A review of the evidence base for UK Trade & Investment's support for firms in High Growth Markets

Final Report to

UK Trade & Investment

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Introduction

London Economics was commissioned in January 2009 by UK Trade & Investment (UKTI) to undertake a review of the rationale for UKTI's support for companies in high growth markets, incorporating an evaluation of its High Growth Markets Programme (HGMP) pilot.[1]

UKTI's 5-year strategy, *Prosperity in a Changing World*, has emphasised the importance of building strong trade and investment links with emerging markets. Increased resource has been placed into supporting firms in these markets, alongside a commitment to utilise existing resource more strategically. More specifically, seventeen high growth markets have been identified as priority targets: Brazil, China, India, Indonesia, Malaysia, Mexico, Qatar, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Taiwan, Thailand, Turkey, UAE, and Vietnam.

Methodology

Data sources

The evaluation contains a number of quantitative analyses, and so draws on several datasets, as listed below.

- **HGMP data:** information regarding companies contacted through the HGMP using two datasets provided by UKTI.
- **FAME-linked database:** a database constructed by London Economics, linking UKTI administrative data to the FAME[2] financial database. The linking exercise included all HGMP interactions and all other companies receiving UKTI support through selected programmes in 2007/08 (a total of 18,620 assists). 86% of firms were successfully identified in FAME.
- Previous waves of the UKTI Performance and Impact Monitoring Survey (**PIMS**).
- UKTI's 2008 **Internationalisation Survey**.

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[1] This report has benefited from the helpful comments and suggestions provided by a UKTI Steering Group, with particular thanks due to Rebecca Riley (NIESR) and Richard Kneller (University of Nottingham).

[2] FAME is supplied by Bureau van Dijk, and contains financial and operational information on more than three million companies in the UK and Ireland

Overview of methodology

The review methodology consisted of two major strands. The first strand focused on clarifying the rationale for UKTI support in high growth markets. The second strand comprised an evaluation of the High Growth Markets Programme pilot - a UKTI pilot programme aiming to encourage firms to enter high growth markets and to disseminate lessons about high growth markets to underpin policy development. Each strand consisted of a number of elements, as outlined below.

Clarifying the rationale for UKTI support in high growth markets

Four different research elements were involved in identifying the rationale for UKTI support:

i. **Review of the existing evidence:** including the evidence relating to British firms' performance in high growth markets, and the barriers and issues faced within those markets.

ii. **Analysis of firms' use of UKTI support to enter high growth markets:** Using the FAME-linked dataset, an econometric analysis was undertaken to understand the characteristics associated with firms' use of UKTI support to enter high growth markets as opposed to other markets.

iii. **Analysis of firms' decisions to enter high growth markets:** an econometric analysis of the results of UKTI's Internationalisation Survey was undertaken to identify the characteristics associated with being present in high growth markets.

iv. **Estimation of the market for UKTI support:** an estimation of the number of firms in the United Kingdom that might be eligible for UKTI assistance based on the characteristics of firms already in receipt of UKTI assistance.

Evaluation of the High Growth Markets Programme

The Evaluation of the HGMP consisted of four main research elements:

i. **Stakeholder consultation:** A two-stage consultation was undertaken, including a written survey and telephone interviews in order to understand perceptions of the HGMP within the UKTI network. Responses were received from 9 High Growth Market Specialists, 7 members of UKTI's regional teams, 14 overseas posts and 4 representatives of UKTI headquarters.

ii. **Quantitative survey:** Two survey exercises were undertaken, including a survey of HGMP-supported firms and a survey of a counterfactual group (identified using UKTI records of potential HGMP firms).

iii. **Analysis of PIMS results:** The PIMS results for the HGMP were analysed, with the findings compared to the results for other UKTI programmes.

iv. **Case studies:** A series of 8 case studies was undertaken with recipients of HGMP support.

Clarifying the rationale for UKTI support in high growth markets

Review of evidence

As emerging markets are expected to grow at much faster rates than the world's established economies over the next forty years, they will become an increasingly important source of export opportunities. As a result, export performance in these economies is becoming a major determinant of an economy's success in world markets.

Evidence suggests that UK economic performance in these markets over the past 15 years has been somewhat disappointing, with the UK losing ground to major competitor countries. There are however, opportunities for British companies in these markets: the decline in exports does not appear to reflect a shift away from areas of UK comparative advantage. Further, survey evidence suggests that a high proportion of UK firms recognise that emerging markets may benefit their business.

The evidence on barriers to export into high growth markets is limited. However, recent evidence produced by UKTI suggests that barriers may be greater and more diverse in these markets compared to more mature export destinations. Particular issues in these markets include staff recruitment and retention, language, cultural differences, protection of intellectual property and bureaucracy, and the ability to identify appropriate business partners.

Determinants of high growth market entry

Two sets of econometric analysis were undertaken, using two different datasets. First, the FAME-linked dataset was used to assess the characteristics associated with UKTI-supported companies using assistance to enter high growth markets. Second, the Internationalisation Survey results were used to assess the characteristics associated with being in a high growth market (based on survey response). The FAME-linked dataset was much larger (containing around 10,000 firms) but suffered from issues of missing data. To address this problem a series of econometric techniques were employed (i.e. sample selection correction, weighting and estimation on a common sample).

The results obtained were consistent across the two different analyses, and robust to changes in specification. Particular findings included:

- Larger companies are more likely to use UKTI support to enter high growth (as compared to other) markets and are also more likely to already have a presence in these markets.
- The proportion of a company's turnover generated overseas is positively associated both with the probability of entering high growth markets with UKTI support and the probability of "being in" these markets.

A company's experience in overseas markets has a positive effect on the probability of being present in high growth markets.

Similar results are found when undertaking the analysis for individual high growth markets (as opposed to high growth markets as a group). In particular, being large and being experienced in export markets are associated with entry into these markets (with the notable exception of Brazil).

Market for UKTI support

The information available in FAME was used to investigate the number of firms in the UK that might benefit from UKTI assistance in entering high growth markets. Unfortunately, in practice export data was available for only a small proportion of firms limiting the scope of the analysis and precluding strong conclusions. The results indicated that, as expected, a wide range of non-supported companies have similar characteristics to the companies using UKTI support in high growth markets.

Separately, the results of the econometric analysis were used to estimate the probability of firms operating in high growth markets. The analysis used data on firms known to be operating in these markets to estimate the probability that other UK firms may also already be doing so. This suggested that a higher proportion of the firms supported by UKTI are likely to currently operate in these markets compared to other UK firms.

Evaluation of High Growth Markets Programme

Overview of the HGMP

The pilot of the High Growth Markets Programme was established in February 2007 and became operational for the first time in April 2007. Following a decision in December 2008, the pilot was closed in March 2009.

The programme consisted of a team of ten High Growth Market Specialists (HGMS), providing dedicated professional assistance to help UK companies enter or expand their presence within 17 designated high growth markets. Assistance was offered to firms that were already exporting and with clear potential within one or more of the designated high growth markets. The support provided was fully-funded by UKTI.

The stated aims of the programme were to:

1) learn and disseminate lessons about why experienced exporters and established companies with potential to succeed are not more active in the specified high growth markets;
2) develop and deliver tailored support services and other policy proposals on the basis of 1); and

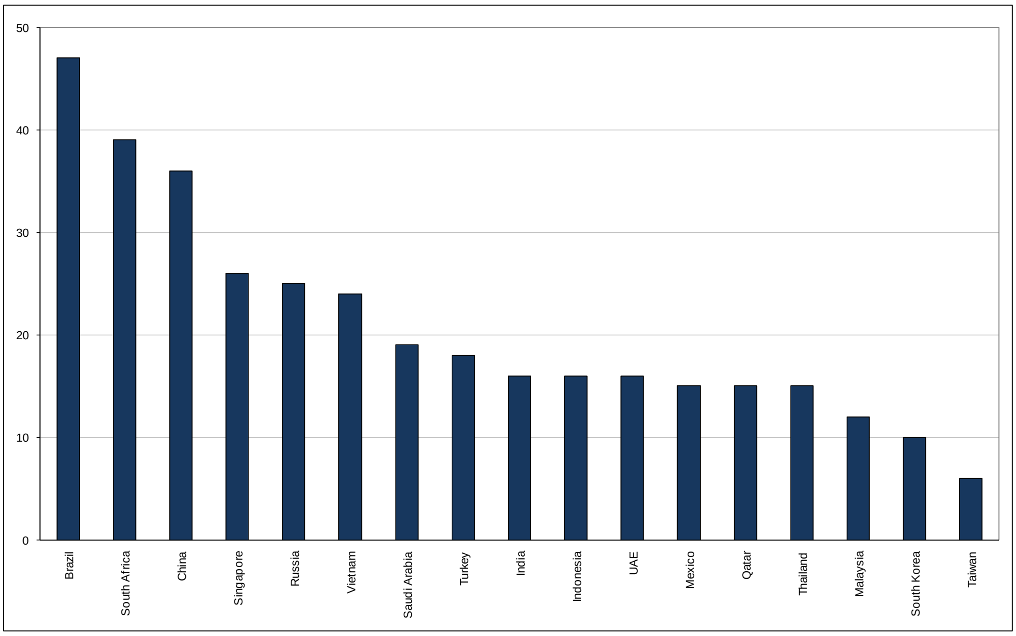
3) generate more activity and interest in the specified high growth markets by UK-based companies.

The assistance provided through the programme was seen as additional to (and complimentary with), existing sources of UKTI support. Unlike the majority of UKTI programmes, the HGMP focused on mid-corporate UK-based companies (defined as having between 250 and 1,000 employees and turnover of between £20 million and £100 million). Further, the programme operated around a team of High Growth Market Specialists, recruited from outside the UKTI network specifically for the purposes of the HGMP.

In practice, although the pilot was officially launched in April 2007, much of the first year of operations involved establishing the programme. This included recruitment of the Specialists, creating terms of reference, refining the programme's parameters and objectives, establishing operational and reporting mechanisms and developing relationships with the existing UKTI network. As such the scheme did not, in practice, start until September 2007, and the full contingent of 10 High Growth Market Specialists were only in place from April 2008.

As shown in Figure 1, across the 17 markets in question, the HGMP achieved a total of 412 significant assists between April 2007 and February 2009 for 277 different firms. In addition, 977 company interactions not leading to significant assists were registered.

Figure 1: Markets targeted through HGMP



Source: London Economics, based on UKTI information.

Quantitative Survey and PIMS analysis

Survey sample

The Evaluation incorporated two separate e-mail surveys: a survey of HGMP-assisted firms and a counterfactual survey of other companies that had been identified as potentially interested in HGMP assistance, but that had not received support. Both surveys were administered by London Economics, and were carried out by email with intensive telephone follow-up.

The HGMP sample was drawn of all HGMP firms that had received assistance up to February 2009, and that had not been previously interviewed through PIMS. A total of 207 companies were sent the survey. The counterfactual group was identified using a list of companies (based on UKTI information) initially identified as potential HGMP recipients, but that were never contacted (or were contacted but never received support). A total of approximately 850 companies were surveyed.

The response to both surveys was disappointing. Only 28 HGMP companies were able to complete the Evaluation Survey (a response rate of 14%), while 49 firms completed the counterfactual survey (a response rate of 6%). Post-survey follow-ups suggested that this may have reflected the nature of the support offered: 18% of firms reported that they only had minimal contact with the Specialist or had not taken any significant action following the contact with the Specialist.

The report also drew on the results of waves 9-13 of UKTI's Performance and Impact Monitoring Survey (PIMS)
pient companies. PIMS covers all UKTI's significant customer-facing trade services including, since wave 9, the HGMP. Surveys are based on a robust random sample of users, and firms are typically interviewed (on an anonymous basis) 4-7 months after receiving support.

Given the relatively small sample sizes both for the Evaluation Survey and (to a lesser extent) PIMS, there is a clear concern over the extent to which the survey results can be used to draw more general conclusions, and this should be noted in considering the results reported below.

Impact of the HGMP

The Evaluation survey results indicated that a number of firms appear to have not experienced any benefits from the programme – although similar questions in PIMS garnered more positive responses. For instance, only a relatively low proportion either entered new high growth markets (44%, compared to 62% in PIMS) or expanded their activities (41%) in at least one high growth market. On the other hand, 86% of firms reported having undertaken some activity as a result of the support provided.

Just over half the respondents (57%) to the Evaluation Survey reported that they had gained additional information, skills or expertise by participating in the HGMP. The most common areas of skills and information gathered related to market data and analysis, gaining access to other UKTI services or gaining access to knowledge of business opportunities in high growth markets. Similar results were identified through PIMS, with 49% of respondents reporting that they gained access to information that was not otherwise available.

The average financial benefit (in terms of additional net profit including discounted future values) reported by HGMP-assisted firms was reasonably high, ranging from £187,000 in the Evaluation Survey to £253,000 in PIMS. The distribution of financial benefits was highly skewed with most firms reporting zero additional benefit and one firm achieving an estimated benefit of £2.7 million. However, given the small sample sizes, we must be very cautious in drawing general conclusions from these figures.

Cost-benefit analysis

A cost-benefit analysis was carried out, using the benefits data reported in the HGMP Evaluation Survey and PIMS and cost data provided by UKTI. This indicated that the benefit-cost ratio for the HGMP was between £4.6 and £10.2 per £1 of UKTI costs.

The wide range of this estimate reflects the uncertainty regarding the size of the benefits, due to the small sample sizes in both the Evaluation Survey and the PIMS survey. As a result, it was not appropriate to provide a more precise estimate.

Case studies

Case studies were completed with eight recipients of HGMP support. These provided more in-depth explanation of the way in which companies had used the support and how it had helped them in high growth markets. Overall, this indicated that companies had valued the assistance that they had received – and in some cases it had allowed them to make major steps into high growth markets. Those companies that hadn't managed to enter high growth markets saw this as due to market conditions or, in one case, due to the stage of their development in the market. The Specialists' advice was commonly seen as excellent, and there was no feeling that the programme could have done more to assist firms.

The case studies indicated that the respondents had used the HGMP as part of a wider strategy in high growth markets. Only one of the eight firms reported having no previous experience in these markets. Further, four companies had more than twenty years experience in high growth markets. In addition, most of the firms appeared to have had a clear focus on high growth markets when choosing to receive support from the programme. As a result the support of the Specialist appears to have been used to assist with implementing existing strategy in high growth markets, rather than shifting firms' attention towards those markets.

Stakeholder consultation

A consultation process was undertaken with various UKTI stakeholders in order to understand perceptions of the HGMP and its impact. This indicated that most stakeholders believed that the provision of tailored advice to companies is crucial to helping firms make the step into high growth markets. However, there was some disagreement as to whether the HGMP had offered the best route to achieve this. The Specialists emphasised that their ability to talk the "language of business", had provided a new channel into mid-corporate firms. In addition, they felt that they offered personal networks of contacts unavailable elsewhere in UKTI. One Specialist also emphasised the ability of the programme to match business opportunities across the whole of the UK, rather than being limited to specific regions.

Other UKTI stakeholders, however, felt that although the programme was beneficial for assisted businesses, the same resources could perhaps have been used more effectively elsewhere, particularly due to a perception that only a limited number of firms were actually helped. In particular, it was believed that the benefits of the HGMP could have been achieved within the structure of the existing UKTI network, with the same resources and focus. Although the respondents tended to be positive about the knowledge and role of the Specialists, it was often commented that similar expertise already existed within the International Trade Advisers or posts. The benefit of the programme was felt to be largely due to the ability to offer targeted support to companies, although the Specialists' commercial knowledge and ability to reach senior managers was recognised as important by some respondents.

Conclusions

Rationale for Government support for UK firms in high growth markets

The review found that there is a clear rationale for Government support to assist firms in entering high growth markets based on two key factors.

1) Benefits of entering high growth markets

The main basis for government support for firms in high growth markets is, clearly, the growing number and scale of the opportunities that exist in those markets. For instance, over the next five years, the IMF forecasts that economic growth in the seventeen emerging markets will be between 1.6% and 9.2% compared to an average of 1.2% in the G-7 economies. Longer term forecasts suggest that by 2050 the combined size of the seven largest developing economies will grow to 150% of the size of the G-7 countries (from a current level of around 25%). Further, survey evidence suggests that British firms themselves perceive opportunities in these markets.

2) Existence of barriers to entry to high growth markets

The evidence collected during the review suggests that firms face significant barriers in exporting to high growth markets – and that these barriers may be greater than those faced in more mature markets. The results of the Evaluation Survey, for instance, indicated that around half of respondents had found it more difficult to export to high growth markets than other, more established markets. Similarly, the UKTI Internationalisation Survey has shown that companies in high growth markets report having encountered a higher number of barriers to export.

Potential for Government intervention

Scope for Government assistance

Government assistance in high growth markets could be of key importance in four major areas.

> *Strengthening bilateral ties and networks of contacts with emerging markets*: developing such networks may be a route through which companies are able to find the appropriate contacts in high growth markets; however, results from the Internationalisation Survey suggest that this channel may not be fully exploited at present by UK firms.
>
> *Lobbying to reduce barriers to entering high growth markets:* Government lobbying may assist in overcoming legal and regulatory barriers to high growth markets through, for instance, reducing non-tariff barriers and promoting the protection of intellectual property rights.
>
> *Providing firms with information and advice:* Specific market information is likely to be the only route to overcoming the barriers related to both cultural and legal issues, which survey results indicate are particularly important in high growth markets.
>
> *Raising awareness of business opportunities in high growth markets*: it is difficult to assess the extent to which firms are aware of opportunities in high growth markets. Although companies report that they perceive opportunities in these markets, it is not possible to identify whether they correctly evaluate the extent of potential opportunities in these markets for their business.
>
> The HGMP has shown that Government can play a role in identifying specific business opportunities for firms. Further, it is also important to consider that there are differences between high growth markets: firms may be aware of opportunities in certain markets (such as China or India) but not in others.

Firms with potential to benefit from support

Generally the evidence suggests that there is no clear "type" of firm that would benefit from entering high growth markets – or that is able to operate there. A propensity score matching exercise of the firms assisted by UKTI in high growth markets indicated that nearly *all* UK firms are sufficiently similar (on the basis of size and sector) to those that have received support. While this analysis was necessarily limited by a lack of information available relating to export behaviour, it does provide some indication of the range of companies to whom exporting to high growth markets might be appropriate.

The results of UKTI's Internationalisation Survey indicates that smaller firms are more likely to see opportunities in high growth markets than larger firms, although they are less likely to have actually entered those markets. This suggests that it may be appropriate to assist firms of all sizes. However it is important to note that this evidence does not address whether firms' perceptions are accurate, or whether smaller firms have sufficient capability to take advantage of any opportunities that do exist.

It appears that all firms face barriers to export in these markets and that attributes such as export experience may be insufficient to overcome the difficulties faced in high growth markets. In particular, Kneller and Pisu (2008) have found that the variety of barriers to export may actually rise initially as a firm becomes more experienced in export markets. Many of the barriers to entry in these markets – such as legal and regulatory issues – are likely to be market specific, and so experience in other export markets may be of limited help. The results of the case study programme have highlighted that even firms with considerable experience in high growth markets faced difficulties in identifying relevant contacts when entering new high growth markets.

Evaluation of the HGMP

Overall, the impact of the HGMP in increasing the level of UK activity in high growth markets appears to have been limited. Although high quality assistance was provided to some companies, the programme encountered difficulties in reaching its target audience, with the Specialists' attempts to contact companies directly proving largely unsuccessful. While some teething problems are inevitable during the initial period of a pilot, this appears to highlight a more general concern with the programme's focus on "cold-calling" companies.

In those cases where the HGMP has been able to assist companies, it has provided valuable support (in reaching contacts and overcoming other issues) to enter or expand in high growth markets. In general the quality of the service provided by the Specialists was rated highly on all dimensions, with particularly high ratings for attitude and professionalism and quality of communication.

Where the HGMP was able to help companies, the evidence available (although not conclusive) suggests that it was focused mainly on companies that had existing operations in high growth markets. As such, it does not appear that the programme was successful in raising the profile of these markets amongst companies that had not previously considered exporting there. While this was not the sole purpose of the programme, it may be an important consideration in the context of UKTI's broader support for activities in these markets.

Further, where firms have previous experience in at least some high growth markets, it seems likely that they will understand the *types* of barriers that exist in these markets – and hence of their need for assistance. As such, the provision of support free of charge is hard to justify, given UKTI's commitment to charging for services wherever possible. In the context of a pilot programme, such as the HGMP, there may however be a short term need to offer advice free (or at a low rate) to help gain market traction.

Finally, the programme does not appear to have been successful in developing UKTI's knowledge base relating to high growth markets. UKTI stakeholders did not, generally, feel that information had been successfully disseminated throughout the UKTI network.

Recommendations

Tailored support should be targeted at companies already in or seriously considering high growth markets

The experience of the HGMP has suggested that it may be difficult to engage companies who do not have other operations in high growth markets. Further, firm constraints (e.g. a lack of financial resources) may prevent companies acting on the advice received, even where they recognise the potential benefits from doing so. Given this, resources aimed at helping companies overcome the barriers to entry into high growth markets should be focused on companies that feel ready to move into those markets and that actively seek support to do so.

Targeted support should be available to companies of all sizes

Support should not be limited to firms meeting certain size criteria. Even large companies, with operations in a range of high growth markets, can benefit from specific export market advice. Further, it appears that companies of all sizes perceive opportunities in high growth markets.

Tailored services should normally be charged

Where companies are aware of the difficulties they face in high growth markets there is no clear justification for providing support free of charge, at least in the long term. Although there may be a short term need to offer advice free (or at a low rate) to convince companies of its benefits, once a programme is established companies should be willing to pay if they value the support. It may, however, be appropriate to make an exception to this for companies that have no prior presence in these markets.

Increasing firm activity in high growth markets requires longer term support

Increasing the presence of British firms in high growth markets is likely to require a long term commitment to ensuring firms are aware of opportunities and that they have sufficient internal capacity to take advantage of them. The evidence collected is not sufficient to recommend a particular form of support that might address these issues. One possibility that has been mentioned is strengthening the networks that firms have access to in the UK, in order to truly show to firms the possibility that "firms like them" can access those markets.

Both market-specific and general support is valuable

Although there is a natural tendency to discuss high growth markets as a group, it is important to consider the differences between individual markets. Growth forecasts, for instance, vary considerably across markets. Similarly, it appears likely that the specific barriers to export, and hence the appropriate policy response, also vary across different markets. As such the approach (as used during the HGMP) of having advisers with specialist knowledge of particular markets is likely to be valuable.

On the other hand, although it seems likely that the barriers vary qualitatively across different markets, the analysis in this report has suggested that similar factors appear to affect entry across high growth markets. Particular factors include being large and having more export experience, both of which may reflect firms' greater internal capacity. As such, some elements of UKTI support will not be dependent on the particular market of interest.

Further research

This evaluation has gathered a wide range of evidence regarding the factors that influence exporting to high growth markets and the way in which UKTI support could be used effectively to expand the British presence in those markets. Based on this, we suggest two areas where further research could be beneficial.

First, there appears to be limited evidence as to the way in which barriers to export vary across markets. More detailed examination of this, perhaps through a series of case studies of different markets, could provide a useful basis from which to tailor the support that is offered in each high growth market.

Second, there remains a gap relating to British firms' activities in high growth markets. Although the UKTI 2008 Internationalisation Survey has provided some evidence as to the markets firms are in, it provides little detail regarding the timescale over which different markets are entered, or the extent of firms' operations in different high growth markets. As such, a survey exercise focused specifically on this aspect of firms' international activities would be a valuable addition to the evidence base.

1 Introduction and objectives

1.1 Introduction

London Economics was commissioned in January 2009 by UK Trade & Investment (UKTI) to undertake a review of the rationale for UKTI's support for companies in high growth markets, incorporating an evaluation of its High Growth Markets Programme (HGMP) pilot.[3]

UKTI's 5-year strategy, *Prosperity in a Changing World*, has emphasised the importance of building strong trade and investment links with emerging markets. Increased resource has been placed into these markets, alongside a commitment to utilise existing resource more strategically. More specifically, seventeen high growth markets have been identified as priority targets: Brazil, China, India, Indonesia, Malaysia, Mexico, Qatar, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Taiwan, Thailand, Turkey, UAE, and Vietnam.

The HGMP was established in 2007 as part of this commitment to increasing links with emerging markets. The programme aimed to encourage the internationalisation of UK companies by providing strategic advice to mid-corporate firms who were either not yet active or had significant room for expansion in the seventeen high growth markets (as listed above).

The key aims of the research are to:

- assess the economic rationale for supporting experienced exporters such as UK mid-corporate companies to enter or expand into high growth markets;
- evaluate the impact and cost effectiveness of UKTI's HGMP pilot, including an assessment of the value for money which it achieves for the UK taxpayer; and
- make recommendations, with a view to increasing value for money for the UK tax payer, in terms of increasing the level of activity of UK businesses in high growth markets.

1.2 Overview of the research

In order to meet these objectives, the evaluation includes a number of research strands, including:

3 This report has benefited from the helpful comments and suggestions provided by a UKTI Steering Group, with particular thanks due to Rebecca Riley (NIESR) and Richard Kneller (University of Nottingham).

1) a review of the existing evidence underpinning the rationale for government intervention to help firms exporting to high growth markets;
2) an analysis of the determinants of the choice of high growth markets amongst companies receiving UKTI support;
3) an analysis of the determinants of the choice of high growth markets, using data from the UKTI's 2008 Internationalisation Survey (OMB Research, 2008b);
4) an assessment of the market for UKTI support; and
5) an evaluation of the HGMP, comprising:
   - a survey of HGMP-supported companies;
   - a survey of similar companies that have not received HGMP support, in order to develop an appropriate counterfactual;
   - review and analysis of relevant PIMS data;
   - a case study programme; and
   - a two-stage stakeholder consultation

1.3 Contents and structure of this report

This report presents the findings of the research, along with appropriate policy conclusions. The remainder of the report is structured as follows.

In Section 2, we outline the data sources used in the evaluation. Section 3 then summarises the evaluation methodology. In Section 4 we discuss the existing evidence related to the rationale for government intervention in high growth markets. Section 5 presents the results of a data linking exercise, between UKTI information and the FAME database, undertaken as part of the analysis. In Section 7, we analyse the determinants of companies entering high growth markets using the FAME-linked dataset constructed by London Economics, and the results of UKTI's 2008 Internationalisation Survey. Section 8 then uses the information gathered from FAME to estimate the potential market for UKTI services. In Section 9 we analyse the impact of the HGMP programme, drawing on the results of an Evaluation Study, the PIMS survey, and a series of case studies. In Section 10, we discuss the results of the HGMP stakeholder consultation. We then conclude, in Section 11, with conclusions and policy recommendations.

2 Data sources

2.1 Introduction

The evaluation methodology comprises a number of different analyses, and as a result has relied on a number of different data sources. As a point of reference for the remainder of the report, in this chapter we provide a brief discussion of these data sources.

2.2 UKTI databases

2.2.1 HGMP data

London Economics constructed a database of the companies contacted through the HGMP using two datasets provided by UKTI. Firms receiving significant assists from the programme were identified using information from UKTI's Customer Relationship Management (CRM) system, while companies involved in company interactions were identified from a separate list provided by Pera (via UKTI).

2.2.2 PIMS data

The PIMS (Performance and Impact Monitoring Survey) is a central monitoring survey of users of UKTI's business services. It measures the performance and impact of UKTI support, and was introduced in January 2006. PIMS covers all significant customer-facing trade services including, since wave 9, the HGMP.[4]

The survey provides evidence about service quality and about the possible difference UKTI makes to businesses, as well as gathering details on business profile. The survey has now been running for more than three consecutive years, and includes 13 waves, with a minimum of 2,500 companies interviewed each year. For the purposes of the evaluation, we utilise data from the five PIMS waves for which HGMP responses are available (waves 9-13 inclusive, carried out between Q3 2007 and Q3 2008), incorporating interviews with 50 HGMP recipient companies.

Surveys are based on a robust random sample of users, and firms are typically interviewed (on an anonymous basis) 4-7 months after receiving support. The fieldwork is carried out using CATI (Computer Assisted Telephone Interviewing) and is conducted and reported quarterly, with results reported on a rolling basis.

[4] In the PIMS reports, the HGMP support is referred to as "Fast Growing Markets Advisers (FGMA)".

2.2.3 2008 UKTI International Business Strategies, Barriers, and Awareness Survey ("Internationalisation Survey")

The 2008 Internationalisation Survey consists of 900 telephone interviews with internationally active UK firms, undertaken between August and September 2008.[5] The sample was constructed to ensure that the survey covered businesses of all ages and in both the manufacturing and services sectors. The survey focused on the modes of internationalisation and the drivers of those modes; the barriers encountered by firms in internationalising; the external help businesses need to overcome those barriers; and (of particular interest in the context of this study), companies' potential interest in high growth markets.

The Internationalisation Survey sample design incorporated stratification by company age (to allow for robust analysis by age group); with the results re-weighted to compensate.[6] The analysis of the dataset in this report uses the same weighing, as appropriate.

2.3 Other data sources

2.3.1 FAME

The FAME financial data bank was used to obtain financial information and other characteristics on companies. FAME is supplied by Bureau van Dijk, and contains financial and operational information on more than three million companies in the UK and Ireland. The database collates publicly available company information from the best source in each country – annual reports stored at Companies House in the case of the UK.

The database includes both information on financial accounts (e.g. turnover, profit) and other company characteristics (e.g. company sector, employee numbers); and also addresses and contact details.

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5 The survey was commissioned by UKTI, and undertaken by OMB Research. See OMB Research (2008b) for a fuller description of the study methodology and the survey findings.

6 The weighting used is based on the 2006 Annual Small Survey, as in the Internationalisation Survey report (OMB, 2008b).

3 Methodology

3.1 Overview of methodology

The review methodology consisted of two major strands. The first strand focused on clarifying the rationale for UKTI support in high growth markets. The second strand comprised an evaluation of the High Growth Markets Programme pilot - a UKTI pilot programme aiming to encourage firms to enter high growth markets and to disseminate lessons about high growth markets to underpin policy development.

We provide a brief overview of the approach taken and the key issues involved in each of these strands below. In the following sub-section, we then provide more detail on each stage of the methodology.

Clarifying the rationale for UKTI support in high growth markets

The means of clarifying the rationale for economic support was a review of the existing evidence relating to British firms' performance in high growth markets, and the barriers and issues faced within those markets. The existing evidence was then supplemented by two elements of new analysis carried out by London Economics. First, UKTI information was used, in combination with information from the FAME database, to identify the major determinants of firms' decisions to use UKTI support to enter high growth (rather than other) markets. Second, the results of UKTI's Internationalisation Survey were used to identify the determinants of being present in high growth markets.

Evaluation of the HGMP

To estimate the impact of the HGMP, it is necessary to identify first whether the programme produced any benefits, either to the companies receiving support or more widely (through the dissemination of lessons regarding barriers to export for instance). Secondly, if benefits have been achieved, it is important to understand the extent to which these are *additional;* that is whether they would have occurred in the absence of the programme.

In the case of the HGMP, this involves identifying whether the support received has led to supported firms changing their behaviour in any way. This might involve changing the markets they planned to enter (either to enter, or not to enter, new markets) or changing the mode or timing of entry into the same markets. This necessitates identifying the appropriate counterfactual: the actions that HGMP-supported firms would have undertaken in the absence of support.

The best way to measure the impact of the HGMP on firm behaviour would be to compare the changes in behaviour and outcomes (e.g. turnover) for the recipients of support before and after receiving support with the changes over the same period of time had they not participated in the scheme. However, clearly this is not possible in practice.

Instead, the evaluation methodology addresses the question of additionality and the counterfactual in two different ways. First, supported firms are asked directly to identify the extent to which the support has been beneficial, and the extent to which the same results would have been achieved in the absence of the HGMP. As part of the evaluation, a survey of supported firms was undertaken to gather information relating to this. In addition, the results of similar questions collected as part of PIMS were analysed.

Although this approach provides a direct measure of the additional benefits achieved by the supported companies, it necessarily relies on companies' self-assessment of the actions and results they would have achieved in the absence of support. This assessment is (necessarily) hypothetical and so does not provide a robust measure of the results that would have been achieved in the absence of support. In particular, firms may not correctly understand the constraints that they would have faced in the absence of the programme.

As an alternative, the evaluation seeks to measure the impact of the HGMP through comparing the performance and behaviour of HGMP-supported firms to a suitable control group. This involves identifying a control group consisting of firms with similar characteristics to the HGMP companies. The changes in the behaviour and actions of the firms in the control group (before and after the time period of support) can then be compared to the change in behaviour and actions in the HGMP group, to construct a robust estimate of the impact of the programme.

The HGMP targets companies (within the relevant size restrictions) with the potential to enter into or expand within high growth markets. Therefore, the relevant control group consists of companies that:

- are mid-corporates;
- are currently active in export markets; and
- have potential to and interest in entering into a new high growth market; or
- have potential to and interest in expanding their existing operations within a high growth market.

Identifying the companies that meet these criteria is not straightforward as there is little publicly available information regarding which export markets companies are currently involved in. Further, given that the nature of the programme is to aid firms in expanding into *new* markets, even this information would not be sufficient to identify all firms within the control group. Given this, the sample for the counterfactual survey was based on the companies identified by Pera and the Specialists as HGMP targets.

3.2 Detailed methodology

3.2.1 Stage 1: Review of evidence

In order to identify the rationale for the HGMP more closely, the evaluation incorporated a review of the existing evidence relating to UK exports in emerging markets, UKTI's strategy and programmes, and the determinants of export market entry. The majority of the evidence reviewed was provided directly by UKTI, and supplemented by additional documents from other stakeholders and internet research where appropriate.

The evidence reviewed included two main strands. The first element focuses on the precise barriers that firms face in seeking to enter high growth markets in order to understand how the activities undertaken as part of the HGMP might be expected to help firms overcome these barriers. The second strand addresses the potential benefits of helping firms expand their activities in high growth markets, particularly in comparison to more established export markets.

3.2.2 Stage 2: Data collection and preparation

Data collection

The initial phase of the project involved collecting all relevant information held by UKTI and Pera. This included background and cost information, as well as information relating to several groups of companies to be used as part of the evaluation. In particular, the information regarding the following groups of companies was received:

i) **HGMP significant assists:** all firms that received significant assistance through the HGMP (until 28th February 2009). This comprised 412 assists, including 274 firms (as some firms received multiple assists). 7

ii) **HGMP company interactions**: all companies contacted by High Growth Market Specialists, but not actually assisted (until February 2009). This comprised 977 interactions, covering approximately 750 companies.

iii) **Other firms receiving UKTI support**: in order to identify the companies entering high growth markets using UKTI support, data on market entry was obtained including information on all the companies that received UKTI support in other selected UKTI programmes in 2007/08.[8] This included approximately 18,620 assists, corresponding to around 12,800

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7 Although the initial company list included 277 firms, further investigation indicated that the companies had been included in the contact list twice under different company names.

8 The UKTI programmes included in the analysis were those that can be associated with a particular overseas market – hence serving as a measure of which companies have entered the high growth markets identified by UKTI. This included Sector Events Overseas, OMIS, TAP (Group and Solo), Outward Missions, Overseas Posts, and Market Visit Support.

different companies (as many companies had received support from more than one UKTI programme).

iv) **Companies identified as potential HGMP targets**: the companies identified by Pera at the beginning of the programme as potentially interested in receiving HGMP support. This included around 2,000 companies (although in some cases multiple members of a company Group were included separately).

Once all the datasets were obtained, the data was cleaned as much as possible (e.g. to remove duplicate entries) and the first three groups combined into a single database. This database was then linked to the FAME financial database, in order to obtain the available financial and other information on these companies.

Linking UKTI information with FAME

Linking with FAME was carried out primarily on company name, adjusted for differences in punctuation (such as spacing and use of full stops) and spelling (e.g. "Limited" and "Ltd"). The linking was carried out in two steps:

i) **Automatic matching:** An automatic process was undertaken, based on exactly matching the adjusted names in the two databases. Around 68% of the entries were identified in this first step.
ii) **Manual review:** all company names that were not matched in the automatic process were reviewed manually against the list of companies registered at Companies House. This allowed adjustment for small spelling mistakes, and any company name changes. Overall almost 6,000 entries were reviewed manually.

Following this process, more than 86% of entries within the time period were identified within FAME, as presented in Table 1. Within the HGMP sample the percentage matched was much higher, with 98% of significantly assisted companies, and around 96% of company interactions linked to FAME.[9]

[9] The matching rate was similar when considering individual companies (rather than entries) at approximately 84% for the overall sample.

Table 1: Linking the PIMS database to FAME - Number of entries			
Sample Group	**Total No. of Entries**	**No. Linked to FAME**	**% linked to FAME**
Sector events overseas	1,308	1,137	87%
OMIS	2,706	2,440	90%
TAP (Group)	3,039	2,600	86%
TAP (SOLO)	509	453	89%
Outward missions	577	507	88%
HGMP: significant assists	412	403	98%
HGMP: company interactions	977	937	96%
Overseas posts	8,194	6,791	83%
Market Visit Support	898	764	85%
Total	18,620	16,032	86%

Source: London Economics based on UKTI information and FAME.

Table 2 indicates the reasons why we were not able to link some companies in FAME. In the majority (around two thirds) of cases we were also unable to identify the company in Companies House, suggesting that the name was recorded by UKTI was not the firm's registered name.[10]

Second, a number of the "unlinked" entries referred to organisations which do not have to file accounts at Companies House – and so are not included in FAME.[11] This included universities, government agencies, charities and, in a few cases, companies with overseas addresses in the UKTI database. Finally, a small proportion (just over 1% of the unlinked firms), were identified in Companies Houses, but were not found in FAME. This may be because they have not yet filed accounts at Companies House (if they are very small), and hence have not been included in FAME.

Table 2: PIMS companies not linked in FAME		
	No. of entries	**% non-linked**
Company name not matched in Companies House	1,711	66%
Organisations that do not have to register at Companies House (e.g. universities, charities, companies registered abroad)	846	33%
Company name not matched in FAME - reason unknown	31	1%
Total	2,588	100%

Source: London Economics based on UKTI information and FAME.

10 Often, for instance, the name appeared to be an individual's name. In other cases, the name recorded in the UKTI database was insufficiently precise to identify the registered company to which it referred.

11 Excluding this group from the matching statistics presented in Table 1, the percentage of entries matched increases to 90%.

3.2.3 Stage 3: Stakeholder consultation

A stakeholder consultation was undertaken at the beginning of the project, to understand how the programme had been implemented in practice, and also to gain qualitative assessment of the impact of the HGMP from different members of UKTI. The consultation was undertaken in two phases. In the first stage all relevant HGMP stakeholders (identified through discussion with UKTI) were invited to submit their views via a written survey document. Second, a series of telephone interviews were carried out with 19 stakeholders, in order to obtain more qualitative insight into the HGMP.

Stakeholders were contacted via email in the first instance, with email and telephone follow-ups undertaken to increase the survey response rate. Four distinct groups of stakeholders were contacted as part of the first stage of the consultation:

i) **High Growth Market Specialists (HGMS):** Nine Specialists were contacted.[12]

ii) **Regions:** UKTI's teams in the nine English regions, and the three Devolved Administrations, were contacted.

iii) **Overseas posts** Nineteen[13] overseas posts in high growth markets, contacted through UKTI's market desks.

iv) **UKTI HQ:** Nine individuals at UKTI HQ were contacted, based on recommendations from the HGMP team.

Overall the response rate to the survey was good, including responses from all nine Specialists, seven of the 12 regions or Devolved Administrations (with a further two commenting that the HGMP was not relevant to them), 14 of the nineteen overseas posts and 4 of the nine UKTI HQ representatives (with one additional individual stating that they were not in a position to comment).

Following the completion of the written survey, 20 stakeholders were selected to be involved in a detailed telephone interview (19 of who agreed). The group of respondents selected for interview, in order to obtain a full range of views from the different groups of stakeholders, included 9 High Growth Markets Specialists, 6 overseas posts and 5 members of UKTI's regional teams.[14]

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12 As detailed further in Section 8, the HGMP was provided through a network of High Growth Market Specialists, whose role was to identify relevant companies and provide them with advice regarding entry into high growth markets, Although 10 Specialists were in place at the beginning of the evaluation, one of these had been in place for less than a month, and so was not contacted.

13 This is more than the seventeen high growth markets, as some markets contain multiple posts (e.g. the UAE).

14 One of the High Growth Market Specialists declined to participate in the survey, as he had moved to a different position within UKTI by the second stage of the consultation exercise.

3.2.4 Stage 4: Evaluation Survey

The evaluation included two firm evaluation surveys, including a survey of firms that received HGMP support, and also a survey of the counterfactual group (as discussed in the introduction to this chapter).

The sample of HGMP recipients

The sample included all companies receiving significant assistance through the HGMP in the period from the programme inception in April 2007 to February 2009, with the exception of those firms that already been surveyed as part of PIMS. In total, 412 significant assists were completed in this period, with 274 different firms receiving assistance. Three of these companies were uncontactable as they had entered administration, or the relevant contact had left the company. As sixty-four firms had been contacted by PIMS, the initial survey sample was, as a result, 207 firms.

The sample of HGMP non-recipients (the counterfactual group)

A key part of the survey methodology was to construct, as closely as possible, an appropriate counterfactual group for the HGMP – that is the group of firms with similar characteristics to HGMP, who had not been contacted through the HGMP.

Initially, it was planned that the counterfactual group would be drawn exclusively from the list of approximately 2,000 companies identified by Pera as potential HGMP targets at the start of the programme. However, during the evaluation it became clear that this contained, at best, very basic contact details.[15] Further, the stakeholder consultation indicated that a significant proportion of firms were drawn from outside this list (see Section 10 for more details). This suggests that this list alone may not be representative of the population of "potential HGMP" firms, and that in fact the Specialists' networks allowed them to identify different firms not identified on the list.

As such, the group of companies used as the basis of the counterfactual was developed through combining the initial Pera list, and the group of companies that had been contacted by the HGMP but had not received support. This created a combined list of just under 3,000 firms.

A sample of 1,000 companies was then constructed for receipt of the survey. The sample was created by including all companies for whom contact details were available (approximately 650 companies) and a random selection of other companies for whom it was possible to identify email addresses.

The original list for the non-HGMP control group of companies included a total of 1,079 companies. The contact details obtained were un-usable for 222 of these companies, leading to a final sample of 857 companies.

15 Where contact details existed, they generally included only general company email addresses, with the CEO as the name of contact.

