

Macroeconomic Correlates of Organizational Growth

**Rupert Rhodd, PhD
William Lawrence, DBA**

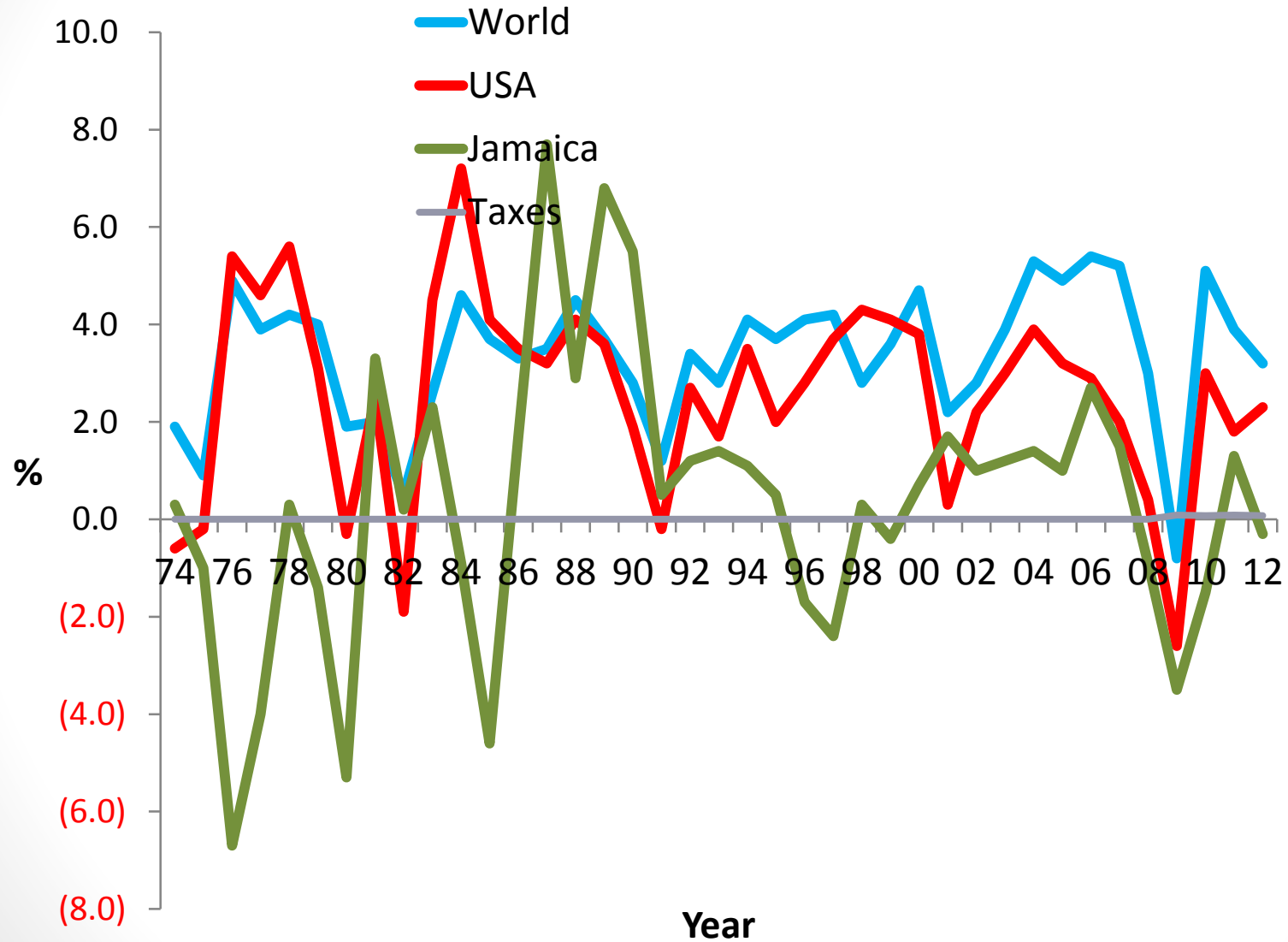
Outline of Presentation

1. Introduction
2. Economic Growth
3. Organizational Growth
4. A Look at the Data
 - a. Macroeconomic Variables
 - b. Implications from Correlation Analysis
5. Where do we go from Here?

