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REPORT OF THE VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP AND DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Virginia Sustained Growth Study: Understanding How Businesses Expand and How Economic Development Can Help (SJR 242, 2015)

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

SENATE DOCUMENT NO. 5

COMMONWEALTH OF VIRGINIA
RICHMOND
2016

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
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January 13, 2016

The Honorable Frank M. Ruff, Jr.
Member, Senate of Virginia
General Assembly Building, Room 431
Capitol Square
Richmond, Virginia 23219

Dear Senator Ruff:

On behalf of the Virginia Economic Development Partnership Authority and the Department of Housing and Community Development, it is our pleasure to submit the attached report to the Governor and the General Assembly as requested in Senate Joint Resolution No. 242 of 2015.

The Virginia Economic Development Partnership Authority and the Department of Housing and Community Development partnered to study *"the feasibility of incorporating programs to support existing high growth companies into the state's current economic development programs and activities."*

Please let us know if you would like further information or require additional copies of this report.

Sincerely,

Martin J. Briley
President and Chief Executive Officer
Virginia Economic Development Partnership

William C. Shelton
Director
Department of Housing and Community Development

Virginia Sustained Growth Study

Understanding How Businesses Expand and How Economic Development Can Help

Prepared for:

Virginia Economic Development Partnership

Virginia Department of Housing & Community Development

Prepared by:

Dr. Gary Kunkle; Outlier LLC

January 2016

Acknowledgements

This study has been prepared in response to Virginia Senate Joint Resolution 242 of the 2015 session of the Virginia General Assembly.

The Virginia Economic Development Partnership (VEDP) selected Outlier LLC to conduct this study. This project would not have been possible without the close working relationship between VEDP and Virginia Department of Housing and Community Development (DHCD), including senior leadership and staff.

As the author of this study, I would like to personally thank the following people for their tremendous assistance and support during this project. I have rarely worked with a team that has demonstrated such constructive insights and positive energy.

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Christine Bell, Marketing Assistant, VEDP
Robin Bass, Associate Manager, VEDP
Chuck Rogers, Marketing Manager, VEDP
VEDP Call Center & Staff

Dr. Gary Kunkle
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Foreword

Sustained growth is the ultimate objective of most for-profit companies, yet such growth is surprisingly rare. Companies that seek sustained growth face a variety of unique operational challenges that have not been well understood or properly addressed by economic development policy or practice anywhere in the nation. However, attracting and nurturing these businesses should be a top priority for economic developers because they generate the majority of new and lasting jobs in the economy.

Virginia is taking a leadership role. This is the *first* study to investigate both the drivers behind firm-level sustained growth and ways state and local economic development agencies can increase the number of these companies in their regions.

This study tracked 613,657 business establishments that operated in Virginia over the 2009-2014 period. Of these, only half had been in business for five years or more; the rest being newborns. Only 1% of these 'survivors' grew employment two or more years over the five-year period. These **3,019 'sustained growers'** created 61% of the net new jobs generated by all survivors. This averages 19 new jobs each (for 165% growth) and totaled more than **58,000 new and lasting jobs** over the period.

Aside from direct job creation, sustained growers are also a powerful source of economic diversification and rising social equity. These are some of the reasons:

- Sustained growers are found in all regions of Virginia and all types of industries.
- They offer employment opportunities to workers of all skill levels and socio-economic backgrounds.
- They share the profits of their growth with their employees by providing much richer benefits packages and more opportunities for advancement and ownership than other companies.
- They are more civic-minded, with a higher tendency to champion a charity, environmental or social cause.
- Communities with higher proportions of sustained growth companies enjoy faster wage growth for *all* workers in their areas.

To better understand how these exceptional companies are different from other companies we surveyed 516 business leaders using a 60-question survey that took an average of 49 minutes to complete[1]. We asked about the nature of their industry, how they create competitive advantage, operational practices and decision making,

[1] This was a statistically significant sample size given the research design. See Appendix A for more information regarding overall study methodology and survey validity.

as well as their past interactions with economic development services. We also asked them what could be done to strengthen business growth in Virginia.

Of the 516 companies surveyed, 240 were considered 'sustained growers', averaging 3.6 years of growth over the past five years, and adding 65 net new jobs. This compares to an average of one year of job *loss* and 15 lost jobs among the other 276 participating companies. Among the sustained growers, 96% reported that they plan to hire additional new employees in Virginia over the next 24 months!

The results are stunning. We found a distinctive pattern of behavior that distinguishes sustained growers from other companies. This pattern transcends the entire organization. Fortunately, this knowledge is fairly easy to understand and can be shared with any company that seeks sustained growth.

Sustained growers create positive feedback loops that continuously increase their ability to generate greater amounts of new resources from available resources[2]. These loops, or '**Virtuous Growth Cycles**', are based on the self-reinforcing components of intention, action, learning, and repetition. Each time a company completes a cycle, they are more likely to repeat the cycle again. And every cycle means growth.

Just to give one example: consider employee benefits. When employees share in the rewards of their firm's growth, they are more likely to be committed to the success of the firm. They work harder and are less likely to leave. By improving workforce motivation and retention the likelihood that the firm will grow again increases, leading to new profits that can be shared back with the workforce in the form of even more benefits. As this is repeated the cycle become more efficient, and the odds increase that it will be performed yet again.

We have found virtuous cycles throughout sustained growers' operations: from leadership and planning, to human resources, finance, sales, and new product/service development.

Why is this finding important?

> Because the top request of all companies surveyed is assistance in learning how to repeat growth. The insights found in this report can become the foundation of this knowledge sharing.
>
> Respondents want economic development tailored specifically to their growth needs; from start-up, all the way through their companies' growing life. This includes access to best practices, peer networks, and recognition for their success. And they want incentives that help them plow back more of their profits into more growth.

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[2] These valuable resources are money, knowledge, and goods and services.

> And they want more of the same services that have helped them grow in the past: workforce readiness, technical help such as export assistance, and special economic zones.

Sustained growers appreciate economic development. We found that they are far more likely to use ED services and, when they do, they rank their satisfaction higher than other companies. They know what helps, and they want more!

Based on our findings, we suggest a number of ways that Virginia could improve the ability of its companies to sustain growth. These include:

- Maintaining contact with sustained growers to provide them with information and program access when they are positioning for an expansion;
- Providing a source for the sharing of growth 'best practices' that helps companies build virtuous growth cycles;
- Aligning the menu of technical assistance programs to better meet the needs of sustained growth companies;
- Building peer networks of growing companies to encourage knowledge sharing and supplier networks;
- Encouraging charitable activities from sustained growers, to both enhance their growth prospects and to improve their ties with their communities;
- Creating tax incentives that encourage more companies to save and invest in expansions within Virginia;
- Building a Virginia brand based on being the 'best place for profitable sustained growth';
- Targeting sustained growers in other states for investment attraction.

The implication for state-level economic development is clear. More effort needs to be focused on providing policies and services that are tailored specifically to the needs of sustained growth companies. These services will also help other companies that strive to attain lasting growth. While some assistance can be provided directly from state agencies to companies, others can empower local ED partners to increase their ability to engage and bolster the growth of companies in their own regions. On the local level, economic development partners need to build a long-term relationship with the sustained growth companies so that they are ready and able to assist them when an expansion opportunity or growth challenge arises.

As we shall see, the insights contained in this report challenge many of the long-held assumptions about why and how companies sustain growth over time and, by implication, the role of economic development in fostering their success. We also take a look at Economic Gardening, one of the more recent ED initiatives aimed at helping firms grow, to evaluate if it is suitable for encouraging sustained growth.

This paper is just the first step to understanding how a support system can be developed. We have uncovered the companies that are making the most significant contribution to growing the Virginia economy and improving social welfare. We have identified the drivers of growth within these companies and begun to distill them to the point where they can be shared productively with other companies. And we have put a spotlight on a number of ways Virginia's economic development efforts can be fine-tuned towards better meeting the needs of sustained growers and other companies that want to join their elite ranks.

The next step is for policy leaders and program administrators to incorporate these findings into their work to improve conditions for increased business competitiveness. It begins with sharing and discussing the findings of this study with all concerned stakeholders and building the consensus needed to move forward with renewed purpose, resources, and vigor.

Contents

The Sustained Growth System

Rare and Exceptional

Employment growth is extremely concentrated among a small set of businesses. This is universally true: not just in Virginia but in all states and at the national level[3].

There were a total of 613,657 for-profit business establishments in Virginia in 2014, employing 5,212,134 people or an average of 8.5 employees each. Of these, 306,770 'survivors' had been in business at least five years[4]. Thus, survivors represent only half of all companies alive in 2014; the rest being either newly created start-ups, new branches, or recent in-bound relocations. Over five years survivors grew employment from 2.7million to 2.8 million or 3.5%.

Sustained growth companies (or 'sustained') are the subset of survivors that expanded their employment at least two of the past five years. These 3,019 sustained growers represent just 1% of survivors. By adding 58,114 net new jobs over the period they created 61% of all jobs created by survivors.

	Establishments	**Jobs**	**Avg. Jobs**
All in Virginia (2014)	613,657	5,212,134	8.5
Survivors (2009-14)			
2014	306,770	2,837,341	9.2
2009		2,741,516	8.9
Change: # of New Jobs		95,825	0.3
Sustained (2009-14)			
2014	3,019	93,413	30.9
2009		35,299	11.7
Change: # of New Jobs		58,114	19.2
Change: % Growth		165%	
% of Survivors & of Job Change	**1.0%**	**61%**	

Source: NETS and Outlier LLC[5]

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[3] See 'Building scale and sustaining growth: The surprising drivers of job creation'; Kunkle; http://exceptionalgrowth.org/insights/kunklepaper1_2013.pdf

[4] To evaluate business-level growth over time, we compare for-profit business establishments that survived over a period (2009-2014) against each other, rather than against start-ups that face different types of operational challenges. An establishment is a single business location. In order to evaluate economic activity in Virginia we focus on the establishment-level to isolate the activity within the state for firms that have multiple business locations.

[5] See Appendix A: Methodology for more information about NETS.

By 2014, sustained growers expanded their average employment by 165%, from 11.7 jobs to 30.9 jobs each. While they start the period just a little larger than the average survivor, by 2014 they expanded to more than three-times the average size (30.9 vs. 9.2 jobs each). Thus, sustained growers create a disproportionate share of lasting jobs in Virginia.

The Cumulative Process of Growth

It's not about *fast* growth; it's about *how often* you grow. The tortoise beats the hare over time.

> "We are a small, locally-owned and operated general contractor, hiring another 2 to 4 new full time employees in 2015! [6]"

Sustained growth measures the net number of years a business added jobs. We calculate sustained growth for each business establishment in Virginia by, first, adding the number of years between 2009-2014 that they added new employees and then we subtract the number of years that they lost employees[7].

You can see in the chart below that 86% of surviving businesses in Virginia stagnated over the study period, having zero years of sustained growth. About 10% had positive sustained growth while slightly more than 4% were negative, with more years of job losses than job gains. We refer to business that had at least two years of growth over the past five years as 'sustained growers' because they repeated growth over the period. They account for just 1% of Virginia's surviving businesses.

It is very rare to expand every year. When a firm hires a new worker, it can take a year or more until that person is operating at full capacity. The same goes for adding a piece of equipment or building a new facility. Thus, after any expansion there usually is a period of 'digestion' before capacity is maxed again. This is why 80% of sustained growth companies only expand twice over five years. Taking a pause between expansions reduces expansion risk. It gives them time to make the new assets productive before adding new assets yet again.

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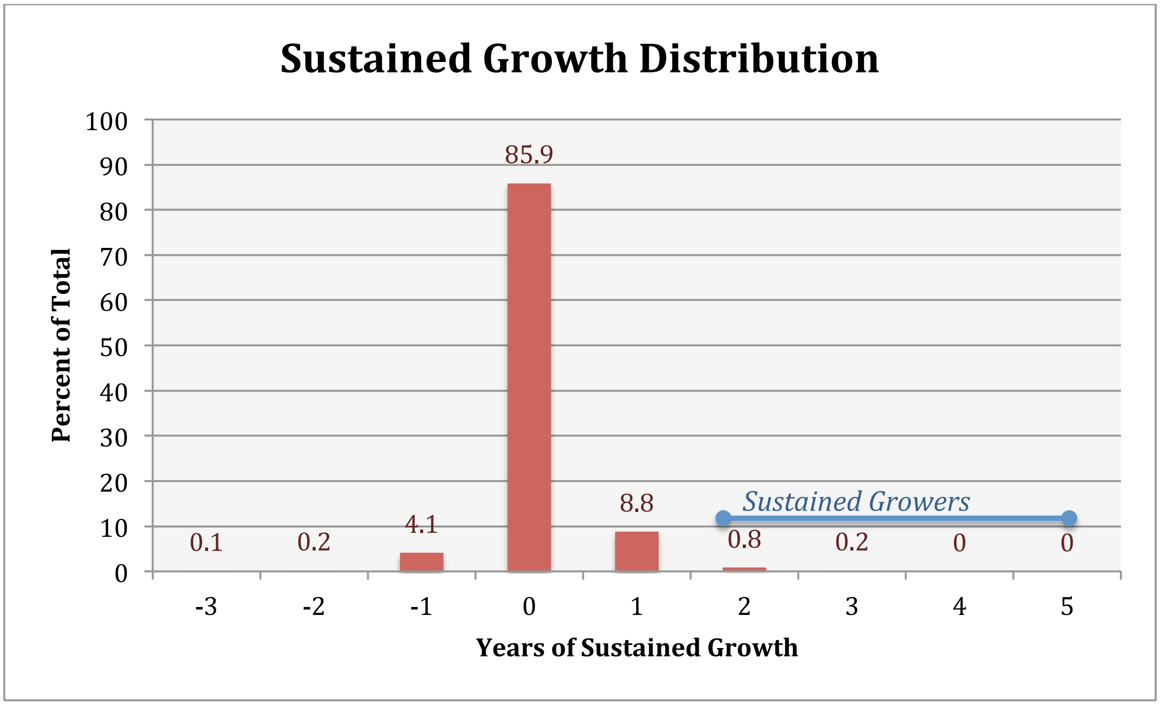
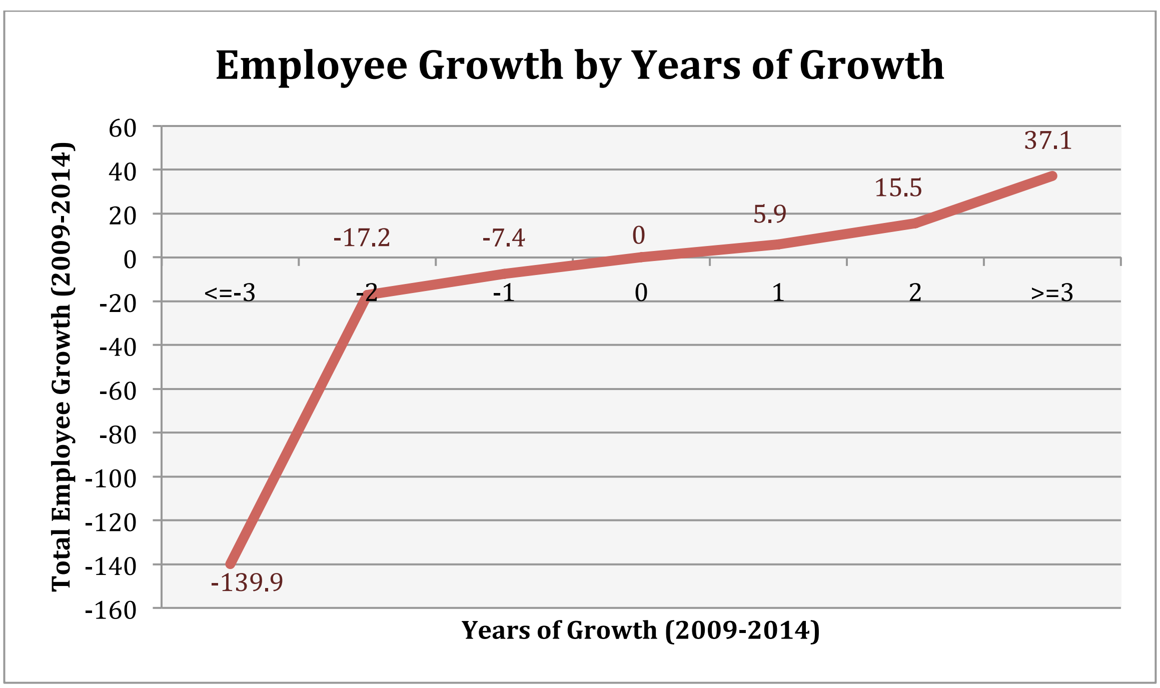
[6] This and other quotes that appear in boxes like this are from the sustained growth surveys, submitted as answers to open ended questions.

[7] We use employment rather than sales for several reasons. First, firms have more control over changes in employment (supply) than sales (demand). Second, reported sales are often subject to purposeful manipulation (e.g. taxation timing). Third, over shorter periods employment is more stable than sales. Over longer periods, employment and sales tend to move in parallel at both the micro and macro economic levels. For additional information, see 'Pathways to Growth: Game-Changing Performance Strategies for Middle Market Companies'; Kunkle; http://www.middlemarketcenter.org/research-reports/pathways-growth-mid-market-performance-strategies



Source: NETS and Outlier LLC

Employment growth is cumulative; total growth rises with every growth event. Virginia businesses with one year of sustained growth expanded employment, on average, by 6 new jobs over the period. This rises to an average of 15 new jobs for those with two years of sustained growth, and to 37 new jobs for those with three or more years of sustained growth.



Source: NETS and Outlier LLC

Let's put these new insights into context. Over the past forty years scholars have intensely studied business growth using absolute and relative measures. Absolute growth is the total amount of employment or sales change over time, while relative growth is the percentage of change. Dozens of academic studies have found that neither absolute nor relative growth is able to predict whether an individual firm will survive or grow in the future. This is why firm-level growth is widely considered stochastic, or randomly determined.

But things change. In the last decade new datasets have become available (e.g. NETS) that allow researchers to analyze sustained growth for the first time. Unlike other growth measures, sustained growth *does* partially predict which specific firms are most likely to survive and grow based on their individual past performance[8].

> "We pursue long term steady growth, internally financed, through continuous improvement and a keen focus on providing superior customer centric results."

Somewhat like the concept of compound interest in finance, sustained growth is a cumulative process. The amount of growth tends to increase with each growth event, even if the percent of growth is constant, because the base number of employees becomes larger with each growth event. Thus, the more times a firm grows over a period, the more jobs they accumulate and the larger the growth amount[9].

As we shall see, growth is a *learning process* where repetition increases the probability of success. Learning is the accumulation of knowledge and the ability to apply it productively, and this creates the feedback loop, or *'virtuous cycle'*. Each time a firm grows, the amount of growth increase as well as the odds that growth will reoccur. Our research strongly suggests that these cycles are the drivers of growth at the firm level and ultimately at the economy level as well.

Expanding a business is complicated, involving teams throughout the organization – purchasing, production, HR, finance, facilities management, etc. Each time these teams and their leaders go through a growth event, they learn what worked and what needs to be improved. Like many human activities, repetition increases efficiency and effectiveness. Skill rises with repetition as well as the odds that the event will be repeated yet again.

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[8] See 'Building scale and sustaining growth: The surprising drivers of job creation'; Kunkle; http://exceptionalgrowth.org/insights/kunklepaper1_2013.pdf

[9] This compounding effect appears to be one reason why firm size is positively correlated with absolute growth. The other reason is that very large firms tend to grow less frequently but in relatively large amounts.

The more times a firm grows, the more knowledge it accumulates, the better it is at making growth decisions, and the more likely it is to do it again.

What's the implication?

> For business leaders: It is far better for your company to grow numerous times in small increments than all at once. This increases firm learning. As a leader, your job is to identify, create, and strengthen virtuous cycles throughout the organization. In this way, you are most likely to create the most new resources from existing resources, over and over again. This is the very essence of sustained growth.
>
> For policy makers: The first-best approach is to increase the number of firms with sustained growth in your region by helping them identify, build, and strengthen virtuous cycles throughout their organizations. As we shall see, this goal and the implementation of it are well within the mandate and reach of economic development.
>
> It is better to have companies that grow frequently in small amounts rather than ones that grow (and decline) in large but fewer events. Because sustained growers are found in all industries and locations, and they share the benefits of their growth with workers across the social/skill spectrum, they are a powerful force for economic growth, diversification, and greater social equity.

Growth Objective: "To create new well-paying jobs and improve the national security of the United States of America."

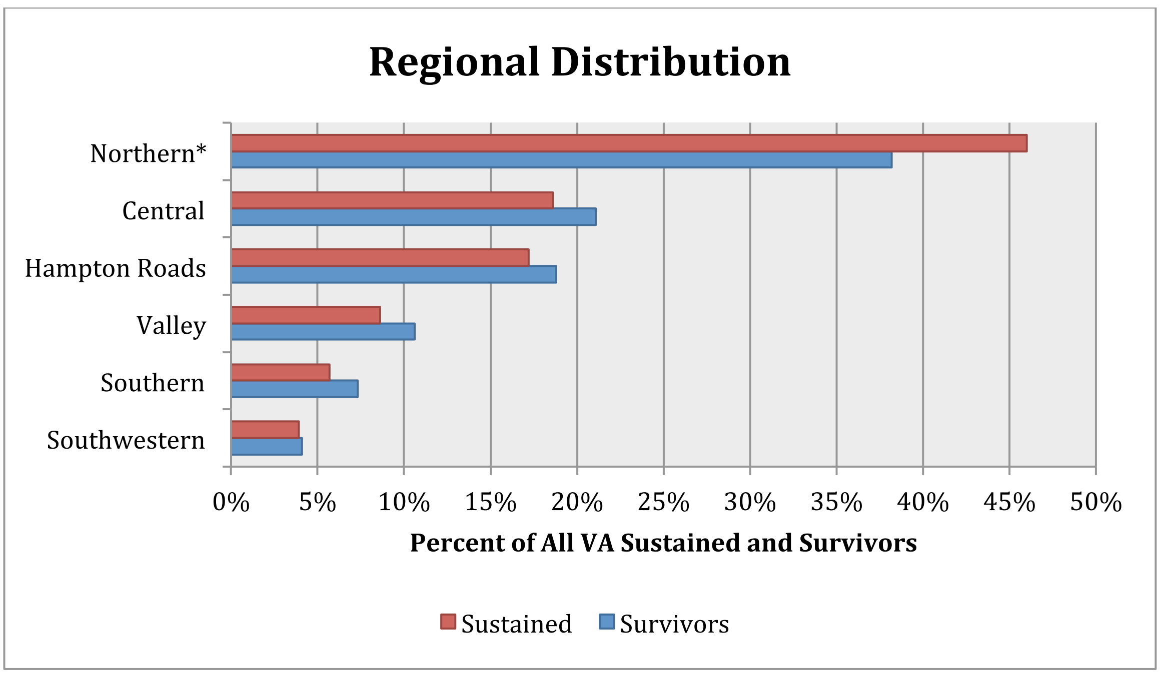
Outside the Firm – The Growth Habitat

Sustained Growth in All Regions

> "We are actually four small companies operating on the Eastern Shore. Geographically speaking, entrepreneurs are forced to be more creative and diverse in order to survive and profit in our market."

We have all heard over and over about how companies are more likely to grow in certain places than others. Supposedly, areas that are most densely stocked with skilled labor, advanced infrastructure, venture capital, and concentrations of customers and suppliers are far more likely to generate growing businesses than those that are far less endowed. If you listen to some of the soothsayers, you might think urban areas monopolize all growth[10].

The NETS data shows that sustained growers are located in all regions of Virginia. While there are more sustained growers in Northern Virginia and a significantly higher proportional share of these companies than elsewhere, there is *no regional monopoly on growth*. Sustained growers are producing new jobs throughout the state, in regions that are predominately urban, rural, and a mix of both[11].



Source: NETS and Outlier LLC

[10] Examples include Michael Porter's 'cluster theory' and Richard Florida's 'creative class'.
[11] Northern Virginia has a significantly higher proportion of sustained growers. However, if there were a 'monopoly', at a bare minimum the other areas would have a significantly lower proportion of sustained growers. This is not the case.

The map in Appendix A: Methodology shows the geographic distribution of sustained growers surveyed for this study. The survey identified some notable differences in the sustained growth companies that populate each region that may be helpful for regional ED authorities. These can be found in Appendix B: Regional Variations.

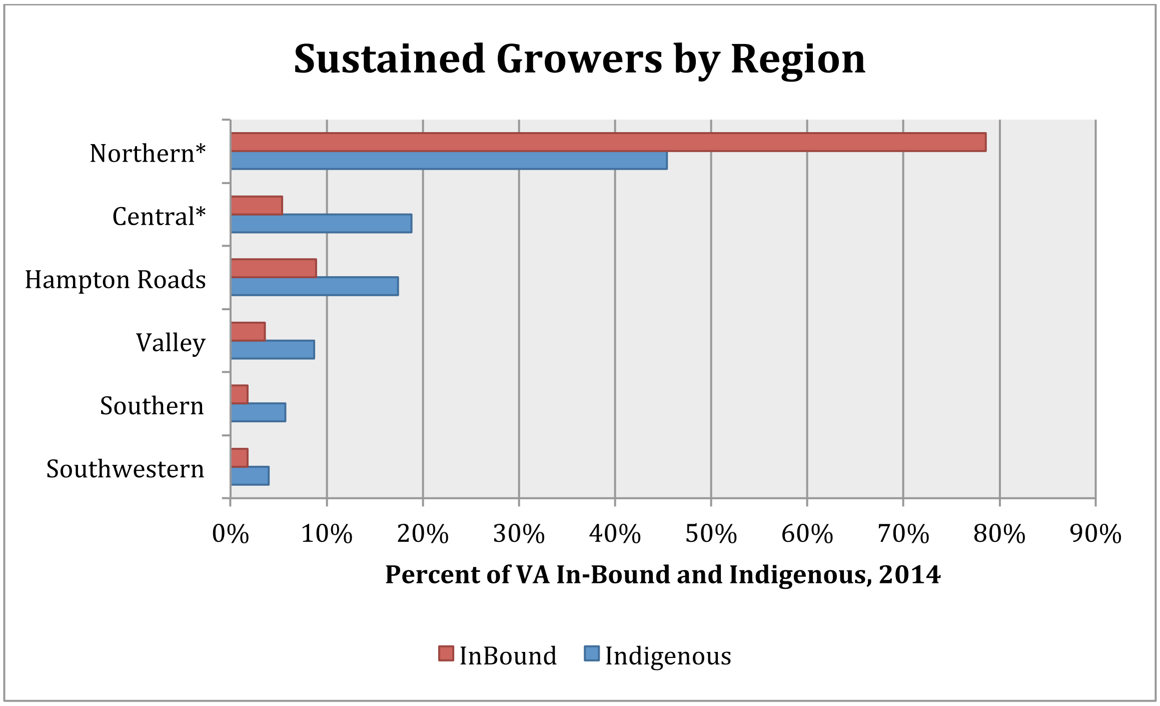
Sustained Growth Migration

The business composition of any region is an uneven mix of indigenous firms that were born there, including start-ups and branches, as well as those that moved into the region from elsewhere. Generally speaking, nearly all companies in any region are indigenous; relocations account for an infinitesimal proportion of the stock of businesses. However, relocations do change the business stock and can help some regions, like Northern Virginia, gain a larger share of better growers. This process may result in cumulatively higher job creation totals there in the future. For this reason, targeted business attraction efforts can make a positive difference.

Lets start at the state level. Consider the 3,019 sustained growers in Virginia in 2014. Of these, 98% were located in Virginia at the beginning of the study period. Over the five years, Virginia gained only 56 new sustained growers and lost only 31. Clearly, migration does *not* have a significant impact on the stock (i.e. the current number) of sustained growers at the state-level.

Source: NETS and Outlier LLC

But despite the small number of businesses, migration does change employment levels and growth within the state. The average in-bound sustained grower had 111 employees in 2014, which is twice the size of the average out-bound sustained grower (53 employees). Those that moved into Virginia over the period added a total of 5,742 new jobs (103 on average) compared to a total of 1,269 new jobs (41 on average) for those that departed. Clearly, Virginia gained in this exchange; increasing its stock of companies with better growth while losing those with less impressive growth. While these numbers are not very large in proportion to the overall state economy, the marginal improvement in the stock of sustained growers over the last period will likely lead to much larger cumulative job creation impacts by these companies in future periods.



