

International Practice of Fast-Growing Innovative Companies

Marina Yudenko, Nadezhda Polovnikova

Petersburg State Transport University Emperor Alexander I, St. Petersburg, Russia

Natalya Chikisheva, Natalia Meller

Tyumen Industrial University, Tyumen, Russia

Irina Kuzovleva

Bryansk State Engineering-Technological University, Bryansk, Russia

The purpose of the article is to compare the conditions of development and support of fast-growing companies in European countries, Asian countries, and Russia. The comparative analysis performed is of interest as certain countries, including Russia, face the problem of economic slowdown. However, the fast-growing companies are powerful catalysts for the growth of the gross domestic product and the employment of the population. The conclusion of the study is that there are common patterns in ongoing support programs for fast-growing companies: long term, state support, innovative company orientation, and concessional financing. At the same time, there are fundamental differences in approaches to the state support for innovative companies. The first approach relates to the natural development of the fast-growing innovation companies and their support programs (Germany, Denmark); the second approach is aimed at artificially stimulating the growth of such companies (South Korea). In Russia there are institutional features of supporting fast-growing companies: small businesses are the most vulnerable part of the economic system and they require state support in crisis situations. Therefore, the experience of European and Asian countries in terms of supporting innovative and fast-growing companies can have a positive impact on the development of innovative companies in Russia. And definitely it is important to try to understand the nature of Russian innovative fast-growing companies: do we see them as entrepreneurial business as we do in the Western companies?

Keywords: fast-growing companies, support program, small businesses, administrative barriers, Russia, gazelle

Introduction

European and American researchers concluded that among a large number of companies in any national economy about 5% hereof affect the economic renovation, creation of new jobs (up to 85%) and increase in

Marina Yudenko, doctor of Economic Sciences, professor, Department of Economics and Management in Construction, Petersburg State Transport University Emperor Alexander I, Saint-Petersburg, Russia.

Nadezhda Polovnikova, Ph.D., ass. professor, Department of Economics and Management in Construction, Petersburg State Transport University Emperor Alexander I, Saint-Petersburg, Russia.

Natalya Chikisheva, doctor of Economic Science, professor, Tyumen Industrial University, Tyumen, Russia.

Natalia Meller, Ph.D., ass. professor, Department of Management of Construction and Housing and Communal Facilities, Tyumen Industrial University, Tyumen, Russia.

Irina Kuzovleva, doctor of Economic Sciences, professor, head of the Department of Economics and Management, Bryansk State Engineering-Technological University, Bryansk, Russia.

Correspondence concerning this article should be addressed to Marina Yudenko, Department of Economics and Management in Construction, Petersburg State Transport University Emperor Alexander I, 9 Moskovsky Pr., Saint-Petersburg 190031, Russia.

labor capacity and production performance. This finding has led to the understanding that fast-growing companies are the main catalysts for innovative changes in the economy.

In accordance with the Eurostat definition, high-growth companies are firms with average annual revenue growth rate from sales of more than 20% over a period of three years. The proportion of high-growth companies varies within 7%-13% of the total number of companies in developed countries and their share amounts to 17%-23% in the post-socialist countries of the EU (see more in: Kolodnyaya, 2015, p. 57; Mitusch & Schimke, 2011). According to the European Commission data (European Innovation Scoreboard), the EU continues to catch up with the world innovative leaders, but innovations are still hampered by the low level of investment business and restrictive conditions that affect SMEs (small and medium-sized enterprises). The leader in innovations is Sweden followed by Denmark, Finland, Germany, and the Netherlands. The fastest growing innovators are Latvia, Malta, the Netherlands, and the United Kingdom.

According to the Rosstat (Russian Federal State Statistics Service) data, the proportion of innovation-active companies in Russia is about 10% (in the EU this figure is 53%), 13% among the firms of the manufacturing sector and about 30% among high-tech enterprises (in the EU—65%-95%). Despite the terminological differences concerning high-growth innovative companies (middle level companies, “gazelle” companies, “national champions”, “hidden champions”, knowledge firms, or companies based on knowledge), the majority of experts and scientists recognize that these enterprises are an important component of the national economies in developed countries.

Literature Review

After Birch (1979) discovered the phenomenon of high-growth companies in the 1980s, the popularity of high-growth companies in the United States increased. Despite their small numbers, high-growth companies provide a significant portion of the total GDP (gross domestic product) growth and staff employment (50%-80%) in countries with developed economies. It was found that most of the large (“elephants”, according to Birch) and small (mice) companies grow slowly and make a minimum contribution to employment and GDP growth. There is, however, a small group of companies that combine high dynamics and sustainability of growth. Birch named them “gazelles” emphasizing the similarities of such firms with an animal that not only develops high speed but also can maintain it in the long run.

