

focus on...

Grant Thornton 

...super growth companies

This supplement is the second in a series of publications focusing on the key findings of the Grant Thornton International Business Owners Survey 2006. This edition examines 'super growth' companies*, their characteristics and where they are most prominent around the world.

A 'super growth' company is one that achieves expansion at well above the global average for medium-sized companies. Our research shows that a strongly performing domestic economy is a necessary but not a sufficient condition for success in this context. Other ingredients such as an entrepreneurial culture and medium-sized company representation across a broad range of activities are also required.

These structural features of a country's economy provide consistency over time. The Super Growth Index is now in its third year, and it is becoming clear that in general the rankings do not change radically. Conditions in the US, India and Hong Kong offer opportunities for super growth, but those in Turkey and Russia do not.

* Our weighted index, based on turnover and employment data, allows us to identify the strongest performing companies in terms of growth rates. The top 20% comprise our 'super growth' companies.

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The percentage of companies in each country that have achieved super growth this year is shown in figure 1 (overleaf).

The US retains its position at the top of the rankings with 39% of companies exhibiting super growth. This is somewhat lower than last year's outcome, when 48% of companies were in this category, but nevertheless represents a very healthy performance reflecting the inherent dynamism of the US economy. The favourable economic background – featuring buoyant consumer demand, strong capital investment and robust export growth – provided good business opportunities for a wide range of companies. Manufacturing did reasonably well, but the service sector expanded strongly, accounting for the bulk of the turnover and employment growth underpinning the high proportion of super growth companies in the US.

In second place, as in 2005, is Hong Kong with 34% of companies showing super growth, up from 28% last year. But on this occasion it is equal second with India, where the proportion of super growth companies has surged from 21% in both 2004 and 2005 to 34% (see figure 2 on page 3). The economic background in the two economies occupying joint second place is among the most vigorous in the world.

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Businesses in Hong Kong are benefiting from the rapid pace of development in Mainland China (our survey shows that 52% of enterprises in Hong Kong report increased business due to China's economic boom). India's economy has responded very positively to the economic liberalisation of the 1990s and the more recent opening up of international trade and investment. The country is also capitalising on its large numbers of well-educated people skilled in the English language to become a major exporter of software services. India's business process outsourcing boom has boosted exports and provided strong support to overall economic activity.

In fourth place comes Sweden which slipped from top in 2004 to 10th last year as the proportion of super growth companies fell from 24% to 13%. However, this was a temporary blip with the proportion rising sharply to 31% on this occasion as domestic consumer spending and business investment picked up.

At the bottom of the league are three countries with only 4% of companies in the super growth category. In the case of Italy, this result is in line with the malaise affecting the domestic economy which was in recession for much of 2005 amid weak consumer demand, falling investment and shrinking industrial output.

Figure 1 – Super growth companies by country in 2006 (% of companies)

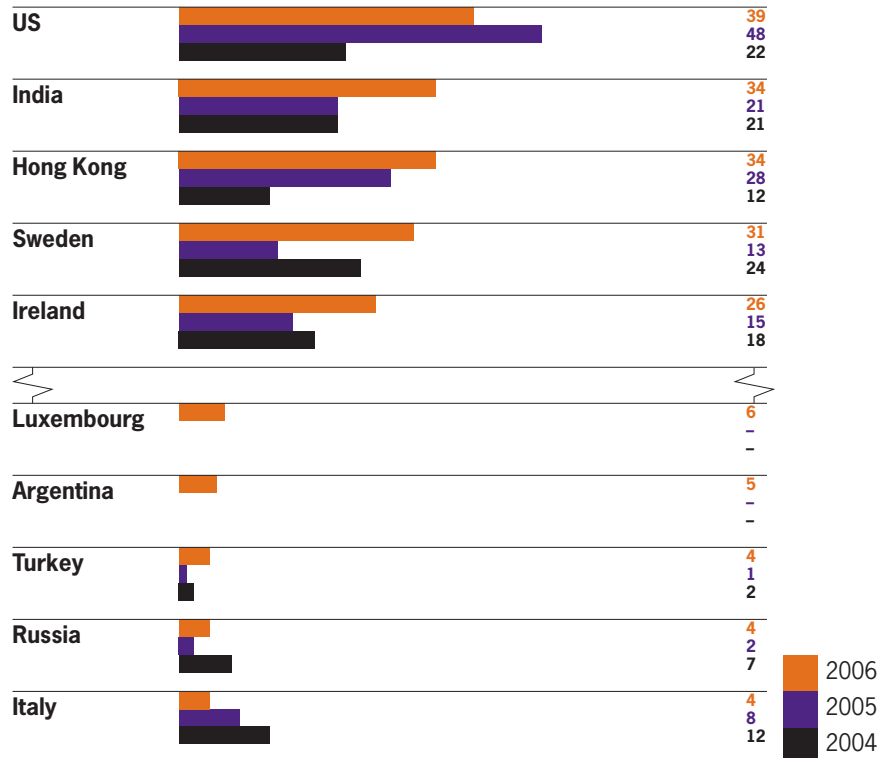
US	39
Hong Kong	34
India	34
Sweden	31
Ireland	26
Canada	23
UK	23
Australia	22
Malaysia	22
South Africa	20
Germany	15
Japan	15
Poland	15
Mainland China	14
New Zealand	12
Singapore	10
Taiwan	10
Thailand	9
France	8
Greece	8
Netherlands	8
Spain	8
Botswana	7
Mexico	7
Philippines*	7
Luxembourg	6
Argentina	5
Italy	4
Russia	4
Turkey	4