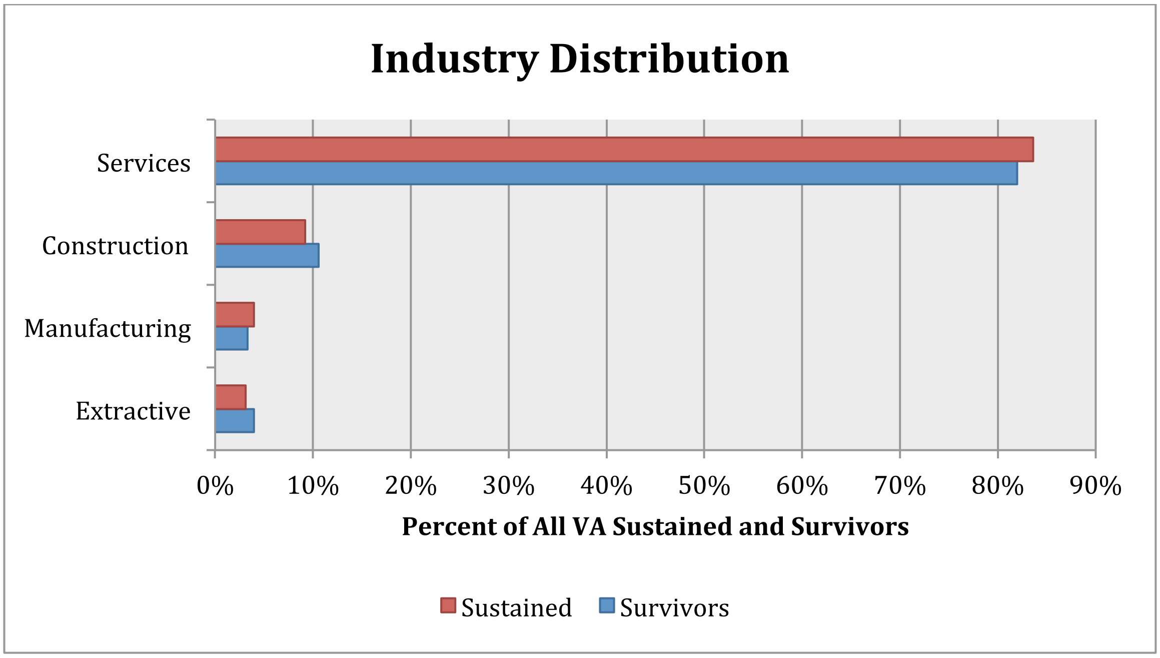
Source: NETS and Outlier LLC

Northern Virginia added to its stock of sustained growers by dominating in-bound relocations. They won nearly 4-out-of-5 of the sustained that moved into the state over the period; significantly higher than its proportion of indigenous sustained in the state. This observation tells us that one of the reasons why Northern Virginia has a higher proportional share of sustained growers is because they are winning a lion's share of in-bound sustained growth companies.

Sustained growth in All Industries

It is generally assumed that industry is a strong determinant of firm-level growth. Indeed, industry volatility is correlated with firm growth. But evidence from NETS data has shown that the industry affiliation of a particular business does not have a strong influence on its level of sustained growth (and neither does its location). That's because, as we shall see, sustained growth is driven more by what happens inside the business than outside of it.[12]

[12] A firm's internal operational characteristics are 10-times stronger than its industry and 50-times stronger than its location in influencing its odds of five-year survival, growth, and



Source: NETS and Outlier LLC

There is no statistically significant difference between the proportion of survivors and the proportion of sustained growers across industry sectors[13].

In Virginia, as in the national economy, there are far more companies in the services industry than elsewhere. The next most populated industry sector is construction, followed by manufacturing and extractive industries. This mirrors the distribution of sustained growth companies in the state.

To deepen the analysis we investigated whether there was any difference in the life-cycle phase an industry is experiencing. Using common definitions of life cycle, we asked our surveyed executives which stage best described their industry:

- Pioneering (young industry with limited sales volume but starting to grow)
- Rapid Growth (sharply increasing industry sales growth)
- Mature (older industry with high sales volume but very little or no growth)
- Declining (older industry with high sales volume but negative growth)

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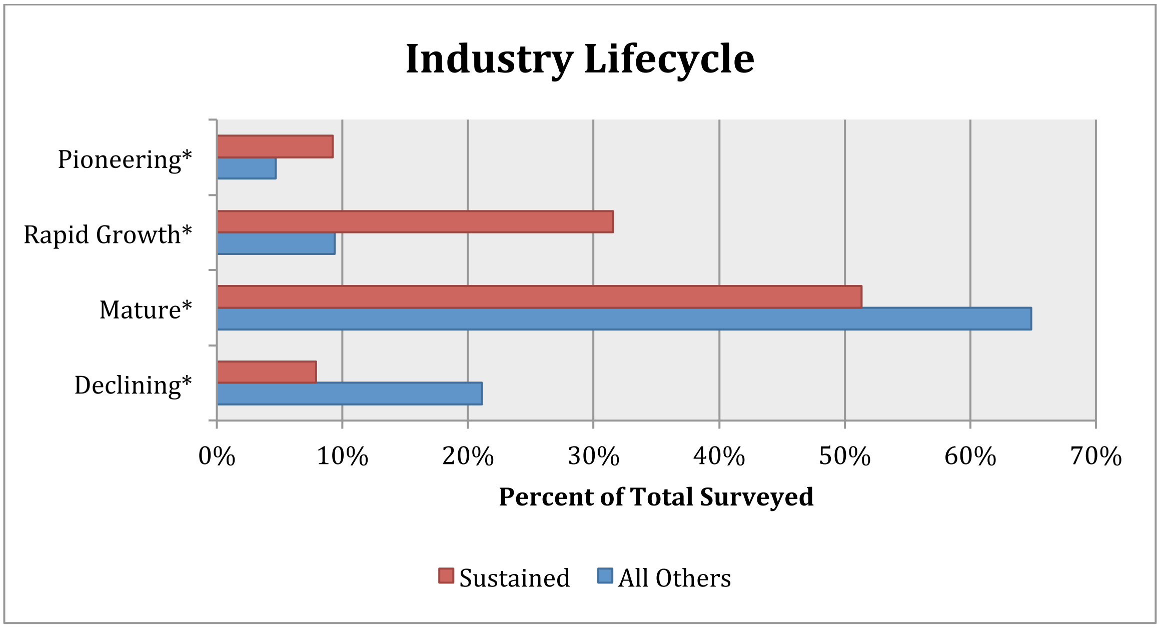
exceptional growth. See 'Cluster Requiem and the Rise of Cumulative Growth Theory'; Kunkle; http://pqdtopen.proquest.com/doc/305095757.html?FMT=ABS

[13] This analysis was previously completed using 72 industry segments at the 2-digit SIC level with similar results. See previous citation.

Conditioned by traditional thinking, we might expect that the majority of sustained growth companies would be in either pioneering or rapid growth industries. This would reflect the 'rising tide lifts all ships' philosophy.

As expected, the survey reveals that there is a higher propensity for sustained growers to be found in the pioneering and rapid growth industries and a lower propensity in mature and declining industries. However, more than half of respondents said they compete in a mature industry. This is true for both sustained growers (51%) and the other firms without sustained growth (65%).



* Statistically significant difference[14]   Source: Virginia Sustained Growth Survey

Obviously, sustained growth is not limited to industries with flashy emerging technologies.

> "We create addictively fun games that sharpen your mind – starting in our basement in 1985 - we are now the leader in this area of the Toy Industry."

We wondered if there was a relationship between a company's competitive position in its industry and its propensity to have sustained growth. Surveyed executives were asked which position their company takes in their industry or market sector:

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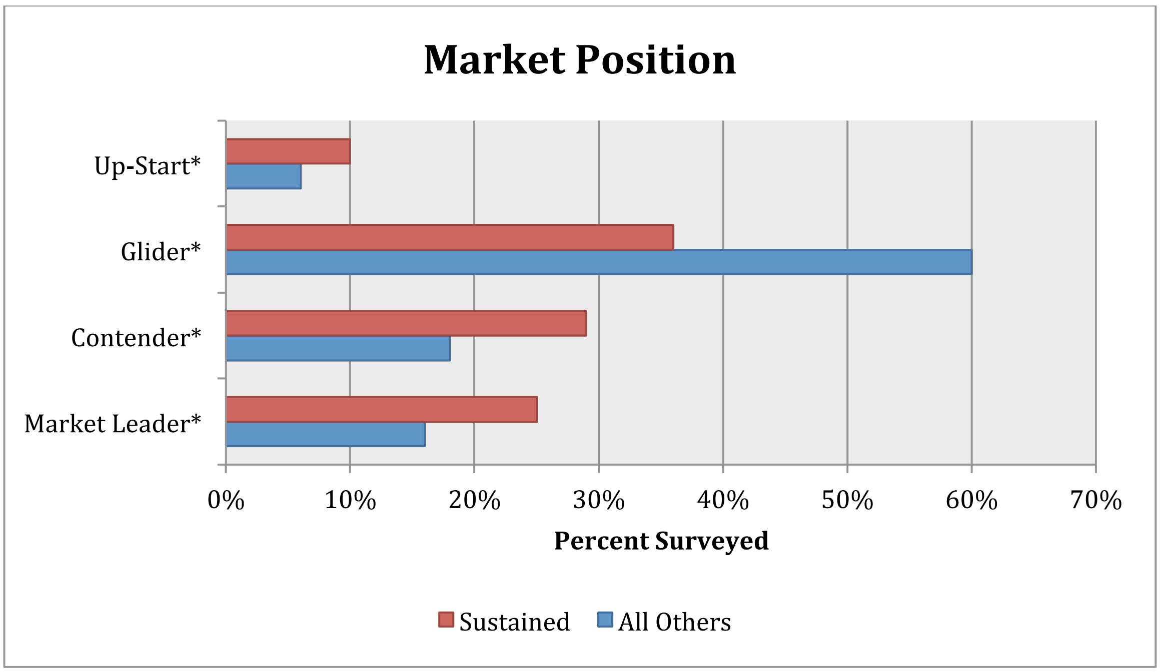
[14] An asterisk (*) indicates a statistically significant difference between sustained growers and other respondents. The reader can consider any attribute marked with an asterisk as a characteristic that helps differentiate sustained growers from other companies. Significance is based on T-tests with Levine's test for variance at level 0.5 or less. For more details, see Appendix A: Methodology.

- Market Leader (Dominant brand and/or technology)
- Contender (Challenger to the market leader)
- Glider (Middle of the pack)
- Up-Start (Emerging brand and/or technology)

The survey revealed that sustained growers are more likely to be up-starts (10% vs. 6%), market leaders (25% vs. 16%), or contenders for market leadership (29% vs. 18%) than other surveyed companies, and these differences are significant. Yet, more than one-third of the sustained were gliders (36%). A glider is not a particularly glamorous position and yet more sustained growers classified themselves that way than any other. Given their impressive growth records, this humble response came as a surprise.



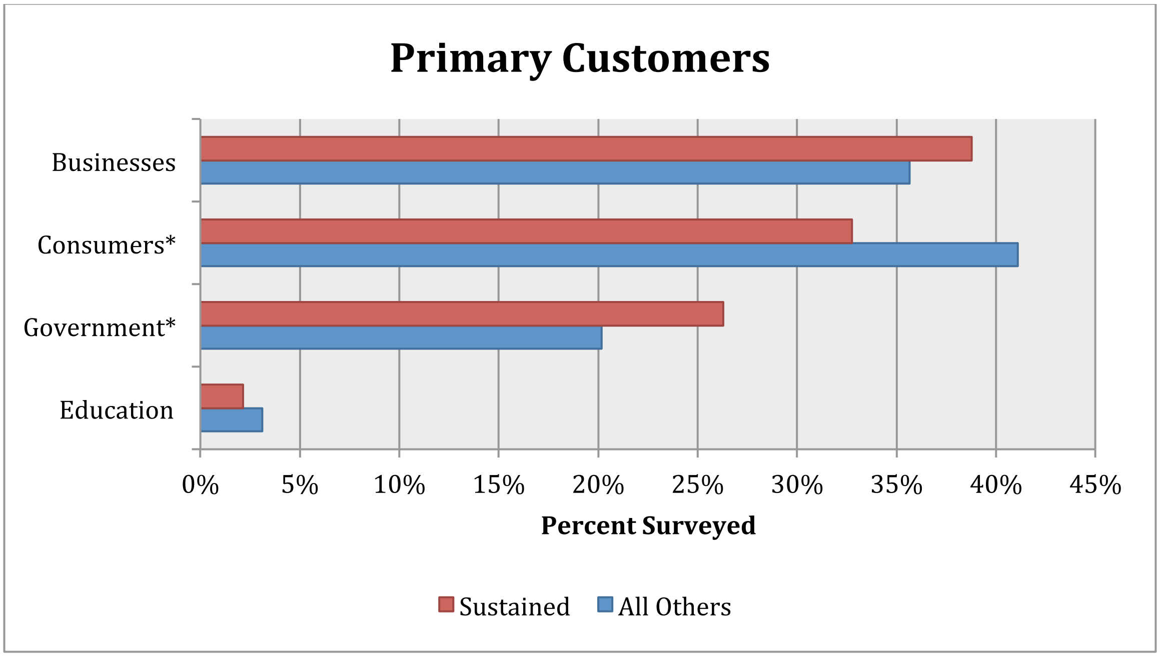
* Statistically significant difference

Source: Virginia Sustained Growth Survey

"We are a 69 year old company – an ESOP, always profitable, printing company which has moved aggressively to diversify."

To complete our investigation of the link between industry activity and sustained growth we inquired about their primary customers.

Sustained growers were slightly more likely to sell to other businesses and significantly more likely to sell to government clients (perhaps not surprising given Northern Virginia's proximity to the federal government). But they were significantly less likely than other companies to sell to consumers.



* Statistically significant difference

Source: Virginia Sustained Growth Survey

When we boil down this evidence we see that industry is not a very strong determiner of sustained growth, and neither is industry life cycle, market position, or primary customers. Sustained growers are found in all industries; in industries of all levels of maturity; in all market positions; and they sell to all sorts of customers.

It is clear that sustained growers are found in all types of locations (urban and rural) and all industries. Because sustained growth transcends the boundaries of location and industry, it does not make much sense to design economic development policies using these parameters. A top priority of economic development should be to breed more sustained growth companies because they create the majority of lasting job growth. To do this effectively, we must evolve beyond policy favoritism based on out-of-date notions that growth is determined by location and industry. We must find ways to strengthen the virtuous cycles inside companies that drive their sustained growth, *regardless of where they are located or their industry*[15].

[15] Over the past decade an increasing number of states and localities have begun to move away from industry cluster policies and other initiatives that favor either rural or urban areas, towards programs that address problems that all companies face. Export assistance is a good example.

Get to Know a Sustained Grower

Modern Technology Solutions, Inc.: Keeping People on the Same Page

Location: Alexandria, VA
Founded: 1993
Employees today: 670+
Years of Growth: 5 out of 5
Industry: Engineering services

Kevin Robinson, CEO

Annual strategic planning is about more than building a road map; it's about bringing an entire company in line with overall vision.

Since its founding 22 years ago by two retired U.S. Air Force Colonels, Phil Soucy (now chairman of the board) and Tom McMahan, Modern Technology Solutions, Inc. (MTSI), in Alexandria, has grown—organically—every year. A fairly conservative, ESOP-based firm, MTSI has built its business around planned growth. Prior to 2011, their compound average growth rates were slated at around 15 to 20 percent. Since then, a stiffer economy has had them peg that number at around 10 percent. Case in point: 2015 revenues were at around $135 million, and projections for 2016 are about $150 million. "Right in line with our planning," notes CEO Kevin Robinson.

As a technology firm, MTSI offers a broad array of products and services, primarily serving the defense, intelligence, and homeland security markets. "We have about 120 different projects at any given time," Robinson says. "We provide engineering test services and solutions, such as missile defense, unmanned systems, and next-generation aviation platforms for the Air Force; cyber security solutions for multiple customers; and high-end engineering services primarily in support of the government, but some on the performance side. We develop some software for the intelligence community for situational awareness and planning and visualization, and we've got about 700 people doing those types of services across the country."

While the company has its headquarters in Alexandria, its employees are spread out at locations across the country, with several imbedded in client operations, such as at the CIA, National Reconnaissance Office, Joint Air Force Base at Andrews, and the Missile Defense Agency at Fort Belvoir. In terms of that geographic spread, about 180 employees are located in the Alexandria area; 300 people in Huntsville, Alabama; 15 in Tucson, Arizona; 70 in Dayton, Ohio; 70 in Colorado Springs; 60 in Las Vegas; 15 at Niceville-Eglin Air Force Base; 10 at Dahlgren, Virginia, supporting the Aegis Ballistic Missile Defense program; and more.

A dedication to company-wide strategic planning

Sustained growth is difficult to achieve, but planning for it—and ensuring company-wide buy-in—presents an entirely different set of challenges. For

MTSI, it starts with a rigorous, forward-thinking annual strategic planning process. “Each year, we build and disseminate a three-year strategic plan,” says Robinson. “It outlines what we plan to do to grow incrementally and how we’re going to do it.”

The planning process at MTSI is neither solely top-down nor insular. It’s a months-long progression—running from April to July of each year—that brings the entire company into play. It starts with a series of off-site meetings over a couple months with the company’s 40- to 45-person leadership team, where input and innovations are shared and, eventually, summarized and distilled down into a set of complimentary strategic objectives and actions.

“We want to get fairly specific at this point,” Robinson says. “It’s about the five or six core objectives we want to meet as a company going forward, the major change initiatives we’ll plan, and the key strategic actions we’ll take to get there and who will get it done. All of this feeds directly into our budgeting process.”

Communicating the plan

Once a plan is developed, MTSI works hard to ensure that it’s disseminated across the organization. The firm uses bi-annual town hall meetings with all 700 employees to share and modify the plan, and it posts the plan of intra-company social media sites, where it also gathers employee feedback that’s used before the plan is finalized.

For Robinson and his team, the strategic plan is more than just a road map for short- and long-term growth; it’s way to tie everyone in the firm to the same, shared vision and clearly explain MTSI’s overall direction.

“As a communication vehicle, it does more than map out our objectives,” Robinson explains. “It tells our employee owners that we’re not growing for the sake of growth or chasing revenue and why our particular plan is geared to solving global problems, growing using our own standards, protecting jobs, providing new opportunities, and enhancing our value to customers.”

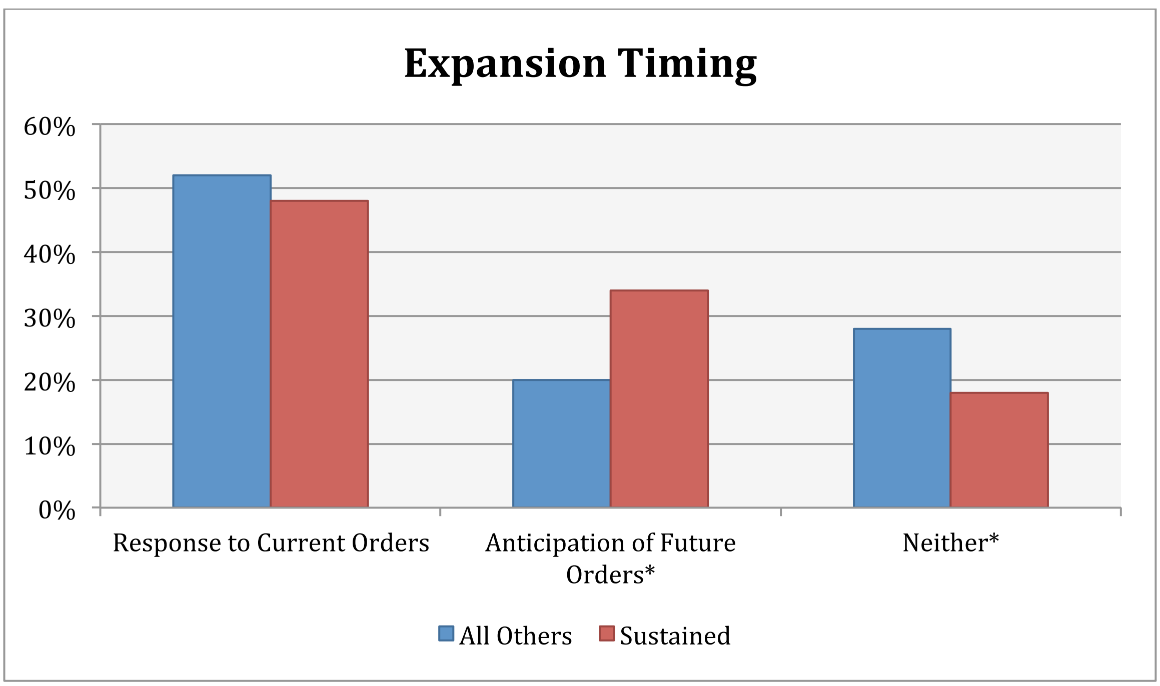
Inside the Firm – Virtuous Growth Cycles

Optimistic and Aggressive

Expanding is, by essence, an optimistic activity. It involves committing time and money for new capacity in anticipation that tomorrow's sales and profits will be better than today's. Company leaders realize a significant risk when they commit to an expansion. If tomorrow turns out worse than today, and they need to reverse the expansion by letting people go or selling production machinery, only a fraction of the money spent on the expansion (and none of the time) is recoverable.

Because of this risk, companies are traditionally expected to expand in a conservative manner. They wait until they are nearing their operational capacity and have enough orders to justify the risk, time, and financial expense needed to expand. It is widely assumed therefore, that growth in supply lags growth in demand.

This expected pattern is true for about half of the companies we surveyed, both sustained and the others. However, a significantly higher number of the contrarians - those that expand in *anticipation* of future orders - are sustained growers. Expanding before orders materialize is far more aggressive and optimistic than being reactive and waiting until new sales are booked[16].



* Statistically significant difference Source: Virginia Sustained Growth Survey

[16] Companies that answered 'neither' tended to expand because of reasons not directly related to actual or anticipated sales, such as instructions from HQ or triggers such as utilization rates or capital availability.

Growth is Planned and Communicated

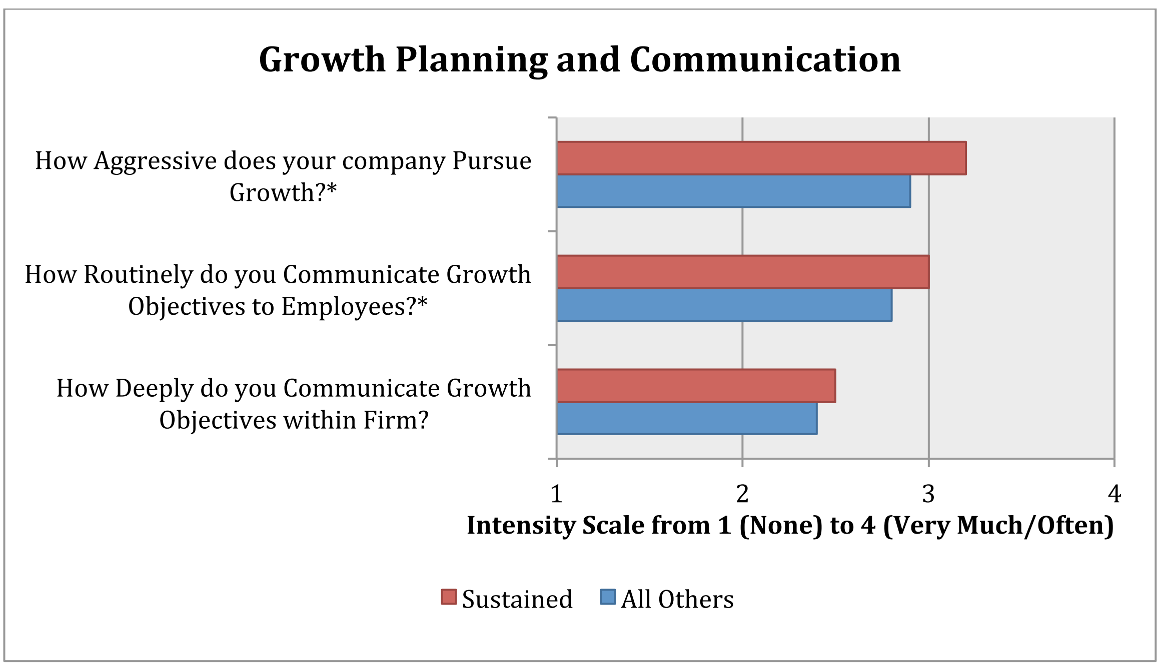
On average, sustained growers reported 3.6 years of job growth over the study period, compared with one year of *loss* at other businesses. This resulted in an average of 65 new jobs created at the sustained growers versus a *loss* of 15 jobs at the other businesses. In addition, 96% of sustained growers plan to add additional new employees in Virginia over the next 24 months.

Business growth is not randomly determined nor is it the result of luck. It's intentional.

To measure intention, we look closely at the planning process: how it's designed, what it includes, and its objectives. We find six important characteristics that statistically differentiate sustained growers from all the other companies surveyed.

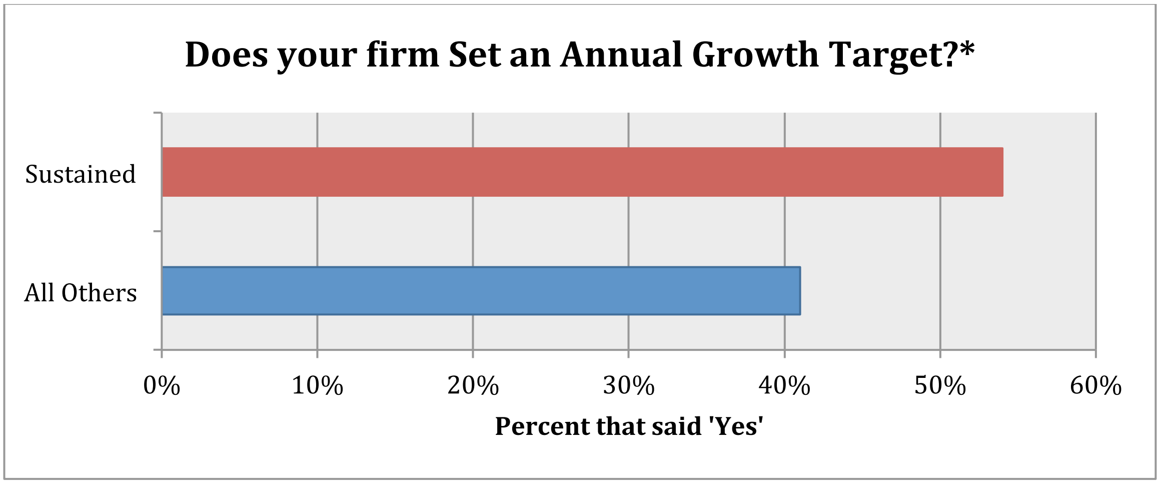
Sustained growers are,

- More likely to establish annual growth targets;
- More aggressive in their pursuit of growth;
- Have a more formal business planning process;
- Include more sources of inputs into their planning process;
- More routinely communicate their growth objectives to their employees;
- More confident that they will achieve their targets over the next three years.



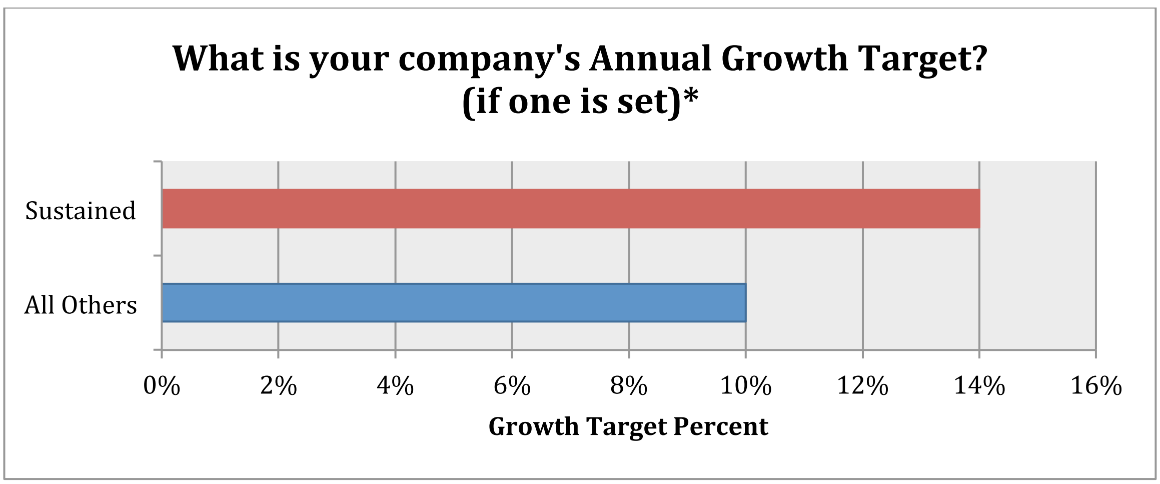
* Statistically significant difference Source: Virginia Sustained Growth Survey

Sustained growers describe themselves as significantly more aggressive in pursuit of growth than other companies. They also tend to communicate those growth objectives more frequently to their employees.



