

# **Measuring High-Growth Enterprises and Gazelles ICE**

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# Background

## OECD Framework on BD Statistics

### High Growth Enterprises

All enterprises with average annualised growth of 20% or more p/a over 3 yrs, and with 10 or more employees in the beginning of the period.

### Gazelles

As above but only for Enterprises < 5 years old.

**Pragmatic** choice for employment (and not turnover) based growth.

# Background

## **OECD EIP Steering Group Meeting in Rome**

- expressed desire for (complementary) turnover measures.

# Paper - Re-visits the issue

## Defining the Business Entity

- Enterprise, Establishment, Enterprise Groups?

## OECD Framework

- The Enterprise – reflecting operational control.
- Some ‘biases’ to note however, esp greater potential for Enterprise Growth, the larger the economy. Raises questions about Enterprise Group growth but this becomes a trans-national policy issue.

# Paper - Re-visits the issue

## What type of Growth?

- Organic growth versus Acquisition. Companies that expand by acquisition are clearly of interest.

# Paper - Re-visits the issue

## What type of Growth Variables?

Employment, Turnover, Value-added

### Employment:

Easy to measure, readily available, no 'constant' price issues but not perfect from an entrepreneur's perspective, whose main interest is increasing profitability & problems regarding labour productivity growth.

# Paper - Re-visits the issue

## Turnover:

Readily available, (used as a proxy for profitability) but comes with problems:

- Inflation – over time and across countries. (And price indices reflect averages across products/industries)
- It's a gross concept
- 1<sup>st</sup> year valuations reflect on average only half a year's operations (typically business registers can easily provide info on turnover in 1<sup>st</sup> calendar year, not the first year of operation) so 2<sup>nd</sup> year growth significantly high.

# Paper - Re-visits the issue

## Value-Added (profits):

A better measure of what entrepreneurs are really interested in and overcomes the 'gross' problem.

But

- More severe problems of inflation – double-deflation but possibly better, from a utility perspective, to use general measures of inflation.
- Firm level data rarely available (in comparable way across countries)
- Like Turnover, first year valuations reflect, on average, only half a year's operations.

# Paper - Re-visits the issue

## Composite Indicators

- Paper develops hybrid Employment-Turnover based measure

$$\sqrt{\frac{\text{Emp}_{t+n}}{\text{Emp}_t} \frac{\text{Trn}_{t+n}}{\text{Trn}_t}} = \frac{\text{Emp}_{t+n}}{\text{Emp}_t} \sqrt{\frac{\text{LPr}_{t+n}}{\text{LPr}_t}}$$

# Paper - Re-visits the issue

**Previous indicators require some convention:**

growth threshold, size-class cut-off to avoid small firm bias.

**What about Birch-type Indices to overcome size-class bias?**

combined with convention that we take the top X% of enterprises in any country as high-growth.

$$m = (x_{t_1} - x_{t_0}) \frac{x_{t_1}}{x_{t_0}}$$

# Moving Forward

## Lots of unknowns?

What should the size thresholds be? What about growth thresholds? Should they differ for different variables?

What %age of firms would be useful-practical using a Birch approach?

Is the situation on profitability/value-added firm-level data so bleak?

# Moving Forward

**Sucking and Seeing** - Outstanding issues can only really be resolved via experimentation

OECD and Eurostat will begin collecting data on employment and turnover based measures with 10 employees and 20% per annum thresholds; allowing for their subsequent assessment.

Turnover measures currently specified at CP – returns will provide indication of whether KP measures are essential or if differences are marginal – also provide assessment of 1<sup>st</sup> year problem.

# Moving Forward

**Strong support to explore other approaches too.**

Process of experimentation should also consider Birch, Composite and (value-added/profitability) approaches too – with VA measured in KP using general price indices.

Paper recommends that these indicators be developed and will feature in recommendations of OECD micro-data final report.

# Issues to Consider

- Enterprise definition.
- Complementary Employment and Turnover Indicators
- Deflation
- Gross nature of Turnover
- 1<sup>st</sup> year valuation
- Thresholds
- Other approaches – top 5%: more or less?
- Composite indicator – useful?
- Gazelles – less than 5 years old? Same thresholds?