

High-Growth Firms Account for Disproportionate Share of Job Creation, According to Kauffman Foundation Study

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Despite their relatively small numbers, fast-growing young firms generate approximately 10 percent of new jobs in any given year

Researchers suggest three policy strategies to support high-growth startups to bolster job growth

(KANSAS CITY, Mo.), March 9, 2010 – As the American economy continues to send out mixed signals about recovery, job creation has emerged as the country's most pressing economic issue. Not only important for employment itself, job growth also drives recovery in other sectors, including housing. But, while hope for spurring the U.S. economy toward recovery focuses squarely on job creation, policy discussions center primarily on measures that would expand job growth in existing companies.

According to a new study released today by the Ewing Marion Kauffman Foundation, the current national conversation would be more productively focused on creating a favorable environment for entrepreneurship—and particularly high-growth entrepreneurship—because top-performing companies are the most fertile source of new jobs.

High-Growth Firms and the Future of the American Economy, the third in the Kauffman Foundation Research Series on Firm Formation and Economic Growth, draws on a special tabulation conducted by the Census Bureau at the Kauffman Foundation's request, calculated from the *Business Dynamics Statistics* (BDS) database. Author Dane Stangler, a senior analyst with the Kauffman Foundation, found that in any given year, the top-performing 1 percent of firms generate roughly 40 percent of all new jobs.

Further, the study showed, so-called "gazelle" firms (ages three to five) comprise less than 1 percent of all companies, yet generate roughly 10 percent of new jobs in any given year. The "average" firm in the top 1 percent contributes 88 jobs per year, and most end up with between 20 and 249 employees. The average firm in the economy as a whole, on the other hand, adds two or three net new jobs each year.

"Because fast-growing young firms account for a disproportionate share of net job creation, policymakers who are worriedly poring over unemployment projections might instead seek to foster the creation of more high-growth firms," said Robert E. Litan, vice president of Research and Policy at the Kauffman Foundation. "While some new companies will undoubtedly fail, high-growth firms must be started somehow, and the more quickly they are launched and in larger numbers, the faster both output and employment will grow."

The study suggests that policymakers follow three strategies in seeking to create more gazelles:

- Focus on creating more new firms, with the expectation that this also will increase, by basic arithmetic, the number of high-growth firms. Startup firms contribute a net increase in employment that is essential if the economy is to achieve positive net job creation in any given year. Since the level and rate of firm formation in the United States have basically been flat for 20 years, however, it's not clear how successful the United States can be in actually creating more new companies. In addition, while it is possible that the recent recession will spur more individuals to start companies, there is no guarantee that this will automatically increase the number of high-growth firms.
- Remove barriers that potentially block the emergence of high-growth companies among existing firms. These barriers could include access to capital, taxation and regulatory burdens.
- Target immigrants and universities, which have been known to produce high-growth firms but which often suffer from bottlenecks. Recent research has shown that U.S.-based technology and engineering companies founded by immigrants have created thousands of jobs for Americans. While many Americans might perceive immigrants as competition for a limited supply of jobs, many immigrants end up making, rather than taking, jobs. To draw into the United States those immigrants who intend to start firms, either establish a new visa program—such as an expansion of the "Startup Visa Act" recently introduced in the U.S. Senate that would create a new visa for immigrants who can raise \$250,000 for their startup company—or expand the existing EB-5 visa program for immigrant investors. On the university front, enhance innovation and job creation by breaking down barriers in the commercialization process that could impede university researchers from moving their innovations into new companies.

"Without startups, our research shows that net job creation in most years would be negative, so policies that expand firm formation could increase both job creation and the number of high-growth firms," Stangler said.

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