* Statistically significant difference Source: Virginia Sustained Growth Survey

Sustained growers are more likely to establish annual growth targets than other firms. And when targets are set, the target growth percentage is higher among sustained growth companies.



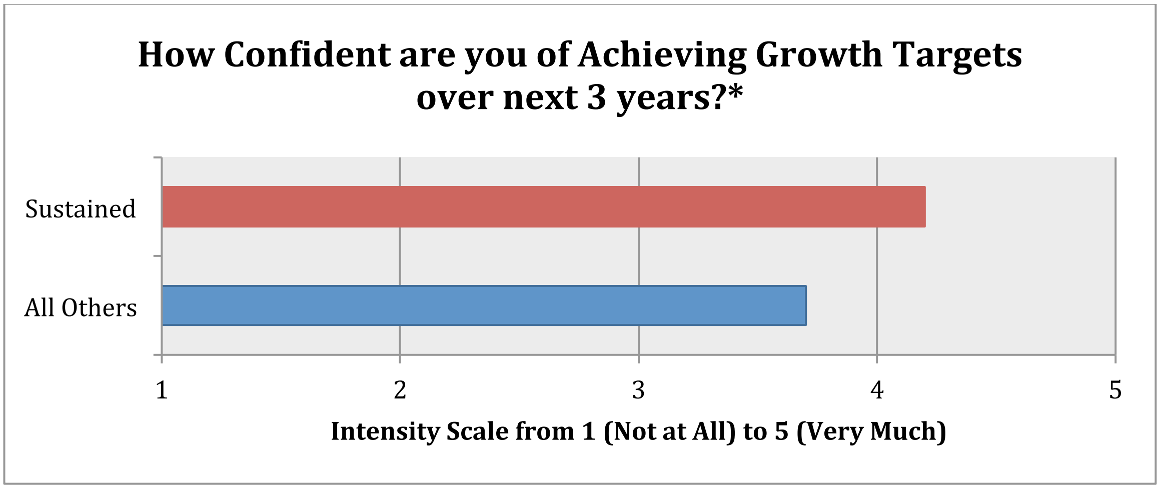
* Statistically significant difference Source: Virginia Sustained Growth Survey

Setting high growth targets and routinely communicating them to employees pays off.

"The best way to grow is to have a big hairy ass goal to achieve and always move it along so that it can never be attainable!"[17]

Perhaps reflecting their past success at planning and communication, sustained growers are significantly more confident that they will continue to achieve their growth targets than other companies.

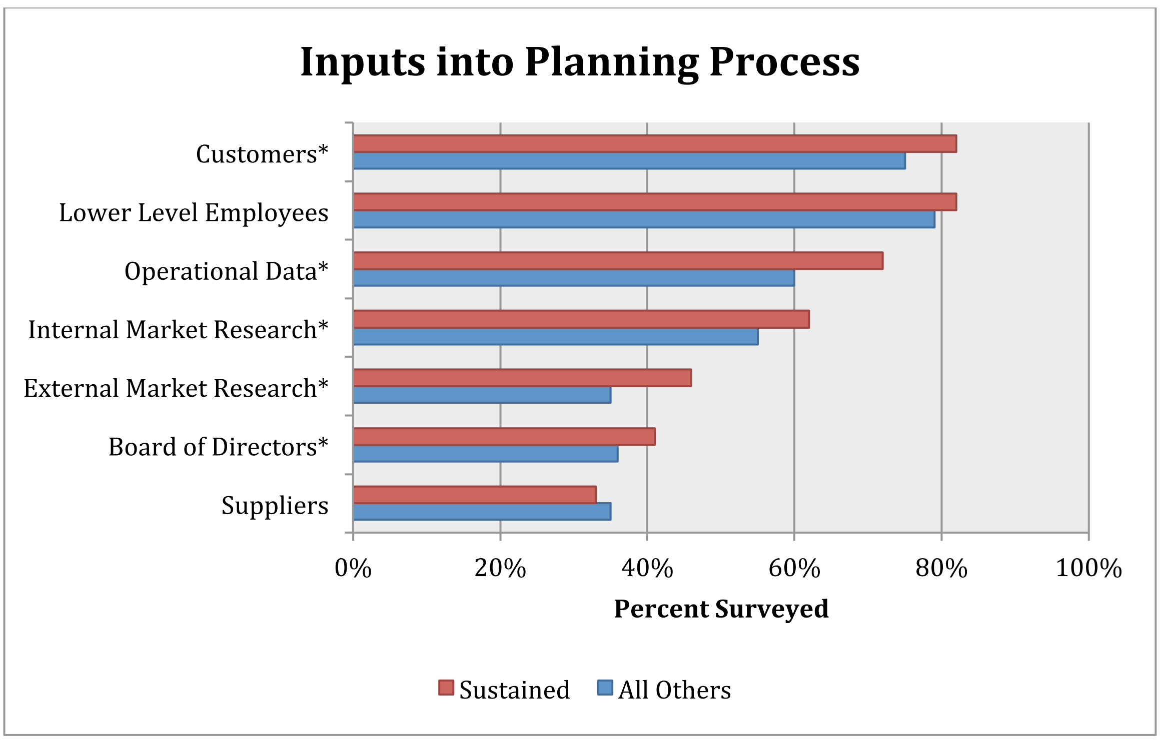
[17] 'Big hairy ass goals' or 'bid audacious goals' are frequently used jargon in some self-improvement and business management literature.



* Statistically significant difference

Source: Virginia Sustained Growth Survey

During the business planning process sustained growers rely more heavily on certain types of inputs than other businesses. For example, sustained growers are statistically more likely to include input from customers, operational data, internal and external market research, and their Boards of Directors than are other firms.



* Statistically significant difference

Source: Virginia Sustained Growth Survey

> "When you are up to your ears in alligators it's hard to remember your initial objective was to drain the swamp!"

Listening to customers as well as market research keeps a business closer in touch with changing market preferences, increasing their ability to attract and retain high-value customers and develop new high-margin products/services. Listening to operational data makes it easier to time expansions and invest in critical production tools and technology. Listening to employees increases their morale and makes it more likely that they stay attuned to the growth objectives of the company. Listening to the Board makes it more likely that the firm will have access to external expertise and resources when they are needed most.

The more these processes are repeated, the easier they are to execute and the more valuable the outcomes, making it more likely that they will be repeated in the future. This is an example of a Virtuous Growth Cycle that helps sustain growth.

Quotes describing other inputs into the business planning process:

- "Advanced data analytics"
- "Complaint monitoring"
- "Information on competitors"
- "Past successes and mistakes"
- "Peer group best practices sharing"
- "Suggestions from any employee that can help us grow and be more profitable"

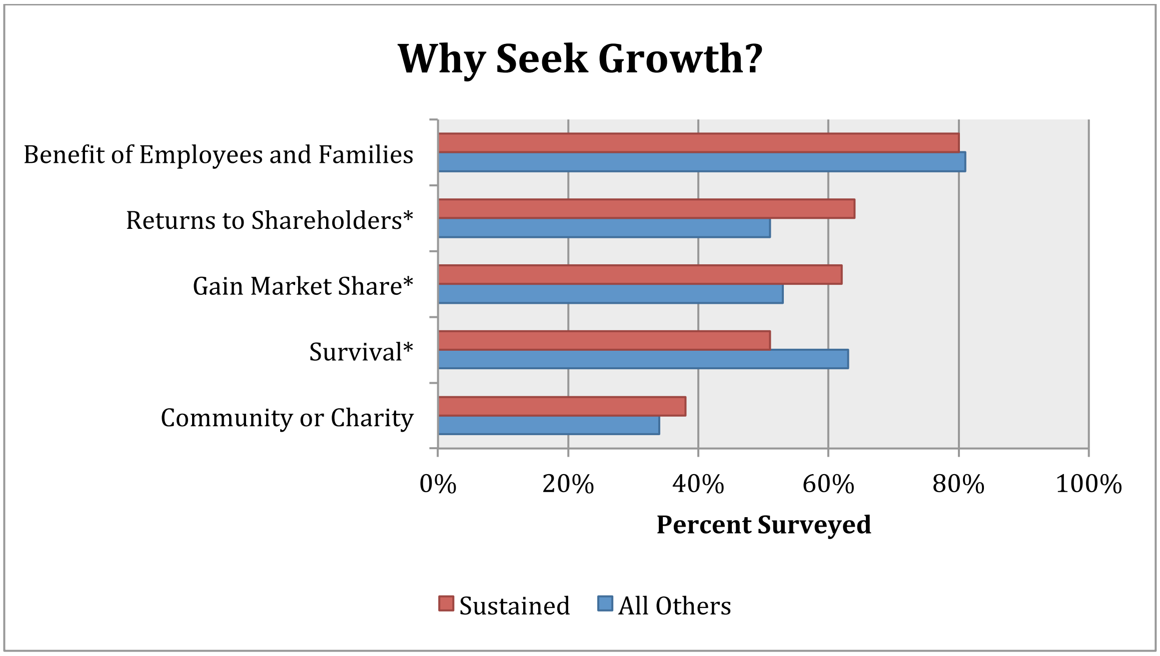
Sustained Growth Benefits All

For-profit companies are often disparaged because many people wrongly believe that the only reason they grow is to 'maximize shareholder value'. Our survey shows that this is not true for all businesses. Most of the companies we surveyed report that there are plenty other reasons why they seek growth, and many of these are good for their communities and society at large.

"We are a small, family owned business. Our goal is to exceed our customers' expectations while taking care of our employees."

Some 93% of sustained growers we surveyed are privately owned, as were 95% of the other companies. When asked what were the objectives of growth ('Why grow?'), at least 80% of all companies said it was for the benefit of their employees and their families. More than one-third of the companies also said they grow for the benefit of their community or to champion an environmental or charitable cause. This finding demonstrates a much stronger civic mindfulness than is widely recognized or appreciated.

A recent peer-reviewed study by a team of scholars at the University of North Carolina, Charlotte (including this author) investigated whether sustained growth companies have measurable impacts on regional wage levels[18]. They found that regions with relatively higher concentrations of sustained growth businesses enjoy faster wage growth for all workers in the region, when compared with other regions across the country. Thus, there is strong evidence that sustained growth benefits not only employees and their families, but also other workers throughout their communities.



* Statistically significant difference Source: Virginia Sustained Growth Survey

Granted, sustained growers are statistically more likely than others to grow for the objective of returns to shareholders and to gain market share. Yet, 80% of sustained growers were focused on the benefits to employees and families, which was their most important objective. There were also slightly more sustained growers interested in championing a community or charitable issues than the other firms (38% vs. 34%).

Growth Objective: "To create and build something significant."

We also asked which reasons would justify the investment of their company into championing a charity, social issue, or environmental cause. We found that sustained growers were far more likely to justify such investment across almost all possible reasons[19]. Most significantly, they believe such investment is justified because it helps

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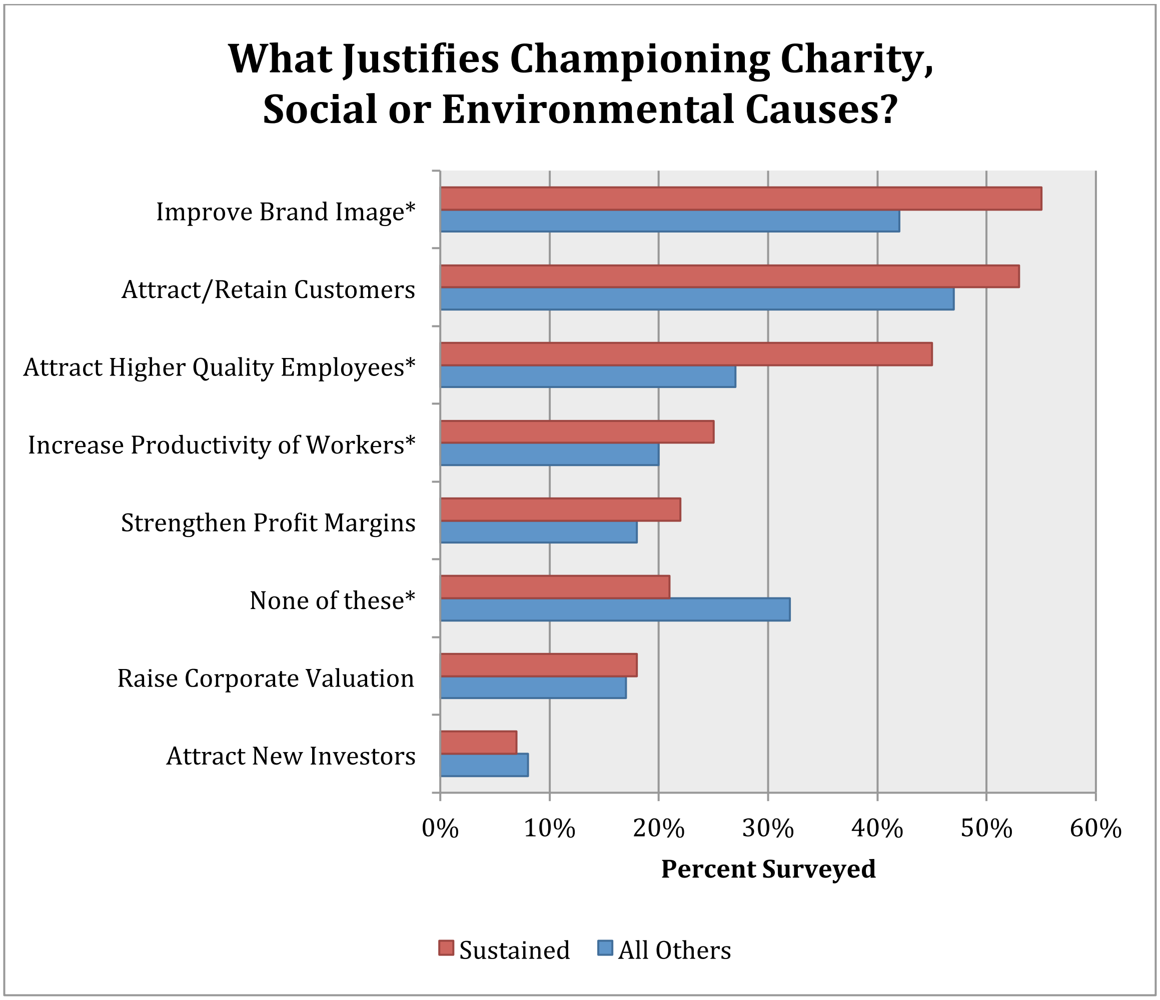
[18] 'Sustained Firm Growth and Regional Income Convergence'; Campbell, James, Kunkle; to be published in an upcoming *Papers in Applied Geography*. For a draft, see http://exceptionalgrowth.org/insights/FirmGrowthRegionalIncome.pdf

[19] Over the past five years a number of peer-review studies have established links between corporate charitable giving and each of the benefits mentioned in the accompanying chart.

them improve their brand image, attract higher quality workers, and increase worker productivity.



* Statistically significant difference Source: Virginia Sustained Growth Survey

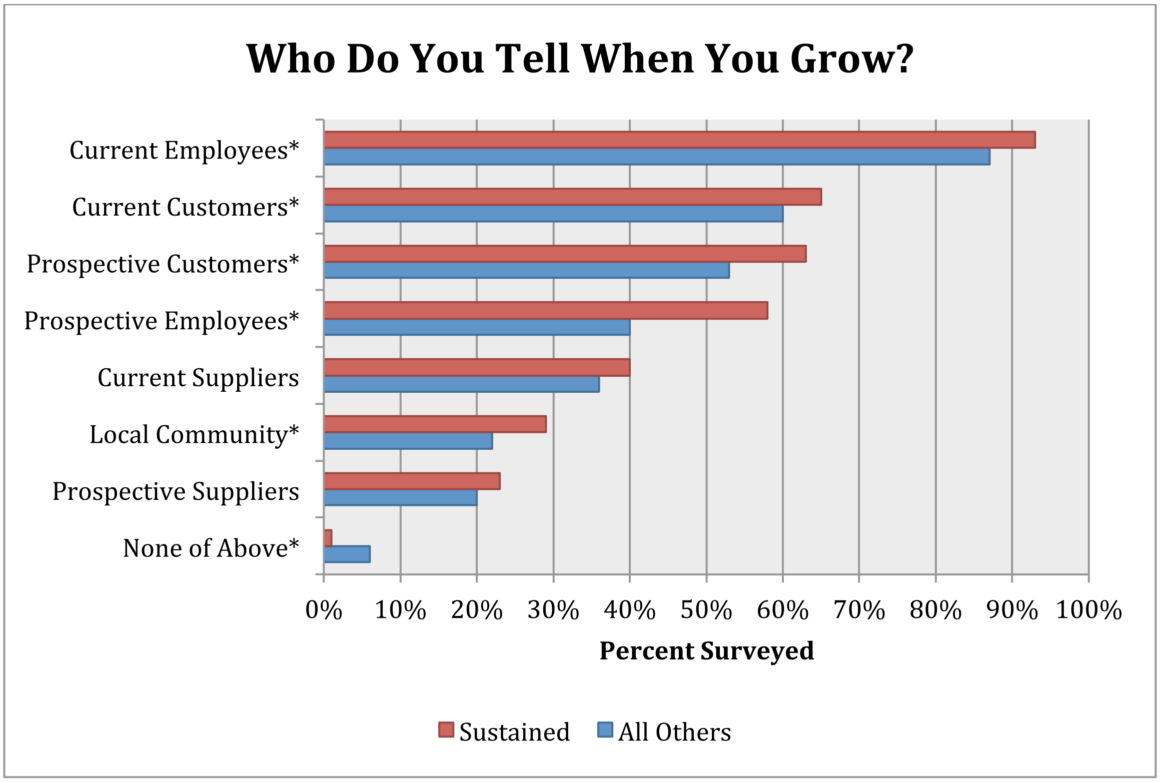
It appears that sustained growers have a more conceptually inclusive understanding of 'stakeholders' (as opposed to the more restrictive 'shareholder') than other firms. They seem to recognize that there are more people that depend upon their success – and suffer at their failures – than just the firm owners.

Perhaps more charitable participation can be encouraged through public recognition of the mutually beneficial links between growth and giving.

Growth Begets Growth

It never hurts to toot your own horn. When you do well, and you let others know, you may have more opportunities to do well again. This Virtuous Growth Cycle is strongly implied by our survey data.

We asked companies who they tell when they grow.   Of the seven types of potential audiences that could be targeted with a message saying 'we're growing!" sustained growers were statistically more likely to broadcast to five of them: current and prospective employees, current and prospective customers, and their local community.

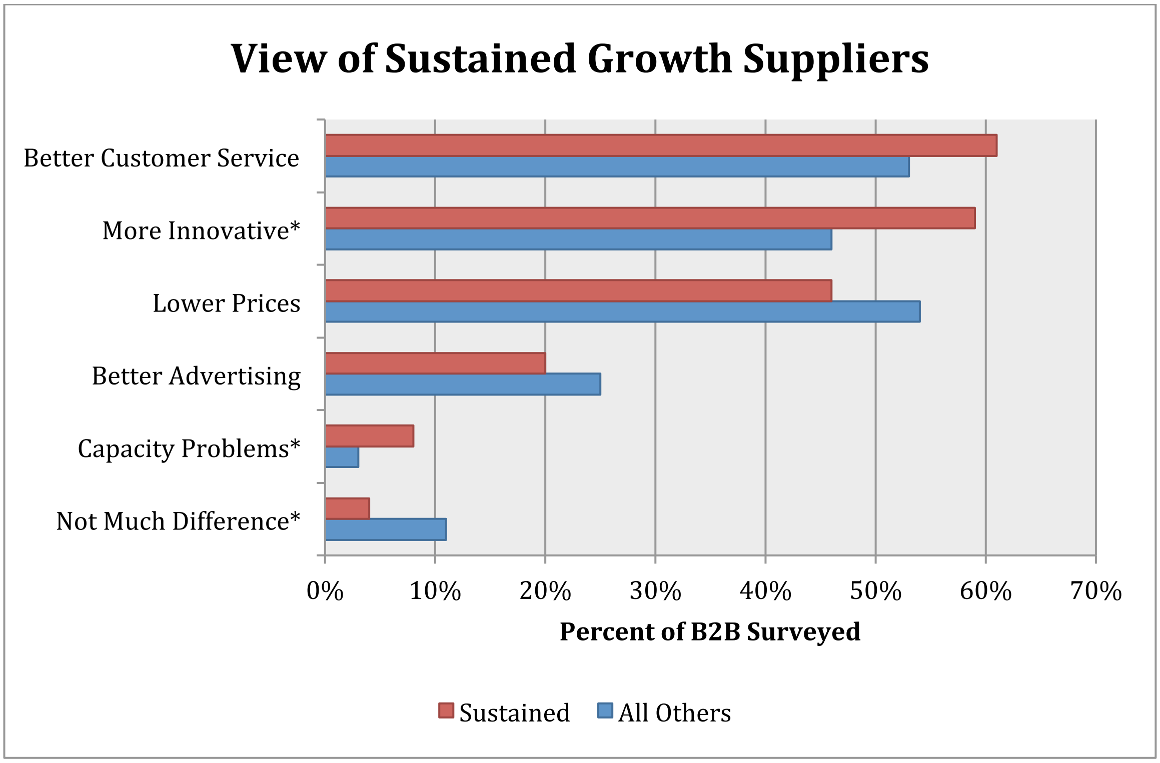


* Statistically significant difference   Source: Virginia Sustained Growth Survey

It makes sense to tell your current employees that you are growing. This helps keep moral high and gives them the feeling they are working for a winning team. This, in turn, can increase productivity and reduce employee turnover. Telling prospective employees may make it easier to hire higher quality talent, who are likely to also want to be on a winning team. Making it known in your community that you are growing can also help expand the number of employment applications you receive, increasing your ability to hire better workers. The better the workforce, the better your chances of repeating growth.

Growth Objective: "To provide quality services to our customers with integrity."

Broadcasting your growth to current and prospective customers can help build your business. We know from the survey that suppliers that broadcast their growth are viewed as having better customer service and being better innovators than other firms. This, again, helps improve the odds of future business growth.



* Statistically significant difference

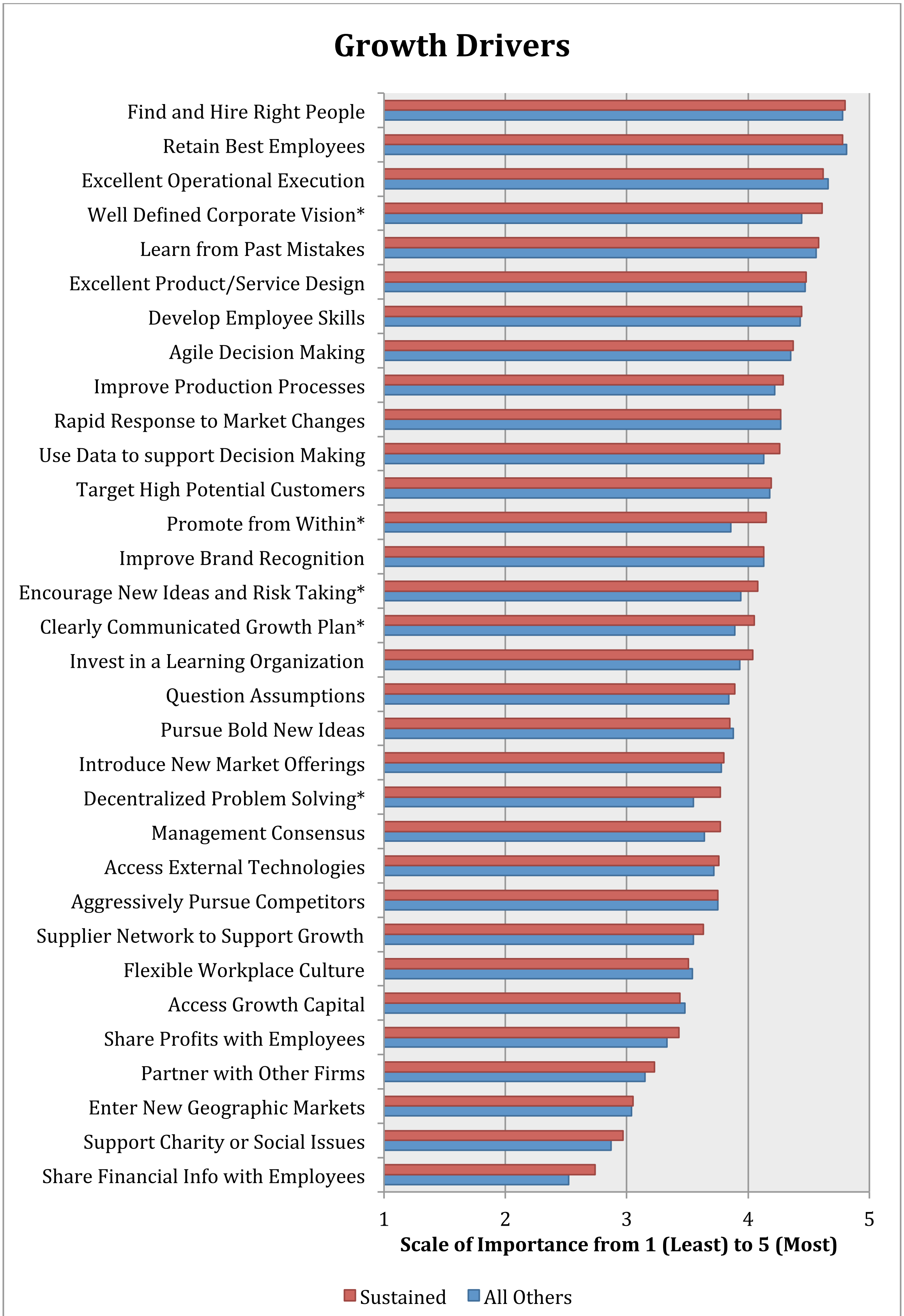
Source: Virginia Sustained Growth Survey

Stronger Growth Drivers

We asked about 32 possible growth drivers that are prominent in the management literature in order to evaluate which are most important and which ones differentiate sustained growers from other companies.

For both groups HR issues were ranked as the top drivers: finding, hiring, and retaining top talent. This speaks to the old wisdom that 'a company's best assets are its people'.

Perhaps most surprising was that access to growth capital was very low on the list, ranking 27th in importance. While these programs may be very beneficial for companies that do lack adequate access to capital, we shall see that sustained growers are most interested in an incentive that directly increases their motivation to spend their *own money* on growth.



* Statistically significant difference

Source: Virginia Sustained Growth Survey

There are five growth drivers that are statistically significant in differentiating sustained growth companies from others. Sustained growth companies believe in (in order of importance):

- A well defined corporate vision;
- Promoting from within;
- Encouraging new ideas and risk taking;
- A clearly communicated growth plan;
- Decentralize problem solving.

As shown earlier, sustained growth companies are more aggressive in pursuing growth, articulating a plan, and communicating it clearly to their employees. We see now that it is both their belief ('talking the talk') as well as their actions ('walking the walk') that set them apart.

They follow up these plans and visions while empowering employees to pursue new ideas even if they are risky, and to make decisions for themselves – as long as they are in-line with the vision and plan. Those that do this well are then promoted to supervisors and managers within the firm. Promoting from within, rather than hiring from outside, builds firm- and market-specific knowledge within the organization. This unique knowledge drives competitive advantage and increases the probability of subsequent growth[20]. Virtuous Growth Cycle, yet again.

Fewer Growth Barriers

We asked companies about 14 barriers to growth that are well documented in the management literature. As with the growth drivers, we seek to understand which of these are most important and which differentiate sustained growers from other companies.

