efficient', Nauman says. 'This can only work if the function is more approachable – that means not ticking boxes but reaching out to people. One of the great things about working in finance is a deep visibility about how the organisation is running. If you can share that info with the right people in the organisation you can contribute tangibly to the business's growth'.

The finance function of high-growth SMEs was also more likely to be responsible for additional activities related to the monitoring of market conditions and customer needs. Tuyen Tran, CFO of Go Viet, a start-up in Vietnam, says the finance teams of high-growth SMEs tend to be responsible for a wider range of activities than is the case in other businesses.

Tuyen explains: 'They're [finance teams in high-growth SMEs] commenting more on business decision-making where other finance teams wouldn't. This is partly

**SMEs that conduct regular strategic assessments of the available technology options and how these can be adopted in a way that aligns with their existing objectives are therefore more likely to succeed in any business transformation exercise.**

because they have a more defined role in the decision-making process as well as having access to more data to make their case'. These teams, Tuyen adds, often evolve into company strategists.

Gabriel Low, CFO (South Asia-Pacific) for Weidmuller Singapore, an engineering company, stresses the importance for businesses, as they scale-up, of developing a finance function that recognises its role as a decision-making operation rather than simply focused on compliance. 'If you enable them to make decisions you can process more transactions. The empowering of people becomes a multiplier effect. They need to make decisions when they need to be made – they are empowered and brave enough to take action'.

#### **V. ADOPT NEW TECHNOLOGIES AND USE THE RIGHT DATA**

Our research revealed that 40% of the SMEs surveyed intended to adopt new technologies in an effort to expand their organisation over the following 12 months. Management is central to identifying the right technologies. This in turn can have a significant impact on increasing an SME's growth prospects.

Whereas technology adoption was previously only accessible to larger businesses, owing to factors relating to economies of scale and greater sophistication, the SME market is becoming increasingly well catered for. Small businesses can now access products that specifically enable them to improve their productivity, generate savings and manage people more effectively.

Nonetheless, successful adoption requires staff to be appropriately skilled in using such applications and management teams to understand where the potential benefits can be integrated within the business's wider growth strategy.

SMEs that conduct regular strategic assessments of the available technology options and how these can be adopted in a way that aligns with their existing objectives are therefore more likely to succeed in any business transformation exercise.

Stephen Chang, a Business Consultant based in the UK, says that this assessment exercise can be improved when SMEs also access the right advice about technology adoption. 'As a business you need to find people who understand your sector, customers, suppliers and so forth and therefore how technology can benefit your route towards growth'. Collectively, such an approach will also increase the likelihood that technology chosen will be scalable for the business as and when it grows in the future.

#### **Empower the finance function**

As we have explored, the finance functions of high-growth SMEs are often likely to be responsible for the adoption of new technologies within a business. These are likely to include cloud-based technologies that can help support the formalisation of finance processes as well as opening up new opportunities for the use of data across the business. It is therefore important for finance teams to reach out to other teams and to work more collaboratively when adopting new technologies, in order to understand how they may be able to benefit.



## **Understanding the 'tipping point' when adopting new technologies**

As part of integrating technology adoption into strategic decision-making, it is important for the management team to anticipate at what points the organisation will need to migrate from one level of technology to the next.

For example, a business may have identified the need for a new technology system but it will also be important to consider what products available in the marketplace suit its needs, both now and into the future.

This includes how data requirements and performance reporting processes may change as the business's operations become more complex. Therefore, recognising the need for scalability of adopted technology should be an important principle of an SME's wider growth strategy. ■



High-growth SMEs were more likely than other businesses to seek out external advice to help guide their strategic decision-making.

A key output of these conversations is likely to be the need for an enhanced system of monitoring (e.g. business processes, customer orders, team performance etc.). This might involve establishing initial performance targets across different teams, which in turn bolsters the finance function's own role as a strategic partner to the wider business.