A Crucial Question

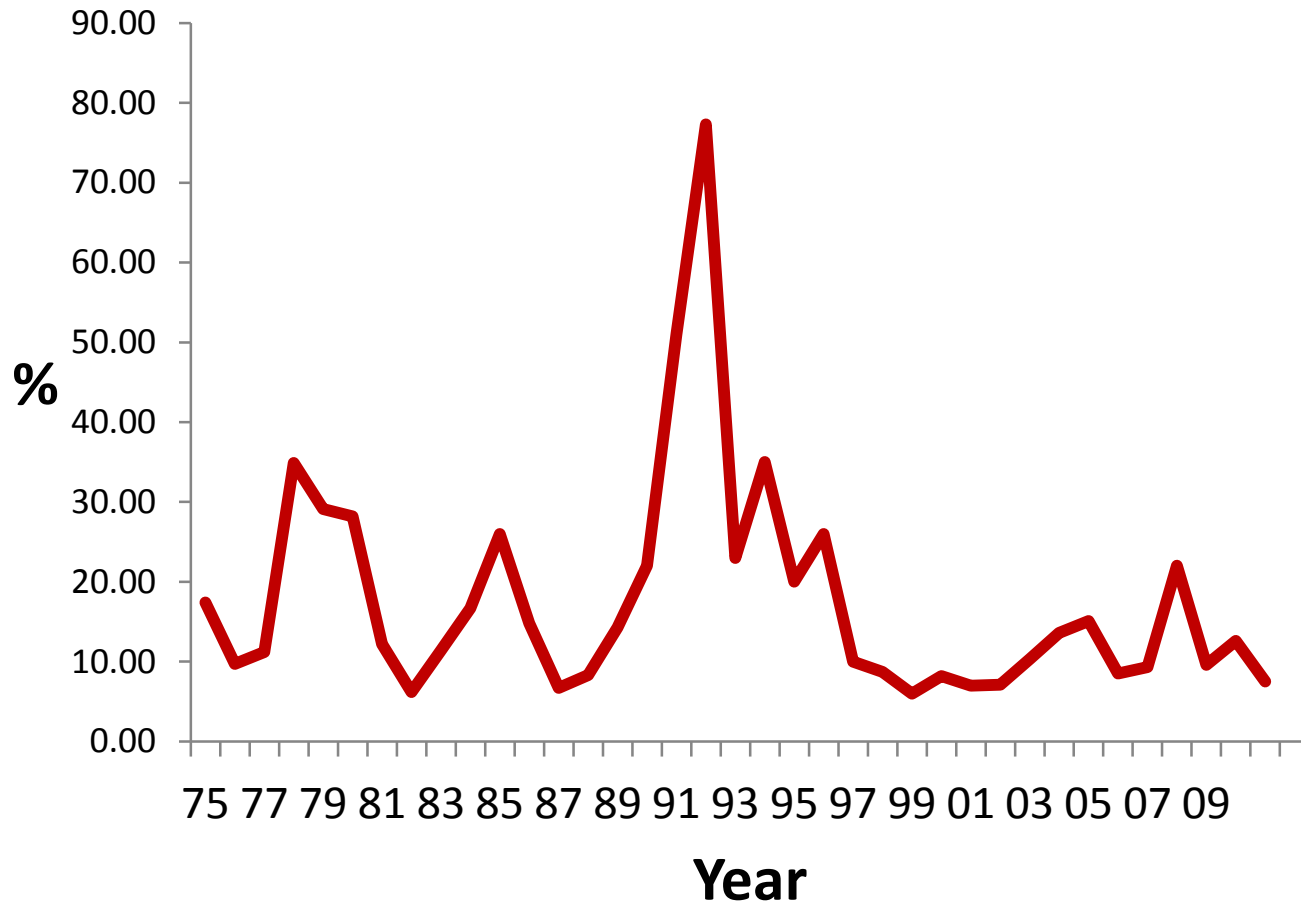
Are certain macroeconomic variables more likely to be associated with organizational growth in Jamaica?