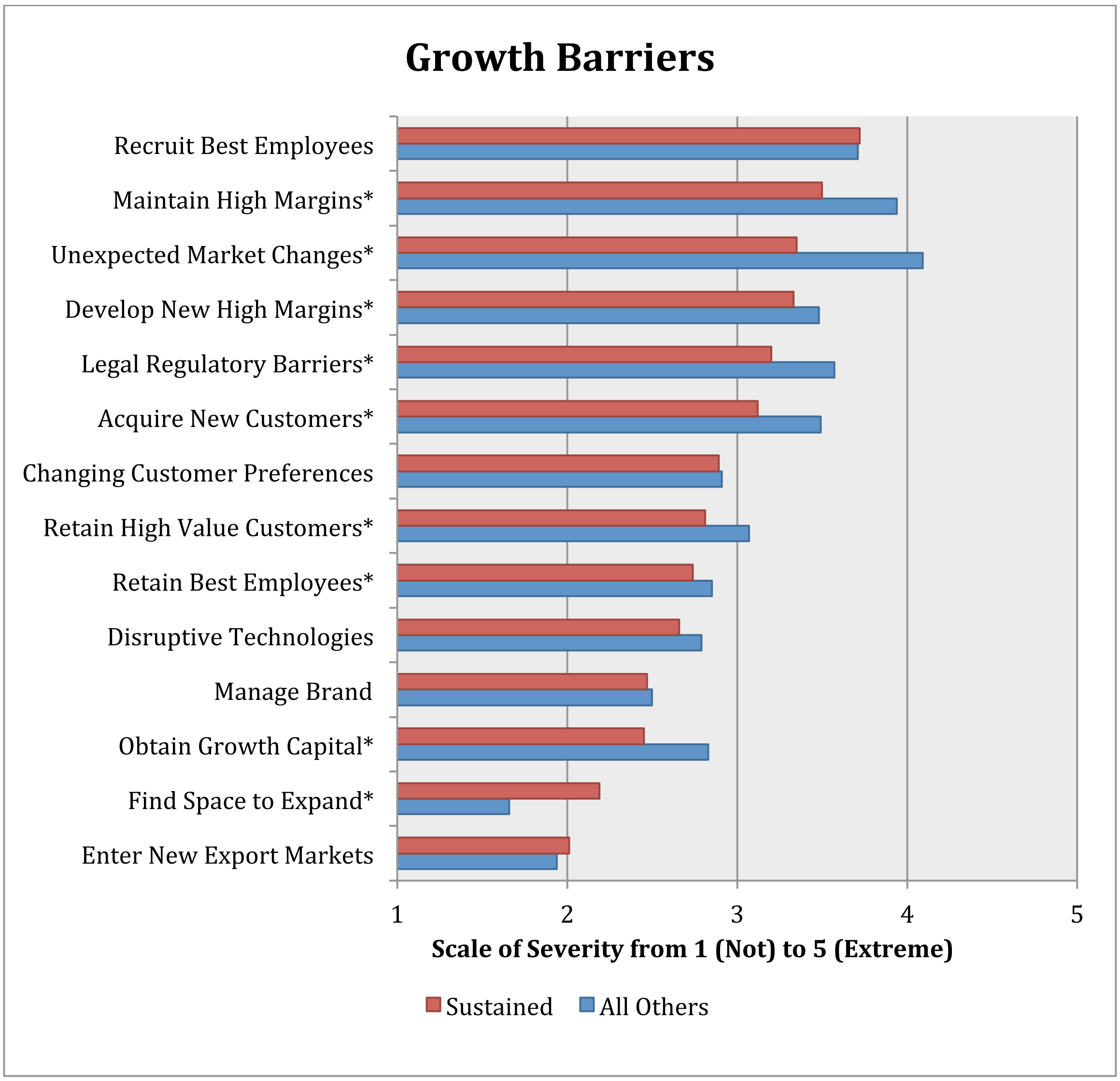
Sustained growth companies reported fewer problems than other companies for 11 of the 14 barriers. In particular, sustained growers are significantly less likely to experience these problems than other firms (in order of importance):

- Maintaining high margins on existing products or services;
- Responding to unexpected market changes;
- Developing new high margin products or services;
- Handling legal or regulatory barriers;
- Acquiring new customers;
- Retaining high value customers;
- Retaining their best employees.

[20] For more on this topic use https://scholar.google.com and see Edith Penrose and the 'Resource-Based View' of firm growth.

It's interesting to think back on the growth drivers and planning inputs that differentiate sustained growers. It appears that doing those things well helps alleviate growth barriers.

Imagine an organization that listens closely to its customers, market research, and employees during the planning process – where employees are empowered to make decisions and take risks, while being guided by a clearly articulated and communicated corporate vision. Such a company is far less likely than others to have problems anticipating market changes, acquiring new customers, and developing new high-margin products and services. And they are less likely to lose their most valuable employees, particularly if they are promoted as a reward for success.



* Statistically significant difference

Source: Virginia Sustained Growth Survey

The only growth barrier that is more of a severe challenge to sustained growers is finding space to expand. That's a nice problem for economic developers to solve!

Get to Know a Sustained Grower

QRC Technologies: A Culture of Product Growth, Built by Employees

Location: Fredericksburg, VA
Founded: 1987
Employees today: 70
Years of Growth: 5 out of 5
Industry: Electrical equipment

Tom Callahan, CEO

Empowering employees had helped this cellular technology firm achieve annual growth of over 20 percent.

If a company is only as strong as its employees, then QRC Technologies, based in Fredericksburg, owes much of its growth to the innovations its team brings to the table every year. In that vein, during the past five years, QRC has experienced a compound annual growth rate of more than 20 percent annually and currently has more than $20 million in revenues. In addition, since 2012, it has expanded from 45 people to 70.

The company, which builds test and measurement equipment for use within cellular networks, serves the government, military, and law enforcement markets.

However, that's not how QRC got its start. President and CEO Tom Callahan characterizes the firm as being in its "second life." "We were founded in 1987 by a gentleman named Roger Matherly, who is still the chairman of the board today. He had been the vice president at a seller's representative company out of Maryland, and QRC's original role was to customize the products he sold in that role for the government," he explains. "In 2005, we had a sort of 'second founding.' At that time, we became a product development company, with the goal of building everything from the ground up. Today, we have four significant product lines, all based in whole or in part on cellular communication."

Team-driven innovation and growth

While serving the market with the right products has helped QRC expand, Callahan attributes the company's sustained growth to its team and their ability to innovate. More than simply executing on management's vision, the QRC team has been actively involved in product development since its second founding in 2005.

"We've found that among the best ways to keep employees engaged is through empowering them to help drive our direction and growth," he says. "One of the first things we did when we shifted direction was to implement a program called the New Product Initiative, or NPI. It's a lot like *Shark Tank,* but we put it into play long before that show ever hit the air."

NPI is a program developed by Callahan designed to solicit new product innovations and ideas throughout the company. It is a guided process that starts with the collection of initial ideas and, for those selected, extends through formal business plan development. Each year, Callahan and his senior management team get dozens of suggestions, which are eventually culled down to six, and are then formally presented to a five-member management board. Every year, at least one of those NPI proposals becomes part of the existing product line or is developed as an extension.

"Part of what we need to do is anticipate our customers' needs before they do—to solve problems they don't yet know they have," Callahan notes. "We need to think about today *and* five years ahead. Because we have company-wide participation, we get ideas from salespeople, who are close to customer needs and can help articulate how those needs might translate into product improvement going forward. Moreover, we have input from the engineering side, which sees where new technologies arise and how we can integrate those into what we provide. NPI gives us the opportunity to view—and execute on—product development from a wide range of perspectives."

Harnessing failure

Not every idea that goes through the process is a success, but, says Callahan, you don't grow if you're not willing to take risks. That said, the process itself ensures that QRC can "harness its failures," he says. For example, a product called QPAD, essentially a computer with a built-in bay for additional hardware, ultimately did not succeed. "However, we were able to imbed the technology developed through the process directly into our Wide Band Transcorder product, which has been incredibly successful. No failure is a complete loss if you have the right idea-generation processes in place."

Empowering its people has clearly helped QRC grow and has also kept employees happy. The approach has been validated by a recent survey from workplace culture research firm Great Place to Work, which showed that, among other things, 99 percent of staffers feel that QRC offers a great atmosphere, rewards, and communication.

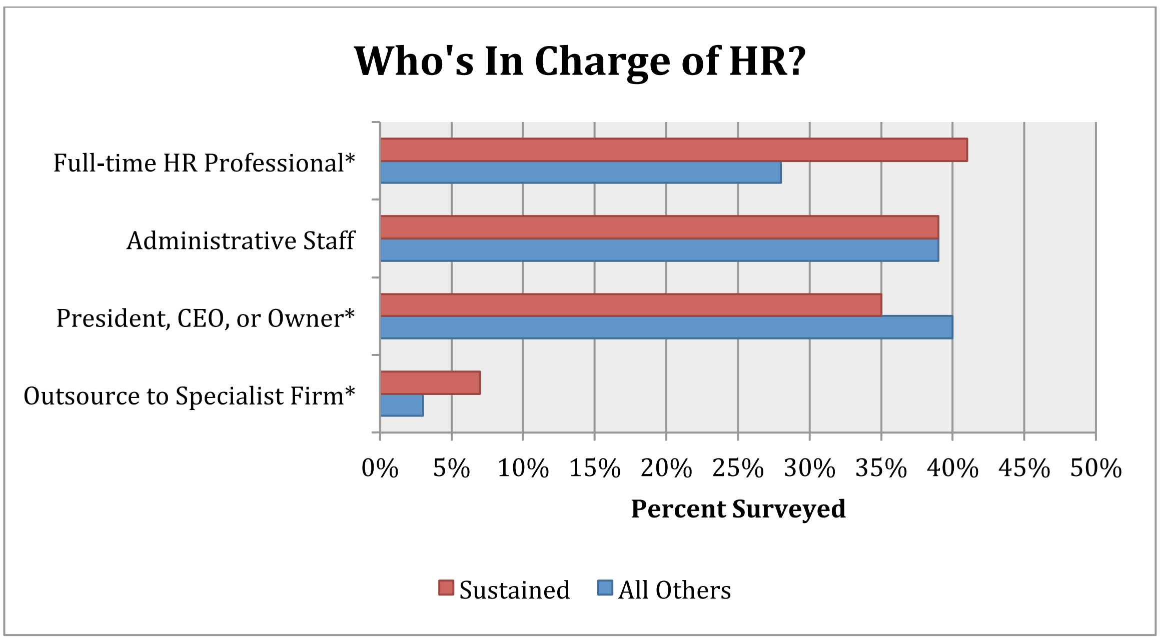
"There is no question that our people drive our success," adds Callahan, "and that we work to help them succeed."

Human Resources and Increasing Returns

> "We are a leader in cloud integration and managed cloud brokerage services. We've done this for almost 14 years. We invest in our people and their skill set and the owners leave all the money in the company to support these efforts."

We've seen that human resources issues are the top barriers to growth for all companies. We also now know that sustained growers believe that communicating with, empowering, and promoting employees are important growth drivers. We now look much more closely at how these companies manage their HR assets.

Sustained growers are differentiated by a much higher tendency to employ a full-time professional HR manager. In contrast, they are significantly less likely to continue the practice of having the founder or other firm leader in charge of HR as is common during start-up and early growth. Professional HR managers can help the firm adopt practices that improve employee hiring, screening, retention, and productivity; thus reducing the company's barriers to growth. They also free-up time for the company's leaders to focus on other growth issues.

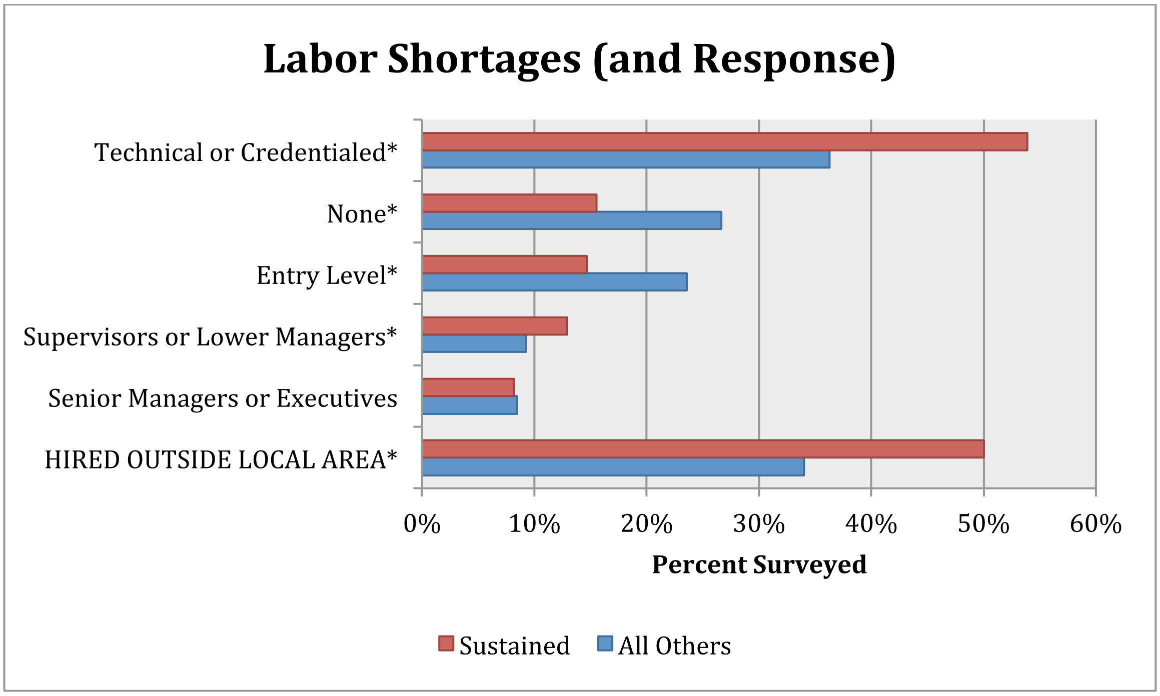


* Statistically significant difference Source: Virginia Sustained Growth Survey

More than half of sustained growers face an on-going shortage of technical or credentialed workers. Half of them recently hired such workers from outside their regions, essentially importing talent. While this is a good method of overcoming local labor shortages for the firm, it also up-grades the skill base of the region.

“We are a high tech services company and we need access to engineering and computer science students at Virginia universities.”

Sustained growers are more likely than other companies to encounter difficulty finding qualified supervisors and lower level managers. As we have seen, they are thus more likely than other companies to promote from within which gives them additional benefits of having people in these positions that retain knowledge from past growth experiences.



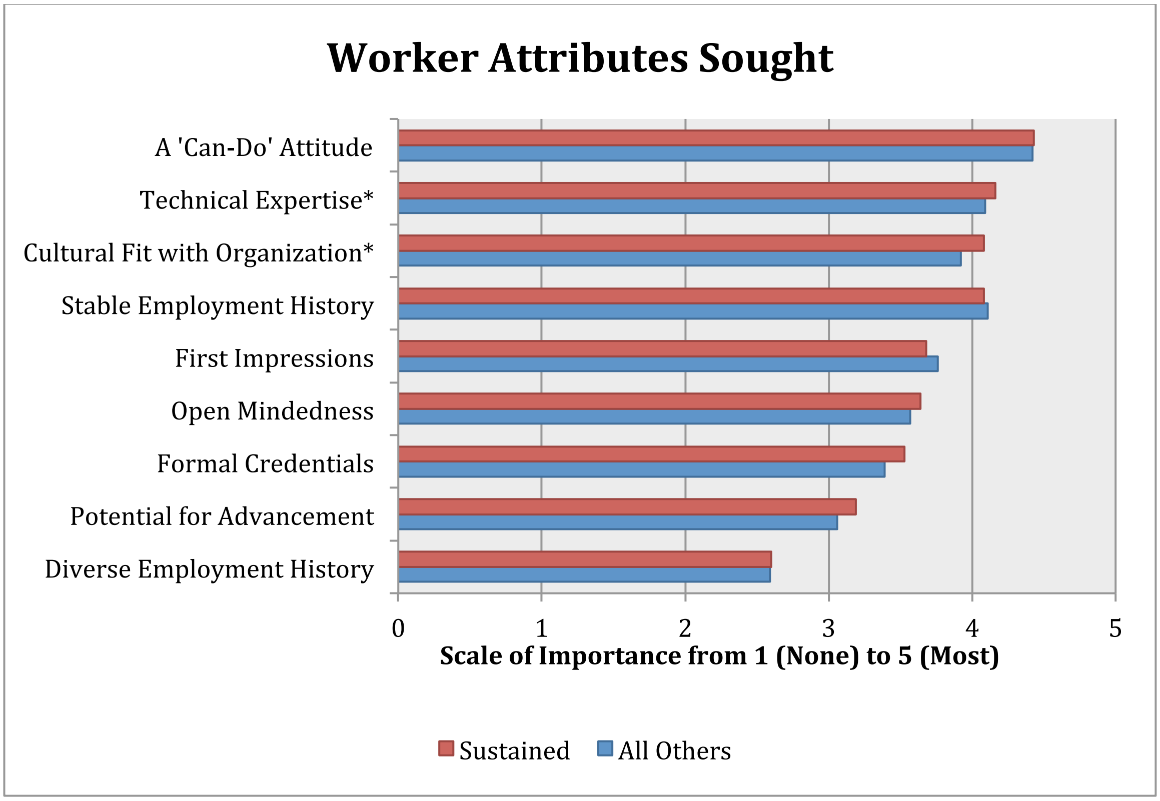
* Statistically significant difference

Source: Virginia Sustained Growth Survey

Companies that don’t have sustained growth typically don’t face as severe labor shortage because they simply aren’t hiring as often. When they do hire, it’s usually to replace entry-level workers. Companies that are hiring primarily to replace workers are more likely to be concerned about issues related to workforce habits and work ethics. Accordingly, we observe in the comments section of the survey that replacement problems often arise because of these issues (i.e. absenteeism, drugs and alcohol, etc.) among lower skilled employees.

“The basic problem for us is not skill and training…its finding folks with good work ethic, that have common sense and are loyal, who play well with others and don’t bring all their personal problems to work.”

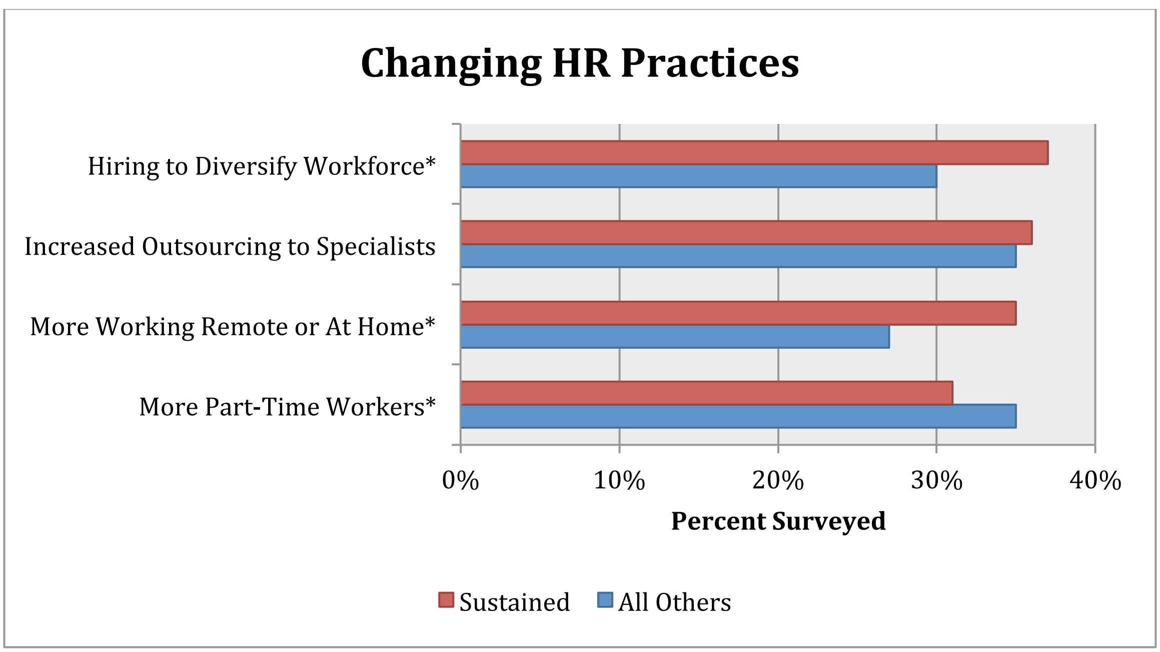
Given the problems that persist regarding work ethics and habits, its not surprising that the most widely sought attribute is a ‘can-do’ attitude among employee candidates. This and ‘stable employment history’ can be considered a form of screening for work ethic.



* Statistically significant difference

Source: Virginia Sustained Growth Survey

We explored the degree to which sustained growers were more likely to pursue some of the more widely discussed and increasingly popular HR practices.



* Statistically significant difference

Source: Virginia Sustained Growth Survey

We found that sustained growers are significantly more likely to have adopted policies aimed at increasing workforce diversity. This may provide growth benefits, as the company can draw upon a wider internal talent pool when attempting to solve complex and sensitive market and management problems. It is also very positive from a policy perspective. Greater workforce diversity increases social equity by sharing the benefits of growth to a wider cross-section of the population.

Sustained growers are also more likely to allow workers to work from home or at remote site. This means that these companies are physically decentralizing their workforce by dispersing a growing employment base over a larger number of sites. Certainly, developments in computing and telecommunications have dramatically improved firms' ability to manage decentralized workers.

It is not clear whether physical decentralization is a response to increasing demand from workers for more flexible work practices. If this were the case, we might expect sustained growers to be more likely to adopt part-time working policies, which they are not[21].

Sustained growers are not significantly more likely to outsource work than others. If they are committed to organizational learning, as previous evidence suggests, they may believe that it is better to internalize new skills and capacity as their demand grows (hence, hiring more workers) rather than to forego the opportunity through outsourcing.

Need: "Offer more technical classes for employees"

During interviews with prospective employees sustained growers are more likely to place an emphasis on technical expertise, as well as the candidate's cultural fit with the organization and potential for advancement. This speaks to their need for more technical or credentialed workers and ones that are more likely to pursue personal growth along with the company; building skills and experiences that will further increase the odds of firm growth.

Sustained growers appear to benefit from a positive feedback loop – or virtuous cycle - that allows them to build a higher quality workforce than other companies. During the hiring process they use attributes associated with their growth (e.g. higher chance for promotions as the company grows) as tools to attract higher quality workers that, in turn, increase their probability of further growth.

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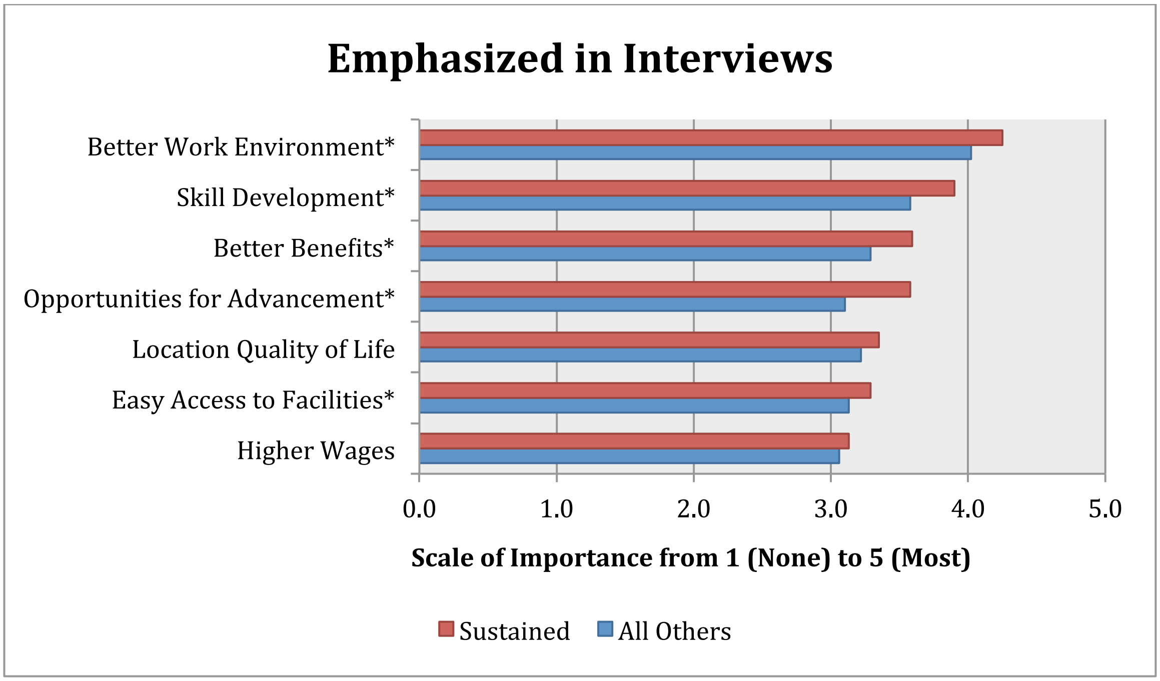
[21] Sustained growers are far more geographically expansive than other firms. Physical decentralization may be a mechanism to enter new geographic markets and/or serve distant key customers. Such a tactic would be a lower cost/risk approach to having a distant market presence than committing to a new branch, at least in the short term.



* Statistically significant difference   Source: Virginia Sustained Growth Survey

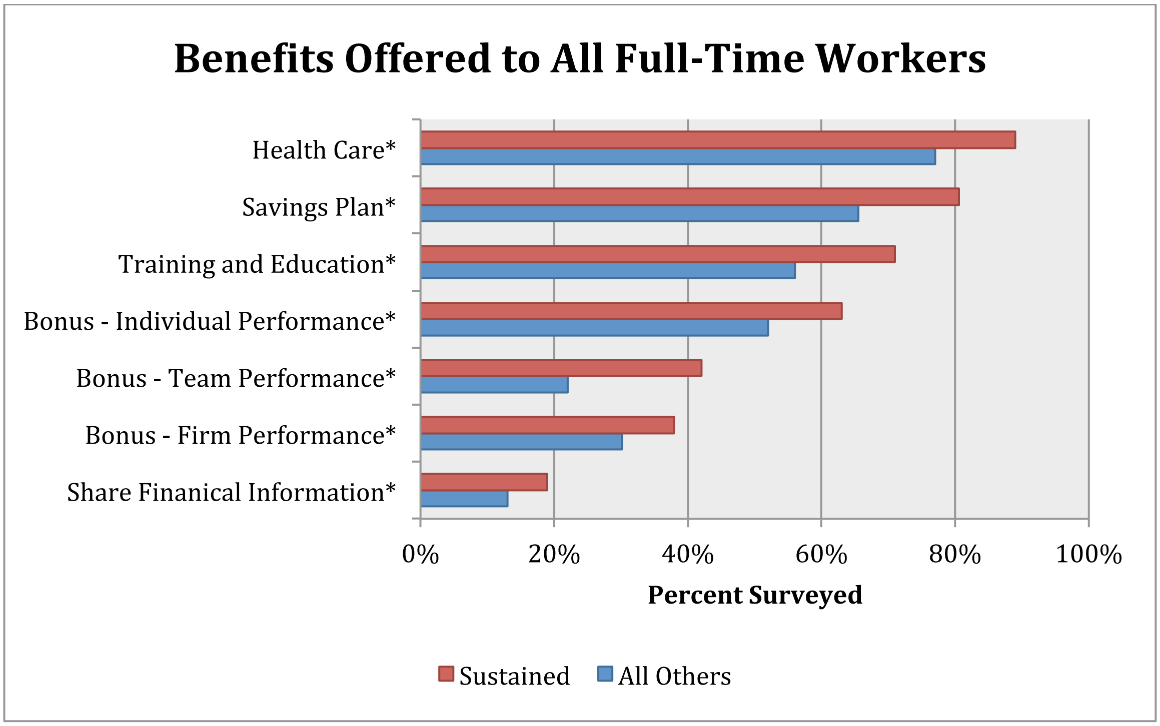
For example, during candidate interviews they are more likely to emphasize a better working environment, opportunities for skill development and career advancement, as well as more lucrative benefits packages. These advantages help them compete for higher quality workers where the labor market is tightest.

"We are a business of primarily part-time workers. We offer individual incentives to both full and part-time workers."

When we evaluate which types of benefits are offered we see that sustained growers tend to 'put their money where their mouth is' by providing richer benefits packages to employees throughout the organization.

