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Small Business Research Summary

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High-Impact Firms: Gazelles Revisited

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This study revisits and expands upon some of the conclusions on rapidly growing firms made by the small business research pioneer, David Birch, in the 1980s. Birch found that rapidly growing firms, which he termed "gazelles," are responsible for most employment growth. While Birch's definition of gazelles was based on their revenue growth, this study examines firms with significant revenue growth and expanding employment. These are termed "high-impact firms" to distinguish them from gazelles. The research offers summary statistics helping to define the scope and characteristics of high-impact firms. The report sheds light on several previously unanswered questions, including: What are high-impact firms before they become high-impact firms? What happens after their high-impact phase?

Overall Findings

High-impact firms are relatively old, rare and contribute to the majority of overall economic growth. On average, they are 25 years old, they represent between 2 and 3 percent of all firms, and they account for almost all of the private sector employment and revenue growth in the economy.

Highlights

• From 2002 to 2006 there were 376,605 high-impact firms in the United States. This number increased from 299,973 between 1998–2002 and was greater than the 352,114 firms in the 1994–1998 period of analysis.

• During the 1994–2006 period, firms with fewer than 20 employees represented 93.8 percent of the high-impact firms and 33.5 percent of job growth among high-impact firms, while firms with 20 to 499 employees represented 5.9 percent and 24.1 percent, respectively.

• For the three firm-size categories analyzed, the average size of high-impact firms in the 1-19 size category was 3 employees at the beginning of the period of analysis, increasing almost out of the size category to 16; for the 20-499 firm-size class it was 65 increasing to 209; and for the over-500 size class, it was 3,648 increasing to 8,041.

• The average high-impact firm is around 25 years old, but they are younger than low-impact firms.

• High-impact firms exist in all industries. While some industries have a higher percentage of these firms, they are not limited to high-technology industries.

• High-impact firms exist in almost all regions, states, metropolitan statistical areas (MSAs) and counties.

• Low-impact firms do not grow on average.

• Nearly all job loss in the economy in each of the three time periods analyzed is attributable to low-impact firms with more than 500 employees.

• Less than 3 percent of high-impact firms were born in the previous four-year period, however as firm size increases that number doubles to over 6 percent.

• In the four years after a high-impact firm undergoes its high-growth phase, only about 3 percent die. Most remain in business and exhibit at least some growth.

• The data suggest that local economic development officials would benefit from recognizing the value of cultivating high-growth firms versus trying to increase entrepreneurship overall or trying to attract relocating companies when utilizing their resources.

Scope and Methodology

A new data set, the American Corporate Statistical Library (ACSL), has been developed by the Corporate Research Board and was used for this project. The ACSL stitches together data from public and private sector sources over a 12-year period, allowing users to analyze discrete business patterns. Its principal data sources are Dun & Bradstreet's DMI file, the Bureau of Labor Statistics' Industry Occupation Mix, and the Census Bureau's PUMS file. The report uses cross-sectional files of the full DUNS DMI file for each year over the last 10 years. (This dataset is updated every six months.) The ACSL links Dun & Bradstreet's cross-sections into a longitudinal file that tracks every establishment from its birth through any physical moves it makes, capturing changes in ownership along the way, and recording the establishment's death if it occurs.

For the purposes of this study, a high-impact firm is an enterprise with sales that doubled over the most recent four-year period and an employment growth quantifier of two or more over the same period. (The employment growth quantifier equals the product of a firm's absolute change and percent change in employment.) Firms over three four-year periods from 1994 to 2006 are analyzed, and three firm-size categories are defined to determine exactly where these firms make their greatest impact on the economy.

While the data offer excellent coverage of firms that are at least five years old, tables in the report show that the coverage of firms under five years old is limited. This does not affect the report's analysis of high-impact firms, which are found to be on average 25 years old. However, it does limit the report's ability to evaluate the economic impact of small firms (many of which are under five years old) and compare small and large firm sectors for low-impact firms.

This report was peer-reviewed consistent with the Office of Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research at *advocacy@sba.gov* or (202) 205-6533.

Ordering Information

The full text of this report and summaries of other studies performed under contract with the U.S. Small Business Administration's Office of Advocacy are available on the Internet at ***www.sba.gov/advo/research***. Copies are available for purchase from:

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