Real GDP Growth

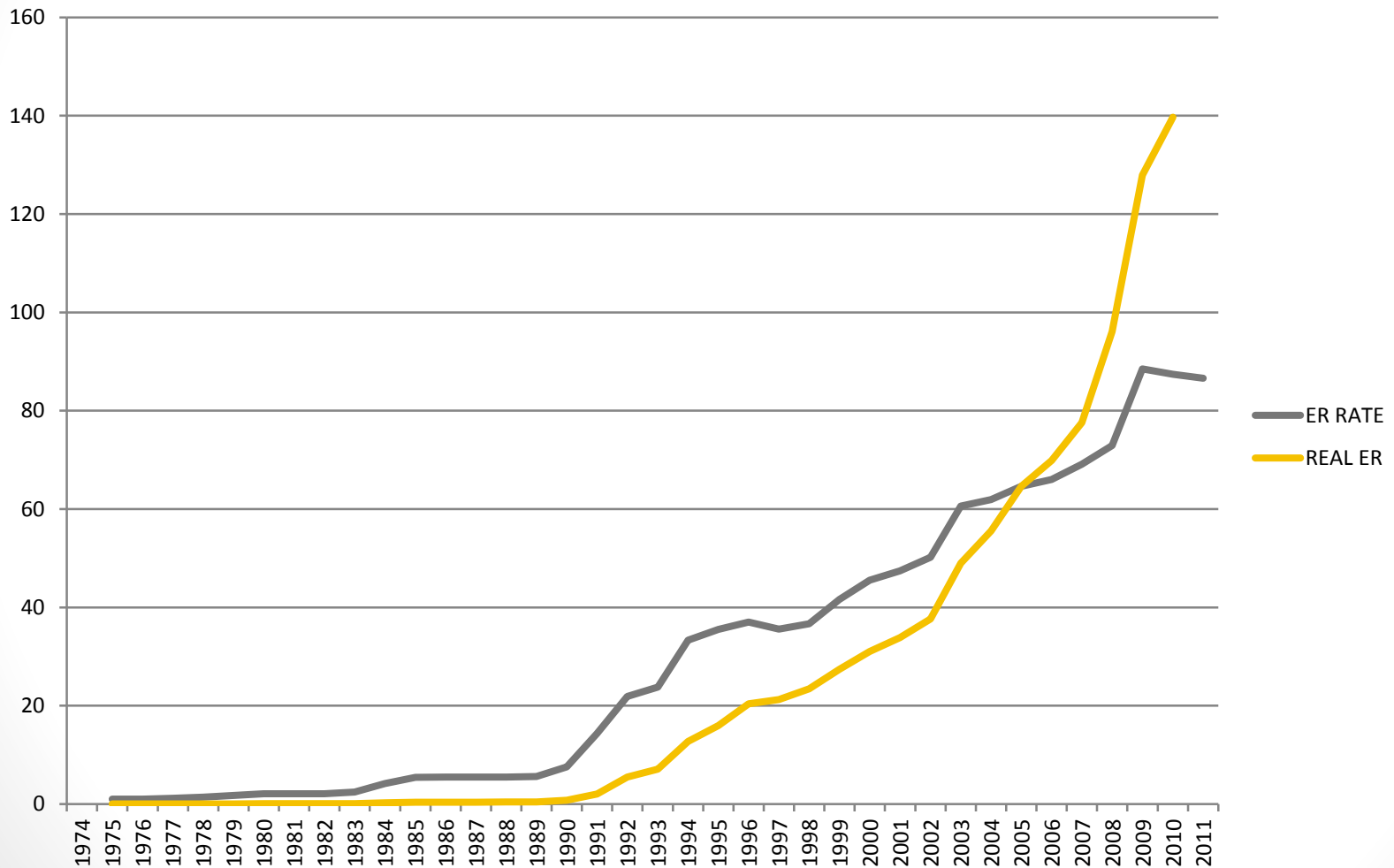


JAMAICA GDP BY SECTOR		
	<u>1976</u>	<u>2011</u>
Agriculture, Forestry, Fishery	7.9%	5.8%
Mining and Quarrying	8.7%	1.9%
Manufacturing and Processing	17.5%	8.1%
Electricity and Water	1.2%	3.5%
Construction and Installation	7.1%	7.8%
Distributive (Wholesale and Retailing)	15.7%	18.9%
Hotels and Restaurants		6.1%
Transport, Storage, and Communication	7.0%	11.8%
Financing and Insurance services	4.4%	11.7%
Real Estate and Business services	8.9%	10.1%
Government services	14.9%	12.3%
Other services	6.5%	7.2%
Household and Private/Non-Profit Institutions	1.9%	
Less imputed charges	1.7%	5.2%
Total Contribution	100%	100%

