

ENTREPRENEURSHIP POLICY DIGEST

JUNE 7, 2016

THE ECONOMIC IMPACT OF HIGH-GROWTH STARTUPS

Spend enough time talking about entrepreneurship and you're likely to hear people refer to "[gazelles](#)," "[cheetahs](#)," or [other fleet-footed animals](#) (even the mythical unicorn!). These terms may leave you scratching your head, wondering if you wandered into a safari—not an accelerator.

Like many labels, the utility of these terms is limited; but these words are used because we need a way to describe and talk about an important phenomenon in entrepreneurship—the fact that some businesses grow and others do not. And even among the firms that grow, a few blossom substantially bigger and faster than the rest.

Though few in number, these high-growth businesses have a big impact on the economy. Research has found that high-growth firms:

- Account for as many as [50 percent](#) of new jobs created.
- Differentiate themselves from other companies by expanding not just in size but also in [number of new locations](#)—creating new opportunities in diverse geographic areas.
- Encourage [subsequent employment growth](#) in their related industries.

Not all entrepreneurs have ambitions to grow their businesses and dominate market segments, nor should we expect them to. However, given the outsized economic contributions of high-growth firms, it is important to both understand how these firms are defined and ways to encourage more business growth.

IDENTIFYING THE NEXT GENERATION OF HIGH-GROWTH FIRMS

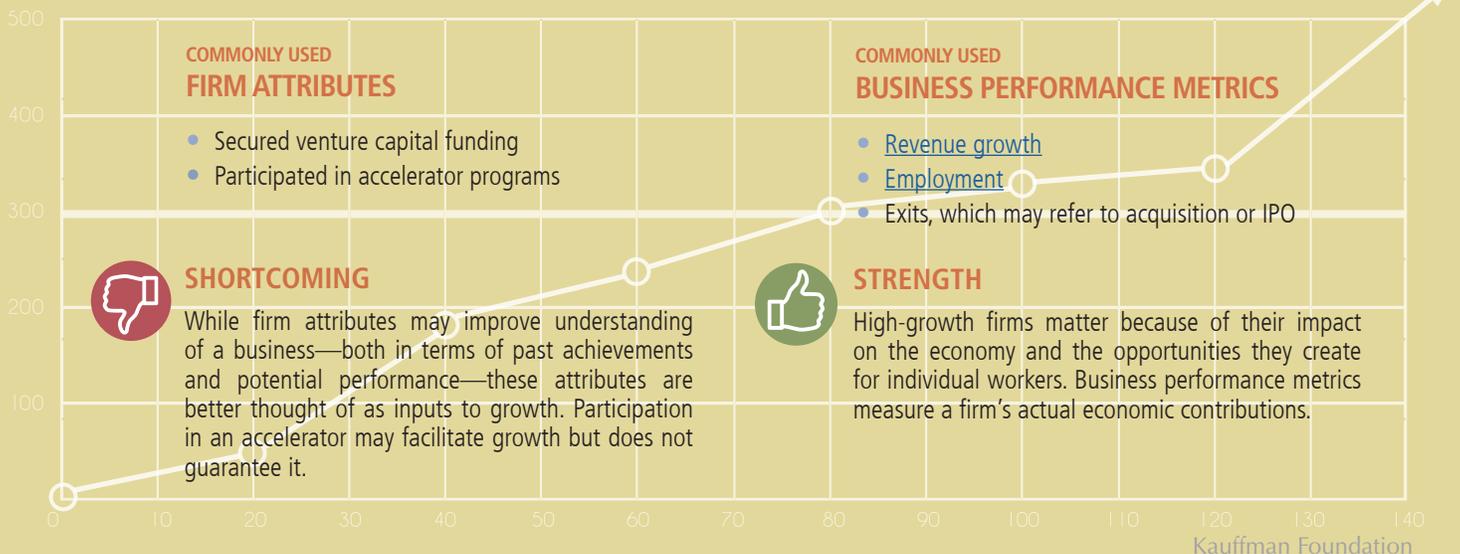
While a significant amount of research activity has sought to measure high-growth firms, it generally has not distinguished among startups based on their initial growth potential or "entrepreneurial quality."

MIT researchers developed a way to estimate the growth potential of startups at founding. To do this, they identify startup characteristics that signal the growth ambition of founders, including how a firm is named, where it registers, and whether it files for patents or trademarks, and maps these characteristics to significant growth outcomes.