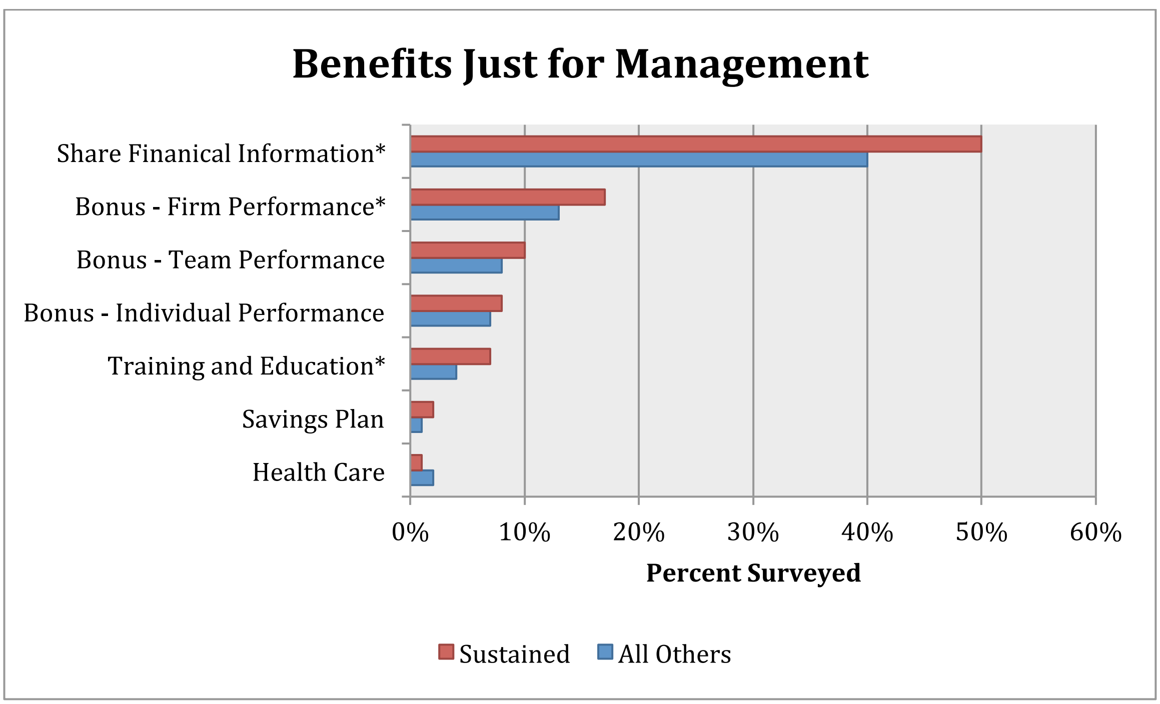
We asked about seven different types of benefits, from health care and savings, to bonuses, training, and information sharing. On *every* measure, sustained growers were more likely than other firms to offer benefits to all full-time employees, as well as to management and leadership[22].

[22] A recent study by this author found that companies that offered 401k plans to employees and profit sharing plans to managers significantly improved their odds of sustained growth, by aligning individual and firm goals and thus reducing agency problems. See 'A Virtuous Growth Cycle: The Impact of Employee Benefits on Firm-Level Sustained Growth"; Kunkle; http://exceptionalgrowth.org/insights/AVirtuousGrowthCycle.pdf



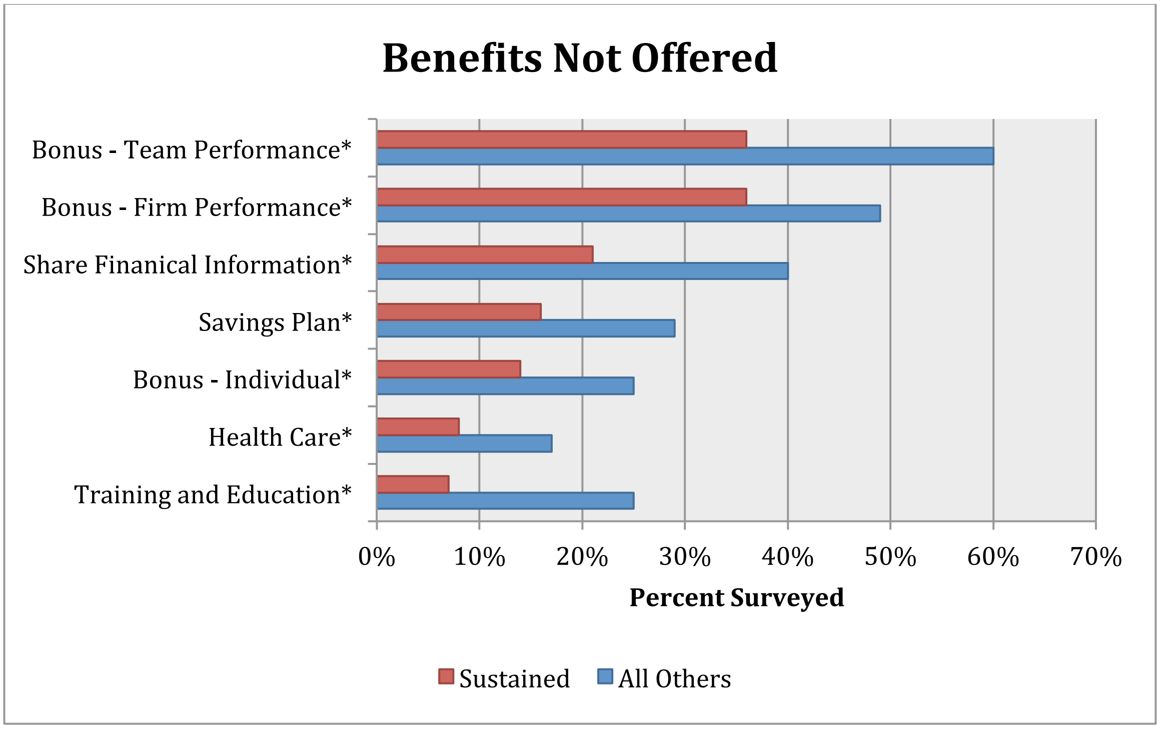
* Statistically significant difference

Source: Virginia Sustained Growth Survey



* Statistically significant difference

Source: Virginia Sustained Growth Survey



* Statistically significant difference Source: Virginia Sustained Growth Survey

These findings tell us several important traits of sustained growers. They are more likely to provide,

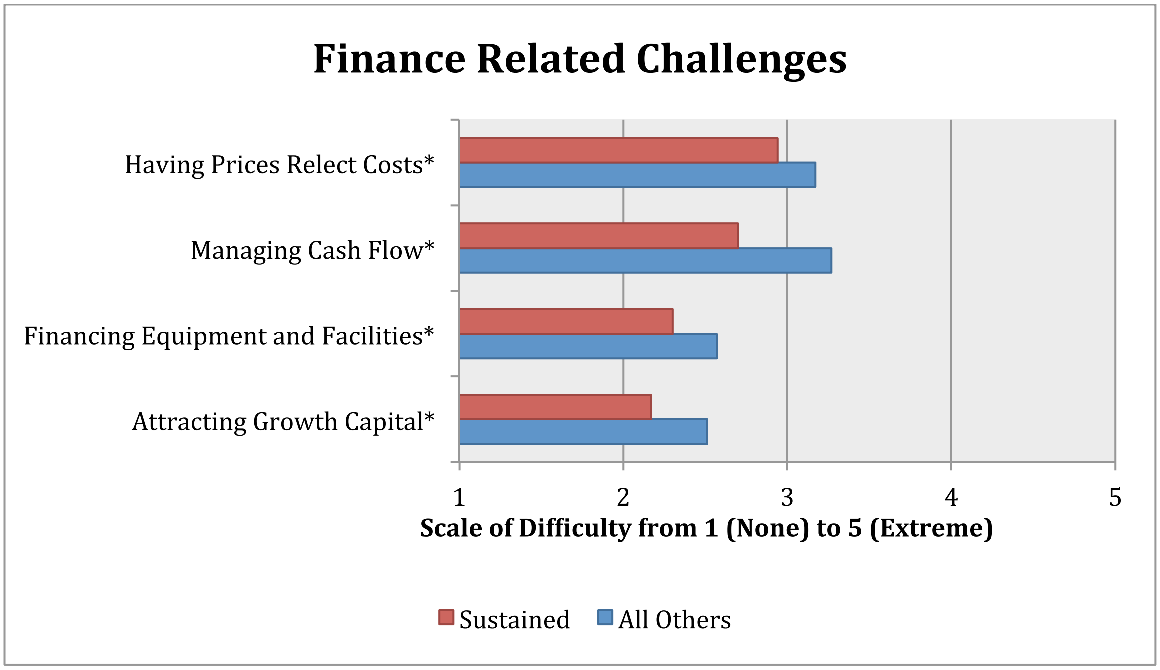
- More (privately funded) healthcare;
- More retirement savings plans;
- Higher levels of bonuses (that share the rewards of growth to employees and their families);
- Higher levels of training and skill development;
- More opportunities for professional advancement (and associated pay raises);
- More financial information about the firm's performance (which studies have shown increases productivity and loyalty while reducing turnover).

Sustained growth companies use their growth as a self-reinforcing system to build a higher quality workforce than other companies which, in turn, helps increase the probability that they will continue to grow.

Not a Capital Constraint

There is a strong widespread belief that a lack of growth capital is a major problem in much of the nation. If you operate a company outside of areas with dense clusters of lenders, venture capitalists, and private equity – such as Silicon Valley or Boston - you will have serious problems raising the funds needed to grow your business.

We tested this assumption along with several other financial challenges. Companies were asked, on a scale from 1 (least) to 4 (most), how severe four key financial issues are. Sustained growers were significantly less challenged than other companies on all four issues.



* Statistically significant difference

Source: Virginia Sustained Growth Survey

The average company has the most problems making their prices reflect their true cost. Effective pricing practices are critical to the health of a company; without them a company can grow itself into bankruptcy. The more complex a company's offerings (product/service variety) and its distribution channels, the more that actual cost per sales varies from one sale to the next. Pricing can seem as complicated as 'rocket science' to the average company, if they take the issue seriously enough.

It seems that cost accounting (the practice of calculating true cost per unit made and sold) is not as widely used as it should be in small to medium sized businesses, which dominate the survey group. Yet, cost accounting classes are available at nearly all business schools and many community colleges. Certainly economic development could do a better job at encouraging a connection between local businesses and these courses.

"We are contractors with the US Government, a small company, providing ADP and IT services, with 100% of our employees working at the Government facility and with Government equipment, so our capital investment is minimal."

While sustained growers may be more adept at managing their businesses than other companies, we know that cash flow tends to be constrained by growth, as the gap widens between accounts payables and accounts receivables and more funds are locked up by goods in process and inventory. Although this is the second most troublesome financial issue among sustained growers, it ranks as the top challenge among other companies. While lending institutions tend to shy away from cash flow financing because of challenges with loan collateralization, particularly for services companies, support for cash flow problems is not typically available from economic development either.

Ironically, financing equipment and facilities is a bigger problem for companies without sustained growth, even though they are more likely to need funds for up-grades than for expansions. Sustained growers tend to be in a better financial position because of higher pre-tax profitability and are less likely to need financial assistance[23].

"We are fortunate and have been able to grow from being financially stable."

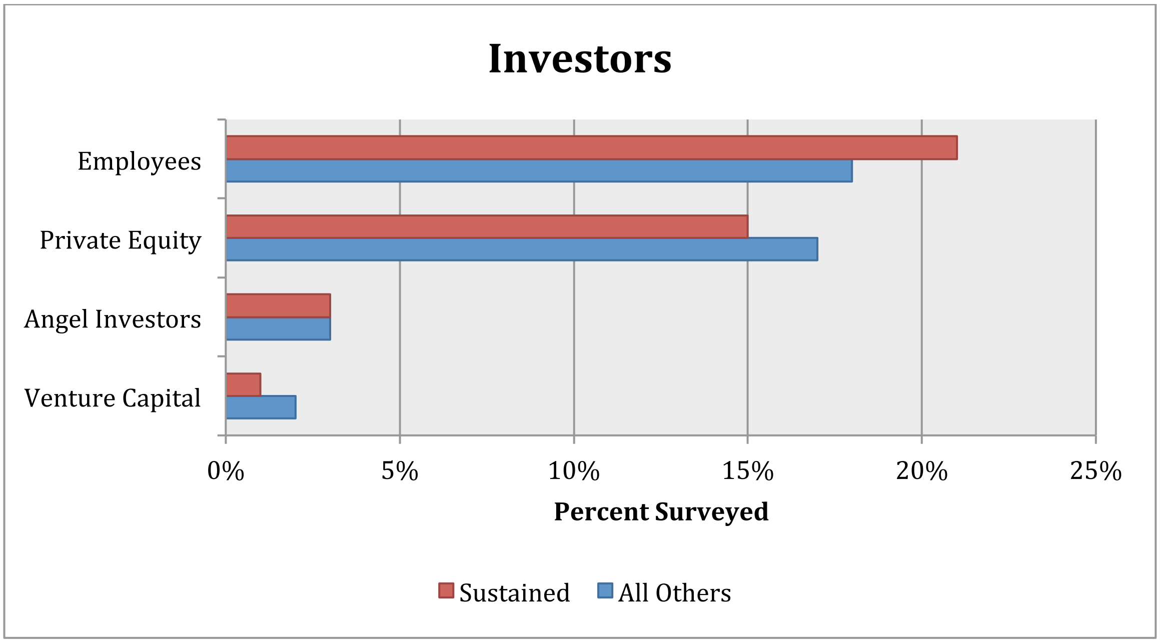
Perhaps the biggest surprise is the low rating that attracting growth capital is given in the survey. Media reports may over-emphasize the lack of growth capital, particularly among growing companies. It may be that non-growing companies are using their lack of growth capital as an excuse for their lackluster performance. In either case, the supply of growth capital does not seem to be as big of a problem as is generally believed[24].

When a company funds its own growth, rather than using debt, it is able to plow back more profits from the investment into subsequent expansions. Debt (and

[23] Several other studies by this author found sustained growers have stronger credit histories, which would increase their ability to borrow. Yet, they also tend to have a high aversion to debt, preferring to finance their growth through retained earnings. This is easier to do if the firm is growing incrementally because the capital expenditure amounts are smaller and can be better timed with earnings.

[24] This is a particularly important finding for public policy, given the strong emphasis on underwriting the cost of debt financing through loan guarantees and low interest loan programs. These policies encourage firms to grow less frequently but in larger amounts, partly because of search and transaction costs. This type of growth increases the risk that capacity expands faster than sales, thereby creating debt-financed overcapacity and increasing the probability that growth will be reversed and/or that the firm will fail.

taxes) drains the power of this cycle. Perhaps this is why 70% of sustained growers surveyed try to fund their growth from retained earnings.



* Statistically significant difference

Source: Virginia Sustained Growth Survey

Growth Objective: "To be 100% employee owned."

We found that sustained growers were more likely than others to involve employees as investors in their firms, and less likely to use private equity or venture capital[25]. Offering profit sharing plans that involve stock options or ownership may reflect the tendency of sustained growers to offer a richer array of benefits. Such ownership would increase the alignment of the personal goals of employees with the goals of the business, thus increasing productivity and reducing employee turnover[26].

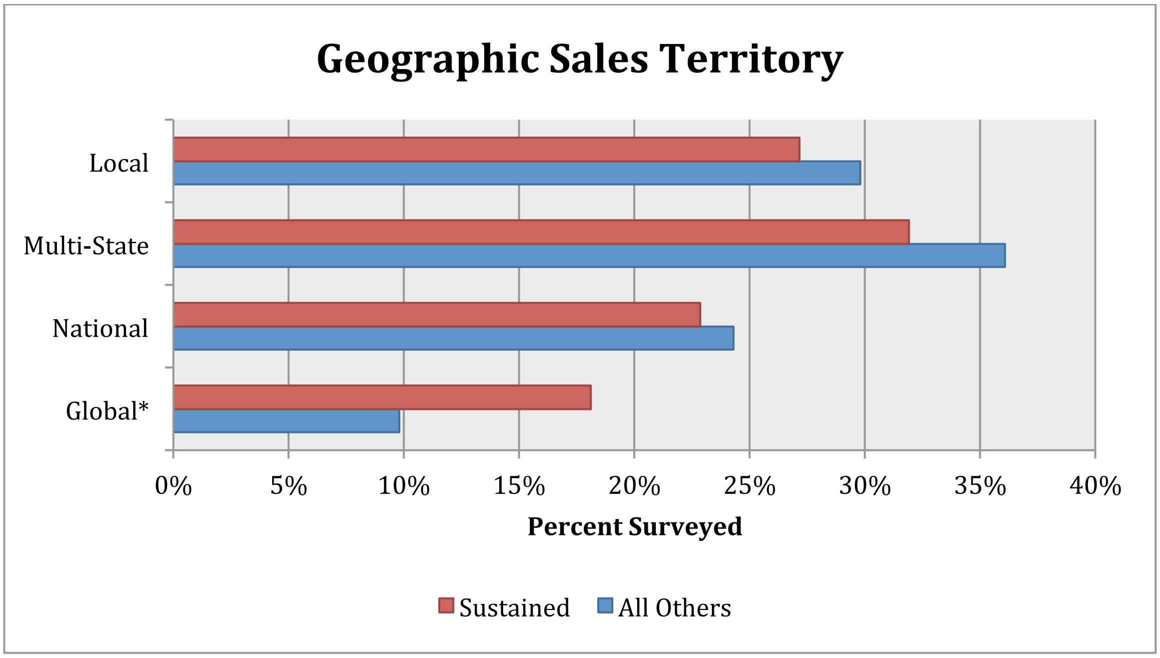
Sustained Growers are More Global

Many economic development agencies, including the Virginia Economic Development Partnership, encourage exporting via promotional, technical, and financial assistance. Studies have long found a correlation between exporting and firm growth, yet the direction of causation has never been determined (i.e. do companies grow because they export or do they export because they are competitive enough to grow?).

[25] These results were not statistically significant due to the low number of firms involved.
[26] By reducing information asymmetry and moral hazard associated with the agency problem.

“We are a small company with global aspirations.”

The evidence from our survey suggests that sustained growers are more geographically expansive than other companies. While more than half of all companies surveyed serve local or multi-state markets, sustained growers are nearly twice as likely to serve global markets. In each non-global market there is a smaller proportion of sustained growers than other companies.



* Statistically significant difference

Source: Virginia Sustained Growth Survey

Overall, the data pattern is consistent with the view that geographic expansion is a learning process. Local companies become multi-state, and then move to national markets, and ultimately to global ones. Of course, not all companies move at the same speed and many skip one or more steps.

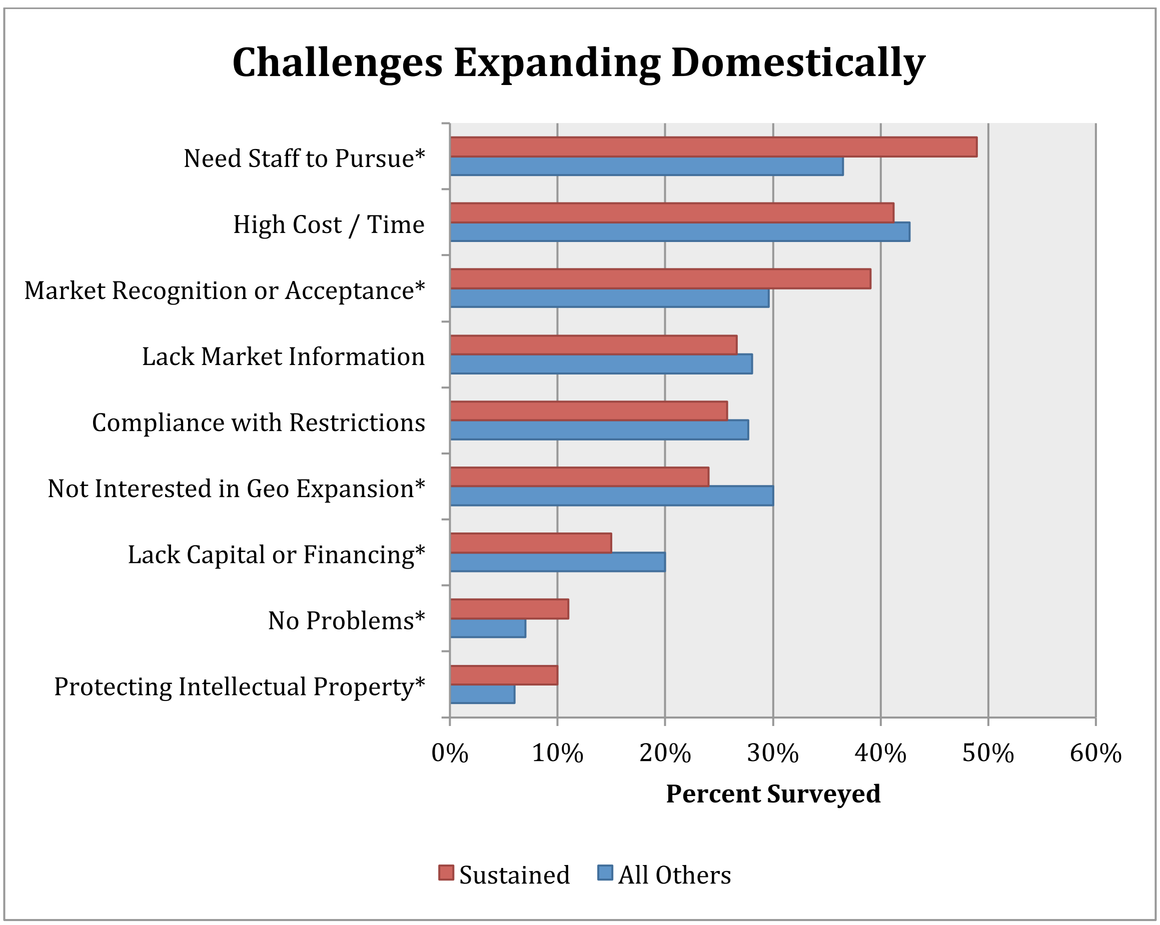
Selling locally involves the lowest transaction costs and risk for a start-up. That enables them to focus their efforts on other challenges (improving the product/service design, production, delivery, and terms of sale) without incurring additional problems associated with distance. As the firm perfects its offerings and delivery it can then focus on expanding its geographic sales outward from its home market. Geographic expansion allows the firm to increase sales to new customers particularly when local markets become saturated.

“I believe what the VEDP does currently with access to market research is hugely helpful. More of this is always welcome as a resource.”

Selling into a distant market – for example from Virginia to California – is more difficult, risky, and expensive than selling locally. It’s even more difficult to sell into export markets because of additional differences related to currency, culture, language, regulatory hurdles, and business practices. To focus on those challenges, it is more efficient to have first sold in a domestic but distant market. That gives the firm a chance to *learn* how to identify, support, and manage distant employees or contractors (e.g. agents or distributors). Thus, geographic expansion is most effective and efficient when built on the learning from easier previous expansions. The better they become, the more likely they are to do it again.

'Export assistance' is a myopic view of geographic expansion: companies do or they don't. It may be more productive from a policy perspective to view exporting as an advanced stage of geographic expansion. Firms could be helped to move from one stage to the next – e.g. from local, to multi-state, to national – in order to prepare more firms for eventually entering more complex export markets.

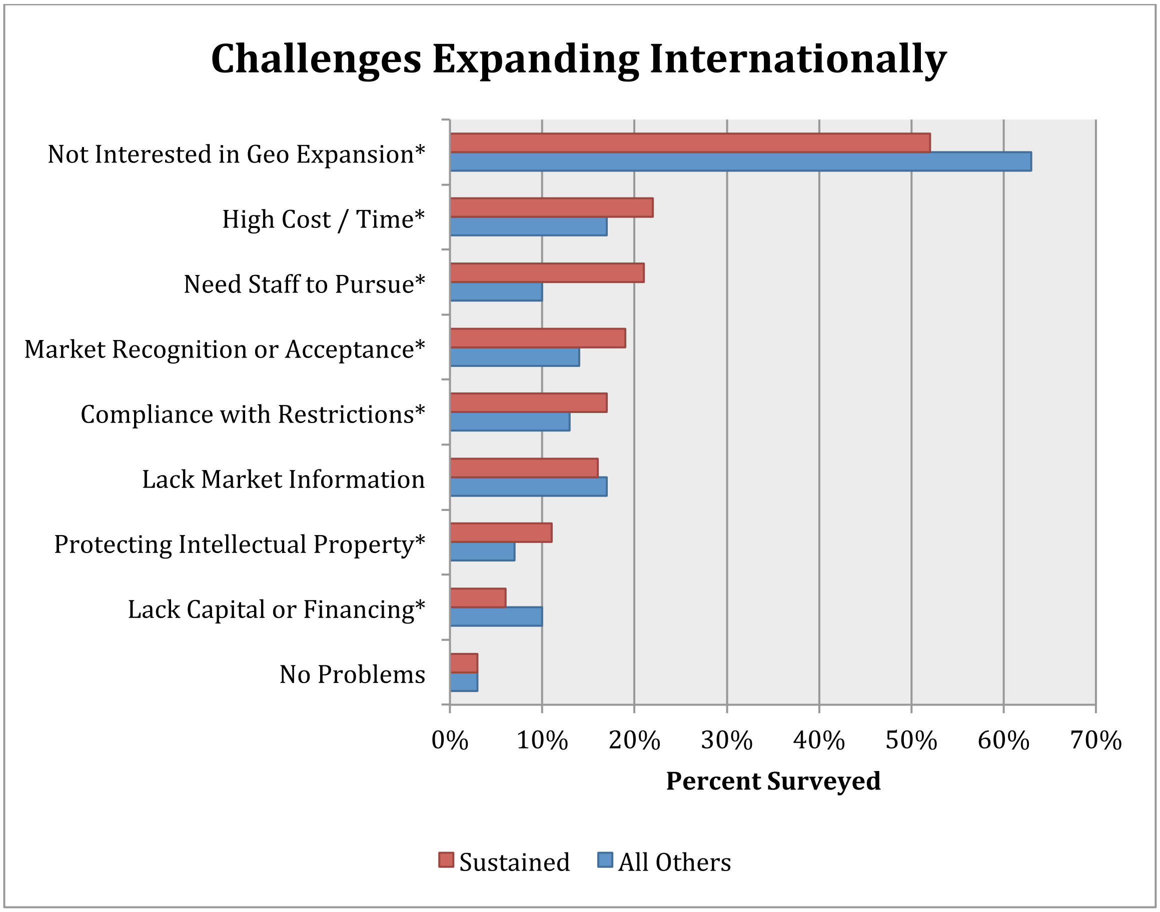
We asked about the biggest constraints faced when expanding domestically and abroad. Not surprising, non-growth companies were significantly more likely to indicate that they were not interested in either domestic or global expansion.



* Statistically significant difference

Source: Virginia Sustained Growth Survey

Across the board, the biggest barriers to geographic expansion are cost, managerial time, and personnel. The next most significant challenge is market recognition and/or acceptance.



* Statistically significant difference   Source: Virginia Sustained Growth Survey

Export assistance programs are ideally suited to help businesses enter new foreign markets by reducing time, cost, and risk, and they can help companies with information and market acceptance challenges via trade shows and other promotion tools. As we shall see later, companies surveyed are very pleased with the export assistance they have received in Virginia.

"We are primarily a federal government contractor in the services industry. We help companies deal with the export regulations that are complicated for dual use and military products. We are growing based on increased US training in Africa."

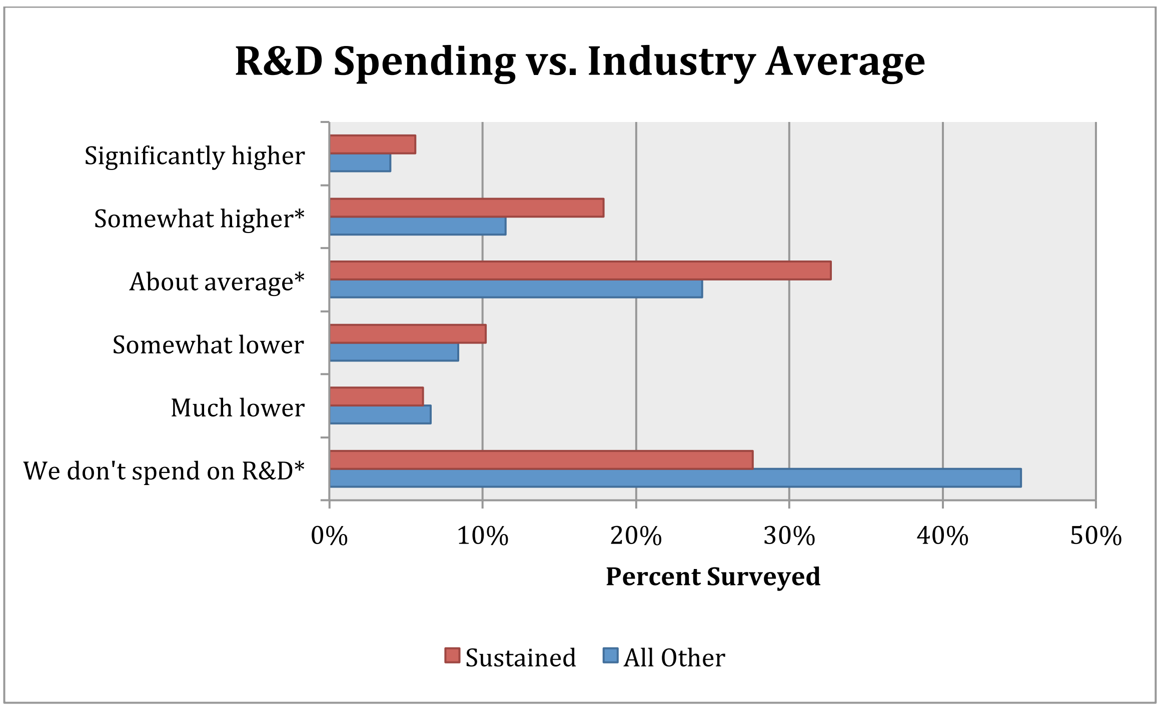
Economic development leaders should recognize that if they want more companies to export, they should first help build the skills related to entering new distant domestic markets. A company that masters those skills will be a much more fruitful candidate for the state's existing export assistance programs[27]. For these reasons, business expansion and export assistance should be integrally linked.