Survey design

The survey covered a number of areas, in order to address both the impact of the programme, and more general views related to exporting and the barriers to export encountered in high growth markets. The four major areas are outlined in more detail below:

1) Firm characteristics

The questionnaire was used to develop more detail relating to the characteristics of the surveyed firms, including obtaining information on company size (based on turnover and employee numbers), export experience, and innovative capacity.

2) Experience and presence in high growth markets

Second, the survey sought to understand which high growth markets companies operated in, and how this has changed over the past two years. Companies were also asked how important each market was to their business.

The survey also investigated the barriers faced by firms in entering high growth markets (where appropriate), using questions based on UKTI's Internationalisation Survey. The survey administered to non-HGMP companies included, when relevant, a question on the reasons for not being in high growth markets.

3) Support received and impact of HGMP support (HGMP-supported firms only)

Companies that had received HGMP support were asked to identify the impact of the firm on their business. This included both the impact on their business (in terms of skills gained and activities undertaken), the financial benefits associated with the support they had received, and the other UKTI services they might have used as a result of receiving support.

Recipients were also asked to identify the intensity of the support received, and the type and quality of advice received.

4) Knowledge of HGMP (Non-recipients only)

Firms that had not received support were asked a series of questions to identify their knowledge of UKTI support and the HGMP in particular. This is of interest in itself, but is also important in understanding the counterfactual measured by the survey, as discussed above.

Survey administration

The email was administered via email, with fieldwork taking place between June and August 2009 (over a total of 12 weeks). Unfortunately, despite several extensions to the fieldwork period, and intensive follow-up (via email and telephone) the eventual response rates were disappointing. Possible explanations for the low response rate, and the survey results, are discussed in section 9.

3.2.5 Stage 5: Case studies

London Economics completed a series of case studies with 8 recipients of HGMP support, identified through the Evaluation Survey. Two Specialists were also interviewed in relation to the specific assistance that they provided.

4 Review of existing evidence

4.1 Introduction

This section presents the results of a review of existing research relating to the economic rationale for government assistance for companies in high growth markets.[16] This consists of three major strands of evidence regarding:

- recent and projected economic trends in high growth markets;
- recent UK performance in emerging markets; and
- firm-level determinants of exporting, with a particular emphasis on how barriers to export differ in high growth markets.

We discuss each of these areas in turn, before discussing the implications for the economic rationale underpinning the HGMP.

4.2 Recent trends in high growth markets

A growing body of evidence has emphasised the many benefits that exporting firms bring to the United Kingdom (DTI, 2006). Engaging in export markets helps productive and innovative firms grow, leading to higher aggregate productivity and competitive pressure on established firms and, as a result, faster economic growth. There is also evidence that engaging in export markets leads to firms becoming more innovative by providing both stronger incentives and greater resources to invest in research and development. These investments can in turn lead to spillover effects on other UK companies through knowledge and technology transfers.

Increasingly, new export opportunities are found, not in the established developed economies of North America and Europe, but in emerging markets around the world. As a result, export performance in these economies is becoming an increasingly important determinant of an economy's success in world markets, and hence the ability to claim the associated benefits discussed above. China alone, for instance, is expected to account for more than 10% of world exports by 2012 (increasing from 8.6% in 2007) (UKTI, 2008).

Recent forecast GDP growth rates for the seventeen high growth markets are displayed in Table 3, along with the average for the G7 countries[17] over the same time periods. As this shows, emerging markets have outpaced mature markets in the recent past (between 2000 and 2008) and are expected to grow

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16 The research to be examined was identified by UKTI, and is not intended to be a comprehensive summary of the literature in this area.

17 G7 countries include Canada, France, Germany, Italy, Japan, United Kingdom and United States.

at a much higher rate in the foreseeable future (IMF projections from 2009 to 2014).

More specifically both the past and the predicted growth rate for the group of G7 countries are lower than the corresponding measure for each of the emerging markets, although there is substantial variation in the expected growth across the latter group of countries.

Table 3: Trends in high growth and mature markets

Country	GDP growth 2000–08 (% pa)(1)	GDP growth 2009-14 (% pa) (1)	GDP growth 2007-50, (% pa)(2)	2008 population (m)(1)	Size of economy in 2050 (% US GDP)(2)	2007 FDI Inward current US $m(3)
Brazil	3.7	2.6	5.2	192	26	34,585
China	10.0	9.2	6.8	1328	129	83,521
India	7.2	6.8	8.5	1190	88	22,950
Indonesia	5.2	4.5	6.7	228	17	6,928
Korea (South)	4.8	2.9	-	49	8	2,628
Malaysia	5.5	3.2	5.8	27	-	8,403
Mexico	2.9	3.0	4.7	106	17	24,686
Qatar	11.2	8.9	-	1	-	1,138
Russia	6.9	2.0	4.3	142	17	52,475
Saudi Arabia	3.9	3.6	4.8	25	-	24,318
Singapore	5.5	1.7	-	5	-	24,137
South Africa	4.1	3.1	4.8	49	-	5,692
Taiwan	3.6	1.6	-	23	-	8,161
Thailand	4.8	3.2	5.7	66	-	9,575
Turkey	4.8	1.8	5.1	70	10	22,029
UAE	7.7	3.2	-	5	-	13,253
Vietnam	7.5	5.5	9.8	86	-	6,739
G7 economies	2.0	1.2	2.0	726	-	-

Note: Growth rates are in real terms.
Source: (1) London Economics based on IMF World Economic Outlook Database, April 2009; (2) PWC (2008); (3) London Economics based on UNCTAD GlobStat Database, 2008.

Short-term expected growth rates have, of course, been significantly lowered as a result of the current economic downturn. Despite initial expectations that emerging markets would withstand difficulties (and indeed act as a buoy to more developed markets); it became clear towards the end of 2008 that this was not the case. The World Bank for instance, reduced its 2009 growth forecast for developing economies from 4.4% to 2.1% between November 2008 and March 2009 (World Bank, 2009).

However, these difficulties should not affect the long-run prospects for these economies. According to long-run projections developed by PwC (2006, 2008), average GDP growth in the largest seven developing economies (the 'E7') is expected to be 6.4% between 2007 and 2050 compared with just 2.0% amongst the G7. This implies that, by 2050, the combined size of the E7 will be more than 150% of the combined size of the G7 economies, compared with just over 25% in 2006.[18] China is predicted to be the largest economy in the world, reaching 129% of the size of the US economy from a starting point of 23% in 2007. While any projection over forty years must be treated with caution, these are useful indications of the shift in balance in the world economy that is likely to occur during this period.

It is also instructive to look at the variation in trends across the different high growth markets. In the short-run, a group of Asian countries (China, India, Vietnam and Indonesia) is predicted to continue to grow at a fast rate (between 9.2% and 4.5%), while Qatar is also expected to experience very high growth of 9%. All the remaining countries are predicted to grow at rates of around 3%, with the exception of Russia, Singapore, Taiwan and Turkey, which are predicted to grow between 1.5% and 2% annually.

According to the PwC (2006) projections, estimated long-term growth varies significantly between the different economies. India is predicted to be the fastest growing economy over the period 2005-2050, with an average annual growth rate of 8.5%, due to the anticipated growth in the working age population, while Indonesia, Turkey, Brazil and Mexico will also grow faster than their current growth rate (with average annual growth between 4.7% and 6.7%). China and Russia, on the other hand, are expected to experience slowing growth rates (roughly 6.8% and 4.3% respectively) due to a decline in the workforce resulting from an ageing population.

Notably, many of the markets that are expected to experience the highest growth are outside the current E7 economies, with Vietnam predicted to experience growth of nearly 10% per annum between 2007 and 2050 while Nigeria, Philippines, Egypt and Bangladesh are each predicted to grow at over 7% per annum.

4.3 UK export performance

4.3.1 General export performance

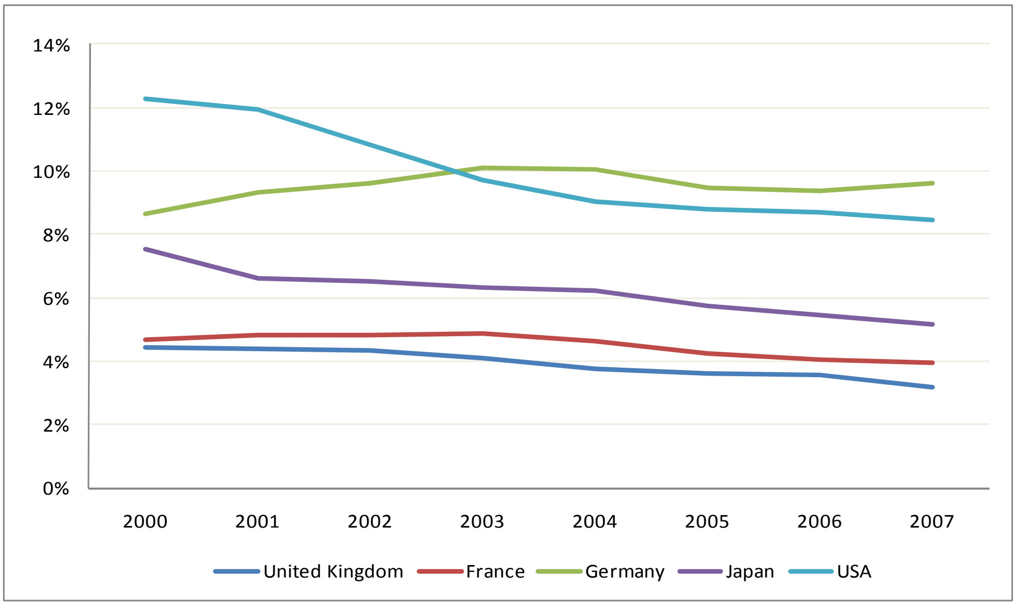
In this section we present an overview of UK export trends in recent years, comparing with selected competitors (USA, France, Germany, and Japan).

As shown in Figure 2, the UK share of world commodity export market share has declined in recent years, falling from 4.4% in 2000 to 3.2% in 2007. However, with the exception of Germany (whose share increased from 8.6% to 9.6%), other major industrial economies have experienced a similar trend. In the same period, the share of world goods exports originating in the USA has fallen from above 12% of exports to 8.4%, while Japan's has fallen from almost 8% to approximately 5%. France, which accounted for a similar share

[18] Estimated at market exchange rates. In 2005 the seven emerging economies represented almost two thirds of the G7 group in PPP terms.

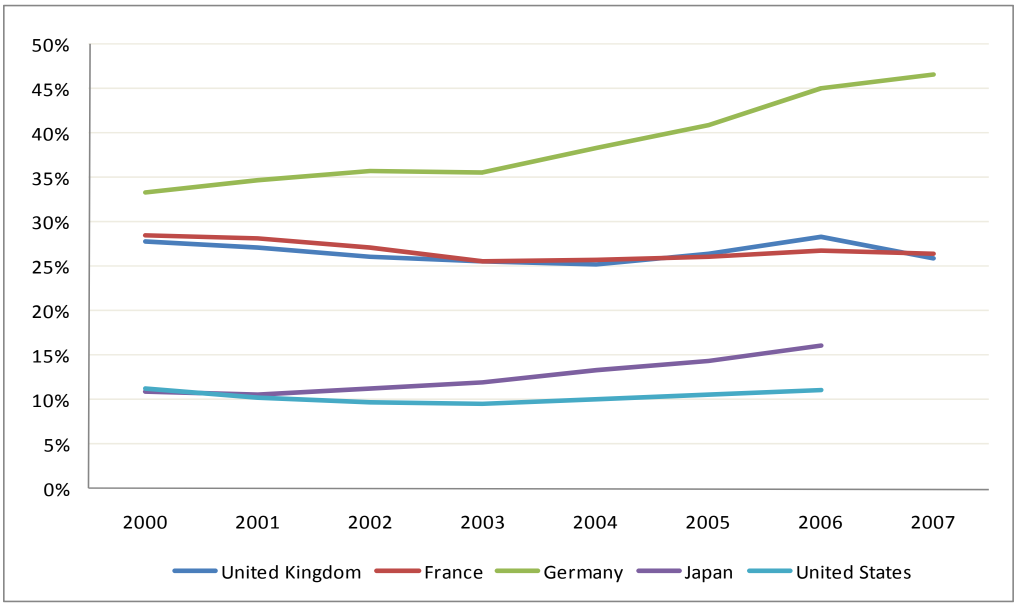
of exports as the UK in 2000 has also experienced a decline (from 4.7% to just below 4%) albeit not as great as the UK.

Figure 2: Share of world exports of commodities (%)



Source: London Economics based on UN Comtrade data.

Figure 3: Export of goods and services as a share of GDP (%)



Source: London Economics based on World Bank data.

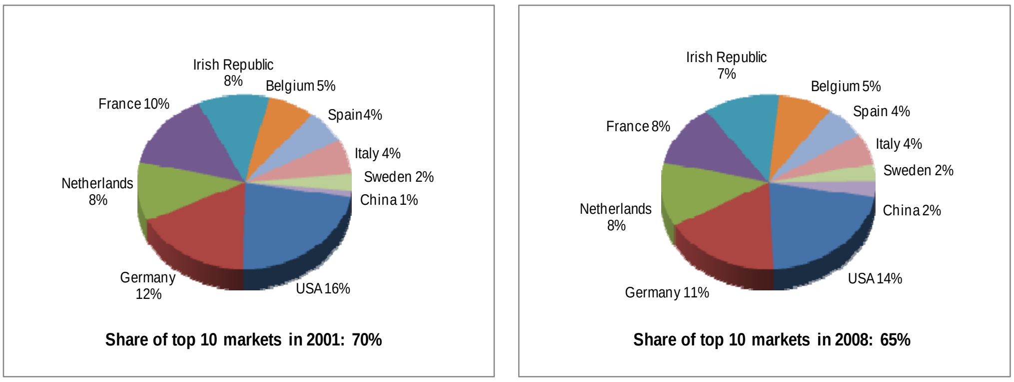
Although the share of world exports has fallen, exports have fallen only slightly as a proportion of GDP over the same period, as shown in Figure 3. Although this shows that absolute value of UK exports has increased in recent years, three of the other four economies have seen exports grow as a share of GDP. In Germany, exports grew from 33% of GDP in 2000 to 47% in 2007.

This finding is consistent with the results of a recent study by Galstyan et al. (2009), showing that UK export growth between 2002 and 2007 was lower than Germany, Japan and the USA both generally, and in a number of priority sectors and markets[19]. Further, the UK was found to have suffered from a reduction in market share of 6 percentage points in Germany and of 2.4 percentage points in priority sectors in other markets. On the other hand, market shares within the USA and Japan increased slightly (by approximately half of a percentage point).

UK trading partners

As shown in Figure 4, the top five markets for UK goods exports are the USA, Germany, France, the Netherlands and the Republic of Ireland; a ranking which has not changed over the past seven years. Notably, the relative importance of UK's top 10 trade partners has declined from 70% of total UK exports in 2001 to 65% in 2008, with seven out of the top ten exporting markets declining in relative importance. The largest proportional increase in the period concerned exports to China, which more than doubled from 2000 to 2008.

Figure 4: Top 10 UK export markets – 2001 and 2008



Note: Trade in commodities only.
Source: London Economics based on HMRC Overseas Trade Statistics.

[19] Priority markets included Brazil, China, Germany, Japan, India, Mexico, Russia, Saudi Arabia, South Africa, United Arab Emirates and the USA. Priority sectors included Advanced Engineering, Construction, ICT, Environment and Water, Transport, Ports, airports, Rail, Education, Pharmaceuticals, Health care, Creative and Media, Power, Science and Technology, Agri-technology, Marine, Chemicals.

Table 4 presents the average growth in UK goods exports to major EU and non-EU trading partners over the period 2001-2008 (in current prices). As this shows, the average growth of UK exports outside the EU has been much stronger compared to that intra-EU. In particular, exports towards emerging markets grew at a much faster rate than exports to established markets: the only four countries for which the growth rate of UK exports reached double figures were Russia (21%), China (14%), India (11%) and Poland (almost 11%). This suggests that, while established markets are still the primary destinations for UK exports, their relative importance is decreasing.

Table 4: UK export destinations - Average Annual Growth Rate 2001-08

Top 10 EU Countries	Average growth 2001- 2008	Top 10 Non-EU Countries	Average growth 2001- 2008
Total EU	**2.7**	**Total Non-EU**	**4.5**
Germany	2.6	USA	2.0
Netherlands	3.8	China	13.9
France	-0.1	Switzerland	2.5
Irish Republic	3.4	Russia	21.0
Belgium	4.1	India	11.0
Spain	2.6	Japan	-0.1
Italy	1.5	Canada	1.3
Sweden	3.3	Hong Kong	3.2
Poland	10.7	Australia	3.1

Note: Trade in commodities only.
Source: London Economics based on HMRC Overseas Trade Statistics.

Discussion

The evidence above suggests that, while not disastrous, UK export performance since 2000 has been disappointing in comparison to a selection of developed economies. The available evidence suggests that this can be explained largely by a reduction in UK competitiveness, driven in large part by the appreciation of sterling over the period. Recent studies have shown that in several markets the UK continues to export the products demanded by importers, but that it has lost market share *within* those product groups (Galstyan et al. (2009); Eaton et al. (2007)) as exporters have suffered from a loss of competitiveness relative to competitors. In particular, as shown in Galstyan et al. (2009), sterling appreciated significantly against both the Yen and the US Dollar from 2002, remaining at the appreciated level until 2007. More generally cost competiveness (based on per unit labour costs) also increased up to 2007, before falling (due largely to changes in the nominal exchange rate). Given the generally smaller size of UK firms, in comparison to their European and US counterparts, and their consequent limited price setting power, this might be thought to have a particularly large effect (Barriel, 2006).

In considering these findings, it should be noted that the picture varies considerably by sector. Galstyan et al. (2009) find that (based on 2007 world market share) the UK appears to have a strong position in a number of sectors, including "environment and water", "ports and airports", "education", "pharmaceuticals", "health care", "creative and media", and "power and chemicals". Market shares in "transports" and "marine and rail" are, on the other hand, relatively low. Analysis of trends indicates a similarly heterogeneous picture. Between 2002 and 2007 the UK increased market share in "ports and airports", "education and health care", but suffered from a reduction in the "ICT", "transport", "creative and media", "science and technology" and "agricultural technology" sectors. Similarly, Barriel (2006) reports that while UK market share fell in nine out of twelve sectors between 1991 and 2001, it increased in the "pharmaceuticals", "computers", and "communication equipment" sectors.

4.3.2 UK performance in emerging markets

The discussion above has emphasised the growing opportunities that exist for UK industry in emerging markets. At present, trade with these economies is a relatively small proportion of total UK exports, accounting for 14.4% of UK exports in 2008.[20] However, this proportion has grown rapidly – in 2000 exports to the same economies accounted for only 9% of exports.

Despite this rapid growth, recent research suggests that the UK's export performance in high growth markets has been relatively disappointing in comparison to major competitors, although there is important variation across both markets and industrial sectors. Galstyan et al. (2009) have found that, in 2007, although the UK had significant market shares in the UAE, South Africa, Saudi Arabia and India and Russia (between 16% and 9%), it only holds a market share of 5% or less in markets such as Brazil, China and Mexico.

Further, Galstyan et al. (2009) also show that the UK recorded falling market shares in seven of the eight emerging countries analysed between 2002 and 2007, with the exception of China (where market share increased by 0.4 percentage points). In particular, considerable ground was lost in India, the UAE and South Africa (with decreases of between 3.6 and 2 percentage points). This builds on earlier work (Eaton et al., 2007)) reporting that UK market share in goods exports declined between 1994 and 2005 in eight of twelve high growth markets examined, with a significant increase only in India.

The evidence also suggests that this performance cannot be explained by a general shift away from imports sourced from developed economies in these markets. In fact, frequently competitor countries have increased their share of the market while the UK's share has increased. The results presented by Galstyan et al. (2009) show that, in each of the seven emerging economies where the UK suffered a reduction in market share, at least one (and generally two) of Germany, Japan and the USA were able to increase their

[20] Based on ONS data. Does not include Vietnam or Qatar.

share of the market. Similarly, Eaton et al. (2007) find that the US, Japan and France each increased their market share in six out of the twelve emerging countries, while Germany strengthened its position in five.

Examining the export performance in more detail suggests that the recent declines in export market share in high growth markets are, as mentioned above, not explained by the types of goods that the UK exports, but rather changes in competitiveness. Eaton et al. (2007) find that the loss of share in the markets examined was caused primarily by a reduction in export quantity, as opposed to a reduction in the value per unit sold. In fact, in 2005 UK exports often had the highest unit value of the five exporters examined in the study. This in turn suggests that an explanation for the decline in UK export market shares may reflect the concurrent real appreciation in the value of Sterling.

Decomposing the change in competitiveness by sector, engineering goods explained the majority of the decline in export share, while the UK also lost shares in IT and vehicles. The pharmaceutical, aerospace and transportation sectors, on the other hand, increased market share during the same period.

The position in terms of exports of services is more positive than in goods, with the UK found to have particularly high levels of market penetration in India, Malaysia, Indonesia and Thailand (Casson, 2007). Further, in India and Malaysia this penetration was high compared to almost all rival countries. However, it is notable that penetration in the two non-Asian markets, Brazil and Russia, was only “average” (although penetration in Russia was higher than any of the rival countries).

Despite this strong position, there was some evidence of deterioration between 2002 and 2004, with the UK losing ground in five of the eight markets examined. However, the author comments that these results should be treated with “extreme caution” and so these findings should not be treated as indicating any long-term trend in export performance.[21] Further, more general problems exist in relation to the sector-level information due to differences in classification across countries.

Despite these caveats, the explanations proposed for this apparent decline may still be of relevance in assessing the position of UK firms in these high growth markets more generally. Two reasons are proposed: first that much of the existing lead is explained by cultural and historical ties with some Asian countries (e.g. India) that are losing importance as these markets continue to open up to other exporting countries. Moreover the sectors in which the UK was found to have a strong comparative advantage included services such as financial and insurance services, other personal and cultural services, information services, and consulting services, which are largely knowledge-based.[22] As a result, the development of an educated work-force could allow

21 In particular, it was not possible to reject the hypothesis that the year-to-year changes were entirely random.

22 The UK was also found to have a strong comparative advantage in sea passenger transport services.

the emerging countries to absorb the knowledge and hence internally replace imports from UK companies.

Interestingly, Casson (2007) also found that the best (in fact the only statistically significant) predictor of excess market penetration was geographical distance. In particular, national comparative advantage played no role in determining service penetration. This suggests that country-specific export barriers (in this case the geographic distance) may have an important role to play in explaining trade patterns.

Discussion and future prospects

Although there appear to be opportunities for UK companies, it is clear that the exact nature of these will depend on the way in which the emerging markets continue to develop. Both Eaton et al. (2007) and Casson (2007) consider the extent and nature of the opportunities that will arise across four alternative scenarios for the period between 2010 and 2020.[23]

The findings suggest that the growth of UK exports across the eight economies will be driven largely by the performance of the BRICs, with relatively small effects on other economies. Notably performance in these countries is not expected to affect performance in the other high growth markets (e.g. there is little crowding out effect) (Eaton et al., 2007). Further, the sensitivity to different scenarios varies by sector, with transportation and vehicles particularly sensitive.[24] It is also important to note that the trend varied across industries. Galstyan et al. (2009), analysing export of goods by sector and importing market, suggest that there may be particular opportunities for UK companies in high growth markets within the education sector (in China and India), the marine sector (in Saudi Arabia, and India) and ports and airports (in India). While the authors acknowledge that these conclusions rely on specific assumptions regarding import demand, income import elasticities[25], and projected GDP growth and also do not take into account possible shifts of demand towards domestic production in the future, they highlight the fact that there are likely to be important differences across industry sectors.

Casson (2007) concludes that there are significant opportunities within Asian markets within three of the four scenarios. However, taking advantage of these will depend on developing world-class knowledge-based services and, possibly necessitate increasing levels of outward investment (i.e. overseas branches) even in the service industry. Further, it is important that the UK

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23 These scenarios were produced by Horizon Scanning Team and Outsights-Ipsos MORI, based on two axes: international openness (ranging from outward-looking world to inward looking world) and the extent of the rise of new economic powers (ranging from sluggish to very fast levels of growth).

24 This sector is anticipated to achieve much higher export growth in the scenarios where the BRICs grow rapidly.

25 More specifically crucial for their conclusions are the assumptions that attitude towards foreign goods and price and non-price competitiveness of domestic production have not affected income demand over the period 2002-2007.

develops new networks and ties with the emerging markets, particularly in scenarios where new economies do not participate fully in the world trade system (e.g. by engaging in protectionism or failing to protect intellectual property rights).

4.4 Firm-level determinants of export behaviour

The discussion above has provided an overview of the macroeconomic evidence regarding UK performance in emerging markets. Despite the growing opportunities available, the latest information available has suggested that UK companies have been losing market share and competitiveness in recent years.

However, the evidence indicates that, despite this loss in market share, the UK is producing goods and services demanded by high growth markets. In terms of goods exports in particular, Eaton et al. (2007) have suggested that the loss of market share is not caused by a lack of innovation by UK companies, with no evidence that firms are falling behind in product development or introduction. Further, scenario analysis has indicated that in most situations opportunities are expected to continue to grow in the future.

Although this evidence indicates that British companies have had difficulties in these markets in recent years, the reasons for this are less clear. The data does not indicate whether the number of exporters has been falling, or whether those exporters have remained in market with reduced market shares.

The possible explanations for UK firms not being more active in high growth markets can be split into two categories. First, firms may feel (possibly incorrectly) that these markets do not offer opportunities to them. Second, even if they do recognise that these opportunities exist, there may be important barriers to export that deter them from entering these markets ("barriers to export").

4.4.1 UK firms' attitudes towards high growth markets

The evidence available, based on firm survey data, indicates that the majority of international firms state that they *are* aware of the opportunities that may be available in high growth markets.

According to UKTI's 2008 Internationalisation Survey, 45% of internationalising firms are already doing business in one of the emerging markets, with only 12% feeling that those markets are unlikely to provide an opportunity (OMB Research, 2008b). Positive attitudes have also been found in other surveys. PwC (2006) report that a high proportion of Chief Executive Officers saw market opportunities in the so-called BRICs (Brazil, Russia, India and China) as "significant", particularly in China and India (78% and 64% respectively). Similarly, a joint UKTI/Economist Intelligence Unit (EIU) survey found that emerging-market revenues are anticipated to increase from 29% to 38% of total firm revenue (on average) between 2008 and 2011 (UKTI, 2008). Further, 34% of the 561 executives surveyed expected to enter three or more emerging markets over the next five years – more than the 14% of respondents expecting to enter three or more developed markets.[26] At the time of the survey (2008) 63% of respondents also felt that strength of emerging markets would compensate for the recession occurring in Western Europe and North America. While the declining macroeconomic prospects in these markets may mean that these views are now slightly outdated, this again highlights the importance firms are willing to place on these markets.

These results suggest that firms do recognise that there may be opportunities for them in high growth markets. However, there are some important caveats when considering this result. In particular, it is clear that there may be a significant difference between stating that there is a good opportunity in a market and understanding the form of that opportunity or correctly assessing the *extent* of the benefit that the firm might be able to achieve. Respondents may feel that there are theoretical benefits from exporting to a high growth market, without any genuine understanding of what those opportunities might be – or how they might be achieved in practice.

Second, although the survey evidence indicates that most firms feel there may be opportunities in these markets (88% of respondents to the 2008 Internationalisation Survey, for instance), we cannot say whether this proportion is "correct" – and hence we must be cautious in interpretation. If all firms, for instance, would benefit from exporting to these markets, then this would imply that 12% of firms are unaware of the benefits. Equally, it may be the case that many firms are incorrect in feeling that these markets might offer them benefits.

Further, although firms state that they are aware of the opportunities in high growth markets as a whole, the evidence is less clear in relation to the extent to which they are aware of (or are operating in) the "newer" emerging markets, as opposed to the more "established" BRICs. The survey by PwC (2006), for instance, focuses only on these four economies. There is however some evidence in the UKTI/EIU survey that although the BRICs are still dominant (China and India remained the most popular choices as a "priority for future expansion"), firms are now seriously considering other emerging markets.

In particular, around a third (36%) of companies saw major opportunities in non-BRIC markets, while around 80% had "at least three non-BRIC markets in mind for expansion sometime in the next decade". Of the non-BRIC markets identified as priorities, the most popular were Vietnam, Mexico, and the UAE (each identified by around 8%-9% of respondents). Interestingly, the survey indicated that investment in these markets is likely to be *in addition* to existing investments in the BRICs.

[26] Around 47% of the respondents to the UKTI/EIU survey were multinationals. This contrasts with the survey carried out by PwC (2005) which focused on large multinationals.

UKTI's 2008 Internationalisation Survey also provides evidence on entry into different high growth markets (OMB Research, 2008b). This shows that although Russia, India and China are three of the most popular markets (with between 14% and 19% of respondents "already in") this is not the case in Brazil (with only 9% "already in"). Further, Turkey, South Africa and Saudi Arabia/UAE also had an equally high proportion of companies operating in-market (between 15% and 18% of respondents).

In contrast to the results above, this suggests that non-BRIC high growth markets *are* also regarded highly by firms. The difference in attitudes could, however, be explained by the definitions of "emerging market" used in the different surveys, as this is not always clear.[27] The other emerging markets identified (Qatar, Mexico and "other Asian markets") appeared less popular, with fewer than 10% of companies already doing business there.

As well as collecting information on markets, the Internationalisation Survey provides information on the characteristics of firms operating in high growth markets. This shows that firms are more likely to already operate in emerging markets if they are larger, older and more innovative. 54% of firms with more than 250 employees, and 49% of firms older than ten years are already in high growth markets, in comparison to 40% of firms with fewer than 10 employees, 49% of firms with between 10 and 49 employees and 35% of firms younger than five years. 20% of firms classed as not innovative did not feel emerging markets offered them business opportunities, compared to 9% of innovative firms, with similar results based on whether firms are "IP active" (i.e. those firms that hold any patents or trademarks).

Although these results indicate that larger and older firms appear more likely to be present in high growth markets, the proportion of even smaller, younger internationalising firms already operating in high growth markets is significant. Moreover, smaller firms were less likely to feel that emerging markets were unlikely to offer opportunities in the future (12% versus 18%). Smaller firms are more likely to see potential opportunities in high growth markets, but are less likely to have either moved into those markets or decided they are not appropriate for their business. This suggests that they may be equally interested in entering high growth markets as larger firms, but have not yet made concrete steps to decide whether this would actually be beneficial for their business.

4.4.2 Overview of potential barriers to export

The discussion above has indicated that a large proportion of internationalising UK firms is already present in emerging markets. However, there is a significant proportion (around 45% of firms) that feel that emerging markets may present opportunities, but that are not currently active. This suggests that there may be barriers preventing these companies

[27] For instance, it seems possible that markets such as Turkey and South Africa may not be seen by respondents as high growth markets.

from expanding into these markets and taking advantage of the opportunities that they believe to exist.

At a theoretical level, the market failures that may prevent market entry include (DTI, 2006):

- Under provision of public goods: information-gathering costs of market entry are overly high.
- Network and intermediation failures: firms do not have access to social networks, such as relevant customers or partners.
- Informal barriers to market entry: exporters may face a number of other barriers to market entry, such as differences in regulation or technical standards.
- Weaknesses in internationalisation skills: firms (particularly young, less experienced exports) may not have sufficient skills to enter overseas markets.

Several studies and reports have sought to identify these barriers in more detail, although generally these have not assessed whether there are differences between particular types of markets.

An important element of the literature has emphasised the role of the fixed costs faced by exporters when first entering a foreign market – including information gathering, adjusting to national regulations, adapting products and learning about the correct procedures to follow in new markets.[28] As a result, firms face *sunk costs* when entering new markets, leading to heterogeneity in export behaviour across firms within the same markets, as only the more productive feel able to recoup the costs involved in entering foreign markets (Melitz, 2003).

The importance of sunk costs is supported by research finding that export decisions are influenced by company size and productivity (DTI, 2006). Further, a number of studies have tested for the existence of sunk costs through examining whether export decisions influence the likelihood of incidence of exporting today. However, although these reports have indicated that sunk costs are important, these findings do not provide any evidence regarding what these costs actually consist of, or how they apply in different contexts (e.g. how sunk costs change when entering additional export markets) (Kneller and Pisu, 2008).

A recent study by Greenaway et al. (2007) has investigated the extent to which the ability to overcome these sunk costs is affected by financing constraints; i.e. whether firms' financial health is a determinant of export market entry. Given the existence of export sunk costs, it might be expected that firms in worse financial health are not able to enter export markets, as

28 For a more detailed discussion of the literature regarding firm entry into export markets, see Kneller and Pisu (2008).

they are unable to make the required investments.[29] However, the results indicate that although exporters appear to be in better financial health compared with non exporters, this is an *outcome* rather than a determinant of exporting. That is, exporting positively impacts on financial health rather than firms with better financial health being more likely to export.[30]

This finding indicates that the barriers to export market entry are likely to be related to unobservable factors such as management goals and capability (DTI, 2006). More detail on the nature of these barriers is provided by the evidence collected through a number of UKTI surveys, as displayed in Table 5.[31]

The survey results show that a wide range of barriers to export have been experienced by firms, including relating to building up networks of contacts, marketing and establishing an overseas presence, legal and regulatory requirements, cultural and language issues, and logistical issues with operating overseas. The most common barriers experienced are those relating to identifying initial contacts, marketing costs, bias towards domestic firms and exchange rates.

29 In the presence of capital market imperfections.

30 In fact, the findings indicated that firms starting to export (as opposed to "continuous" exporters) had lower liquidity and higher leverage. They speculate that this may be due to the need for "starters" to finance the sunk costs incurred in entering export markets.

31 It is not appropriate to compare directly across surveys, as the methodology used varied both in terms of the sampling frame and also the framing of the survey question.

Table 5: Experience of barriers to export amongst users and non-users of UKTI services (% of respondents encountering significant barrier)

	Users	Non-users			User and non-users	
Year	2005	2005	2007	2008	2005	2008
Sample size	311	146	275	302	457	900
Regulations & standards	23%	14%	16%	10%	20%	n.a.
Identifying initial contacts	37%	16%	15%	12%	30%	34%
Establishing initial dialogue	25%	10%	12%	6%	20%	29%
Building relationships	23%	13%	13%	10%	20%	30%
Obtaining (basic) information	13%	5%	8%	4%	10%	21%
Marketing costs	38%	13%	14%	11%	30%	23%
Foreign exchange	25%	18%	17%	21%	23%	28%
No overseas office	22%	6%	8%	6%	17%	20%
Logistics	16%	10%	10%	6%	14%	n.a.
Language	17%	9%	9%	6%	14%	n.a.
Cultural differences	14%	7%	6%	5%	11%	17%
Bias towards domestic firms	25%	14%	12%	6%	22%	21%
Obtaining visas & permits	n.a.	n.a.	1%	1%	n.a.	n.a.
Customer bias for UK goods	n.a.	n.a.	n.a.	n.a.	n.a.	33%
Finding management time	n.a.	n.a.	n.a.	n.a.	n.a.	24%
Costs associated with doing business	n.a.	n.a.	n.a.	n.a.	n.a.	23%

Source: OMB Research (2005); OMB Research (2007a); OMB Research (2008a).

Notably, the results from the surveys in 2005 and 2008 indicate that a much higher proportion of users of UKTI support have reported each of the barriers. This suggests either that firms experiencing barriers are more likely to use UKTI support[32] or alternatively that receiving support may help firms become aware of the barriers that do exist.

The surveys also collect a range of information regarding company characteristics, which can be used to analyse how barriers to export vary across different types of companies. The most robust analysis of this has been carried out by Kneller and Pisu (2008), using the results of the 2005 survey of users and non-users. Using a number of econometric techniques, the impact of a number of firm characteristics on the probability of experiencing barriers to export is estimated, controlling for other firm-level variables.

The results indicate that the most important determinant of barriers to export is the level of export experience (in terms of years since first export) held by companies. Firms with more export experience were found to experience fewer barriers. Further, the severity of the barriers experienced is generally lower amongst firms with more export experience. Conversely, export intensity seems to have an insignificant effect on barriers to export.

[32] This could either be because firms seek help in response to facing barriers, or as a result of other characteristics that are correlated both with the decision to seek support and the likelihood of experiencing barriers to export.

Interestingly, export experience seems to have a non-linear impact on the number of barriers encountered. Firms generally enter the easiest markets first, and have to face a number of relevant barriers, that tend to decline over time. The number of barriers then rises when firms try to enter new, more difficult markets, before declining again. The variety of barriers experienced when attempting to enter these new markets is wider (in particular, language and logistics difficulties become relevant), but the effect is smaller in magnitude.

When analyzing specific barriers, Kneller and Pisu's analysis indicates that at least one export experience variable was statistically significant in determining the identification of nine of the twelve barriers examined (the exceptions being legal and regulatory concerns, exchange rates, and home bias). Comparing the barriers faced by non-exporters with those reported by new entrants into export markets indicated that four barriers may be particularly important in deciding whether to start exporting: "obtaining basic information", "identifying initial contacts", "cultural differences", and "not having an office or site in an export market".

The authors underline that support given to firms facing barriers to export should be broad based and not limited to new exporters, given the large variety of significant barriers and the fact that the number of barriers rises and then falls as export experience increases.

4.4.3 Barriers to export in high growth markets

Although there is a growing body of evidence regarding barriers to export in general, there has been less analysis of the ways in which these differ across different markets (or types of markets), or how these vary for exporters entering additional markets compared to exporting to their first market. In general it seems likely that the importance of the various types of barriers to export identified above is likely to vary between high growth markets and more established economies. Firms may be expected to face different issues both in terms of on-the-ground operational issues and also political and country-level risk.

A number of operational issues exist in high growth markets that may act as a barrier to export. Particular issues include staff recruitment and retention, language, cultural differences, protection for intellectual property and bureaucracy (OMB Research, 2006; UKTI, 2006b). Firms have identified that they often need to collaborate with local partners but have difficulty in identifying the most appropriate local businesses (UKTI, 2006b).

The extent to which operational issues differ compared with mature markets is indicated by the findings of a recent survey of large firms operating in emerging markets (EIU, 2008). The most common operational barriers identified were a lack of sufficiently skilled/experienced labour (23% of firms identified this as a major barrier), rising energy and raw material prices (17%), price competition from local firms (10%), poor electricity supply (10%) or poor physical infrastructure (9%). It seems unlikely that, with the exception of local competition, any of these barriers are common when exporting to mature markets.

A further set of barriers particular to emerging markets relate to the risk and concerns related to government policy and political and economic stability. Although emerging markets have become consistently less risky in recent years (as measured by EIU's operational risk model), it is clear that the political and economic situation in these markets is less stable than in mature markets (EIU, 2008). These factors add to the uncertainty and complexity in dealing with these markets, and hence form a barrier to export (UKTI, 2006b). Companies have also reported difficulties with bureaucracy, protectionism, financial controls and national and unforeseen changes in regulation (UKTI, 2006b).

Recent survey evidence also suggests that barriers to export are more common in these markets, as displayed in Table 6. In comparison to firms in other markets, a higher proportion of firms in high growth markets identified each of five types of barriers to export. In particular, firms in high growth markets were much more likely to report both legal and regulatory barriers (52% versus 37%) and language and cultural barriers (37% versus 21%). In general, firms in these markets also reported a higher number of barriers (37% of firms reported four or more barriers, in comparison to 28% in other markets).

Table 6: Barriers to export - by type of market

	Fast growing	**Other**
At least one barrier 'to a significant extent'	81%	78%
Types of barrier		
Legal & regulatory barriers	52%	37%
Contacts barriers	50%	45%
Information barriers	25%	20%
Fixed costs barriers	66%	61%
Language & cultural barriers	37%	21%
Bias barriers	22%	20%
Number of barriers		
One	18%	18%
Two	11%	13%
Three	8%	12%
Four or more	37%	28%

Source: OMB Research (2008b).

The survey also provides an analysis of the drivers of firms' decisions to operate in high growth as opposed to other markets. The results are presented in Table 7. The first three rows indicate the main factors that influenced firms in entering these markets. The subsequent rows then provide an indication of how favourably the firm perceived the market in respect of several issues (these are also reflected in the categories of barriers to export presented above).

Table 7: Drivers of geographic focus - by type of market

	Fast growing	**Other**
Networks & serendipity	78%	83%
Independent analysis	58%	51%
Solely reactive	11%	17%
Market perceived favourably in respect to…		
Contacts	80%	82%
Practicalities	54%	65%
Language & culture	77%	86%
Risk & IP	53%	67%
Resources	67%	63%
Demand	44%	31%

Source: OMB Research (2008b).

These results indicate that "networks and serendipity" is the most common driver of focus across both fast growing and other markets. This refers to cases where firms enter the market based on their connections within the market, an external source or through the connections of a firm member. Interestingly, this driver is slightly less important in high growth markets compared to other markets. Also, a smaller proportion of firms in high growth markets entered for "solely reactive" reasons (i.e. in response to a request from someone in the market but not based on existing connections) and a higher proportion entered following independent analysis (58% versus 51%). This suggests that many firms may have to undertake a higher degree of initial analysis to identify relevant opportunities and risks in high growth markets – which may impose initial fixed costs in entering these markets.

It appears then that a number of barriers are more common in emerging markets. Intuitively, we might imagine that barriers would also be more severe than in mature economies. However, we are not aware of any studies that have examined whether this is the case.

It is also important to note that the nature and importance of barriers will vary considerably across both markets and industrial sectors. For instance, OMB (2006) report that in India the cultural differences experienced consisted primarily of problems with late payment, whereas the comparable issues in Russia related to wariness of foreign firms, and in Brazil a 'laidback' attitude (one firm only), whereas in China no difficulties were encountered. Similar differences applied within the other barriers mentioned. At an aggregate level, Eaton et al. (2007) find that the size of barriers vary across markets and sectors (once competitiveness, market size and geographic distance have been controlled for), with Brazil and Russia "relatively closed" to UK firms, and geographic distance relatively less of barrier to export in the pharmaceutical and aerospace industries.

5 Data linking exercise

5.1 Introduction

The first stage of the analysis consisted of linking UKTI client record information for a number of UKTI programmes (including the HGMP) with information from FAME.[33] In this section, we provide an analysis of the resulting dataset (the "FAME-linked dataset") which contained information on company financials and other operational characteristics that then formed the basis of an analysis of the determinants of firms' decisions to enter high growth markets (with UKTI support). This includes a discussion of the data available in FAME, an assessment of the representativeness of the linked sample, and a descriptive analysis of the firms in the dataset.