* low sample in 2006

“Sweden’s thriving economy featuring growth in high-tech industries such as IT and bio-technology is capable of delivering a reasonable number of super growth companies. In a year of strong economic performance, the proportion of super growth companies is likely to be high. This happened last year amid robust domestic demand – the best since 1999.”

Peter Bodin
Lindebergs Grant Thornton, Sweden

Figure 2 – Countries with the highest/lowest proportion of super growth companies in 2004-06 (% of companies)



Growth economies

In Russia and Turkey the economic background was very favourable with GDP growth at 6% in Russia and 5.3% in Turkey. However, companies in both countries continued their weak performance in this analysis. The proportion in the super growth group rose from 2% to 4% in Russia and from 1% to 4% in Turkey between 2005 and 2006. In general, medium-sized companies in these two countries do not appear to have been able to capitalise on strong GDP expansion in recent years to produce turnover and employment growth at a pace sufficient to place them high in the super growth category. In Russia, this may reflect the fact that the benefits of the oil and gas boom that has underpinned strong economic growth has not filtered down fully to small and

medium-sized companies. In Turkey’s case, the small proportion of super growth companies may reflect export difficulties – a combination of a strong exchange rate and the impact of competition from Mainland China (a balance of 15% of Turkey’s businesses in our survey indicated that they had experienced a decrease in business as a result of China’s economic boom).

Mid-table

Figure 1 shows that in mid-table are three major economies with virtually the same proportions of companies in the super growth category – Mainland China (14%), Germany and Japan (15%), but with sharply differing economic backgrounds – 10% growth in 2005 in Mainland China against 2.5% in Japan and 0.9% in Germany. In the case

of Mainland China, analysis of corporate performance shows that the distribution of growth in terms of turnover and employment is skewed strongly in favour of companies achieving moderate expansion. There are relatively few medium-sized companies showing growth below the global average and virtually none showing growth substantially below the global average. This is consistent with the strongly performing economy, but at the same time, the proportion of companies able to achieve very rapid expansion seems to be constrained.

In Germany and Japan by contrast the distribution is quite different. There are more companies at the extremes. A large proportion of companies exhibit growth on the employment/turnover measure at below the global average. Within this group an appreciable number are well below the global average. Relatively few companies achieve expansion at above the global average, but a modest number appear to have capitalised on the opportunities available in these slow growing economies to achieve super growth proportions above those in faster growing economies.

The sharpest fall in the rankings was seen in Greece, down from 9th to 19th. The proportion of super growth companies fell from 15% to 8% partly in response to the ending of Olympic Games related spending.

Super growth companies are less constrained by cost of finance, shortage of working capital and shortage of long-term finance than companies as a whole, as we have seen in previous years. Shortage of orders/reduced demand also continues to be less of a restraint for super growth companies. Only 18% are constrained by this factor, compared to 29% of companies in general.

Super growth companies were also less constrained by regulation/red tape than companies in general (32% and 35% respectively). Continuing the trend that emerged in 2005 the constraint 'availability of skilled workforce' is perceived more restrictive to super growth companies (41%) than companies as a whole (32%).



Peter Bodin
Lindebergs Grant Thornton, Sweden

“Russia does not produce many super growth companies. The rapid economic progress of recent years has been driven by large, often state-controlled enterprises, mainly in resources based sectors. Many medium-sized businesses have had few opportunities to capitalise on the buoyant economy with the exception of the IT, FMCG and service sectors that are fast developing in Russia’s larger cities.”

Sergey Aslibekian
Grant Thornton Trid, Russia

Super growth factors

Comparison of the results for the countries at the top of the rankings and those at the bottom shows that a strong economic performance is only one of the factors necessary to achieve super growth status. The countries at the top – the US, Hong Kong and India – all saw vigorous economic growth in 2005. But so did Russia and Turkey at the foot of the table. The interesting juxtaposition

of Mainland China, Germany and Japan in mid-table confirms that factors other than strong growth in the domestic economy are at work. Also essential are an entrepreneurial culture that allows all businesses to benefit from a robust economic background and the presence of medium-sized enterprises across a broad spectrum of commercial activities.



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