

Why Track New Firm Creation?

Paul Reynolds
College of Business Administration
Florida International University - Miami, Florida, USA
[pauldreynolds@earthlink.net]

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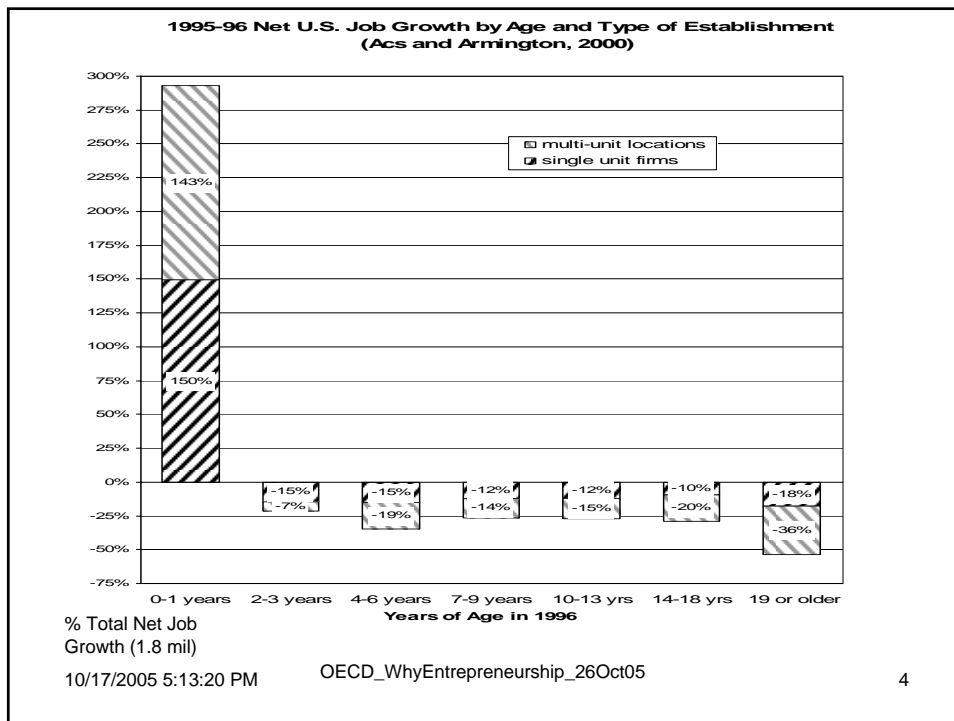
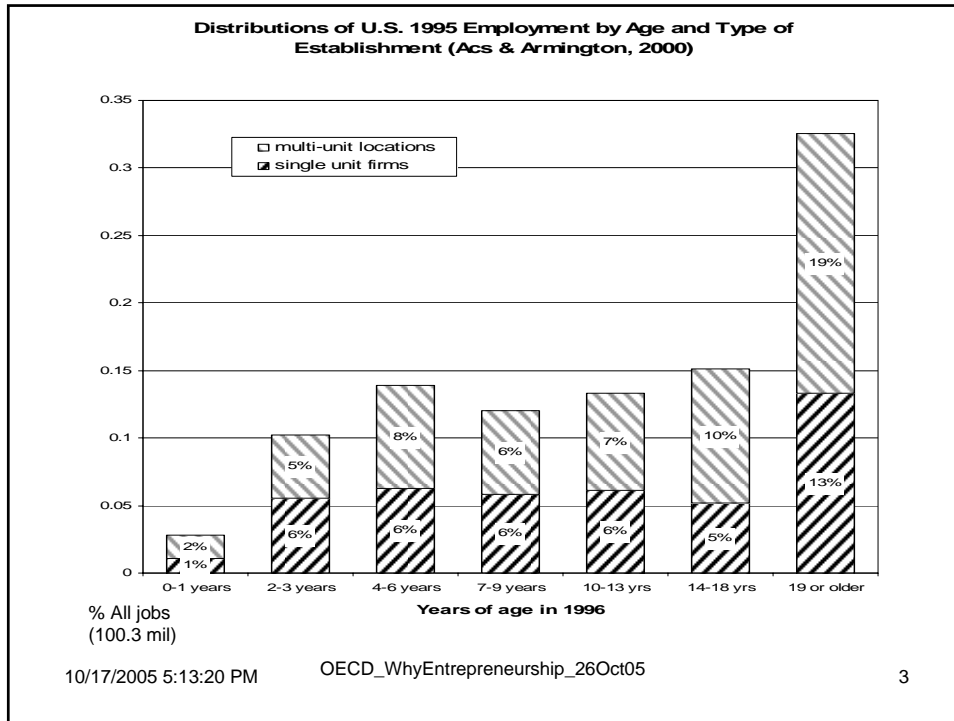
New Firms

