Research Paper No. 73

EXECUTIVE SUMMARY

January 2019

(full paper link: http://enterpriseresearch.ac.uk/publications/erc-research-papers/)

Fast-growth firms and their wider economic impact: the UK evidence

Jun Du
Enterprise Research Centre,
Lloyds Banking Group Centre for Business Prosperity and Aston Business School
j.du@aston.ac.uk

Enrico Vanino
Enterprise Research Centre and
London School of Economics
e.vanino@lse.ac.uk

While a small group of fast-growth firms create a disproportionately large number of new jobs, there is also evidence of an increasing concentration of sales within these superstar firms associated with an overall decline in labour share. This study investigates the links between fast-growth firms and the rest of the economy using comprehensive UK firm-level data. First, we provide evidence of direct spillover effects of fast-growth firms for other firms within a region and industry. We find that in the manufacturing sectors, higher incidence rate of fast employment growth firms has an overall negative effect on the employment growth of other firms in the same industry-region (a competition-led crowding-out effect). A higher incidence rate of fast labour productivity growth firms instead has overall positive externalities on other firms' labour productivity. This suggests that the policy goals of promoting jobs and promoting productivity are not always complementary, and may in fact conflict. Analysis of professional service sectors yields different patterns, highlighting the distinct features of the sectors and the specific challenges faced by the firms. Moreover, we analyse the heterogeneity of these externalities across industries, the position in the production value chain, firm age and size, specific geographical location, and the degree of agglomeration.