

## Defining the Record of High-Growth Firms by U.S. Metropolitan Region: What Happens to the Inc 500?

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## Introduction

- This paper tracks the developmental path of high-growth firms ("HGFs") in the United States
- How businesses develop and (potentially) grow into large firms (LFs) is an important but neglected topic
- Tracking analysis of HGFs is a means of filling this gap
- "HGFs" (here) = the *Inc 500* (the 500 most rapidly-growing private firms in the US, ranked by revenue expansion rate)
- "Tracking" = collection of business status data to uncover what happens to HGFs after they gain HGF status

## HGF Research Context

- This research has links to three related literatures
- **Entrepreneurship and Business Development:** business cycles, corporate transitions, and firm growth (Acs, Audretsch, Birch, Davidsson, Haltiwanger, Mason)
- **Business and Place Development:** cluster theory (Porter), creative class (Florida), place management (Audretsch)
- **Quaternary Location:** parent and subsidiary headquarters, information networks, interlocking directorates (Green, O'Hagan, Rice, Semple, Wheeler)

## HGF Research Context

### Big-Picture Questions

1. Can a geographic perspective on HGF tracking help identify potential emerging corporate centers in their early stages?
  - Like *Detroit (automobiles)* was in 1890?
  - Like *Silicon Valley (electronics)* was in 1950?
2. Can we gain insight into the factors that contribute to the economic success of places?

## The US Analysis

- **Overall project:** examine firm development for businesses appearing in the *Inc 500* in the period 2000-2008 (our initial goal was to analyze 2000-2010)
- **Data collection:**
  - **1. Initial firm database:** identify and catalog basic data for the 4,501 firms appearing in the *Inc 500* from 2000-2008
  - **2. Tracking database:** refer to *Kauffman Foundation, Factiva, LexisNexis, Inc,* and *Google* data sources for data to determine
    - What happened to these HGFs?
    - What is the geography of these outcomes?

## The US Analysis

### Overview of Inc 500 Tracking Data Collected, 2000-2008

Tracking Data Collection Dimension	Inc 500 Firms With Tracking Data
Firm Status	4,501* (100.0%)
Revenue Figures	3,417 (75.9%)
Employment Figures	3,467 (77.0%)

\*Includes 425 businesses that transition at some point into "unknown" status.

Results

1. Overall Firm Status Tracking Indicators

Inc 500 Firm Status by Number of Years Following Inc 500 List Appearance

Firms by Status		Years Following Inc 500 Appearance		
		2 Years	5 Years	10 Years
Privately-Held	Number of Firms*	2,855	2,340	1,305
	% of Total	87.6	75.2	54.3
Acquisition/Merger	Number of Firms*	117	350	601
	% of Total	3.6	11.2	25.0
Initial Public Offering	Number of Firms*	13	36	53
	% of Total	0.4	1.2	2.2
No Longer In Business	Number of Firms*	20	50	81
	% of Total	0.6	1.7	3.8
Unknown	Number of Firms*	254	331	352
	% of Total	7.8	10.6	14.7
Totals	Number of Firms*	3,271	3,112	2,402
	% of Total**	99.9	99.8	99.6

\* Duplicate Inc 500 appearances removed (originals retained, following-year repeats excluded)  
 \*\* Does not add to 100.0 due to rounding

Inc 500 Firm Status by Number of Years Following Inc 500 List Appearance

Ten Years After Their Inc 500 Appearance...

- 54.3% of Inc 500 firms are still privately held
- 25.0% of Inc 500 firms have been acquired/merged
- 3.8% of Inc 500 firms are no longer in business
- 2.2% of Inc 500 firms have had an initial public offering
- 14.7% of Inc 500 firms have an unknown status (likely very small or no longer in business)

\* Duplicate Inc 500 appearances removed (originals retained, following-year repeats excluded)  
 \*\* Does not add to 100.0 due to rounding

