Fostering fast growing firms: a silver bullet policy?

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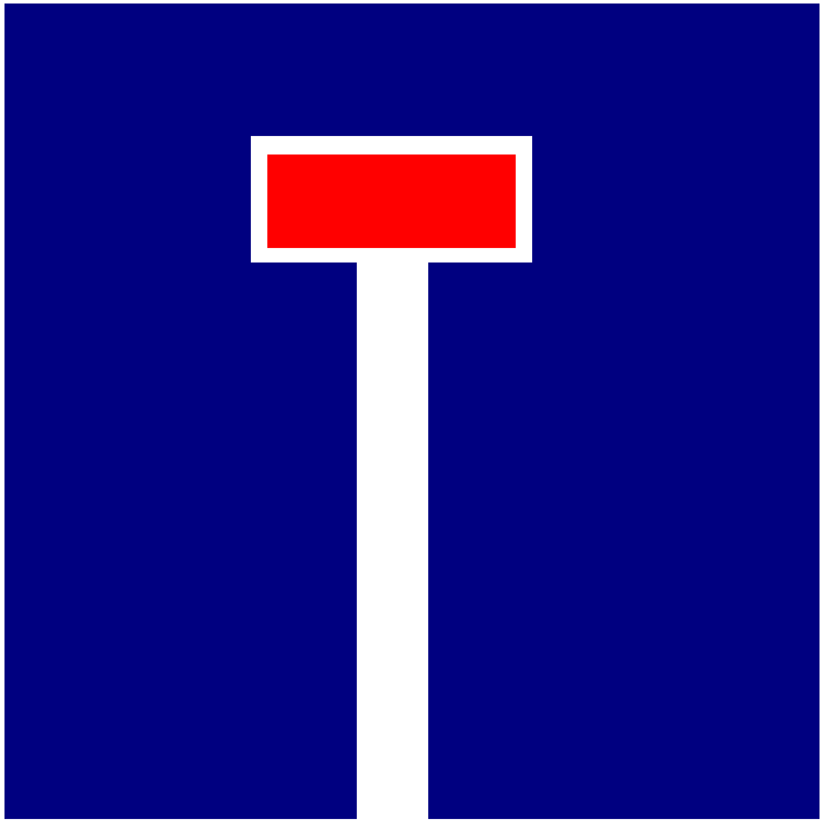
- **Is fostering innovative high growth firms a policy solution for the EU that has extreme effectiveness or is it another fad that will fade as soon when the perception of novelty is gone.**



Background

- The share of fast growing Innovative firms has been proposed as headline indicator to measure progress in the Europe 2020 strategy.

- Advantage:
  - Highlights economic framework conditions (financial markets, education, economic dynamism)
  - highlights structural change and economic dynamics (entrepreneurship, competition, growth)
  - complimentary to the 3% research expenditure goal

- Disadvantage:
  - We do not know much about the performance of the indicator

- Firm dynamics - EU vs. US:

  - Europe has not much large new high technology firms such as Google, Microsoft or Apple.

  - Europe has a lower number of new large firms

  - Europe has on average lower firm dynamics (post entry growth) than the US.

  - Europe has substantially more micro-enterprises than the USA. American firms are larger on average

1. What do we know about fast growing firms?

- ***Definition of high growth firms:***

Firms with an annual growth rate larger than 20% over an 3-year period with at least 10 employees at the beginning of the period (OECD–Eurostat, 2007)

