Fostering fast growing firms: a silver bullet policy?

Werner Hölzl
Austrian Institute of Economic Research (WIFO)

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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.
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)
1. Fast growing firms (FGF) are rare

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

Source: Austrian microdata
1. ... but their contribution to job creation is important

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

Source: Austrian microdata
2. FGF need not to be small or young

<table>
<thead>
<tr>
<th>FIRM SIZE</th>
<th>10-49</th>
<th>50-249</th>
<th>250+</th>
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<tbody>
<tr>
<td>FGF in % of survivors (10+)</td>
<td>4%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>among FGF</td>
<td>85%</td>
<td>13%</td>
<td>1%</td>
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<table>
<thead>
<tr>
<th>AGE</th>
<th>0-3</th>
<th>4-9</th>
<th>10+</th>
</tr>
</thead>
<tbody>
<tr>
<td>FGF in % of survivors (10+)</td>
<td>13%</td>
<td>7%</td>
<td>2%</td>
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<tr>
<td>among FGF</td>
<td>32%</td>
<td>31%</td>
<td>37%</td>
</tr>
</tbody>
</table>

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

Correlation: 0.47

However: which is the direction of causality?

Source: Austrian microdata
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

(NACE 1.1):

- **Lower share of FGF**: Mining and quarrying, hotels and restaurants, manufacturing, construction

- **Larger share of FGF**: Real estate & business services, Electricity, gas and water supply, Transport, storage and Communications

Source: Austrian microdata
7. The number of FGF is different across countries

What explains these differences?

- Ease of being a high growth firm?
- Industry growth?
- Market size?
- Business environment/regulation?
- Quality of business register?
8. Innovation & R&D matter most in the most advanced countries

- 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.

Source: CIS4 & CIS 2006 microdata accessed at Eurostat for InnoGrips report „Barriers to internationalisation and growth of EU’s innovative companies“
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 difficult. 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)?
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