Analysis of the fast-growing companies’ phenomenon could not but attract the attention of scientists. The findings of Birch have been taken to the next stage and confirmed in the proceedings of researchers. Thus, Audretsch (2002, p. 15) evidences the dynamic role of small businesses in the U.S. economy. A particular emphasis is placed on the contribution of small firms to innovation, job generation, and international competitiveness. Other academic researchers argue that firms grow in many different ways and that these patterns of growth, over time, can vary significantly and have different causes. Implicit in this view is a belief that the search for an explanation for why firms grow without knowledge of how firms grow leads to conflicting theories about the causes of firm growth (Delmar, Davidsson, & Gartner, 2003, p. 7).

The economist Hermann (2015) describes, through what methods, some companies, despite its modest size and being almost completely unknown to the public, were able to capture a significant portion of the world market.

Research Model

Scientific and practical interest of the program and schemes of support for high-growth companies in

several European and Asian countries are represented.

Support Programs and Schemes in Denmark

Like many European countries, Denmark is facing the problem of slowing economic growth. On the one hand, wages in Denmark have been growing faster than in similar countries of the Organization for Economic Co-operation over the past 10 years; on the other hand, the Danish labor productivity growth is one of the weakest within the Organization for Economic Co-operation and Development (OECD). The report on entrepreneurship and startups emphasizes that jobs will be lost if Danish businesses don't take action to increase the competitiveness of companies. This situation leads to the need to stimulate startups. In final report, prepared by the OECD Local Economic and Employment Development Programme it is noted, that more than 14,000 potential firms with high-growth rates were provided with support in Denmark over the period from 2007 to 2012.

Danish Growth Houses program officially launched by the Government in June, 2006, seems quite atypical in comparison to the general background. In 2007, five regional Growth Houses—independent non-profit institutions run by local municipalities—were opened in the country, and later (in 2011) in the context of management reform, the overall control of the program and its financing was finally delegated to the municipal (regional) level. The Growth Houses program initially focused on grassroots support for “new and small firms with growth potential that plan to actively develop their businesses”. The support program includes plenty of tools—about 220 types of government services.

Programs in the Netherlands

The history of the Dutch program called Growth Accelerator began in 2004, when the report on “High Growth Rates of Companies and Innovations” was published, which presents the results of the research performed by the Dutch Ministry of Economy. According to the report, high-growth firms have been and remain to be of interest for the Ministry as a task force in carrying out its mission to contribute to the economic growth of the country. A great deal of attention in the report focused on reducing the number of redundant rules and administrative pressure on businesses so that entrepreneurs could focus on their entrepreneurship.

Growth Accelerator was established in 2009 and is a long-term program that aims to support local companies with annual turnover ranging from two to five million euros (currently 10 million euros). The declared target is when these companies reach the level of sales of 20 million euros and more after the expiration of five years of the first phase of the program.

The main idea claimed by ideologists of the program is the thesis that best consultants for high-growth companies are their fellow entrepreneurs who have already demonstrated the efficiency of their business in practice.

Support Programs and Schemes in Scotland

Micro-enterprises dominate in the Scottish business as in many other European countries. In Scotland, there are few enterprises with more than 10 employees and just several large companies. Scotland, together with the UK economy, is making efforts to make small businesses grow into big ones in order to get a factor of economic growth. In 2012, a report was published which stated that only 12 companies with a turnover between 250 million and one billion pounds were registered in Scotland in 2012, which is 5% of the total number of companies in the UK. This study also showed that about 50% of the top 100 companies in Scotland were mostly concentrated on four sectors: banking, oil and gas, electricity, and transport.

In connection with the above, it is worth to mention a Scottish selective program called Companies of Scale

(CofS) which was officially launched in pilot version in 2005. Its chief curator and direct operator is Scottish Enterprise (SE), the state innovation agency of Scotland. Initially the program focused on personalized support for local companies with a turnover of more than 10 million pounds, and the main target of the project was for these companies to reach a turnover level of 100 million pounds. Moreover, one of its distinctive features was the organization and implementation of most of the “accompanying procedures” (expert advice and support) directly by the Scottish Enterprise’s specialists. The involvement of outside consultants is used rarely and only in cases when the Scottish Enterprise does not have specialists with needed professional qualifications (expertise).

Programs in Germany

High-tech project called Gründerfonds (HTGF) was first created in 2005 with the purpose of financing innovation-oriented companies with serious technological or market risks at an early stage of development. HTGF pursues national objectives to stimulate seed financing and improve financing conditions for technological startups on a permanent basis. Although this is not clearly formulated as the aim of HTGF, nevertheless, it can be characterized as “high growth” program focused on companies with growth potential. The selection process takes into account the peculiarities of the firm activity or business concepts that might confirm certain growth potentials. Thus, by focusing on the relatively small number of promising business concepts and companies (in comparison with the total number of firms of Germany) a strategy of “betting on winners” is being implemented.