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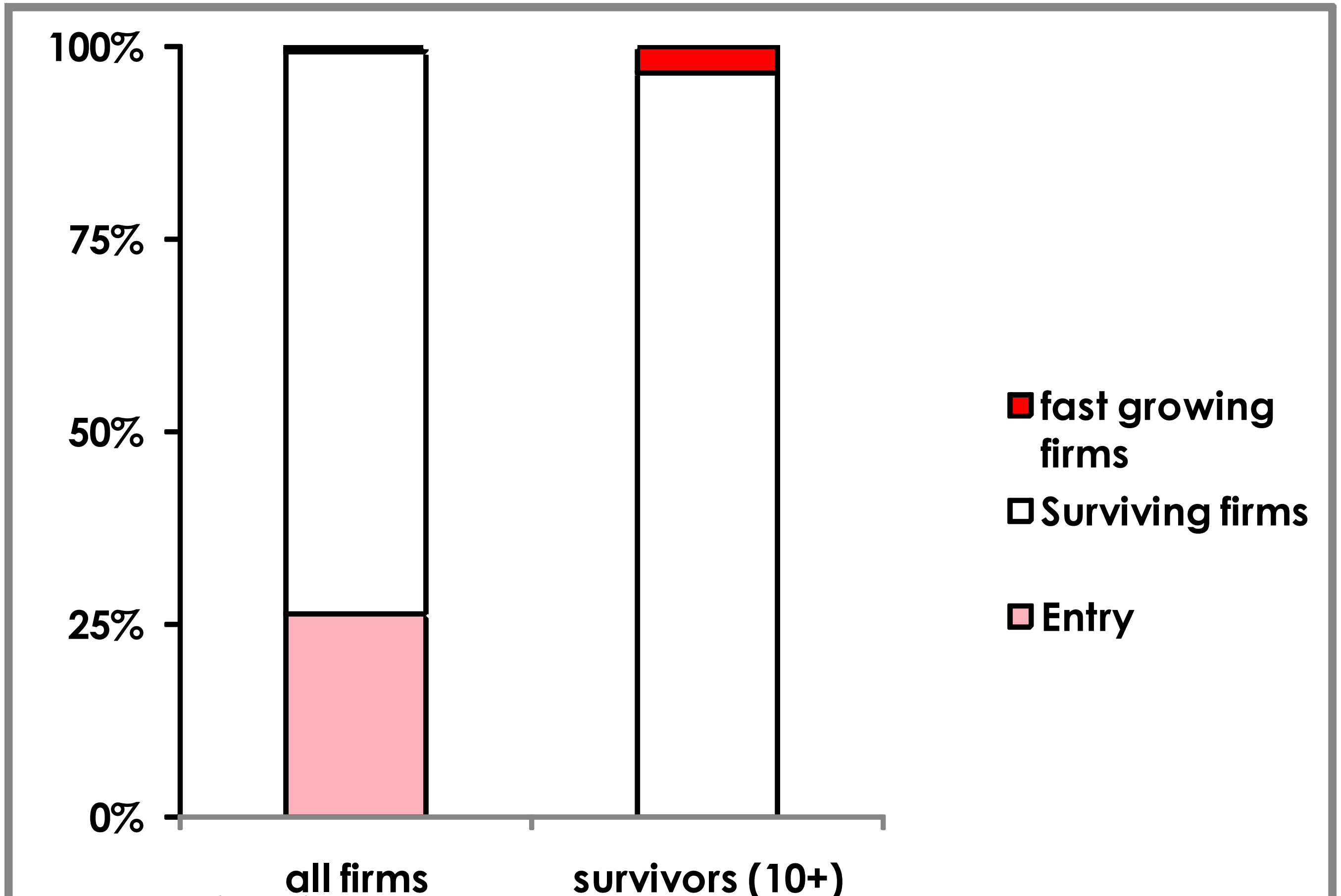
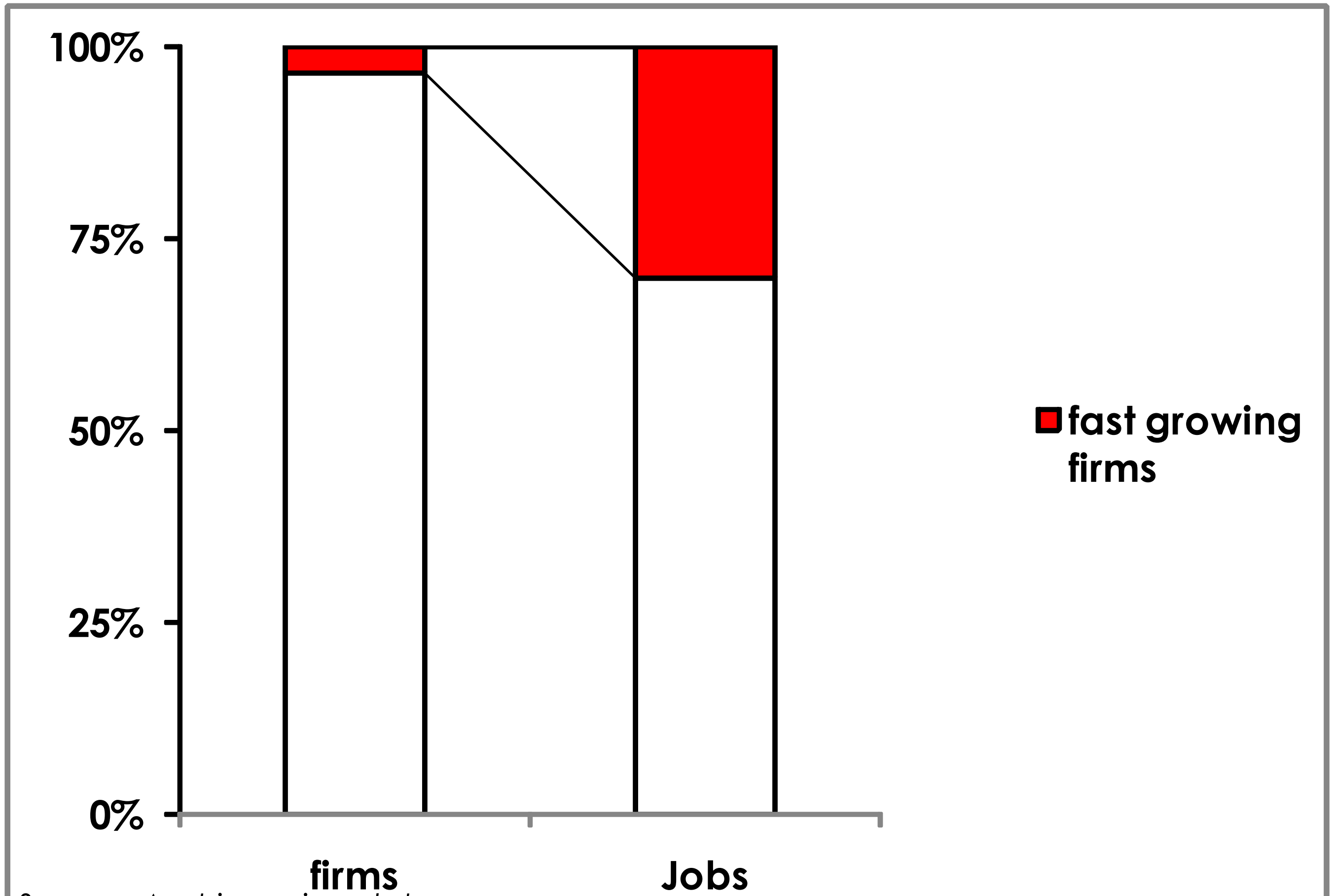
1. Fast growing firms (FGF) are rare



