

57th ICSB World Conference

Wellington, 10-13 June 2012

Conference Proceedings

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**HIGH GROWTH AND GAZELLE ENTERPRISES IN PORTUGAL:
A FIRM DEMOGRAPHY AND GROWTH ANALYSIS**

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SUMMARY

This paper describes employer enterprise dynamics in Portugal for High Growth and Gazelle enterprises for the period 1990-2007 and discusses the main stylized facts related to these firms' performance, longevity and employment by size, region and sector. Two parallel perspectives are provided, by turnover and by employment. The analysis carried out is based on a comprehensive dataset which provides the platform for uncovering features of Portuguese firms which have not been examined to such a detail before. In doing so, this study reveals potential business areas of growth which are of prime importance for a country's economic growth and development.

In addition, the paper also provides an international comparison between Portuguese firms and those in the UK. This comparison enables us to explore differences in national framework conditions and conclude that the regulatory environment in which Portuguese firms operate seem to be instrumental to the explanation of their poor performance relative to their UK counterparts.

Keywords: High Growth, Gazelle Enterprises, Performance

PRINCIPAL TOPIC

The Portuguese economy underwent a process of growth and structural transformation during the latter part of the twentieth century, which culminated in rapid economic expansion in the second half of the 1990s. However, the deceleration of economic growth since 2001 has contributed to the creative destruction of industries, which has consequently impacted on firm dynamics.

Using a methodology applied by Eurostat and OECD in the elaboration of the dataset compiled for this study, the paper describes employer enterprise dynamics in Portugal for High Growth and Gazelle enterprises for the period 1990-2007 and discusses the main stylized facts related to these firms' performance, longevity and employment by size, region and sector. Two parallel perspectives are provided, by turnover and by employment.

Once the main features regarding the dynamics of firms in Portugal are established, we then provide an international comparison between Portuguese firms and those in the UK (NESTA 2009 and 2011). This comparison enables us to explore differences in national framework conditions and conclude that the regulatory environment in which Portuguese firms operate seem to be instrumental to the explanation of their poor performance relative to their UK counterparts.

The main contribution of this paper to the literature is therefore three-fold: firstly, it focuses on the profiling of High Growth and Gazelle firms to a detail which has not been previously considered. The analysis carried out in this study is based on a comprehensive dataset which provides the platform for uncovering features of these firms which have not been examined to such a detail before. Secondly, it uncovers potential business areas of growth which are of prime importance for a country's economic growth and development, particularly in the context of the current economic, social and financial climate. Thirdly, by establishing a comparison between Portuguese High Growth and Gazelle firms and their UK counterparts, it not only highlights differences in performance but, more importantly, it provides recommendations as to how some of the obstacles and rigidities in the system can be overcome to support entrepreneurial activity.

METHODS

We have compiled a dataset of High Growth and Gazelle Portuguese firms from comprehensive employee-employer linked data collected through an annual mandatory survey conducted to firms in Portugal (known as *Quadros de Pessoal*) for the population of Portuguese employer enterprises, whose workers are formally registered in the Social Security System. The compilation of this dataset follows the methodology applied by Eurostat and OECD (2007) on the classification of what constitutes a High Growth or Gazelle firm.

The methodology used allows for international comparisons of data (OECD, 2009 and 2010; Instituto Nacional de Estatística (INE), 2009) and provides additional insights relative to the information provided by the Structural Business Statistics (Ahmad, 2006).

According to the methodology (Eurostat/OCDE, 2007), a High-Growth enterprise is any employer enterprise with 10 or more employees in the beginning of the observation period, with average annualised growth greater than 20% per annum, over a three year period. Growth can be measured either by the number of employees or by turnover. Gazelle enterprises are a subset of High Growth enterprises which consist of employer enterprises that during a period of at least 5 years have had an annual average growth in turnover or employment, respectively, greater than or equal to 20 % per year.

The derived dataset from the application of this methodology consists of an annual average of 215,903 active employer enterprises, with an annual average of 36,803 births and 23,743 enterprise deaths over the period 1985-2007. In 2007, there were 354.920 employer enterprises employing 3.205.372 workers.

