

ELABORATION OF IMPORTANCE OF FAST GROWING COMPANIES GAZELLES - NEW EVIDENCE FROM SERBIA

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ABSTRACT

Small and medium enterprises (SMEs) are one of the key pillars of development of all national economies, both the richest and those less developed. In this paper, attention is focused on the specific segment of SMEs, characterized by rapid and stable growth, ability to quickly adapt to changing market conditions and in the long term to operate at the high performance level. These companies are today known as "Gazelles", a term that was coined by an American author, David Birch. The interest for these companies, both at the macro level of policy creators, as well as at the company level, has grown rapidly in recent years because of their high potential for addressing issues of unemployment, creating a host of new products and services and added value for society as a whole and alike. The paper deals with issues such as definitions and basic characteristics of these companies, the key factors of their business, as well as their level of development in the European Union and the Republic of Serbia.

Key words: *Growth, Small and Medium Enterprises (SMEs), Gazelles, Business Performance, Innovations*

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INTRODUCTION

Due to numerous economic and social advantages, such as economic and technological flexibility, job creation and employment, the SME sector is development generator of every national economy. They are the dominant form of business organization, accounting for 95% to 99% of total businesses in national economies employing between 60% and 70% of total working population in some countries. The focus of this paper is put on the special group of SME enterprises, i.e., a group of fast-growing companies called gazelles. These enterprises attract a lot of attention owing to their above-average growth rate, which makes them the best and the biggest job generators. They have attracted so much attention because they contribute to social well-being by creating new businesses and jobs. They are said to provide a high return on investment, promote regional development, and contribute to the managers' and employees' satisfaction. For these reasons, in the recent years, many governments have aimed to increase the number of gazelles.

LITERATURE REVIEW

The author who has coined the term "gazelle" to describe the firms which are growing at the rates considerably over the industry's average was David Birch (Birch et al, 1998). The research performed by Birch has shown that a major share of new jobs in USA has been created by SMEs, particularly in the new and highly innovative groups of SMEs. According to his study, on average, two thirds of all jobs are created by SMEs. Kirchoff at all, have come to similar findings regarding situation in the Europe (Kirchoff, 1994), while Brüderl at all, have confirmed it for the Germany (Brüderl et al., 1996). According to Dautzenberg at all, three meta-studies and 22 empirical studies on the subject of gazelles have been conducted between 1994 and 2011 (Dautzenberg et al., 2012). The studies were conducted in USA, Canada and several EU countries (Germany, Finland, Sweden, UK, Spain and the Netherlands). Most of these studies have confirmed importance of the gazelles in their national economies: they have found that only 2% to 5% out of total number of companies could be put into the category of gazelle, but 60% to 75% of all newly created jobs can be allotted these companies. Thus, gazelle, despite their small share measured against all companies, have effect on employment much above the average.

The findings regarding the importance of innovations and gazelles are not unambiguous. The research conducted by Werner Hölzl, has shown that the gazelles have important role in R&D and innovative practices in the developed and technologically advanced countries, but not in undeveloped countries in which gazelles could be found in all (high-tech as well as in traditional more mature) industries (Holzl, 2008). On the other hand, Geroski et al (1997) and then Bottazzi et al. (2001) have not found significant relationship between company growth and innovation activity (Geroski et al., 1997); (Bottazzi et al., 2001). More recent studies, focused on the fast growing companies, on the other hand, have found clear positive relationship between innovation activity and growth (Coad, Rao, 2008).

DEFINITION OF FAST GROWING COMPANIES - GAZELLE

By studying the prosperity of the Silicon Valley in 1980's, David Birch concluded that only three percent of companies would survive and continue to grow and he named them dynamic companies, gazelles (Birch, 1979). Studies show that the share of these companies, comparing to other companies or businesses that have been created in the current year is very small in any economy, the figures varying between 2% and 15% depending on the study. Birch, also set the principal elements to be used in applying gazelle definition, these are: selected growth indicator, measurement method, time period of measurement, as well as other additional criteria. Growth is conditioned by relative or absolute growth as well as a mix of the two. The default time for the company analysis company is usually three years.