Source: Austrian microdata

- Austria (2003-2006):
  - 0.5 % of all firms, 3.5 % of surviving firms with (10+)

1. ... but their contribution to job creation is important



Source: Austrian microdata

- **Survivors (10+):**
  - **Austria: 3.5% firms -> 30 % of job creation**
  - **UK (2005-08): 6% firms -> 54 % of job creation**

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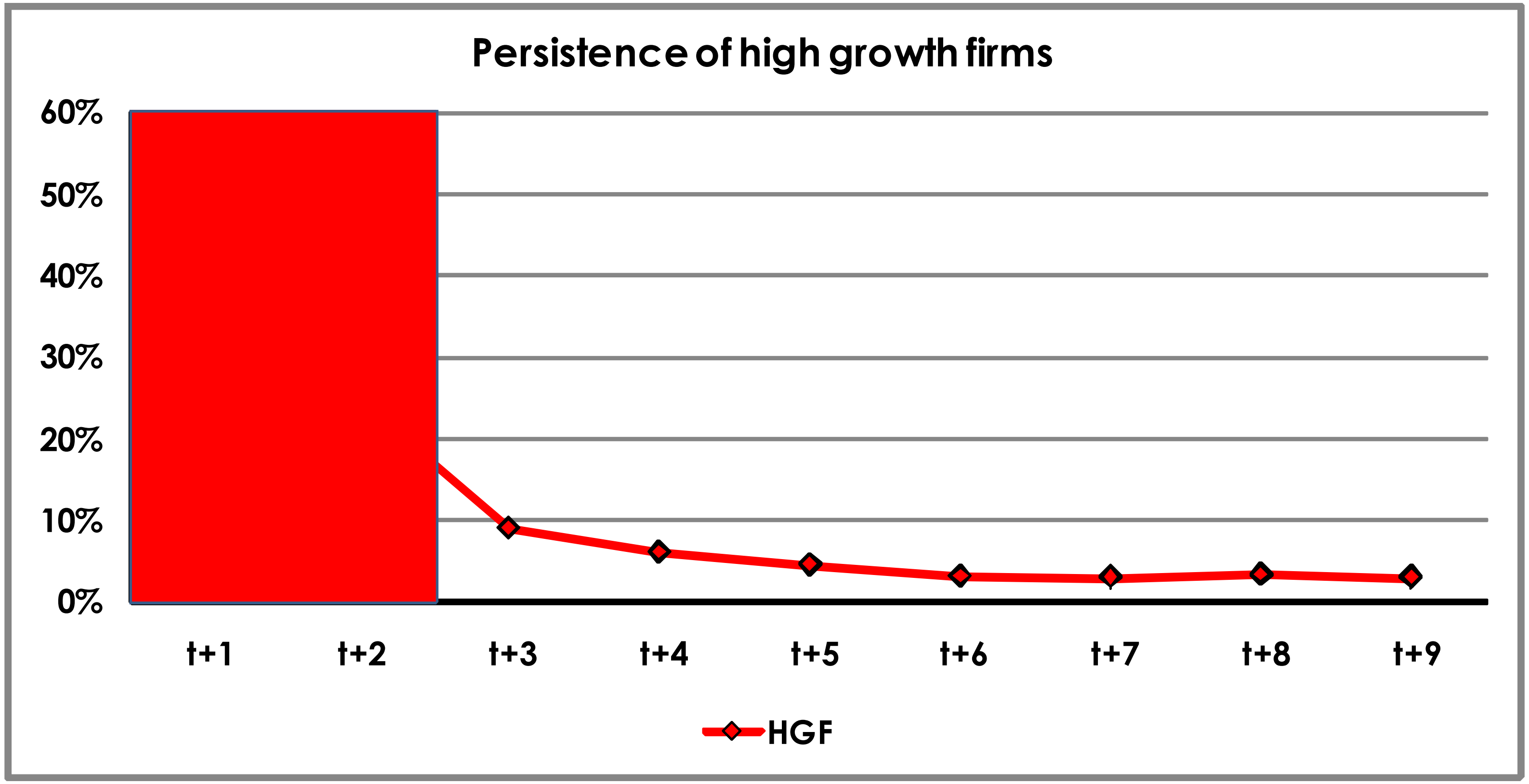