5.2 Data availability

As discussed in Section 3, a large majority (86%) of the UKTI-supported firms were linked to the FAME database. However, upon examination, it became clear that only limited financial data was available from FAME for the majority of firms. For instance, approximately one third of companies had information on their 2006 turnover. Table 8 contains a summary of data availability for different variables, split according to the type of UKTI support received. Overall, data was available for between 17% (turnover overseas) and 38% (turnover and profitability) of the firms linked to FAME.[34]

There is considerable variation in the availability of information across the different UKTI programmes: availability for non-HGMP UKTI supported companies is less than 50% in all cases for each of the indicators used, and sometimes below 10%. On the other hand we were able to retrieve data for more than two thirds of the HGMP companies, with the exception of turnover overseas, which was around 44% (still considerably higher than the overall average). One reason for the superior information relating to the HGMP sample is the fact that HGMP companies are generally larger and older than the companies targeted as part of the other UKTI supported services, and as such are generally more likely to provide the relevant financial information to Companies House.

33 See section 3 for more detail on the firms linked, the methodology used, and the proportion of firms matched (split by the type of support received).

34 Considering the number of companies, rather than entries, the percentage of data available is slightly smaller, ranging from 14% (turnover overseas) to 39% (profits).

Table 8: Data availability for firms linked to FAME					
	Turnover	**No. Employees**	**Profitability**	**% Turnover overseas**	**Productivity**
Sector events overseas	44%	39%	44%	20%	36%
OMIS	41%	38%	40%	18%	32%
TAP (Group)	21%	19%	21%	8%	13%
TAP (SOLO)	18%	10%	18%	6%	8%
Outward missions	45%	42%	45%	21%	37%
HGMP: significant assists	74%	78%	74%	44%	71%
HGMP: company interactions	71%	72%	71%	43%	67%
Overseas posts	39%	37%	39%	16%	31%
Market Visit Support	18%	13%	18%	4%	10%
Total	38%	35%	38%	17%	30%

Note: Data refer to total number of assists. Data availability refers to results for 2006 in all cases.
Source: London Economics based on FAME-linked dataset.

5.3 Representativeness of FAME-linked sample

In order to understand the results of the subsequent analysis, it is important to understand whether the FAME-linked sample is representative of the underlying population. In this instance the relevant population refers to companies that have received UKTI support to enter particular markets. It is possible that linking to FAME led to some bias in the sample used for the later econometric analysis.[35] This is for two reasons. First, it is likely that the success rate in the linking itself was higher for larger firms (especially as FAME has a known bias towards larger organisations). Second, due to differences in filing requirements, smaller companies report less data. As a result, the sample of firms for which data is available (and which are then included in any regression or other analysis) may be biased.

We seek to assess whether this is an issue through comparing the dataset with quarterly information collected by UKTI through the PIMS survey. PIMS is based on a random sample of recipients, and so should reflect an unbiased estimate of the population. In Figure 5 we compare measures of company size between PIMS and our sample, in order to identify any bias that might exist.[36]

For the FAME-linked dataset, we construct two measures of company size. The first is based on adjusting the standard SME classification (as used by the European Commission) for the criteria used in the HGMP (to add a "mid-

[35] As discussed in section 3, the linking exercise included *all* companies (within the selected programmes) receiving UKTI support within 2007/08, and so, as there are unlikely to be major changes in characteristics of firms receiving support from year-to-year, we would not expect bias at this stage of the analysis.

[36] The information in the figure, and the analysis in the remainder of this subsection excludes firms that were involved in the HGMP (either to receive significant assistance or company interactions), as these companies are not included in the regression analysis in Section 6.

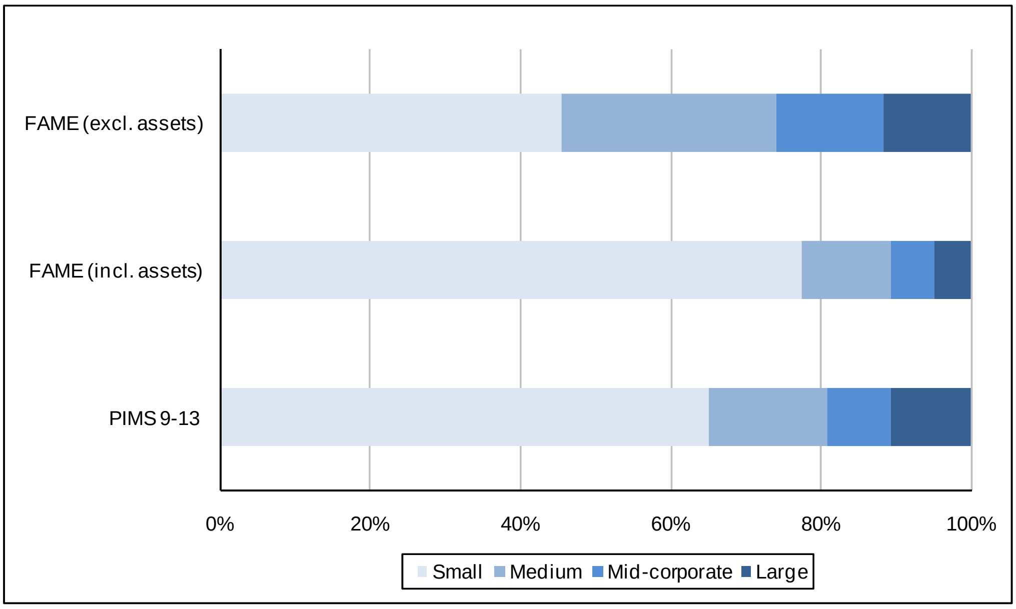
corporate" category).[37] However, given the data issues discussed above, this measure is only available for a relatively small proportion of firms (38%). As such, an alternative measure was created, incorporating information regarding total assets for those companies for whom neither turnover nor employee data was available. Assets are an imperfect measure of size, as capital requirements vary significantly depending on a company's activities. However, although the absolute level of assets may not be of great interest, the magnitude of a company's balance sheet remains a useful indication of the size class of a company.[38] Once assets are included, company size can be estimated for a large majority of companies in the FAME-linked dataset (87%).

As shown in Figure 5, when the company size measure takes into account asset information, the proportion of small firms is significantly higher (77% versus 45%). This is as expected, as it is small companies that have an exemption from reporting profit and loss information to Companies House. In fact, only 17 companies are reclassified as large due to the inclusion of assets in the company size classification.

[37] In particular a "small" company has fewer than 50 employees, and turnover less than £10 million. A "medium" company has between 50 and 250 employees, or turnover between £10 million and £20 million. A "mid-corporate" firm has more than 250 employees or turnover between £20 million and £100 million. A large firm either has more than 250 employees and turnover greater than £100 million, or more than 1,000 employees.

[38] The criteria used are based roughly from the European Commission guidelines, with a company classified as small if they have assets of under £2 million, medium if they have assets between £2 million and £43 million, and large if they have assets of greater than £43 million.

Figure 5: Composition of PIMS and FAME samples, by size

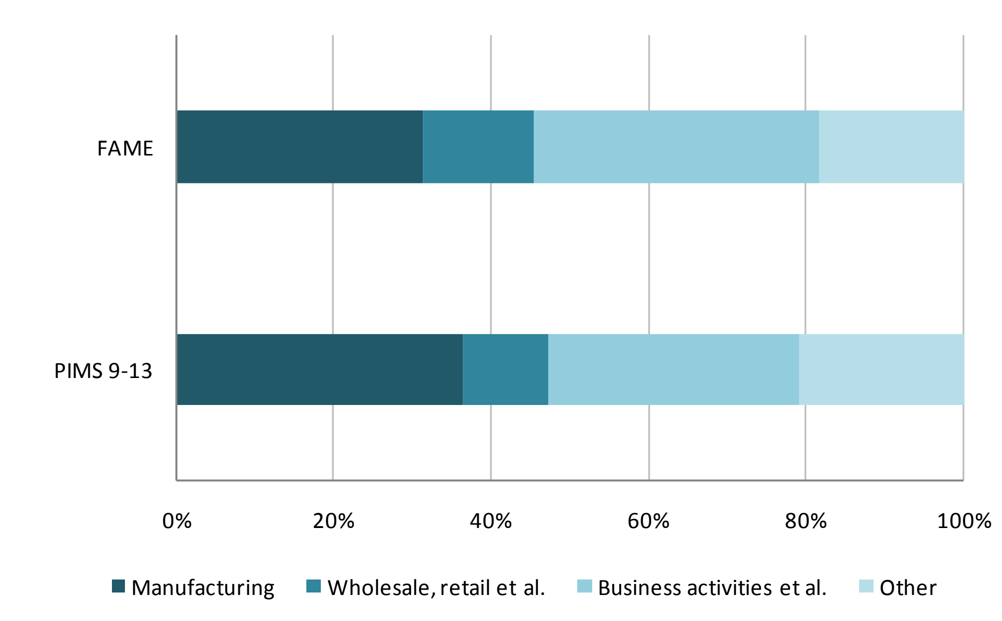


Note: Figures for FAME samples refer to data available for the year 2006.
Source: London Economics based on FAME-linked dataset and PIMS 9-13 results.

The PIMS sample includes a much higher proportion of "small" firms when compared with the FAME measure for company size excluding assets – where information is available for a much smaller proportion of companies. In contrast, when assets are included in company size, the proportion of small firms in the FAME dataset is actually around 12% higher than the PIMS results.

As shown in Figure 6, the two datasets are reasonably similar in terms of companies' sector of operation, There were, however, some differences between the datasets, with PIMS including a slightly higher proportion of manufacturing companies (36% compared to 31%) and a slightly lower proportion of firms in the wholesale and retail (11% versus 14%) and business activities (32% versus 36%) sectors.

Figure 6: Composition of PIMS and FAME samples, by sector



Source: London Economics based on FAME-linked dataset and PIMS 9-13 results.

Given the fact that the PIMS dataset itself is only a sample from the population and that (in the case of company size) the measures used are not identical, we cannot draw robust conclusions from these comparisons as to the extent the FAME-linked dataset is representative of the overall population of UKTI supported firms (in the particular programmes selected). However, the fact that the distributions of firms (in terms of company size and sector) are similar is reassuring in this respect.

5.4 Descriptive statistics

The information obtained from UKTI allowed us to identify the markets that had been targeted by individual companies and, in particular, identify whether they had used UKTI support to enter high growth markets. Using this, we split UKTI assisted companies into three groups:

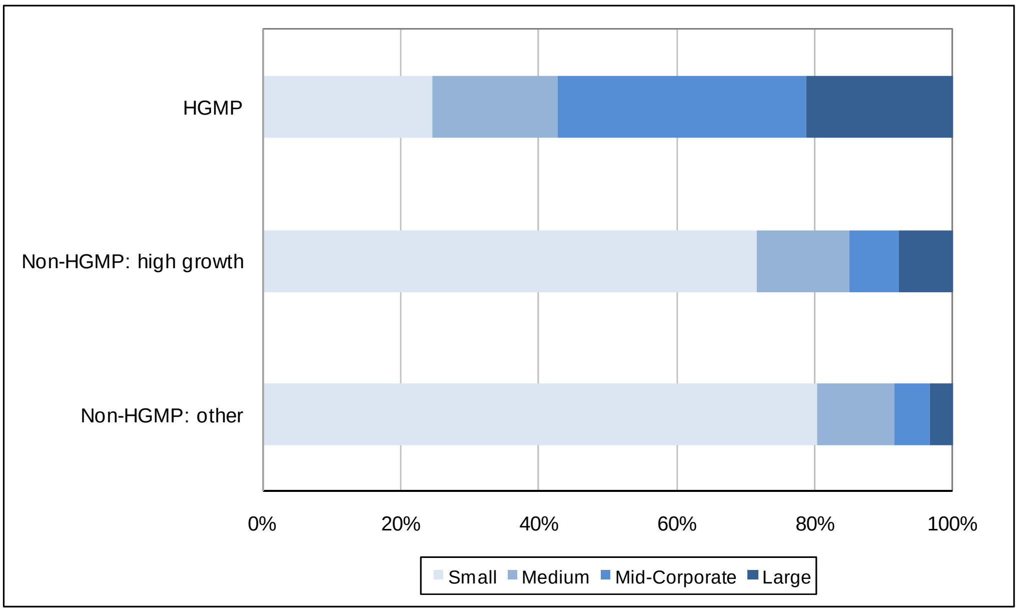
HGMP: firms receiving HGMP support;

Non-HGMP: high growth: firms that have used other UKTI programmes in relation to high growth markets, but have not received support from the HGMP;

Non-HGMP: other: firms that have received support from UKTI, but not in relation to any high growth market (either through the HGMP or any other programme).

Using this categorisation, we can analyse how the firms supported by the HGMP were different from those supported by UKTI more generally. As can be seen in Figure 7, firms that used support from UKTI to enter high growth markets were generally slightly larger than UKTI recipients entering non high growth markets. As would be expected, given the criteria for the programme, the group of HGMP supported firms is generally much larger than other UKTI-supported companies.

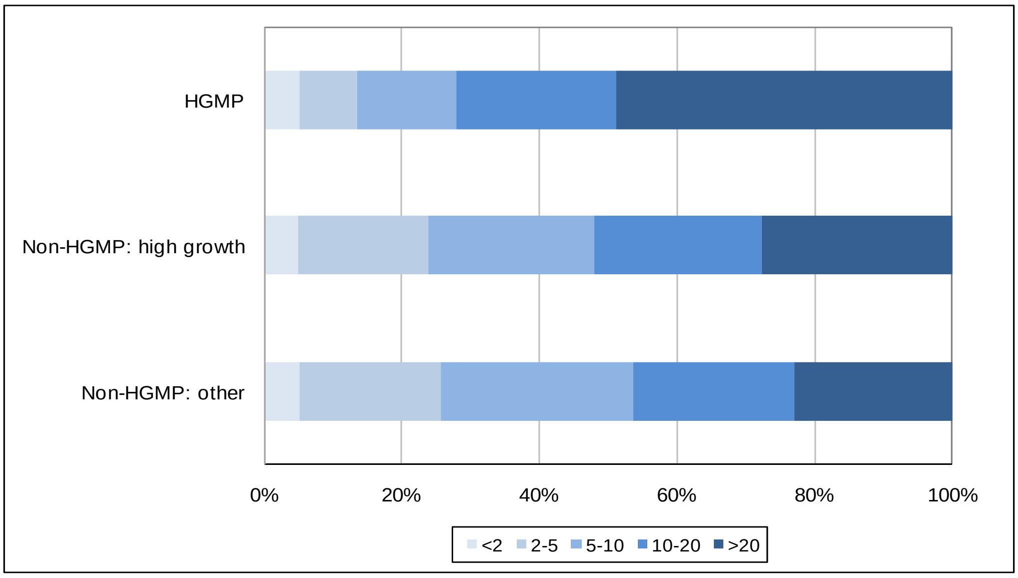
Figure 7: Sample composition, by company size



Source: London Economics based on FAME-linked dataset.

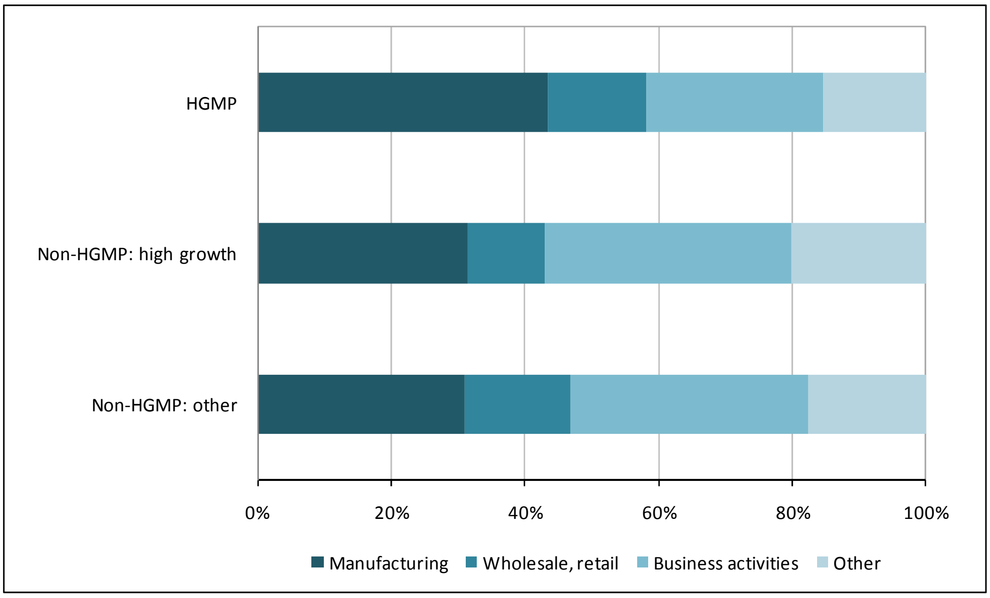
Figure 8 shows that the proportion of experienced companies is higher in the group of firms that used UKTI non-HGMP support to enter high growth markets than in the group that did not enter high growth markets. The proportion of very experienced companies is much higher in the HGMP recipients group than in the other two groups.

Figure 8: Sample composition, by age (in years)



Source: London Economics based on FAME-linked dataset.

Figure 9: Sample composition, by company sector



Source: London Economics based on FAME-linked dataset.

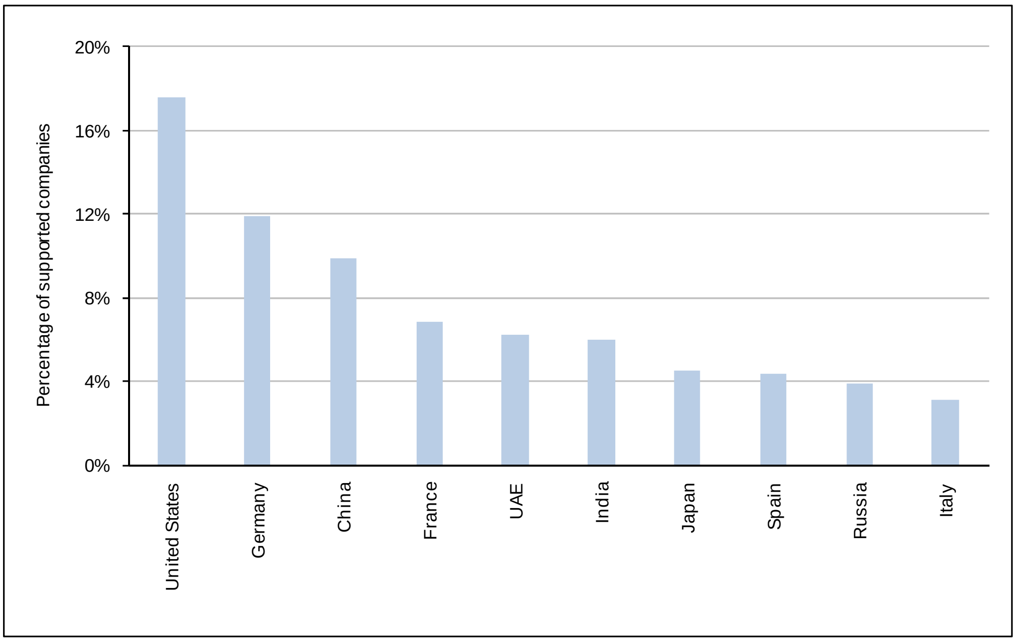
Figure 9 shows the proportion of companies that received UKTI support in each of the three groups, split by sector of economic activity. The HGMP group has a much higher proportion of manufacturing companies, a similar proportion of companies operating in Wholesale and retail, and lower proportions in all other sectors.

Markets targeted by firms receiving UKTI support

In this section we describe the destination markets more often targeted by firms using UKTI non-HGMP support, with a special focus on the group of high growth markets.

Figure 10 shows the top ten markets targeted by UK firms receiving UKTI non-HGMP support. Overall the favourite destination is the United States, chosen by almost 20% of the firms. The rest of the top ten is formed by four markets within the European Union, Japan and four high growth markets (China, UAE, India and Russia). In particular, almost 10% of the companies decided to use UKTI non-HGMP support to enter into China, with around 6% using the support to enter the UAE and India, and slightly less than 4% to enter Russia.

Figure 10: Top ten destination markets



Source: London Economics based on FAME-linked dataset.

Overall, about a third of the companies (approximately 3,100 companies) in the sample decided to use UKTI non-HGMP support to enter high growth markets, as shown in Table 9.[39]

Table 9: Proportion of UKTI firms entering high growth markets, according to different characteristics

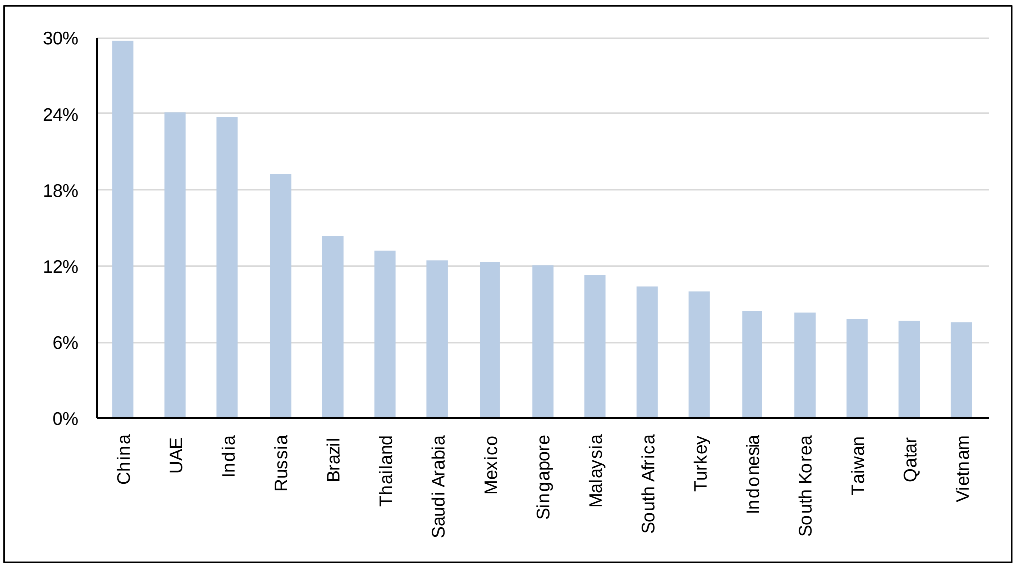
	N	Number of HGMs entered			% of firms in HGMs
		0	1	2+	
Company size					
Small	6,226	69%	28%	4%	**31%**
Medium	969	61%	33%	6%	**39%**
Mid-Corporate	503	55%	37%	8%	**45%**
Large	436	42%	40%	18%	**58%**
Company age					
<2 years	473	67%	30%	3%	**33%**
2-5 years	4,340	68%	28%	3%	**32%**
6-10 years	2,212	65%	30%	5%	**35%**
10-20 years	2,334	60%	32%	7%	**40%**
>20 years	473	67%	30%	3%	**33%**
Company sector					
Manufacturing	2,711	72%	25%	2%	**28%**
Wholesale, retail et al.	1,229	65%	31%	4%	**35%**
Business activities et al.	3,101	63%	31%	6%	**37%**
Other	1,594	66%	30%	5%	**34%**
Number of UKTI interactions					
1	6,397	55%	35%	10%	**45%**
2-3	2,501	31%	35%	34%	**69%**
4-5	354	9%	21%	70%	**91%**
>6	121	65%	30%	5%	**35%**
All companies	**9,373**	**65%**	**30%**	**5%**	**34%**

Source: London Economics based on FAME-linked dataset.

Figure 11 disaggregates this information into the seventeen different markets. As this illustrates, the most popular destination was China (a target for almost 30% of recipients that used support in high growth markets), with the other three BRICs also in the top-5 markets (and each targeted by more than 10% of firms). More surprisingly however, the second most popular destination was the UAE, for which 17% of market entrants used support to enter.

[39] As mentioned above, the analysis throughout this section excludes companies supported through the HGMP.

Figure 11: High growth market destinations for UKTI supported firms (as proportion of companies supported in high growth markets)



Note: Figure excludes HGMP supported firms.
Source: London Economics based on FAME-linked dataset.

6 Determinants of high growth market entry

6.1 Introduction

In this section we seek to analyse the characteristics associated with companies' decisions to enter into high growth markets. The analysis is carried out using information from two datasets: the FAME-linked dataset, which contains information on the markets targeted through UKTI assistance (in a number of programmes), and the results of the 2008 Internationalisation Survey, gathered from a representative sample of internationally active UK firms. The analysis includes both an assessment of the determinants of entering high growth markets as a whole (i.e. not distinguishing between the market entered) and into specific high growth markets.

In the following paragraphs we present the approach taken and the models used, discuss issues relating to data availability, and report the results of the analysis.

6.2 Approach

6.2.1 Model

To investigate which factors affect companies' decision to enter high growth markets, we estimate a series of specifications based on the following probit model:

$$Y = \mathbf{X}\beta + \mathbf{D}\gamma + \varepsilon \qquad \textbf{(1)}$$

Where Y is a dichotomous variable taking value 1 if each company entered a high growth market and 0 if it did not. ***X*** is a matrix of company characteristics that may determine the probability of exporting into high growth markets (company size, age etc …), ***D*** is a series of variables relating to different sectors and regions, γ and β are vectors of unknown parameters, and ε is an error term.

First, we estimate the characteristics associated with entering *any* high growth market – i.e. with the dependent variable equalling 1 if a company had entered any of the high growth markets, and 0 otherwise. The results of this analysis are reported in section 6.3.1 below.

Second, we seek to assess whether there are any differences between different high growth markets, in terms of the characteristics associated with the firms entering those markets. In estimating the determinants of entering a particular market, it is important to take into account the fact that a firm makes a decision to enter one high growth market is *not* made independently of the decision to enter other high growth markets. Therefore, this analysis is undertaken using a series of bivariate probit models, in which the decision to model a particular high growth market is modelled jointly with the decision to enter another high growth market.[40] Due to there being a limited number of instances of firms entering some of the smaller high growth markets, this analysis was applied only to Brazil, China, India, Russia and Gulf States due to data availability. The results are presented in Section 6.3.2.

6.2.2 Data

The analysis was carried out using information from two different datasets[41]:

- UKTI-supported companies linked in FAME; and
- The Internationalisation Survey sample.

FAME-linked dataset

The information contained in the FAME-linked dataset allowed us to analyse which markets UKTI assisted firms had focused on when receiving support (through a variety of UKTI programmes, as outlined in the methodology). However, it is important to note that the dataset is limited to the support received within a particular financial year (2007/08), and further does not account for any markets that companies may have explored or entered without UKTI support. As such, the results cannot be interpreted as the determinants of entering high growth markets *in general*, as we are unable to ascertain the overseas markets in which firms operated in the absence of UKTI assistance (or that they have entered in other periods with UKTI support). Moreover, as described below, the data availability varies across the sample, and many (potentially) relevant explanatory variables are missing for a large proportion of firms.

For the FAME-linked dataset, three different specifications are estimated. The most basic specification (1) includes only variables related to age, company size, a dummy variable identifying whether the company has any subsidiaries, and controls for company sectors and regions. In specification (2), we add variables measuring firm profitability (as a percentage of turnover), and productivity (measured as the logarithm of turnover per employee). Finally, in specification (3), we introduce a variable reflecting the percentage of turnover generated overseas.

In the main specifications we consider only companies that received UKTI support from programmes other than the HGMP (the UKTI supported non-

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40 In particular, the bivariate probit model involves joint estimation of two specifications similar in form to Equation 1. For instance, when estimating the determinants of the decision to enter market A, in the first equation, the dependent variable would be equal to 1 if the firm entered market A (and 0 otherwise) and in the second equation the dependent variable would be equal to 1 if the firm entered any high growth market other than A (and 0 otherwise).

An alternative specification based on a multivariate probit model was investigated, in order to jointly model the multiple decisions regarding entering several high growth markets. However, given the large number of possible choices this proved to be overly computationally intensive.

41 See Section 2 for more detail on the datasets used.

HGMP firms). This is because, unlike the other programmes in the analysis, the HGMP firms are offered support for a particular set of markets. As a result their choice of markets for which they receive support is fundamentally different from other UKTI programmes. In other words, we only consider those firms receiving support that have a genuine choice regarding the type of market for which they receive support[42].

Before examining the results (presented in Table 11 below), it is important to note that the size of the regression samples varies considerably across the different specifications, due to the fact that some variables contained missing values for a number of firms. As shown in Table 10, the sample for specification (1) consists of more than 7,500 firms; while for specification (2) and (3) the sample is around 1,900 and 1,000 firms respectively.

As a result, the composition of the sample, in terms of the characteristics of the included firms, is significantly different in the different samples. As the sample is reduced (due to data availability), the proportion of small firms decreases significantly, from 76% in specification (1) to around 20% in specification (3). Similarly, the sample shifts towards a higher proportion of older firms, and the percentage of firms that has entered into high growth markets also increases. There is also a change in the composition of firms by sector, with manufacturing firms increasing from 33% to over 50% of the sample for specification (3).

[42] Further, eligibility for the programme requires companies to be a certain size, which could lead to a biased estimate of the effect of company size on the decision to enter high growth markets. In addition, the HGMP sample is small (around 270 companies) and not likely to significantly affect the overall estimate. Robustness checks including HGMP firms confirmed that excluding these firms had no significant impact on the results.

Table 10: Comparison of regression samples

	Specification (1)	Specification (2)	Specification (3)
N	**7,698**	**2,020**	**1,036**
Company size			
Small	76%	24%	19%
Medium	12%	34%	37%
Mid-Corporate	6%	23%	26%
Large	5%	19%	18%
Age band			
2-5 years	45%	25%	20%
10-20 years	27%	28%	27%
>20 years	28%	47%	53%
High growth markets			
Yes	35%	44%	45%
No	65%	56%	55%
Sector			
Manufacturing	33%	42%	53%
Real estate, business activities & al	14%	11%	12%
Wholesale, retail & al	34%	28%	22%
Other	18%	20%	13%

Source: London Economics, using FAME-linked dataset.

In order to adjust for these issues, and to check whether the reduction in the sample size biases the result in any way, we re-estimate specification (3) using two different approaches. First we re-weight the sample, in order to account for the disproportionate number of large firms in the sample. The weights used are based on the company size distribution from the whole FAME-linked dataset, as this appears to be a representative sample of the population of firms supported by UKTI in the relevant programmes.

In the second approach, we seek to control for potential bias in the selection of companies into the sample using a Heckman selection model. The results of the standard regression model may be biased if a variable both increases (or decreases) the probability of being in the sample (i.e. in this case, having sufficient data) and also increases (or decreases) the probability of entering a high growth market. In particular, we might think that company size both increases the amount of financial data that is revealed in company reports (due to differences in reporting requirements) and also increases the probability of entering a high growth market (due to increased company capabilities for instance).

The sample selection model seeks to adjust for this issue, by first modelling the factors that determine entry into the sample and, following that, estimating the determinants of the decision to enter high growth markets. This requires including at least one variable that determines entry into the sample, but does not determine entry into high growth markets. For this purpose, we use a variable measuring the proportion of other financial variables[43] for which the company has data. This may act as a proxy for the factors underlying a company's decision to submit more information (that is not required by law) as part of their Annual Return. As this variable is likely to be correlated with company size we control for this (and other relevant variables) in the selection equation.

As mentioned above, to account for the joint nature of the decision to enter different high growth markets, we modelled the choice to enter a particular high growth market at the same time as the decision whether to enter any other high growth market (for example, whether to enter China and whether to enter another high growth market) using a series of bivariate probit models. In each case, the specification was based on Specification (1), given the data issues relating to productivity, profitability and overseas turnover.

Internationalisation Survey dataset

The Internationalisation Survey is based on interviews with 900 firms, and is intended to form a representative sample of UK firms undertaking overseas business activity.[44] As part of the survey, firms were asked whether, for each of ten high growth markets (or areas) they felt the market would offer their firm "a good opportunity", a "possible opportunity", "unlikely to provide an opportunity" or whether they were "already doing business there"[45] . In addition, the survey contains a number of variables relating to company characteristics, including the number of years exporting, the percentage of turnover accounted for by overseas exports, and whether the company is engaged in any innovative activities.[46]

This information allows us to analyse the determinants of entering high growth markets, while controlling for a wider range of characteristics than in the FAME data set. Further, the number of "missing" observations across the dataset is relatively limited, meaning that this analysis is less likely to be subject to the issues surrounding sample selection discussed above.

Unfortunately we are not able to observe companies' decisions to enter one or more high growth markets, unless they already have a presence there. As such, the model should not be interpreted as describing a causal relationship between the explanatory variables and the dependent variable: the fact that a company is present in high growth markets may in turn affect some variables such as size or the proportion of turnover generated overseas.

43 Specifically, we include the major line items from the profit and loss and balance sheet statements.

44 See Section 2 for more details on the nature of the dataset.

45 The markets included Russia, Turkey, South Africa, Saudi Arabia/UAE, Qatar, Brazil, Mexico, China, India and Other countries in Asia (excluding Japan).

46 The information related to overseas turnover and export experience is collected in bands only.

6.3 Results

6.3.1 High growth markets entry

FAME-linked dataset

The results of the three specifications introduced in the previous section are displayed in Table 11[47]. The most notable effect is that larger firms are more likely to enter high growth markets using UKTI support in each specification. In particular, being a large firm[48] (as opposed to small) increases the probability of entering a high growth market with UKTI support by around 17-22% across the three specifications[49]. The effect of being a medium size or mid-corporate company is also positive, although statistically significant in one specification only (specification (1), the most basic specification).

The results suggest that firms with a higher percentage of turnover overseas are also more likely to use UKTI support to enter high growth markets (as opposed to using UKTI support to enter any other market). This may reflect greater export experience – particularly the fact that these firms may already have a presence in other (mature) markets and hence are more likely to be looking to move into possibly more difficult emerging economies.

The marginal effects of the other financial variables are almost never significantly different from zero. “Having subsidiaries” is estimated to have a positive impact on market entry in the first two specifications; however, this may act as a proxy for a company’s presence abroad and its significant effect disappears when turnover overseas is taken into account. Interestingly, productivity is found to have no significant impact on entry in either specification, while the coefficient for profitability is not statistically significantly once turnover overseas is included. This is surprising, as we might expect that more productive or more profitable firms are more capable of overcoming the barriers faced in attempting to enter high growth markets.

There is also some evidence that older firms are more likely to use the UKTI support they receive to target high growth markets (again age may be acting as a proxy for export experience), but this effect becomes statistically insignificant once the additional financial variables are included (and the sample size is reduced).

[47] The results displayed refer to the marginal effects of a change in each of the explanatory variables. For company size, as a dummy variable, this reflects the additional probability of having entered a high growth market (with UKTI support) compared to being a small company. Marginal effects are evaluated at the average values of the other explanatory variables.

[48] A firm is classified as large if it has more than 1,000 employees, turnover of greater than £100 million or total assets of greater than £43 million.

[49] More precisely, this is the marginal effect for a change in company size from small to large evaluated at the average values of the other explanatory variables.

Table 11: Determinants of entering high growth markets – Probit Regression using FAME-linked dataset

	Probability of using UKTI support to entering high growth markets		
	(1)	**(2)**	**(3)**
Company age			
Age	0.002*** (2.691)	-0.001 (-0.818)	0.001 (0.638)
Age2	-0.000** (-2.287)	0.000 (0.868)	-0.000 (-0.712)
Company size			
Medium firms	0.059*** (3.242)	0.010 (0.332)	-0.011 (-0.233)
Mid-corporate firms	0.103*** (4.266)	0.039 (1.104)	0.029 (0.558)
Large firms	0.223*** (7.794)	0.169*** (4.256)	0.193*** (3.255)
Other financial variables			
Having a subsidiary	0.035** (2.560)	0.043* (1.679)	0.023 (0.644)
Profitability	n.a.	0.016** (2.260)	0.001 (0.0798)
Productivity	n.a.	-0.009 (-0.669)	-0.027 (-1.268)
% Overseas sales	n.a.	n.a.	0.113** (2.101)
Observations	**7698**	**2020**	**1036**
Pseudo R-squared	**0.0252**	**0.0244**	**0.0330**

Note: *** p-value<0.01, ** p-value<0.05, * p-value<0.1. Marginal effects with robust t-statistics in parentheses. All regressions with sector and UK region control; full results displayed in the annex. Missing category for company size is "Small".
Source: London Economics, using FAME-linked dataset.

Table 12 provides the results for specification 3 when the difference in sample composition is accounted for, both by weighting the observations by company size (according to the proportions in the full dataset) and when accounting for sample selection (the rationale for this approach is discussed in more detail above) [50].

As the results show, the results of the weighted regression specification are similar to the unweighted results. The statistical significance and direction of the effects are the same in each case. The marginal effect for "being large" is very close to that obtained in the unweighted probit regression (around 0.19), while the marginal effect of an increase in overseas sales increases from

[50] We also estimated each of the regressions in Table 11 using a common sample (the sample of 1,036 observations as in the third specification), achieving similar results.

approximately 0.11% (for a one percentage point increase in the proportion of overseas turnover) to around 0.16%.

Table 12: Determinants of entering high growth markets – comparison of probit results with weighted OLS and sample selection, using FAME-linked dataset

	Dependent Variable: Probability to enter high growth markets		
	Probit	**Weighted Probit**	**Heckman[1]**
Company age			
Age	0.001 (0.638)	-0.002 (-0.402)	0.001 (0.508)
Age²	-0.000 (-0.712)	0.000 (0.535)	-0.000 (-0.591)
Company size			
Medium firms	-0.011 (-0.233)	0.013 (0.262)	0.021 (0.440)
Mid-corporate firms	0.029 (0.558)	0.055 (0.925)	0.075 (1.237)
Large firms	0.193*** (3.255)	0.190*** (2.631)	0.232*** (3.662)
Other financial variables			
Having a subsidiary	0.023 (0.644)	0.021 (0.349)	0.029 (0.879)
Profitability	0.001 (0.0798)	0.017 (0.574)	0.000 (0.00962)
Productivity	-0.027 (-1.268)	-0.022 (-0.592)	-0.026 (-1.365)
% Overseas sales	0.113** (2.101)	0.156* (1.757)	0.107** (2.185)
Observations (censored)	**1036**	**1036**	**7698 (6662)**
Pseudo R-squared	**0.0330**	**0.0696**	**n.a.**

Note: *** p-value<0.01, ** p-value<0.05, * p-value<0.1. Marginal effects with robust t-statistics in parentheses. All regressions with sector and UK region control; full results displayed in the annex. Missing category for company size is "Small".
Source: London Economics, using FAME-linked dataset.

Similarly, the pattern of the results is also similar when the sample selection model is used. Again, the only variables with a statistically significant impact are "being large" and overseas turnover. However, there are some changes in the size of these effects. In particular, the estimated impact of "being large" is slightly larger (at approximately 23%) in this model; although it remains of a similar magnitude to the other models. On the other hand the estimated effect of the proportion of sales generated overseas is around 11%, in line with that obtained in the unweighted probit regression. Moreover, statistical tests indicated that we are unable to reject the hypothesis that there is no sample selection problem.[51]

Internationalisation Survey dataset

Table 13 presents the results of the two specifications estimated using the Internationalisation Survey dataset. In the first specification we include company size, company age, innovative capacity and sector. In the second specification we then add variables relating to export experience and activity.

Table 13: Probability of entering high growth markets: results of probit estimation using Internationalisation Survey dataset

	Specification 1	Specification 2
Company size		
Medium	0.143*** (2.859)	0.129** (2.380)
Large	0.201** (2.291)	0.177* (1.913)
Company age		
2-10 years	0.050 (0.659)	-0.028 (-0.252)
10-20 years	0.123 (1.477)	-0.054 (-0.442)
>20 years	0.106 (1.263)	-0.074 (-0.545)
Innovative capacity		
Innovative firms	-0.017 (-0.372)	0.014 (0.269)
Export experience		
2-10 years	-	0.125* (1.757)
10-20 years	-	0.253*** (2.599)
>20 years	-	0.200* (1.698)
Exports as % turnover		
25-50%	-	0.264*** (4.556)
>50%	-	0.250*** (4.742)
Observations	**880**	**758**
Pseudo R-squared	**0.0375**	**0.101**

Note: *** p-value<0.01, ** p-value<0.05, * p-value<0.1. Marginal effects with robust t-statistics in parentheses. Full set of sector controls included in both specifications. Omitted category for company size is "Small", for company age and export experience is "0-2 years", and for exports as a percentage of turnover is "0-25%". Companies in sectors with fewer than 10 responses were excluded.
Source: London Economics based on UKTI Internationalisation Survey data.

[51] Specifically, both the rho (the coefficient of correlation between the residuals of the two equations) and the inverse Mills ratio are not statistically significant.

As shown in Table 13, the estimation indicates that company size, export experience and export intensity are significant determinants of being present in high growth markets. Being a larger company is associated with a higher probability of being present in high growth markets; medium size firms are estimated to be around 13% more likely to have entered such markets (in comparison to small firms) while large firms are around 18%-20% more likely to have done so.

The results also indicate that both greater export experience and having a greater proportion of turnover accounted for by exports are significant predictors of being present in one of the high growth markets. In comparison to having less than 25% of turnover accounted for by exports, having either 25%-50% or more than 50% of turnover accounted for by exports is associated with an increase in the probability of having entered one of these markets of around 25%.

As mentioned in section 6.2, it is possible that these results are biased by the existence of dual causality – that being present in high growth markets may affect company size and turnover overseas. In particular, we might expect that the coefficients would be biased upward if this is the case, as being present in high growth markets may positively affect both variables.

6.3.2 Entry into specific high growth markets

FAME-linked dataset

As discussed above, when analysing the determinants of entering particular high growth markets, it is important to account for the fact that firms may enter multiple markets simultaneously – and thus that the decision may be made jointly. In fact, analysis of the FAME-linked dataset indicated that approximately 12% of non-HGMP UKTI assisted firms that had used support to enter high growth markets had used assistance to enter more than one high growth market. As a result, the analysis is carried out using a series of bivariate probit models for each market, as discussed in Section 6.2.