The most commonly used definition of a gazelle in the world literature is that these enterprises are those whose sales increase by at least 20% per year over the course of three consecutive years.

The most important indicators of company's growth are:

- Type 1: Absolute growth $AR_{t1t2} = \text{aps}(x_{t1} - x_{t2})$ that measures sales growth and employment growth as a difference between the first year of proportion / size, and last year the share / size
- Type 2: Relative growth $RR_{t1t2} = (x_{t2}/x_{t1}) - 1$, which measures turnover growth or employment growth as a division between first-year share / size, and last year the share / size
- Type 3: Birch Index $BI_{t1t2} = |AR_{t1t2}| * RR_{t1t2}$, which calculates the turnover growth and employment growth as a combination and multiplication of the absolute and relative growth.

The OECD (2007) definition is that the fast-growing enterprises are those generate the average annual growth rate of over 20% per year over a period of three years with at least 10 employees in the initial year of the period, whereas gazelles are a group of fast-growing companies with up to 5 years of existence.

CHARACTERISTICS OF GAZELLES AS ECONOMIC DEVELOPMENT DRIVERS

Successful gazelles are characterized as enterprises with a clear strategy of differentiation, fostering their customers and cleverly using the resources available in their environment, especially those that allow them to reduce the risk and uncertainty, as well as knowledge creation and innovation.

CORRELATION BETWEEN GAZELLES AND GROWTH

Fast growth is possible in two situations: formation of the new company created to use innovations of technological-marketing nature in ceasing market opportunities not identified by competition and/or existing company is introducing new strategies, procedures, conduct and similar. Subject changes, if radical, may contribute to strong company growth. Important element of strategy implementation is the ability of the company to learn from the growth in a certain period and then to apply the lessons learned in the next period. On the other hand, the biggest limitation or barrier to growth, in most cases, is the use of inadequate strategy mix.

Growth nature in these companies is not always continuous and that companies may be subject to non-linear forms of growth, with frequent booms and plunges, and that in spite of all of that they continue to grow in long term. Understanding what the driver of fast SME growth is crucial both for managers striving to become or remain competitive, and for the governments responsible for national economies and creation of new jobs.

CORRELATION BETWEEN GAZELLES AND INNOVATION

Dynamic organizational capabilities of an enterprise are based on the ability to connect internal power to external needs. Gazelles are characterized by the fact that innovations are not only introduced in production domain, but practically in all domains of operations, including managerial, organizational and technical innovations within the company. Fast growing companies succeeding with the help of innovative approach in marketing, organization and/or distribution may be found in all spheres of business. Gazelle innovation represents a change of approach to resource management and the introduction of new organization structure rather than the creation a new technologies or product in general.

CHARACTERISTICS OF GAZELLES IN TERMS OF SIZE AND AGE

It is estimated that about 70.5% of gazelles are small-sized businesses, while medium-sized enterprises constitute about 27.5% of all gazelles in the EU. The biggest number of gazelles is certainly among small and young firms. Age of gazelles is an interesting issue. Baseline assumption of David Birch, is that fast growing firms are by default young companies. Research conducted in USA in 2008 found that, however, average age of fast growing companies is as much as 25 years (Acs et al., 2008). On average, the largest number of gazelle founders has significant experience of many years in their profession, in a particular area and branch. One of the most important growth patterns of a company is just the professional experience of the founders and employees.