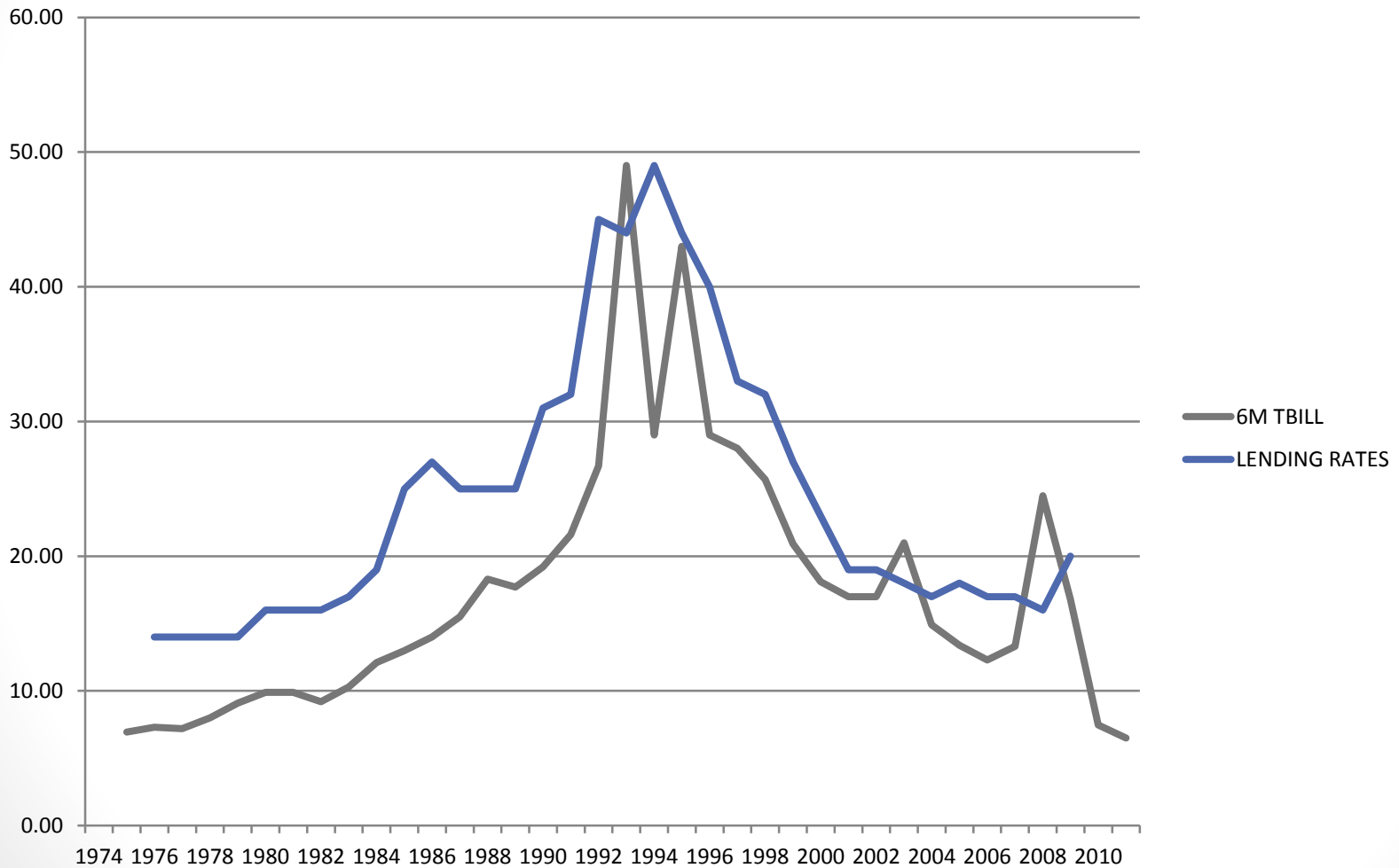
Average Inflation rate



Exchange Rate Variable



Interest Rates: 6 Month T-Bills & Lending Rate



JAMAICA STOCK EXCHANGE (1969-2011)