The results of the estimates based on the FAME-linked dataset are displayed in Table 14, with the reported values representing the marginal probability of entering into the relevant high growth market. The estimated coefficients that were found to be statistically different from those for entering other high growth markets are shaded in grey. The biprobit specification is justified by the statistical significance of the rho (reported in the table), reflecting that there is correlation between the choice made to use support to enter a specific high growth market and other high growth markets.[52]

[52] In this case the correlation is negative, which is likely to be a result of the fact that companies are likely to be constrained in the number of markets they can enter in a single year, particularly using UKTI support.

Table 14: Determinants of entering individual high growth markets – results of bivariate probit models, using FAME-linked dataset

	High growth market of interest				
	Brazil	**China**	**India**	**Russia**	**Gulf States**
Company age					
Age	0.000*** (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.001*** (0.000)
Age²	-0.000*** (0.000)	-0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	-0.000*** (0.000)
Company size					
Medium sized firms	0.002 (0.004)	-0.005 (0.011)	0.015* (0.009)	0.015** (0.007)	-0.002 (0.010)
Mid-corporate firms	0.006 (0.006)	0.017 (0.015)	0.015 (0.012)	0.022** (0.010)	-0.007 (0.013)
Large firms	-0.006 (0.004)	0.102*** (0.022)	0.073*** (0.019)	0.069*** (0.016)	0.029* (0.018)
Having a subsidiary	0.004 (0.003)	0.030*** (0.009)	0.015** (0.007)	-0.001 (0.004)	-0.009 (0.007)
Observations	**7698**	**7698**	**7698**	**7698**	**7698**
Rho	**-0.00928**	**-0.0941*** **	**-0.0364**	**-0.149*** **	**-0.188*** **

Note: *** p-value<0.01, ** p-value<0.05, * p-value<0.1. Univariate marginal effects with robust t-statistics in parentheses. Grey shading reflects difference in coefficient, at 5% level of significance, when compared to determinants of entering any other high growth market. All regressions with sector and UK region control. Missing category for company size is “Small”. Gulf states refer to Qatar, Saudi Arabia, and the UAE.
Source: London Economics using FAME-linked dataset.

Post-estimation tests showed that there were few statistically significant differences between the determinants of entering a particular high growth market. The main exception to this was in the Gulf States, where there were significant differences for all but two coefficients. Particularly notable in these markets was that being a mid-corporate was negatively associated with the probability of entering the market with UKTI support, although the effect is not statistically significant. The results also suggest that being a large firm reduces the probability of entering the Brazilian market, but again the result is not statistically significant.

Internationalisation Survey dataset

A similar analysis was undertaken using the Internationalisation Survey data, as shown in Table 15. As in the previous table, the reported values represent the marginal probability of entering into the particular market associated with each variable, and grey shading is used to identify coefficients that were statistically significantly different from those for entering other high growth markets. As above, the use of the biprobit model appears justified based on the statistical significance of the correlation coefficient between the two equations (the rho).

Table 15: Determinants of entering individual high growth markets – results of bivariate probit models using Internationalisation Survey dataset

	High growth market of interest				
	Brazil	**China**	**India**	**Russia**	**Gulf States**
Company size					
Medium	0.029 (1.279)	0.120*** (2.958)	0.101** (2.452)	0.070* (1.901)	0.072* (1.711)
Large	0.131** (2.182)	0.120 (1.456)	0.149** (1.965)	0.150* (1.887)	0.160** (1.980)
Company age					
2-10 years	-0.177*** (-2.712)	-0.046 (-0.581)	0.011 (0.124)	-0.034 (-0.456)	-0.052 (-0.592)
10-20 years	-0.072*** (-3.981)	-0.119** (-2.168)	-0.011 (-0.109)	-0.034 (-0.461)	-0.029 (-0.338)
>20 years	-0.059*** (-2.948)	-0.124** (-2.067)	0.004 (0.0397)	-0.036 (-0.470)	-0.001 (-0.00715)
Innovative capacity					
Innovative firms	0.002 (0.0928)	-0.064* (-1.957)	-0.060* (-1.800)	-0.020 (-0.662)	-0.029 (-0.841)
Export experience					
2-10 years	0.115*** (4.221)	0.018 (0.351)	0.085 (1.574)	0.010 (0.190)	0.022 (0.421)
10-20 years	0.344*** (2.627)	0.130 (1.254)	0.285** (2.301)	0.056 (0.666)	0.067 (0.753)
>20 years	0.344** (2.392)	0.243* (1.676)	0.238* (1.795)	0.095 (0.894)	0.106 (0.975)
Exports as % turnover					
25-50%	0.076** (2.055)	0.118** (2.506)	0.101** (2.130)	0.056 (1.298)	0.081* (1.748)
>50%	0.074*** (2.689)	0.157*** (3.829)	0.142*** (3.529)	0.155*** (3.818)	0.116*** (2.889)
Observations	**669**	**675**	**679**	**675**	**684**
Rho	**0.688*****	**0.456*****	**0.562*****	**0.630*****	**0.527*****

Note: *** p-value<0.01, ** p-value<0.05, * p-value<0.1. Univariate marginal effects with robust t-statistics in parentheses. Grey shading reflects difference in coefficient, at 5% level of significance, when compared to determinants of entering any other high growth market. Full set of sector controls included. Omitted category for company size is "Small", for company age and export experience is "0-2 years", exports as a percentage of turnover is "0-25%". Companies in sectors with fewer than 10 responses were excluded.
Source: London Economics based on UKTI Internationalisation Survey data.

The results are similar across markets, with companies of larger size with more export experience and with a higher share of turnover accounted for by exports generally more likely to be present in high growth markets.

Looking directly at the results for different markets shows some differences; being "large" does not have a statistically significant effect in China, whereas it does in other markets. The size of the estimated effects of export experience and the percentage of turnover also vary across markets. However, post-estimation testing indicates that few of the effects for individual markets were statistically different from the determinants of entering other high growth markets[53]. This suggests that it is not inappropriate to draw conclusions for high growth markets as a homogeneous group.

In general, being older is associated with a lower probability of entering high growth markets (but the results are statistically significant only in China and Brazil). This suggests that being older does not alone make firms more likely to enter high growth markets. In fact, the results from the pooled regression suggest that the variable in relation to age may be capturing the effect of greater export experience, with the estimated impact of age becoming negative once the export related variables are controlled for in specification 2. This is supported by the fact that there is a strong (and statistically significant) positive correlation between the company age variable and the export experience variable.

6.4 Impact of the economic downturn

Another issue of interest is how firms' attitudes towards high growth markets have changed as a result of the onset of the economic downturn. The 2008 Internationalisation Survey addressed this directly, through asking companies whether they had been affected by the downturn and, if so, whether this had led them to place more emphasis on high growth markets.

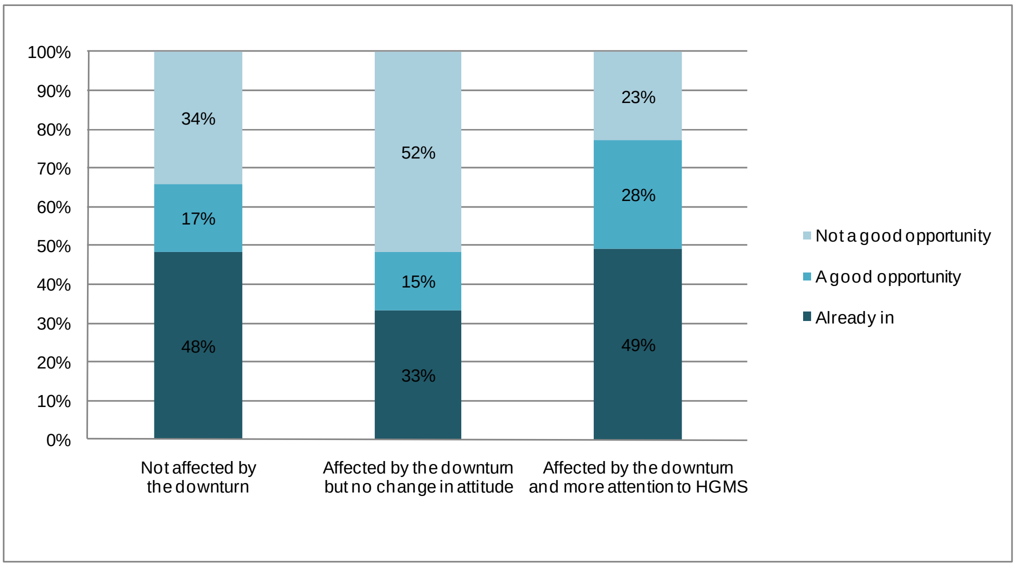
More than forty percent of the companies in the sample reported that they had been negatively affected by the downturn, with 43% of these companies feeling that this had prompted them to devote more attention to high growth markets. Overall, only 39% of companies already in high growth markets reported having been negatively affected by the downturn, compared to around 46% percent of the companies not in high growth markets.

Figure 12 shows that more than 50% of companies paying *more* attention to these markets did not have a presence in any of the markets, reflecting the overall sample composition (i.e. 60% of all companies affected by the downturn were not in high growth markets). More than half of the companies already in high growth markets or considering those markets as a good opportunity reported having placed more emphasis on high growth markets following the downturn (52% and 58% respectively). Conversely, the vast majority of companies who saw high growth markets as unlikely to be an opportunity or only as a possible opportunity have not devoted more

[53] The major exception to this finding is in terms of Brazil, where the impact of being older and of having greater export market experience were greater than in other markets

attention to high growth markets in response to the downturn (89% and 68% respectively).

Figure 12: Change in attitude towards high growth markets



Source: London Economics based on 2008 Internationalisation Survey data

A simple analysis supports the finding that companies that stated that they have focused more on these markets as a result of the downturn are also more likely to perceive better opportunities in these markets.[54] In many ways this is unsurprising given that the responses relating to the quality of opportunity and whether greater emphasis has been placed on high growth markets were given at the same point in time. In particular, we are unable to identify whether firms' views have *changed* as a result of the downturn – as their perceptions are only measured after the downturn has emerged – and so we cannot indicate whether the downturn has caused them to view high growth markets more positively. However it does provide some reassurance that companies placing more emphasis on these markets (and not already in those markets) do believe their firm has potential opportunities there.

We seek to identify the factors related to companies having devoted more attention to high growth markets by estimating models of the following form:

$$Y = \mathbf{X}\beta + \varepsilon \qquad \textbf{(2)}$$

54 In particular, this is based on a probit estimation of companies' perceptions of high growth markets (including only those companies not already in high growth markets) on their response to the question relating to their response to the downturn with a number of other control variables. The fact that the coefficient on the response to the downturn is statistically significant suggests that there a statistical relationship between the two variables, although this should not be interpreted as a causal relationship.

where Y is a binary variable equal to 1 if the company has devoted more attention to high growth markets in response to the downturn and 0 otherwise (only companies affected by the downturn are included, due to the structure of the questionnaire), X is a matrix of explanatory variables, β is a vector of coefficients and ε is an error term. The explanatory variables used in the equation are company size, export experience, the proportion of turnover generated overseas, the sector of activity and a variable that controls for the presence in high growth markets[55]. We also included two variables (growth objectives[56] and whether a company has or does not have a written business plan) that may act, at least to an extent, as proxies for a firm's internal organizational and managerial skills.

In undertaking this analysis, it is important to account for two issues. First, the fact that the Internationalisation Survey did not ask firms that were unaffected by the downturn whether they had changed the amount of attention they paid to emerging markets. As such, the analysis may be biased by the fact that there may be common factors underlying the probability of a company being affected by the downturn and the fact that the company will devote more or less attention to high growth markets. Second, it could also be the case that companies already in high growth markets have been affected differently by the downturn – either because of their presence in these markets or because the characteristics associated with presence in high growth markets are also related to the likelihood of being affected by the downturn. While we are not able to model this relationship explicitly[57] we include an explanatory variable controlling for the presence of companies in high growth markets. Further, in interpreting the results, it should be noted that these questions were posed in the early stages of the global downturn[58], and the companies' reaction may have changed over the last year.

The specification is estimated first using a standard probit model. Second, we seek to address the potential sample selection issue through estimating a probit model with correction for sample selection. In the selection equation (which models the probability of a company being in the sample, i.e. being negatively affected by the downturn), we include all the control variables included in the main equation, plus two variables that identify if the company's turnover and number of employees have increased substantially, increased moderately, decreased or remained constant in the last three years. These variables should help predict the probability of being selected (i.e. being affected by the downturn), but should not affect directly the change in attitude towards high growth markets.

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55 Age was excluded to avoid possible collinearity with the variable capturing export experience.

56 Respondents of the Internationalisation Survey were asked if they planned to remain the same size, become smaller , grow moderately or substantially in the next five years.

57 Ideally we would need to have relevant data pre and post downturn.

58 Data for the 2008 Internationalisation Survey were gathered in the period August-September 2008

We present the results in Table 16. Companies with a longer period of export experience (more than ten years) are less likely to devote more attention to high growth markets in response to the downturn, compared to less experienced companies. This result is consistent across all specifications and is likely to be explained by the fact that companies with longer export experience are already more active in high growth markets[59]. The variables *company size* and *innovative firms* do not seem to play any significant role in the change of attention to high growth markets caused by the downturn, while there is some evidence that higher export intensity is associated to more attention devoted to high growth markets in response to the downturn. Likewise, the variables controlling for growth objectives and whether the company has a business plan are not statistically significant in any of the regressions.

Companies already operating in high growth markets are much more likely to devote even more attention to high growth markets because of the downturn. This result is unsurprising, given that the group of companies not in high growth markets also include all those companies showing no or limited interest overall towards high growth markets. In fact, the results do not show any significant difference between companies already in high growth markets and those who see high growth markets as a good opportunity.[60]

[59] In fact, companies with less than two years of experience have entered, on average, less than one high growth market, while this number rises to 2.7 markets for companies with more than 20 years of experience in foreign markets.

[60] In particular, a separate specification was estimated, controlling separately for firms "already in" HGM, those not in HGM but seeing a good opportunity, and other firms (those seeing little or no opportunities in HGM). The results suggested there was no significant difference in the probability of devoting more attention to HGM in response to the downturn between firms already in HGM and those seeing them as a good opportunity. Conversely, firms not seeing HGM as a good opportunity were significantly less likely to devote more attention to these markets in response to the downturn.

Table 16: Effect of downturn on attention devoted to high growth markets: results of probit estimation based on Internationalisation Survey

Dependent variable: more attention devoted to high growth markets because of the downturn		
	Probit (1)	**Probit with sample selection correction (2)**
Company size		
Medium	0.063 (0.782)	0.058 (0.648)
Large	-0.027 (-0.192)	-0.044 (-0.283)
Export experience		
2-10 years	-0.154 (-1.526)	-0.110 (-0.686)
10-20 years	-0.262** (-2.304)	-0.278* (-1.835)
>20 years	-0.271** (-2.186)	-0.287* (-1.837)
Innovative capacity		
Innovative firms	0.058 (0.694)	0.037 (0.303)
Exports as % turnover		
25-50%	0.122 (1.308)	0.108 (1.108)
>50%	0.194** (2.219)	0.211** (2.164)
Growth objectives		
Moderate growth	0.133 (1.326)	0.129 (1.258)
Substantial growth	0.102 (0.922)	0.106 (0.936)
Business Plan		
Yes	0.027 (0.392)	0.004 (0.0529)
Already in HGM		
Yes	0.139* (1.939)	0.165** (2.000)
Observations (censored)	**320**	**616 (340)**
Pseudo R-squared	**0.0744**	**n.a.**
Rho	**n.a.**	**-0.353**

Note: *** p-value<0.01, ** p-value<0.05, * p-value<0.1. Marginal effects with robust t-statistics in parentheses. Marginal effects with robust t-statistics in parentheses. Sector controls included in all specifications. Omitted category for company size is "Small", for export experience is "0-2 years", for exports as a percentage of turnover is "0-25%" and for growth objectives is "Remain the same size or become smaller". Full results of probit with sample selection correction are reported in Annex 1.
Source: London Economics based on UKTI Internationalisation Survey data.

6.5 Summary

This section has used two different datasets to investigate the factors that affect companies' decisions to enter high growth markets. First, we assessed the characteristics associated with using UKTI support to enter high growth markets, using 2007/08 UKTI administrative information, and FAME data on company characteristics. Second, a similar analysis is carried out using the results of UKTI's 2008 Internationalisation Survey, which is comprised of a representative sample of UK businesses carrying out business overseas.

The analysis comprised two major stages: an assessment of the determinants of entering high growth market overall, and an analysis of whether there are any differences in the determinants depending on the market entered (using a series of bivariate probit models). A number of different specifications were used to assess the significance of different characteristics and, especially for the FAME-linked dataset, to account for possible sample selection issues.

Although the two datasets differed, both in terms of focus (with the FAME-linked dataset only including recipients of UKTI support) and in terms of the variables included, the analysis reported similar results for both data sources. Being a large company (compared to small) is associated with a greater probability of entering a high growth market, with the effect varying from 15%-20% across specifications. Export related variables, including controls for export intensity and export experience, also have consistently positive and statistically significant effects on the probability of entering a high growth market – whether with UKTI support or more generally.

The results also indicated that, although there are some differences, in general the determinants of market entry (or presence) tend to be similar when considering different high growth markets, suggesting that it is not inappropriate to draw conclusions for high growth markets as a homogeneous group. In particular, the effect of company size holds when considering entry into *different* high growth markets.

7 Estimating the "market" for UKTI support

In this section we use the information gathered from FAME to estimate the potential "market" for UKTI support – that is the number of companies not using UKTI support who might be eligible, based on the characteristics of firms that *have* received support.

7.1 Propensity score matching

The analysis incorporates two major steps:

i) Estimate the *total* number of UK firms similar to UKTI firms registered in FAME, using a propensity score matching exercise;

ii) Estimate the proportion of these firms that export (and hence of interest to UKTI using UK-wide estimates of the proportion of exporters by sector).

Stage 1: Propensity score matching

Under the propensity score matching approach, firms receiving UKTI support are compared to those that have not received support through the construction of a "propensity score", based on a number of firm characteristics. Those that have a propensity score within a certain band of any UKTI-supported firm's propensity score are then included in the analysis.[61]

Ideally, the propensity score matching analysis would incorporate a wide range of characteristics. However, in practice (and as discussed in Section 5), the information available in FAME is limited, with only company age, number of subsidiaries and total assets consistently available for different companies. As a result, a series of propensity score matching exercises were undertaken, depending on the information available. First, companies were matched according to the number of employees (as well as sector, region, age, and number of subsidiaries). Second, companies without information relating to employees were matched according to turnover if possible (along with other controls). Finally, the remaining firms were matched according to asset size.

Importantly, it was not possible to use the FAME information to identify which companies export. Many firms will neither undertake exports nor be interested in exporting in the future (perhaps because it is not appropriate for their business model), and will as a result not be appropriate for UKTI support. As such it was necessary to adjust for this separately in Stage 2 (see

[61] In technical terms, a radius matching approach was used with a calliper of 0.005.

below for details). The results of the propensity score matching are displayed in Table 17 below.

As the table shows, the matching exercise reflects the fact that the firms receiving assistance from UKTI cover an extremely wide range of firms. As a result, a large majority of companies within FAME were estimated to be similar to UKTI-supported firms. Of 1.5 million[62] active companies included in the analysis, 1.4 million were identified as being comparable to the UKTI supported firms.

Table 17: Propensity score matching to wider population

	All firms		Matched sample	
	Non-UKTI supported	**UKTI supported**	**Non-UKTI supported**	**UKTI supported**
N	1,488,464	7,215	1,392,343	7,097
Small	97%	74%	83%	75%
Medium	2%	15%	11%	15%
Large	1%	10%	6%	9%
Average age	10.4	17.8	16.5	17.3
< 2 years	10%	2%	7%	2%
2-5 years	34%	20%	24%	20%
5-10 years	28%	25%	23%	26%
10-20 years	16%	24%	20%	24%
>20 years	13%	28%	26%	28%
Number with subsidiaries	0.2	3.0	1.1	1.5

Note: Post-intervention figures are weighted based on the number of non-UKTI firms matched against each UKTI supported company.
Source: London Economics, based on UKTI information and FAME database.

As the table shows, the propensity score match was only moderately successful in identifying a set of companies that is identical in terms of the observable characteristics to the group of UKTI-supported firms. The matched group is much closer than the unmatched group; however some differences still remain. This is not surprising given the fact that UKTI-supported firms were matched to a very large number of non-UKTI supported firms; and that the volume of missing data required a multiple-stage matching process.

Stage 2: Estimating the proportion of exporters

Given the unavailability of information relating to exports in FAME, the proportion of exporters was estimated by applying figures calculated by Harris and Li (2006) based on the Community Innovation Survey. This

[62] FAME included information on 2.3 million companies, of which 800,000 were not included due to a lack of information relating to company sector, total assets, number of subsidiaries or region.

provided an estimate of the proportion of exporters in different industrial sectors.

Using these estimates, we construct an estimate of the total number of "UKTI-eligible" exporters in each sector as shown in Table 18. The fourth column indicates the estimated number of exporters in each sector; while the fifth column presents the proportion of these firms receiving support from UKTI (based on 2007/08 client records).

In considering these results it is important to understand that – given the lack of detailed information on the export behaviour of the companies – this does not represent an accurate estimate of the number of firms with the potential to benefit from UKTI support. There are also likely to be important characteristics (such as detailed product information or management attitudes) that we are not able to control for.

However, the results do provide an indicative estimate of the extent of UKTI presence in different industrial sectors. In particular, it is notable that the percentage of firms aided by UKTI varies from around 1% in some sectors (such as computing, financial, real estate and transport) increasing to 10% in sectors such as medical instruments. However, in all cases it should be noted that the estimated percentages are much lower than the proportion of exporting firms that use UKTI support as estimated in UKTI's Internationalisation Survey (OMB, 2008b). The survey indicates that 35% of firms doing business overseas compared to the 2% of exporters indicated in the table. This difference is likely to be explained by the fact that the information matched to FAME included only one year of UKTI support, and covered only selected programmes. As such, we would not expect it to cover the entire population of companies that have ever used any form of UKTI support.

Table 18: Estimate of number of UKTI-eligible companies

Sector (2-digit SIC codes)	(1) No. of UKTI-supported firms	(2) Similar non-UKTI firms in FAME	(3) % exporters (Harris and Li, 2006)	(4) Number of UKTI-eligible exporters ((2*(3)+(1))	(5) UKTI firms as % of eligible exporters ((1)/(4))
Mining & quarrying (10-14)	101	13,600	33%	4,600	2%
Food & drink (15)	153	4,800	35%	1,800	8%
Textiles (17)	76	2,200	57%	1,300	6%
Clothing & leather (18)	58	1,700	47%	800	7%
Wood products (20)	15	2,500	20%	500	3%
Paper (21)	14	600	45%	300	5%
Publishing & printing (22)	147	14,400	29%	4,400	3%
Chemicals (23-24)	174	3,100	78%	2,600	7%
Rubber & plastics (25)	106	3,200	51%	1,700	6%
Non-metallic minerals (26)	42	1,500	44%	700	6%
Basic metals (27)	38	1,400	73%	1,000	4%
Fabricated metals (28)	305	15,900	39%	6,500	5%
Machinery & equipment n.e.s. (29)	261	5,800	67%	4,100	6%
Electrical machinery (20-32)	283	6,200	58%	3,900	7%
Medical etc instruments (33)	192	2,600	68%	2,000	10%
Motor & transport (34-35)	106	3,000	53%	1,700	6%
Furniture & manufacturing n.e.s. (36)	263	10,800	40%	4,500	6%
Construction (45)	140	133,800	4%	5,100	3%
Sale/repair of motor vehicles (50)	39	22,200	7%	1,600	2%
Wholesale trade (51)	764	57,300	42%	25,100	3%
Retail trade (52)	226	64,200	8%	5,600	4%
Hotels & catering (55)	31	25,200	5%	1,200	3%
Transport (60-62)	31	12,900	19%	2,500	1%
Transport support (63)	73	12,300	38%	4,700	2%
Post & telecom (64)	53	7,000	26%	1,900	3%
Financial (65-67)	82	24,700	30%	7,400	1%
Real estate (70)	47	100,600	5%	5,500	1%
Machine rentals (71)	19	3,700	15%	600	3%
Computing (72)	521	98,300	48%	47,900	1%
R&D (73)	183	5,000	51%	2,700	7%
Other business (74)	1,732	504,200	27%	137,300	1%
Total	**6,275**	**1,164,700**	**26%**	**291,500**	**2%**

Note: Approximately 230,000 firms operated in other sectors for which no information on export behaviour was available.
Source: London Economics, based on Harris and Li (2005); UKTI information and FAME database.

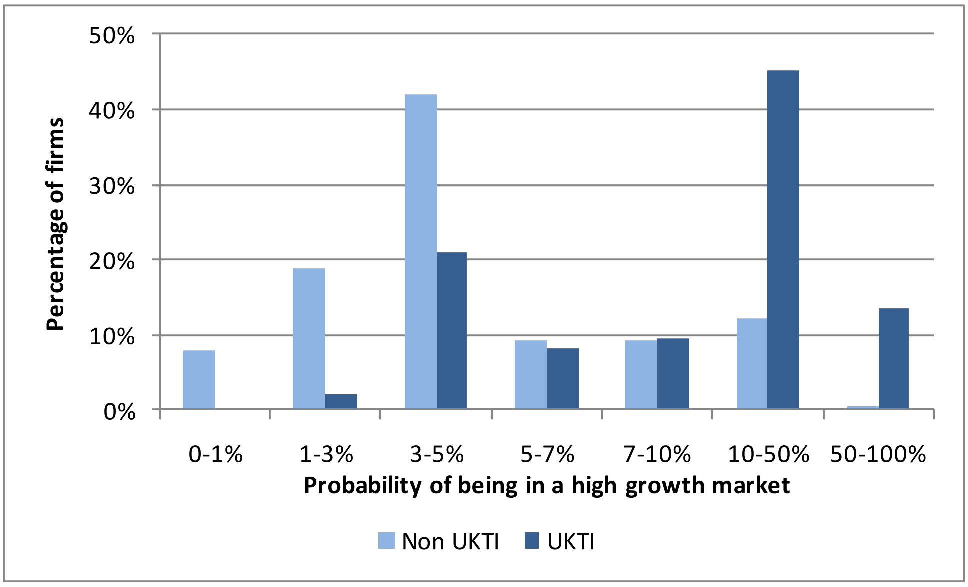
7.2 Probability of operating in high growth markets

As an alternative approach to the propensity score matching analysis, we apply the results of the econometric model estimated in Section 6 (using the Internationalisation Survey dataset) to the population of UK firms (identified through FAME).

This method provides an estimate of the probability that each firm already operates in high growth markets, based on company size, sector and age *given that a firm is already exporting*. As discussed previously, FAME does not contain information on exporting for the majority of companies. As a result, for these firms the probability estimates are adjusted according to the proportion of exporters in a company's sector (adjusted by firm size) using the results from Harris and Li (2006).

The results are displayed in Figure 13. Notably, a much higher proportion of firms supported by UKTI are estimated to have a high probability of being present in a high growth market. Further, this finding is the same when only companies without overseas turnover are included, indicating that this is not driven by the incidence of this data in FAME.

Figure 13: Distribution of probability of operating in a high growth market



Source: London Economics based on FAME and Internationalisation Survey data.

This result is only indicative, as it is limited to certain sectors (those included in both the Internationalisation Survey, and in the Community Innovation Survey) and necessarily relies on a number of assumptions, in order to combine information from a number of sources. However, it provides an indication that the selected UKTI programmes examined in this report are focused on the companies that we would predict – based on sector, age and company size – to be most likely to be operating in high growth markets.

7.3 Summary

This section has used the information available in FAME to investigate the number of firms in the UK that might benefit from UKTI assistance. This has indicated the range of different companies that operate in high growth markets, with the majority of companies in FAME similar to at least one of the companies assisted by UKTI in these markets.

Separately, the results of the econometric analysis presented in Section 6 have been used to estimate the probability of firms operating in high growth markets. These estimates, adjusted for the propensity of exporters in each sector, suggest that UKTI programmes are focused on the companies most likely to currently operate in these markets.

8 Overview of the HGMP

8.1 Overview

The pilot of the High Growth Markets Programme was established in February 2007 and became operational for the first time in April 2007. Following a decision in December 2008, the pilot was closed in March 2009.

The programme consisted of a team of ten High Growth Market Specialists (HGMS), providing dedicated professional assistance to help UK companies enter or expand their presence within 17 designated high growth markets. Assistance was offered to firms that were already exporting and with clear potential within one or more of the designated high growth markets. The support provided was fully-funded by UKTI.

The stated aims of the programme were to:

1) learn and disseminate lessons about why experienced exporters and established companies with potential to succeed are not more active in the specified high growth markets;
2) develop and deliver tailored support services and other policy proposals on the basis of 1); and
3) generate more activity and interest in the specified high growth markets by UK-based companies.

The assistance provided through the programme was seen as additional to (and complimentary with), existing sources of UKTI support. Unlike the majority of UKTI programmes, the HGMP focused on mid-corporate UK-based companies (defined as having between 250 and 1,000 employees and turnover of between £20 million and £100 million). Further, the programme operated around a team of High Growth Market Specialists, recruited from outside the UKTI network specifically for the purposes of the HGMP.

In practice, although the programme was officially launched in April 2007, much of the first year of the pilot involved establishing the programme. This included recruitment of the Specialists, creating terms of reference, refining the programme's parameters and objectives, establishing operational and reporting mechanisms and developing relationships with the existing UKTI network. As such the scheme did not, in practice, start until September 2007, and the full contingent of 10 High Growth Market Specialists were only in place from April 2008.

High Growth Market Specialists

The Programme is based around a group of ten High Growth Market Specialists. Specialists each represent one or more of the seventeen high growth markets, with some overlap between Specialists in the particular markets of focus.[63]

The Specialists are largely business development experts with high level management experience in their target markets, and were recruited from outside UKTI for the purposes of the programme. Each of the Specialists has detailed first-hand knowledge of business operations and corporate governance in the specific high growth market(s) they operate in.

The Specialists work with the client company's board, using their commercial expertise to provide in-depth strategic interventions. This also enables the Programme to capture intelligence on barriers to trade in high growth markets which is used to inform the broader UKTI network regarding appropriate trade support policy.

The role of the Specialists, as envisaged when the programme was created was to:[64]

> Conduct research on the company at a strategic level to ascertain the company's current position, expectations and international business.
>
> Discuss the company's strategy for high growth markets
>
> Deliver informed recommendations on entry or expansion strategies for specific markets, including the navigation of business practices, culture and bureaucracy.
>
> Highlight any specific business risks relating to these markets and provide guidance on how best to mitigate these issues.
>
> Identify any immediate business opportunities, trends or developments to stimulate company interest, using their own commercial networks where appropriate.

Pera

The ten High Growth Market Specialists are employed by Pera, a business support organisation. Pera are also responsible for providing company, market and sector information to support the Specialists.

8.2 Outline of HGMP Process

An HGMP intervention can be characterised as progressing in four stages, as shown in Figure 14. Initially, companies are "nominated" - identified as being exporters, falling within the programme's size criteria, and having the potential to succeed in high growth markets. These companies are then approached by the Specialists and offered support. All the activities of the

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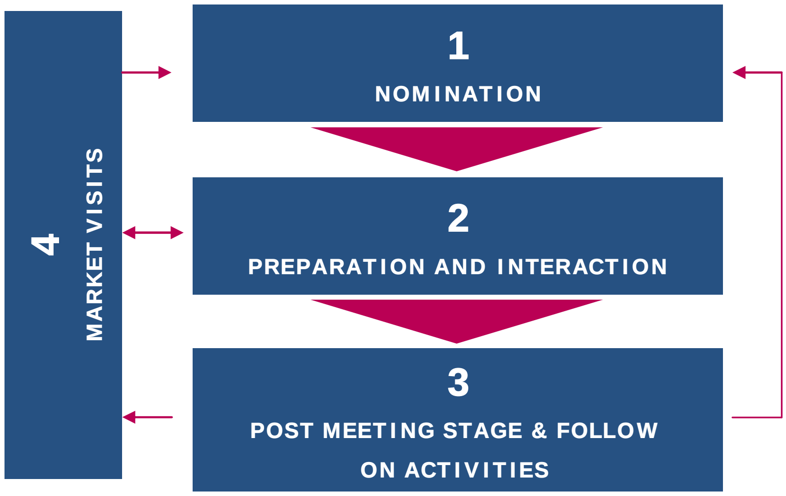
63 As of September 2008, the markets were split as Russia; UAE, Qatar and Saudi Arabia; Turkey, Saudi Arabia and Mexico; South-East Asia and Taiwan; China and Taiwan; South East Asia and South Korea (two Specialists); India, Qatar and UAE; Brazil and Mexico.

64 High Growth Markets Programme News, Issue 1 September 2008.

Specialists are compiled in reports, and circulated to the UKTI head of HGMP, the markets desks and overseas posts in monthly reports.

Each of the four stages is outlined below.

Figure 14: Outline of an HGMP intervention



Source: UKTI.

Nomination

An important component of the programme is the identification of companies that may be eligible to receive support. At the initiation of the programme, an initial list of mid-corporates was constructed by Pera using public databases to give the Specialists a range of target organisations from which to work. However, over time it was anticipated that an increasing number of nominations would come from the Specialists' own networks and from within the UKTI network (e.g. from regions).

Preparation and interaction

Once a Specialist has identified that they will contact a company, they contact Pera to confirm that the firm meets the programme's size criteria, identify the key contact, and obtain any other relevant information (e.g. news/press releases). If appropriate, the company is then contacted with the aim of setting up a meeting to discuss the support the programme offers in more detail. In advance of any meeting, Pera are able to provide additional market or sector information that the Specialist may require.

Post meeting stage and follow on activities

After the meeting, the Specialist compiles a report and posts the details on e-CRM. At this stage, the Specialist may feel it is appropriate to log the intervention as a significant assist. Alternatively, they may refer the company to another member of the UKTI network or to a different Specialist (if the company is interested in a different high growth market). If the Specialist is to continue to work with the company, they can request further information from Pera, or request an OMIS report from the relevant UKTI stakeholder(s).

Market visits

As part of the programme, the Specialists also undertake visits to their target markets, in order to update contact networks, brief the relevant Overseas Posts, and identify and develop business opportunities for client companies. Occasionally they may also be accompanied by client firms on these visits.

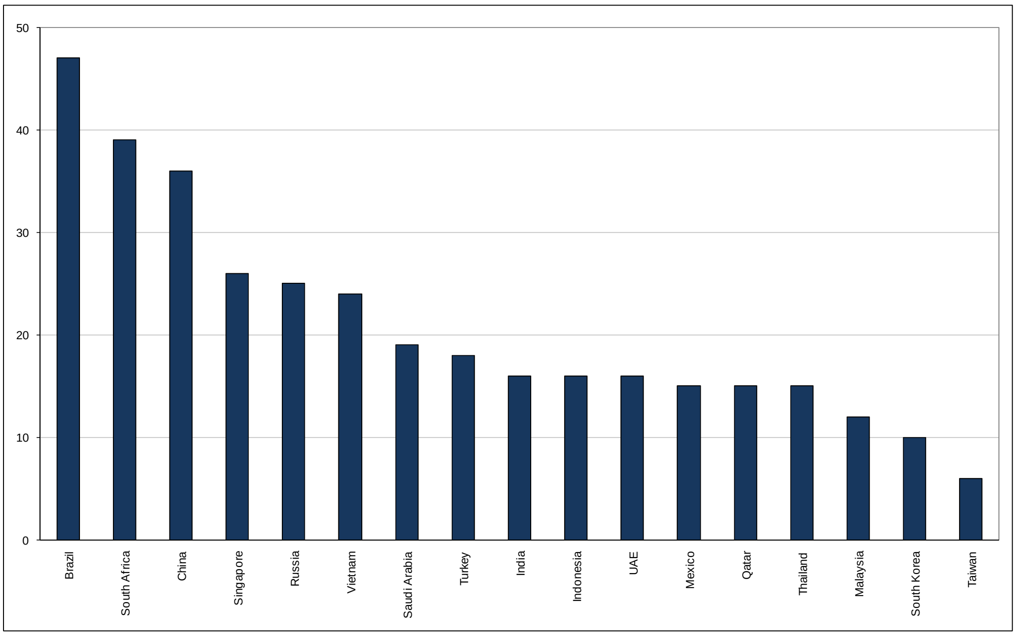
8.3 Use of the HGMP

8.3.1 Significant assists

The HGMP achieved a total of 412 significant assists between April 2007 and February 2008 – for 277 different firms. In addition, 977 company interactions not leading to significant assists were registered.

As shown in Figure 15, companies used the programme predominantly in relation to three markets: Brazil, South Africa and China, which together accounted for 43% of the significant assists. Outside of the three largest markets, assists were split fairly evenly across markets, with the exception of Taiwan (which was the focus of only six assists). Notably, India was the focus of less than 5% of assists, which may reflect the fact that there was not a Specialist focused on India until relatively late in the programme.

Figure 15: Markets targeted through HGMP



Note: Based on 355 assists in 2007/08 and 2008/09. Information on market not available for other significant assists.
Source: London Economics, based on UKTI information.

8.4 Characteristics of companies receiving HGMP support

The companies receiving support were linked to FAME, providing a source of information on the characteristics of the firms that received HGMP support.[65]

Using data collected from FAME we can investigate the major characteristics of these companies. As shown in Figure 16, the single largest category of assists was to mid-corporates (accounting for just over 40% of assists). The HGMP also incorporated support for a number of SMEs, partly to assist with gaining "traction". As the programme became more established in 2008/09, however, the proportion of smaller firms assisted fell.

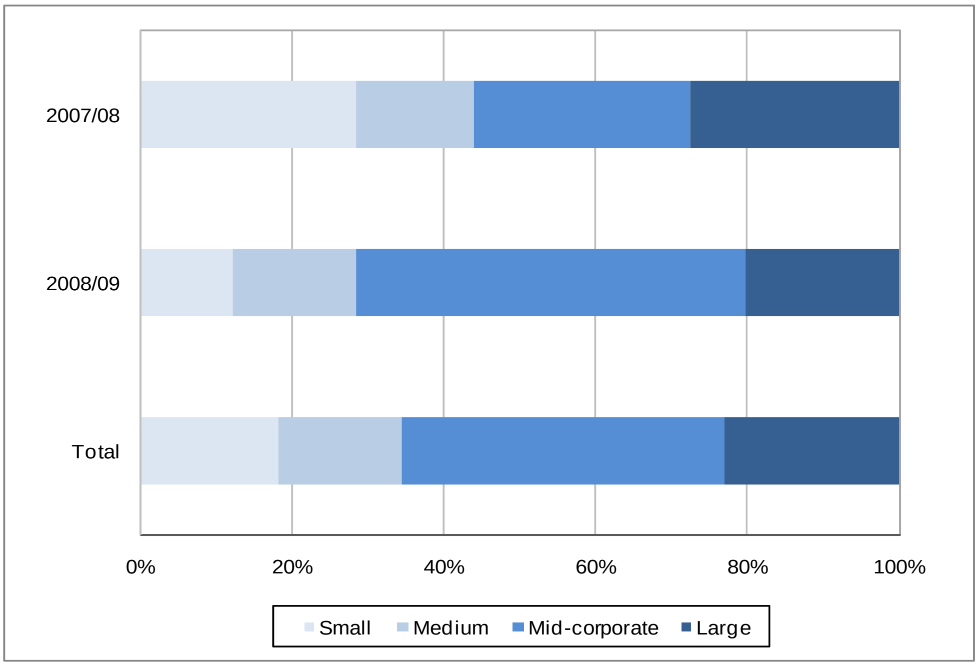
The proportion of "large" firms supported is more surprising but to an extent reflects the way in which the company size characteristic has been defined. Companies are defined as large rather than mid-corporate if either their employee numbers exceed 1,000, or their turnover exceeds £100 million. On the other hand, companies were eligible for HGMP support if they met *either*

[65] Around 98% of HGMP recipients were linked to FAME. More detail on the methodology used during the linking process and on the results are provided in Section 3.

the employee or the turnover criterion. This applies to around 8% of the significant assists.

The second factor that may explain this is that HGMP support was offered to particular branches or departments of large companies (which may meet the criteria), whereas the financial data includes turnover for the company as a whole.

Figure 16: HGMP significant assists, by financial year and company size

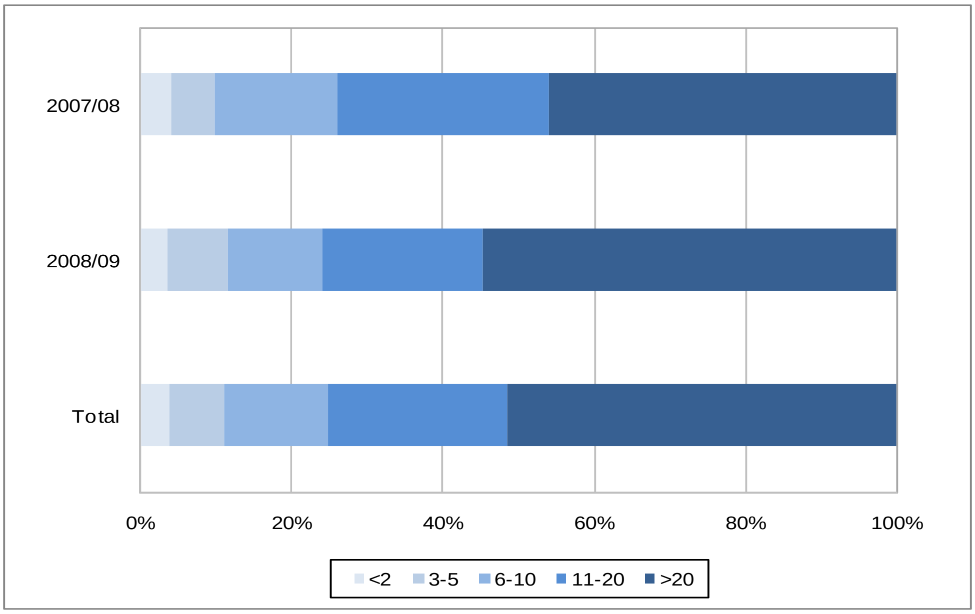


Note: Based on 141 significant assists in 2007/08 and 231 significant assists in 2008/09. Information on company size not available for other firms.
Source: London Economics, based on UKTI information and FAME.

Figure 17 provides information on the age of the companies receiving support. Around 50% of significant assists have been to firms in operation for more than 20 years, while just less than 25% of the support was provided to firms operating between 11 and 20 years. Very few of the firms had been in operation for fewer than five years (around 10%), which is not surprising given the criteria for participation in the programme.