Patrick Qu, Finance Director of 58.com, an online marketplace for classified adverts in China, says their own decision to undertake such an initiative was borne out of a need to manage the increased business complexity that came with scaling up. 'We have more than three million customer orders on a monthly basis. All these orders aggregate to 10 million different data points which our team needs to manage. So technology and data becomes essential to efficiently managing our finance tasks'.

Patrick adds that the finance function supports business growth by conducting a range of activities that help to monitor the business's wider performance. 'We will try to use the finance figures to track down what's really happening behind the scenes, whether there are any risks to the business or any opportunities where we can improve. Then we use this data to inform what different departments are doing. This gives team leaders more clarity over the costs of carrying out their respective tasks'.

The result of undertaking these activities is evidently the additional data and resource finance functions can then feed back to the wider business. This often empowers finance teams to demonstrate their value proactively in a way that they might previously not have done.

Sam Ellis provides an example of how the finance function at his business has used data as a means of supporting others across the business. 'When I became CFO I started to develop the finance team's relationship with other departments, work out what their challenges were, and what we could do to help them. And the message was analytics because we have a tonne of data. So we started producing relevant data for these departments. This integration aspect has been quite important for the growth strategy of the business'.

## VI. USE EXTERNAL ADVICE TO EXPAND WHAT YOU HAVE

A business that prioritises building a strong network of advisers and professionals can increase the possibility of introductions to prospective customers, suppliers and new talent. SMEs can gain further benefits, such as improved access to business intelligence and technological know-how.

The global external advice landscape is increasingly varied, with support available for tackling almost every individual barrier that businesses are likely to face when scaling up their operations. Accessing appropriate advice can therefore make a crucial difference to whether a business achieves its growth ambitions or not.

### Access to expertise

High-growth SMEs were more likely than other businesses to seek out external advice to help guide their strategic decision-making. As well as obtaining professional advice this also included obtaining views from a business network whose expertise could support the business's growth.

As Caroline Plumb explains 'investors definitely provide useful advice. They're people who've done it before and experience always counts. They can not only help you identify the best course of action but they can also say where you're likely to go wrong. I think that's very valuable'.

'I think what's important is that you seek a broad range of opinions ...so you can make a decision on any given issue. Sometimes this is a process of sorting the wheat from the chaff and picking up the right elements to listen to'.

Sam Ellis explains that his business benefits from being part of an organisation with offices all over the world. 'Our biggest external resource is our team in the United States. We regularly leverage their expertise and intelligence as they're essentially on the same journey as us. They've made the same mistakes and had the same issues'.

While high-growth SMEs are likely to seek out external advice and networking opportunities most small businesses fail

**High-growth SMEs were more likely than moderate-growth firms to value a management consultant, accountant or financial adviser when obtaining advice on growth.**

to do so. This can represent a significant missed opportunity. Indeed, as Figure 2.4 shows, there are some notable differences between the sources of advice that high-growth SMEs and moderate-growth SMEs most value when planning to grow.

High-growth SMEs were more likely than moderate-growth firms to value a management consultant, accountant or financial adviser when obtaining advice on growth. They were also more likely to value advice from banks or investors.

