How Quickly Do New Employer Businesses Hire?

Entrepreneurship is often heralded as important to the economy because of its job creation effects. These jobs come from new employer businesses, a small but important subset of entrepreneurial activity in the United States.

Recent years have seen a decline in the share of new businesses that become employers, or the *rate of new employer business actualization*.[1,2] In 2005, approximately **one in five** new businesses became employers; by 2018, this had decreased to close to **one in ten**.

Alongside this decline has been another notable trend: among new businesses that hire employees, it is taking longer to do so. This brief examines the speed of hiring among new employer businesses – *new employer business velocity* – between 2005 and 2014 in the United States.

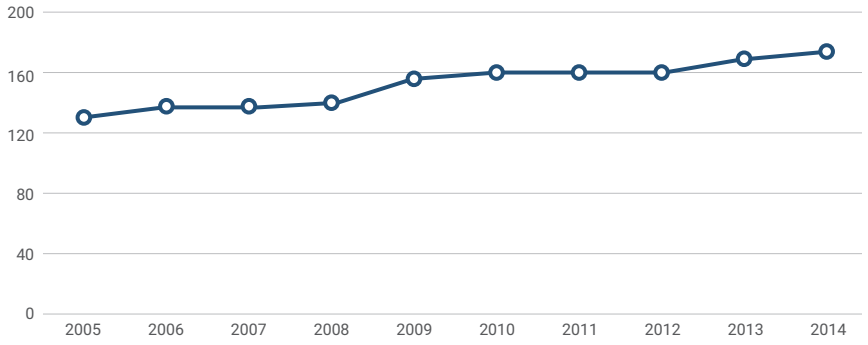
***New employer business velocity* reflects the average amount of time it takes for a new business to become an employer, given that they reach this milestone within eight quarters.** New businesses are considered to become employers when they make a first payroll. This is measured in quarters, which range from 90 to 92 days.

Source: Ewing Marion Kauffman Foundation New Employer Business Indicators, using the U.S. Census Bureau's Business Formation Statistics.[1,2]

New Employer Business Velocity: National Trends

In the United States, the average amount of time it took for a new employer business to make a first payroll increased between 2005 and 2014. In 2014, national new employer business velocity was 1.92 quarters (173-177 days), up from 1.43 quarters (129-132 days) in 2005. This reflects an increase of approximately 45 days in the time it takes a new business to become an employer over this period.

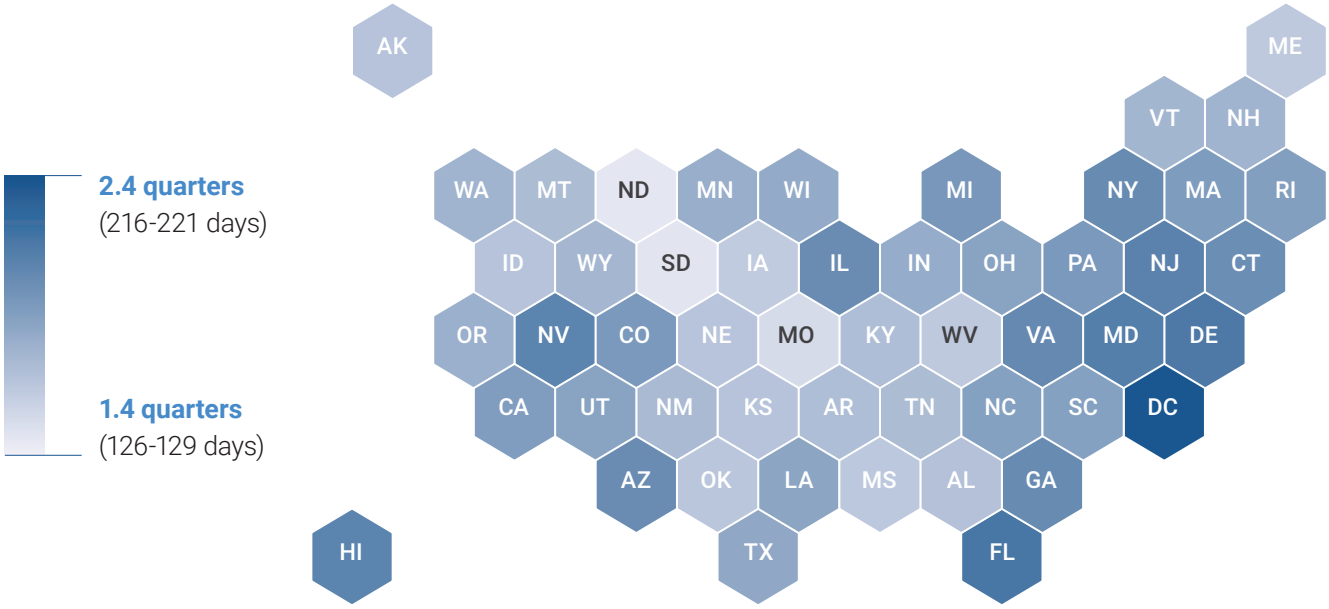
U.S. New Employer Business Velocity, in Average Days, 2005 to 2014