STRATEGIC ASPECTS OF GAZELLE OPERATIONS

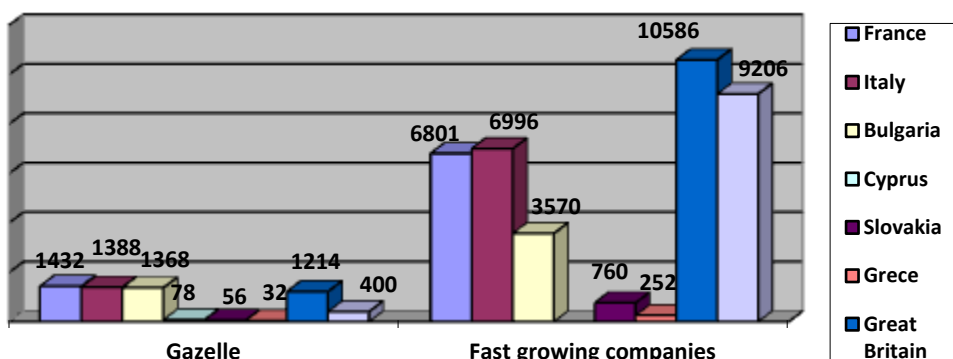
Successful gazelles are characterized by application of clear differentiation strategies, customer care and smart use of available resources in the environment. Subject companies are successful due to their close contact with the customers, listening to identify customer needs and requirements, constant product improvement and, thus, ensuring superior position versus relevant competition. Focus on quality, clients and distribution are by far the most important growth drivers and in that context of marketing it plays key role. Dynamic organizational capacities of the company are based on its ability to connect internal forces with external needs. Crucial factor safeguarding survival of SMEs, and especially gazelles, on the highly competitive market is human resources management, including style, personnel, skills and common values. Style is related to grouping staff by similarities in thinking and conduct, strengthening organizational culture and involving employees in decision making processes; staff is related to special individuals, engaged. Skills are related to the fact that employees possess special skills required for company strategy implementation.

GAZELLE FIRMS IN THE EUROPEAN UNION

Researches proved that most important trends of European economy are connected with fast growing companies, particularly gazelles. For example, comparing to the average, gazelles provide more significant contribution to sales growth than to the employment growth in the total economy; then, young production firm generate more contribution to sales growth and less to employment growth, while service companies generate more significant contribution in both domains, sales growth and employment growth.

OVERALL IMPORTANCE OF SMES AND GAZELLES FOR ECONOMIES OF EU COUNTRIES

Graph 1 shows EU Countries with both three highest and three lowest number of gazelle and fast growing companies in 2010, according to Eurostat.eu official statistics. Gazelles were characterized like companies of not more than 5 years in existence with the average annual growth rate above 20% in the last three years. Fast growing companies are companies with the average annual growth rate of 20% in a three year period.

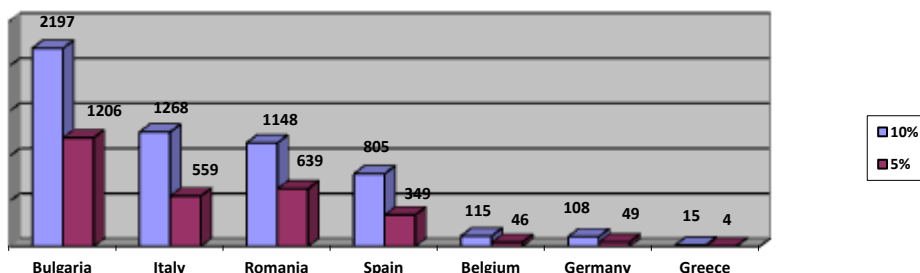


Graph 1: The Number of Gazelles in Selected EU Countries

Source: Eurostat.eu

CONTRIBUTION OF GAZELLES AND FAST GROWING COMPANIES TO THE EU ECONOMIES

Share of gazelle firms by countries is shown in the study conducted by the European consortium INNOVA Sectorial Innovation Watch, in January 2011 (Mitsch, Schimke 2011). Research included analysis of gazelle firms share by countries within two specific samples: share of 10% and 5% of fast growing companies. Research was based on the database of CIS IV (CIS (Community Innovation Surveys) are statistical researches of innovations in companies in the science and technology segment of EU. Producing CIS data is on voluntary basis for all member countries. CIS IV was implemented on the basis of 2002-2004 reference period in the following countries: Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Greece, Spain, Finland, France, Hungary, Italy, Lithuania, Latvia, Portugal, Romania, Slovenia, Sweden, Slovakia, Norway and Island.). Graph 2 shows five of highest and two of lowest shares of gazelles both with 10% and 5%.