☐ Main Market:

- Firms listed = 84
- Firms reporting losses = 49
- Firms recovered = 25

☐ Corporate growth strategies:

- Product diversification = 47
- Mergers/Acquisitions = 23
- International Expansion = 12
- Vertical Integration = 8

Case Studies

	Scotia Group (BNS)	Desnoes & Geddes (DG)	Gleaner (GLNR)
Year started	1889	1918	1834
Majority Owners	Canada	United Kingdom	Jamaica
Business area	Financial services	Beverages	Mass media
Growth Strategy	Diversification	Export expansion	M & A

CHANGING BUSINESS PORTFOLIOS

▪ 1985

- BNS – banking
- DG – brewed products, soft drinks, wines, spirits, printing
- GLNR – newspapers, forms, books

▪ 1990

- BNS – banking
- DG – brewed products, soft drinks, wines, spirits, printing, exporters of agri products
- GLNR – newspapers, forms, books, Gleaner UK

▪ 1995

- BNS – banking, building society
- DG – brewed products, soft drinks, wines, spirits, printing, exporters of agri products
- GLNR - newspapers, forms, books, Gleaner UK, Gleaner N.A.

▪ 2000

- BNS - banking, building society, insurance
- DG – brewed products
- GLNR - newspapers, forms, books, Gleaner UK, Gleaner N.A.

▪ 2005

- BNS - banking, building society, insurance
- DG – brewed products, Mktg UK
- GLNR - newspapers, books, radio, Gleaner UK, Gleaner N.A.