Customer Collaboration and R&D

"We have developed a web-based software product that accomplishes many things that experts in our industry – process improvement and organizational governance – universally said couldn't be done."

Research and development (R&D) is widely viewed as one of the main drivers of business growth. But not all R&D involves a formal line-item budgeted program.

Some 37% of all companies surveyed don't spend anything on R&D, including 28% of sustained growers. In fact, sustained growers are more likely than others to spend only the industry's average amount on R&D. Only 24% of sustained growers spend more than the industry average: ONE FOURTH!



* Statistically significant difference

Source: Virginia Sustained Growth Survey

If so few sustained growers spend more than the industry average on R&D, how do they develop new innovations and high-margin products and services?

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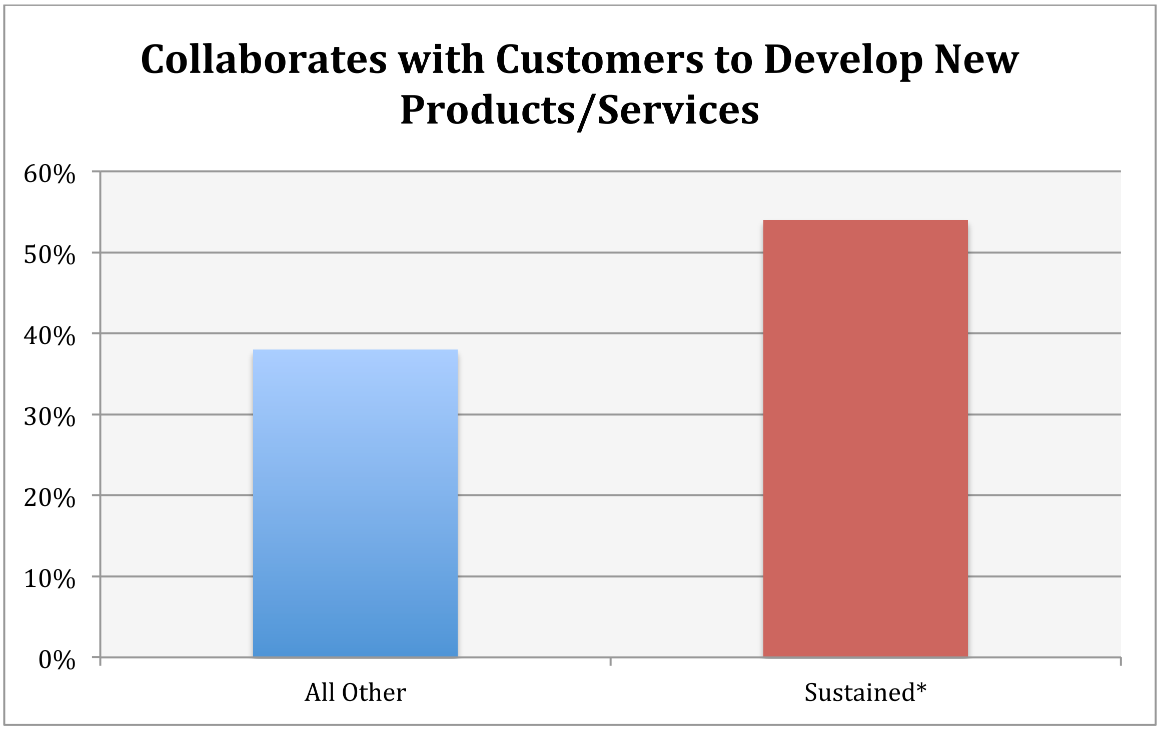
[27] This section draws upon the author's personal experience working with more than a thousand companies enter foreign markets, as Senior Manager at KPMG's International Trade and Investment Services and as Director of the State of Maryland's office in Europe.

Sustained growers are more likely than others to collaborate with customers to create new products and services. These may not be regarded as formal R&D expenditures. Customer collaboration has many possible advantages over more formal R&D programs. Collaboration shares developmental costs and risks with the customer; leveraging customer insights and money to develop new products and services. If the development is successful then the first beta site is already completed, potentially speeding the deployment of the new offering to the market. This can also increase market acceptance via testimonials from the first satisfied customer. This cycles into more learning, higher efficiency, and more repetition.

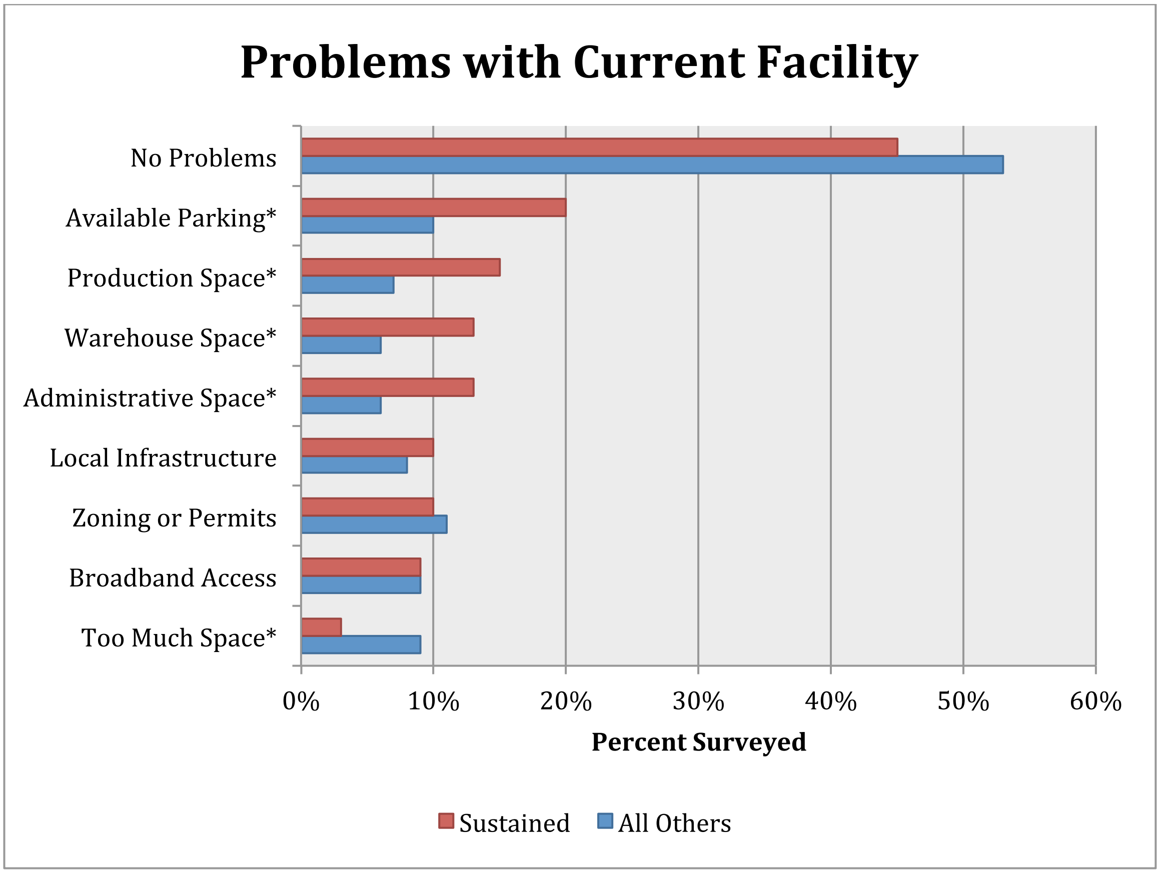


* Statistically significant difference   Source: Virginia Sustained Growth Survey

Growth Objective: "To provide thought provoking projects for our most gifted workforce and to make a difference for our customers."

Sustained Growers' Lack of Space

As a company grows it needs additional facility space. Consequently, sustained growers are significantly more likely to complain of lack of space in their current facilities for production, warehousing, and personnel, as well as parking. Naturally, they are far less likely to say they have too much space.



* Statistically significant difference   Source: Virginia Sustained Growth Survey

Although the majority of companies use site selectors or brokers to find new space, more than half still use an ad hoc approach, such as asking friends or driving around looking for empty buildings or available lots. This signals a problem with 'information asymmetry', where there is a lack of connection between someone with a question and someone with an answer. Information asymmetry is one of the easiest problems for government to solve[28].

Almost all economic development agencies have extensive knowledge of available sites and buildings. When sustained growth companies are constrained by lack of available space it can slow new hiring and thus constrain regional growth. While it would seem like common sense that ED authorities should stay in close contact with sustained growth companies to help solve facility challenges in a timely manner, our survey indicates that only 10% used government or ED services to find their current facilities.

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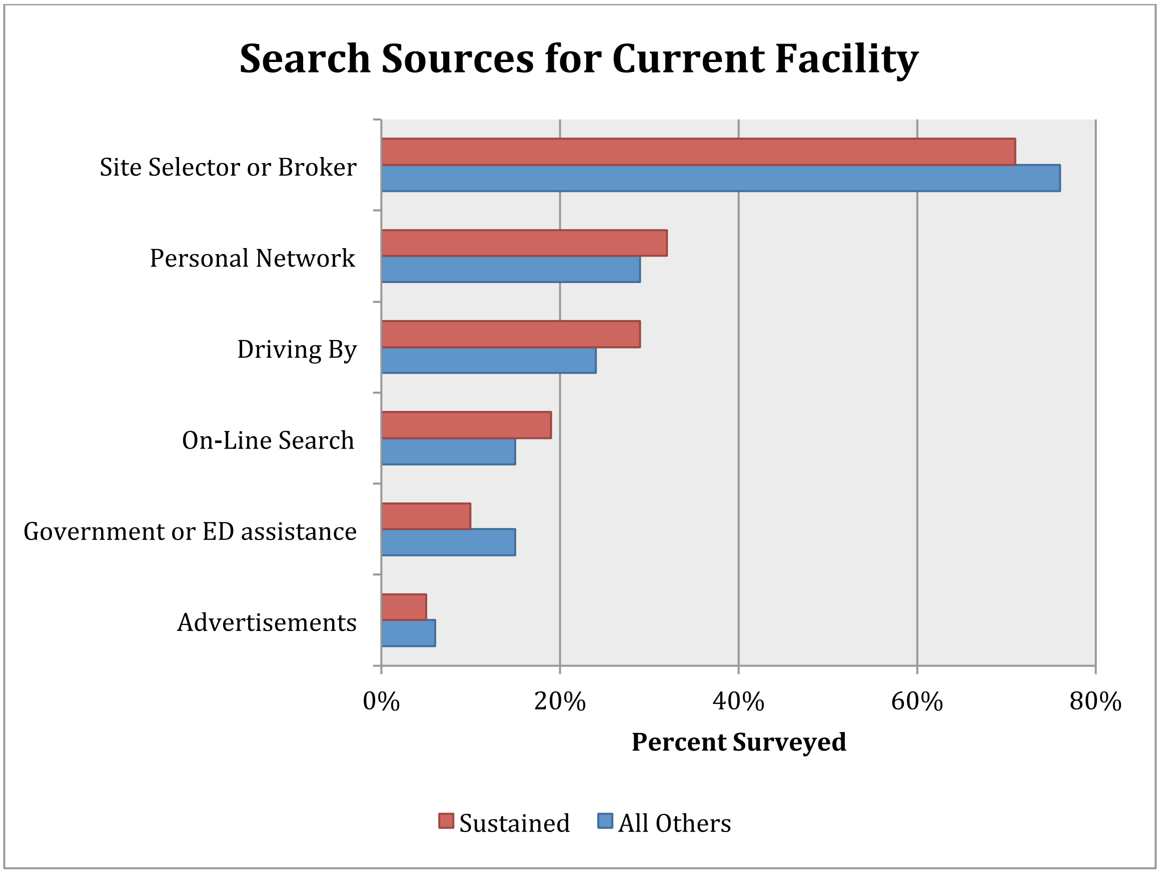
[28] According to Welfare Economics, it is also far less likely than other forms of market intervention to cause government failure, i.e. policy-induced asset misallocations in the economy.



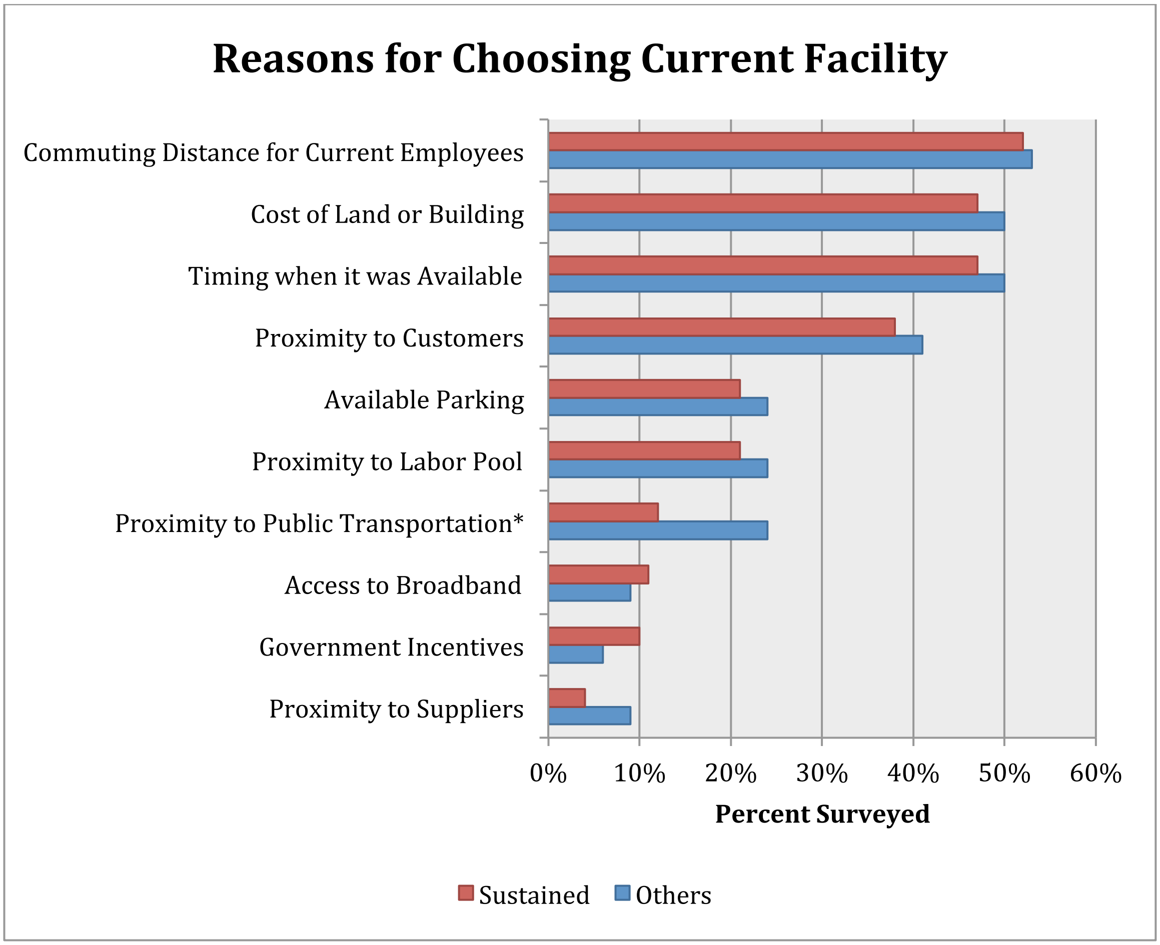
* Statistically significant difference Source: Virginia Sustained Growth Survey

A previous study conducted by Outlier found that sustained growers are 4-times more likely to relocate facilities in a five year timeframe[29]. There is thus a real risk that sustained growers will relocate outside their hometown if they can't find adequate expansion space.

However, companies strongly prefer new facilities that are in relatively close proximity to their current operations. This survey found that the top reason why companies choose their current facility was proximity to (then) current employees.

Timing was just as important to sustained growers as cost, and government incentives ranked much lower. These insights advocate for a much stronger role for local ED agencies to help develop new sites and facilities and engage these companies to help them find available facilities near their current operations in a timely manner, without significantly raising the risk that the company will demand incentives.

[29] 'Sustained Growth Report' prepared by Dr. Kunkle for the Team Pennsylvania Foundation.



* Statistically significant difference

Source: Virginia Sustained Growth Survey

Quotes on other reasons why they choose their current facility:

- "Access to ports"
- "Area of high activity for potential walk-in customers"
- "Future metro"
- "Ownership opportunity"
- "Proximity to other company buildings"
- "Very close to current (past) location"

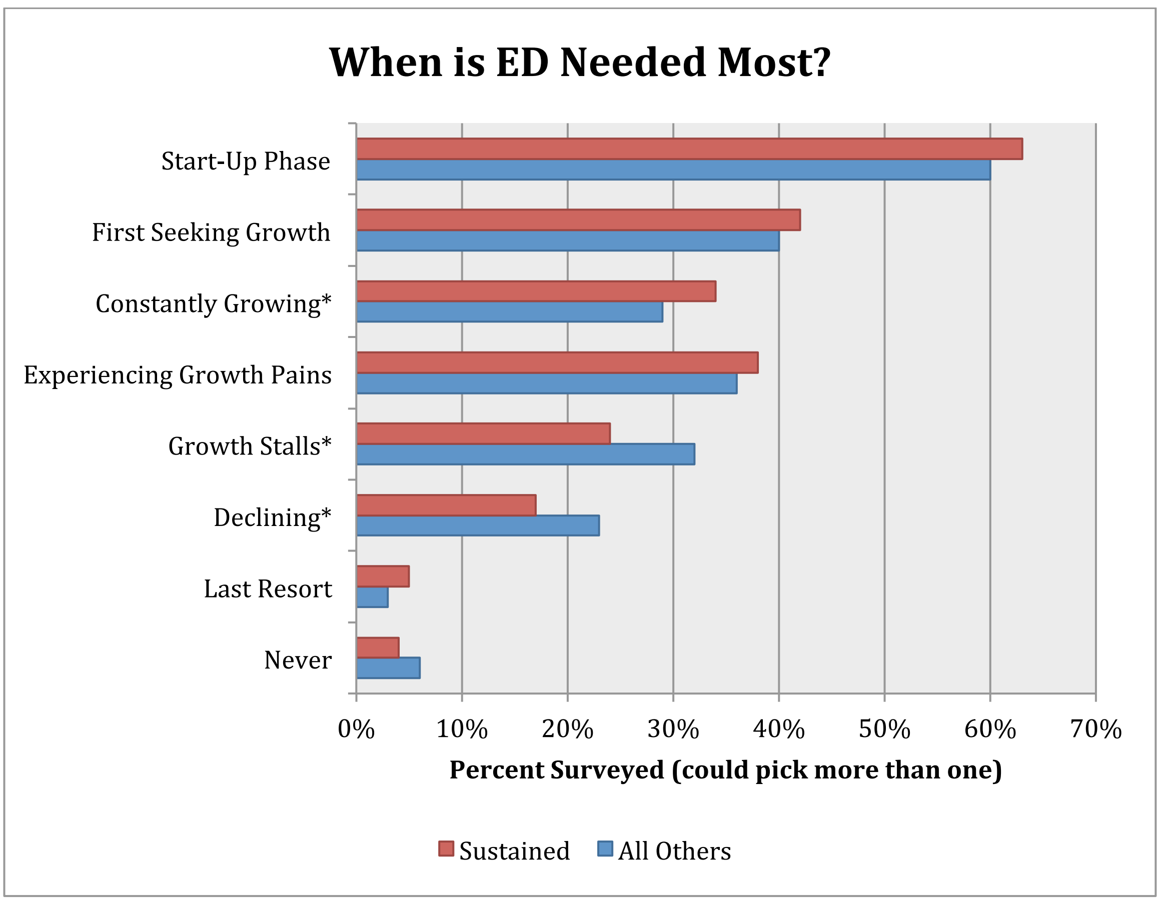
Economic Development's Role

ED to Spur Growth

We now take a look at the surveyed companies' opinions regarding Virginia's economic development programs and policy.

Overall, the executives surveyed were very supportive of state and local efforts to help companies through their growth challenges. Negative comments were only given on issues related to larger economic policies; specifically tax burden and complexity, regulatory hurdles, traffic congestion, and workforce skills and ethics.

Sustained growers more frequently used programs operated by Virginia Economic Development Partnership (VEDP) and the Virginia Department of Housing and Community Development (DHCD) than other companies, and they also reported a higher level of satisfaction with the services they received.



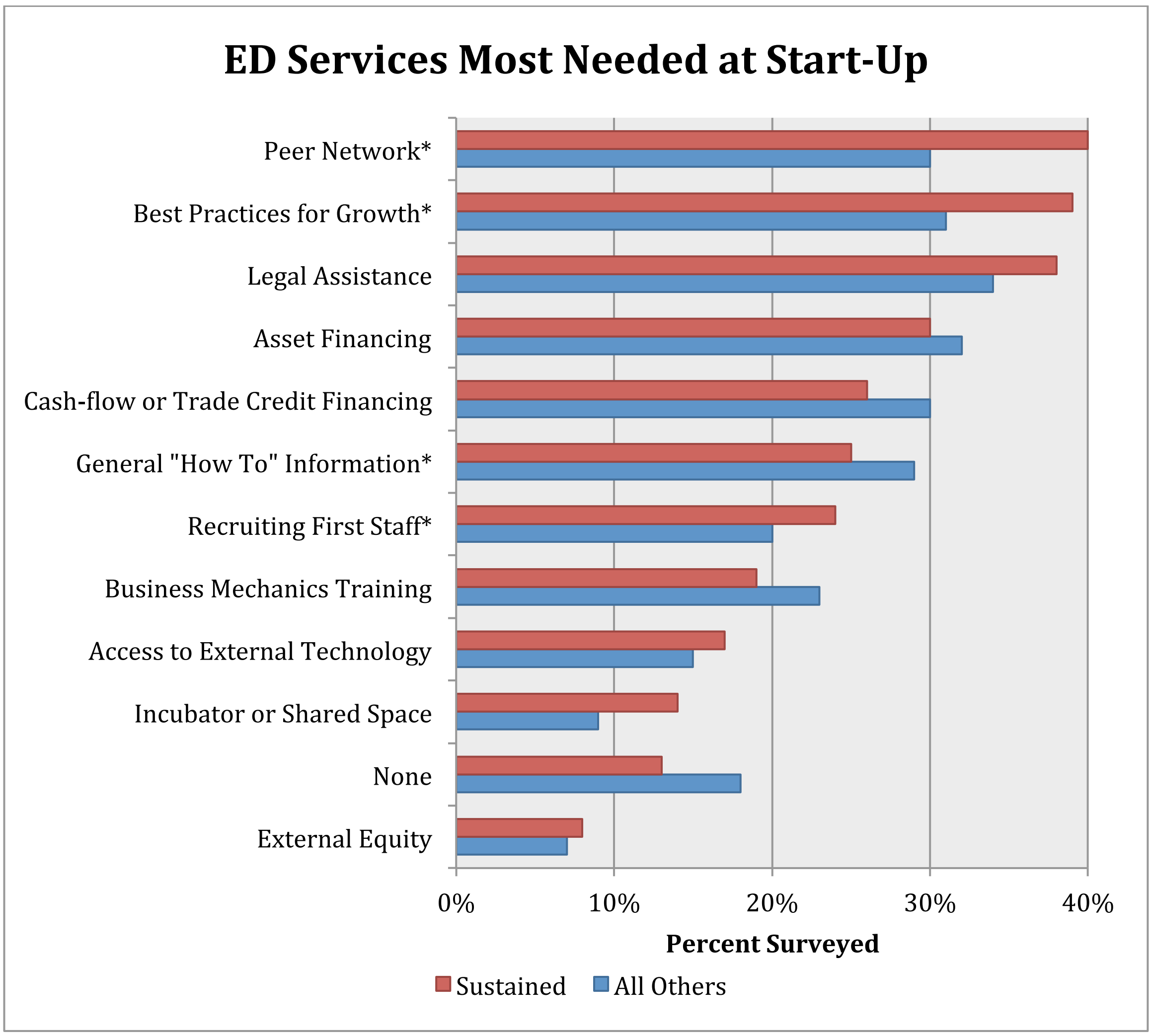
* Statistically significant difference

Source: Virginia Sustained Growth Survey

Survey respondents tended to agree that economic development services were needed early in their company's life. Assistance during the start-up phase was the most popular answer, cited by more than 60% of all companies.

"Make business owners more aware of existing state programs that can help businesses grow"

Respondents also tended to believe assistance was valuable earlier in their growth experiences; when they were first seeking to grow, as they continued to grow, and when they ran into trouble with their growth. Non-growers were far more likely than growers to believe assistance was needed when growth stalled or when the business was declining. Only 5% of those surveyed believed that ED services were never needed.



* Statistically significant difference

Source: Virginia Sustained Growth Survey

When they were asked which types of assistance would be most helpful at start-up, sustained growers tended to seek information and advice, such as access to a peer network of other CEOs, access to best practices for growth, and legal assistance. In contrast, other companies were more interested in financial related services such as asset financing, assistance with cash flow and trade credit.

> "We're a micro size company in a small market. There is a lack of marketing intel and a company our size has limited capital and profit margin to allow expenditures for marketing/branding or research and development."

The only type of assistance that is wanted less than 'none at all' is access to external equity. There has been plenty of buzz in the media and policy circles about how important private sources of equity are to the growth of Silicon Valley and other areas. However, less than 10% of Virginia companies surveyed seemed to desire more of it. It could be that there is already enough private equity to adequately serve the market need and/or the demand for private equity is not as high as widely believed.

Sustained Growers Appreciate ED

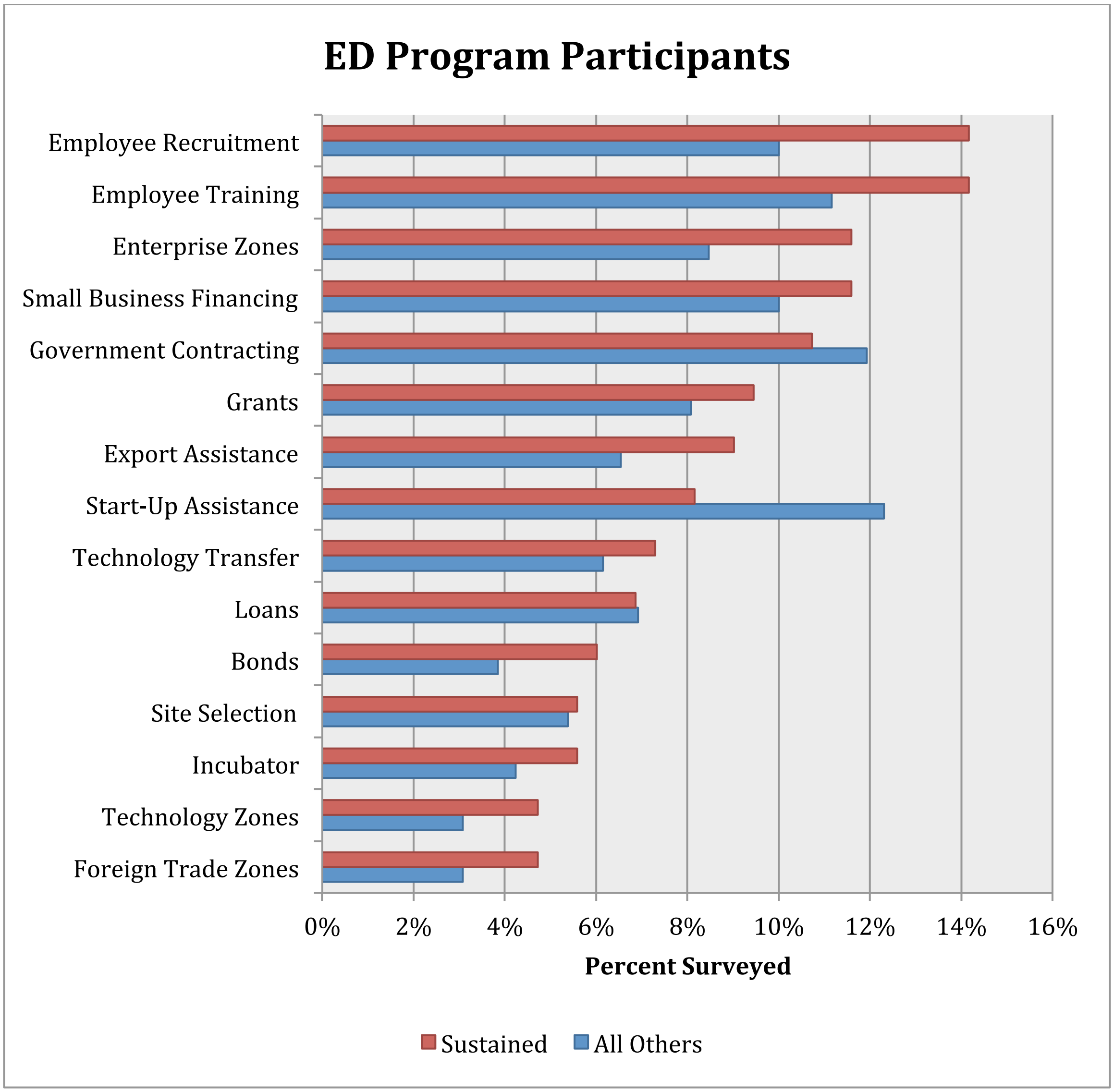
To the credit of Virginia's economic development programs, sustained growers were more likely than other companies to use 12 of the 15 ED services we inquired about[30]. There appears to be a strong connection between Virginia ED and sustained growers.