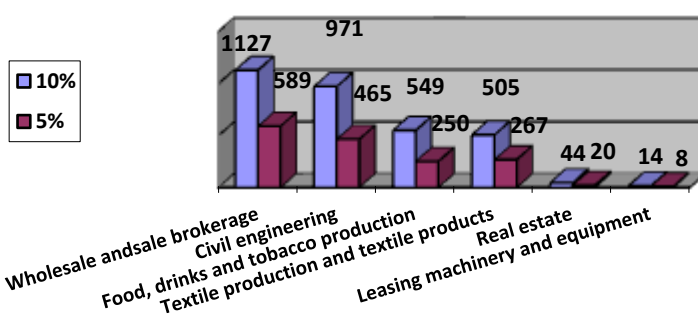


Graph 2: The share of gazelles in selected eu countries

Source: Eurostat.eu

THE SHARE OF GAZELLES IN INDIVIDUAL SECTORS OF EU COUNTRIES

Aforementioned study (Mitusch, Schimke 2011) showed representation of gazelles by industries and sectors in EU. Research identified gazelle shares by sectors and industries within 5% and 10% groups of all growing companies in EU within NACE (NACE (European Classification of Economic Activities) is a statistical classification of economic activities in the European Community and a subject of EU legislation.). Graph 3 shows highest and lowest gazelle share by sectors.



Graph 3: The Share of Gazelles in selected EU countries by Sectors
Source: Eurostat.eu

EVIDENCE OF GAZELLE PERFORMANCE IN THE REPUBLIC OF SERBIA

In the most recent period for which data is readily available (2013) and, by analogy in the subsequent period, the SME sector has remained an increasingly important sector of the Serbian economy, with an increasing share of the economic structure and contribution to GDP.

However, the Republic of Serbia's ranking is relatively low compared to EU countries in terms of potential entrepreneurship and innovations. Measured by the global entrepreneurship development index - or GEDI (*Global Entrepreneurship Development Index* (<http://thegedi.org/research/gedi-index/>)), which is used as an indicator of the quality of entrepreneurship and innovations, which have been influenced by individual and institutional factors, in 2014 Serbia ranked 68 out of 130 countries, which is below most of the countries in the Region.

It is argued that Serbian gazelles recorded a dynamic growth of employment and total revenues, primarily, thanks to their investments in technical and technological resources and applying the cutting edge methods and standards taken

from successful countries; but also thanks to continuous professional education of employees, continuing improvements of customer relations, product and/or service quality and aspiration towards winning over new positions in the market.

The advantage of these enterprises is primarily in what is considered a fast revenue growth and market share usually accompanied by an increase in company value. Their greatest weaknesses, on the other hand, are mainly associated with the fact that they have not achieved the necessary economies of scale and therefore occasionally enter the zone where they generate losses. In addition, they are usually faced with constraints related to financing of their business activities, and have difficulty to reconcile growth and profitability. The biggest obstacle in obtaining funds for these enterprises is a brief period of existence, which is why they do not have sufficient credibility among investors, and often record a high level of indebtedness, which prevents further borrowing.

Although, judging strictly from the standpoint of European standards of innovations, economic power and competitiveness, it is still early to talk about dynamic entrepreneurship in Serbia – in its last official research the Republic institute for Development for the period 2003-2007 identified 532 dynamic enterprises out of which 53 firms can be classified as the most dynamic ones – gazelles (The Ministry of Economy and Regional Development, the Republic Institute for Development, the National Agency for Regional Development, 2008). In this research, gazelles were identified as small and medium-sized enterprises that were employing in 2003 up to 20 people and not more than 250 respectively; that their number of employees and their total revenues in 2007 increased by 30% compared to 2003; that their business was continuously solid and that they weren't part of a larger holding companies.