Although the dataset covers originally the period 1985 to 2007, two years at the beginning and end of the dataset are lost due to the application of this methodology, particularly as a result of the need to calculate enterprise births and deaths. When calculating enterprise births, it is recommended that we consider two years prior to the reference period, in order to check for reactivations. Thus, births were only calculated from 1987 onwards. Similarly, an employer enterprise death occurs when it ceases employing workers (and/or generating

revenue). The methodology used recommends considering two years after the reference period to allow for reactivations, before deaths are actually calculated. Thus, deaths were only calculated up to 2005, instead of 2007, the final year of the data.

Furthermore for the calculation of Gazelles, further years are lost, due to the specific criterion which requires a firm to exhibit at least 20% annual average growth during a period of 5 years. Thus, Gazelles are noted from 1992 (ie, 1987 plus five years), while High Growth firms are considered from 1990 (1987 plus three years).

RESULTS AND IMPLICATIONS

The results show that in 2007, only 9.5% of all Portuguese employer enterprises (with more than ten employees) have a turnover that is in line with that of High Growth firms. If instead of turnover, we consider the growth in the number of employees, then the percentage of High Growth firms drops by 6.5% to just 3 %. In addition, the firms that can be classified as Gazelles constitute only 2.2% of the total number of Portuguese employer enterprises if turnover is the criterion considered and 0.7% if we focus on employment growth. These percentages are significantly lower than at the beginning of the period considered in this study; in 1985, 24.6% were High Growth firms, of which 3.74% were Gazelles according to turnover and 4.2% and 1.1% respectively if we take into account employment growth instead.

The analysis also provides evidence of a narrowing gap between the two measurement criteria: the ratio of High Growth firms according to turnover to the respective employment. A similar pattern has been observed for Gazelle firms.

When Portuguese firms are compared with their UK counterparts, it is noticeable that on average High Growth firms in the UK have been more successful at creating employment than the Portuguese ones over the period studied and that Portuguese High Growth firms tend to display a higher degree of volatility on this front.

This appears to be due to two main reasons: firstly, High Growth firms in Portugal tend to be larger by number of employees than in the UK, so when there is destruction in the number of firms, individual firms tend, on average, to have a higher impact on employment. Secondly, a significant number of High Growth firms in Portugal come from the Construction sector which has been particularly affected by variations in the current business cycle.

To sum up, between 2005 and 2008, the UK High Growth firms tripled, on average, the number of employees, whilst in Portugal, firms have experienced a sustained decrease in the number of employees. Furthermore, high growth firms account for 6% of the total population of UK firms in terms of employment growth (NESTA, 2009), which is the double of what the evidence shows for Portugal.

The research also provides evidence for significant differences of High Growth firms across regions, with more than half concentrated around the area of Lisbon and another quarter in the North. Over the years, a pattern is emerging whereby more and more High Growth firms are based in the Lisbon area, although clusters have not been observed.

It should also be noted that there has been an important shift in the distribution of both High Growth firms over the period of analysis, away from manufacturing (34% in 1995, down to 20% in 2007) to services and commerce (39% in 1995 up to 56% in 2007) as well as construction (15% in 1995, up to 20% in 2007). A similar pattern is observed for those firms classified as Gazelles. These trends seem to be in line with those observed across Europe.

However, the significantly lower percentage of High Growth firms in Portugal raises concerns about the lack of dynamism observed across Portuguese firms. It would appear that there is a need to reduce large inefficiencies in the allocation of resources generally, but also a need to reallocate resources away from less productive firms, in declining sectors to more productive ones which sit in sectors that have the potential to generate more economic growth. In order for such problems to be overcome or, at least minimised, policies need to be more focused in providing the platform for entrepreneurial activities to thrive, particularly in those sectors earmarked as pivotal to economic growth. Policymakers should therefore assist in the process of firm creation and growth, by reducing red tape, working with financial institutions towards easing access to credit and improving labour and product regulations

and. More generally, policymakers should contribute to the establishment of an environment which is appealing to venture capitalists and business angels and which ultimately is regarded as conducive to investing in the country.

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