2. FGF need not to be small or young

	FIRM SIZE		
	10-49	50-249	250+
FGF in % of survivors (10+)	4%	3%	1%
among FGF	85%	13%	1%
	AGE		
	0-3	4-9	10+
FGF in % of survivors (10+)	13%	7%	2%
among FGF	32%	31%	37%

Source: Austrian microdata

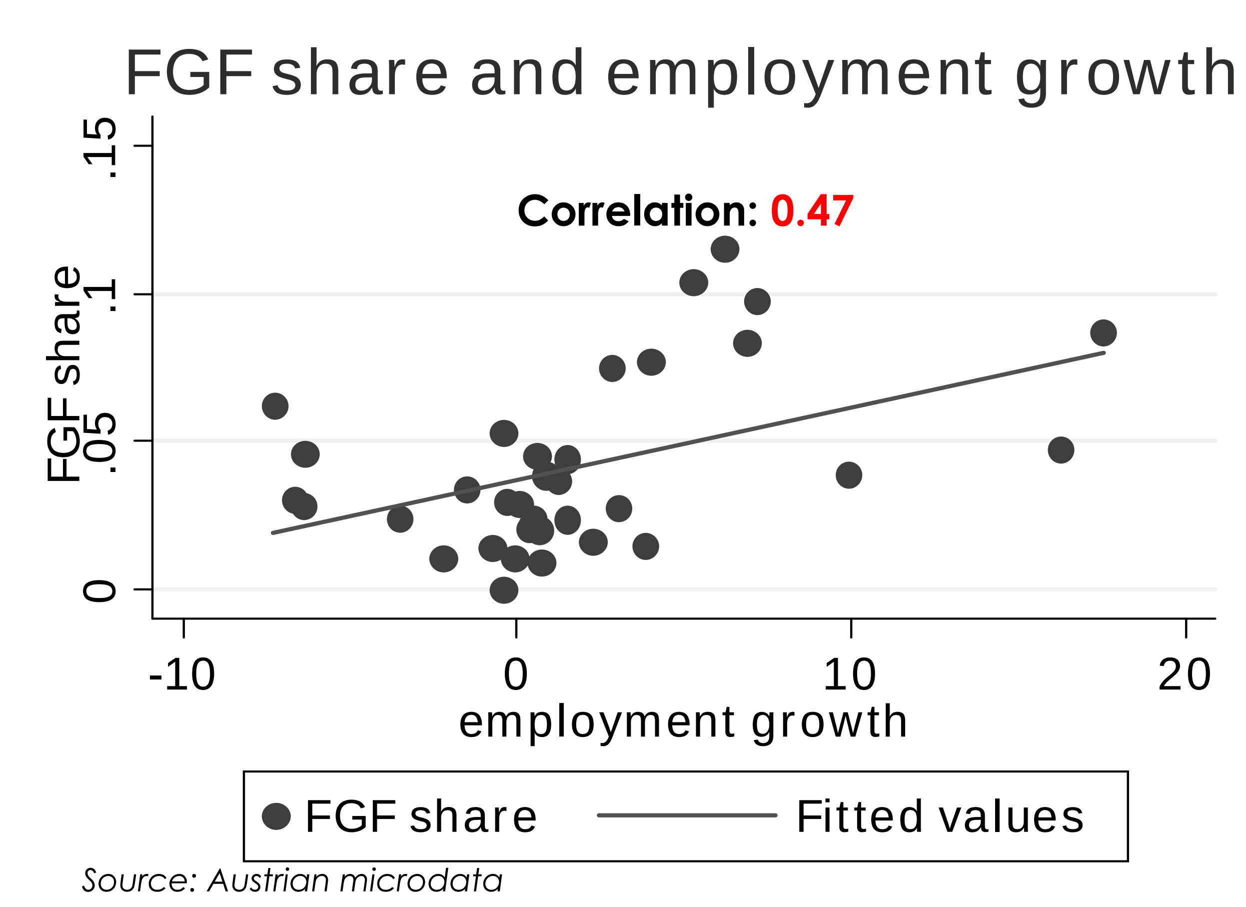
- **Most FGF are small but not overproportionally so**
- **FGF come of all ages, but overproportionally more HGF are young**