In 2007, which is the last official research, gazelles in Serbia made up 0.1% of the total number of enterprises and 1.0% of the total number of employees; they managed 0.3% of the equity, generated 1.0% in total revenues and 1.3% in total gain. In the years that followed through 2013 the significance and growth of these companies was doubled or tripled on all majors indicators which will be presented herein after.

Comparative key findings in our study reflecting the period 2007 through 2013, are the following:

- In 2007, in Serbia there were 532 dynamic enterprises, with 43,311 employees, out of them were 53 gazelles while in 2013 1.103 dynamic enterprises included 156 gazelles which means that their significance has doubled.
- Dynamic enterprises accounted for only 0.6% of the total number of enterprises in 2007, and 1.2% in 2013 and they actually created 10,00 new jobs from 2009 through 2013.
- These companies have generated 110.5% of the growth of business revenues of the economy as a whole in from 2009 through 2013, and actually covered 10,5% of the losses of the rest of the economy. These companies accounted for one third of all gross profit growth.

- In the rated period of 2009-2013 net profit of these companies was tripled.
- These companies actually created 10,00 new jobs from 2009 through 2013 which is 2% of total labor force while at the same time employment in the rest of the economy dropped by 78,000.

In the rated period of 2009-2013 the sectoral structure shows that the dynamic enterprise concentrated in the trade sectors (336 companies or 30%) and then in the manufacturing sector (201 companies, i.e. 18.2%). Negative trends in the manufacturing sector industry are observed through all main indicators: reduced participation in number of employees, operating revenues and in the newly created value.

In the observation period (2009-2013), Gazelles, dynamic small and medium size companies demonstrated resilience to crisis blows and that they managed to overcome the crisis fast and achieved outstanding performance.

Obviously some of the conditions for the operation, strengthening and growth of SMEs in Serbia have been improved in recent years which is partly attributable to the policies adopted by the Government and the improved framework of support provided through business support organizations, including the network of Regional Development Agencies. The 2013 SME Report for Serbia clearly states that required is establishing a rounded incentive system and solving key problems of enterprises coupled with specific measures as part of the process of building a system to encourage the development of dynamic enterprises and gazelles. However, since 2013, most of the support organizations and the government unfortunately don't directly target the development and growth of Gazelles in the Republic of Serbia.

Considering aforementioned, one may conclude that gazelle firms in Serbia have very much the same general characteristics as the one identified in case the subject firms in other world economies, including the most developed. There are few of them (not more than few percentages of the total number of companies), but they generate outstanding contribution in terms of employment, growth and total business results of the national economies and should therefore receive much more attention of SME policy institutions.

CONCLUSIONS

Within the total SME corpus, so-called gazelles, dynamic small and medium size companies, play special role, and many authors believe that they are the biggest development potential of the national economies. Present paper elaborated the issue of the definition of this specific group of companies; gazelle phenomenon was explained, as well as their specific features and characteristics making them so unique. The most important results of gazelle related researches conducted in USA, European Union and, in the final part in Serbia, were presented.

Principal characteristics of gazelles are innovativeness, both in production and process domains, as well as management practices. Their management and organizational flexibility facilitates faster and streamlined adaptation to changes,

providing for strong market orientation, focus on quality, clients and distribution. Strong links with consumers and maximum utilization of employees indicate that successful strategic management of the company leads to constant and stable growth, both large and small and medium enterprises, including gazelles.

Because of this the set of incentive measures for supporting gazelles need to be established, ranging from friendly environment in general to those specifically supporting establishment and sustainable development of dynamic and gazelle firms. Formulating and consistently implementing aforementioned measures of development and support to dynamic and especially gazelle companies would generate significant contribution to more dynamic national economy as a whole and better performance, thus, creating conditions required to find solutions for numerous social problems.

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