- **System Consequences**
 - Major source of new jobs
 - Major source of productivity gains
 - Major role in innovation, adaptation
 - Associated with economic growth
 - Related to shifts in economic structure
- **Individual Consequences**
 - Major career option for many
 - Route for status enhancement
 - Uneven distribution of costs and benefits of entrepreneurial activity

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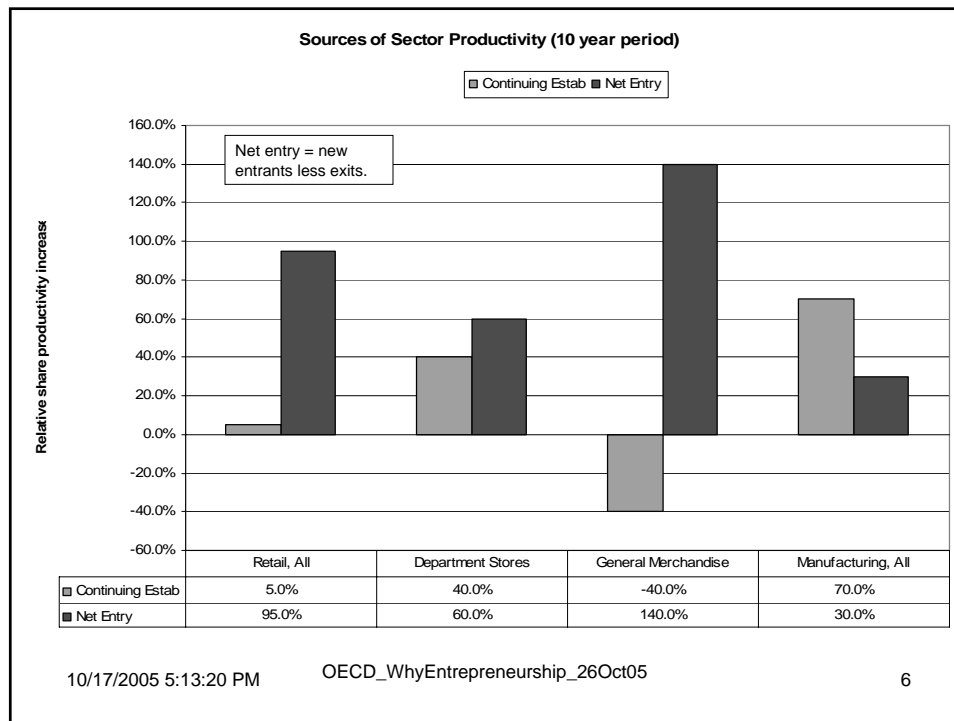
Productivity Assessments

- Productivity defined as labor expenditures as proportion of all costs
- Use longitudinal studies of a panel of firms
- Control for technology by focusing on specific sectors
- Assess impact on sector productivity from:
 - Continuing firms
 - Net entry [new firms less exiting firms]

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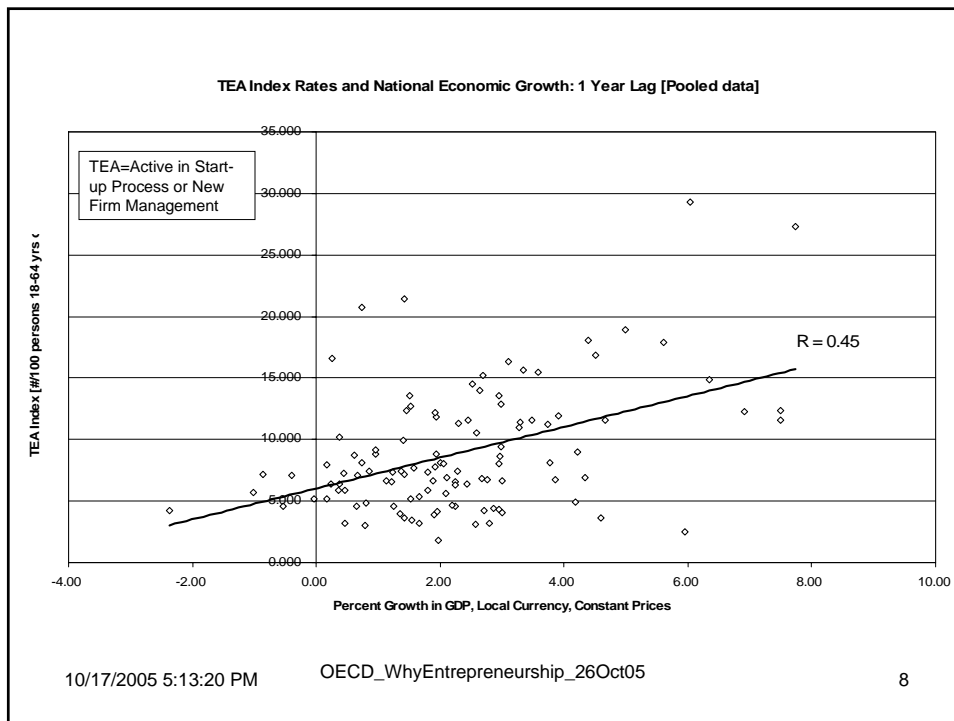
Association with Growth