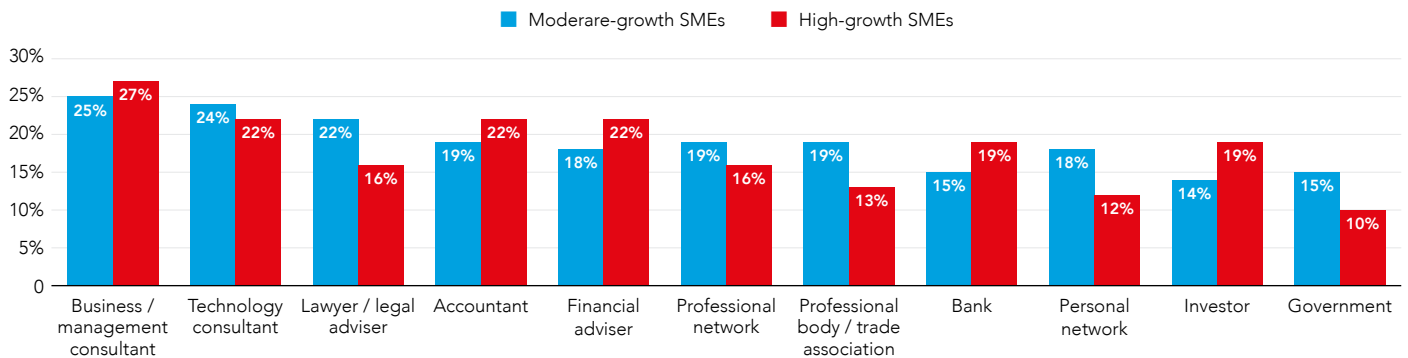
Steve Bushell, a Partner of accountancy firm Gooding Partners in Australia, says these sources of external advice are particularly relevant for SME owners wanting to sell their business. 'It's an opportunity for the owner or directors to gain a clearer understanding of the

value of their business and what they need to improve upon in order to meet that valuation'.

In contrast, moderate-growth SMEs were more likely than high-growth SMEs to value advice from their network, professional body, trade association and governments. All these sources are likely to involve minimal cost whereas high-growth businesses might be prepared to make a more significant financial commitment towards obtaining advice.

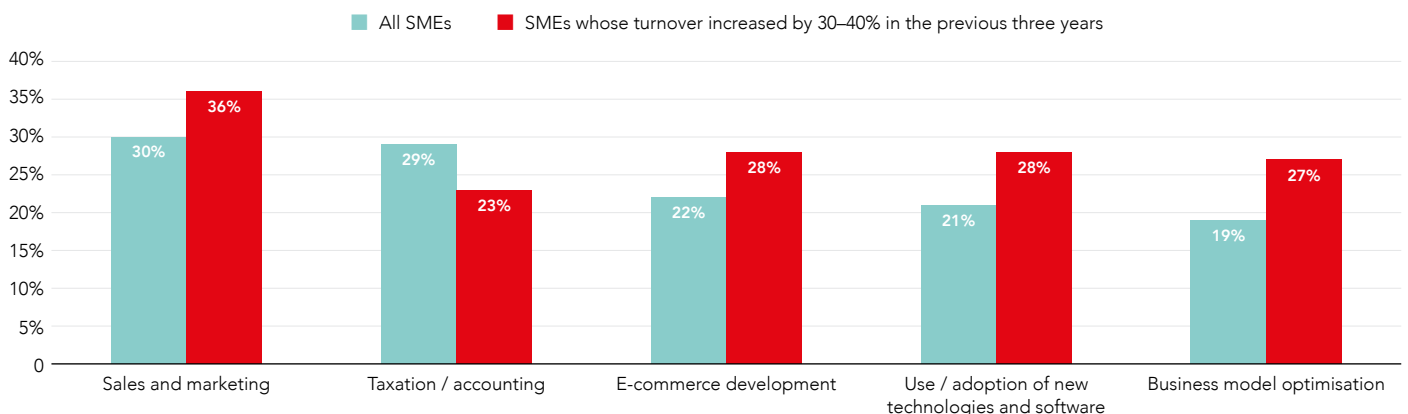
Our research also revealed that businesses obtain different types of advice, depending on their recent experiences of growth. Figure 2.5 shows the use of advice by SMEs that had grown in turnover by 30%–40% over the previous three years and by all SMEs surveyed.

