

## Small Business Growth: Searching for Stylized Facts

Office of Advocacy Working Paper

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### Purpose

While firm size data exists, little firm age data exists. This has hampered efforts to understand the life-cycle of firms overall and by industry. There is a need to document the dynamics of new firms and the effect of the business cycle on the growth, decline and survival of firms.

### Overall Findings

Growing firms are generally a constant share of the economy with a minor business cycle effect; firms with employment growth outnumber firms with employment decline, and fast growing firms in a given year tend to revert to the mean in later years.

### Highlights

- About 35 percent of employer (private sector, nonfarm, single-establishment) firms had no employment change from one year to the next, about 11 percent closed each year, about 25 percent shrank in employment each year and about 28 percent grew in employment each year.

- The employment change categories fluctuated little over the ten-year period from 1992 to 2002, but the growing firms' share did shrink around the 2000 to 2002 downturn, suggesting a slight business cycle effect.

- A cohort of new firms mirrored the growth distribution of the universe by about their fifth or sixth year.

- The number of firms by size class peaks in their start-up year and declines over time. Most firms start in the 1-4 employment size class and do not grow beyond this size class.

- Fast growing firms (defined as having a 50 percent or more increase in annual employment with at least a five-employee increase) were a small share of all firms, numbering 139,761 out of the universe of 4,234,118 firms, or three percent in 1992.

- Fast growing firms had higher rates of shrinkage in employment following their large one-year employment increase. The year after fast growth, 55 percent of fast growers declined in employment versus the universe's 25 percent. Former fast growers continued to have higher rates of employment decline for at least eight years after their large employment growth.

- Most firms remain a one-location firm as few expand to multiple locations or merged with other firms. Although data issues exist, no more than 119,000 single-establishment firms became part of multi-establishment firms during the decade of analysis.

- Firm survival rates were very similar for firms born in 1992 and 1997 with a 50 percent survival rate after four years for both time periods. This gives the impression that survival rates fluctuate little over time. The survival rates here mirrored survival rates found a few decades ago using D&B data, giving further evidence that survival rates fluctuate little over time and verifying the findings from studies using D&B data.

- Industries that grew in employment did not necessarily have higher rates of fast growers but industries with high rates of fast growers tended to have high rates of decliners. So while some industries tended to be volatile, this did not seem to impact their overall employment.

- The authors showed that a publicly available reoccurring firm age dataset could be developed from existing Census data while maintaining the privacy of individual firms. Their work could be used as a blueprint for others to develop such a dataset.

### Scope and Methodology

The report uses special tabulations from the U.S. Census Bureau's Statistics of U.S. Businesses

(SUSB) database to provide descriptive information showing how employer firms start, grow, are acquired or merged, or decline and close from 1992 to 2002. The tables are listed in the appendix and contain establishment and employment counts for cohorts, along with limited industry detail.

SUSB is based on Census' County Business Patterns, which is an establishment data set, but SUSB contains firm identifiers so firm data can be created. The special tabulations used focus on single-establishment firms to avoid firm age confusion caused by mergers and spin-offs. Focusing on single-establishment firms limits the study as the few firms that have explosive growth and open new establishments are excluded. Considering few firms become part of multi-establishment firms, the study focuses on the bulk of firms.

Nine propositions on the firm life-cycle were made and observations were used to verify or reject the propositions

This report was peer-reviewed consistent with Advocacy's data quality guidelines. More information on this process can be obtained by contacting the Director of Economic Research at [advocacy@sba.gov](mailto: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.

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