



CORPORATE GROWTH UNDER CRISIS CONDITIONS

S. Konstantinova*, A. Konarev

Faculty of Economics, University of Food Technologies, Plovdiv, Bulgaria

ABSTRACT

In this corporate growth study we applied the inductive approach, as a sample of 33 public industrial companies was formed, most of which are listed in the main (SOFIX) and wide (BG-40) indices of the Bulgarian Stock Exchange – Sofia. A growth indicators system was formed. Distinct types of growth were separated, and the concept of “complex corporate growth” was introduced. The analysis shows that only 33% (11 companies) reported corporate growth for the period 2007–2012. Seventy-two percent of them (8 companies) registered extensive growth that has been achieved as a result of the increase in total assets. The other companies reported complex corporate growth (growth of both assets and economic efficiency). The corporate management is not fulfilling its basic purpose, and the reserves are in strategic orientation towards intensive corporate growth.

Key words: corporation, growth, complex, crisis, indicators.

INTRODUCTION

Economic growth is one of the main factors for the improvement of the state of national and global economies and human welfare. Therefore, its level and its relationship with other macroeconomic indicators are the subject of intense research and serious discussions.

The economic growth of the country accumulates within itself the main growth engines of the national economy – corporations. So ultimately the corporate growth is the foundation on which is built country's economy.

PURPOSE

The objective of this study is to reveal if there is corporate growth in the conditions of the ongoing economic crisis, to determine its type and state the capacity and reserves for achieving growth and acceleration. For this purpose it is necessary to solve the following **tasks**:

1. To determine the study scope and horizon.

*Correspondence to: *Snezhinka Konstantinova Stoyanova, 4002 Plovdiv, P.B. 27, Bulgaria, Cell Phone: +359 878/384372; E-mail: sks_ko@abv.bg*

2. To form the necessary theoretical, methodological and methodical instruments of the study.
3. To gather and process, with due diligence, the necessary economic data (1).
4. To reveal levels and trends, and formulate conclusions for corporate growth acceleration.

METHODS AND INDICATORS

Depending on the adopted criterion, the corporate growth can be classified into different types. In this study, the influence of the production factors and economic efficiency is used as a criterion by distinguishing the following types of growth:

1. **Extensive**, which is achieved with additional production resources (finances, facilities, staff, etc.) as the economic efficiency remains unchanged.
2. **Intensive**, which is achieved by increasing the degree of utilization and quality improvement of existing production factors, wherein the economic efficiency increases.

We have not met it in theoretical studies, but we believe it is appropriate to introduce the **concept**

of “**complex corporate growth**”, which is formed by both the increase of utilized production resources and increased economic efficiency.

Various indicators are used as corporate growth indicators, as we believe it is appropriate to use the following system:

1. Growth of company market value.
2. Growth of company sales.
3. Growth of company assets (capital).
4. Growth of business operational efficiency.

Market capitalization is the most widely used indicator to characterize the company market value. With the collapse occurred on the stock market as a result of the financial crisis, the stock market prices are too low and too far from the parameters that should present the real company value. In the absence of the possibility to use market capitalization, the assessors use a combination of methods that provide questionable results.

The increase in assets and equity, including net assets should be used as indicators of the company economic potential. Therefore, we used sales growth as the first indicator of the level and dynamics of corporate growth.

RESULTS

A sample of 33 public industrial companies was formed so we could study the corporate growth. The famous economic media company Investor JSC was included for comparison. Most of the companies are listed in SOFIX, the main index of the Bulgarian Stock Exchange – Sofia, and the wide index BG-40. Holding companies are generally avoided, since consolidation significantly alters the performance of individual companies. Our preferences to public companies are specified in other researches (2). To study corporate growth under crisis conditions we analyzed the 2007–2012 period. This period was divided into three sub-periods within which the trends were examined.

Of the analyzed 33 public industrial companies (3, 4) only 11 reported corporate growth, measured as the ratio of 2012 net sales compared to 2007 sales. That shows that only 33,33% of the companies achieved corporate growth under crisis conditions. To synthesize the information (1), we will not present the results in sub-

periods, but at the beginning of the period (2007 – pre-crisis for the industry) and at the end of the period (2012 – last reported year). Research regarding growth type enabled us to compile **Table 1**.

DISCUSSION

Table 1 shows the growth in sales measured by the increase in net sales income, and the asset growth through the increase in their total amount at the end of the year, by book value. Growth efficiency was measured by the increase in the business operational efficiency. It is defined as the ratio of earnings before interest and taxes (EBIT) for the year to the amount of total assets (TA). This indicator is an important tool for business management, successfully used by managers. Percentage ratio between EBIT and TA gives the return rate achieved by total assets.

Analysis of the data presented in **Table 1** shows that only three companies have achieved complex growth Asenova Krepost JSC, Biovet JSC and M + S Hydraulic JSC. Impressive is the growth in the last of the listed companies, where the efficiency has increased by 70,32%, while assets increased by 32,54%, and sales by 4,76%. Despite the lack of harmony, there is a parallel change in the three main corporate growth components: sales, assets and efficiency.

Biovet JSC corporate management achieved high growth of all three main growth components: increase in sales by 74,08%, in assets 81,52% and operating efficiency by 94,10%. This company has achieved the highest efficiency growth.