**FIGURE 2.4:** Most valuable sources of external advice to SMEs for achieving their growth ambitions in the previous three years, comparing moderate-growth and high-growth SMEs



Source: ACCA 2018

**FIGURE 2.5:** Top five areas where SMEs have obtained external advice when looking to expand their business, comparing all SMEs with those whose turnover had increased by 30%–40% in the previous three years



Source: ACCA 2018

**‘No one wants to have just accounting advice, especially when related to growth. They need to be shown how – they don’t need to be told’.**

**Dr Nina Tan, Managing Director, Business Intelligence and Analytics**

Those businesses that had recently experienced a significant growth episode were less likely than other SMEs to have obtained advice on taxation or accounting. Dr Nina Tan explains that external advice for ambitious businesses ‘has to be multi-disciplinary because no one wants to have just accounting advice, especially when related to growth. They need to be shown how – they don’t need to be told’.

Instead, these businesses were more likely to have obtained advice on adopting new technologies and scaling up their e-commerce capabilities. They were also more likely to have obtained advice on business model optimisation. This is common among SMEs following a growth episode; they may subsequently seek to develop a structure that matches the additional demands and challenges being placed on their operations and processes.



## Using external advice to stay ahead of the competition

Sam Wirth is the Chief Executive of Dora Wirth Languages (DWL), a translation services company specialising in work for the pharmaceutical industry and based in the UK. Established in 1964, the business employs 13 members of staff. It is particularly reliant on good, professional translators along with technologies delivering its range of services to clients around the world.

As Sam explains, the translation services industry is highly fragmented with a large number of providers operating across a truly globalised marketplace. ‘New advances in technology are continually requiring us to invest in our service offering in order to stay ahead of the competition’.

Also as a consequence of intense competition, the business’s value proposition to clients is necessarily about providing an excellent service above all else. ‘For obvious reasons relating to safety and risk, pharmaceutical work has to be of the highest standard. Therefore quality of service isn’t just a generic aspiration for us – it is absolutely essential – particularly if we have competitors with greater resources to spend on new technologies. Clients won’t come back to us if they don’t recognise that what we’re offering is of the highest quality’.

DWL has invested in retaining a consultancy to ensure that their investment in new technologies is targeted and effective. ‘We first paid for the consultancy to refocus the way we were working, to turn us more into a sales operation than just an order processing one. They showed us some examples of best practice and we’ve adopted many new approaches to the way we work as a result of it’.

Yet Sam explains that external advice is invaluable to how the business continues to develop. ‘We use a professional advisory firm to provide us with intelligence, best practice and updates on how the language services industry is evolving across the world’. This allows Sam to continually review how best to innovate and to generate new efficiencies across the organisation.

‘Today the primary value of advice is accessing the right information and insight about our industry – because we don’t always have the time or resources to do it ourselves. This hugely informs our strategy and the development of targets as the business grows’. ■



High-growth SMEs are not just more likely to seek external funding but also a broader range of funding options to suit their scale-up needs.

**VII. BUILD AN EXTERNAL FUNDING NETWORK**

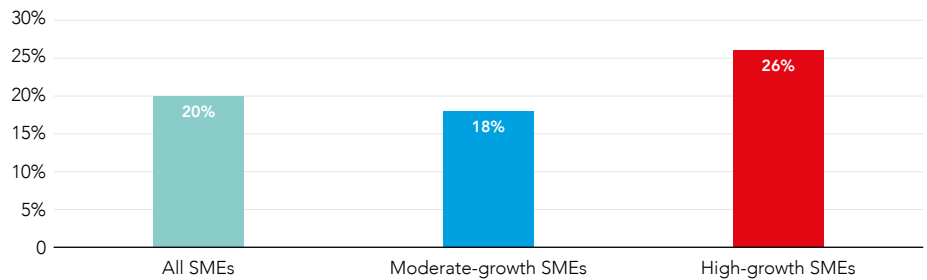
Difficulties in accessing funding are widely recognised as a major obstacle to both starting and expanding a business (OECD 2015). SMEs often miss out on opportunities of entering new markets, creating new efficiencies or investing in their own infrastructure owing to an inability to obtain funding.