"Baseline Business Performance" Indicator

"Baseline business performance": firms that

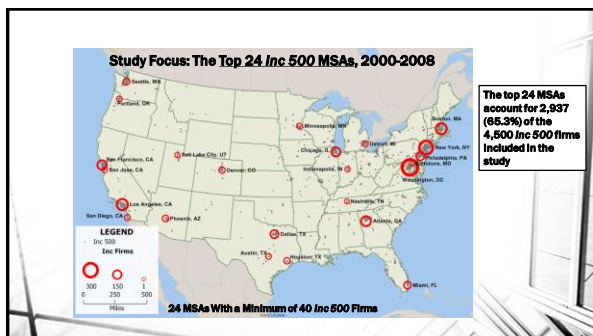
- Are still operating in some definitive form as of the endpoint of their available tracking data (i.e., any status except "No Longer in Operation" or "Unknown")
- Achieved overall revenue or employment growth (either or both) during the period where revenue and employment figures are available for the business (all annual revenue figures converted to constant 2009 dollars)

Firms that meet both criteria account for 66.5% of all Inc 500 businesses (repeat Inc 500 appearances and firms without revenue or employment tracking data eliminated)

2. Definition of Geographic Focus for the Inc 500 Metropolitan Analysis

Every Firm Appearing in the Inc 500 from 2000 to 2008





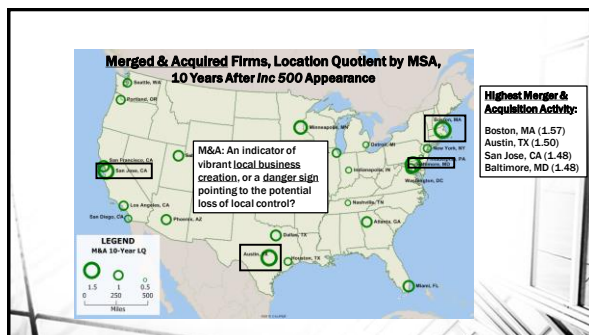
### 3. Inc 500 Tracking by Metropolitan Area

#### Location Quotient Maps: Focus on the Top 24 Inc 500 Metropolitan Areas

**Location Quotient:**

$$LQ = \frac{\text{Activity Rate Occurring in Local Area}}{\text{Activity Rate Occurring Nationally}}$$

**LQ = 1:** Activity occurring at same rate in local area and across country  
**LQ < 1:** Activity occurring less in local area than across country  
**LQ > 1:** Activity occurring more in local area than across country

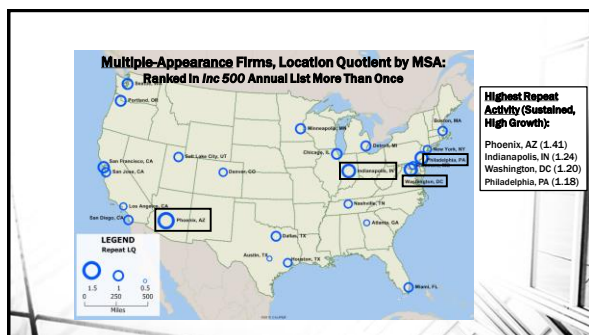


**Merger & Acquisition: Relocation of HGF Control**

**Of all M&A Activity Captured by This Study...**

- 72.4% of firms found M&A partners from a different MSA and state in the US
- 13.0% of firms found M&A partners from outside the US (not included in the 72.4% cited above)

**Thus a total of 85.4% of merged/acquired Inc 500 firms saw substantial relocations of control because of M&A activity**



## Conclusion

- Our analysis establishes that *Inc 500* firms have potential as **economic development catalysts**
  - HGFs have an extremely low failure (discontinuation) rate as a group
  - Many have an extended (10+ year) presence as independent businesses
- Our analysis also shows that **geography** is a key factor in *Inc 500* outcomes
  - M&A activity (and corporate control impacts) vary greatly by MSA
  - Select MSAs do much better than others in generating HGFs with sustained, high growth rates (i.e., repeat *Inc 500* members): high-potential regions for HGF-based corporate emergence

## Implications

- **For business**
  - An understanding of the geography of high-growth development provides an important new input to business decision-making:
    - Identify emerging, successful business hubs
    - Insight into potential collaborators, customers, competitors, and M&A partners

## Implications

- **For government (especially state and local)**
  - An understanding of HGF tracking outcomes contributes to assessment of regional business needs and opportunities
  - Assist in place-based targeting efforts focused on business retention and growth
    - Business networking needs by sector and place
    - Fruitful educational opportunities for local entrepreneurs
    - Facilitate highly-targeted mentorship opportunities

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## Thanks for Listening

- Follow up
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