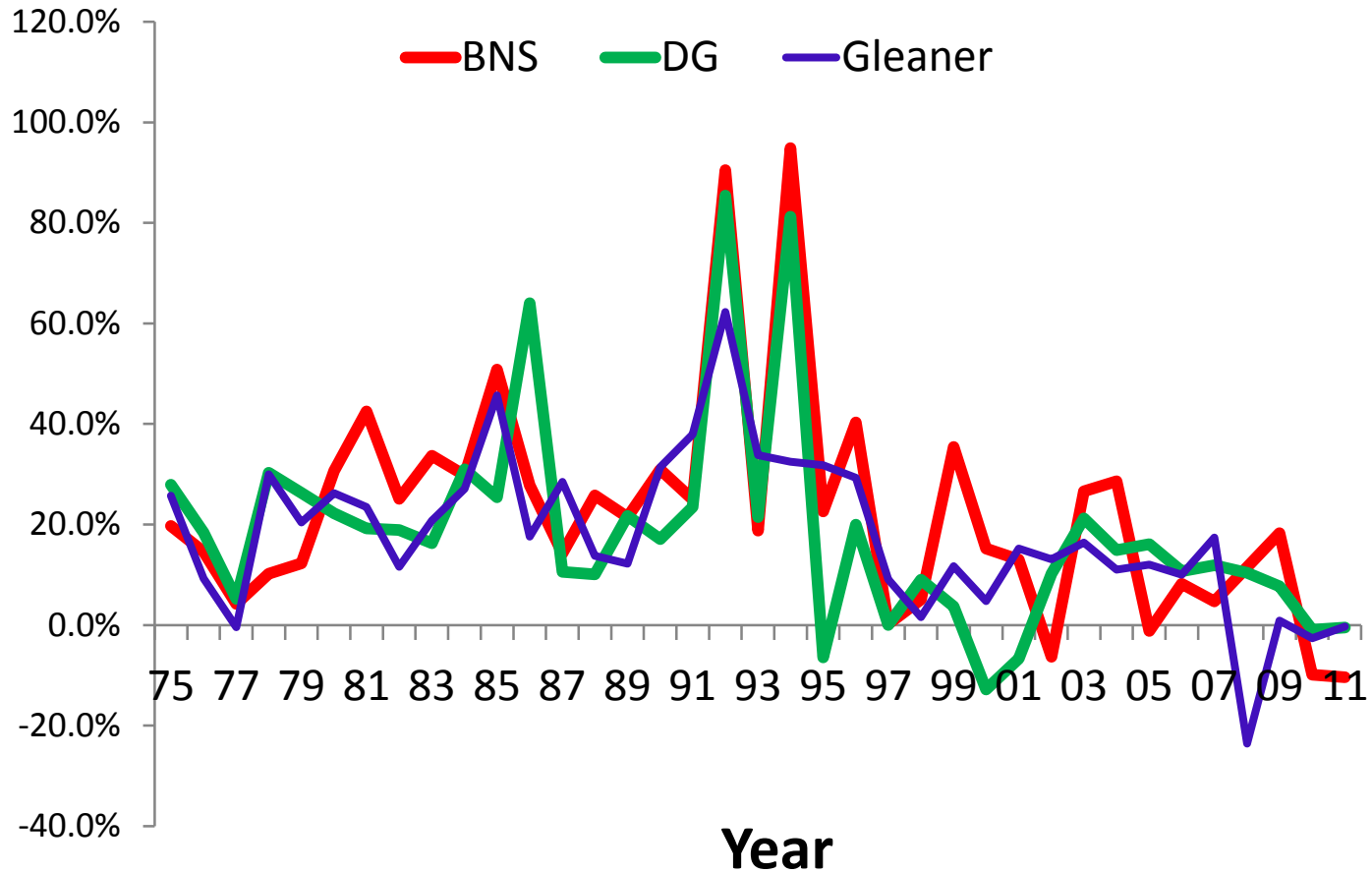
▪ 2010

- BNS - banking, building society, insurance, wealth, mirofinance
- DG – brewed products, Mktg UK
- GLNR - newspapers, radio, Gleaner UK, Gleaner N.A.