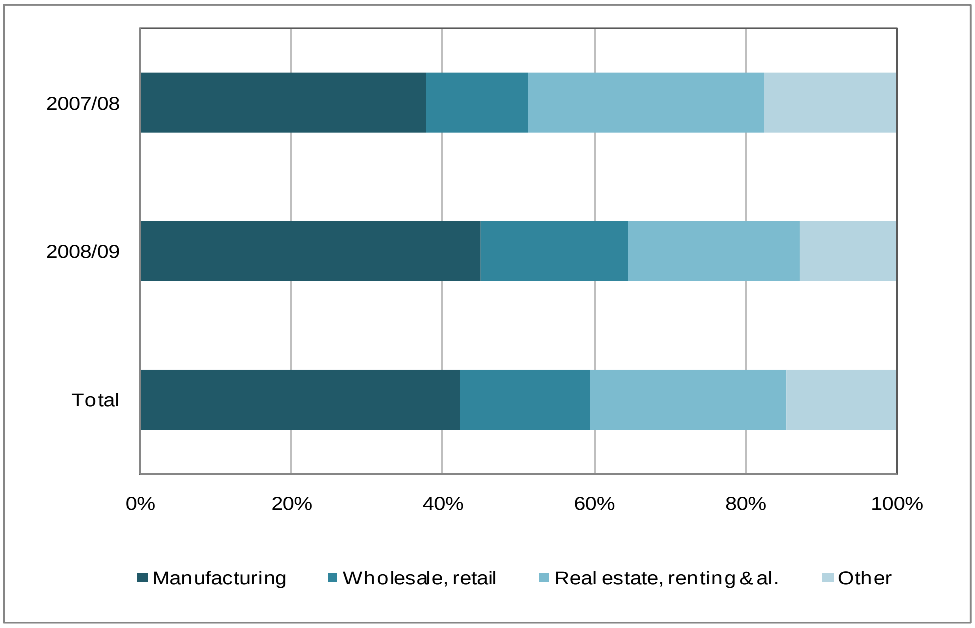
Around 40% of the significant assists were provided to firms in the manufacturing sector, as shown in Figure 18. Firms in the "business activities sector" accounted for 26% of significant assists, while 17% related to firms in the wholesale and retail sector.

Figure 17: HGMP significant assists, by company age in years



Note: Based on 154 significant assists in 2007/08 and 250 significant assists in 2008/09. Information on company age not available for other firms.
Source: London Economics, based on UKTI information and FAME.

Figure 18: HGMP significant assists, by sector

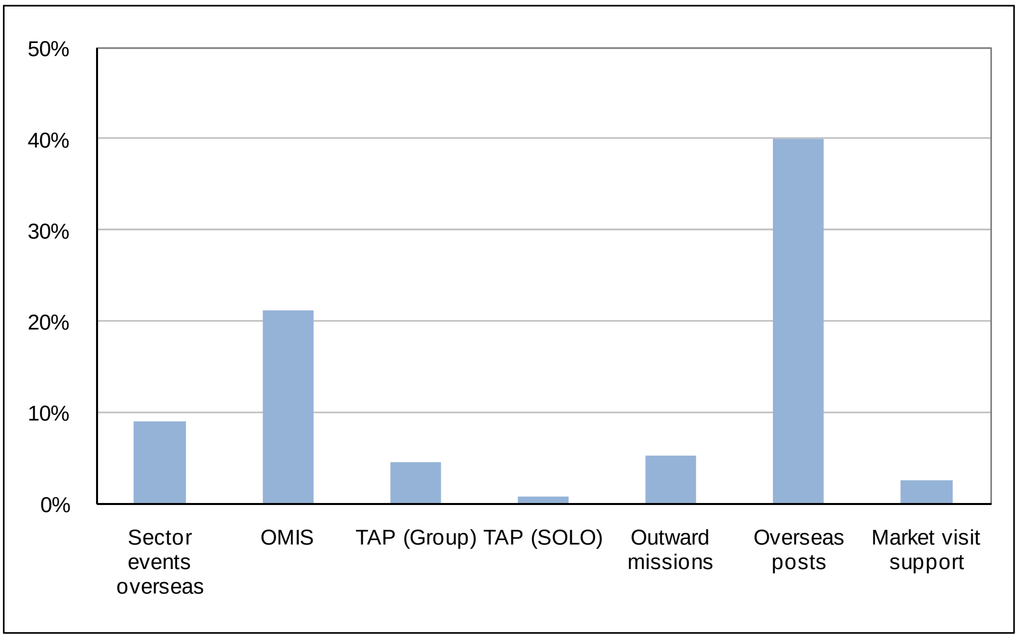


Note: Based on 148 significant assists in 2007/08 and 236 significant assists in 2008/09. Information on company age not available for other firms.
Source: London Economics, based on UKTI information and FAME.

8.5 Use of other UKTI support

Figure 19 indicates the proportion of companies that have received HGMP support that used other UKTI services during 2007/08. As this indicates, all the services listed have been used by at least some firms. However, only OMIS and the overseas posts were used by a significant proportion of the HGMP recipients in this period. It is possible, however, that firms may have used support at a later date.

Figure 19: Use of other UKTI services by HGMP supported firms (proportion of assisted firms)



Source: London Economics, based on UKTI information and FAME.

8.6 Economic rationale for the HGMP

8.6.1 Type of support

A Department for Business Innovation & Skills (DBIS) Economics paper sets out the main areas for government intervention to promote overseas trade and investment (DTI, 2006). These include:

1) Strengthening social networks;
2) Strengthening the internationalisation capabilities of innovative and high-growth businesses;
3) Providing access to information and advice (which would not be provided effectively by the private sector); and

4) Facilitating beneficial co-operation amongst businesses, enabling them to overcome barriers and develop trade opportunities, for instance through showcasing UK capabilities in emerging markets overseas.

The HGMP can be seen as focusing on the first three of these areas. Below we summarise the economic rationale for interventions in each of these areas, drawing on the evidence discussed in Section 4.

1) Strengthening social networks

The HGMP strengthens social networks through providing companies with access to contacts that they would otherwise not have had access to. This occurs in two ways: directly through the High Growth Market Specialists, and indirectly through referrals to other UKTI services.

Evidence suggests that firms struggle with obtaining these contacts in emerging markets. Mid-corporate firms in Asian emerging markets mentioned, for instance, that they often require a partner in order to enter these markets but that it is difficult (and costly) to identify appropriate firms. More generally, 50% of firms in high growth markets identified barriers to entry related to contacts (compared to 45% in other markets) (OMB Research, 2008b).

In addition, it is also notable that firms that *have* entered high growth markets are less likely to have used "networks and serendipity" or be "solely reactive" than firms in other markets. This suggests that links between these markets and UK firms may be less strong, and that there may be potential to increase entry into high growth markets by identifying relevant opportunities. An alternative interpretation for this finding may be that "networks and serendipity" are seen as important when trying to break into the market, but are considered less significant once the firm is actually there.

The importance of local relationships in these markets has also been emphasised by the finding that Britain's strong position in services exports and FDI in certain overseas markets (such as India) is explained by strong historic relationships through the Commonwealth. As these past ties become weaker, it is important that businesses have access to new business networks.

2) Strengthening the internationalisation capabilities of innovative and high-growth businesses

The High Growth Specialists work to strengthen firms' internationalisation capabilities through the provision of detailed advice on the steps companies need to take in order to move into high growth markets. This can include development of company strategy, improving product suitability for customers in high growth markets and providing advice on the best ways to overcome market-specific risks. This is distinct from the direct provision of information (discussed below), as this advice builds companies' skills, and hence makes them more effective in exploiting both current and future opportunities.

This area of the HGMP has the potential to have significant benefits for two reasons. First, as emerging markets become increasingly important in the world economy, the ability to operate effectively in those markets will be key to firms' ability to expand internationally. Second, the discussion above has indicated that the barriers to export in those markets appear very different from those in mature economies, and so are likely to require firms' to possess different set of skills. The evidence has highlighted that both practical issues and political issues are important, with examples including cultural differences, difficulties finding skilled workers, and government regulation and bureaucracy. Further, high growth markets tend to be less politically and economically stable than mature economies, and so involve a much broader array of risks to company operations.

3) Providing access to information and advice (which would not be provided effectively by the private sector)

The HGMP provides firms with information both through market research carried out by Pera and also through advice regarding particular markets (e.g. on how the market works). Further, the HGMP also provides information more widely through its goal of collecting and disseminating lessons regarding the barriers to entry in high growth markets.

The provision of market-specific information can again be seen as a key component of overcoming barriers to entry. In particular additional information is likely to be the only route to overcoming the barriers related to both cultural and legal issues, which survey results indicate are particularly important in high growth markets. Collecting and disseminating further lessons learned regarding these barriers will reinforce this work, particularly by spreading expertise throughout the UKTI network, and hence allowing more firms to benefit.

It is also possible that the HGMP plays an important role in raising awareness of the opportunities for companies in high growth markets. The survey evidence has shown that a large proportion of companies state that they perceive opportunities in these markets. However, the existing evidence base is insufficient to identify whether these companies are correctly evaluating the existence of those opportunities – or the size of the benefits that they might expect. As such, although the existing evidence is insufficient to support such a rationale, the HGMP may play a role either in promoting opportunities to those firms that could benefit from entering these markets or, alternatively, deterring firms that would not benefit from exporting to these markets.

8.6.2 Delivery of support

The discussion above outlines that there is a rationale for the type of support offered through the HGMP, but does not address the method of delivery used. While limited evidence is available regarding this, the findings of a recent report published by the Department for Trade and Industry (Bessant et al., 2005) provide some indications of the types of support most likely to be useful to firms, and the most appropriate timing for provision of support. Based on a review of the empirical and theoretical literature on states and stages of business growth, one of the findings of the report was that firms tend to grow through a series of "tipping points", such as market entry. Relating this to the most appropriate form of government support programmes, the authors suggest that it may be appropriate for Government to focus on developing firms' absorptive capacity - i.e. the ability of a firm to use and absorb different types of knowledge and hence grow. This will provide them with the necessary access to networks and knowledge to grow through tipping points. Further, if direct intervention is required, it will be most effective at such tipping points, where firms are more aware of the need for external knowledge.

This evidence suggests that the provision of external support to assist companies into high growth markets will be most effective if focused at a firm's "tipping point" - when a firm is most likely to be aware of their need for assistance. This suggests that the HGMP's delivery method may have led to an inefficient use of resource (i.e. the Specialists' time), with a large proportion of companies unable to use the advice provided most effectively. However, it is not clear whether the results of this report were available during the development of the HGMP, and so it may not have been possible to incorporate the findings into the design of the pilot.

9 Impact of the HGMP: Evaluation Survey and PIMS results

9.1 Introduction

In this section we present the evidence gathered in the evaluation surveys administered by London Economics. Two different evaluation surveys were administered: one to companies that had received HGMP support, and the other to a comparison group of companies that did not receive any support from UKTI within the HGMP (but could have received other forms of UKTI support)[66]. Overall 28 companies completed the HGMP survey and a further 49 completed the non-HGMP survey. In addition, a series of 8 case studies of specific instances of HGMP assistance were completed.

In the sections below we present a description of the relevant samples and analyse the survey results. Where relevant, evidence on the programme is complemented with PIMS data collected by UKTI. PIMS is based on a random sample of recipients of a number of UKTI support services and is carried out on a rolling basis, with firms surveyed around six months after receiving support. The High Growth Markets Programme has been evaluated in the five most recent PIMS waves (waves 9-13) with a total of 50 interviews completed. Using the PIMS results we are also able to compare results for HGMP to those for other comparable UKTI programmes[67], both in high growth markets and in other markets.

9.2 Evaluation Survey sample

9.2.1 Overview and response rate

In total, the questionnaire was sent (via email) to 207 HGMP companies, and 857 non-HGMP firms. The response rates achieved were disappointing, with the survey completed by 14% of HGMP firms and 6% of non-HGMP firms, despite repeated follow-ups by both telephone and email.

Firms provided a number of reasons for not responding, as displayed in Table 19. This suggested that the low response rate from HGMP-supported firms may be explained in part by the nature of the HGMP, and the definition of a "significant assist" used in the programme. In particular, a significant proportion of the firms contacted (10%) felt that they had received only minimal contact from the programme (a brief phone call, for instance), while a further 6% felt that it was inappropriate to fill in the survey as they had decided not to enter or expand in the target market (largely due to the

66 See Section 3.2.4 for a more detailed discussion of the composition of the different groups.

67 The programmes used as comparators are those identified as being concerned with entry into a particular market and included in the FAME-linking analysis.

excessive difficulties the companies would have faced in the target market, or because the target market was not a priority for the company at that stage). This suggests that a sizeable proportion of the advice that has been provided by High Growth Market Specialists had not led to positive action by client companies at the time of the survey. Although this does not, of course, indicate that the advice offered was not valuable – and in particular it may be that firms will use the advice at a later date or may have been advised that they lacked the capability to enter these markets - it is important in considering the overall impact of the programme.

A further issue in undertaking the survey was that frequently the advice offered had been provided directly to a limited number of contacts (often only one person), who had since left the company. This is an unavoidable problem in undertaking any backward-looking evaluation survey; but may be greater in the case of the HGMP, given the focus on meeting with high level board representatives.

Table 19: Evaluation Survey: Summary of company response

HGMP			**Non- HGMP**		
	N	%		N	%
Responses	28	14%	Responses	49	6%
Declined to take part	108	52%	Declined to take part	587	68%
Not able to fill in the survey	25	12%	Not exporting[1]	151	18%
Only minimal contact	20	10%	Company foreign based[2] / own presence abroad	27	3%
No action taken	12	6%	Unable to identify an appropriate contact	31	4%
Not in the programme	6	3%	No longer operative	12	1%
Already taken part in a survey	5	2%			
Closing down	3	1%			
Total	207	100%	Total	857	100%

1 This category also includes those companies that are not currently exporting into high growth markets and are not planning to do it in the foreseeable future.

2 This category also includes those companies for which all the exports are dealt with by the foreign parent company.

Source: London Economics Evaluation Survey.

The results of the counterfactual survey were also slightly disappointing, with a response rate of 6%, although this is less surprising given that these companies had not (necessarily) received any support from UKTI. Interestingly however, around one-sixth of the companies contacted reported that they either do not export or do not export to high growth markets (or interested in doing so). This suggests that a significant proportion of the firms in the initial sample frame (based largely on the list of firms developed by Pera at the beginning of the programme) may not have been appropriate targets for the HGMP.

9.2.2 Characteristics of the survey samples

Given the limited number of responses to the HGMP Evaluation Survey, one of the major issues of the analysis is the extent to which the respondents are representative of the general HGMP population. To address this issue we compare the characteristics of the companies in the three different HGMP samples available (FAME-linked, PIMS and Evaluation Survey). The FAME-linked sample is made of up to 269 observations (depending on the variable analysed), and so should be close to the entire population of HGMP recipients. On the other hand, the other two samples are formed by 28 (Evaluation Survey) and 50 observations (PIMS).

A summary of the characteristics of the firms in each of these samples, as well as those in the non-HGMP sample, are displayed in Table 20. More specifically the four samples are described as follows:

- the sample made of all the HGMP companies that were matched in the FAME database ("FAME-linked") ;
- the set of HGMP companies interviewed for the PIMS survey, waves 9-13 ("PIMS");
- the sample consisting of all the HGMP companies that completed the survey evaluation ("HGMP-Evaluation Survey"); and
- the sample consisting of all the non-HGMP companies that completed the survey evaluation ("Non HGMP-Evaluation Survey").

In order to test if any observed difference in characteristics between different samples is meaningful or driven by chance only (i.e. we cannot reject the hypothesis of a common distribution between samples), we perform a series of chi-square tests. This provides a useful indication of whether the groups are significantly different. However, given the small size of the sample, and the consequent low power of the statistical tests, it is important to be cautious in drawing general conclusions about the similarity of the groups based on the test results.[68]

[68] Given the small samples, the distributions were also compared using Fisher's exact test, with similar results.

Table 20: Comparison of sample characteristics						
	All HGMP firms	**HGMP Surveys**		**Non-HGMP**	***X*² Test of independence (3)-(4)**	
	FAME (1)	PIMS 9-13 (2)	Evaluation Survey (3)	Evaluation Survey (4)	*X*² (df)	p-value
Observations	269	50	25	47		
Company Size					5.28 (2)	0.07
Small	12%	14%	11%	10%		
Medium	36%	35%	44%	20%		
Large	51%	51%	44%	69%		
Age					4.85 (2)	0.09
<10 years	28%	10%	12%	6%		
10-20 years	23%	8%	8%	0%		
>20 years	49%	82%	80%	94%		
Turnover overseas					5.36(4)	0.25
Less than 10%	30%	25%	26%	23%		
11%-25%	20%	18%	22%	19%		
26%-50%	19%	18%	15%	23%		
51%-75%	16%	27%	7%	21%		
More than 75%	15%	11%	30%	13%		
Sector					0.09 (2)	0.96
Manufacturing	44%	32%	58%	58%		
Wholesale, retail	15%	20%	13%	10%		
Real estate, business activities & al	27%	28%	0%	0%		
Other activities	21%	28%	29%	31%		
Export experience					2.85 (2)	0.24
<10 years	n.a.	31%	27%	18%		
10-20 years	n.a.	20%	23%	12%		
>20 years	n.a.	49%	50%	69%		
Growth objectives					1.28 (3)	0.73
Grow moderately	n.a.	52%	46%	46%		
Grow substantially	n.a.	42%	50%	48%		
Remain the same size	n.a.	2%	0%	4%		
Don't know	n.a.	4%	4%	2%		
Innovative firms					0.52 (1)	0.47
Yes	n.a.	94%	100%	98%		
No	n.a.	6%	0%	2%		
Ownership					4.71 (2)	0.09
Foreign	n.a.	n.a.	12%	33%		
UK and foreign	n.a.	n.a.	8%	2%		
UK	n.a.	n.a.	80%	65%		

Source: London Economics based on FAME-linked dataset, PIMS 9-13 results and London Economics Evaluation Survey.

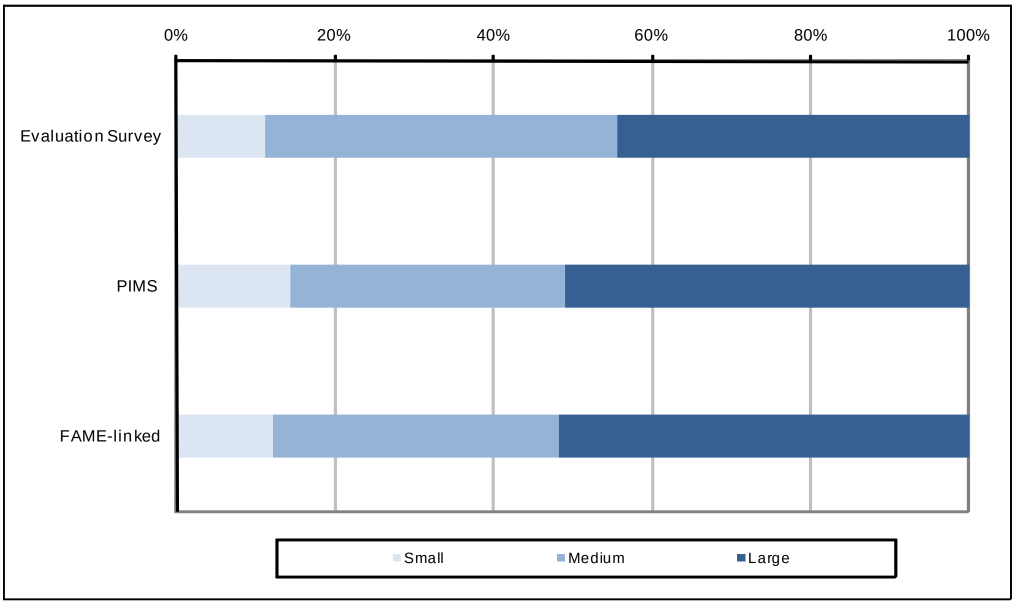
Below, we assess the representativeness of the HGMP Evaluation Survey sample in more detail through comparing with the other two samples.

9.2.3 Representativeness of the HGMP Evaluation Survey sample

Company size

Figure 20 compares the size of the firms in the three HGMP samples. The vast majority of firms are either "medium" or "large" companies, reflecting the HGMP target group. The FAME-linked and PIMS samples have a fairly similar proportion of companies in the different categories, with *Large* being the most relevant category (around 51% of the observations) followed by *Medium* (around 35%). The Evaluation Survey sample has an equal proportion of companies in the two larger categories (44%). A chi square test indicated that there are no statistically significant differences in the size distribution across samples.

Figure 20: Comparison of HGMP samples - company size



Source: London Economics based on FAME-linked dataset, PIMS 9-13 results and London Economics Evaluation Survey.

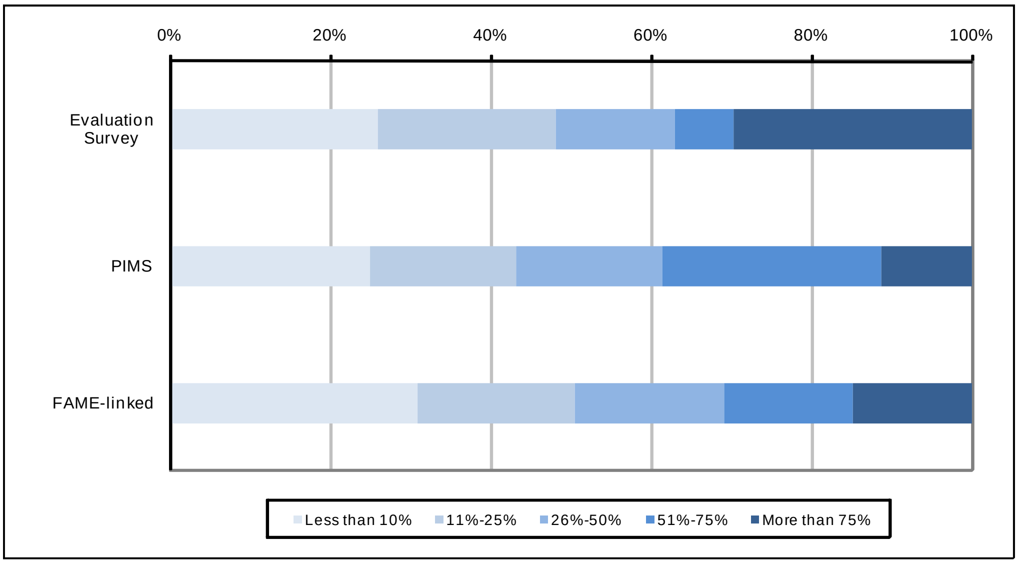
Company age

The second characteristic used to compare the HGMP samples is the age of the business (see Table 20). In this case the distribution of the Evaluation Survey and PIMS samples are very similar. In both cases just above 80% of the companies reported that they have been operating for more than 20 years, while around 10% were in either the "between 10 and 20 years" or "less than 10 years" categories. In contrast to these figures, around 50% of companies in the FAME sample belong to the "more than 20 years" category. When we test whether these differences are statistically significant using a chi square test, we obtain a very low p-value, suggesting that these differences are meaningful. However, this result seems likely to be driven by respondents systematically overestimating their business experience.

Overseas turnover

Figure 21 shows how the three samples compare in term of the proportion of turnover generated overseas. The most striking difference is the high proportion of companies in the Evaluation Survey that reported that they generated more than 75% of their turnover overseas, with 30% of respondents falling in this category compared to 11-15% for the two other samples. In general, the distribution of companies in PIMS and Evaluation Survey are similar: for example, the total proportion of companies that reported that less than 50% of their turnover is generated abroad is around 60% of the sample in both cases, increasing to 69% for the FAME-linked sample. Results from the chi square test suggest that we cannot reject the hypothesis of equal distribution for turnover overseas across these groups.

Figure 21: Comparison of HGMP samples - turnover generated overseas



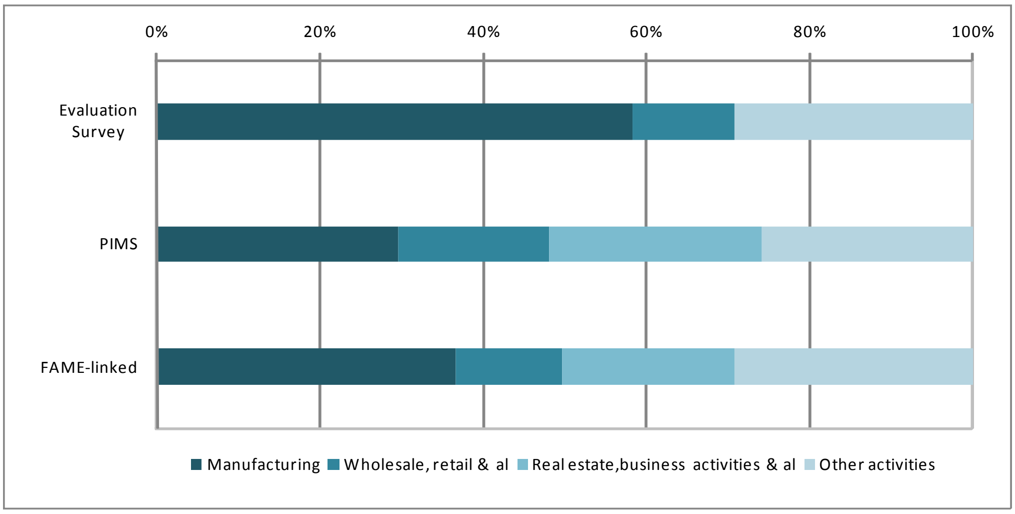
Source: London Economics based on FAME-linked dataset, PIMS 9-13 results and London Economics Evaluation Survey.

Company sector

The final variable considered is the sector of economic activity, presented in Figure 22. The companies have been grouped in four different categories: "Manufacturing", "Wholesale, retail & certain repairs", "Real estate, renting and business activities" and "Other activities" (which covers all other sectors). While the proportion of companies in the Evaluation Survey sample that reported operating in the "Wholesale, retail & certain repairs" or "Other activities" sectors is roughly comparable to the corresponding proportion in the other two samples, the proportion of manufacturing companies is substantially higher and there are no companies operating in the "Real estate, renting and business activities" sector. This is probably due to the limited number of firms that responded to the Evaluation Survey, with the proportions likely to be very sensitive even to small changes in the composition of the sample size.

The chi-square test indicated that the distribution for Evaluation Survey respondents in terms of sector of activity is significantly different from the FAME-linked sample, although there is no statistically significant difference between the PIMS and FAME-linked samples.

Figure 22: Comparison of HGMP samples - sector of activity



Source: London Economics based on FAME-linked dataset, PIMS 9-13 results and London Economics Evaluation Survey.

Summary

Overall, this analysis suggests that there are few statistically significant differences in the distributions of the characteristics of Evaluation Survey respondents and the other samples of HGMP companies (FAME-linked and PIMS), with the main exception relating to the sector of activity. This provides some reassurance that the sample is representative, at least for this limited range of characteristics. However, given the small sample size, this conclusion can only be tentative. .

9.2.4 Development of the counterfactual

In this sub-section, we analyse and compare the similarities and differences between the two Evaluation Survey samples (HGMP and non-HGMP). As discussed in Section 3, a number of difficulties exist in identifying an appropriate counterfactual for the HGMP survey, and it is important to understand the extent to which this has been achieved in order to correctly interpret the results of the Evaluation Surveys.

Firms included in the non-HGMP sample

As discussed in Section 3, in order to understand the counterfactual measured by the sample frame for the non-HGMP Evaluation Survey, it was important to understand whether the companies that responded had previously been contacted by the HGM Specialists (and hence turned down support).

In practice, only three respondents to the survey (6%) reported that they had been contacted. This suggests that any bias related to the fact that these companies are different in some way to those that chose to receive HGMP support should be limited.[69]

Characteristics of the non-HGMP respondents

A second consideration is the extent to which the characteristics of the non-HGMP firms are similar to those of the HGMP companies. As shown in Table 20, a simple comparison of the characteristics of the survey respondents suggests that there may be some differences between the different groups. In particular, the non-HGMP sample contains a notably higher proportion of firms that are large (69% compared to 44% of the HGMP sample), that have operated for more than 20 years (94% compared to 80%); that have exported for more than 20 years (69% compared to 50%) and that are foreign-owned (33% versus 12%). There are also some differences in the export intensity of the two groups when we consider the distribution divided in five categories; for example a much higher proportion of HGMP firms have exports accounting for more than 75% of firm turnover (30% compared to 13%). However, if we consider only 50% as a cut-off point, the two distributions look quite similar; for example 37% of HGMP companies generated more than half of their turnover overseas compared to 34% of non-HGMP.

On the other hand, there are some similarities in the sample characteristics. The proportion of companies in the different industrial sectors is quite similar across the two samples, with neither sample including any companies in the "Real estate, renting and business activities" sector. Both groups appear to have similar growth objectives, with the proportion of companies targeting substantial or moderate growth in the next five years comparable across the two samples. Further nearly all the firms in each sample are defined as innovative.

To test whether these differences are statistically significant – that is whether we can state confidently that they reflect differences in the underlying populations (i.e. of HGMP and non-HGMP firms), we use the chi-square test of independence, testing the null hypothesis that the distributions of the

[69] As mentioned in Section 3, the survey included questions designed to identify the reasons that companies chose not to receive support. However given the very small number of firms falling into this category, it was not possible to carry out any meaningful analysis in this respect.

HGMP and non-HGMP are independent. The results of this are reported in the last two columns of Table 20 (see above).

In general, we are unable to reject the null hypothesis that the characteristics of the counterfactual group (non HGMP sample) are significantly different to the treatment group (HGMP sample). The exceptions to this are in company size, age and ownership, where we are able to reject the null when using a 10% significance level (although not at the 5% level).

9.3 Experience of high growth markets

Part of the Evaluation Survey investigated firms' experiences (both HGMP and non-HGMP) in high growth markets, including the markets that they had entered, and the barriers to export and challenges that they had faced in those markets.

9.3.1 Markets entered

In Figure 23 we present the percentage of companies in the HGMP and non-HGMP samples that are currently exporting to each of the different high growth markets[70], as well as companies' average rating of the relative importance of the different markets (in terms of contribution to annual sales on a scale 1 to 5).

The results for both the HGMP and non-HGMP groups were similar, both in terms of the overall number of markets entered and the specific high growth markets in which companies are currently doing business. On average, companies in the HGMP sample are currently operating in 8.5 high growth markets, while the average number of markets is 7.5 for non-HGMP companies. The proportion of companies that are not doing business in any high growth market is very similar for both group of companies at around 10%. Twenty-nine percent of companies in the HGMP sample are present in all seventeen high growth markets, while this is true for 18% of the companies in the HGMP sample.

[70] The proportion of companies in the two samples that are not currently exporting to any of the 17 high growth markets is 8% for the HGMP sample and 6% for the non-HGMP sample. The survey contained questions investigating the reasons that non-HGMP firms did not export into these markets at present. However, given the small number of respondents in this category it is not possible to carry out any meaningful analysis.

Companies were also asked how many of these markets they had entered for the first time since January 2007. Around two fifths of firms (37% of HGMP companies and 43% of non-HGMP) reported having entered no new markets in that time frame. A quarter of the HGMP companies (21% of non-HGMP) reported that they had entered one new market, 29% (19% of non-HGMP) two different markets and 8% (17% of non-HGMP) more than two markets since January 2007. The maximum number of markets entered in the period considered was four for HGMP companies and six for non-HGMP.

Statistical tests found no significant difference across the two groups either in the number of overall number of high growth markets in which companies are operating or new high growth markets entered.

Turning to the analysis of the specific high growth markets in which the companies operated, we can see that the top four markets for both samples are the UAE, Saudi Arabia, India and Singapore: more than 60% of the companies in the HGMP sample and 50% in the non-HGMP currently export to these countries. Qatar, South Africa and Malaysia are other popular markets for both sets of companies, with between 45% and 63% of the companies exporting to those countries.

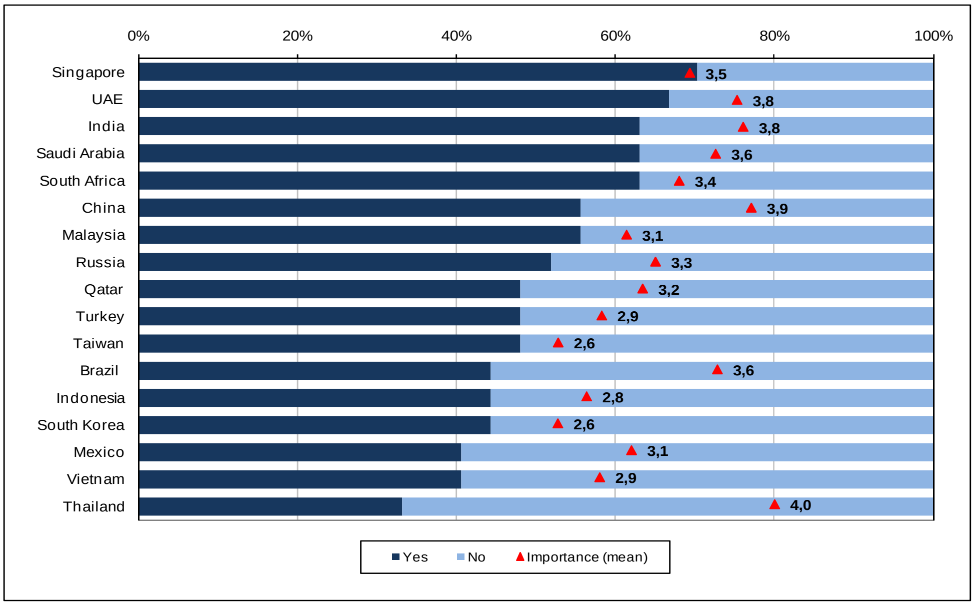
Interestingly, with the exception of India, the BRICs economies are relatively unpopular. The Chinese market is outside of the five most popular export destinations in both samples (with between 41% and 55% of companies currently doing business there), while Brazil and Russia have been entered by half or less of companies in either sample. The least chosen export destinations are Indonesia, Mexico, Taiwan, Vietnam and South Korea.

The picture is slightly different (and more varied between samples) when we consider the relative importance of the different markets (as rated by respondents). For HGMP companies, the United Arab Emirates, Singapore and India are among the most important markets, while Thailand, China and Brazil are also highly rated in terms of importance attributed to the market. Thailand is currently an export market for only a third of HGMP companies, but is of great importance for the companies that do export there (average importance of 4.0).

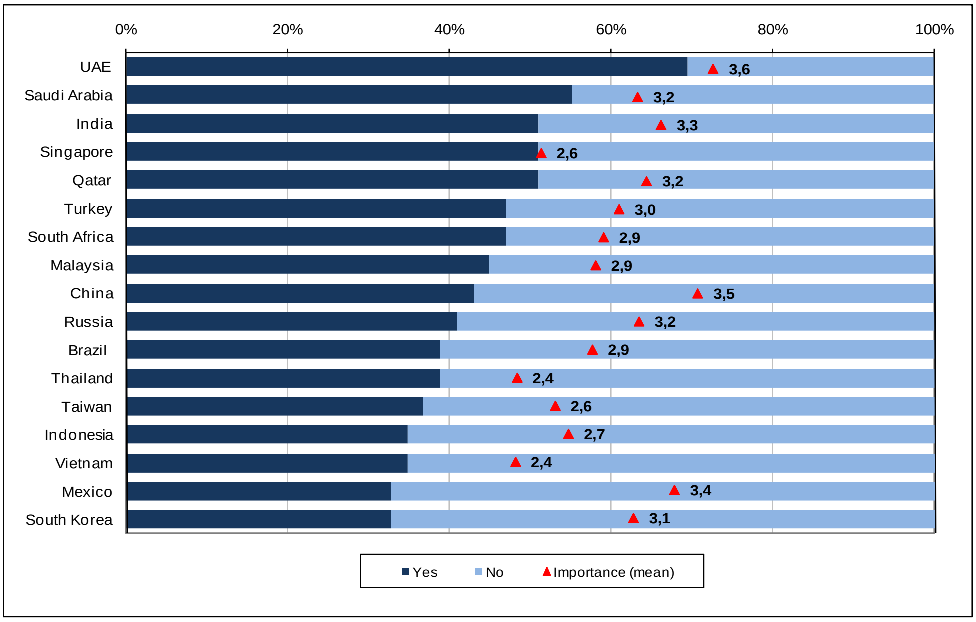
For the non-HGMP sample, the UAE, Saudi Arabia and India are among the most important markets, together with China and Mexico. A few non-HGMP companies (6%) also reported that they do not currently export to any of the high growth markets. Again, tests did not show statistically significant differences between the groups, with the only exceptions relating to the importance attributed to the Thailand and Qatar markets.

Figure 23: Proportion of companies exporting to different HGMs

HGMP



Non-HGMP



Source: London Economics Evaluation Survey.

9.3.2 Drivers

In this section we present an analysis of the drivers of firms' decisions to enter high growth markets. Figure 24 summarises the results for both the HGMP and non-HGMP samples.

The results indicate that the most important driver of the decision to enter a high growth market was that *The market was particularly suited to our products or services*. More than 90% of HGMP companies (70% of non-HGMP) stated that this was completely or highly applicable to their company, while the average rating was higher than the other reasons offered to firms.

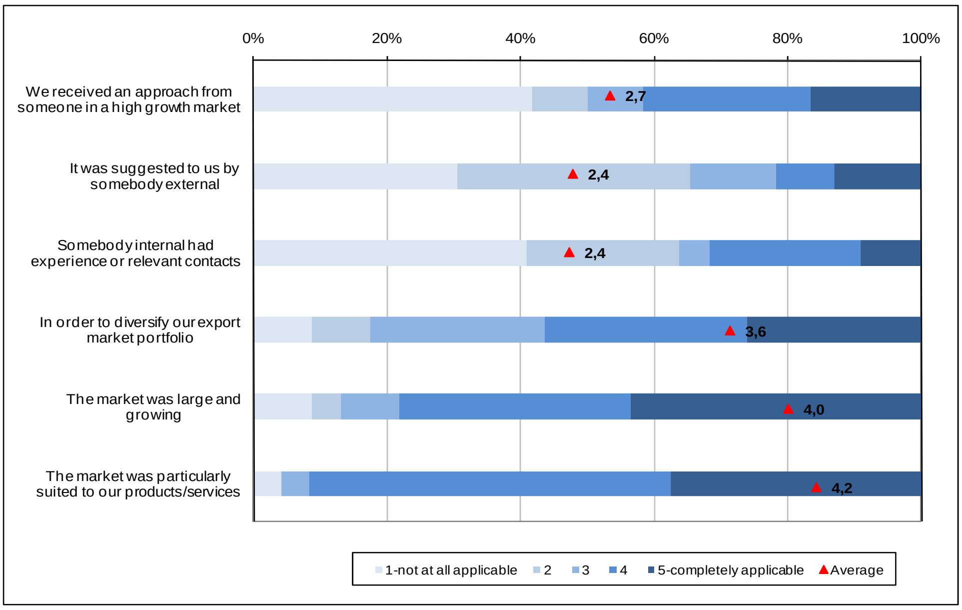
The drivers *In order to diversify our export market portfolio* and *The market was large and growing* also seem to play an important part in company decisions to enter a high growth market. This is true for both samples of companies, although to a greater extent for HGMP companies.

For both samples *Being approached by someone in a high growth market* was relatively less important, while external contacts and internal experience seem to play, on average, an even smaller part in the decision to enter a high growth market.

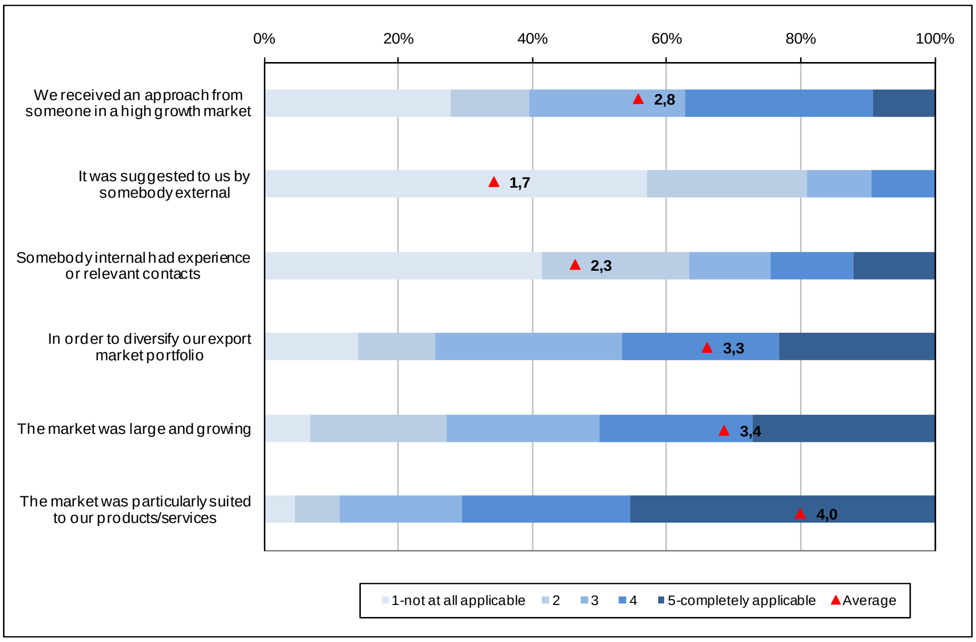
A chi-square test showed that the differences between the proportions reported in the two samples are significantly different between samples only for *The market was particularly suited to our products or services* and *It was suggested to us by somebody external*.

Figure 24: Drivers of entering a high growth market

Drivers for HGMP companies



Drivers for non-HGMP companies



Source: London Economics Evaluation Survey.