> "Increase VEDP funding and use options"

Workforce-related services were in highest demand by all companies. This is true for both employee recruitment and training. Non-growers were more likely than growers to use government contracting services and start-up assistance.

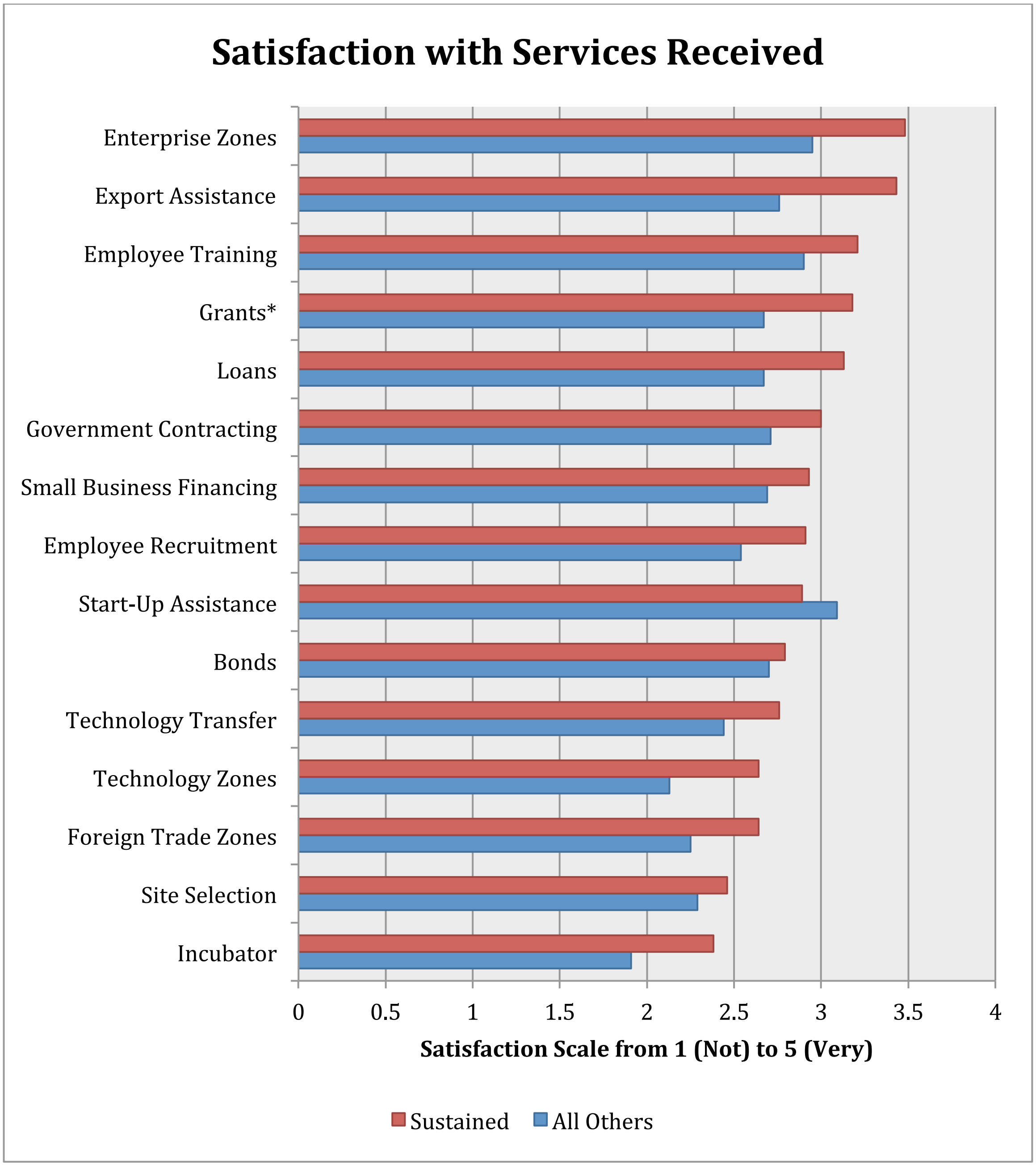
Sustained growers were also more likely to use Enterprise Zones, incubators, Technology Zones, and Foreign Trade Zones. These are all place-dependent services, i.e. the company has to be located there to benefit. The strong use of these programs by sustained growers may hint at them being an effective tool to lure these exceptional companies to these places. On the other hand, it might be that the services are successful enough to turn ordinary businesses into sustained growers. This is an important distinction and could have significant policy implications. Unfortunately, there currently is not enough data to make informed decisions. More study is recommended.

[30] The chart does not indicate statistical significance because the number of participants in each category is low. This is due to sample size. But we can be fairly confident of the differences between these two groups because the disparity in results is large.



* Statistically significant difference Source: Virginia Sustained Growth Survey

Sustained growers were more satisfied with Virginia's economic development services than non-growers. This is true in 14 of the 15 programs, with start-up assistance as the only exception (i.e. sustained growers liked it less than other businesses). Enterprise Zones, Export Assistance, and Employee Training received the most praise from sustained growers. In fact, all the place-dependent services received higher satisfaction ratings from sustained growers. Together, this suggests these programs are doing a good job in helping sustained growers with their services.



* Statistically significant difference

Source: Virginia Sustained Growth Survey

A company that WANTS MORE sustained growth

An Anonymous Glass Company: Thriving Through Change

How new business owners fought through a tough market to succeed.

In 2006, a couple in the Central Region of Virginia took a leap of fiscal faith. Pooling her background as a health services coordinator and his as a conference center manager, the two (who choose to remain anonymous) made the move to become entrepreneurs, purchasing an existing local glass company.

"By 2008, we really did feel like we were getting a handle on the business," says the wife. "Sales were up and we found ourselves on a good path." And, just as it appeared the company was ready to turn the corner, both the housing market and the economy went off the rails. "We were mainly in the residential glass business and contractors were going out of business left and right."

Switching gears in a hurry

The owners didn't wait too long to look for any bounce back. Instead, they immediately diversified their business, going after commercial work and supplementing that work with windshield glass replacement and custom work. "Changing our focus got us pretty quickly back on track," she notes. "It meant a new learning curve.

Being nimble and shifting on the fly has helped the firm do more than survive a difficult economy. Since 2010, they've grown from six employees to 10, and annual revenues have expanded from approximately $600,000 to $1.1 million.

A balancing act

As a company owner, she sees her job as "keeping all the balls in the air." In addition to the need to build the company's product base and meet changing market needs, she needs to take care of her employees. "10 people means more than 10 staffers and on different schedules," she says. "Those are 10 different personalities—and our people are what make the business—and everyone needs to be treated a bit differently. When you your business depends on people, that's the only way to think about it. Fortunately, we have the right people doing the right jobs. Part of what we need to do is have a single mindset, even though we're 10 people. It's a constant balancing act."

Wanted…ideas to grow!

One thing she'd like to do is to pick the brains of other local business owners. "I think that business owners like me would benefit from access to other company owners across the state. I'd like to learn what they're doing to grow their companies and how I could use those best practices here at our company. We're not done growing yet, so any help we could get is important."

Improving Future Growth

Respondents were asked their opinion on what would help increase sustained growth across Virginia. We asked about a broad array of issues to test their relative importance.

Across the board, respondents were most supportive of tax incentives that would encourage them to invest more of their earning back into growth. This result seems to reflect several motivations. First, they reveal a strong desire to invest in growth. Almost all companies want to grow, and they are willing to spend.

> "Tax incentives would be a blessing – many profit dollars are now being sent to state/federal, eliminating a nest egg for growth."

Second, this question did not ask specifically about taxes. However, from the open-ended question that followed we found an overwhelming number of complaints about state and local taxes[31]. These centered mainly on the level of taxes (too many, too high) and the structure (particularly BPOL), with a few complaints about complexity.

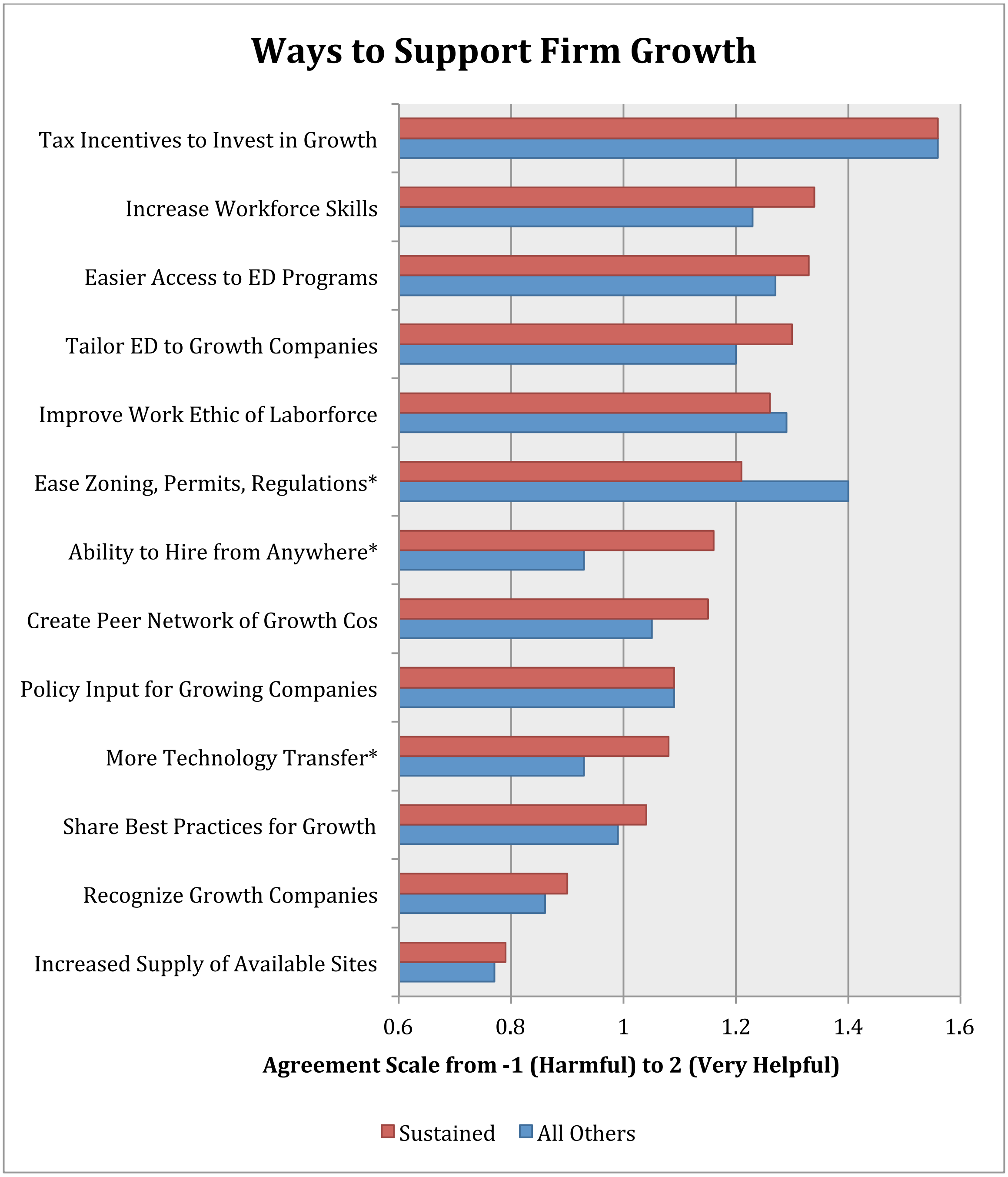
> "Decrease the corporate tax rate so that more profits can be used to increase worker wages and to fund R&D."

It's easy to dismiss complaints about taxes. Sure, they want to keep more of what they earn. Yet, the extremely strong interest in a tax incentive to encourage growth investment seems to indicate that there is a general feeling that if they were able to keep more of what they made they would allocate those resources towards growth Given the economic and social benefits of sustained growth, policy makers should afford this some serious and deep thought.

> "We would be hiring more people if it weren't for the enormous monthly bill of high taxes, matching taxes, and rising business and health insurance."

Workforce improvements were next on the wish list. This includes both increasing workforce skills as well as improving work ethics and habits. The comment section showed a high level of concern that work ethic has seriously eroded in this country, particularly among lower skilled non-career oriented workers. Although this is not an area that ED traditionally addresses, it too is worth considering.

[31] We asked if they had other ideas that would help Virginia companies grow. See Appendix C for a list of answers.



* Statistically significant difference   Source: Virginia Sustained Growth Survey

Sustained growers were more interested in policies that would help them import the skilled workers they need from elsewhere. We found previously that this tactic is used to overcome the skill shortages in local areas. While cross-national migration is primarily an issue for the federal government, state and local governments may be able to do more to help on this issue. We found that sustained growers tend to subsidize the relocation costs of workers and their families. Perhaps some tax incentive would be helpful. While giving jobs to out-of-state workers is politically sensitive, there is a strong economic case for improving the state's talent pool and the ability of companies to expand with the workforce they need in a timely manner.

We also see a strong desire for economic development services that are more closely tailored to the needs of growing companies, or those that seek to grow. They want easier access to services; services that are more tailored to their growth challenges; peer networks of other growth-oriented company leaders; and access to best practices so they don't have to 'reinvent the wheel' when trying to find solutions to common growth challenges[32].

This paper has offered numerous insights into how economic development could be strengthened to help more companies achieve and maintain sustained growth. The most important insight is that sustained growth is built upon virtuous cycles, where a company performs an activity, learns to become more effective at it, and is then more likely to do it again. These virtuous growth cycles run through the organization and include such activities as:

- Growth planning and communications;
- Screening, hiring, promoting, and retaining the best workers;
- Empowering and listening to employees;
- Offering inclusive benefits packages;
- Championing charities, environmental, or local social causes;
- Broadcasting growth to customers, employees, suppliers, and the community;
- Collaborating with customers for new product/service development;
- Being averse to debt and external equity, and plowing ever-higher earnings back into growth;
- Entering into new distant geographic markets;

As mentioned before, one of the most effective, and low cost/risk approaches to governments participating in the economy is to help solve information asymmetry problems. The state can accomplish this by sharing information directly (via meetings, seminars, events, etc.) or indirectly (via electronic forums or best practices repositories), perhaps through local economic development partners. The state can also enlist the help of sustained growth leaders by creating peer and supplier networks. All of these actions would improve the overall business environment in Virginia and provide the specific types of support that sustained growers have requested.

[32] Sustained growers ranked all of these as at least 'helpful'.

Economic Gardening

Outlier was requested to review Economic Gardening, in theory and practice, and provide an analysis of the degree to which it might fit with the objectives of increasing the number of sustained growth companies in Virginia.

When we compare an economic development initiative based on the findings of this paper against the Economic Gardening (EG) framework, we see two substantially different approaches to the challenge of helping companies repeat growth.

- EG, in general, offers a narrow range of tools that are not well aligned with the sustained growth challenges described in this report. EG services are overwhelmingly focused on helping a company expand sales, rather than addressing the wide range of problems these companies face (e.g. planning, human resources, innovation, finance, as well as market expansion). In addition, some state and local EG programs often focus on preparing companies to grow for the first time and/or generating one-off growth events. In contrast, sustained growth services should strengthen the ability of companies with past growth to repeat their growth. This is accomplished by suggesting how they can improve the virtuous growth cycles across their organizations that drive sustained growth, as detailed in this report.
- The core EG service delivery model tends to be resource intensive per company assisted, usually involving teams of consultants engaging with a participating company for six to eight weeks, in addition to a year of monitoring. This intensiveness acts to concentrate resources on a limited number of companies in a given period, necessitating fairly strict screening of prospective participants (for example, limiting services only to companies with 10 to 99 employees). In contrast, sustained growth services would leverage existing economic development (ED) professionals at the state and local levels, providing the best practices identified in this study to any company that could benefit. Companies can then pursue implementation themselves if they judge the insights to be helpful. This less intensive approach should allow for broader participation and for more companies to be assisted.
- EG's use of consultants to deliver technical services may create an 'agency problem' where consultants' personal objectives may not align with the EG program's goals. This may reduce EG program effectiveness and integrity. In contrast, using regional ED agencies to deliver sustained growth services should avoid this agency dilemma.

Description and Examples

There are many variations of EG in practice across states and local agencies. This overview is not meant as a complete description of all the various services or how they differ from one program to another.

The Edward Lowe Foundation hosts the National Center for Economic Gardening (NCEG). According to their website:

> "Economic Gardening is a "grow from within" strategy of targeting existing growth companies and offering them critical strategic information that is customized to their needs."

Economic Gardening, as advocated by the NCEG, is targeted at 'second-stage' companies. This group is defined by size, ranging from approximately $1 million to $50 million in sales and 10 to 99 employees.

NCEG helps states and regions establish Economic Gardening programs and provides certification and education:

- Introductory certification courses for economic development staff on the basics of the Economic Gardening (EG) including how to start a program, theories and tools, and managing company expectations.
- Certification courses for team leaders and technical specialists in the disciplines of GIS (Geographic Information Systems), market research, and social media.
- Pilot programs for organizations that want to start their own EG program. They support these programs with a national team of specialists that can assist in the initial delivery of services. To start an Economic Gardening pilot project an ED organization needs to recruit a minimum of five second-stage companies to participate.

According to their website, "specialists typically assist in four key areas: strategic market research, geographic information systems, search engine optimization, and social media marketing." Their team members are typically independent consultants that follow the NCEG service menu when assisting companies either directly or through state or local EG programs. Consultants also tend to have other engagements on the side, sometimes with former participants of the EG programs.

One of the most widely recognized state-level EG initiative is in Florida, which teamed with NCEG to develop their program. GrowFL was launched in 2009 as the first statewide network for Economic Gardening. They offer:

- Strategic research (consistent with NCEG) including database research, monitoring competition, tracking industry trends, locating customers on maps, and helping companies optimize social media;
- Peer learning, which includes CEO Roundtables and Forums;
- Leadership development seminars.

Florida uses NCEG teams to deliver services, and thus team members are usually not resident in the community where the service is delivered.

Wisconsin has modified the Florida and NCEG model in ways that better meet the state's objectives of decentralized service delivery through community-based team members. While the NCEG model uses consultants based throughout the country, Wisconsin has chosen 15 individuals for their teams that are spread throughout the state and act as the local liaison with participating companies. These individuals are mostly independent of existing local ED organizations and were chosen based on their expertise rather than their organizational affiliation.

Wisconsin's scope of services remains very similar to the national model and GrowFL, including using research teams to solve GIS, research, and social media challenges. They also provide CEO forums and peer-to-peer networks. The objectives of an engagement with a participating company can include improving operational efficiencies, new product or service development, sales or profit growth, or other metrics. Some engagements are considered successful even if the company does not experience growth over the course of their assistance.

Critique

This author conducted five confidential interviews with current and former Economic Gardening program administrators and staff, all of whom had in-depth experience with either their state's program and/or the NCEG national program. This critique is based on these interviews and the author's evaluation.

There are substantial ways in which the objectives, clientele, operational practices, and services offered by Economic Gardening diverge significantly from a focus on sustained growth as described in this study:

- <u>Program Objectives</u>: The overall goal of Economic Gardening is to help companies improve their growth potential by providing a basic menu of tools (market research, GIS, website optimization, social media assistance, and sometimes peer networking and forums). In practice across the country, the specific goals of EG can vary across programs. The NCEG emphasizes that EG is supposed to target companies that have already demonstrated growth. Yet, at several states the objectives of a client engagement can be to improve a company's competitive advantage as a *prelude* to growth (which can certainly be of value to the company and community), but not necessarily growth itself or repeated growth in the future. Thus, some EG programs can serve companies that are stagnant or declining.

  The clearly articulated goal of sustained growth assistance should be to improve the ability of companies to *repeat* growth, by providing them a broad array of information and best practices they can use throughout their organization to overcome the barriers they face. It takes as a starting point that the companies are already competitive as demonstrated by their past growth. This would be true, for example, of the 3,000 sustained growers and the 27,000-plus companies in Virginia that grew just once during the past five years. Thus, a sustained growth program would unambiguously seek to perpetuate and expand success rather than create it if it is absent.

- Target Companies: Company size (i.e. 10 to 99 employees) is perhaps the most restrictive and widely employed criteria for a company to be eligible to participate in an EG program.

  This restriction is in contrast to sustained growth services that should be inclusive of all companies with sustained growth or at least one year of growth over the past five years. This paper has broadly argued that economic development should evolve beyond arbitrary constraints that prohibit certain groups of companies from participating in a program, even if the program's services could help them expand employment or investment. Such restrictions are divorced from evidence that growth is possible from all businesses, regardless of industry, location, or size.

- Menu of Services: The menu of services provided by EG addresses a limited subset of issues facing companies that are trying to sustain growth. These services are overwhelmingly focused on helping companies increase their sales (e.g. GIS, market research, and social media), as if these were the only types of growth challenges these companies face.

  Let's quickly review the demand for these services as expressed in our survey. There were no requests for GIS services in the survey's open-ended comment sections. There was a single request for service related to website development, from a company that was not a sustained grower. We did identify the need for additional market research, but this was in the context of extending market-entry assistance from purely international to include domestic markets.

  Sustained growers made clear the types of services they would value most. These include knowledge specifically related to sustaining growth such as 'best practices' (covering issues as varied as leadership, planning, communications, human resources, finance, and innovation) across the entire organization.

- Service Delivery: Utilizing consultants to deliver client services does not seem the optimal way to build capacity within local ED organizations (as NCEG purports to do) or to strengthen routine communications with a very large numbers of growing companies in a region. Providing publicly funded consulting teams for multi-month engagements is a relatively high commitment per company assisted. This intensity of service delivery places a significant limitation on the number of companies that can be served.

In contrast, providing best practices for sustained growth is a service that involves information transfer (rather than implementation assistance) and has a far lower cost per company assisted. This alone would allow far more companies to access services annually, for the same operational budget, than EG programs. As this paper demonstrates, companies need information rather than intensive implementation assistance. Companies with access to best practices can determine for themselves how to pursue implementation based on their own objectives, market situation, and constraints.

A sustained growth program in Virginia can utilize local developers to act as a conduit for information regarding available resources. They would be the first-line contact with sustained growers and maintain long-term follow-up, placing them in a key position for when the company is contemplating hiring new employees or expanding their facilities. This approach decentralizes services into each community, building local staff capabilities, resources, and outreach. The state could play a facilitating role by providing the local ED staff with the information, training, and resources they need to be effective.

- Agency Dilemma: Economists widely recognize that an administrative problem can arise when one party contracts with a second party to deliver services to a third party, particularly when the goals of the first and second parties are not completely aligned. As an example, an administrator (motivated by program goals) contracts with a consultant (motivated by profit) to provide a certain level of service to a company. Providing any additional services would require a separate contract by the company with the consultant. The administrator rarely enjoys perfect knowledge of all interactions between the consultant and the company, leading to a 'moral hazard'. The consultant may be motivated to provide only basic services under their contract with the administrator because they seek future outside consulting engagements with the company.

  In fact, NCEG acknowledged to this author that they are aware of nine cases in 2015 alone where their consultants were working with company clients after an EG engagement. This could be happening at a larger scale, outside the knowledge of NCEG or the state/local EG administrators, despite the protocols that NCEG uses to address this challenge. This agency dilemma may compromise the integrity and effectiveness of the program. Four of the five persons interviewed mentioned this issue as one of the most challenging aspects of the EG design.

A sustained growth program in Virginia could avoid these problems entirely by empowering local economic development agencies to perform outreach to all types of growing companies and ensuring access to applicable growth best practices. These ED agencies share the same objectives as VEDP and DHCD: higher employment growth, rising capital investment, and increasing social equity.

Conclusions

This is the first holistic effort by a US state to investigate how it can help its companies achieve and maintain sustained growth. A few other states have tried piecemeal efforts, by creating buzz around the issue and providing rudimentary assistance that is not specifically directed at increasing the virtuous cycles that drive sustained growth[33]. Virginia is taking a leadership path; one that can show others the way forward.

We have found that sustained growth is rare: achieved by only 1% of all companies surviving the past five years. Yet these exceptional companies created 61% of all new and lasting jobs from among their peers. They thus play a leading role in the growth of the Virginia economy.

Companies with sustained growth have created cycles of increasing returns, where the actions they take build learning within the organization and make further expansions more likely. These **virtuous growth cycles** are found across the organization: in leadership and planning, human resources management, sales and marketing, new product/service development, and finance. This knowledge can be instrumental in helping more than 27,000 other Virginia companies, that only grew once in the past five years, ascend to the ranks of sustained growers. These insights can also help start-ups begin their path to growth.

Of the 516 business executives we surveyed, the ones with sustained growth were more likely to use Virginia economic development services and were more pleased with the services they received. They, and the other companies, are asking for more. Specifically, they want more information on how they can achieve and maintain sustained growth. They want best practices, peer networks, input into policy making, and recognition for their success. They request these services from start-up all the way through the life cycle of their businesses. They also want more of what Virginia ED already does very well: technical assistance (e.g. exporting), special commercial zones (e.g. Enterprise and Free Trade Zones, incubators), and workforce readiness (e.g. training and recruitment assistance).

The findings of this study show several ways Virginia can strengthen its ability to attract, nurture, and retain sustained growth companies. These include:

- Information: providing a source for the sharing of best growth practices that help build virtuous cycles within business organizations. These are the tactics sustained growers use to create more resources from existing

[33] Other states have conducted studies, held forums and sent newsletters on the topic, but none has surveyed their companies to identify growth drivers and the services they need to support sustained growth. Virginia is the first.

resources, over and over again. This study is a solid start, but more effort is needed to gather, organize, and disseminate these insights[34].

Greater information access is also needed regarding available sites for expansion. We have found this to be a significant growth constraint.

- Technical Assistance: proving deeper instructions on how to solve technical issues related to employee job performance and task completion. These services are already abundantly available in the form of workforce training and export assistance, and they receive very high satisfaction ratings from participants. The survey indicates that more needs to be done through the lens of sustained growth and firm learning. For example, the mandate of export assistance could be broadened to include all geographic sales expansion. Workforce development could include supervisor training to make it easier for companies to promote from within (and thus continue to build and retain growth knowledge). It could also, perhaps, address more directly workforce habits and ethics, particularly for entry-level workers. Other areas might include cost accounting and pricing, customer collaboration (i.e. 'process transfer' rather than strictly 'technology transfer'), and legal and regulatory issues related to start-up.

- Commercial Zones: providing more access to areas with special assistance. It is clear from the survey that these zones are highly related to sustained growth. But we don't know if that's because they are more likely to attract these companies or create them. If they are for attraction, then they could potentially be used as a tool to lure more of these companies from out-of-state. If they are creating them, we need a deeper look at the composition and delivery of those services to learn how to replicate them elsewhere across the state. More study is needed.