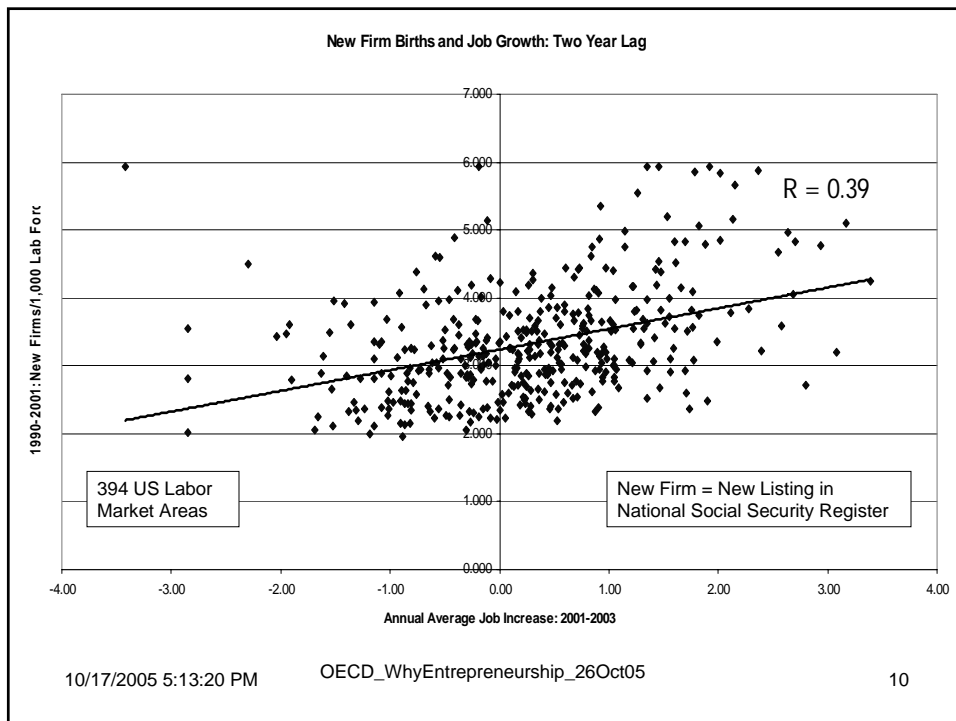
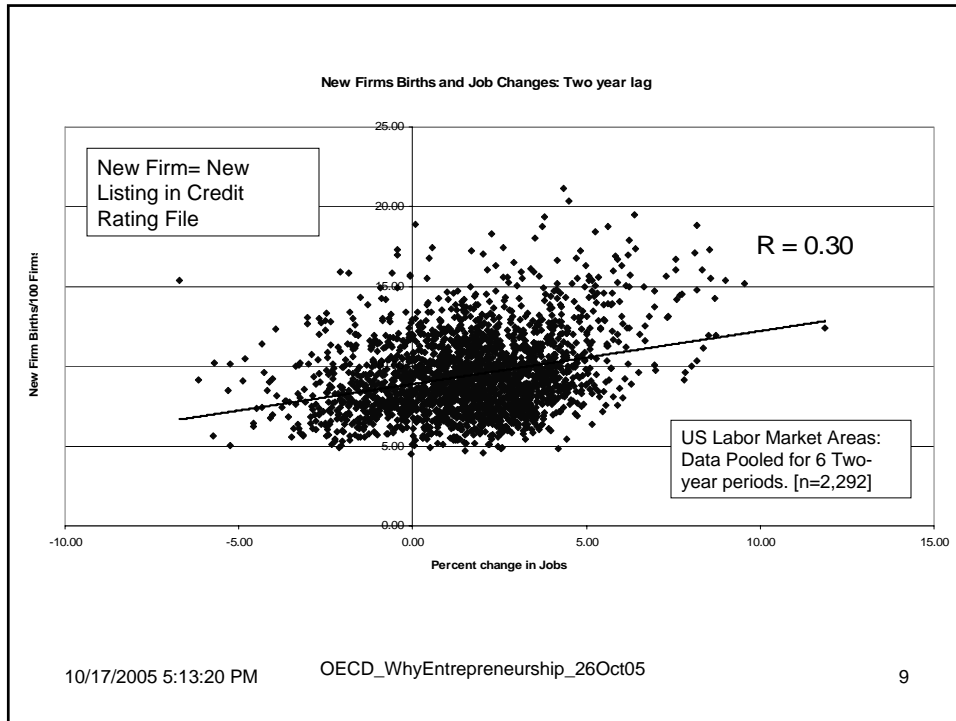
- Consider gross measures of growth
 - Change in GDP
 - Net job gains
- Results indicate strong association
- Causal mechanism not clear
 - Entrepreneurship may be significant as a catalyst