New Employer Business Velocity: State Trends

Each of the 50 states and the District of Columbia saw an increase in new employer business velocity between 2005 and 2014, similar to the overall national trend. There was, however, substantial variation across states. In 2014, the fastest velocity was in North Dakota and South Dakota, with averages of 1.46 and 1.47 quarters, respectively, or approximately 131-135 days. That same year, the slowest velocity was in the District of Columbia, with an average of 2.37 quarters, or 213-218 days. This means it took roughly 83 more days for new employer businesses to become employers in the District of Columbia compared to the Dakotas.

New Employer Business Velocity (2014)



Why the Slowdown? Some Possible Contributors

On average, both nationally and at the state level, new employer businesses have been taking longer to make a first payroll. Below are some factors that could be contributing to this trend.[i]

- **The hiring process** can be costly, especially for a new business that may not have formal human resource processes in place when looking for initial employees. New employer businesses likely also face other startup costs and time demands. The process of recruiting, screening, interviewing, conducting background checks, and negotiating compensation packages can require substantial time and resources. In recent years, hiring costs have increased for businesses, rising from an average of $2,935 per-hire in 2012 to $3,999 in 2016, an increase of 36 percent.[3]

- **Attracting applicants** can be challenging for new businesses,[4] as they are less likely than established businesses to be able to rely on reputation or market share to recruit talent. In addition, job security and advancement opportunities in a new business may be more uncertain, and potential employees may worry about wages and the survival of a new business.

- **Finding the right talent** can be difficult as the nature of jobs and the need for skills in some industries has changed.[5] Employers may

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expect new hires to be an immediate fit for the job without the need for training.[6] This can be especially hard for new businesses, as skilled individuals tend to disproportionally select employment opportunities in larger and more established firms.[4]

- **The cost of employee benefits** can be harder to absorb for new businesses that are more likely to be resource-constrained when starting out.[4] Smaller businesses often pay more for employee health benefits, in part, because they have fewer employees to spread the risk across. A new business in the first stages of hiring might weigh these costs. Among U.S. businesses, average premiums (combined employer and employee contributions) for single coverage rose from $4,024 in 2005 to $6,025 in 2014. By 2019, this figure was $7,188.[7] Non-mandated "perks" like gym memberships and tuition reimbursements can attract employees, but they also raise costs for businesses.

- **Alternative work arrangements** are becoming more common. The share of the workforce with income from alternative, non-employee work arrangements increased from around 9.9 percent in 2000 to 11.8 percent in 2016.[8] More than half of this increase happened between 2013 and 2016. This trend is almost entirely due to growth in gig work enabled by online labor platforms. Businesses can use these platforms to fill needs and often pay the platforms directly rather than the workers. As a result, these workers would not be employees of the business or show up in traditional measures of payroll.

- **New technologies and tools,** such as customer relationship management software, may allow business owners to do themselves what they once might have needed employees to do. Technological advances may be enabling new business owners to run their businesses more efficiently without as much need for employees early in the life of the business.

The proliferation of platforms such as Upwork, TaskRabbit, and Fiverr, could give new businesses access to workers who can provide the skills and services they need without the commitments associated with employees. This might be an attractive option in the early life of a new business.

- **Business cycles** can affect hiring decisions. Hiring trends between 2005 and 2014 include the Great Recession, when employers may have been more hesitant to commit to employees. The broader economic context is an important factor when thinking about new employer business trends.

i As noted earlier, the rate of new employer business actualization also declined during this period. There is likely considerable overlap in the factors contributing to changes in the new employer business actualization rate and new employer business velocity.

About the Data: *Rate of new employer business actualization* and *new employer business velocity* come from the Kauffman Foundation New Employer Business Indicators, which are created using underlying data from the Business Formation Statistics (BFS) on business applications and formations.[1,2]

Sources: (1) Bayard et al. 2018. Early-stage business formation: an analysis of applications for employer identification numbers, NBER Working Paper 24364. (2) Desai et al. 2020. 2018 New employer business report: national and state trends. (3) Society for Human Resource Management. 2017. Why is it costing more to fill positions?, Infographic. (4) Nyström. 2019. Working for an entrepreneur: heaven or hell? Small Business Economics. (5) Muro et al. 2019. Digitalization and the American workforce, Brookings Report. (6) Cappelli, P. 2012. Why good people can't get jobs: The skills gap and what companies can do about it, Wharton Digital Press. (7) Kaiser Family Foundation, 2019. Employer Health Benefits Survey. (8) Collins et al. 2019. Is gig work replacing traditional employment? Evidence from two decades of tax returns, IRS SOI Joint Statistical Research Program.

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