The results provide new information about startups that have the potential and likelihood to grow, as well as whether entrepreneurial ecosystems support the growth of these firms or not. While more startups with high-growth potential are being founded today than in the past, [fewer are successfully scaling](#). The researchers find that entrepreneurs are starting firms that could be high-growth, but struggle because the environment is less accommodating.

HOW ARE HIGH-GROWTH FIRMS DEFINED?

Data on high-growth firms shapes our understanding of the economic impact of businesses. Researchers define high-growth firms in many ways, with definitions tending to focus on either *firm attributes* or *business performance*. Depending on the definition used, research will capture different firms and often find different results.

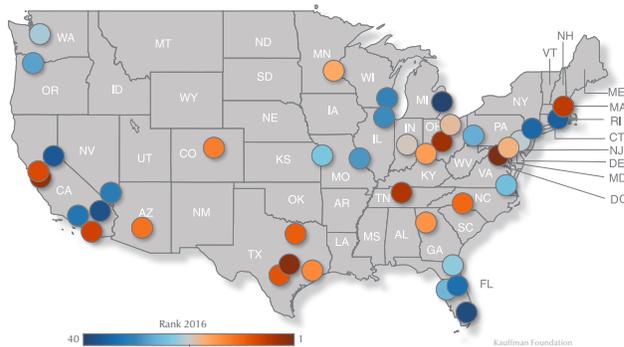


GROWTH ENTREPRENEURSHIP THROUGH THE LENS OF THE KAUFFMAN INDEX

The [Kauffman Index of Growth Entrepreneurship](#) uses a combination of employment and revenue thresholds to identify growing firms in the United States.

KAUFFMAN INDEX OF GROWTH ENTREPRENEURSHIP TOP 40 METRO RANKINGS

Mapping 40 largest metros by their high-growth entrepreneurial activity



THREE COMPONENT MEASURES USED IN THE KAUFFMAN INDEX OF GROWTH ENTREPRENEURSHIP:

- Rate of Startup Growth
- Share of Scaleups
- High-Growth Company Density

GROWTH ENTREPRENEURSHIP RANKINGS BY STATE

LARGER STATES

1. Virginia
2. Maryland
3. Arizona
4. Massachusetts
5. Texas

SMALLER STATES

1. Utah
2. New Hampshire
3. Delaware
4. North Dakota
5. Oklahoma

Growth Entrepreneurship Index Key National Findings

- **High-Growth Trending Up:** In the 2016 Growth Entrepreneurship Index, growth entrepreneurship experienced the sharpest year-over-year increase seen in the last decade. While growth entrepreneurship is not at historic highs, there has been steady growth since its lowest level of activity following the Great Recession.
- **High-Growth Employs:** Companies that started five years ago grew from an average 5.8 employees at the year of birth to 9.2 employees for surviving businesses at year five.
- **High-Tech is Not a Prerequisite for High-Growth:** Firms in diverse industries, from Food & Beverage to Retail to Government Services are growing.
- **Industries Rise and Fall:** The number of high-growth companies in the Health industry has increased, while the Housing-Associated (Construction and Real Estate) and Maker (Manufacturing and Computer Hardware) industries have seen a decrease in high-growth firms in the past decade.

CREATING FERTILE GROUND FOR GROWTH

Entrepreneurs flourish in a [connected, dense, and diverse](#) ecosystem where they can move quickly to take advantage of opportunities. Remember, you can't scale what you don't start, so pursue entrepreneurial growth in a holistic manner, while focusing on policies that particularly benefit growth entrepreneurs.

NURTURE A SKILLED AND EDUCATED WORKFORCE

- Increase college completion rates to develop a [young workforce](#) that can contribute to growing firms, which cite hiring and retaining qualified staff as a [challenge](#).
- [Welcome immigrant entrepreneurs](#), who play a [disproportionate role](#) in founding companies that make a big economic impact.
- Retain high-skilled immigrants and [foreign students](#) who graduate from American universities with the skills growing firms need.

ENCOURAGE SPIN-OFFS

- Limit the scope, duration, and enforcement of [non-compete agreements](#) so that employees with entrepreneurial ambitions can more easily start new businesses. People who start companies generally have industry knowledge that helps them start successful firms.

FOR MORE INFORMATION

Click on the links for access to the following resources, or contact Jason Wiens at jwiens@kauffman.org:

- Explore reports and interactive graphs featuring [findings about growth entrepreneurship](#) at the national, state, and metropolitan level.
- Check out the [Kauffman research series](#) about high-growth companies.
- Discuss policy approaches for assisting high-growth firms using Kauffman's [Entrepreneurship Policy Map](#) as a guide.
- Learn more about the [myths of high-growth firms](#) at *Growthology*.



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