Our research shows that high-growth businesses are significantly more likely to recognise access to external funding as a barrier to growth, as shown below.

This is partly because high-growth SMEs typically require specific forms of external funding in order to grow – and often scale-up their use of external funding as they do so. This is seen in figure 2.7 below.

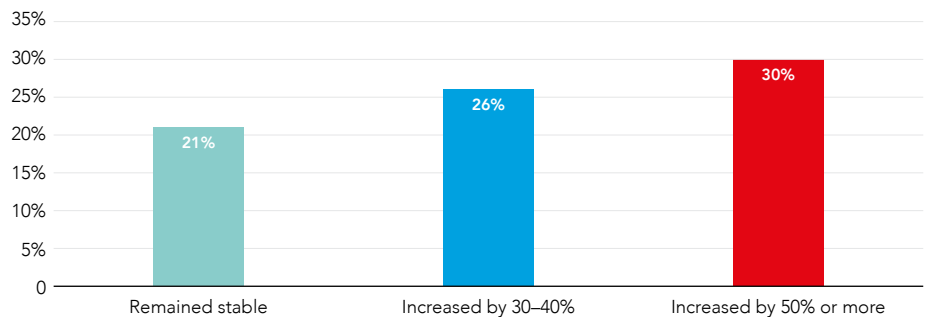
This data indicates a correlation between increased turnover growth and access to external funding which may have supported some SMEs in scaling up successfully. It is also important to note, however, that high-growth SMEs are not just more likely to seek external funding but also a broader range of funding options to suit their scale-up needs.

**FIGURE 2.6:** Perceptions of access to finance as a significant barrier to SMEs’ growth ambitions over the next three years



Source: ACCA 2018

**FIGURE 2.7:** The relationship between accessing external funding and turnover growth



Source: ACCA 2018

**High-growth SMEs were more likely to have obtained external funding than moderate-growth SMEs – and were also more likely to have accessed a wider range of funding options.**

For example, equity finance becomes much more important to high-growth SMEs in situations where revenues will only arrive following significant investment in a product or service. Therefore without access to appropriate types of external funding as businesses scale-up, growth prospects may be placed at risk.

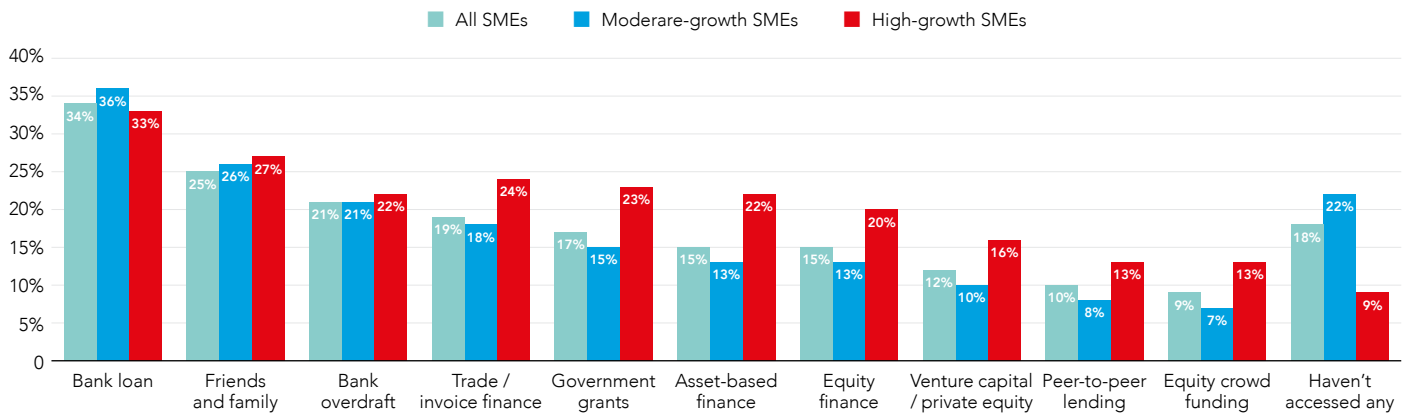
Accordingly, we asked SMEs whether they had accessed a range of external funding options over the last three years.

