

Education and industrial variety power high-growth companies nationwide

January 14 2016

High-growth companies are not just found in California's tech-rich Silicon Valley. According to a team of economists, these fast-growing firms are found across the U.S. and in a variety of industries.

In a study of Inc. Magazine's list of 5,000 high-growth companies, the researchers suggest that access to college-educated employees and the presence of industrial diversity, more than geographic proximity and technology, helped boost a community's ability to host high-growth firms.

"We were aware of the Inc. 5,000 database and we thought it would be interesting to determine, if we could, what do communities—or counties or cities, for that matter—offer that makes them more attractive places to these firms, which are the fastest growing companies by revenue in the country," said Stephan Goetz, professor of agricultural economics and regional economics, Penn State and director of the Northeast Regional Center for Rural Development. "From that, the two things that stand out for us are that these firms are found in many different sectors, not just in the high tech space, and that these companies are found across the United States."

The researchers, who report their findings in the current issue of *Entrepreneurship and Regional Development*, said that while many of the companies on the list are from the [high tech](#) sector, a majority comes from other industries, including healthcare and manufacturing.

"The results also seem to be saying that these high-growth firms are more likely to be in places that have a variety of industries rather than just one or two specialized industries," said Minghao Li, a doctoral candidate in agricultural, environmental and regional economics.

The researchers also found that communities with more highly educated residents have a better chance of attracting high-growth companies.

"A higher number of bachelor's degrees in a community is associated with significantly more of these firms, both in terms of the probability that they are there and the number of those firms," said Goetz. "This suggests that university towns have a leg up in terms of spawning these types of businesses."

Access to capital is another factor for creating a business environment for high-growth firms, according to the researchers. However, the advantage of having more banks is not felt initially, but becomes an advantage to a community once it already hosts several of these businesses.

"Once a non-metro county is home to one or more of these Inc. 5,000 firms, there will be more Inc. 5,000 if you have more banks," said Goetz. "It may be that the more banks you have, the more they will be competing with each other on loans, which should help these businesses."

A community's tax policy did not seem to be correlated with the presence of fast growing companies, according to Goetz.

The researchers suggest raising awareness about and promoting entrepreneurship may be a way for communities to increase the likelihood of hosting high-growth firms.

"More generally, talking about entrepreneurship and creating a culture of entrepreneurship in communities are very helpful," Goetz said. "We are not measuring that directly in the study, but we feel this may help create the general conditions that are favorable for entrepreneurship."

The researchers used data from the magazine's 2012 list of 5,000 fastest-growing companies based on revenue. Companies that are included on the list must be privately owned and not subsidiaries or divisions of other companies. The [firms](#) must provide the magazine with revenue figures to be considered for the list.

"It is important to note that we focus on revenue growth and not growth in employment or profits, for example," the [researchers](#) said. "The advantage of using revenue as the growth metric is that it measures both expansion in the scale of operation and improvement in efficiency."

Mark Partridge, professor in agricultural, environmental and development economics, and Swank Chair in Rural-Urban Policy, Ohio State University and David A. Fleming, research scientist, Black Mountain Laboratories, Australia, worked with Goetz and Li on the study.

The U.S. Department of Agriculture's National Institute of Food and Agriculture and Penn State College of Agricultural Sciences supported this work.

Provided by Pennsylvania State University

Citation: Education and industrial variety power high-growth companies nationwide (2016, January 14) retrieved 26 April 2024 from <https://phys.org/news/2016-01-industrial-variety-power-high-growth-companies.html>

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