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Innovation and Firm Size

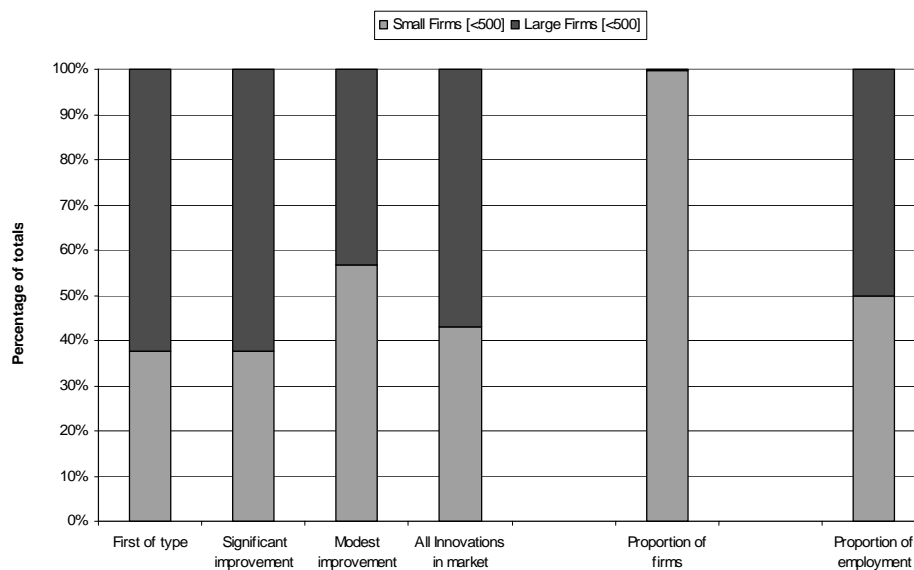
- Innovations identified from technical and scientific literature [n=8,074]
 - Had to be a product in the marketplace
 - None created a new market category
 - Three levels of “impact” on markets
- Source of innovation then tracked down
 - Size based on total firm
- Source organization classified as small or large, more or less than 500 employees
- Not ideal, but suggestive
- Compare scope of small, large firms in economy

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Innovation in the Market by Firm Size: US 1982



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System characteristics

- In advanced economies
 - Number of firms continues to grow
 - Size of typical firms continue to shrink
 - Specialization of firms increases
- Interdependence among elements seems to be increasing
- Interdependence across national boundaries is also increasing