3. Fast growth is not persistent



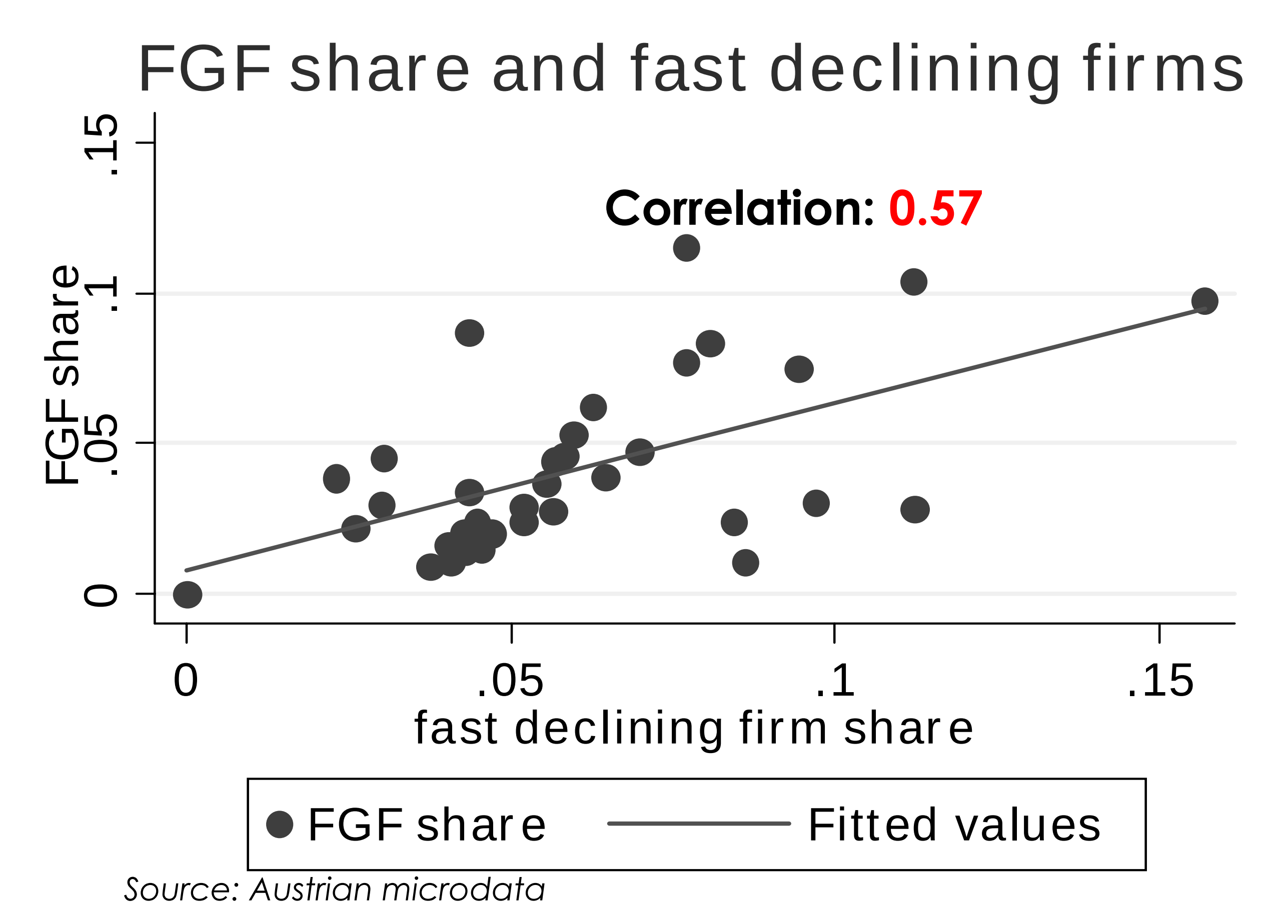
- Being a fast growing firm is a rare and temporary event