9.3.3 Barriers to entry

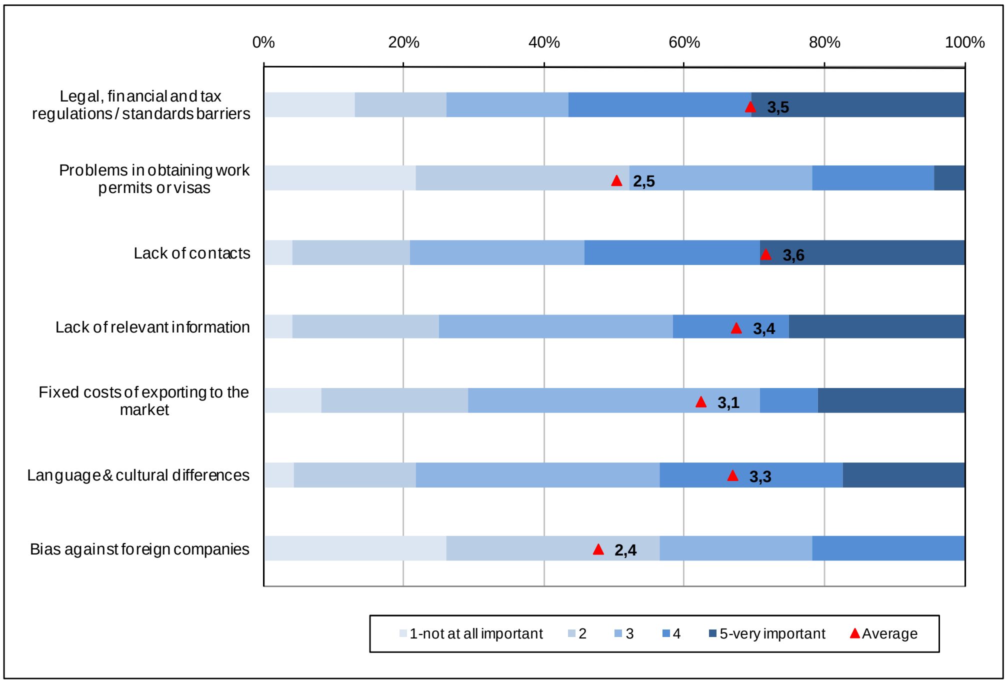
The percentage of companies that consider exporting to high growth markets either "definitely" or "probably" more difficult than exporting to more mature markets is quite similar in both samples (45% for the HGMP sample compared to 50% for the non-HGMP). Conversely, around 45% of the companies in both HGMP samples did not feel that exporting to these markets is more difficult compared to exporting to mature markets. A chi-square test did not find a statistically significant difference between the samples.

The barriers reported by HGMP and non-HGMP firms are displayed in Figure 25. The most relevant barriers reported by HGMP companies were *Legal and regulatory barriers* (a significant obstacle for 56% of the companies); *Lack of contacts* (indicated as highly important by 54% of the respondents); *Lack of relevant information*; and *Language and cultural differences,* which were both considered highly significant by between 42 and 44%of the respondents. A chi-square test[71] indicated that few differences were statistically significant – i.e. we cannot reject the hypothesis that the HGMP and non-HGMP firms face the same barriers. The exceptions are *Lack of contacts* and *Bias against foreign companies*, where HGMP firms seem to encounter significantly higher barriers.

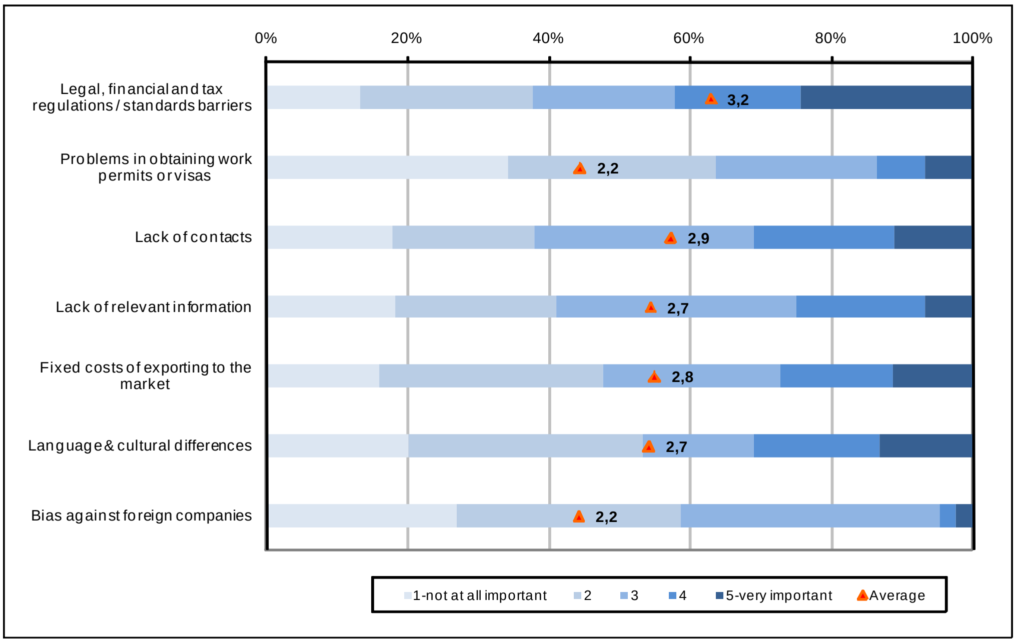
[71] The chi-square test was performed after grouping the possible answers into two categories "significant" (where a 4 or 5 was reported) and "not significant" (where a score of less than 4 was reported).

Figure 25: Barriers to export in high growth markets

HGMP sample



Non-HGMP sample



Source: London Economics Evaluation Survey.

9.3.4 Difficulties and risks

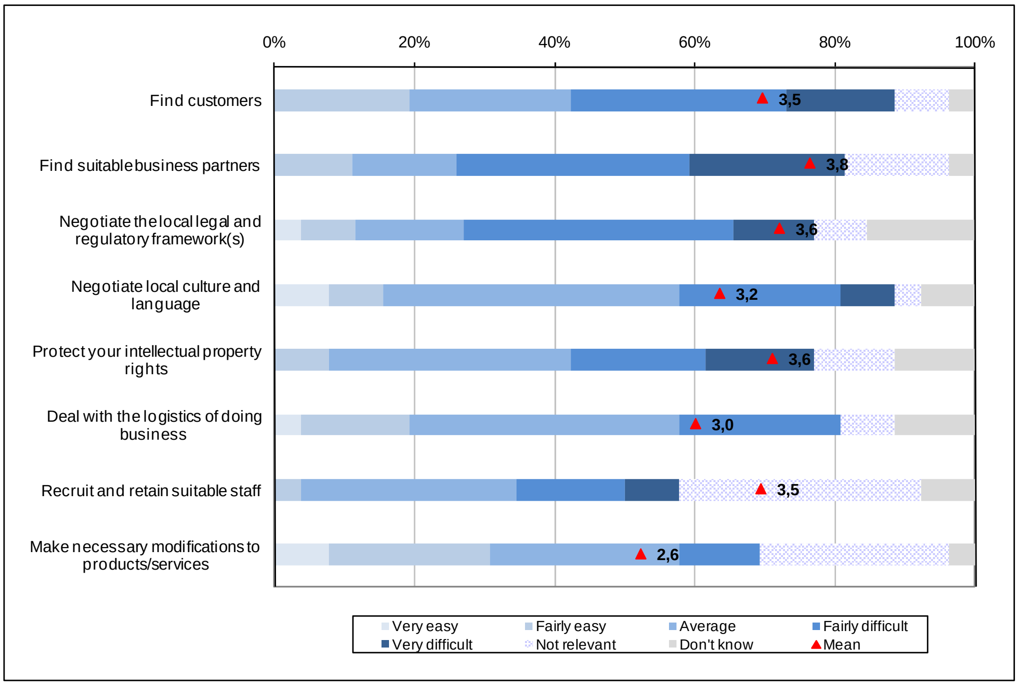
Both surveys also enquired about the difficulties and risks connected with doing business in a high growth market. For non-HGMP firms, questions referred to the high growth market that was most important to their business, while for HGMP companies the difficulties and risks identified relate to the market for which they received most advice.

For HGMP companies the difficulties most commonly experienced were finding suitable business partners, negotiating the local legal and regulatory framework and finding customers with around or more than half of the companies reporting these activities to be fairly or very difficult. Furthermore, approximately 35% of the companies said they had experienced difficulties in protecting their intellectual rights. On the other end, adapting products or services to the market was considered to be “fairly” or “very” difficult by only 12% of HGMP respondents.

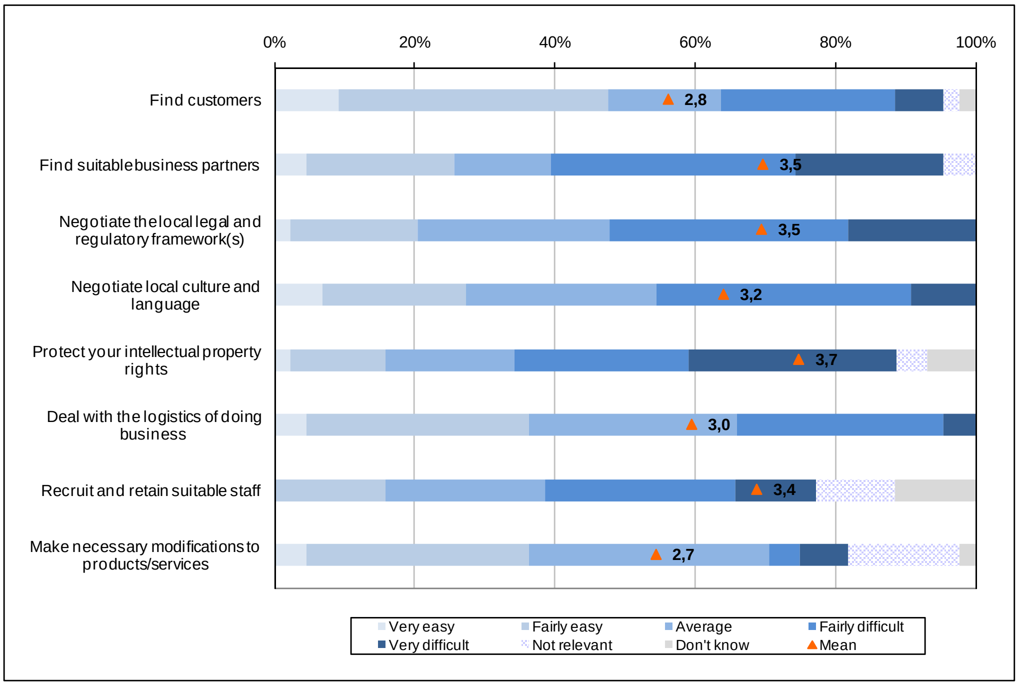
As shown in Figure 26, about 55% of non-HGMP firms considered it either fairly or very difficult to find suitable business partners; to negotiate the local legal and regulatory framework and to protect intellectual property rights. Significant difficulty with negotiating local culture and language was reported to be a relevant difficulty by 46% of the companies, while only 32% of respondents considered finding customers to be fairly or very difficult. Similarly to HGMP companies only a small proportion of respondents (11%) reported that adapting product or services to the market was a significant difficulty.

Figure 26: Difficulties encountered

HGMP sample



Non-HGMP sample

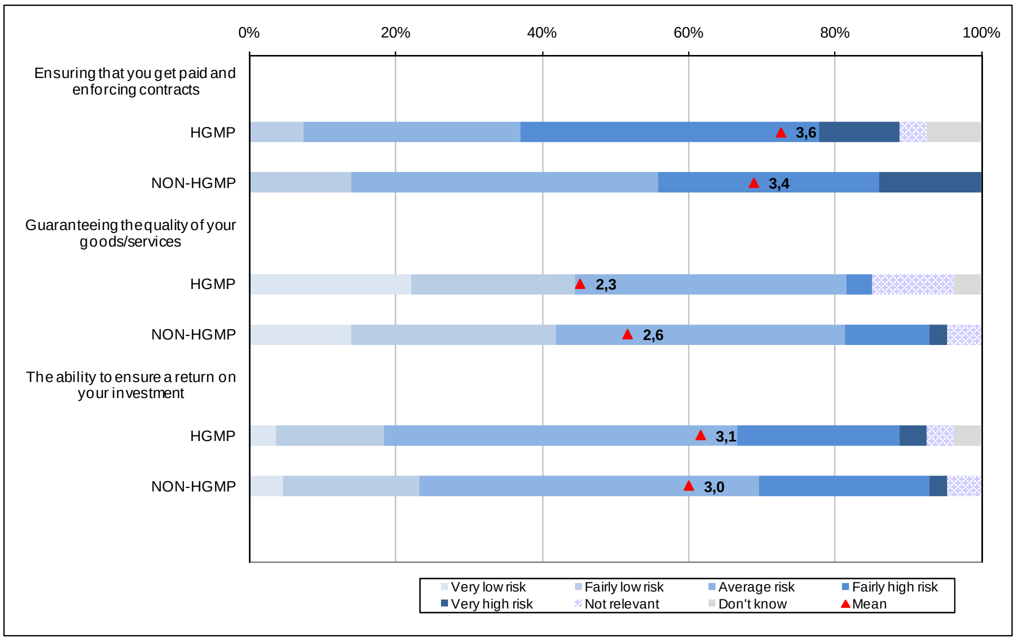


Note: Categories "Not relevant" and "Don't know" are excluded from the computation of the mean.
Source: London Economics Evaluation Survey.

Figure 27 presents the perceived risks associated with doing business in the relevant high growth market. For both samples, a high proportion of companies (around a half of the total) deemed *Ensuring getting paid and enforcing contracts* to be highly risky, while around a quarter considered *The ability to ensure a return on the investment* to be a significant risk. To guarantee the quality of goods and services in the market is considered far less risky, with only 4% of HGMP companies, and 14% of non-HGMP, reported it to be a significant risk.

No statistically significant differences between the two samples' perception of risks emerged from the chi-square test.

Figure 27: Risks faced in high growth markets



Note: Categories "Not relevant" and "Don't know" are excluded from the computation of the mean.
Source: London Economics Evaluation Survey.

9.4 Impact of the High Growth Markets Programme

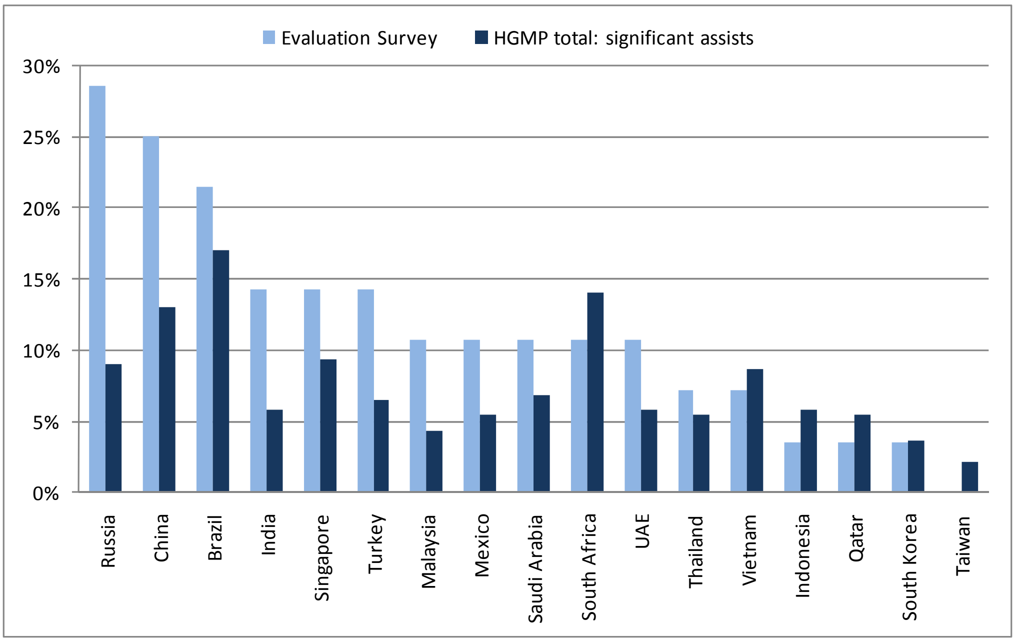
In this sub-section we use the results of the Evaluation Survey and PIMS to assess the impact of the High Growth Markets Programme on the companies that received support. Where possible, we compare the impacts achieved through the HGMP with those achieved by companies receiving other forms of UKTI support, both in high growth markets and elsewhere, using the PIMS dataset.

9.4.1 Markets within the HGMP

Figure 28 shows the different markets for which the companies responding to the survey received HGMP support. It is important to remember that advice might have been provided for multiple markets. In fact, more than half of the companies in the sample received advice for more than one market, up to a maximum of six different markets. The markets for which the Specialists' advice was sought most often were Russia and China (by 29% and 25% of companies respectively), followed by Brazil, India, Singapore and Turkey. At the other end of the spectrum, no respondents reported having received advice in relation to Taiwan.

We also present the percentages obtained from the full list of all significant assists. The number of markets reported by survey respondents was frequently higher than reported in the UKTI record of significant assists, which is likely to be due to companies having additional interactions with Specialists (e.g. when considering which market was most relevant for them) that did not result in significant assists.

Figure 28: HGMP target markets



Source: London Economics Evaluation Survey.

9.4.2 Support received through the HGMP

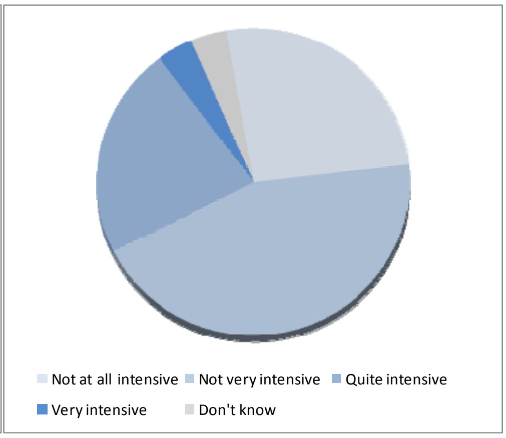
Mode and intensity of contact

Companies reported that their initial contact with a High Growth Market Specialist occurred through several channels. 36% of firms responded that contact occurred *Through meeting at a UKTI event*, 20% indicated that the

Specialist *Contacted us*; a further 20% of contacts were generated at the suggestion of an International Trade Advisor, while 16% responded to UKTI marketing material.

Interestingly, the intensity of support varied across the firms that received support. Only 26% considered the contact to be either very (4%) or quite (22%) intensive, while 70% deemed it "Not very" or "Not at all" intensive.

Figure 29: Mode and intensity of contact



Source: London Economics Evaluation Survey.

Time spent by the Specialist

The results generated through PIMS indicated that the total time spent by the Specialist over the duration of the support process varied across companies. Just over a fifth (22%) of firms received more than a week's worth of support from their Specialist, while a further 28% received between 3 and 5 days' support. Just under a fifth (18%) reported that the Specialist spent around 1 to 2 days in helping them, while more than a quarter of firms (26%) received less than a day's worth of advice from the Specialist (with one firm reported receiving less than one hour of advice).[72] Similar proportions were reported by Evaluation Survey respondents.

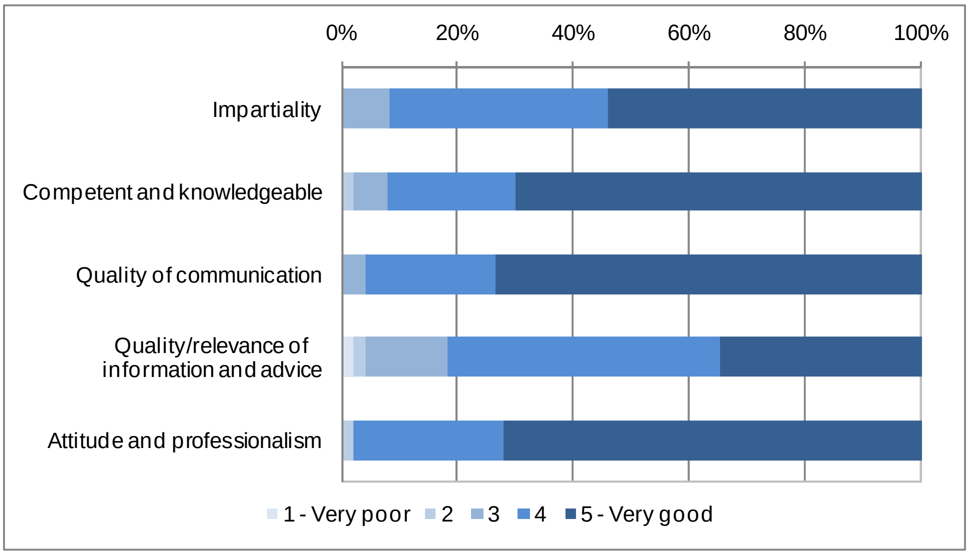
Quality rating of support

The rating of the support received was generally high in all areas, as shown in Figure 30 (based on PIMS results). More than 80% of firms rating the support as either a 4 or 5 on a scale of 1-5 (where 5 represented "Very good"), while very few firms rated any of the areas as a "1" or a "2". The highest rated category was attitude and professionalism (rated as "4" or "5" by 98% of

[72] The remaining 6% (i.e. three respondents) replied that they did not know how much time the Specialist had spent advising them.

respondents). The lowest rated was the quality and relevance of the advice provided (rated as "4" or "5" by 82% of respondents).

Figure 30: Quality ratings of support received



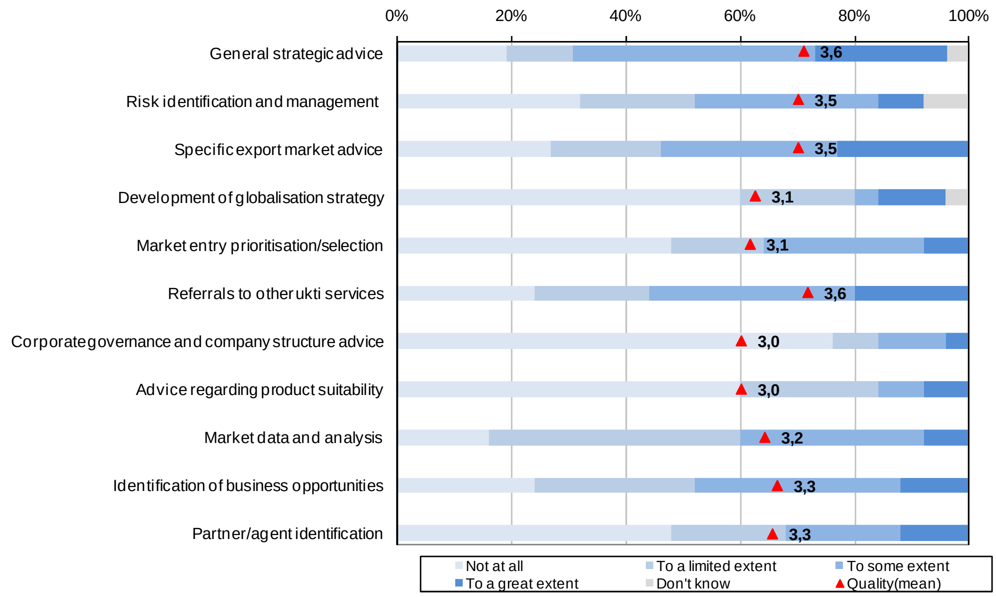
Note: Excluding responses of "Don't know", which at most accounted for 4% of recipients.
Source: London Economics based on PIMS wave 9-13 results.

Types of advice received

In Figure 31, we present some additional information on the type and importance of the advice received by HGMP companies. The vast majority of firms had received specific market advice, general strategic advice, assistance with the identification of business opportunities and referrals to other UKTI services. Less commonly, firms received advice relating to the development of a globalisation strategy and advice regarding product suitability.

The information that was considered to be the most important to the firms related to general strategic advice (3.6), specific export market advice (3.5) and referrals to other UKTI services (3.6). On the other hand, although all of the categories posted relatively strong scores in relation to the usefulness of the information provided, development of a globalisation strategy (3.1), market entry prioritisation (3.1), corporate governance (3.0), advice regarding product suitability (3.0) and (surprisingly) market data and analysis (3.2) were all rated less highly.

Figure 31: Type of advice received



Source: London Economics Evaluation Survey.

The PIMS survey also enquired about the types of support that HGMP recipients had received from the High Growth Market Specialists. The most common types of support were related to receiving information, either specific information about a particular market (80%) or general information about doing business overseas (70%). Interestingly, even the types of advice that were not explicitly part of programme's description, such as undertaking an overseas visit or receiving political support were received by a significant proportion of firms (28% and 18% respectively).[73] This reflects the Specialists' flexibility in tailoring the advice offered to the needs of each firm.

Expertise gained

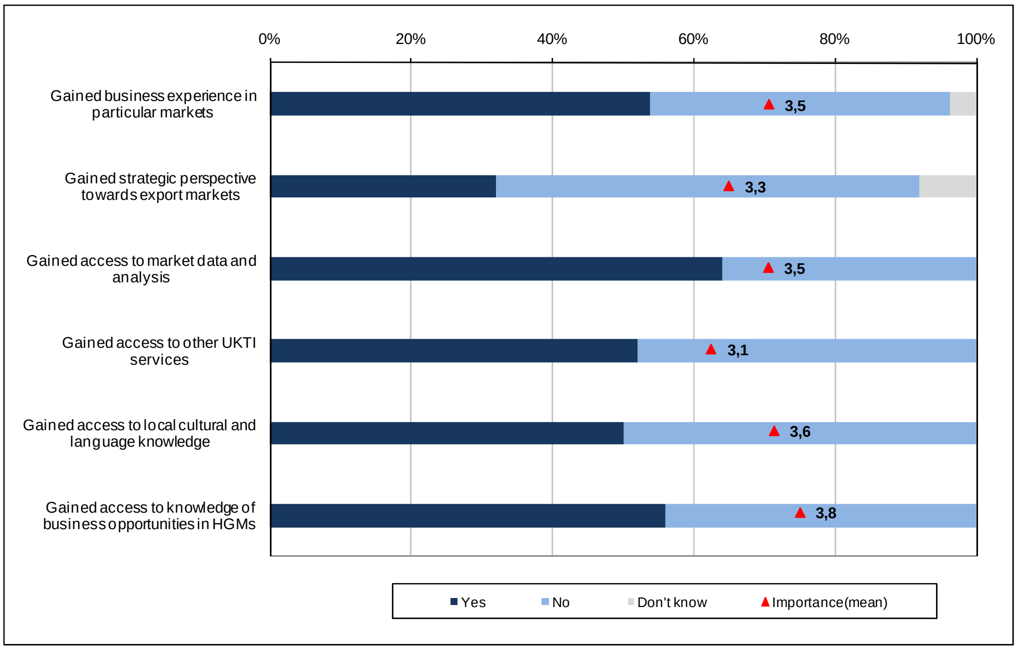
Interestingly, only 57% of the companies reported that they had gained additional information, skills or expertise by taking part in the HGMP. A quarter of the companies responded that they did not gain any additional skills, expertise or information and 18% were not able to respond to this question.

There was some variation in the nature and the relevance of the expertise across firms. More than half of the companies indicated that they had gained

[73] The one company that reported receiving "no support" reported that the Specialist had spent less than a day, but more than an hour, of their time in providing advice.

access to market data and analysis, gained access to other UKTI services or gained access to knowledge of business opportunities in high growth markets. However, only a third indicated that they had gained a strategic perspective towards export markets. In terms of the importance of this information, it was generally considered to be either of average importance or quite important. Most of the possible types of advice provided received a rating of between 3.6 and 3.9, with the exception of *Gained access to other UKTI services* and *Gained a strategic perspective towards export markets*, which achieved an average mark between 3.1 and 3.3.

Figure 32: Expertise gained through the HGMP

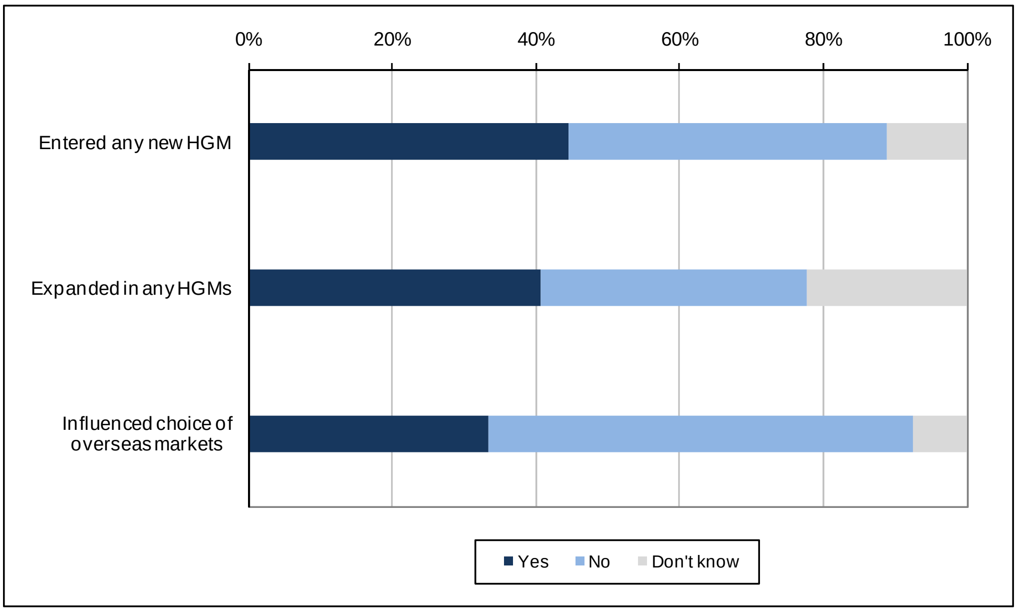


Note: The proportion of "No" responses also includes all respondents indicating that they had not gained any additional information, skills or expertise by taking part in the HGMP.
Source: London Economics Evaluation Survey.

Figure 33 displays the impact of HGMP support on firms' activities in high growth markets. Around 44% of respondents indicated that they entered a new high growth market as a result of the advice that they received from the Specialists, with a similar proportion (41%) indicating that they had expanded the services they offered in high growth markets as a result of the advice. In a third of cases, the respondents indicated that their choice of market had been influenced as a result of the advice provided by the Specialists.

In total, 75% of respondents to the Evaluation Survey had either entered or expanded their activity within a high growth market. In contrast, 62% of HGMP firms surveyed through PIMS reported that they had entered new markets as a result of the support received (in contrast to around 50% for recipients of other UKTI programmes).

Figure 33: Impact of HGMP on high growth market activities



Source: London Economics Evaluation Survey.

9.4.3 Activities undertaken as a result of the HGMP

The large majority (86%) of Evaluation Survey respondents had undertaken at least one activity as a result of HGMP support, as shown in Table 21, with the most common actions relating to contacting potential customers (undertaken by 46% of respondents) and potential partners/distributors (32% of respondents).

Firms had also undertaken activities in order to explore the target market and better understand the opportunities that might be available there. 44% of firms had undertaken market visits, which is a relatively significant activity in terms of the financial and management costs, while 32% had commissioned an OMIS report.

Slightly more than a third of companies (36%) indicated that they had either tendered for work or won new orders as a result of the HGMP intervention. This is lower than the result reported through PIMS, where 64% of HGMP firms reported having either winning new orders or being invited to tender for work as a result of the scheme (a rate very similar to other programmes).

The proportion of firms actually establishing (or adding to) a physical presence in the target market as a result of support was relatively low, with 14% of respondents indicating that they had opened up a new office/store in the country of interest and 11% indicating that they had expanded their workforce in the market.

Table 21: Activities undertaken as a result of the HGMP	
Activity	**Yes**
Set up an office or store	14%
Expanded workforce in market	11%
Tendered for work	29%
Won new orders	18%
Commissioned an OMIS report	32%
Undertaken a market visit	46%
Arranged a partnership with a local partner/distributor	18%
Contacted potential customers	46%
Contacted potential partners/distributors	32%
Made adjustments to business model	25%
Made adjustments to products/services	14%
Changed company structure	11%
Developed/refined export or globalisation strategy	39%
At least one of these activities	**86%**

Source: London Economics Evaluation Survey.

A number of companies indicated that they had undertaken a degree of internal reorganisation as a result of the Specialist's intervention. In particular, 39% indicated that they had developed or refined their export or globalisation strategy; 25% had made adjustments to their business model; 14% had made adjustments to products or services; and 11% had changed their company structure.

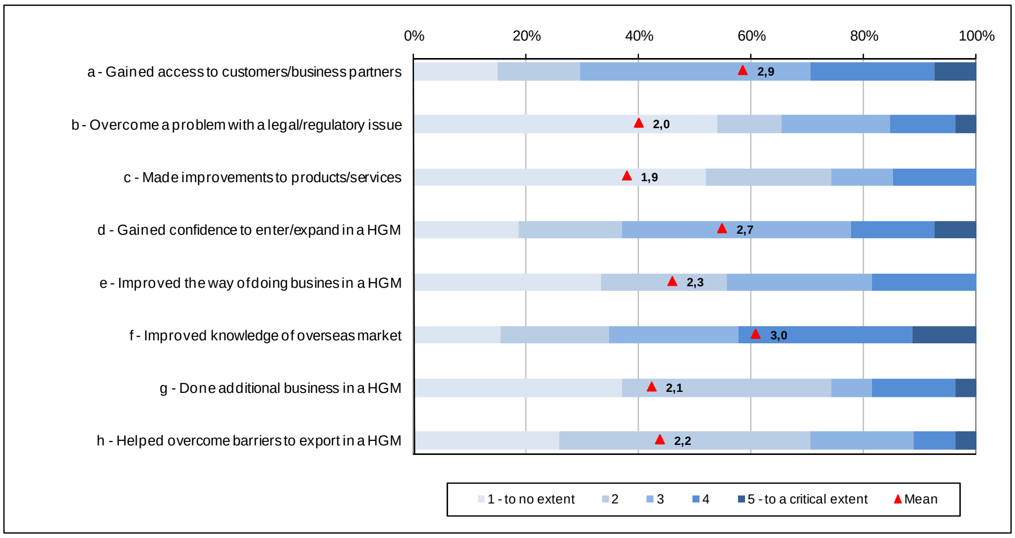
9.4.4 Impact of receiving HGMP support

London Economics Evaluation Survey

Figure 34 shows the different impacts HGMP companies experienced as a result of the support received through the programme (on a scale of 1-5, where 1 is "to no extent" and 5 is "to a critical extent"). In seven of the eight categories, less than one third of the companies had experienced a significant impact. The only exception is *Improved knowledge of overseas market*, with more than 42% of the companies reporting a significant impact in this category. The next most common impacts were *Gained access to customers or business partners* and *Gained confidence to enter or expand in a HGM*. Similarly, only one category (*Improved knowledge of overseas market*) achieved an average rating of 3 or above.

Notably, the proportion of companies experiencing a significant impact was particularly low in terms of *Doing additional business* or *Overcoming barriers to export in a high growth market*, which are important aims of the programme (only 18% and 11% respectively reported experiencing a significant impact in each of these two areas). Similarly, only around 15% reported a significant impact in terms of *Making improvements to products or services*, and *Overcoming a problem with a legal or regulatory issue*.

Figure 34: Impact of HGMP support



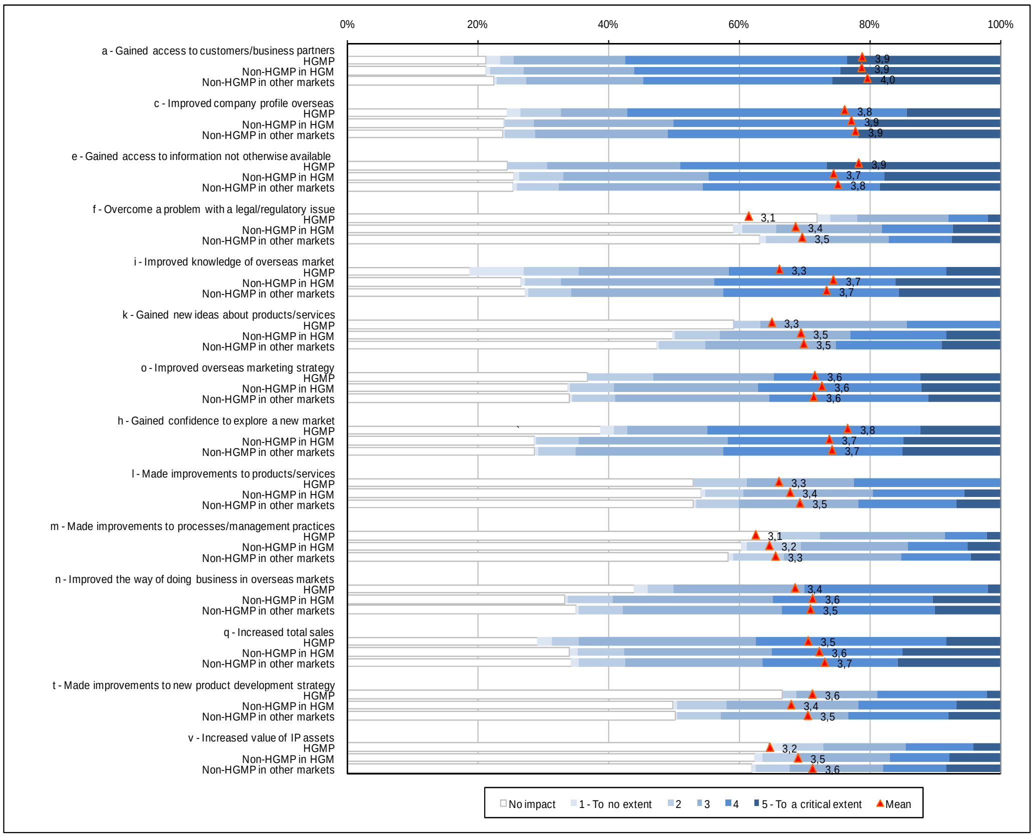
Source: London Economics Evaluation Survey.

PIMS Survey

We complement the results shown in the previous section with the information available from the PIMS survey. As part of PIMS, firms were asked whether the HGMP had impacted their business in a range of ways and, if so, the extent of the impact. The results are displayed in Figure 35. To place the impact of the HGMP support in the context of UKTI support more generally, we compare the results for the HGMP against the equivalent results for other UKTI support recipients both in High Growth Markets and in other markets.

The results show that the HGMP significantly impacted (i.e. the impact was rated as 4 or 5 by the firm) companies in a range of areas, with the most common impacts in terms of helping firms *Gain access to customers or business partners* (57% of firms), *Improve company profile overseas* (57%), *Gain access to information not otherwise available* (49%), *Gain confidence to explore a new market* (45%) and *Improve knowledge of an overseas market* (42%).

Figure 35: Impacts as a result of UKTI support



Note: Averages reflect the extent of the impact amongst firms that did experience an impact (i.e. the "no impact" category is not included). Order of impacts based on PIMS categories.
Source: London Economics based on PIMS wave 9-13 results.

As might be expected given the nature of the programme, the HGMP had less of an impact on product development, with only 14% firms experiencing a significant impact in terms of *Gaining new ideas about products and services* and 19% *Making improvements to new product development strategy*. Only 9% of firms reported that the programme led them to improve their processes or management practices. A limited number of firms experienced benefits in terms of *Overcoming a legal/regulatory issue* (8%) and *Increasing the value of intellectual property* (15%).

Comparing the HGMP results to those for other programmes suggests that the programme had a particular impact in terms of *Providing firms with access to information that isn't otherwise available*, with an average rating (amongst firms experiencing an impact) of 3.9 compared to 3.7 for the other programmes in high growth markets, and 3.8 in other markets. Interestingly also, the programme has a higher proportion of recipients reporting experiencing a significant impact in terms of *Improving company profile overseas* (57% compared to 50% and 51%).

In other areas however, the results suggested that the HGMP has been less effective than comparable programmes. Some of these, such as *Gaining new ideas about products or services*, seem to reflect the focus of the programme. Others however are more interesting. In particular, although the HGMP helped a greater proportion of companies in *Improving knowledge of an overseas market* (only 19% did not experience any impact), only a small proportion (8%) were aided to a critical extent, compared to 16% for other programmes (both in high growth and other markets). Further, the programme had a less widespread impact in terms of *Improving the way of doing business in overseas markets*. A higher proportion (44% compared to around 34% for other programmes) of firms experienced no impact, and only one firm (out of 50 respondents) reported experiencing an impact to a critical extent. This is surprising, given the tailored nature of the support offered through the programme.

In addition, given the focus of the programme, it is noteworthy that 39% of firms felt that the programme had not had any impact on their *Confidence to explore a new market* (compared to 29% for other programmes). This could indicate that many of the companies assisted by the programme were already operating in the markets for which they received advice or alternatively could suggest that a significant proportion of companies decided not to expand into high growth markets following the advice received through the programme.

9.4.5 Performance impacts

As indicated in Table 22, a significant proportion of HGMP respondents, in both the PIMS and the Evaluation Survey samples, expected to improve productivity and profitability over a five-year period as a result of the support received. The PIMS results suggested that this was comparable with other UKTI programmes – although consistent with some of the findings reported above, the proportion of respondents benefiting in these areas was smaller in the Evaluation Survey than in PIMS (and the observed difference was statistically significant). This is mainly due to a higher proportion of Evaluation Survey respondents that were unable to identify a possible impact on productivity or profitability (28% of "don't know" compared to 2% in PIMS); when this proportion is taken into account, the percentage of respondents reporting an impact on productivity and profitability is between 70-78% and similar across samples (with slightly higher values for the two HGMP samples).

Table 22: Impact on performance (% yes)

	Improved productivity	Improved profitability	Increased jobs
Evaluation Survey	56%	48%	n.a.
PIMS : HGMP	74%	72%	48%
PIMS: Non-HGMP in HGM	72%	68%	42%
PIMS: Non-HGMP in other markets	70%	66%	44%

Source: London Economics Evaluation Survey and PIMS wave 9-13 results.

9.4.6 Financial impact of HGMP support

In this section we report the summary statistics of the companies' estimate of the financial benefits experienced as a result of the programme. The statistics presented in Table 23 refer to the net present value of the financial benefits, adjusted for non-additionality. Detailed steps of the calculation are presented in Annex 2.

Nineteen companies (68%) reported an estimate related to the financial benefit, with an average reported benefit of just more than £250,000. Notably, eight respondents (42%) reported achieving no financial benefit from the programme, while the financial benefits reported by a further three companies (16%) were adjusted to zero due to non-additionality. A single observation accounted for a large proportion of the total benefits reported through the Evaluation Survey, with a single firm receiving benefits of £2.7 million (based on an estimation of an annual benefit of between £500,000 and £1 million per annum).