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Global Scope of Activity

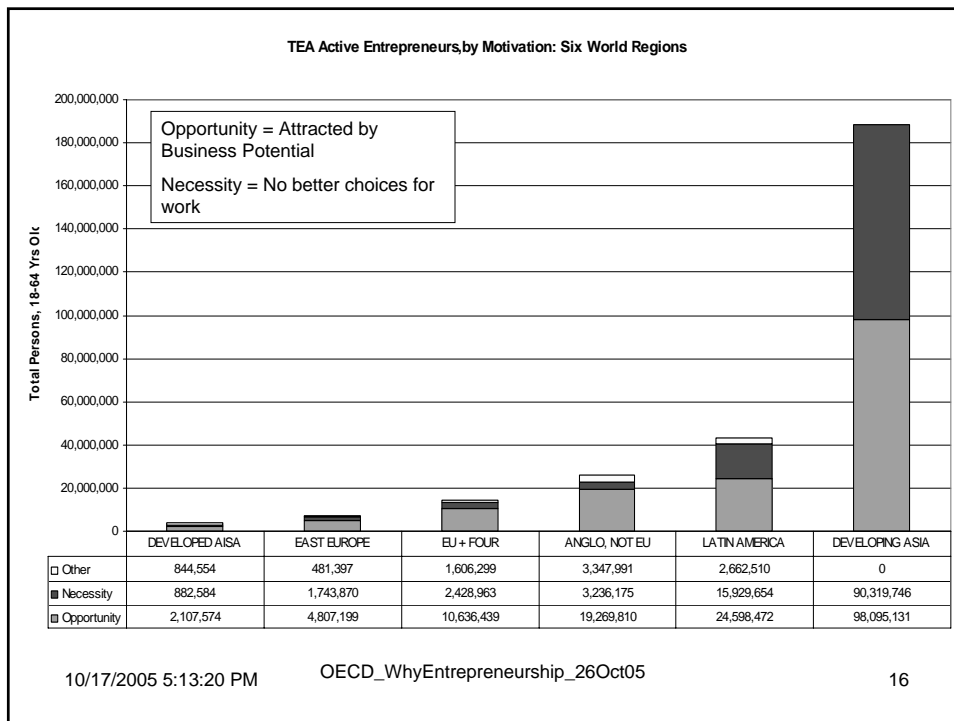
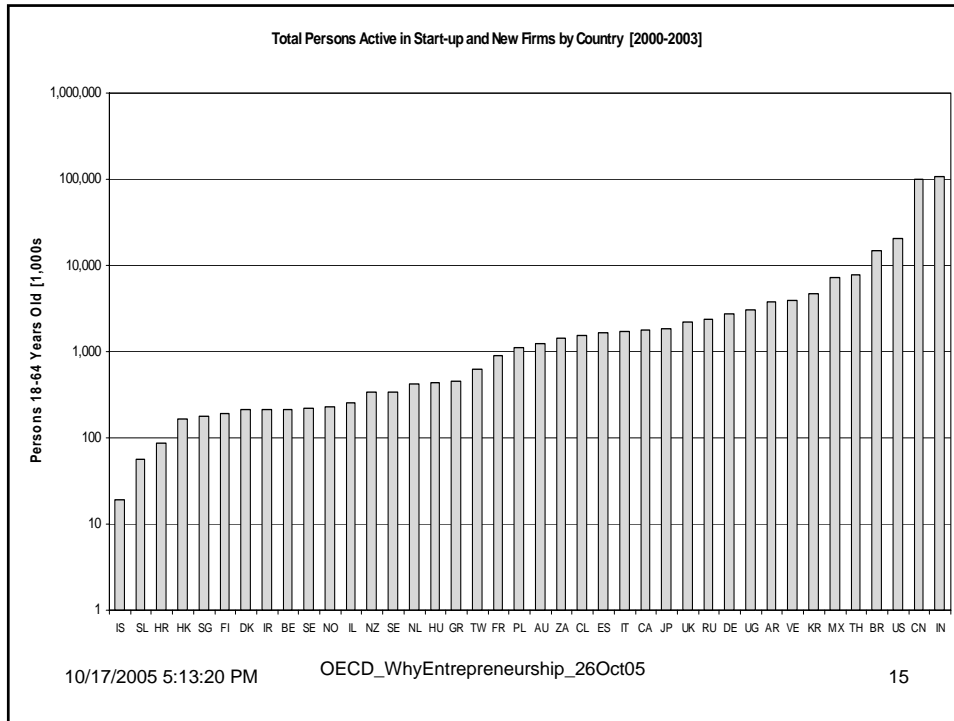
[40 countries – 2003; 62% of world population]

Total population: 40 Countries	3,970,000,000
Total working age: 18-64 yrs old	2,443,000,000
Nascent Entrepreneurs	297,000,000
Total start-up, new firms	192,000,000

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Status Enhancement

- New Firm Creation often bypasses major societal mechanisms for controlling access to education, prestige positions
- Markets often blind to class and ethnic characteristics
- Higher rates of participation among immigrants
 - Frequently very visible in retail, services
 - Usually a small proportion of total

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Costs and Benefits

- Major benefits
 - Accrue to those with successful new firms
 - New firms provide social benefits
 - Jobs, new products, new technology etc.
- Major costs
 - Born by those (and their families)
 - The 60% that do not complete start-up with new firm
 - The new firms that never pays back the start-up investment
- More complete understanding of the process may
 - Reduce the social and individual costs
 - Improve the benefit/cost ratio for society

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Conclude

- A lot of progress has been made
 - Defining the critical issues
 - Methodological and data collection procedures to promote harmonized data sets
- Major opportunities are present for developing a complete, empirically based, policy relevant understanding of entrepreneurial phenomena

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