HTGF is a national program created at the initiative of the German Government and, therefore, focused on the achievement of national goals. The program performs the functions of a geographical outreach program throughout the country. The program has no spatial priorities for balanced geographical distribution of companies’ portfolios or any requirements to support companies in the lagging regions. However, in accordance with the structure of settlements in Germany, most fast-growing startups are created and operated in densely populated urban areas: Munich, Stuttgart, Hamburg, Berlin, and Dresden. The only thing related to geographical aspect concerns financing: the proportion of equity capital in the company must be 10% in the eastern regions and 20% in the western regions of Germany.

Programs in South Korea

As of early 2014, at least seven different government programs and projects supporting local high-growth companies aimed at artificially stimulating the growth of the most promising companies, mainly of the average technological level, and the creation on their basis of a powerful network of global national champions (also called Global SMEs) were under implementation in the Republic of Korea. Currently the most actively developing long-term program is World Class 300 jointly supervised by several government agencies and development institutions. The purpose of this program is quite ambitious: the formation of a strong layer of 300 world-class companies. All project participants are promised to be provided with active government support for a sufficiently long period (about 10 years). According to official statistical data on the participants selected up to the end of 2015, the average annual turnover of these companies was about 160 million dollars, the average share of exports in total revenue was 58.4%.

Programs in Malaysia

A new program of government support for high-growth medium-sized companies was launched in Malaysia in 2014. Its official name is Mid-Tier Companies Development Program (MTCDP). Its chief curator is the Ministry of International Trade and Industry of Malaysia, and its direct operator and controller is the state

Malaysia External Trade Development Corporation (MATRADE).

The main goal of the Malaysian authorities is to create 480 high-growth national companies, 60 regional champions, and 21 thousand jobs with high levels of wages in the country by the beginning of the next decade.

On the whole, the general scheme of the Malaysian program is quite similar to the Korean approach: annually they select prospective national companies which already have strong export orientation. MTCDP is generally targeted at industrial companies with annual sales ranging from 12.5 to up to 125 million dollars and service companies with annual sales between five and 125 million dollars.

Support Schemes in Chile

CORFO, legally established in 1939, is the Chilean agency responsible for the stimulation of economic development. Throughout its history, CORFO has implemented a variety of tasks related to the development of national economic activity, including the creation of state-owned enterprises by offering direct loans to businesses. In the early 1990s, CORFO focused its actions on stimulating innovations, entrepreneurship, and development of small and medium-sized enterprises. CORFO offers corresponding grants and financial support channels through financial intermediaries to small and medium-sized enterprises (CORFO acts as a second-tier bank). Currently the mission of CORFO is aimed to the development of entrepreneurship and innovations for the growth of productivity and Chilean competitiveness in the world market.

In order to support the initial launch of innovative startup enterprises with high-growth potential (dynamic entrepreneurship), CORFO established a Seed Capital Program (SCP) in 2001. The program was created as part of a package of initiatives aimed at promoting dynamic startups in the country. These efforts were initiated in the late 1990s by creating credit lines to encourage the establishment of private venture capital funds, but then they were refocused on the implementation of diagnostic functions that had to do with the need to improve the transactions flow of technology startups.

Programs in Bulgaria and Their Prospects

Unfortunately, the Community Innovation Survey (CIS) in the EU for the five-year period found that one-third of companies in Europe were classified as innovative ones. In Bulgaria, only 13% of businesses define themselves as innovative (Damyanova, 2015, p. 147).

In 2014-2020, innovation activity in Bulgaria will be directed at achieving three objectives set out in the EU strategy called “Europe 2020”: on providing intelligent and sustainable growth (Damyanova, 2015, p. 151). The National Strategy for the Development of Scientific Research 2020 stipulates that the priority areas of science in Bulgaria until 2020 will be: energy, energy efficiency and transport; green and eco-technologies; health and quality of life, biotechnology and organic food (environmentally friendly foods); new materials and technologies; cultural and historical heritage; information and communication technologies.

By 2020, Bulgaria has to modernize its research environment and be able to become a competitive partner. This strategic vision not only seeks to meet European prospects, but also to create conditions for the implementations of national goals and criteria set so that by 2020 Bulgaria becomes a “moderate innovator” in the European Innovation Scoreboard.

Programs in Russia

For a more objective study is needed to answer the question: what features characterize high-growth innovative companies in Russia?