The benefit estimates are subject to assumptions relative to the rate used to discount future benefits and the fraction of the benefit the company would have realised even in absence of the programme. To test if the estimate was robust to changes in these assumptions, we carried out a sensitivity analysis. Results from the sensitivity analysis indicate a lower bound of the average benefit just above £220,000, and an upper bound around £290,000.[74]

When interpreting the results it is important to consider that the response may be affected by the fact that companies that felt the programme had a significant impact on their activities are more likely to respond. This would imply that the estimate may be biased upward. In addition, it should also be noted that the surveys took place at different times. In particular, the Evaluation Survey was undertaken after the onset of global recession in Q4 2008, whereas the PIMS questionnaires were completed between Q3 2007 and Q3 2008. Further, as discussed in more detail below, it is important to consider the low sample sizes in interpreting the survey results.

Table 23: Estimated financial benefit (£)

	N	Mean	SD	Median	Min.	Max.	% of 0s
HGMP-Evaluation survey	19	253,000	650,000	0	0	2,774,000	58%
HGMP-PIMS	37	187,000	848,000	12,000	-2,993,000	3,000,000	46%
Non-HGMP in HGM	581	286,000	2,015,000	0	0	40,900,000	57%
Non-HGMP in other markets	1,174	166,000	1,179,000	0	-20,000	22,500,000	59%

74 More detail regarding the sensitivity analysis is presented in Annex 2.

Note: Net present value of expected benefits, adjusted for non-additionality. Results rounded to nearest £1,000. The proportion of zero also includes those companies reporting a negative impact of the programme.
Source: London Economics Evaluation Survey and PIMS wave 9-13 results.

PIMS Survey

Table 23 also displays the financial impact of the HGMP and other programmes, based on PIMS measure A49. As this shows, the average estimated benefit from the HGMP is approximately £187,000. This is slightly below the average benefit from other comparable UKTI programmes in high growth markets (£286,000) but above that for the same programmes in other markets (£166,000).

This benefit is lower than that of £253,000 estimated through the Evaluation Survey. The difference is largely explained by a single firm in PIMS reporting that the programme led to them making a substantial loss (of almost £3 million) – as participating in the programme led to them not undertaking activities that they expected would have led to a profit of £3 million. Given the small sample of HGMP respondents in PIMS, this has a significant impact on the mean; if this is excluded the average benefit is £275,000.

Table 23 also shows that a large proportion (58% in the Evaluation Survey, 43% in PIMS) of HGMP companies experienced no financial benefits from the programme (with a further company experiencing a negative impact as discussed above)[75]. The Evaluation Survey's proportion is in line with other programmes, for which almost 60% of firms experienced no financial impact, while the proportion of firms reporting zero financial benefit for the HGMP in PIMS is significantly lower.

Benefits comparisons

Given the limited number of observations available and the high variability observed for the HGMP sample, it might be that the significant differences in the financial benefits across the samples are driven by sampling effect rather than true differences in the average benefits received across the entire population of assisted firms. We therefore carry out a series of statistical tests to check the robustness of the results displayed in Table 23.

First, we test whether the average benefit is statistically significantly different from either £0 or £500,000. As shown in Table 24, this indicated that we are unable to reject either hypothesis in the case of the Evaluation Survey sample. Further, the financial benefit estimated for HGMP companies in PIMS is not statistically different from zero (although it is statistically different from £500,000). These findings are likely to reflect the small sample sizes – and consequently large standard errors. For the other two PIMS samples, for

[75] Of the 16 HGMP companies in PIMS for which the financial benefit was estimated as zero, 13 reported that they had achieved no financial benefit as a result of support, while 3 companies reported that they would have achieved 100% of the benefit even in the absence of support (i.e. the benefit was non-additional).

which a much greater number of observations are available, the average benefits are statistically significant from zero.

Table 24: Estimated benefits – Test against a specified value					
	N	**Mean (£)**	**SE**	**Significantly different from…**	
				£0	*£500,000*
Evaluation Survey	19	253,000	149,000	NO	NO
PIMS : HGMP	37	187,000	139,000	NO	YES
PIMS: Non-HGMP in HGM	581	286,000	84,000	YES	YES
PIMS: Non-HGMP in other markets	1,174	166,000	34,000	YES	YES

Note: Net present value of expected benefits, adjusted for non-additionality. Results rounded to nearest £1,000. The significance refers to the alternative hypothesis: mean different from the specified value at 5% level of significance.
Source: London Economics based on London Economic Evaluation Survey and PIMS wave 9-13 results.

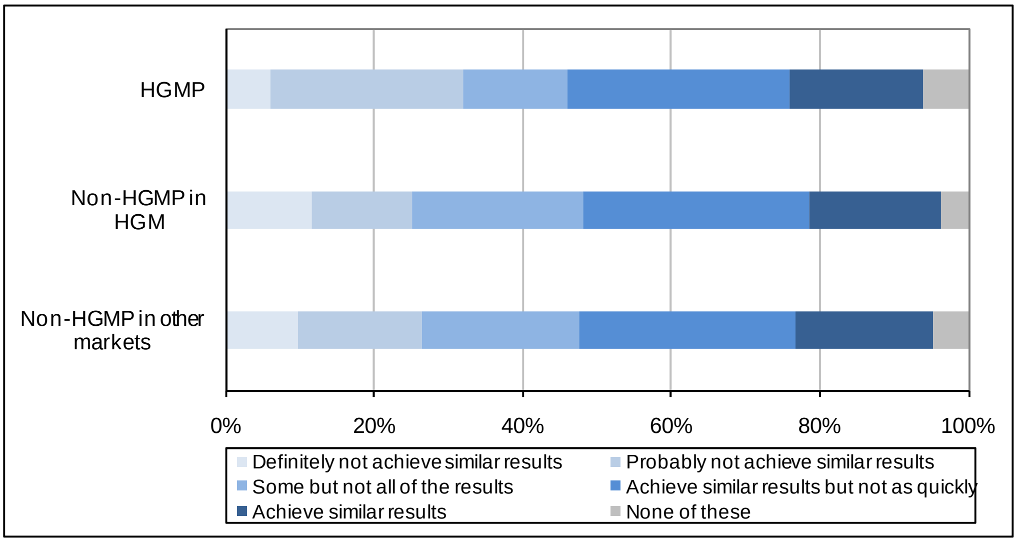
Further, we also tested whether there is any statistically significant difference between the average benefits reported in the different samples i.e. whether the average benefit associated with the HGMP is different from the average benefit associated with other programmes. This indicated that in no case was the difference between the sample means statistically significant.

Overall, these results indicate that the financial benefit results must be treated with great caution. Given the very small sample size – both in PIMS and the Evaluation Survey – we are unable to draw strong conclusions relating to the average benefit for the entire programme – and in fact cannot rule out that the average benefit is either zero or extremely high.

9.4.7 Additionality of support

The PIMS survey also provides information relating to the reported additionality of HGMP support. The majority of HGMP firms felt that their results had been improved as a result of their participation in the programme, as shown in Figure 36. Just over 80% of firms felt that the programme had some impact on their results, while around one-third reported that they probably or definitely would *not* have achieved similar results in the absence of the HGMP. Notably, this is a slightly higher proportion than reported by recipients of other UKTI support either in High Growth Markets (25%) or other markets (33%).

Figure 36: Additionality of support



Source: London Economics based on PIMS wave 9-13 results.

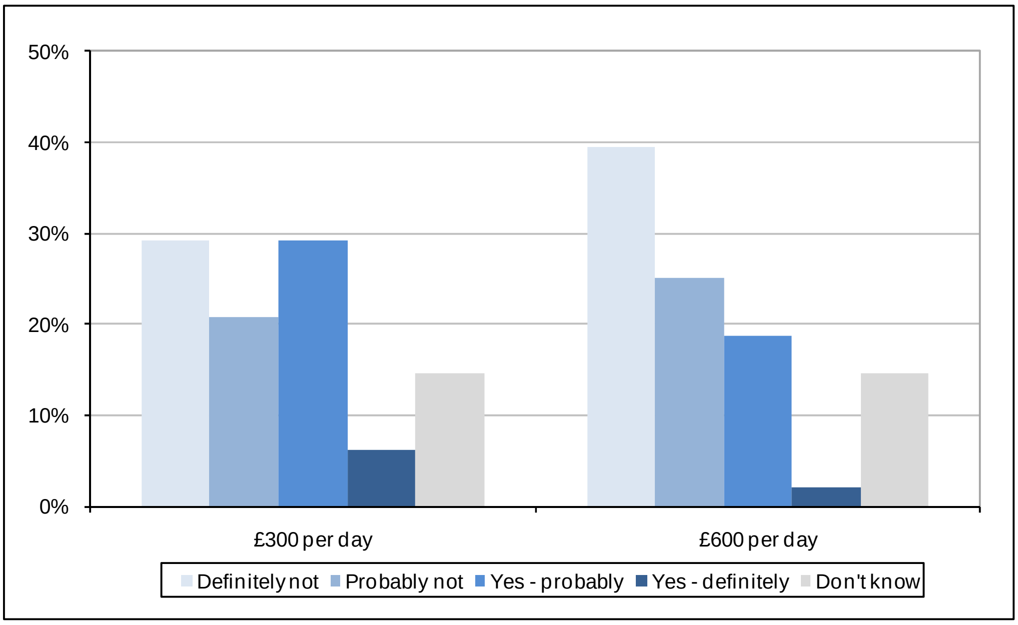
9.5 Interest in government support

The London Economics Evaluation Survey indicated that a large majority (70%) of non-HGMP respondents do feel that government could provide useful support to enter (or expand into) high growth markets. Interestingly, a low proportion (less than 25%) of the non-HGMP firms were aware of the HGMP (with three firms having been contacted previously).

PIMS also asked HGMP recipients whether they would have been happy to go ahead with the support if they had been charged a fee. As shown in Figure 37, very few respondents reported that they would definitely be willing to pay for support at a rate of either £300 or £600 per day (approximately 6% and 2% respectively).

However, approximately 29% of respondents indicated that they would probably be prepared to pay £300 for the support that they had received (dropping to less than 20% when the price increased to £600 per day). 50% of respondents indicated that they were either probably or definitely not prepared to pay £300 per day for the assistance provided, which increased to almost two-thirds when the proposed cost increased to £600 per day.

Figure 37: Willingness-to-pay for HGMP support



Note: Excludes two companies who reported that they had paid a fee for support.
Source: London Economics based on PIMS wave 9-13 results.

9.6 Cost-benefit analysis

We estimate the benefit-cost ratio of the programme, using the estimates of average benefit presented earlier in the Section, and cost information provided by UKTI.

9.6.1 Benefits of the HGMP

In order to estimate the total benefits of the programme, we need to have an estimate of the average benefit and information on the total number of companies that took part in the programme. The results of the Evaluation Survey and of PIMS can be used as estimates of the average benefit achieved by the companies participating in HGMP. Further, we are able, based on UKTI information, to identify the total number of firms that received assistance from the HGMP. Using these two figures, it is possible to estimate the total financial benefit received by firms through the HGMP.

As discussed in the previous sections, two different estimates of the average benefit are available: the PIMS estimate, based on 50 observations, and the Evaluation Survey estimate, based on responses from 28 companies. Given the limited sample size available, the PIMS estimate is likely to be more robust for the computation of the total financial benefit realised by companies involved in the HGMP. However, the PIMS result may be biased upward because of non-response bias. In fact, it is probable that companies that felt the programme had a significant impact on their activities were more likely to respond to the survey compared to companies that felt they had not received any meaningful benefit.

While we are not able to correct for this possible bias using the PIMS data (due to lack of information on the reasons why some companies declined to participate in the survey), we have further information available for a number of non respondents of the Evaluation Survey. In fact, as presented in Table 19 in Section 9.2, a further 38 companies contacted within the Evaluation Survey reported that they had not taken any significant action following support or only had minimal contact with a Specialist, implying that they had not achieved any significant benefit as a result of the assistance. Hence, in order to correct for non-response bias, we can use these further responses and adjust the calculation of the Evaluation Survey estimate of the average benefit. In other words, we combine all Evaluation Survey respondents reporting an estimate of the benefit with all those companies that, without completing the questionnaire, reported having realised no financial benefit as a consequence of the HGMP. Overall, 19 companies reported an estimate of the financial benefit within the Evaluation Survey (for nine companies the response on the financial benefit was missing), while a further 38 reported to have received no financial benefits. When we adjust for these companies, the Evaluation Survey estimate of the average benefit realized drops to £84,000 (on a total of 57 observations). In contrast to the PIMS number, this estimate may underestimate the true average benefit realised within the programme as, arguably, it is easier for firms that did not receive any beneficial effects to respond, given that they did not need fill out a questionnaire.

In Table 25, we use the two estimates to calculate a range for the total benefits realised by companies participating in the programme. As shown in the table, the estimated total additional benefit derived from UKTI support range from £23 million to £51 million.

Table 25: Estimated total additional benefit from HGMP support

Estimate	Avg. benefit (a)	N (b)	Total benefits (a) x (b)
Evaluation Survey-Adjusted	84,000	274	£ 23.1m
PIMS	187,000	274	£ 51.2m

Note: Net present value of expected benefits, adjusted for non-additionality. Results rounded to nearest £1,000.
Source: London Economics based on Evaluation Survey and PIMS wave 9-13 results.

9.6.2 Costs of the HGMP

Information on the costs associated with the HGMP scheme was provided by UKTI and refer to the period January 2007 – February 2009, when the programme ceased to operate. As presented in Table 26, actual programme costs were above £2.5 million per financial year, for an overall total of around £5.0 million. Only a small proportion of these costs related to the initial set-up of the programme (based on budgeted figures, as the actual costs did not classify set-up costs separately) and so it is appropriate to use this figure for the purposes of the benefit cost analysis below.

Table 26: Costs of HGMP

Financial year	Programme costs (a)	Administrative costs (b)	Total costs (a) + (b)
2007/08	£2.4m	£0.1m	£2.5m
2008/09	£2.3m	£0.2m	£2.5m
Total HGMP Costs	**£4.9m**	**£0.4m**	**£5.0m**

Note: Includes costs up to end of February 2009.
Source: London Economics based on HGMP data.

9.6.3 Benefit-cost ratio

In Table 27 we present the estimates of the benefit cost-ratio for the HGMP using the benefit and cost estimates presented above. This indicates that the ratio of total benefits to total costs for the High Growth Markets Programme was between £4.6 per £1 of UKTI costs (when the adjusted Evaluation Survey estimate is used) and £10.2 per £1 of UKTI costs (using the PIMS estimate of the average benefit). There is a wide range of plausible benefit-cost ratios, which is due, as discussed above, to the lack of conclusive information on the average benefit realised by companies as a consequence of the programme.

Table 27: Estimated benefit-cost ratio

Estimate	Total benefits (a)	Total costs (b)	Benefit - cost ratio (a) / (b)
Evaluation Survey-Adjusted	£23.1m	£5.0m	4.6x
PIMS	£51.2m	£5.0m	10.2x

Source: London Economics based on Evaluation Survey, PIMS wave 9-13 results and UKTI administrative information.

9.7 Case studies

9.7.1 Overview

In addition to the quantitative survey, the evaluation included a case study programme. Companies willing to participate were identified through a question included in the Evaluation Survey instrument. A total of thirteen companies stated that they were willing to respond although in practice only eight eventually agreed to be interviewed.

In addition to contacting the companies that had received support, the case study programme also sought to obtain the Specialists' viewpoint on the assistance provided to each firm. However, it was only possible to arrange interviews with two of the Specialists. This difficulty is likely explained by the fact that the HGMP was discontinued seven months prior to the start of the case studies and that, as a result, the Specialists have moved to different roles or may have been fundamentally unwilling to participate.

Detailed information on each of the case studies is contained in the Annex. Given the length of the individual case studies and the consistency of some of the findings emerging from this element of the analysis, in this sub-section we provide a summary of some of the main insights obtained through the in-depth interviews.

9.7.2 Summary of case study findings

All of the case studies reflected that the companies valued the support they received through the HGMP. The companies were all positive about the level of knowledge and quality of advice that they had received through the programme, and felt that the support provided had been useful. Further each of the companies felt that their goals had been met through their participation.

The interviews also reflected the finding of the quantitative survey that most assisted companies had prior experience in high growth markets. Only one of the eight firms reported having no previous experience in these markets. Further, four companies had more than twenty years experience in high growth markets. Most of the companies already had activities in several high growth markets prior to receiving support. In addition, most of the firms appeared to have had a clear goal of entering additional markets when choosing to receive support from the programme. As a result the support of the Specialist was seen more as a way of assisting the process of entering new markets – rather than convincing them to enter (or expand in) those markets in the first place.

The case studies identified the range of assistance that companies received through the HGMP. The companies receiving support varied considerably in their experience and the sector of their business operations – and this was reflected in the variety of goals companies reported they had when entering the programme. In particular, the results indicated that firms had used

HGMP support at different stages of the process of entering high growth markets. One firm for instance had used support with the aim of gathering information by potential markets, while another saw support as useful in overcoming "teething problems" in setting up a new office in the market of interest.

On the other hand, although the precise nature of the assistance varied across firms, the companies had a common focus on identifying contacts (mentioned by seven of the eight firms). Although the nature of the desired contacts varied (including business partners, customers and political contacts), firms appear to have seen this as one of the key attractions of the HGMP. Three of the companies reported using OMIS, while a further firm had used in-market support following a recommendation from the Specialist. Other particular areas of advice that were emphasised included the need to overcome cultural difficulties, and gaining information about the market of interest.

The case studies indicated that some firms had been able to take substantial action as a result of the support achieved. Two firms had established offices in high growth markets, a further company had expanded their existing workforce in the high growth market, and two more reported having tendered for work or met with customers and partners. However, three of the firms were unable to take any action as a result of the support received, due to either market conditions (two companies) or the fact that the company was in a "development" phase. In addition, one further company reported that they had been forced to scale back their plans to establish a manufacturing base by the onset of recession. Given that these companies remained positive about the programme, this suggests that some firms may benefit financially from the support in the future – particularly when economic conditions ease.

Overall, the impression provided by the case studies is that companies valued the advice provided. Half of the companies felt that the support had helped them to make steps in a high growth market much more quickly than they would have been able to achieve otherwise. However, in some other cases, the advice appears to have been seen as a helpful additional source of advice, but not necessarily as a key part of company strategy. One firm for instance stated that they would have been more demanding had they been paying for the service, while another – while positive about the support received – was surprised that the Government had offered the service.

10 HGMP stakeholder consultation

A wide range of stakeholders are involved in the HGMP, including the High Growth Market Specialists, the overseas posts in the 17 specified high growth markets, UKTI's regional International Trade Teams who liaise with firms within the UK, and members of UKTI policy teams and country desks (based at UKTI in London).

A two-stage consultation exercise was undertaken with each of these groups in order to understand perceptions of the programme amongst these groups, and to collect information relating to how the programme had operated in practice. In the first stage all the relevant stakeholders were invited to submit their views via a written survey document. Second, a series of telephone interviews was carried out with 19 stakeholders, in order to obtain more qualitative insight into the GMP.[76] The results (of both stages) are discussed below. The views reported should be seen as representing stakeholders' personal opinions based on their experiences of the programme.

10.1 The role and activities of the High Growth Market Specialists

10.1.1 The role of the Specialists

The Specialists described their role as broad in scope, involving provision of a wide range of advice. The types of support provided included both broad strategic advice – such as developing a globalisation strategy (one Specialist mentioned the need to get firms to see opportunities in a strategic rather than a non-opportunistic way) or reorganising company structure – to technical or market-specific issues. In addition, the Specialists also emphasised their role in identifying business opportunities, particularly as the existing UKTI network may not have the ability to do this.

The importance of identifying market opportunities varied across different High Growth Specialists. Four of the Specialists commented that this was an important part of their role, with one stating that firms were interested in the programme specifically to identify partners, and a further two stating that specific opportunities acted as a "hook" into the programme.

The other Specialists felt that identifying opportunities was more of a consequence of the programme, than a specific part of their role. One Specialist mentioned that identifying opportunities would be the "next step" if the programme had been continued, while two mentioned that concrete

[76] More detail on the stakeholders contacted and the number of respondents can be found in the methodology section of the report. A copy of the consultation surveys used for members of UKTI Headquarters and the High Growth Market Specialists are provided in the Annex.

examples helped explain issues to companies – but that they were more interested in general advice.

10.1.2 The activities of the Specialists

Timing and extent of interactions

As part of an interaction, Specialists used meetings with the companies to introduce the programme, and gain an understanding of the company's sector, its capability, and their ability to enter a High Growth Market. Based on this, key deliverables are agreed, setting out the next steps and strategic goals for the intervention. In general, a significant assist is seen to encompass around 5-10 calls (although one Specialist mentioned this could involve up to 50 calls), and between one and four meetings (one Specialist mentioned up to 10 meetings). Several of the Specialists also mentioned that market visits were used in some cases as a criterion for determining whether an interaction was considered a significant assist. It is noteworthy that the measures by which the significant assist is defined relate to inputs rather than the outcomes associated with the information, advice and guidance provided. As such, there is no control for the quality or relevance of the information provided and there may be some significant disjoint between the perception of the services provided by Specialists and those received by firms.

The survey indicated that Specialists use a variety of methods to approach companies, once they have decided to offer them support. Six of the Specialists commented that they sought to arrange an appointment with the company as a starting point, while two mentioned that they would send a letter (or email) of introduction and undertake phone conversations with the company as a first stage. Three of the Specialists mentioned that they used the International Trade Adviser to facilitate the first meeting, where possible. Two Specialists mentioned researching the company prior to initiating contact – via the Customer Relationship Management (CRM) system, Pera or through press coverage.

Contact through the HGMP was generally at board level, or (particularly in larger companies) with members of the senior executive team (i.e. Sales Director, Export Manager). Some Specialists mentioned that day-to-day activity may be with less senior staff, such as senior managers or the company's export team.

A typical interaction through the HGMP was seen as lasting around four to six months, although with a lot of variability (with a range from a few weeks to eighteen months), with goals set at the beginning and updated throughout the period of support. Factors that affect the timing include the nature of the interaction (e.g. setting up an office, versus exporting to a market), the readiness of the company prior to receiving support, and the extent of regulatory / legal compliance required. One Specialist also commented that while most companies make initial steps quickly, there can be delays in actually implementing large strategic decisions.

The Specialists generally felt that it was necessary to research companies prior to meeting them to offer support, both to ensure they met the size requirements for the programme, and to understand their company strategy and financials more effectively. One Specialist did mention however that they felt having "no pre-conceived ideas" was useful when approaching companies.

The sources used to research companies were predominantly PERA (e.g. OneSource reports) and other company information (such as from the company's website). International Trade Advisers seem to have been used for companies in which they had existing contacts – although one Specialist mentioned that these were often not at a sufficiently senior level. One Specialist also used information from ITAs that may have in-market experience, even if they did not have a contact with the company.

The exact description of the "end-point" of an intervention varied across Specialists, but generally amounted to either achieving the deliverables agreed at the beginning of the intervention (4 Specialists), or providing companies with the information and tools to assess the benefits and then enter the relevant high growth market(s). One Specialist explicitly mentioned the importance of the company being engaged with the broader UKTI network in this regard.

Six of the Specialists also mentioned carrying out follow-up assistance after this point including, in two cases, referrals to other Specialists.

Publicising the HGMP

The Specialists mentioned using a variety of methods to publicise the HGMP, including trade articles, networking and speaking at events, press articles, presenting to trade associations and blogging. Only one Specialist explicitly mentioned the HGMP marketing materials (although one Specialist mentioned that the programme publicity was done separately from the Specialists). Interestingly also, two Specialists mentioned the need to publicise the programme within UKTI – to Posts or Regional teams.

Staying up-to-date with developments

The Specialists reported using a number of methods to stay up-to-date with developments in their target markets. These included UK press (mentioned by five Specialists), in-market press (four Specialists), personal contacts (five Specialists) and other forms of market update, including research reports and internet sources. Two of the Specialists mentioned reports provided by UKTI as a source of information. One Specialist mentioned that it can be difficult to keep up-to-date with developments when looking to cover several markets.

Amount of time spent abroad

The Specialists differed in the amount of time they spent abroad, which may reflect differences in their country portfolios. Four of the Specialists mentioned spending between six and nine weeks a year abroad, while two mentioned spending four weeks overseas. Within the UK, the consultation suggested that the Specialists travelled within the UK two to three days a week.

10.1.3 Company selection

Sources used to identify potential target companies

The survey revealed that the initial company list provided by Pera accounted for fewer than half the companies approached through the HGMP. Three of the Specialists said that fewer than 20% of companies approached were identified through the list, while a further five Specialists stated that between 20% and 40% of companies were identified in this way. The remaining Specialist said that between 40% and 60% were identified through the Pera list.

The UKTI network appears to have been a more important source of contacts for the Specialists. Two Specialists stated that 60%-80% were referred by the UKTI network, while a further two indicated that 40% to 60% of the companies approached were referred. Five Specialists reported that less than 40% of companies approached were referred by the network (with one identifying that this was less than 20%).

Other sources included referral by other High Growth Market Specialists (mentioned by two respondents – with one noting that this accounted for 40% of all companies approached), personal contacts, trade associations and Chambers of Commerce, press and media outlets, contacts made at trade events (e.g. exhibitions and seminars), and the UKTI website.

Overall, this indicates that a wide range of sources have been used by Specialists to identify relevant companies to contact. Also notable, however, is how this has varied between Specialists, with some finding sources such as the Pera list (for instance) much more useful than others.

Criteria used to select companies

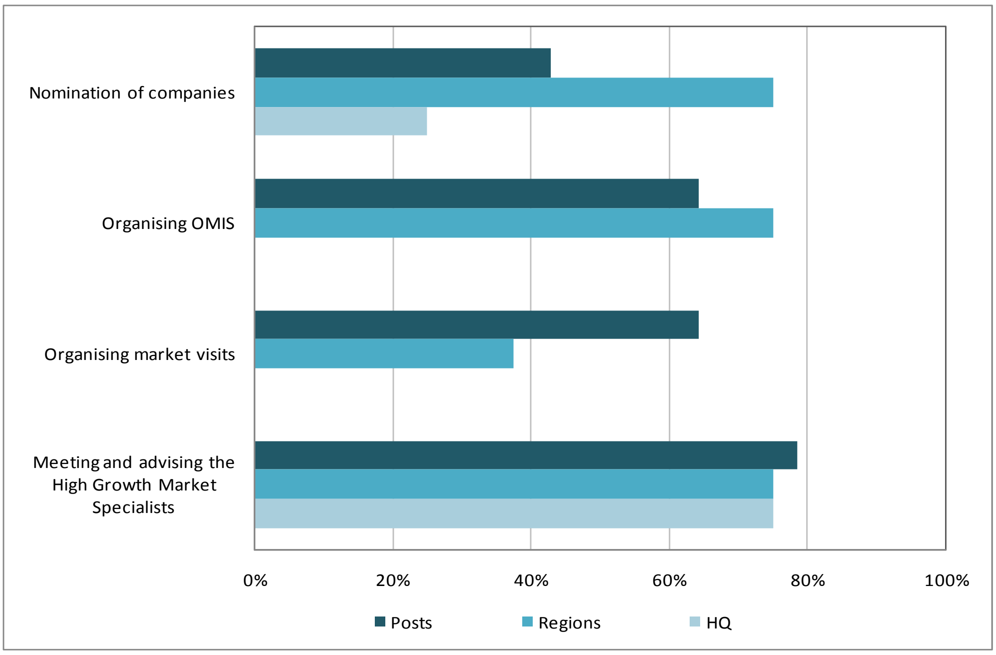
The questionnaire asked the Specialists the criteria that they used to select companies to receive HGMP support. While one of the Specialists supplied only the main programme criteria (i.e. that the company is a mid-corporate), a number of other reasons were also mentioned. The most commonly mentioned criterion was that the company should be sufficiently motivated, and have sufficient management commitment to expand in high growth markets. Other reasons mentioned included existing export capability (4 Specialists), sufficient company resources (4), motivation and management commitment (6), having an appropriate product and/or strategy (4), and the likelihood of success (4) in the target market.

10.2 Links with the UKTI network

10.2.1 The role played by members of the UKTI network

The survey revealed that the UKTI network was involved in a range of activities as part of the HGMP. Nearly all of the respondents stated they had some role (one region replied "don't know" while one Post felt they had had no involvement). As shown in Figure 38, the most common involvement across groups was "meeting and advising the Specialists". The majority of the posts and the regions had been involved in organising OMIS reports as part of the HGMP, while around 65% of posts and 38% of regions had been involved in organising market visits.

Figure 38: Role of UKTI network in HGMP



Source: London Economics HGMP Stakeholder Survey.

A number of stakeholders, particularly the regions, had nominated companies to receive support through the HGMP. Most of the respondents in regions also commented that "nearly all" those companies that had been nominated had actually received support. This was less true, however, for the posts, with only 1 of the 7 posts that had nominated companies feeling that nearly all had received support, 2 feeling that "most" had received support, 2 feeling that "some" had received support, and 2 replying "don't know".

The Specialists identified a number of ways in which the UKTI network was used as part of the HGMP. In particular, regions were seen as sources of referrals to the programme and also, in some cases, providers of background information and research on target companies. Posts have been used to identify in-market opportunities, provide introductions to market contacts and to provide market information. More generally, eight of the Specialists mentioned the role of the HGMP in referring clients on to other UKTI services, delivered by the regional teams or the posts (OMIS in particular was mentioned in this respect).

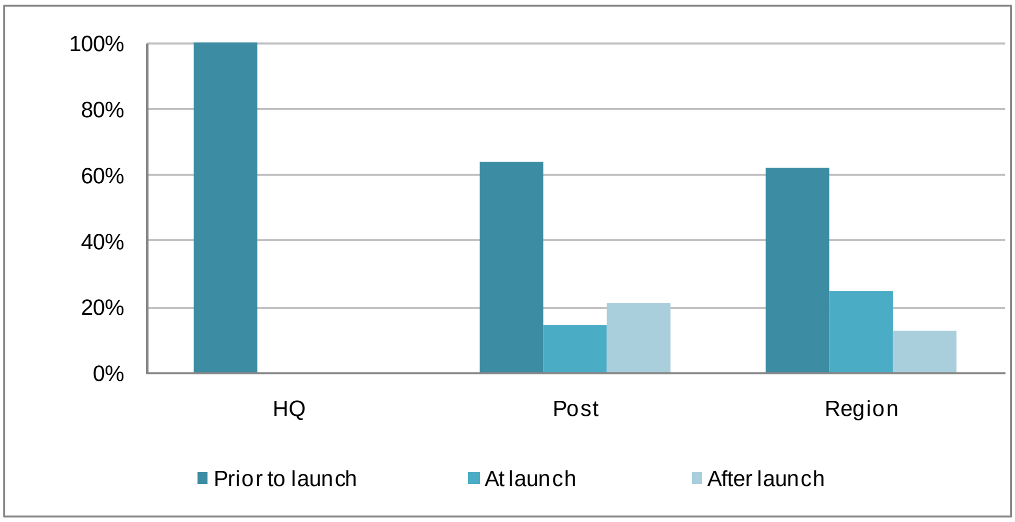
10.2.2 Knowledge of programme amongst UKTI network

Extent to which stakeholders were informed about HGMP

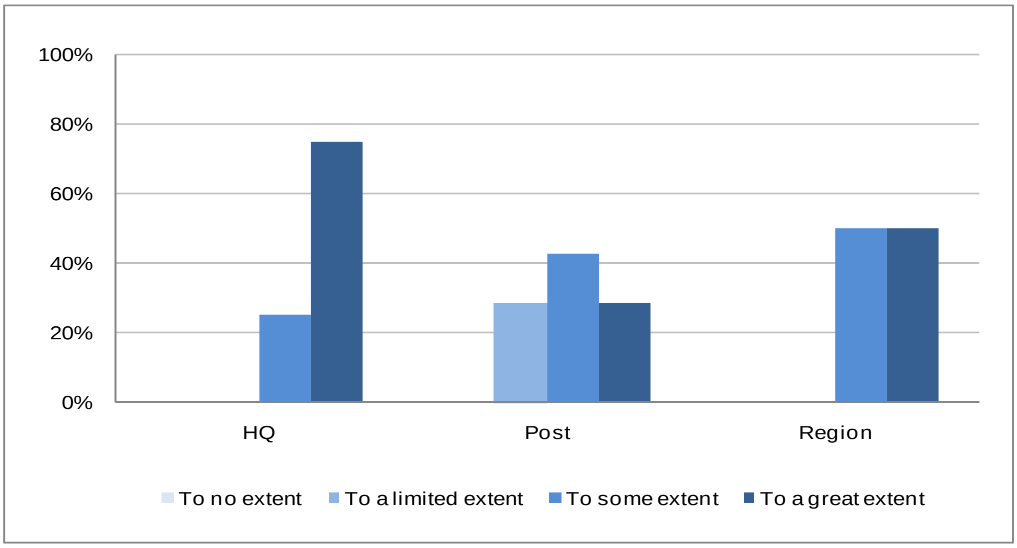
As shown in Figure 39, not all of the UKTI stakeholders felt that they were kept up-to-date about the progression of the programme. One of the regions participating, and three of the overseas posts did not become aware of the programme until after April 2007, while four of the posts (29%) felt they were only kept informed "to a limited extent".

Figure 39: Stakeholder information about the HGMP

When were you first informed of the HGMP?



To what extent were you kept informed about the HGMP?



Source: London Economics HGMP Stakeholder Survey.

The telephone interviews indicated that several respondents felt that they had not been consulted fully prior to the decision to launch the programme, and that this may have inhibited the overall programme impact.

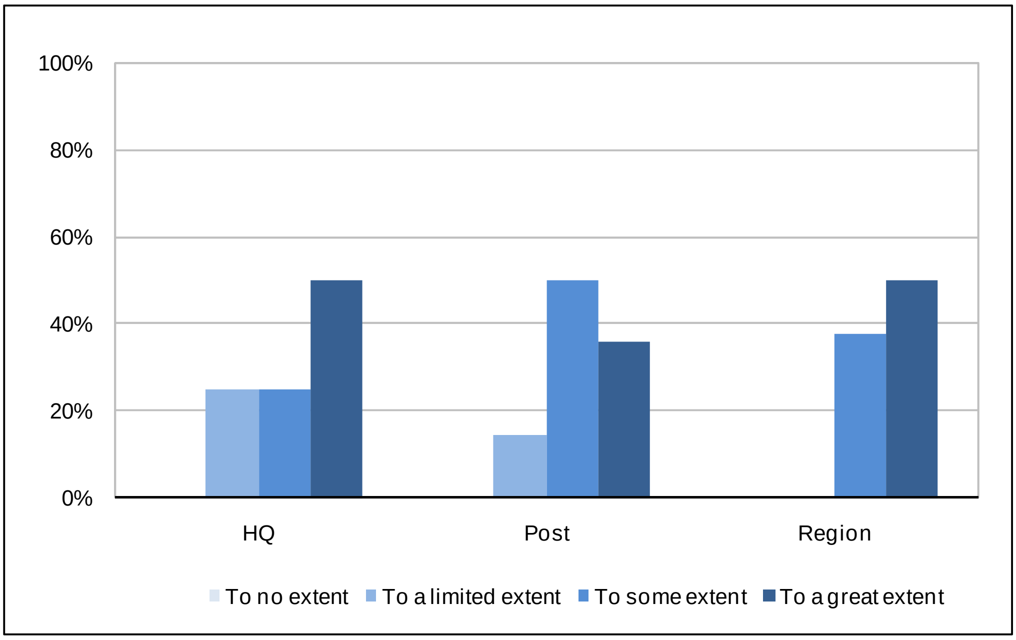
Stakeholder understanding of the HGMP

Similarly, respondents felt that they understood the role of the High Growth Market Specialists (Figure 40), although again there were some exceptions (including one UKTI HQ employee, and two posts).

More detailed discussion with some of the overseas posts during the second stage of the consultation indicated that although the posts felt that they were aware of the programme objectives – and that these were clear – they did not understand how the programme worked

Figure 40: Stakeholder understanding of the HGMP

To what extent do you understand the role of the High Growth Market Specialists?



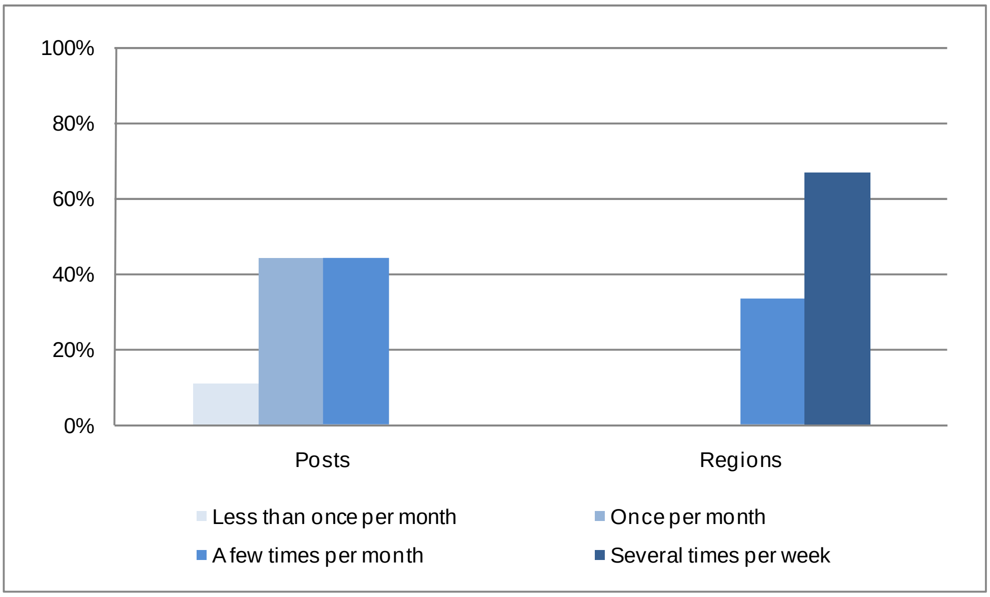
Source: London Economics HGMP Stakeholder Survey.

Communication between the Specialists and the UKTI network

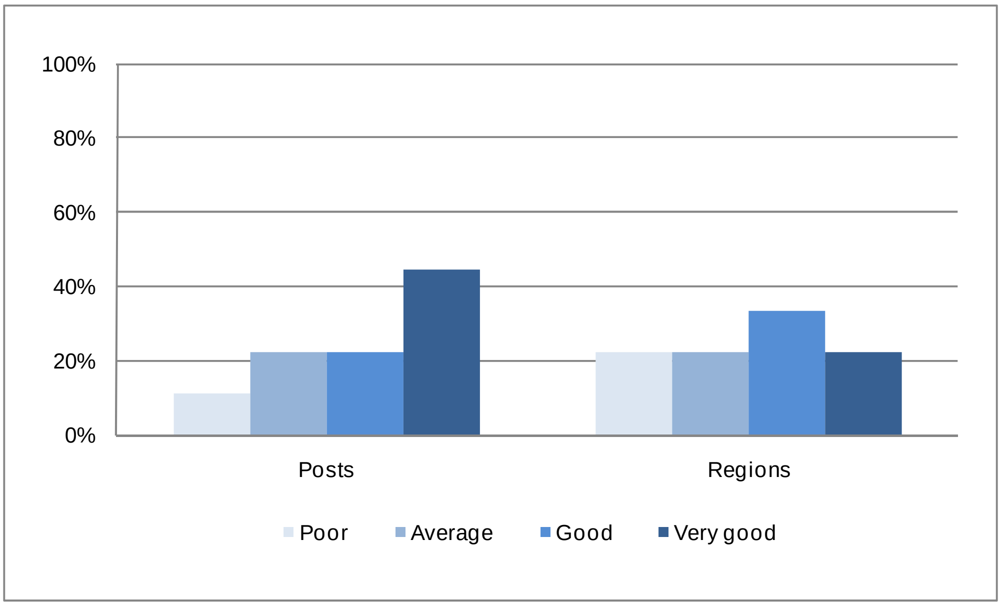
The frequency and quality of communication between the Specialists and the UKTI networks varied across respondents, as shown in Figure 41.

Figure 41: Specialists' relationship with the UKTI network

Frequency of communication with UKTI network



Quality of communication with UKTI network

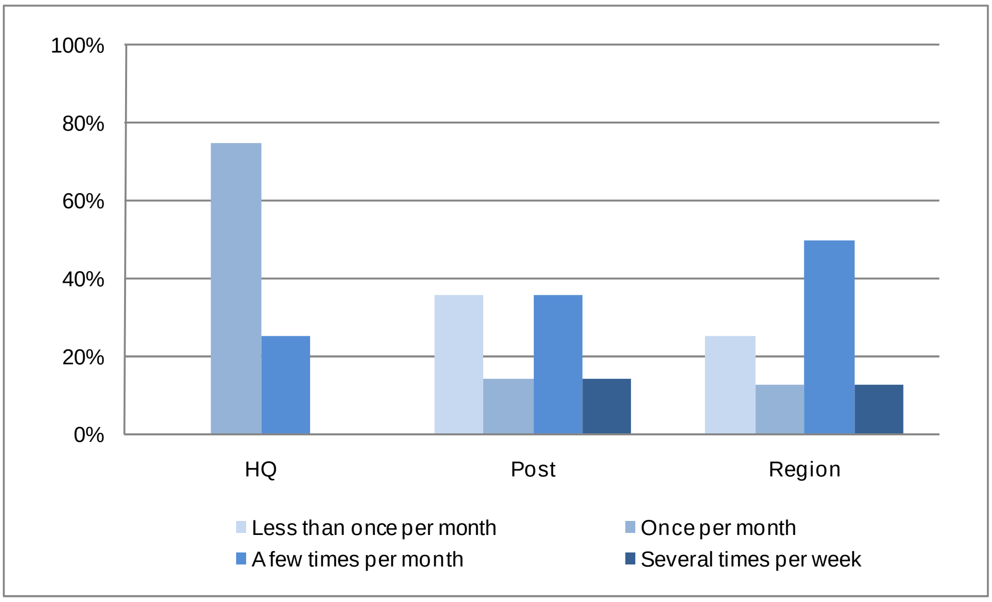


Source: London Economics HGMP Stakeholder Survey.

