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ARE HIGHLY INNOVATIVE FIRMS ALSO HIGH GROWTH FIRMS? AND WHAT ARE THE CAUSAL EVENTS THAT DELIVER HIGH SALES GROWTH? (SUMMARY)

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ARE HIGHLY INNOVATIVE FIRMS ALSO HIGH GROWTH FIRMS?
AND WHAT ARE THE CAUSAL EVENTS THAT DELIVER HIGH SALES GROWTH?

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Introduction

The extent to which a small number of firms drive overall outcomes has shifted economists' attention from absolute numbers of firms to how high performing firms identify opportunities and allocate resources. It seems the processes by which resources are allocated can be more important to economic growth than the absolute amounts (i.e. the accumulation of inputs such as physical capital) (Jorgenson, 1995; Levine, 2005:7). 'How' rather than 'how much' seems to be the key issue. This raises the possibility that differences in economic performance can be explained by the extent to which different economies generate the high performance that enables firms to grow. As a result, support for high impact firms has attracted significant interest.

Aims and Objectives of this Research

The overall aim of this research is to assess the effects of being a highly innovative firm (HIF) on firms' performance across a range of outcome measures, compared to less innovative firms (LIF). In particular, this research answers two simple but important questions:

- Are highly innovative firms also high growth firms
- What is the causal chain of events that leads to High Growth?

Method

The research used four waves of the Community Innovation Survey for the UK for the years 2004, 2006, 2008 and 2010. This survey data was linked to the longitudinal Business Structure Database (BSD) to create a panel dataset. The survey was analysed as yearly cross sections linked to panel performance data, as well as an integrated panel of all four waves. To investigate the dynamics of growth processes using VAR (vector autoregressive) models. These VAR techniques allow us to explore how sales growth affects subsequent employment growth, how employment growth affects growth of innovative inputs, how employment growth affects subsequent sales growth, and so on. In short we have four different elements of the chain that links innovation to performance. The econometric technique allows us to explore how each element fits into this chain, if at all, and their ordering.

Results

We have been able to unpick and explore the processes of growth. The growth process starts with increased employment, which then leads to future increases in R&D spending and New-to-Market Products, which in turn lead to increases in Sales. We do not find a feedback loop from increased sales to increased employment that would lead to persistent growth at the firm level. This causal chain suggests that research should avoid focusing exclusively downstream and consider what upstream capabilities need to be in place for increases sales to occur.

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