4. The share of FGF and industry growth are correlated



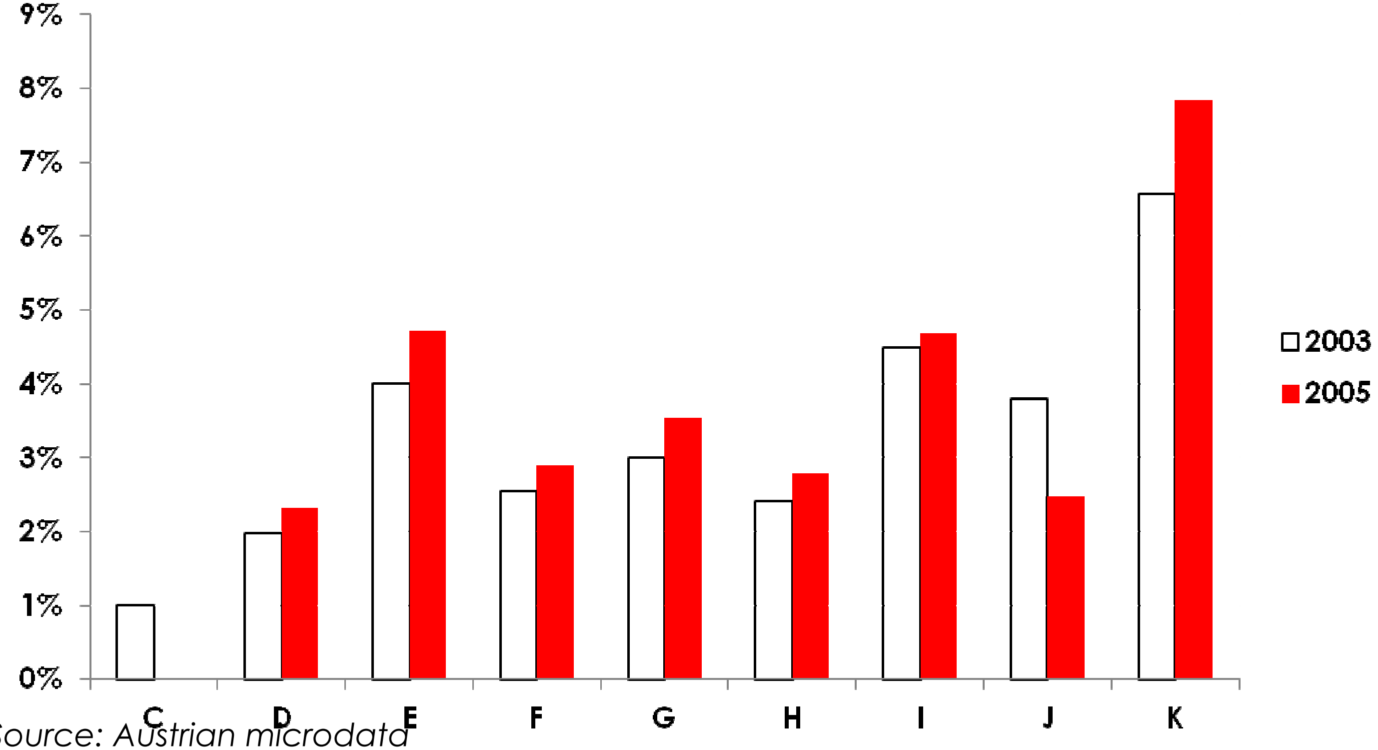
- **However: which is the direction of causality?**