High-growth SMEs were more likely to have obtained external funding than moderate-growth SMEs – and were also more likely to have accessed a wider range of funding options. Moderate-growth SMEs were more likely to have obtained external funding from a smaller number of sources, namely bank loans and from friends and family. Moderate-growth SMEs were also more likely not to have accessed any external funding at all.

These findings are supported by evidence that suggests that, partly owing to limited resources, most SMEs fail to allow themselves enough time to investigate the most appropriate external funding options for their business. Research also suggests that the majority of SMEs that apply for finance obtain it from the first source they approach (BEIS 2013).

As a result, SMEs may be less likely to access advice about external funding, either because they presume it is not appropriate for them or because they do not proactively consider alternative funding options (BEIS 2015). This is not the case, of course, for high-growth SMEs, with our research showing that those that have experienced higher turnover growth in the previous three years were also more likely to have obtained advice specifically on external funding.

**FIGURE 2.8:** Sources of external funding obtained by SMEs in previous three years



Source: ACCA 2018

**SMEs that proactively seek to cultivate relationships with prospective lenders and investors on a continuous basis are more likely to obtain external funding when it is needed.**

Therefore, having better awareness and understanding of options available in SMEs' local funding markets could contribute to more successful scaling up.

Amanda Powell, CFO of ME Digital Group, which owns and operates a number of brands and Web properties across the Middle East, explains a familiar growth challenge linked to external funding. 'We are an ambitious business with plans to grow over the next three years. One of the challenges we have at the moment is matching the outlay in resources that will come with expanding into new markets with available finance'.

For SMEs experiencing growth or anticipating it, understanding their funding options may require them to develop their own networks with prospective investors or obtain specialist advice in this area.

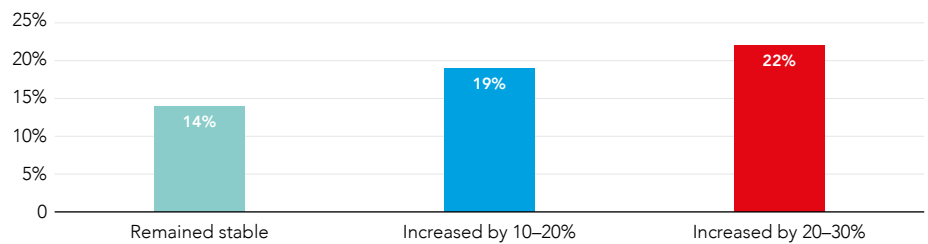
Stephen Chang stresses the importance for SMEs of maintaining a good relationship with lenders. 'A good relationship with the banks is crucial. Businesses need to be proactive – they need to keep close to the bank even

when they don't need money. It's extremely critical. It's important to engage with [your] relationship manager and regularly update them with your business, especially when you're doing well, because when the time comes when you need additional funding then hopefully that relationship will pay dividends'.

Indeed, as Amanda notes, her business has subsequently sought to develop its relationships across the investor community. 'We've been speaking to individual investors and a number of venture capital firms. Whilst we know our business well, this isn't an area that we've previously been as familiar with'.

SMEs that proactively seek to cultivate relationships with prospective lenders and investors on a continuous basis are more likely to obtain external funding when it is needed. Indeed, our research shows that many businesses with higher growth ambitions have sought to retain these relationships with the investor community – even when they were not experiencing periods of growth.

**FIGURE 2.9:** Advice obtained by SMEs on external funding, compared with rates of turnover growth over previous three years



Source: ACCA 2018



## Accelerating growth: Nurturing through networking



SMEs can sometimes increase their chances of overcoming barriers to growth through being exposed to the benefits of a collaborative network. In the last decade, so-called accelerator programmes have rapidly grown in popularity among SMEs and governments across the world.

