The Prospects of High-Growth Enterprises: A Retrospective Analysis of Georgia-Based Firms

Summary

In this just-released study, Emil Malizia and Rebecca Winders of the Center for Urban and Regional Studies at UNC Chapel Hill look at the life and death of so-called "gazelles" or "high-growth" firms and find some eye-opening facts

First, high-growth firms--defined as new firms that added at least 20 employees in their first five to seven years of operation-are extremely rare. Of 17,000 firms that first hired workers sometime in the period 1987-89, less than four percent met the high-growth criterion. And only half of those could be called "independent." The other half are units of larger, often externally headquartered businesses that generally call the shots and take home the profits.

Second, few survive. Only one percent of the high-growth firms remained important employers ten years later.

Third, contrary to conventional wisdom, high-growth firms are not necessarily high-tech, innovative, or export producing. In fact, they come in all flavors-some are innovators, but others produce routine goods and services; some export, but others serve local markets. And although the firms were found in 167 different industries, industries characterized by low entry barriers, labor intensive activities, and part-time employment had more of the firms.

Fourth, according to the businesses themselves, public policies were at best irrelevant to them and at worst a hindrance. Among the factors they cited as important to their location and success were labor quality and availability, as well as quality of life. In addition, most were able to access financing-often from commercial banks.

Finally, over time the high-growth firms tended to follow an "s" shaped growth curve, with the rapid job gains tapering off.

How should policymakers and economic developers deal with such, in some ways, dire findings? For starters, Malizia and Winders point out that it is virtually impossible to identify such firms before their growth spurt, and sectoral targeting makes little sense either given the diversity of the firms. Instead, they suggest an indirect approach, one that "attends to community development in order to improve the locality's competitiveness and quality of life. Community development strategies,

such as improving public education and worker training, developing industrial or business parks, increasing government efficiency, improving environmental quality, etc., tend to make localities relatively more attractive to all firms and households. As a result, the improved local business climate should support expansion and attraction strategies as well as creation strategies for new business development."

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