Conference on: Small Business, Entrepreneurship, and Economic Recovery: A Focus on Job Creation and Economic Stabilization

Session C: Firm Growth and Job Creation

Myriam Quispe-Agnoli

Community and Economic Development Department

Federal Reserve Bank of Atlanta

October 26, 2010

Comments on:

- *"Entrepreneurship, the Initial Labor Force, and the Location of New Firms"* (**Cristina Carias** & Steven Klapper)
- *"Who Creates Jobs and When: How Firms Respond to Business Cycles and Credit Conditions"* (Teresa Fort, John Haltinwanger, Ron S. Jarmin, & **Javier Miranda**)
- *"See How They Grow: Studying Small Venture Growth Through a Qualitative Lens"* (**John N. Angelis**, Joseph C. Miller, Rejendran Sriramachandramurthy, & Richard DeMartino)

Common points

All three papers make very important contributions in the analysis of small/young businesses and the factors behind their decisions on:

- When to start, where to locate or who to hire
- How to grow (new or same markets, new or same products/services, or both)
- How do firms respond when there is an economic downturn or financial meltdown?
- The results of these questions will have a direct impact on employment, firm performance and growth.
- → FIRM GROWTH AND JOB CREATION

Before my discussion on Policy Implications: What is next for research?

- Information! Look at the dataset from Portugal…
  - Information about founders, workers and firm information.
  - We need more information about how firms make decisions.
  - Analysis needs to go deeper into characteristics of owners, workers, and firms’ characteristics at the industry/geographical/market level.
  - Surveys are very important but also information from agencies.

“Entrepreneurship, the Initial Labor Force, and the Location of New Firms” (**Cristina Carias** & Steven Klapper)

- Study factors behind the location of new firms in Portugal.
- Who do these new firms hire? Employees from other similar firms (human capital and experience) or new employees (new ideas).
- Where do these firms locate?
  - Close to other similar firms (in terms of industry)?
  - Where the founders used to work?
  - Where the firm’s market is?

"Entrepreneurship, the Initial Labor Force, and the Location of New Firms" (**Cristina Carias** & Steven Klapper) - Contributions

- Firms locating in their home county and industry were likely to hire old colleagues and workers from the home county.
- These old colleagues and firms have lower hazard rates of exit.
- Regional characteristics play a role in attracting firms to regions other than home.
- Very important to firm location and future performance:
  - Founders' former labor experience
  - Knowing your labor force and where to find them.

Implications of your study

- What are we learning about labor mobility?
  - Workers following job opportunities, is this true?
    - According to Cristina's study not necessarily…
    - In the US, one of the reasons for the current lack of mobility in the labor market is low house prices.
- Highlighting importance of Founder knowledge →Entrepreneurship
- Good regions will reinforce their development by attracting new firms (self-reinforcing process)… but what about the "other" locations? What can they do? Do they do something?
- What happens to the firms that do not stay close to home (this is beyond the scope of your study)?

"Who Creates Jobs and When: How Firms Respond to Business Cycles and Credit Conditions" (Teresa Fort, John Haltinwanger, Ron S. Jarmin, & **Javier Miranda**)

- Important previous work:
  - Going against popular perception: Firm SIZE is as important as Firm AGE in job creation.
  - Role of start ups: YOUNG firms (those that survive) grow faster than mature firms.
  - Emphasis on the role of business formation, selection and learning (innovation and productivity growth).

"Who Creates Jobs and When: How Firms Respond to Business Cycles and Credit Conditions" (Teresa Fort, John Haltinwanger, Ron S. Jarmin, & **Javier Miranda**)

- This presentation:
  - How firms behave when facing macroeconomic shock and financial shocks.
  - Contribution: they look at the response of firms according to firm size and age.

"Who Creates Jobs and When: How Firms Respond to Business Cycles and Credit Conditions" (Teresa Fort, John Haltinwanger, Ron S. Jarmin, & **Javier Miranda**)

- Results:
  - Large and old firms are more sensitive to traditional sources of corporate financing, while
  - Small and young firms are more responsive to alternative sources of financing (credit cards and real estate assets).
  - According to economic shocks, young firms are more sensitive to changes in the unemployment rate.
  - What happens to job creation/destruction when an economic recession strikes? Large firms are more responsive.

Implications of your study

- New emphasis in economic policy towards employment growth? Not small but young firms?
- The response of small/young firms relative to large/old firms are similar/different:
  - Across industries?
  - Across regions?
  - Whether they are product-dominant or service-dominant?
- What are the implications in terms of business financing? Resources for young firms re limited? What about equity capital?
- Taking into account Cristina's study, do young firms hire workers from other firms or are new employees?

"See How They Grow: Studying Small Venture Growth Through a Qualitative Lens" (**John N. Angelis**)

- How firm's characteristics affect the selection of a growth strategy?
- Is there a relationship between the firm's characteristics and the risk that the growth strategy conveys?
- Emphasis of this study is on the decision process.
- Survey of 22 small businesses after training course on strategic growth.

"See How They Grow: Studying Small Venture Growth Through a Qualitative Lens" (**John N. Angelis**) - Contributions

- Contributions:
  1. No formal growth plan → no investment → intention to grow?
  2. Product dominant firms completed growth plans service dominant not necessarily).
  3. Small businesses with limited resources decided to take more growth risk (and small business with higher resources are more conservative).

Implications of your study

- Highlighting importance of Founder/Manager knowledge/training →Entrepreneurship
- Was this training program effective? How to evaluate effectiveness? By firm's performance or firm's decision
- What happened to the firms after the implementation of their growth strategy? Follow-up?
- Relevance on Firm Financing? How did they finance their growth strategies? Specifically the riskier ones?

Question for all the Presenters

According to your research, if President Obama ask for your opinion on how to promote firm growth and job creation during these economic challenging times, what would you recommend?