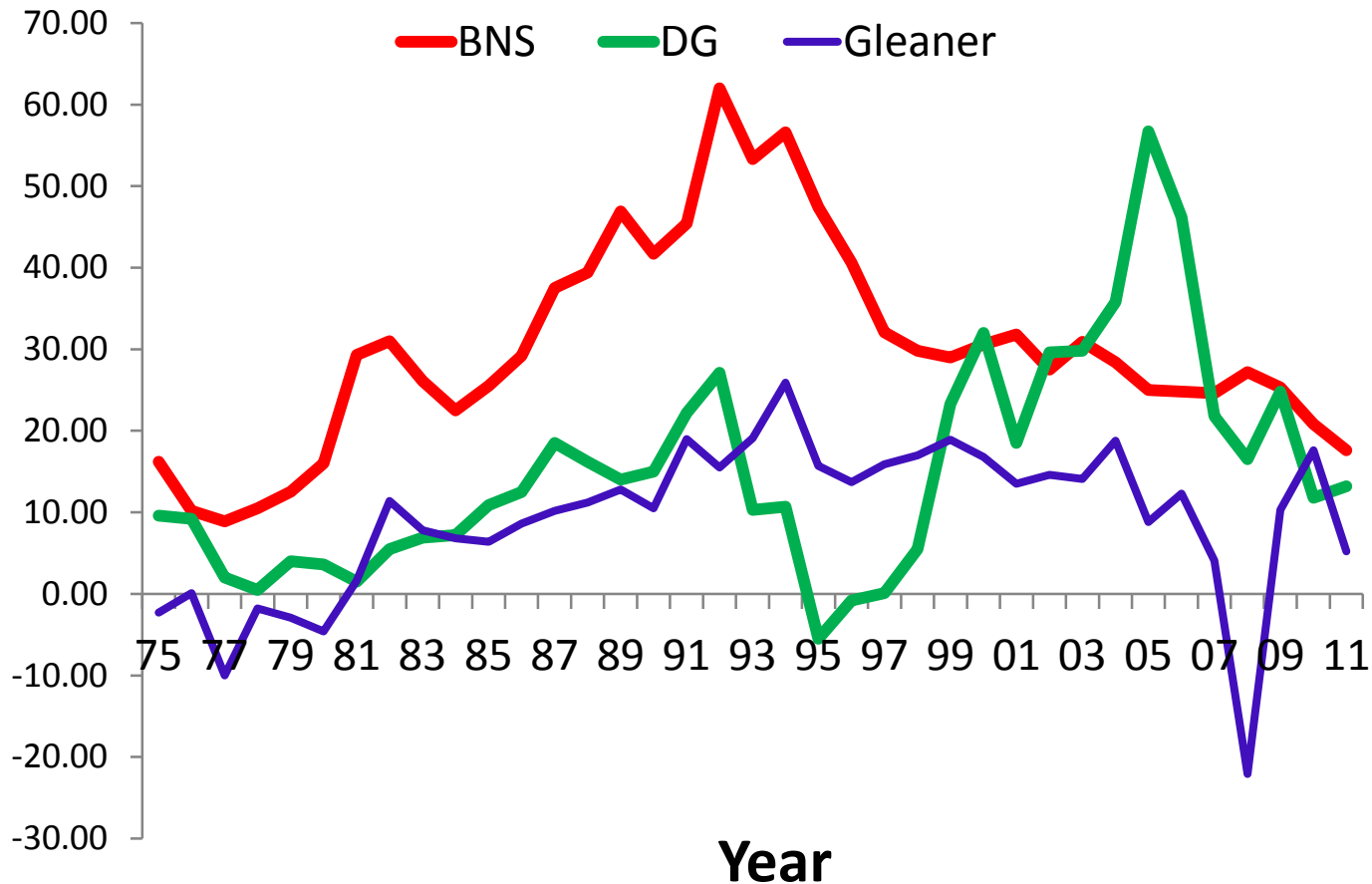
Company Growth Orientation

	DOMESTIC	INTERNATIONAL
ORGANIC	BNS DG GLNR	DG GLNR
INORGANIC	BNS DG GLNR	GLNR

Company Revenue Growth



Company Return on Equity



Descriptive Statistics

Variable	Mean	Std. Dev.	Skewness	Kurtosis
BNS Rev Growth	0.05	0.18	0.58	1.43
DG Rev Growth	0.01	0.15	1.29	4.00
GLNR Rev Growth	0.00	0.12	-1.50	5.17
BNS ROE	30.11	12.76	0.58	0.19
DG ROE	15.32	13.39	1.11	1.55
GLNR ROE	9.20	9.49	-1.21	2.13
Interest rate	17.37	9.63	1.50	2.77
Exchange rate	30.67	29.2	0.60	-0.98

N = 37 (Data from PIOJ and Company Annual Reports)

Interest Rates and Exchange Rate as Correlates of Real Growth of Firm Revenues

Revenue Growth Adjusted for inflation

	BNS	DG	GLNR
Real Interest Rate	.229	-.067	.115
LT Lending	.198	-.152	.105
Risk Premium	.163	.181	-.169
Exchange Rate	-.240	-.350*	-.375*
Real Exchange Rate	-.094	-.243	-.144

* $p < .05$, ** $p < .01$ N = 37, Spearman two tailed tests

Interest Rates and Exchange Rate as Correlates of Return on Equity (ROE)

Return On Equity (ROE)

	BNS	DG	GLNR
Real Interest Rate	.467**	-.028	.420**
LT Lending	.838**	.028	.674**
Risk Premium	.199	-.264	-.087
Exchange Rate	.243	.643*	.472**
Real Exchange Rate	-.150	-.158	.381*

* $p < .05$, ** $p < .01$ $N = 37$, Spearman two tailed tests

Implications

1. Lowering of interest rates will NOT automatically stimulate company revenue growth and, by extension, economic growth of Jamaica.
2. Macroeconomic conditions in Jamaica seem to have a greater impact on company ROE (cost efficiency, asset utilization and capital structure) than revenue growth.

Where do we go from here?

1. The Government of Jamaica should look also at non-macroeconomic incentives for stimulating growth of the real sectors (existing and potential) with rules-based transparency.
2. Business organizations should balance revenue growth ambitions with resource availability to avert performance decline.

THANK
YOU