Their objectives can vary widely but essentially they provide start-up SMEs with office space and accelerated learning over a limited period of time (usually 12 to 16 weeks). Incubators, on the other hand, provide businesses with the necessary support to help them grow and the length of gestation can vary from business to business. Services within programmes such as these can include business planning, product development, mentoring and the opportunity to pitch a business to potential investors.

Barclays, a multinational investment bank and financial services company, runs its own network of incubator spaces in the UK called Eagle Labs, spaces designed specifically to help entrepreneurs and ambitious businesses to scale. Eagle Labs provide high-growth businesses with office and co-working space, curated events, business strategy and mentoring, access to product design and prototyping expertise and equipment as well as access to the Barclays-wide network in order to create a community of high-growth and high-potential businesses.

Jonathan Hope, Eagle Labs Director at Barclays, describes the programme's mission as creating the right environment for businesses to grow: 'The concept of the Labs was born from a desire to cultivate a community of likeminded entrepreneurs and provide them the tools they need to scale at pace. By helping our Eagle Lab members develop their initial concepts into revenue-generating businesses, we play a part in creating local jobs and stimulating economic growth.'

Many programmes are likely to be 'growth driven, typically aiming to produce companies that will scale rapidly or fail fast, thus minimising wasted resources' (BEIS 2017). Jonathan says this very much applies to the Eagle Labs programme. 'Every business is different and while we're a fan of accelerator programmes, we want to add longer term value for our member businesses and for this reason, we take a deeper interest in individual businesses and ensure that we are giving them the right support when they need it.'

Many participating businesses are run by founder with substantial corporate experience. 'They probably have come out of an industry and seen a way that they can innovate a specific product or process. They're mostly second or third-time entrepreneurs who have successfully built and exited their previous businesses'.

Jonathan explains that the main draw to Eagle Labs is the substantial networking opportunities on which business can capitalise. 'We see our member businesses thrive on connecting and working with other fantastic companies and being in an environment that they can learn from, can share knowledge and grow. The value lies in being around other high-growth, fast-paced businesses'.

Jonathan believes that the rise of incubators and shared working spaces has partly emerged as traditional routes to accessing business advice have declined. 'Our experience in designing and running the Eagle Lab network, currently at 19 labs across the UK, has shown us an alternative way to use a physical space and create an environment of mentoring and learning. By connecting like-minded people, and being as inclusive as possible we have been able to create a lively and unique hub for businesses to come together.'

And as growth SMEs typically want to internationalise quickly, Jonathan says the programme is very much geared to helping businesses access opportunities beyond the domestic market. 'We have aspirations beyond just helping UK businesses grow in the domestic market. We're assisting UK businesses to grow internationally and widen their access to new customers, mentors and skillsets'. ■



## 3. Conclusion

**Businesses that scale-up come in all shapes and sizes, but the most successful are those that are able to articulate a purpose and vision across all levels of their organisation. This can feed into the creation of a growth culture, which amongst other benefits, can provide them with a greater ability to overcome the barriers towards progress.**

Another key factor contributing to these businesses' success was their approach to management and governance structures. Formalising the way such systems worked and ensuring they had the right talent on board was a crucial imperative for coping with the growing demands of scale-up. In contrast, for the majority of SMEs, their approach in these areas is likely to be relatively unstructured and informal.

Equally, a proactive approach to obtaining advice and engaging in professional networks enabled these SMEs to benefit from the knowledge transfer and industry best practice that gave them an advantage over their competition.

That said it is important to note there is no rulebook for growth itself, which can come at any stage. Even so, as this report has demonstrated, there are a number of practical steps entrepreneurs can take to increase their chances of achieving it.



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# Acknowledgements

## AUSTRALIA

### **Stephen Bushell**

Partner, Gooding Partners

## CHINA

### **Patrick Qu**

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## SINGAPORE

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