

PRESS RELEASE

The “Facts of Life” for ‘Adolescent’ High-tech Firms in the UK New AGF research study tracked 600 German and UK high-tech start-ups

Be International, be innovative but if you wish to survive, correct managerial weaknesses quickly, and don't use Venture Capitalists and Business Angels unless you really are exceptional – are the main conclusions of a uniquely long term research study funded by the Anglo-German Foundation: An international team of academics from the University of Exeter and ZEW, Mannheim tracked 600 German and UK high-tech start-ups over a twelve year period (1991-2003).

The researchers wished to understand what factors will influence entrepreneurial success in the critical New Knowledge areas of the 21st Century. Gordon Murray, Professor of Management, School of Business and Economics at the University of Exeter says: “The same question could have as easily been put as: ‘Why cannot Europe create *and grow* world class new businesses like Amazon, Google, eBay? And, even if Europe creates such companies, why do we have to leave it to the Americans to successfully commercialise them, e.g. Skype?’”

The research results contain some praise and several words of caution based on the experiences of the 468 surviving British and German companies that took part in the second stage of the research:

“Live and Let Die” There is an approximately 80% probability of surviving until your 12th year once you have made it to your 5th birthday. Young tech firms are more robust than is sometimes understood. Starting with a large and experienced team of founders helps survival. Taking venture capital, having ‘me-too’ technology or poor financial controls significantly increases the chance of death.

“Tortoises and Hares” UK companies outshone their German peers for their first five years to 1997 by growing faster, creating more jobs and being more international. By 2002, German companies had caught up and overtaken their UK equivalents on every major performance criteria except internationalisation.

“Spotting Winners” Received wisdom suggests that policy makers should spot their nation's best young firms early and give them the necessary support to create world-class companies. Our research findings found *no continuity* between the best performing firms identified in the first and the second five year periods. Essentially, success is a ‘random walk’ and spotting long-term winners sadly boils down to luck.

“Where are the UK's new World-class Tech Firms?” The UK is not Silicon Valley. It is a matter of regret how few high growth companies (aka ‘gazelles’) were identified in a large sample of British high-tech start-ups. None the less, the examined firms added real value to the UK economy. But their contribution is from the *aggregate impact* of hundreds of more modestly

growing firms rather than from the extraordinary success of a few '900lb gorillas'. Government policy needs to recognise this more pedestrian reality.

"Global perspective - Empires matter" The UK continued to excel on the level of internationalisation of its growing firms many of whom were 'born global'. The average UK firm studied sells to 16 other nations compared to only 11 nations for German firms. The UK's biggest foreign customer is the USA. In Germany it is Switzerland. UK's overseas linkages continue to strongly reflect the impact of its imperial history.

Summary The evolving economic scenario for the 21st Century looks rather like Jurassic Park – Europe faces a lot of very large and aggressive beasts competing in the same world markets. In this demanding environment, there remain insufficient European companies with the exceptional technical skills and vaulting ambitions comparable to the best of their global adversaries.

The report can be downloaded free of charge at <http://www.agf.org.uk/pubs/pdfs/1376web.pdf>

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Notes to the editor:

The Anglo-German Foundation contributes to the policy process in Britain and Germany by funding comparative research on economic, environmental and social issues and by organising and supporting conferences, seminars, lectures and publications which encourage the exchange of knowledge, ideas and best practice, both between the two countries and between researchers and practitioners.

Review and reference copies of the report are available from the Anglo-German Foundation. You may also download the report free of charge from the Foundation's website at www.agf.org.uk;

hard copies can be purchased and ordered at cost price from the Foundation's website via credit card.

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