For immediate release
August 11, 2011

Spotlight on job creation

When it comes to generating new jobs, it's existing companies — not new startups — that have the leading role

CASSOPOLIS, Mich. — New startups are often billed as the stars of economic growth. Yet according to a paper being released by the Edward Lowe Foundation, it's actually existing, expanding companies that contribute most to U.S. job creation. *In fact, from 1990 to 2008, existing companies generated 71 percent more new jobs than startups.*

The paper supplements ongoing research by the Institute for Exceptional Growth Companies (IEGC), which was created by the Edward Lowe Foundation through a three-year grant from the NASDAQ Educational Foundation. IEGC is creating new datasets and using existing data in innovative ways to track and better understand job creation and economic growth factors.

In his paper "Private Sector Dynamics: The Key to Understanding U.S. Growth," economist Donald W. Walls looks beyond net change to see what's really happening on the economic front.

"Traditional statistics typically focus on the total net change in jobs or business establishments, which can produce misleading conclusions," says Walls, president of Walls & Associates in Oakland, Calif. "Suppose the total number of jobs doesn't change in a given year. That doesn't mean you had the same establishments and the same jobs. There is activity going on that's completely obscured by the net number. It's like looking at a river that appears to be calm on the surface while down below there are currents and considerable turbulence going on."

Four basic growth groups, two types of births

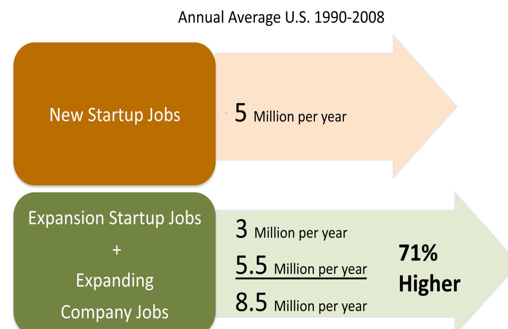
Using the National Establishment Time-Series (NETS), a unique longitudinal database he has developed, Walls points to four categories of company activity that impact net new jobs: births, deaths, expansions and contractions.

It's important to understand that there are two types of births: 1) *new startups,* which are brand new establishments not related to any existing companies, and 2) *expansion startups,* which are new establishments launched by existing companies in a new geographic location or new line of business.

From 1990 to 2008 new startups accounted for more than 90 percent of total births. Yet because the average size of new startups (three employees) is far smaller than the average size of expansion startups (26 employees), new startups only account for about 65 percent of new jobs generated by the births category. Births resulting from existing companies (less

than 10 percent of total births) created a disproportionately larger share (35 percent) of new jobs.

And, if one includes new jobs created by expansions (companies that are adding more jobs within their current establishments), then during the 1990-2008 period existing companies outpaced new startups in job creation by 71 percent.



The survivor factor

Job creation, however, is only part of the economic growth story. It's important to know how long those jobs last. If all job expansions from existing companies became contractions the following year, then those companies would not be desirable sources of job growth. Ditto for startups that die soon after their formation.

When looking at survivability, Walls' data shows that new startups and smaller firms are more vulnerable to death and generate less sustainable jobs.

From 1990 to 2004, the survival rate for expansions (companies that either increased jobs or added new establishments) was significantly higher than new startups — about 67 percent versus 50 percent respectively. What's more, companies with less than five employees had a median age of three years while larger companies with more than five employees had a median age of seven years.

Walls also points to an unusually high number of new startups after 2001, which he attributes to "forced entrepreneurship" — professionals who started their own businesses after being laid off by larger companies. "They were looking for work and found that their best employment opportunity was self-employment," Walls explains. "And as soon as they had a chance to go back to Corporate America, they closed shop."

It's not surprising that this phenomenon would generate a flurry of attention on new startups, points out Mark Lange, executive director of the Edward Lowe Foundation. "Yet is this what we truly mean by entrepreneurship? Although those startups may have kept unemployment lower than it would have been, these weren't people jumping into the market because they had innovative ideas and saw opportunities."

Learning from growth dynamics

"One of the reasons we decided to create the IEGC was due to the misperceptions about job creation and the economic influence of existing companies," says Lange. "By leveraging datasets like NETS, adding new sources and making data more available to researchers, the institute is intent on digging under the surface of the economy."

Understanding private-sector dynamics can help policymakers and communities make better decisions about how they encourage economic growth, says Doug Tatum, chairman of IEGC's advisory committee and an associate professor of entrepreneurship at Middle

Tennessee State University. "By determining where growth is really coming from, you can identify appropriate sectors to accelerate job creation," he stresses. "Just looking at the net number of jobs or establishments doesn't really tell you what's happening in the economy."

Walls makes many important points in his paper, but one of the biggest takeaways is that existing companies create the majority of new jobs, Lange adds. "That's a huge breakthrough, because despite all the support for new startups, increasing the rate of growth for existing companies is what's going to have the real impact on our economy."

It's important to shine the spotlight on existing companies, especially those in the middle market, because they're often ignored from a policy standpoint, Lange continues: "There's a large gap in recognition and resources for growth-oriented existing companies. Better understanding their needs and providing appropriate resources and capital to fuel their growth would help spark a more robust economy — and greater innovation for our country."

###

About the Edward Lowe Foundation: Established in 1985, the Edward Lowe Foundation is a nonprofit organization that supports entrepreneurship through research, recognition and educational programs, which are delivered nationally through entrepreneur support organizations (ESOs). The foundation focuses on second-stage companies — those that have moved beyond the startup phase and seek significant, steady growth.

For more information about the foundation, visit www.edwardlowe.org or http://www.facebook.com/EdwardLoweFoundation.

Media contact: T.J. Becker at 269-445-4294 or tjbecker@lowe.org