5. Fast growth and fast decline are correlated



- **International evidence confirms this picture (Bravo-Biosca 2010)**

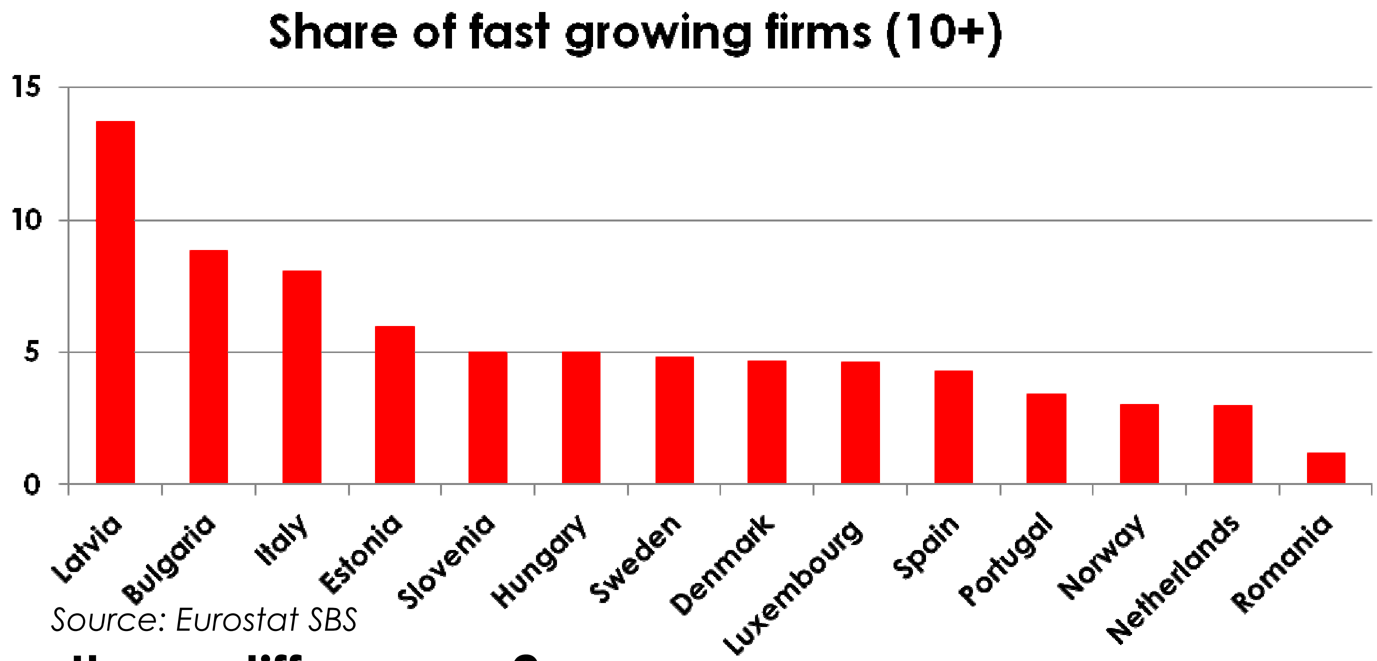
6. FGF are found in all sectors of the economy



Source: Austrian microdata

- **Austria (NACE 1.1):**
  - **Lower share of FGF:** Mining and quarying, hotels and restaurants, manufacturing, construction
  - **Larger share of FGF:** Real estate & business services, Electricity, gas and water supply, Transport, storage and Communications

7. The number of FGF is different across countries



Source: Eurostat SBS

- **What explains these differences?**
  - **Ease of being a high growth firm?**
  - **Industry growth?**
  - **Market size?**
  - **Business environment/regulation?**
  - **Quality of business register?**