Very good results were also achieved by Asenova Krepost JSC management: increase in sales (78,43%) was accompanied by a radical change in operational efficiency (81,78%) while the increase in resources invested in assets, is only 11,25%.

The other eight companies representing 73% of those realized growth achieved extensive corporate growth. They invested additional resources, as in some companies the cost of resources is significant. Thus, Sopharma JSC asset growth was nearly 60%, while sales – 20%, Kaolin JSC assets increased by 50%, and sales by 20%, Alkomet JSC assets increased by nearly 24%, while sales with less than 4%, Monbat JSC assets increased by nearly 40% and sales by approximately 27%.

Table 1. Industrial companies corporate growth (3, 5)

Companies		Growth in sales		Growth in assets		Efficiency growth		Type of growth
		Thousand BGN	%	Thousand BGN	%	BGN/BGN	%	
1. Alkomet JSC	2007	251 899	100,00	172 882	100,00	0,0519	100,00	
	2012	260 621	103,47	214 296	123,96	0,0341	65,71	E
2. Asenova Krepost JSC	2007	20 359	100,00	46 220	100,00	- 0,0715	100,00	
	2012	36 325	178,42	51 413	111,25	0,0542	181,78	C
3. Biovet JSC	2007	103 572	100,00	115 565	100,00	0,0271	100,00	
	2012	180 304	174,08	209 775	181,52	0,0526	194,10	C
4. Druzha Staklarski Zavodi JSC	2007	198 957	100,00	311 835	100,00	0,1124	100,00	
	2012	229 290	115,25	364 888	117,01	0,0704	62,63	E
5. Zaharni Zavodi JSC	2007	36 627	100,00	72 059	100,00	0,0688	100,00	
	2012	62 237	169,92	87 652	121,64	0,0457	66,42	E
6. Kaolin JSC	2007	105 394	100,00	150 323	100,00	0,1375	100,00	
	2012	124 518	118,14	222 717	148,16	0,0150	10,91	E
7. M + S Hydraulic JSC	2007	76 217	100,00	52 974	100,00	0,1021	100,00	
	2012	79 856	104,76	70 082	189,54	0,1742	170,62	C
8. Monbat JSC	2007	143 994	100,00	128 247	100,00	0,1567	100,00	
	2012	182 181	126,52	177 620	138,50	0,0666	42,50	E
9. Neochim JSC	2007	184 861	100,00	137 207	100,00	0,0377	100,00	
	2012	253 055	136,89	174 361	127,08	0,0060	15,92	E
10. Sopharma JSC	2007	176 363	100,00	367 295	100,00	0,1087	100,00	
	2012	214 662	120,58	584 249	159,07	0,0699	64,50	E
11. Trace Group Hold JSC	2007	132 024	100,00	117 566	100,00	0,0756	100,00	
	2012	148 827	112,72	130 657	111,14	0,0075	9,92	E

In contrast to these four companies that realize primarily extensive growth, in one of the companies the rate of sales growth significantly exceeds that of assets. Zaharni Zavodi JSC: increase in sales 69,92%, while assets increased by 21,64%. Trace Group JSC management also achieved higher increase in sales compared to the assets growth, although the difference is negligible. This difference is also relatively

small in the results of Druzha Staklarski Zavodi JSC, but in this company dominates assets growth.

CONCLUSIONS

This study provides opportunity to make the following important **conclusions**:

1. In the theory of corporate growth studies it is appropriate to introduce the concept of

“complex corporate growth”, which is defined as growth caused by both the increase in production factors and the degree (efficiency) of their utilization.

2. Inductive approach is a good methodological basis for successful corporate growth research.
3. Increase in the market value of the company is a key indicator of corporate growth. When it is difficult to measure it, as in the current collapse of the Bulgarian Stock Exchange – Sofia is appropriate to use the following set of indicators: sales growth, asset growth, increase of operational efficiency.
4. The study sample of 33 industrial public companies, representing the majority of general companies shows that for the 2007–2012 period, only one third of the companies (11 companies) achieved corporate sales growth. Each of these companies is from a different industrial sector.
5. Extensive corporate growth prevails, formed by increase in assets (8 companies). Three companies achieved complex corporate growth. No company reported intensive corporate growth.
6. Corporate management of the leading public companies does not perform its priority

objective to lead the companies out of the economic crisis and generate corporate growth.

7. There are huge reserves and unused opportunities to achieve corporate growth by increasing the business operational efficiency. Of all the studied companies (33 in total) only three showed efficiency growth. This is an indicator for slow reactions and poor crisis management assessment.

REFERENCES

1. Bottazi, G, Dosi, G., Lippi, M., Pammolli, Riccaboni, M. Innovation and corporate growth in the evolution of the drug industry. – In: Elsevier, International Journal of Industrial Organization 19 (2001) 1161–1187.
2. Konstantinova, Sn. Research on seasonality in tourism (case study of public tourism companies in Bulgaria). – In: Scientific conference with international participation “*Food science, engineering and technologies 2009*”; Scientific works UFT – Plovdiv, Volume LVI, Issue 2, Plovdiv, October 23–24, 2009, 17–18.
3. <http://www.bse-sofia.bg>
4. www.infostock.bg
5. www.investor.bg