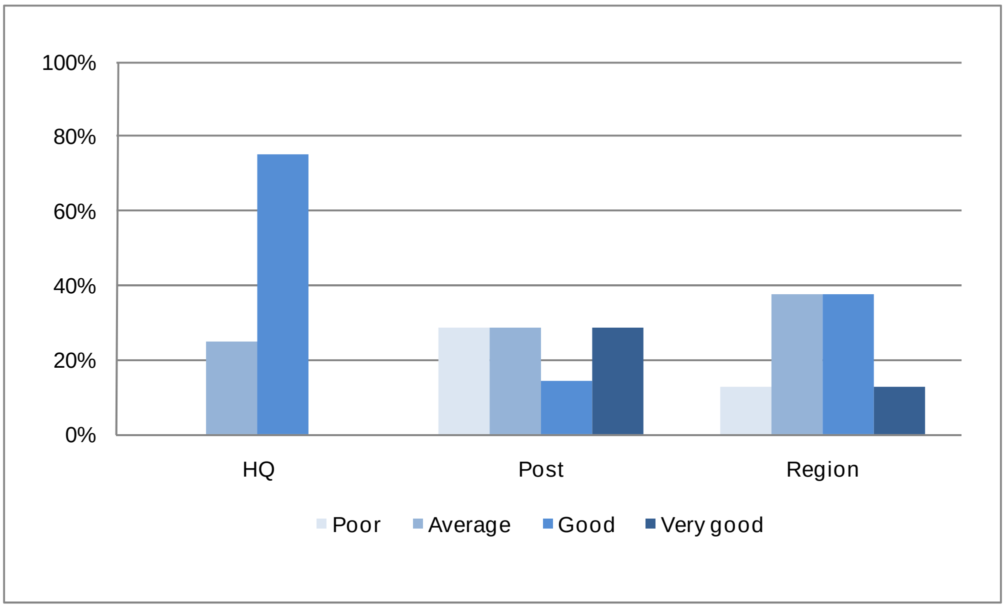
Both the telephone interview and the survey suggested that the quality of relationships between the Specialists and the other UKTI stakeholders varied widely. During the telephone interviews, the overseas posts felt that they generally had a good relationship with the Specialists, with the exception of one that felt it was "patchy" and that the Specialist could have done more to fit into the existing UKTI machinery. The regions were more varied in their view, with two feeling the relationship was good, while others seemed to feel the relationships could have been stronger. Two felt the relationship varied across Specialists; while another felt the Specialists could have made more effort to build links in the region. Similar variation is indicated when asking the UKTI network their experiences in communicating with the Specialists, as shown in Figure 42.

Figure 42: UKTI network's relationship with the Specialists

Frequency of communication with High Growth Market Specialists



Quality of communication with High Growth Market Specialists



Source: London Economics HGMP Stakeholder Survey.

Potential for conflict with other UKTI services

Many of the respondents amongst the UKTI network felt that the HGMP could complement existing UKTI services, although this was by no means a unanimous opinion and there was also some belief that this had not always occurred in practice.

Eight of the fourteen posts identified that there had been some complementarities; with a further two feeling that the potential for this was there, but in practice had not occurred. In particular, the posts felt that the Specialists were useful to identify and provide a contact with relevant UK companies.

Five of the eight regions also believed that the programme complemented existing services. However, this was caveated in various ways, including the need for the Specialists to liaise closely with the UKTI teams; the fact that the regional teams could already provide much of the same services; and the need for better marketing and launch. Interestingly also, one of the regions stated that the complementarities came from the fact that the programme allowed resources to be released to other areas – suggesting that the main impact may be through increased resource. Another region noted that the benefits may be limited to more difficult markets (with the example of Russia), as existing staff can already help in other markets.

There was some evidence of conflict between the services offered by posts and the HGMP, with four respondents noting that the Specialist had overlapped with their operations – and in some cases they were unaware of the Specialist being present in the market. Many of the other posts identified this as a potential problem, but stated that it had not been experienced in practice. One Overseas Post mentioned that the HGMP was in conflict with the charging principle. The interviews also suggested that, with the exception of some initial issues, the HGMP has not conflicted with the other services they offer. Some respondents mentioned that although the HGMP offer similar types of advice, the difference in the client base meant that there is no conflict.

Four of the regional teams also identified some conflict, in the sense that many of the same services could be offered through ITAs, and companies may find multiple points of contact confusing. Similar concerns were also mentioned by the respondents at UKTI HQ.

There was a general feeling that at least some of the services offered by the HGMP are already offered by other programmes (only 1 region thought otherwise), with some respondents feeling that all or most services were offered by other UKTI programmes[77]. The programmes that were felt to offer similar services are shown in Table 28. Each programme was identified by at

[77] Two posts stated that al the HGMP services are offered by other programmes, while 3 HQ respondents, 5 posts and 2 regions felt most of the services are offered by other programmes.

least one respondent as offering similar services to the HGMP, with OMIS selected by the highest number of respondents.

Table 28: Other UKTI programmes offering similar services to HGMP (% of respondents feeling programme offers similar service)

	HQ	Posts	Regions
Passport to Export	50%	50%	38%
OMIS	75%	93%	50%
Tradeshow Access Programme (TAP)	25%	7%	0%
Export Marketing Research Scheme (EMRS)	25%	29%	38%
Missions	25%	50%	25%
Market Visit Support	25%	50%	38%
Export Communications Review	25%	14%	38%
None	0%	0%	13%
Don't know	25%	0%	0%

Source: London Economics HGMP Stakeholder Survey.

10.3 Impact of the HGMP

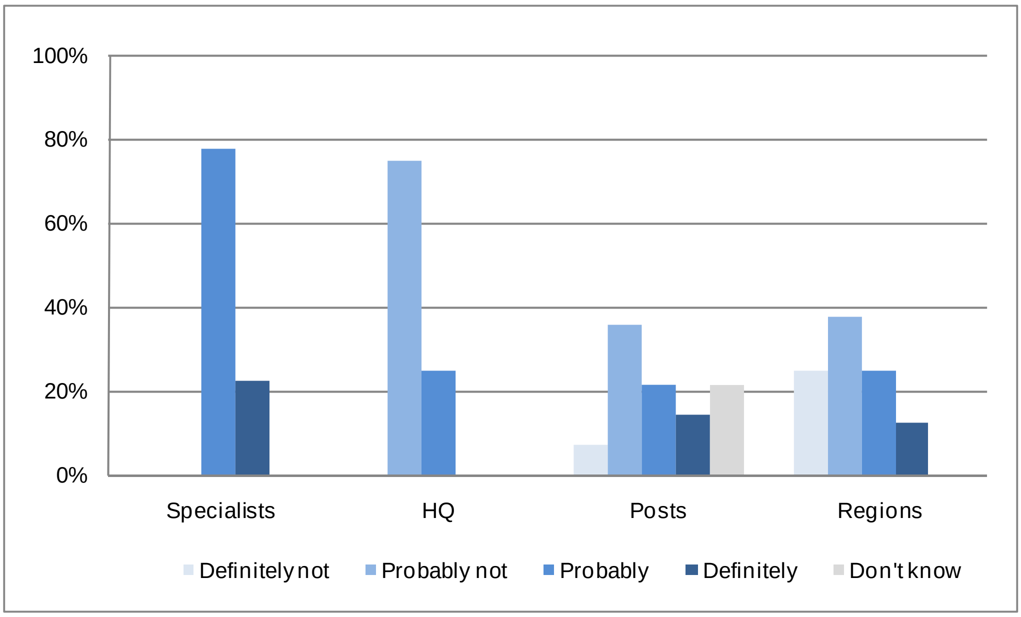
10.3.1 Companies reached by the HGMP

The telephone interviews indicated that a number of the stakeholders felt that although the programme had been effective in the companies it had assisted, the *quantity* of firms reached was small, and as a result the overall impact of the programme had been limited.[78]

The survey also asked whether the HGMP has assisted the companies with the greatest potential to benefit from exporting into high growth markets. Given the hypothetical nature of the question, it is important to interpret these results with caution. However, it is notable (as shown in Figure 43) that the Specialists were (unsurprisingly) much more positive about the companies targeted by the programme than other UKTI stakeholders. All of the Specialists felt that the programme had either "definitely" or "probably" reached the companies with the most potential to benefit from the programme, whereas five (of eight) regions and six (of fourteen) posts felt that the programme had probably or definitely not reached the companies with the most potential to benefit.

[78] In addition, a respondent from one regional team declined to participate in the survey on the basis that very few companies in their region had been assisted through the programme.

Figure 43: Effectiveness of HGMP in reaching the companies with the most potential to benefit



Source: London Economics HGMP Stakeholder Survey.

There was some disagreement amongst stakeholders regarding whether the HGMP's focus on mid-corporate companies was correct. Four respondents from the UKTI networks and one (out of ten respondents) felt that the focus was correct given UKTI's difficulties in reaching these firms. Two of these respondents also justified the focus on the basis of the fact that these firms would offer the highest returns from support and so, given resource constraints, were the most appropriate focus for the programme.

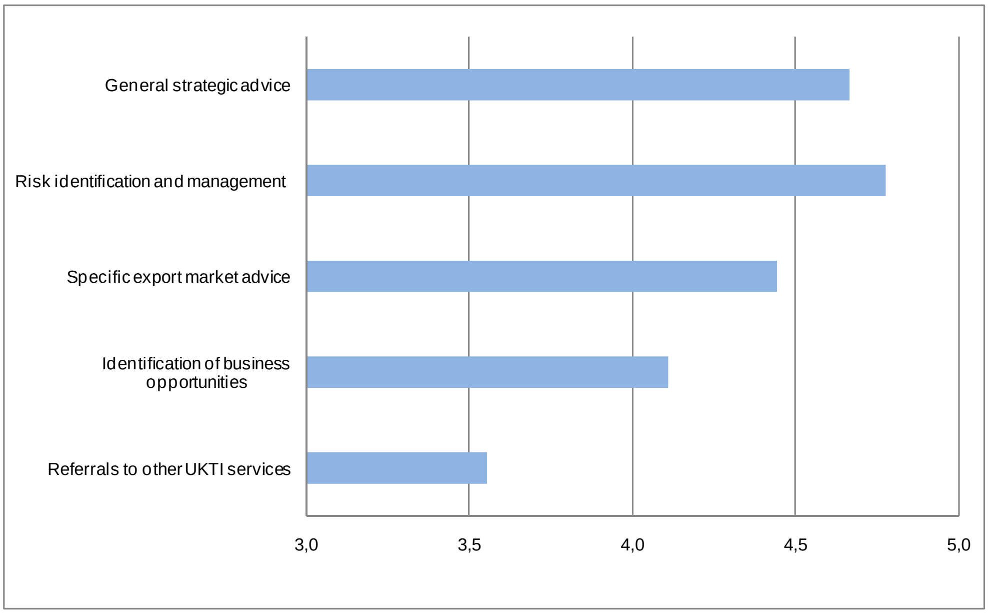
More generally, stakeholders believed that although the general focus on mid-corporates was correct, an element of flexibility was important, particularly to allow SMEs to receive the service. One respondent, for instance, commented that a small company with high profile can have larger impact than bigger company with smaller profile, while another commented that the correct size of firm varied by sector. Two Specialists also mentioned that an upper cap was also inappropriate, as large companies could also benefit from support.

10.3.2 Types of advice provided through the HGMP

Most useful types of advice

The Specialists were asked to rate how beneficial five distinct areas of advice were to the companies they had significantly assisted through the HGMP. As shown in Figure 44, all five areas of advice received were seen as beneficial with four achieving an average rating of over 4. The two most highly rated types of advice were "General strategic advice" and "Risk identification and management", which were rated as very beneficial by eight and seven Specialists respectively. The least highly rated was "Referrals to other UKTI services", which was highly rated by only one Specialist.

Figure 44: How beneficial are the following areas of advice? (1: "Not beneficial" 5: "Very beneficial")



Source: London Economics HGMP Stakeholder Survey.

The Specialists mentioned that they provided a range of other areas of advice to supported companies. The most common were identifying partners and distributors (mentioned by five Specialists) and identifying whether the firm was ready (or had the correct product) for the market (mentioned by three Specialists). Other areas of advice included prioritising market selection, identifying human resources, strategic planning and organisational issues, corporate governance, identifying routes to market, trade tariffs, IPR management, and provision of market data and analysis.

Similarly, the other members of the UKTI network felt that the firms supported by HGMP were helped in several ways, including through strategic advice, better access to contacts and information, and making firms more aware of and more confident in the opportunities in high growth markets. A number of stakeholders also mentioned that the Specialists had helped through identifying opportunities abroad, although there were some exceptions. In addition, there was some feeling that the Specialists had less of a role in overcoming specific firm issues (one region for instance mentioned that this was more the role of the overseas post).

The regional teams all agreed that firm-specific advice was needed more than off-the-shelf advice which, they felt, was readily available from other sources (e.g. the internet). Overseas posts, on the other hand, felt that off-the-shelf information was most useful when companies were first considering whether high growth markets are right for them, and that firm-specific advice is required for them to actually take action, once they have decided to make a move (or "had a good idea").

Use of advice

In general the Specialists felt that companies had used the programme to decide whether to enter High Growth Markets; to identify which ones to prioritise; and to overcome difficulties in entering HGMs.

The Specialists varied in their views of the need to "convince" firms of the need to export into high growth markets. Two Specialists commented that their role was to advise rather than convince the companies of the benefits of exporting into high growth markets. Several of the others however indicated that firms had a perception that benefits existed, but not how these benefits applied to their company. One Specialist felt that firms may not have been aware of the potential benefits from exporting to more "exotic" markets.

The Specialists felt that companies did not generally have an existing awareness of the issues and potential barriers to export. However, it was commented that this may vary by sector, and also that some companies had already hired external consultants, and so may not have required advice.

The Specialists offered varying views on whether the advice offered varied between markets, which seems likely to reflect the fact that some had much more varied groups of markets than others. However, the overall impression was that, although there are some elements of advice that are particular to specific markets (such as culture, regulations etc.) there is also an element of generic advice, such as seeking to assess the relevant risks and choosing the correct market to enter. Further, two of the Specialists also pointed out that there are also important differences between regions within the same country.

Three of the Specialists did indicate that the advice offered may vary according to the sector of operation of the company. However, when asked, the Specialists did not feel that a lack of sector-specific knowledge was an issue when working with firms, as they were generally interested in market knowledge. A number of Specialists also mentioned that if there were sector issues they were able to refer people to the UKTI sector groups. The posts and members of the regional network agreed that the lack of sector focus was not an issue, and in some cases, that the market focus dovetailed well with the sector focus of the other UKTI teams.

10.3.3 Business impacts

The nature of a significant assist could vary across companies, and did not necessarily involve entering a high growth market. In general, the Specialists saw their role as allowing companies to make an informed decision. This might involve enabling them to enter HGMs, if that is right for the company, but could equally involve a decision that a particular market is not right for them.

The Specialists also pointed out that even where companies decided that they did want to enter a HGM, this is a lengthy process and so may not have occurred in the period of support. Further, in many cases resource constraints may also have limited the ability of firms to actually enter these markets, even after receiving support.

As a result of these delays, the Specialists felt that it was difficult to assess how many firms entered HGMs after receiving support. Those that did provide an estimate suggested that between 50% and 70% of firms might have made the decision to enter after receiving support. In one case, only 30% of firms were expected to make the decision to enter.

The Specialists reported that the methods companies used to enter High Growth Markets varied considerably depending on the market in question, the sector of operation and company-specific factors. In some cases, entry might involve using an agent or distributor; while in others direct market entry might be more appropriate.

The HGMP was felt to help companies in a range of ways, although the most important were the provision of firm-specific strategic advice, making firms more confident about local market conditions and overcoming specific issues firms faced. Comments made by individual Specialists included the need to not only provide information or contacts, but to assist companies interpret it correctly. Specialists believed that the programme helped narrow the gap between market perceptions and reality, identifying in-market partners, and the provision of UKTI Intellectual Property Rights primers.

The regional teams varied in their opinions of the ways in which the HGMP has had most impact on most companies. Two of the regional teams identified the role of finding business opportunities overseas, although the other seemed to have perceived this as being less important.

Several Specialists indicated that a significant proportion of firms would have entered HGMs in the absence of support (although there were two exceptions). However, where this was the case, it was felt that firms would likely have moved in more slowly - and possibly less successfully - in the absence of support.

Stakeholders' perceptions of the impact of the programme were examined using a set of impact questions, based around questions from PIMS.

As above, the Specialists and UKTI HQ were more positive about the impact of the programme than the wider UKTI network. As shown in Table 29, nearly all of the Specialists felt each of the nine impacts have been "definitely" or "probably" experienced by the firms assisted. A lower proportion of regions and posts believed this.

Table 29: Stakeholder views of impact of HGMP
(% feeling each impact is "definitely" or "probably" experienced)

	HGMS	HQ	Posts	Regions
Access to additional information, skills and/or expertise	89%	50%	43%	88%
Gain access to contacts	100%	75%	57%	88%
Overcome problems with legal issues, regulations or quality standards	100%	50%	36%	75%
Improvements to, or gain new ideas about, products and services	89%	50%	50%	75%
Gain confidence to enter or expand business within HGM	100%	100%	57%	88%
Improve the way in which they do business in HGM	100%	75%	71%	75%
Improved knowledge of business opportunities / competitive environment	100%	75%	71%	88%
Helped companies do additional business	89%	75%	50%	63%
Overcome barriers to export in HGM	100%	50%	29%	63%

Source: London Economics HGMP Stakeholder Survey.

Amongst the regions, the impacts seen as most likely related to providing additional information and skills; gaining access to contacts; gaining confidence to enter into high growth markets; improved knowledge of business opportunities; and the competitive environment. The ranking of impacts was similar amongst the posts, but with a lower proportion of respondents agreeing. The posts were particularly sceptical about the impact of the HGMP in helping companies overcome legal issues, or overcoming barriers to export in high growth markets (only 36% and 29% felt these impacts were probably or definitely experienced). This could reflect the fact that these issues are not perceived as relevant to the particular markets in which the posts operate.

All the Specialists felt that the programme had been successful in developing the capability of firms in moving into HGMs. In particular, the importance of the business knowledge of the Specialists was mentioned, with the ability to speak in "business language" seen as very beneficial. In addition, one Specialist mentioned that firms benefitted from having a single point of contact. A potential improvement to the programme was that "big cheeses" from companies that have been successful within HGMs could be used to stir interest from other firms within the same sector.

10.3.4 Impact on the UKTI network

Knowledge dissemination

An important goal of the HGMP is to learn and disseminate lessons about the barriers to entry in high growth markets. To address this, the stakeholder survey inquired about the extent to which the HGMP had increased "your knowledge and understanding of the barriers to export to high growth markets, and the routes to overcoming those barriers". Half of respondents replied "not at all", while none answered "to a great extent" (eight replied "to some extent", 3 replied "to a limited extent", and two replied "Don't know").

A similar message emerges when asking the UKTI HQ respondents their rating of the Specialists' market intelligence: two felt the intelligence was poor, one average and one good. Overall, this suggests that either the lessons learned from the programme have been limited to certain areas / regions, or that dissemination has been poor.

This was also supported by the interviews with stakeholders that indicated a majority (8 out of 10 respondents) did not feel that their knowledge had been increased at all by the HGMP. One post, for instance, noted that in fact they felt their role was to brief the Specialist on the issues most common to that market. A member of a regional team commented that they were learning as a result of UKTI's focus on these markets, and that the HGMS had not added anything to this.

Referrals to other UKTI services

Only one post and one regional team felt that the HGMP was a useful source of referrals to other services. The other respondents felt that generally the Specialists were responsible for, at most, a limited number of referrals to other UKTI services. Most of the companies helped were new companies, and so the programme was not used instead of other UKTI services.

10.4 Effectiveness of the HGMP

10.4.1 Advantages of the HGMP against other UKTI services

The Specialists felt that the HGMP offered a number of services not offered elsewhere in the UKTI network. Some of these referred directly to the Specialists themselves, who felt that they could offer a knowledge of business culture that may not be available elsewhere within UKTI, as well personal networks of contacts. Other advantages were more related to the structure of the programme, rather than the individual Specialists that might be involved. Most important of these was the focus on mid-corporate companies (discussed separately below) but other comments included the ability to focus on several markets. One Specialist emphasised their ability to match UK and overseas customers, both by overcoming communication difficulties resulting from time differences, but also by providing overseas firms with a contact point covering all UK regions.

In contrast to the opinions offered by the Specialists, there was a feeling amongst other UKTI stakeholders that many of the benefits of the HGMP could have been achieved within the structure of the existing UKTI network, with the same resources and focus. Although the respondents tended to be positive about the knowledge and role of the Specialists, it was often commented that similar expertise already existed within the ITAs or posts. In fact, the main impact of the programme was generally felt to be due to first offering a higher quality product through the ability to offer tailored advice to companies; and second by targeting a new group of firms (i.e. mid-corporates). The Specialists' commercial knowledge, and ability to reach senior managers was recognised as important by some respondents, but this was generally seen as less important.

10.4.2 Ability to charge for HGMP advice

The Specialists tended to feel that although charging for the programme might be possible, this might have reduced programme take-up (although one felt that this might have increased take-up through making the programme "reassuringly expensive"). In particular, one Specialist felt that more risk-averse companies that need most support would be particularly likely to have been deterred. Two of the Specialists felt that charging raised the question of how the programme should be positioned, as it would then be competing in the consultancy market.

There was a feeling amongst the other UKTI stakeholders that perhaps firms should be charged (only one respondent said that this definitely would not work), although a number mentioned that they would need to be convinced of the value of the advice offered beforehand. Respondents varied on the expected impact of introducing a charge on take-up; whereas some felt it would reduce it (at least initially); others felt that take-up might actually increase in response to charging, if structured and marketed effectively.

10.4.3 Overall effectiveness and potential improvements

The stakeholder consultation as a whole indicated that most stakeholders believed that the provision of tailored advice to companies is crucial to helping firms make the step into high growth markets. However, there was some disagreement as to whether the HGMP had offered the best route to achieve this. Unsurprisingly, the Specialists tended to be positive, feeling that the ability to talk the "language of business" had provided a new channel into mid-corporate firms. Other UKTI stakeholders, however, felt that although the programme has been beneficial for assisted businesses, the same resources could perhaps have been used more effectively elsewhere, particularly due to a perception that only a limited number of firms were actually helped.

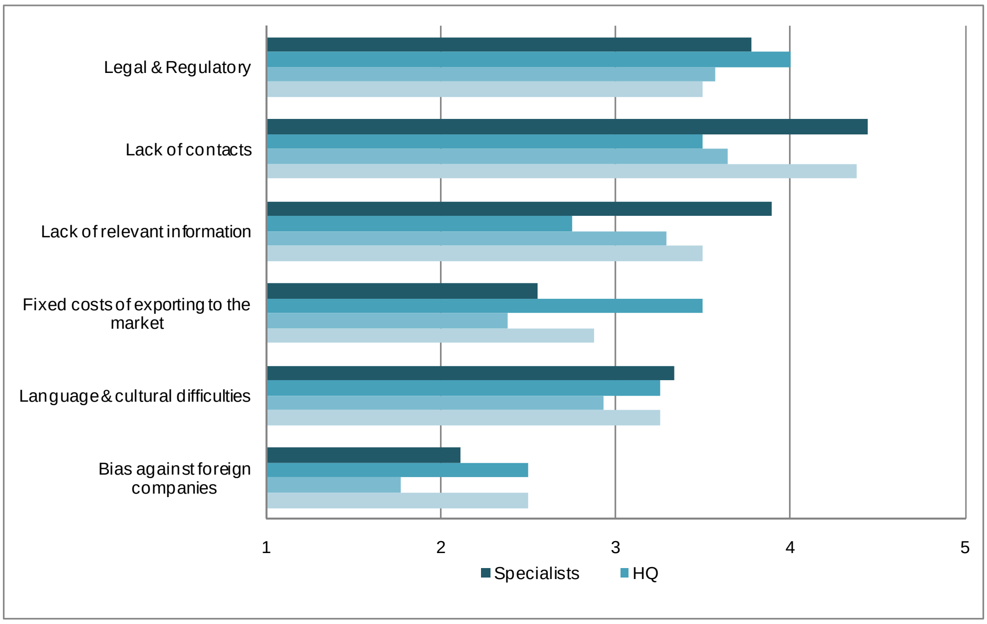
In discussing how government support could be best used to support entry into high growth markets in the future, respondents focused first on the necessity of being able to provide firms with detailed firm-specific advice. Hand-holding support and the identification of in-market opportunities were often mentioned. Second, several respondents mentioned the importance of raising market awareness – although it was recognised that this was more of an issue for some markets. One of the Specialists suggested that a useful awareness raising technique would be to identify "big cheeses" within specific industry sectors who have been successful in relevant markets, and use them to highlight the opportunities available to firms. A third strand of potential improvement, touched upon in some of the interviews, was that the HGMP spread its resources too thinly, through having a limited number of Specialists targeted at a large number of markets, and that a more targeted programme may be more effective (for instance one post suggested market-specific programmes).

10.5 Barriers to entry in high growth markets

The survey asked for stakeholders' opinions of the barriers to export in high growth markets, in order to assess their understanding of these, and also see how they might vary across the different groups.

As shown in Figure 45, all but "bias against foreign companies" were seen as important barriers in high growth markets, with legal and regulatory barriers, and lack of contacts rated as the most important on average. Relative to the other respondents, the Specialists saw lack of contacts and lack of relevant information as more important, and fixed costs of exporting as less important.

Figure 45: Importance of barriers to export in high growth markets (1: Not at all important; 5: Very important)



Note: Averages across all response in each group.
Source: London Economics HGMP Stakeholder Survey.

Respondents were also asked to identify any other barriers to export in high growth markets. These mentioned included tariff barriers, intellectual property rights issues, transparency, bureaucracy, market opportunities not being well known in the UK, the need for a robust internationalisation strategy, a lack of company resources (particularly market-specific resources), and market perceptions.

Two of the Specialists pointed out that these barriers should be seen as "issues to be overcome", rather than insurmountable obstacles.

The interviews identified similar reasons that firms may be deterred from entering high growth markets due to a general feeling of not understanding the markets, as well as a lack of capability and resource (having different priorities). Companies often feel it is too difficult and do not have access to the practical knowledge or contacts that would allow them to make the step.

11 Conclusions

11.1 Economic rationale for support in high growth markets

11.1.1 High growth markets offer likely to offer number of opportunities

The main basis for government support for firms in high growth markets is the expected number and scale of the opportunities that exist in those markets, given the rapid pace of economic growth that is anticipated over the next 40 years. Over the next five years, for instance, the IMF forecasts that economic growth in the seventeen emerging markets considered as part of this study will be between 1.6% and 9.2% compared to an average of 1.2% in the G-7 economies. Longer term forecasts suggest that by 2050 the combined size of seven largest developing economies will grow to 150% of the size of the G-7 countries from a current level of around 25%.

Further, a significant proportion of British firms are either operational in high growth markets or believe that these markets offer them significant opportunities. A UKTI survey of UK internationalising firms found that 45% of companies are “already in” emerging markets, while a further 33% of firms feel that these markets may offer them opportunities. Similar results have also been found in other surveys. While caution is required in interpreting some of these results, they provide further evidence that the growth in emerging markets is providing commercial opportunities for British firms.

11.1.2 Barriers to export in high growth markets

The evidence collected during the review suggests that firms face significant barriers in exporting to high growth markets – and that these barriers may be greater than those faced in more mature markets. The results of the Evaluation Survey, for instance, indicated that around half of respondents had found it more difficult to export to high growth markets than to more established markets. Similarly, the UKTI Internationalisation Survey has shown that companies in high growth markets report having encountered a higher number of barriers to export.

High growth markets appear to differ from more mature markets in two ways. First, there are difficulties in exporting to these markets which are not perceived as issues in established economies – such as political and economic stability, and operational concerns (e.g. a lack of skilled labour). Second, some barriers are similar, although are more intense in high growth markets – particularly in terms of legal and regulatory concerns and accessing the correct in-market contacts.

In comparison to other markets, the Internationalisation Survey indicates that fewer firms perceive high growth markets favourably in terms of practicalities and in terms of risk of getting paid and enforcing property rights.

11.1.3 Potential for government intervention

The existence of these barriers suggests that Government assistance has the potential to help firms in entering high growth markets. In particular, the review has provided evidence that Government support may be important in four areas, as outlined below.

Strengthening bilateral ties and networks of contacts

Research performed on behalf of UKTI has highlighted the importance of establishing networks and ties with emerging markets, in order to support British firms. The results of Eaton et al. (2007) suggest that the UK's lead in some emerging markets (e.g. India) is explained in large part by cultural and historical ties. Similarly, Casson (2007) has argued that establishing networks may be particularly important to help British companies overcome tariff barriers and to protect their intellectual property rights in emerging markets.

Developing such networks may also be a route through which companies are able to overcome the difficulties in finding the appropriate contacts in high growth markets discussed above. This may also help firms in making the initial entry into high growth markets. Results from the Internationalisation Survey suggest that at present firms tend to rely less on networks and serendipity and being solely reactive, and more on independent analysis, when entering high growth markets compared to more mature markets. As set out in the DTI Economics Paper 18, the Government has a unique capability to strengthen these networks and so assist firms in high growth markets.

Lobbying to reduce barriers to entering high growth markets

Survey evidence has indicated that legal and regulatory barriers are a major concern for firms in entering high growth markets, suggesting that there is a role for Government assistance through intergovernmental lobbying. By providing support for UK firms' commercial interests at a diplomatic level, the Government may be able to facilitate firms' access to these markets. In particular, this might include lobbying with a view to reducing non-tariff barriers, reducing bureaucratic burdens or promoting intellectual property protection (UKTI, 2006b). Further, lobbying may also be able to expand opportunities for UK firms, through accelerating market liberalisation.

Providing firms with information and advice

The review also suggested that there is a role for Government intervention in directly assisting companies in entering high growth markets, as well as strengthening the networks to which firms have access. The evidence suggests that this assistance needs to be relatively broad, covering both specific market advice and a firm's general export capabilities. This may support an approach focused on raising firms' "absorptive capacity".

The need for specific export advice is indicated by the prominence that firms have placed on practical difficulties (such as legal and regulatory issues) in exporting to high growth markets, particularly in comparison to more mature markets. This was also illustrated in the results of the HGMP case study programme and, for a limited sample, in the quantitative survey. In particular, specific market information is likely to be the only route to overcoming the barriers related to both cultural and legal issues, which survey results indicate are particularly important in high growth markets.

Further, given that the barriers to export that firms face in high growth markets are different to those in other export markets, firms may require a different and more refined set of skills to enter these markets. For instance, the higher level of political and economic instability in these markets is likely to expose firms to a broader array of risks, requiring a more sophisticated risk management strategy. As such, building management expertise in this and related areas will enable more firms to consider entering high growth markets. The HGMP stakeholder consultation indicated that a lack of internal capacity is seen as a concern by members of UKTI, although at present there is little evidence relating to the extent to which this limits entry into high growth markets. However, the finding that large companies and those with more export experience (who are likely to have more internal expertise and capability) are more likely to enter high growth markets is consistent with this hypothesis.

Raising awareness of high growth markets

The evidence collected does not allow unambiguous conclusions to be drawn in relation to awareness of opportunities in high growth markets amongst British firms. Survey evidence suggests that a large proportion of companies indicate that they are aware of opportunities for their firm in high growth markets. However, the existing evidence base is insufficient to identify whether these companies are correctly evaluating the existence of those opportunities – or the size of the benefits that they might expect. Further it is not clear whether they have access to specific market opportunities, or whether their response suggests a more general appreciation that the market may offer the firm some benefits at some point in the future.

Some indication that there may be a rationale for Government in raising awareness of High Growth Markets is indicated by the fact that the HGMP was able to identify business opportunities for 32% of the companies interviewed in the Evaluation Survey. Further, one issue raised during the stakeholder consultation was that the HGMP offered an opportunity to match business opportunities with the UK companies most able to benefit. While this evidence is by no means conclusive, it does provide a suggestion that the Government may be able to increase firm activity in high growth markets if it is able to increase awareness of particular opportunities.

Finally, when considering the potential role of Government in awareness-raising, it is important to consider the differences between markets. Even in surveys where the reported level of awareness of opportunities in certain markets is very high (such as China), the proportion of firms anticipating opportunities in other markets is much lower. Although this may be a reflection of the fact that there *are* more opportunities in certain markets, it may also be the case that firms' knowledge of opportunities varies across different high growth markets. If this is the case, it would imply that the strength of the rationale for Government awareness raising interventions varies across the seventeen high growth markets.

11.1.4 Targets for intervention

Firms with potential to benefit

Generally the evidence suggests that there is no clear "type" of firm that would benefit from entering high growth markets – or that is able to operate there. A propensity score matching exercise of the firms assisted by UKTI in high growth markets indicated that nearly *all* UK firms are sufficiently similar (on the basis of size and sector) to those that have received support. While this analysis was necessarily limited by the information available relating to export behaviour, it does provide some indication of the range of companies to whom exporting to high growth markets might be appropriate.

On the other hand, the results of two econometric analyses indicate that large firms, and those with more export experience, are more likely to enter high growth markets. This could be interpreted as indicating that there are more opportunities for these companies in these markets. However, alternatively, it may be that these firms are more capable of overcoming the barriers to export in those markets, and hence take advantage of those opportunities. Evidence from UKTI's Internationalisation Survey indicates that smaller firms are more likely to see opportunities in high growth markets than larger firms, but less likely to have actually entered those markets. This suggests that these firms may be interested in exploring these markets further, but may not yet be sure of how to actually do so, or whether it would be truly beneficial for their business.

It appears that all firms face barriers to export in these markets and that attributes such as export experience may be insufficient to overcome the difficulties faced in high growth markets. In particular, Kneller and Pisu (2008) have found that the variety of barriers to export may actually rise initially as a firm becomes more experienced in export markets. Many of the barriers to entry in these markets – such as legal and regulatory issues – are likely to be market specific, and so experience in other export markets may be of limited help. The results of the case study programme highlighted that even firms with considerable experience in high growth markets faced difficulties in identifying relevant contacts when entering new high growth markets.

11.2 Evaluation of the High Growth Markets Programme

11.2.1 Effectiveness of HGMP in meeting the programme objectives

Generate more activity and interest in the specified high growth markets by UK-based companies

The overall impact of the HGMP in increasing the level of UK activity in high growth markets appears to have been limited. Although the programme has certainly been of assistance to some companies, discussions with the Specialists and other UKTI stakeholders have indicated that the programme encountered difficulties in gaining access to executives in many companies identified as potential targets. A number of those companies that did receive support did not appear to see the impact as significant: 10% of companies contacted through the Evaluation Survey (and around 20% of respondents) commented that they had only had minimal contact with a Specialist. Further, a large proportion of the respondents to the Evaluation Survey (around 25%) had neither expanded in a high growth market or entered a new market as a result of receiving support. Similarly, 38% of firms interviewed in PIMS had not entered a new market as a result of support (although they were not asked about market expansion). While some teething problems are inevitable during the initial period of a pilot, the difficulty in engaging firms appears to highlight a more general concern with the programme's focus on "cold-calling" companies.

Where companies did receive support through the programme, this appears to have focused on helping companies that were already looking at expansion, rather than convincing firms that were not considering taking action. Although this does not contradict the aims of the programme, it may limit the broader impact on the behaviour of UK firms in high growth markets. In this respect, it is notable that almost all the companies assisted through the programme had been present in high growth markets prior to receiving support through the HGMP. Further, based on the case studies it does not appear that the HGMP has led to companies changing their goals in high growth markets but instead has helped firms achieve their pre-existing aims in those markets.

It is possible that the HGMP has generated wider benefits than formally recognised through the Evaluation Survey. Firms that have not, as of yet, taken action as a result of support, may have still benefitted from improving their awareness of the opportunities in high growth markets, and of the issues that they face in attempting to access those opportunities. This may have contributed to a more general growth in absorptive capacity relating to high growth markets. However, this seems unlikely given the limited time that Specialists were able to spend with those companies that were not interested in taking action in high growth markets.

A further issue to consider when evaluating the benefits of the HGMP is that (understandably) firms appeared to have difficulty in separating the benefits of the HGMP from that of the OMIS report that they were guided towards. To the extent that the stated value of the HGMP is due to the benefits that companies achieve from receiving OMIS reports, it may be that there are more cost effective ways of achieving the same ends.

Delivery and development of tailored support services

Where the HGMP has been able to assist companies, it has provided valuable support to companies in high growth markets. As reflected in the case study responses, the advice provided by the Specialists has allowed a number of firms to reach contacts in high growth markets, as well as help them overcome other issues. Furthermore, the business impacts of the support provided, as rated in PIMS, are comparable to those for other UKTI programmes.

It is also notable that the quality of the service provided by the Specialists was rated highly on all dimensions, with particularly high ratings for attitude and professionalism and quality of communication. Even on the lowest rated aspect of the support – quality/relevance of information and advice, 82% of PIMS respondents felt that the programme was "good" or "very good".

The evaluation suggested that companies assisted through the HGMP tended to have previous experience of operating in at least some high growth or emerging markets. Given this, it seems likely that they would have some understanding of at least of the *types* of issues they are likely to encounter in entering new markets – and hence of their need for assistance. As such, the provision of support free of charge is hard to justify, given UKTI's commitment to charging for services wherever possible. In the context of a pilot programme, such as the HGMP, there may however be a short term need to offer advice free (or at a low rate) to help gain market traction.

Although the programme has provided support to companies, it has not, however, led to the development of other UKTI services to assist companies in high growth markets.

Dissemination of lessons about entry to high growth markets

The HGMP does not appear to have been successful in leading to the dissemination of information regarding high growth markets throughout the UKTI network. Discussions with other members of the UKTI network suggested that they had learned few lessons as a result of the HGMP.

Further, although the HGMP was able to provide support and advice to companies itself, it does not appear to have led to the improvement of other UKTI services – particularly OMIS – as was envisioned when the programme was created. Although the Specialists did provide suggestions to UKTI regarding the development of OMIS and other services, this does not appear to have led to changes to UKTI services. It seems that, at least to date, the programme has been unable to provide the strategic input into the use of

UKTI services to target high growth markets for mid-corporate firms, as might have been hoped at the initiation of the programme.

11.3 Policy recommendations

Tailored support assistance should be targeted at companies already in or seriously considering high growth markets

The results of the HGMP evaluation have indicated that firms can benefit from tailored support in high growth markets. However, the experience of the programme suggests that these benefits are limited to those companies with a prior interest in these markets, and that it may be difficult to engage companies who do not have other operations there. Further, internal constraints (e.g. a lack of financial resources) may prevent companies acting on the advice received, even where they recognise the potential benefits of doing so.

Given this, resources aimed at helping companies overcome the barriers to entry into high growth markets should be focused on companies that recognise the fact that they need assistance. This is in contrast to the initial approach taken by the HGMP, which relied on Specialists contacting companies rather than waiting for interested firms to seek their advice (although over time the programme relied increasingly on referrals from other sources).

Targeted support should be available to companies of all sizes

The review has suggested that firms face barriers to export in high growth markets at all stages of their development, suggesting that support is potentially valuable for companies of all sizes. As reported through both the survey instruments and also the case study programme, even large companies, with operations in a range of high growth markets, can benefit from specific export market advice. Further, it appears that companies of all sizes perceive opportunities in high growth markets, which suggests that support should not be restricted to large companies, as in the HGMP (a point recognised by a number of respondents to the stakeholder consultation).

Tailored services should normally be charged

Where companies are aware of the difficulties they face in high growth markets, and consequently seek support, there is no clear justification for providing support free of charge, at least in the long term. Although there may be a short term need to offer advice free (or at a low rate) to convince companies of its benefits, once a programme is established companies should be willing to pay if they value the support.

However, while this seems likely to be true of companies that already operating in high growth markets and are either looking to enter new markets or expand in existing markets, it may not be true of companies that have no prior presence in these markets. As discussed above, some of the barriers faced in entering high growth markets are qualitatively different to those in more established markets. Companies without prior experience in these markets may be unaware of these issues and, as a result, not realise the value of advice that is available to them. On this basis, it may be appropriate to offer advice free-of-charge to firms entering high growth markets for the first time (or with limited experience in these markets). More experienced firms, by contrast, might be expected to understand the *types* of barriers they face, even when entering a new high growth market.

Increasing firm activity in high growth markets requires longer term support

Increasing the presence of British firms in high growth markets is likely to require a long term commitment to ensuring firms are aware of opportunities and that they have sufficient internal capacity to take advantage of them. In relation to targeting mid-corporate firms and providing firms with tailored support, the HGMP struggled to assist a significant number of companies into high growth markets for the first time. Although the Evaluation Survey was unable to directly address this issue, one possible reason is that this reflects a lack of internal capacity on behalf of the companies. If this is the case, raising this capacity (in terms of the ability of firms to overcome the barriers in high growth markets) should be a UKTI priority. One of the issues mentioned by both Specialists and companies during the qualitative aspects of the evaluation was that expansion into these markets was limited by a lack of internal resources. Given that changing this is likely to take time, these firms are unlikely to be able to take full advantage of any advice provided, at least in the short-term. As such, the provision of tailored advice to these companies may not be the most cost-effective form of support.

Although the evidence collected is not sufficient to recommend a particular form of support that might address these issues, one possibility that has been mentioned is strengthening the networks that firms have access to in the UK, in order to truly show to firms the possibility that "firms like them" can access those markets.

Both market-specific and general support is valuable

Although there is a natural tendency to discuss high growth markets as a group, it is important to consider the differences between individual markets. Expectations of growth, for instance, vary considerably across markets. Similarly, it appears likely that the specific barriers to export – and hence the appropriate policy response – also vary across different markets. As such the approach (as used during the HGMP) of having advisers with specialist knowledge of particular markets is likely to be valuable.

On the other hand, although it seems likely that the barriers vary qualitatively across different markets, the analysis of determinants of entering different high growth markets suggested that similar factors, particularly being large and having more export experience, appear to affect entry across high growth markets. As such, some elements of UKTI support – particularly perhaps relating to internal capacity issues – will not be dependent on the particular market of interest.

11.4 Further research

This evaluation has gathered a wide range of evidence regarding the factors that influence exporting to high growth markets and the way in which UKTI support could be used effectively to expand the British presence in those markets. Based on this, we suggest two areas where further research could be beneficial.

First, there appears to be limited evidence as to the way in which barriers to export vary across markets. More detailed examination of this, perhaps through a series of case studies of different markets, could provide a useful basis from which to tailor the support that is offered in each high growth market.

Second, there remains a gap relating to British firms' activities in high growth markets. Although the UKTI 2008 Internationalisation Survey has provided some evidence as to the markets firms are in, it provides little detail regarding the timescale over which different markets are entered, or the extent of firms' operations in different high growth markets. As such, a survey exercise focused specifically on this aspect of firms' international activities would be a valuable addition to the evidence base.

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