- Retention/Expansion Outreach: engaging growth and growth aspiring companies in the field and/or in forums. Sustained growth companies are hard to find, but this study has helped the state identify them[35]. The VEDP and its local partners are now positioned to do more to engage these companies, to explain available and appropriate services, enroll them in suitable programs, and maintain an on-going relationship.

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[34] The next step in this project is to deliver individualized 'Growth Diagnostic Report(s)' to each of the companies that participated in the survey. This will show how their survey answers compared against all other surveyed companies on a spectrum of highest-to-lowest, based on sustained growth. It will also give them some suggestions on how they can improve. These reports can be used by state and local ED officials for initial outreach to these firms to begin providing them with growth assistance. If these prove useful, they could be provided to any Virginia companies seeking to improve growth.
[35] Outlier delivered a list of Virginia's sustained growers to VEDP as part of this project.

For non-growth companies, the Department of Housing and Community Development or other Virginia partners may want to consider creating an 'Introduction to Sustained Growth' program for start-ups and other companies that are pursuing this objective for the first time. This program needs to be focused on sustained growth content.

- Branding and Attraction: letting company founders and leaders outside the state know that Virginia is the best place in the country for sustained profitable growth. This message speaks most directly and universally to the central concern of most business leaders and it will differentiate Virginia from other states who tend to repeat standard and worn marketing statements. However, with this message needs to come corresponding action. Virginia must 'walk the talk' for this branding effort to be effective.

  The Virginia Economic Development Partnership can use a similar technique of data analysis as was used in the first section of this study to identify sustained growers outside the state for investment attraction targeting. This could support direct marketing efforts and site visits[36].

- Legislation: encouraging companies to save and invest their profits into expansions. Sustained growers prefer to fund growth from earnings rather than debt. There was overwhelming enthusiasm for any type of tax incentive that encourages them to do so. Reducing the drain that taxes (and debt) have on the amount of funds available for investment increases the resources that can be applied to growth, yielding higher growth outcomes (via compounding) and strengthens a virtuous cycle[37].

  This and other studies have found a clear link between firm growth and charitable giving. Being charitable strengthens the ability of firms to recruit higher quality workers and increase worker productivity. It is associated with improved customer attraction and loyalty as well as pricing power.

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[36] This author would suggest targeting a subgroup of all sustained growers in the country. Out-of-state headquarters with growing branches in Virginia are the most obvious first priority. Next, because we know that sustained growers tend to relocate within a worker commute of their existing facility, those located just across the state line would be prime targets. Third, company relocation and branching tends to 'favor the familiar', preferring regions with which they have some strong current (or past) relationship, such as with key suppliers, customers, or research institutes (or alma mata).

[37] A possible approach would be to allow companies to save their earnings tax-free for multiple years, provided that the funds are used eventually for investment (or even payroll). This is conceptually similar to a health savings account but for a different audience and purpose. Benefits could include: 1) greater capital accumulation for (non-debt financed) expansions; 2) higher levels of capital investment over the mid- to long-term which expands the tax base; and 3) a smoothing effect on layoffs during downturns (if the benefit covers payroll). Another approach could be to accelerate depreciation or to allow a greater amount of capital investment to be expensed in the current period.

These increase the odds of firm growth. Either through program or legislative action, Virginia companies can be informed about this link and encouraged. This is likely to raise social welfare and economic wellbeing across the state.

These activities align with the mandate of economic development. To pursue them would require further thinking, collaborating with the state legislature and local development agencies, seeking more input from company leaders, strengthening existing programs, and modifying or creating new ones. But none of these activities are likely to involve massive budget expenditures or holistic operational changes. They mostly involve being focused and clever: redirecting leadership and staff attention, empowering them with the appropriate tools and resources, and creating an incentive system that involves local partners helping with service outreach and delivery in an efficient and effective manner.

The goal of these efforts is to increase the number of sustained growers in Virginia, by encouraging more companies to pursue sustained growth; helping those that have it continue being successful; and making it known across the country that Virginia is the best place for profitable sustained growth. The rewards of these goals are: higher employment growth, higher regional wages, more career opportunities for workers, deeper commitment by companies to their communities, more capital investment, better economic diversity, and greater social equity. This paper has demonstrated that sustained growers provide all of those benefits. It's simply up to Virginia policy makers and ED practitioners to grasp the golden ring.

Appendix A: Methodology

This project consisted of two research components. First, an analysis was made of all business establishments that operated in Virginia at anytime over the 2009-2014 period. The purpose of this step was to identify sustained growers and other businesses, and to measure their employment creation impacts and business characteristics. Those findings are found in the first part of this report. Second, a survey was conducted of senior leaders at more than 500 businesses. Results were tabulated and presented in the second part of this report.

Database Analysis

Virginia Economic Development Partnership (VEDP) licensed the Virginia NETS (National Employment Time-Series) dataset from Walls and Associates for use in identifying companies for the survey mailing and for the analysis of job creation in the state. NETS tracks nearly all business establishments in the U.S. on a year-to-year bases, covering approximately 120 data points such as location, ownership, industry, employment, sales, and a variety of activities such as exporting and government contracting.

Outlier has used NETS extensively for growth studies of other states, including Louisiana, Indiana, Maryland, Michigan, and Pennsylvania. Dr. Kunkle, Founder and President of Outlier, serves as Senior Research Fellow at the Consortium for Business Dynamics Research, based at the University of Wisconsin at Madison[38]. Dr. Kunkle has used the national NETS dataset at the Consortium to draft several whitepapers related to sustained growth that can be found at their website.

NETS was used to measure the job creation within Virginia over the study period. More than 200 performance and demographic variables were created to link individual years into time-series and to create subgroups. For example, 8-digit SIC codes were used to create industry groups and county FIPS codes to create regions. Basic statistical analysis was then employed.

This analysis only focused on for-profit establishments as indicated in the NETS dataset. Establishments were used rather than firms because they isolate the activity of multi-establishment firms within the state. Establishments are individual business locations. As shown in the report, more than 4-in-5 firms are 'standalone' establishments, meaning they are firms with only one business location.

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[38] The Consortium for Business Dynamics Research (CBDR) was formally called the Institute for Exceptional Growth Companies. It was originally founded by a partnership between NASDAQ Education Foundation, the Association for Corporate Growth (the largest private equity trade association in the U.S.), and the Edward Lowe Foundation, where it was housed until 2014. The Kauffman Foundation has joined as a sponsor and now is also a member of the CBDR's Board of Directors. www.exceptionalgrowth.org.

NETS was also used to identify the sustained growth companies and to create lists for the survey samples. Sustained growth is calculated by summing the number of years a business establishment added net new jobs and subtracting the number of years they reduced jobs. This creates eleven points ranging from -5 (i.e. employment declined each of the five years) to +5 (i.e. employment expanded each year) with zero in the middle of the range.

The distribution of sustained growth is presented in the paper. Because the distribution adheres to a Power Law, or Laplace distribution, as you move away from zero every additional year of growth (or decline) reduces the set of potential companies in the economy by approximately 1/8th. This means a random sample of companies in the economy would have produced a list with approximately 80% of companies having zero growth and very few having 2 or more years of growth (or decline). Such a result would have not yielded a statistically significant sample for this analysis.

Consequently, the sample was balanced across five 'buckets', including >=2 years of decline, 1 year of decline, zero growth or decline, 1 year of expansion, and >=2 years of expansion. 5,000 companies were chosen in total, with 1,000 filling each bucket. There were also 1,000 back-up companies for each bucket. VEDP's staff carefully examined the names of all companies closely to screen ones they knew had either closed or left the state in the past year, or were branches of retail chains. The final sampling list of 5,000 contained a random mix across industry, location, size, and structure (i.e. stand-alone businesses, headquarters, and branches).

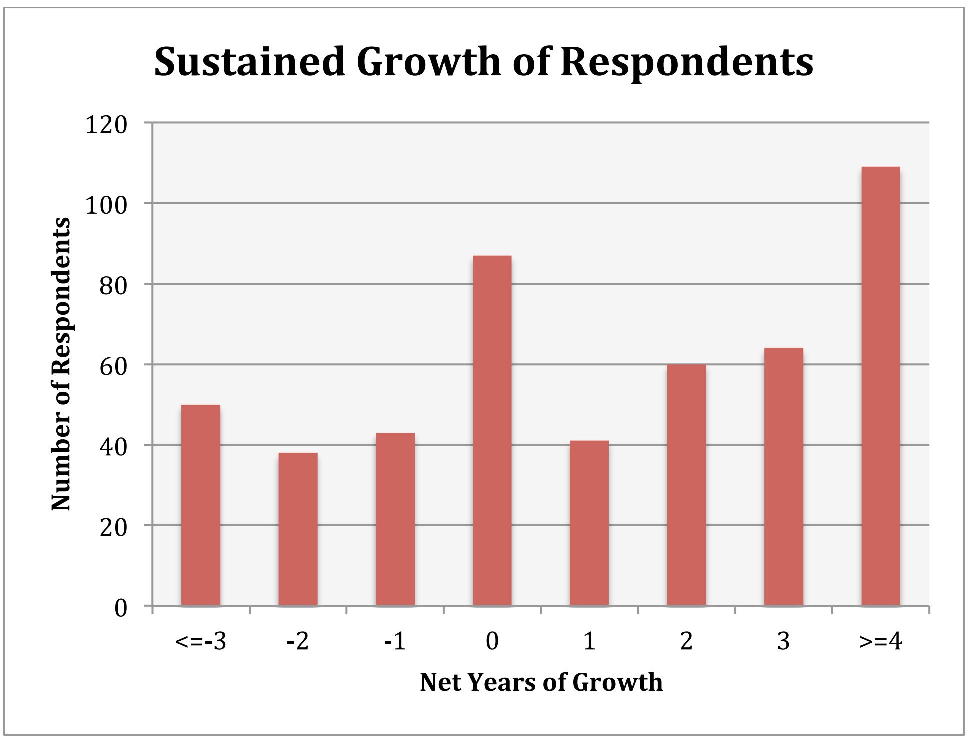
Business Survey

VEDP and Dr. Kunkle created the survey instrument in close coordination. Approximately one-third of the questions included in the survey came directly from previous survey work Kunkle has conducted for other clients, including INC Magazine, Build Magazine, GE Capital, the Principle Financial Group, Summit Professional Networks, and Entrepreneur Media. All questions chosen had already been determined by Kunkle or other researchers to have a strong relationship with sustained growth and/or they were specific to VEDP's project objectives.

A preliminary draft of the survey instrument was tested with five individuals who are current or former CEOs and company owners. Question clarity was improved based on their feedback. The final survey instrument was up-loaded on a Survey Gizmo site and a link was established to the VEDP website.

Through a collaborative effort between Virginia Governor Terry McAuliffe's office, VEDP, DHCD, and Outlier an introduction letter was crafted to invite companies to participate in the survey, provide them with an individualized access code, and directing them to the survey website. Companies were promised that if they would participate and identify themselves using the access code, they would receive a personalized diagnostic report comparing their answers to all other companies participating in the survey. The letter was presented on Governor McAuliffe's stationary, with an electronic signature of the Governor, and placed in an envelope with his office's seal and address.

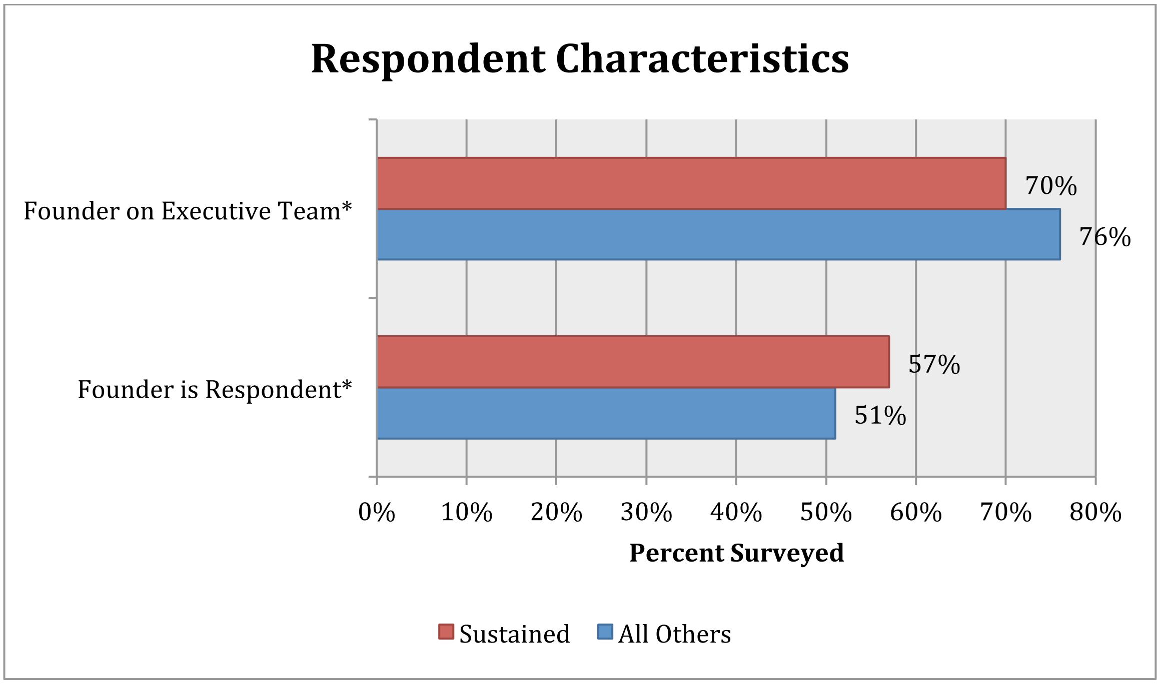
A total of 4,136 Virginia firms were sent the introduction letter during the last week of July. Between August 3rd and 31st the website received 517 completed responses (including one duplicate). This represented a 12.5% response rate, which is considered extraordinarily high for surveys of this kind. There were more than 60 multi-part questions on the survey and the average respondent devoted 48:44 minutes to completing it.



Source: NETS and Outlier LLC

There were at least 38 completed surveys from each of the sample 'buckets'. This surpasses the statistical minimum requirement of 32 for each sample subgroup along the sustained growth distribution. Thus, we have confidence in the statistical analysis presented in this report.

More than half of the respondents were founders of their companies. The founder is still involved in management decisions making for about three-fourths of companies. Among sustained growers 70% of founders are on the executive team compared with 76% among the other companies. The statistically significant difference between these groups may be due to sustained growers moving more aggressively to install professional managers to lead the company.



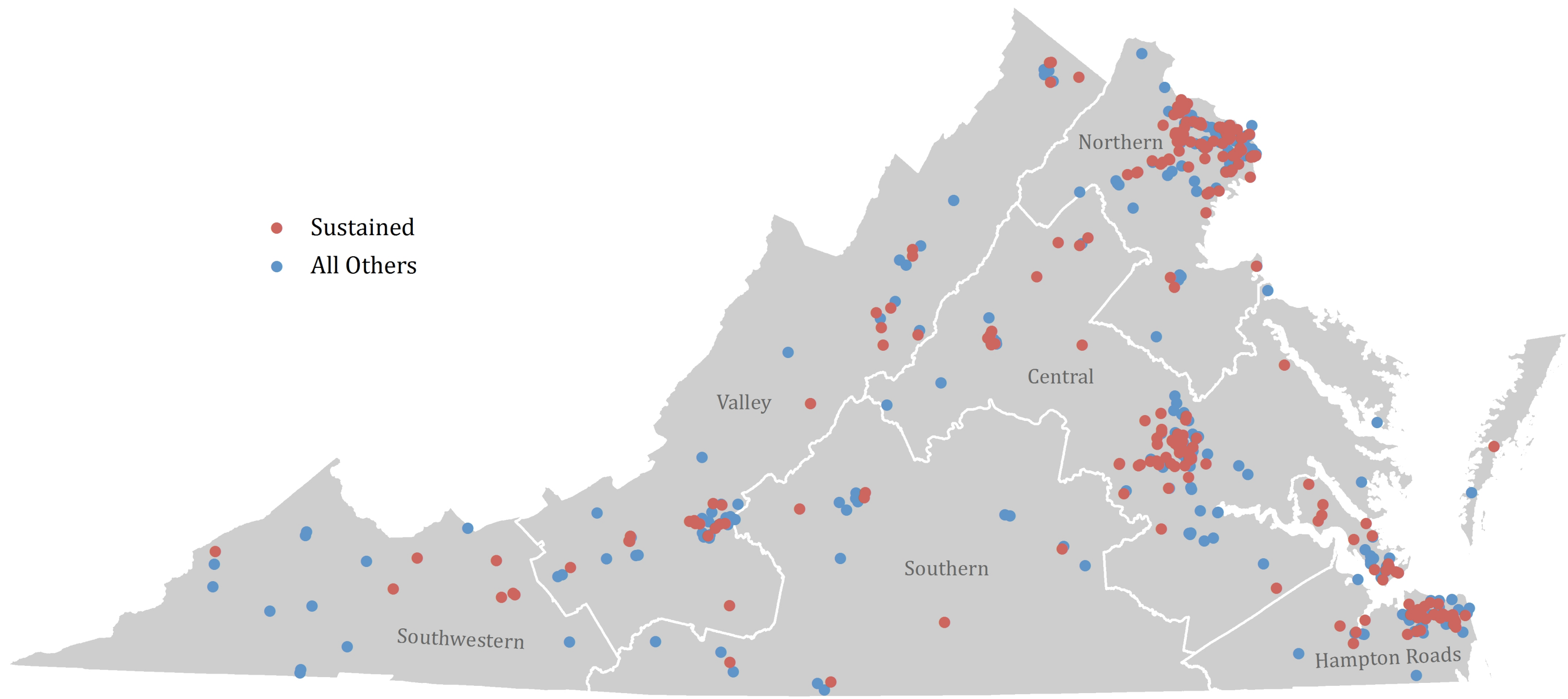
* Statistically significant difference Source: Virginia Sustained Growth Survey

Throughout the report responses that show a statistically significant difference between two groups on a particular answer are noted with an asterisk (*). This is based on a simple independent sample T-Test using Levine's measure of variance. In nearly all cases the results are significant at the 0.01 level although some are significant at the 0.05 level. For the sake of simplicity we only note one category of significance with the single asterisk[39].

The map on the next page shows the geographic distribution of survey respondents. The reader can see that companies with sustained growth are somewhat concentrated in densely populated areas, yet they are also spread throughout the state in rural areas and small towns. This pattern is true for other companies as well.

[39] If the reader would like more information regarding statistical analyses or tests, please contact VEDP or the author of this paper.

Distribution of Survey Respondents



Appendix B: Regional Variations

These regional comparisons are made against the average of all companies surveyed across the state. Each of the characteristics mentioned are discussed in more detail throughout this report. When a characteristic covered in this report is not mentioned in relationship to a region, it means that companies in that region tend to behave similar to the state average for that characteristic[40].

- **Northern Region**: This region has the highest relative concentration of sustained growers. They tend to be younger than the average sustained grower in the state, with fewer branches across the country, and are more likely to have recently relocated to Virginia. They have the heaviest presence in services industries, particularly those serving government clients. They are most likely to follow growth 'best practices', particularly related to planning, communications, partnering with other firms, and targeting high-value customers. They are also the most aggressive in competing for qualified workers (particularly technical or credentialed), providing the most benefits and bonuses, and are most likely to import workers from beyond a commuting distance.

- **Central Region**: Sustained growers here tend to be among the oldest companies surveyed, operating in mature industries with multi-state sales territories, and are most likely to manage multiple facilities spread across Virginia. They are more likely than average to be in the construction industry, less likely to be in the services industry, and least likely to be government contractors. These businesses are more likely than average to have problems recruiting the best employees and to face labor shortages among technical or credentialed workers. They are less likely to have formal business plans or consider input from internal market research during their planning process. They are more likely to want ED assistance when companies are constantly growing, particularly related to more available sites, stronger workforce work ethics, and access to a peer network of growth companies. They are also more likely than average to be satisfied with Foreign Trade Zones.

- **Hampton Roads**: Of all companies surveyed, those in Hampton Roads were least likely to have changed capacity in the past five years. They are more likely than businesses in other regions to have a local market territory and least likely to sell into multiple states. They tend to hire locally rather than to import qualified workers from elsewhere. On average, they spend less on

[40] For example, the section on the Northern Region does not mention any difference related to geographic sales territory. This is because companies in this region are similar to the state average regarding this characteristic.

R&D than other Virginia businesses and are more dependent upon their supplier networks.

- **Valley Region**: These businesses are, on average, among the oldest companies surveyed. They operate the most facilities worldwide. They are more likely to service customers in the education industry and less likely to serve government clients. They tend to have less problems maintaining profit margins and acquiring new customers, but more problems managing production capacity. They are less likely to believe in growth drivers related to a learning organization (e.g. decentralizing decisions, encouraging risk taking and new ideas, obtaining input from employees during planning). They are more satisfied than average with economic development services, particularly start-up assistance, incubators, export assistance, technology transfer, and workforce training, and they are the most satisfied of companies in all regions with Enterprise Zones.

- **Southern Region**: Businesses here are most heavily concentrated in manufacturing industries, and less than average for services. They tend to service multi-state sales territories. They are more aggressive than average in pursuing competitors, encouraging learning and new ideas among workers, and believing that access to growth capital and building supplier networks are key to growth. They face the most acute shortage of technical and credentialed workers of all companies surveyed, and tend to reimburse a higher than average amount for relocation costs when hiring outside their region. They are more likely than other companies to face problems with warehouse space and broadband services, but are less likely to have relocated within Virginia in the past five years. While they are more satisfied than average with start-up and site selection assistance, they are less likely to have been contacted by economic development authorities in the past three years. They would like more assistance with technology transfer, site availability, and workforce skills, and they would appreciate being recognized for their growth.

- **Southwestern Region**: Companies surveyed here were more likely than average to be branch operations and less likely to have their headquarters in Virginia. Perhaps consistent with this pattern, they were less likely than average to believe in growth drivers related to a learning organization, least likely to embrace outsourcing, and less likely to support employees working from home or remotely. They were not likely to spend more than the industry average on R&D and they tend to listen to internal research during business planning. They were more likely to have found their current facilities with the help of economic development assistance and least likely to have used a broker or site selection firm. They were not very satisfied with start-up assistance and least likely to believe ED services matter most when first seeking to grow or when constantly growing.

Appendix C: Open-Ended Comments
(Quotes on other ways to improve company growth in Virginia)

- A MUST is to simplify & accelerate the zoning, permitting and regulatory compliance
- Access to 'coop' engineering students or interns at Virginia Tech, GMU, UVA, engineering programs
- Address the traffic issues, reduce taxes on the business and its employees, and incentivize commercial (non-Government) businesses into the region to improve workforce competency
- Anything that could bring established companies with new / growth companies.
- As a B2B small business, #1 would be incenting large corporations who do business in VA to patronize VA service businesses. #2 would be improving the VA state procurement system, which is impenetrable. #3 would be making it easier/more attractive for small businesses to compete for Federal government business.
- Assisting new companies to find customers for their products/services or assisting such companies to make changes in their products/services that would improve their marketability.
- Better assistance from local agencies
- Better communication of changes in regulations that impact specific industries.
- Better legislation to help small companies grow and less regulatory intrusion
- Better tax advantages for small to medium privately held businesses
- City and state business taxes and fees are overlapping and they must understand subcontracting cost...double taxation
- Clearly list State and Local tax liabilities, fees and licenses required to run a business.
- Common Sense Environmental Regulation and enforcement at state level. Need 'can do' attitude rather than 'you can't' attitude, work together than against.
- Companies and communities prosper when the local school district is great and attracts the best of executive and employees. VA should invest more in elementary and secondary education.
- Continue to support VEDP
- Create an onboarding group that would explain the business and environmental permits that are necessary to do business in VA.
- Cut or eliminate corporate taxes. Cut or eliminate personal income taxes. Build roads to keep up with traffic load. Clear snow from roads in winter quickly. Continue to support engineering and science education at Virginia Universities
- Cut sub chapter s income tax rates. Change sales tax policy so that my company pays when I receive the money from my customer
- Cut taxes and many regulations
- Decrease regulatory burdens

- Decrease taxes. Do not increase minimum wage – that will result in high pay for unqualified workers
- Decrease the corporate tax rate so that more profits can be used to increase worker wages and to fund R&D
- Discuss work ethic, work place respect, in public school system
- Diversify business/ industry base away from reliance on Federal contracting
- Ease up on the taxes. We hesitate to hire new because of the tax and hiring requirements.
- Eliminate BPOL tax – we are double taxed. Stop taxing business property that has been fully depreciated – I have no incentive to purchase new equipment if you still tax me on equipment that I've owned for twenty years.
- Eliminate CM-At-Risk procurement opportunities
- Eliminate property taxes on items like computers – doesn't make sense with today's technology climate. Eliminate BPOL taxes allowing us to hire more.
- Eliminate the state income tax on pass through entities.
- Expand true broadband services into rural areas
- Fairness in regulatory agencies
- Get business leaders input on proposed new regulations
- Get local government to make it easier for companies to get business licenses, building permits, etc.
- Get rid of gross receipt taxes and quit taxing old furniture and equipment
- Get the population base of workers drug free.
- Help reduce BPOL taxes
- I believe what the VEDP does currently with access to market research is hugely helpful. More of this is always welcome as a resource. Access to translation services, IT upgrades, website development and legal challenges associated with international growth would also be helpful.
- I would like to see more business grants for web-site growth.
- Improve the transportation network in VA! Our interstates are crowded.
- Improve traffic conditions
- Improve transportation
- Improve tax code at the state and local levels. We pay taxes to other state jurisdictions, however VA code does not fully recognize taxes paid to other jurisdictions. BPOL gross receipts tax is punitive.
- Increase grant opportunities for companies with solid track record for sustained growth. Yeah we're growing, but we could grow faster and increase employment opportunities.
- Increase VEDP funding and use options
- Influence government to end the 'Low Cost Technically Acceptable' practice for awarding contracts – which encourages new companies with little experience to low-ball price bids to win contracts without acceptable performance.
- Invest more in the technical facilities and Community Colleges to train skilled workers in all the trades.

- Involve companies more in design of curriculum at Virginia higher education institutions, to be more responsive to how people actually work. Workplaces are very interdisciplinary, but higher education generally isn't.
- Keep regulation and taxation low as possible.
- Keep tax levels in check.
- Keep taxes as low as possible
- Keep vocational education in the high schools.
- Less paper work
- Less regulations (x6)
- Low or no cost growth funding, tax credits for hiring Virginia workers
- Lower taxes (x7)
- Make business owners more aware of existing state programs that can help businesses grow
- Make it easier for people to get to work – traffic is a big issues even when you find qualify people
- Marketing and sales assistance programs and exposure of capabilities
- Offer more technical classes for employees
- Permitting of development needs to be expedited
- Provide affordable (perhaps subsidized) high-caliber consulting services for small to mid sized companies poised for growth. Carefully screen to pick companies with demonstrated performance and significant growth potential would be required.
- Provided hassle free permit practices for small companies trying to expand.
- Reduce or eliminate the business license tax.
- Reduce paperwork and increase digital services.
- Reduce regulations (x4)
- Reduce taxes (x5)
- Remove state income tax and unnecessary taxes such as BPOL taxes.
- Revise BPOL and business personal property tax statuses
- Revisit all taxes and regulation to reduce where necessary, to be most competitive in the country. Protect right to work state.
- Run the marketplace of Virginia in such a way that exceptional past performance is the key factor in deciding whether a company wins a contract.
- Send all the companies a list of the ED services and what they can do to help. Information!
- Some cost sharing grants for small companies to travel with US Department Trade Delegations to other countries. Not 100% but something – the plane ticket or lodging but not both.
- State incentives to improve cash flow for small/mid-sized businesses.
- Stop turning the workforce into felons.
- Tax incentives would be a blessing – many profit dollars are now being sent to state/federal, eliminating a nest egg for growth.

- The basic problem for us is not skill and training…finding folks with good work ethic, that have common sense and are loyal, who play well with others and don't bring all their personal problems to work.
- The city of location also matters; some cities have policies that are not business friendly.
- The main issue is talent.
- The sales tax rules are so convoluted that not even government representatives can explain them. The same applies to building permits, local taxes, compliance of small business when doing business in different regions of the state.
- This is federal but would be helpful if S Corp could only pay taxes on profits taken for a tax year. As it is now we have to pay taxes on profits which makes that money unavailable the next year.
- This is the first communication I have been asked to participate in since my organization's inception in 2003!
- We have to put too much time, money and human resources into regulations as opposed to investing in the growth of our company