Pennsylvania's High-Growth Companies

2004 – 2009

Research Update

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To Team Pennsylvania Foundation

May 2011

Introduction

High-Growth companies ("higros") represent a fraction of all businesses in the economy yet they have an extraordinary large impact on new job creation in the Commonwealth. Higros have demonstrated an unusual ability to sustain growth over the years 2004 - 2009, even during the current recession. The majority of Pennsylvania's higros are locally born and grown. They display a remarkable level of diversity, being found in almost every industry and in communities of all sizes. Higros are more connected with distant markets than other firms, as importers, exporters, and foreign-owned. They are more dynamic than most other firms, with a higher propensity to relocate, to change their industry focus, and to be acquired. The continued success of higros is essential for both current and future job creation and investment expansion in the Commonwealth.

Identifying Higros

Higro businesses are those that expanded net employment at least twice between 2004 and 2009, with at least one year of expansion over the last two recession years. Higros added at least five net new jobs over the study period while not reducing full-time employment in any year[1].

Higros represent three-tenths of one percent (0.3%) of all business establishments operating in Pennsylvania, yet they created 1 of every 2.6 new jobs in the Commonwealth over the past five years. Higros accounted for 2,322 of the 757,556 business establishments operating in the state at the end of 2009. Together these higros created a total of 60,850 net new jobs between 2004 and 2009, or an average of 26.2 new jobs each. To place this in proper context, the other 755,234 businesses in PA created a total of 100,713 net new jobs over the same period, or an average of just 0.1 jobs each. The average higro employed 40.8 workers in 2009 and generated $6,656,301 in sales. In contrast, the average non-higro employed just 6.7 workers and had $856,748 in sales.

Higro Origins

The majority of Pennsylvania's higros were already operating in the Commonwealth at the beginning of the 2004-2009 period.

Higro Origins	Count	Percent
In PA (2003)	1,614	70%
Born in PA (2004-2009)	680	29%
Inbound Relocations (2004-2009)	28	1%
Totals	2,322	100%

[1] All information presented in this brief is derived from the National Establishment Time-Series (NETS) database which tracks operational characteristics of approximately 1.3 million Pennsylvania establishments from 1990 through 2009. All analysis was conducted by Dr. Gary Kunkle, Outlier LLC.

While 70% of higros had employment in the state by the end of 2003, some 29% of higros were start-up firms born in Pennsylvania in the following years. Only one percent of higros relocated into the state from elsewhere during the study time.

HIGRO ORGANIZATIONAL TRAITS

The overwhelming majority of Pennsylvania higros are locally born and grown businesses. These are standalone firms with all of their operations at one location. Yet, when compared with other firms, higros tend to be better organized, more complex, and connected to greater inter-firm resources.

Organizational Characteristics	Higros	Others
Public	7.3%	2.5%
Private	88.0%	95.2%
Proprietorship	7.3%	19.9%
Partnership	11.2%	4.2%
Incorporated	56.1%	21.8%
Headquarters	5.7%	2.2%
Branch	14.2%	6.3%
Standalone	80.1%	91.5%
HQ in PA	88.7%	95.7%
HQ outside PA	11.3%	4.3%

While most higros are privately owned, there is a higher proportion of higros that are publicly traded than other firms. In addition, a greater proportion of higros are incorporated businesses or partnerships when compared with non-higros. Higros are more likely to be headquarters and branch operations, headquartered outside PA, or owned by foreign firms than are their non-higro peers.

DIVERSE LEADERSHIP

Most firms are owned by white men and are led by a male CEO. However, higro display greater leadership and ownership diversity than non-higros.

Leadership Characteristics	Higros	Others
Minority Owned	0.3%	0.1%
Female Owned	9.0%	8.8%
Female CEO	13.0%	12.6%

While the differences are not statistically significant, they are notable. Higros are slightly more likely to be owned by a minority or a woman, and are more likely to be led by a female CEO. Thus, diversity seems to have a small positive influence on the sustained growth of the firm.

HIGROS AND INDUSTRY

Most firms in the Pennsylvania economy operate in the services industry, followed by construction, manufacturing, agriculture and mining. A similar trend holds for the state's higros.

Industry	Higros	Others
Services	75.0%	83.9%
Construction	12.4%	9.6%
Manufacturing	12.1%	4.6%
Agriculture	0.5%	1.8%
Mining	0.1%	0.1%

While three-fourths of higros are in the services industry, they are slightly under-represented when compared with non-higros. Higros are proportionally over-represented in both the construction and manufacturing sectors, despite the on-going recession.

HIGROS AND INTERNATIONAL CONNECTIONS

Most Pennsylvania Higros are focused exclusively on the domestic US market and are US owned. However, higros are more likely to export and import than non-higros. In addition, higros are several times more likely to be foreign-owned than non-higros.

Foreign Connections	Higros	Others
Export only	1.6%	0.2%
Import only	5.0%	0.8%
Export and Import	1.6%	0.2%
Foreign Owned	2.2%	0.6%

When we compare international activities of two industry sectors – manufacturing and services – we clearly see that higro manufacturers are much more likely to export and import than higro services firms, and are slightly more likely to be foreign-owned.