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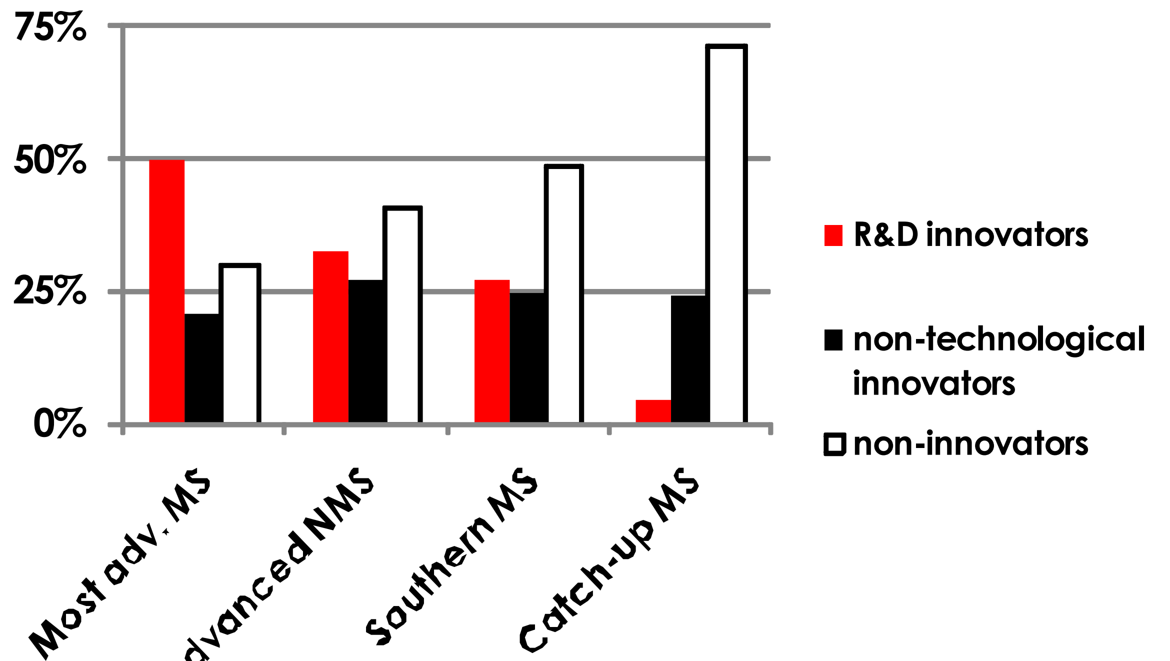
8. Innovation & R&D matter most in the most advanced countries

Different definition of FGF



Source: CIS4 & CIS 2006 microdata accessed at Eurostat for InnoGrips report „Barriers to internationalisation and growth of eU's innovative companies"

- **Higher share of R&D innovators in the most advanced Member States, not much difference for non-technological innovators**
- **Econometric evidence suggests in addition that R&D and new-to-market innovations contribute to fast growth in advanced countries but not in other country groups. Economic environment determines competitive advantage.**

Summing up

1. *FGF are rare but are important for job creation*
2. *FGF need not be small and young firms but are overproportionally young firms*
3. *Fast growth is not persistent*
4. *Fast growth firms are the expressions of dynamics (competition and growth)*
5. *Number of FGF and nature of fast growth differ across countries: Innovation and R&D is most important for the most advanced countries*

2. What about policy and the innovation union?

Implications for policy

1. **Focussing support on innovation and fast growth is *not an elitist policy* – it is a policy that supports job creation and growth.**
2. ***One size does not fit all*: Appropriate policies are likely to be different depending on the technological and economic position of a country**
3. ***Limits for direct support for FGF*. Picking winners ex ante is difficultt). Rationales based on market/system failures point towards framework conditions not towards direct support (programmes).**
4. **Fostering FGF is *distinct from SME policy and entrepreneurship policy*: not smallness or the number of start-ups are important – firm growth and the structure of start-ups are important.**
5. ***Framework conditions matter*: institutions, regulation and capabilities.**

Some additional questions

1. **What is the role of *differences in financial systems* (Bank-based and Market-based Financial systems) with regard to economic dynamics?**
2. **What is the role of *disruptive technological revolutions* for the emergence of “Super-FGF”?**
3. **High R&D industries are not the industries with a larger number of FGF. Why? Business models matter: e. g. Biotech has low share of FGF.**
4. **Is there a trade-off between stability and dynamism? Are institutional configurations that support comparative advantage in radical innovation industries (Schumpeter Mark I) also supporting advantages in incremental innovation industries (Schumpeter Mark II)?**

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Concluding Remarks

- **Fostering fast growing enterprises puts emphasis on important aspects that are sometimes neglected in innovation policies:**

  More emphasis on dynamics, competition, structural change, outputs, capabilities and framework conditions.

but it is likely not a silver bullet policy - there is not one set of policy measures to be employed & it does not solve all problems (e.g. Increasing R&D intensity) and there may be trade-offs in the different policy areas.

- **There is some uncertainty regarding the indicator "fast innovative firms"**

  - **Practical problems in the construction & possible interpretation (we lack experience – responsiveness to policies).**
  - **But it is complementary to other traditional indicators (e.g. 3% R&D expenditure).**

Thank you

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