- revenue of medium-sized businesses: between 120 million and 30 billion rubles over the previous year;

- average annual revenue growth rate: 20% over the past five years;
- new product launch: 20%-30% of total revenue for the launch of new or improved products over the past three years;
- average costs for technological innovations: no less than 10% of the revenue over the past three years.

In 2016, Russia actively participated in international projects to accelerate the development of innovative high-growth companies. The project was named “Support of Private High-Tech Leading Companies” and started in July, 2016. The TekhUspekhn-2016 (2016) (“TechSuccess”) rating became a base for the priority project. The national TekhUspekhn rating was first organized by the Russian Venture Company in partnership with the Association of Innovative Regions of Russia in 2012. Now, the TekhUspekhn database includes 220 companies. Areas of activity of innovative companies include: engineering, information technology and information security, pharmaceuticals, radio electronics, telecommunications, aviation and space industries, biotechnology, instrument manufacture, etc.

High-growth innovative companies have begun to attract the attention of the government and scientists in the past few years. The methodology for assessing the activities of “gazelle” firms was developed in Russia in 2014-2015. At the first stage, the selection is carried out in absentia on the basis of the questionnaires proposed. Sixty candidate companies are selected for further study: analysis of additional information from open sources and interviews with managers.

The result of the selection is an analytical note on each candidate company. These analytical notes are provided to the members of the project board and experts.

The experts are: employees of investment and consulting companies, successful technology entrepreneurs, reputable experts in the field of innovations.

The following goals should become the result of the project’s implementation:

- quadruplicate the volume of high-tech exports of more than 15 companies participating in the project;
- reach sales of no less than one billion dollars per year by at least two companies of the project;
- reach sales of no less than 500 million dollars per year by at least 10 companies of the project;

A question arises: how does the government intend to assist innovative high-growth companies? The state support is as follows:

- facilitating access to existing forms of support;
- assistance in solving external issues related to companies;
- supporting access to foreign markets;
- assistance in the work of companies with organizations partially owned by the government, of the public sector;
- supporting in access to tools of state support concerning R&D, etc. It is noteworthy that the government support measures in Russia which are declaratory, specific amounts of support and supporting targets are not announced, which, in our view, can be explained by the fact that Russia is a pilot project aimed to ensure accelerated growth of domestic private high-tech export-oriented leading companies.

Discussion

One of the actual and disputing problems of the Russian economy is the high level of administrative barriers in the conduct of small and medium-sized business activities.

The range of government tasks is much wider in modern conditions than the regulation of the production of

public goods, regulation of natural monopolies, etc. One of the most important tasks of the government is the development of a market institutional environment that should contribute to the development of high-growth innovative companies. As a rule-making body, the government performs legal and administrative functions in terms of legislative activity, administrative management, and laws observance control (M. Yudenko & E. Yudenko, 2015, p. 293). But it often happens that the desire of public authorities to help companies backfires against the entrepreneurs, and some administrative barriers occur. This is one of the most urgent problems of the Russian economy, where a high level of administrative barriers impedes the organization, implementation, and development of innovation entrepreneurship. Administrative barriers in the economy are the rules of conducting certain activities in the market established by the decisions of state bodies, compliance with which is a prerequisite for conducting such activities; and at the same time these rules introduce payments for the passage of bureaucratic procedures that do not always come to the state budget. The system of administrative and legal regulation remains unfriendly to small and medium-sized enterprises and does not take into account the specifics of doing business in small forms of enterprises. Business costs associated with the needs to comply with regulatory requirements are constantly growing (Yudenko & Leontyev, 2017). In response to the tightening of administrative barriers, entrepreneurs often transfer from the market to shadow economy in order to reduce transaction costs and “bureaucratic” risks.

Conclusion

Analysis of the activities of fastest growing companies in Russia and European countries, has led to the conclusion that the government in Russia should first of all provide such support measures to high-growth companies that would help them to enter the world market; such measures include assistance in establishing communications with the largest corporations, including Russian branches of transnational corporations, state orders for R&D, assistance in obtaining foreign certificates for products, supporting for development institutions (Innovation Promotion Fund). Small businesses are the most vulnerable part of the economic system and in crisis conditions they need state support. But the state support of “gazelle” firms differs from the small and medium-sized businesses support; it should be target-focused and include: facilitating access to capital, special regulation of securities, consultations from universities, creating conditions for maintaining high rates of development, providing tax privileges, public recognition of entrepreneurial achievements, etc. (Barinova, Sorokina, & Shestoperov, 2015).

The state should not allow property to be owned by those who do not have rights to it by law. If the entrepreneur will bear the costs on protecting their property from third parties and such costs will be too high, then such costs will exceed the potential incomes of the business entity and in this case such activity will not be needed, even if it is of an innovative nature.

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