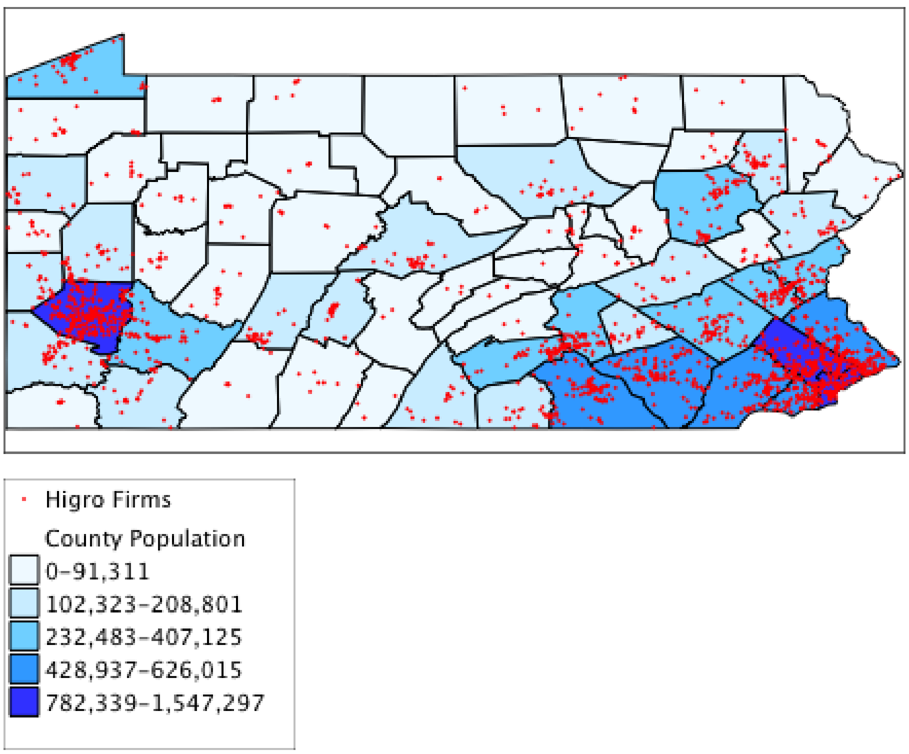
Manufacturing	Higros	Others
Export only	10.0%	5.4%
Import only	20.0%	5.4%
Export and Import	6.8%	2.3%
Foreign Owned	2.9%	2.7%

Services	Higros	Others
Export only	1.8%	0.3%
Import only	3.2%	0.6%
Export and Import	0.8%	0.1%
Foreign Owned	2.4%	0.5%

Of particular interest however, is that while higro manufacturers are between 2- and 3-times more likely to export than non-higro manufacturers, higro services firms are 6- to 8-times more likely to export than non-higro services firms. In addition, while there is only a small difference between the proportion of foreign-owned manufacturers that are higros and those that are not, foreign-owned services firms are nearly 5-times as likely to be higros than non-higros. This suggests that international participation by services firms seems to have a stronger influence on higro status than among manufacturing firms.

HIGROS AND LOCATION

In 2009, higros resided in all but five of PA's 67 counties. A higro tends to appear in a county when the population reaches about 15,000 residents.



The distribution of higros across Pennsylvania closely matched the population density patterns of the state. Where there is a relatively high proportion of the state's population, there tends to be a similar concentration of higros. The dispersion of higros also tends to closely match the population distribution in secondary cities, towns, and rural areas: the less dense the population, the fewer higros.

HIGROS AND PROFILE CHANGES

Higros are far more likely to change their operational characteristics than other firms[2]. Higros were three and a half times as likely as other firms to change their industry focus; more than three times as likely to change headquarters control; and more than three times as likely to change county of residence.

Profile Changes	Higros	Others
SIC Change (3 digit level)	22.2	6.5
HQ Change	12.1	3.6
County Change	10.6	3.3

These numbers suggest that higros are more flexible in their business operation than other firms and more willing to alter core activities. This evidence is consistent with findings from previous research which found that higros are more likely to add new products and services to respond to changing demand; to relocate to nearby but less dense areas which allow greater flexibility for in-situ expansion and reduced facility costs; and to appeal to larger firms as acquisition targets.

SUMMARY

High-growth firms are the primary driver of job creation at the regional and state level. The evidence suggests that higros are more similar to one another in terms of characteristics and performance than they are to most other businesses in their same industry or region. These findings have profound implications for economic development policy and practices. The Team Pennsylvania Foundation has taken a national leadership role in exploring these trends using the best available firm-level data and analysis. It intends to use these insights, working closely with economic development policy makers and practitioners, to develop new and innovative initiatives to accelerate job creation and investment expansion across the Commonwealth.

[2] The NETS dataset tracks whether a business changed its 3-digit industry code, headquarters, and county of residence at any time during the years of 1990 through 2009, however there is no indication as to which year the change was made.