High-employment-growth firms: defining and counting them

Many high-growth firms are the youngest and the smallest firms, but much of the job creation attributable to high-growth firms comes from older firms.

Employment growth is a key indicator of labor market performance. Particularly following recessions, policymakers look for the appropriate levers to pull that will accelerate employment growth. For several decades, it has been thought that small businesses are the fountain of job growth. This thinking is backed up by data from the Business Employment Dynamics (BED) program at the Bureau of Labor Statistics (BLS). The BED data show that firms with fewer than 500 employees—the criteria often used for defining small firms—account for about two-thirds of net jobs created. However, the BED data also show that 99.5 percent of all firms have fewer than 500 employees and represent 54.5 percent of total private employment.

Recent thinking in the economic and policymaking communities is that young firms and small firms are a key source of job growth. Small firms are both young and old, and many well-established small firms are not job generators—the corner grocery store comes to mind as well as other examples, such as neighborhood restaurants and the local dry cleaners. But some entrepreneurs dream of finding an untapped niche and starting a business that will grow to national stature; these are the entrepreneurs that policymakers have in mind when thinking of the generators of future jobs. However, the problem with targeting young, small businesses as the focus of job creation is that the outcomes of new businesses are diverse. Some new businesses grow phenomenally, but 20 percent of newly created establishments don’t survive their first year in business, 32 percent don’t survive their first 2 years, and 50 percent don’t survive their first 5 years.
To focus on those businesses that are truly job creators, economists and policymakers are now talking about “high-growth firms.” High-growth firms are a very small subset of all firms but contribute substantially to job creation. In this article, we use the BED data to provide estimates of the number of high-growth firms and their contribution to employment growth in the U.S. economy. We find that 2 percent of all firms in 2009 were high-growth firms during the 2009–2012 period, yet these relatively few high-growth firms were responsible for 35 percent of all gross job gains by firms that expanded their employment over that period.

Defining high-growth firms

The first step towards estimating the number of high-growth firms and their contribution to employment growth is to define what high-growth firms are. This task, more challenging than may at first appear, starts with the Organisation for Economic Co-operation and Development (OECD) definition of high-growth firms: firms with 10 or more employees that have average annualized growth greater than 20 percent per year over a 3-year period, as measured by employment levels or employee turnover.

One issue for defining high-growth firms is the period over which growth is measured. Note that the OECD uses a 3-year period. If the period is short—say, a year—then firms with temporary contracts might be classified as high-growth firms even though their employment growth is temporary and their employment levels will decline when the contract is completed. The period for defining high-growth firms should be long enough such that short-run transitory changes in employment are not falsely measured as high growth. For this reason, the OECD-definition focus on growth over 3 years seems appropriate.


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